

Strategy for development cooperation with

Bosnia and Herzegovina

January 2011 – December 2014



REGERINGSKANSLIET

Government Offices
of Sweden

23 June 2010

BOSNIA AND HERZEGOVINA – cooperation strategy 2011-2014

Summary

The overall objective of Sweden's reform cooperation with Bosnia and Herzegovina (BiH) is: *Democratic, equitable and sustainable development as well as improved conditions for EU integration.*

Swedish support will be focused on three sectors:

- (I) **democracy, human rights and gender equality**, with a focus on the development of central and local administrations aimed at better safeguarding citizen rights, meeting the requirements of EU integration and providing continued support to democratic actors;
- ii) **market development**, with a focus on economic growth through improved competitiveness and conditions for growth for small and medium-sized companies;
- iii) **sustainable infrastructure**, with a focus on an improved municipal environmental infrastructure for water supply, sewage treatment and waste management.

In order to increase aid effectiveness, cooperation with the European Commission will be improved. The increased use of BiH's own systems for planning, implementation and follow-up is to be sought, likewise the increased use of programme-based approaches. Cooperation with other bilateral donors and with international and regional development banks will continue.

Dialogue with the country's authorities will mainly be focused on closer relations with the EU, but it will also cover gender equality and women's participation in society/politics as well as the need to continually strengthen civil society and local ownership

Sweden's reform cooperation with BiH will amount to approximately SEK 170 million per year, which adds up to some SEK 680 million during the strategy period 2011–2014.

1. Introduction

Sweden's reform cooperation with Bosnia and Herzegovina (BiH) was initially targeted at humanitarian aid and reconstruction. The focus has subsequently shifted to support for BiH's ambition to achieve stability and development through European integration.

Residents of BiH currently face high unemployment, a neglected infrastructure and a complex political structure whose representatives mainly tend to look after their own ethnic and nationalistic interests. This has resulted in low confidence among the population regarding the state's ability to perform its responsibilities. Fifteen years after the war, the international community, via the High Representative, still has a large degree of influence over the country's governance, which weakens local ownership and frustrates effective EU integration. The greatest political challenges include a transition from the High Representative/EUSR to a strengthened EU presence, and a change in the constitution with the aim of streamlining decision-making and facilitating closer relations with the EU. Closer relations between BiH and the EU are, however, a shared ambition of the majority of the population, regardless of ethnicity, political affiliation or social and economic status. Candidate status and, in time, membership of the EU would provide better conditions for development, stability and security in the country.

The Swedish Government's overall objectives for reform cooperation in eastern Europe are strengthened democracy, equitable and sustainable development and closer relations with the EU and its basic values. Reform cooperation will thus contribute to the overall objective of Sweden's policy for global development (PGD): to contribute to equitable and sustainable development based both on a rights perspective and on the perspective of those living in poverty. Support of BiH's integration with the EU is in effect also support of a type of democratic development that strengthens respect for human rights and makes positive economic development and a reduction in poverty possible. EU integration therefore also constitutes the most important factor in the choice of sector, method and working procedures for reform cooperation in BiH. Sweden can, in close cooperation with the European Commission and its instrument for pre-accession assistance (IPA), help to create the conditions to allow the country to meet the Copenhagen criteria, namely the implementation of the necessary

economic, political and institutional reforms in accordance with the standards of the EU and its Member States and with the *acquis communautaire*. The various steps in establishing closer ties with the EU are stipulated in the European Partnership which, among other things, is based on the Bosnian commitments within the Stabilisation and Association Agreement (SA Agreement).

In the present strategy, experience and lessons from previous cooperation with BiH will be taken into account. Other important factors include the activities and future plans of other donors as well as Sweden's ability to assist development in an effective and results-oriented fashion, in accordance with international agreements on aid effectiveness. Any strategies and policies within development cooperation that are relevant to reform cooperation with BiH will also be taken into account.

2. Objectives and priorities

The overall objective of Sweden's reform cooperation with Bosnia and Herzegovina (BiH) is: *Democratic, equitable and sustainable development as well as improved conditions for EU integration.*

The overall objective, as well as the sector objectives this strategy covers, emanate from priorities set out in BiH's national development strategy. In order to promote increased aid effectiveness, better coordination with the European Commission, increased use of the country's own systems for planning, implementation and follow-up, and increased use of programme-based approaches will be sought.

The Government's three thematic priorities for development cooperation are reflected in the choice of sectors. Concerning *promotion of gender equality and women's role in development*, Sweden will additionally, via dialogue, integration and follow-up, ensure that gender equality issues permeate Swedish-financed projects and programmes within the prioritised sectors. The Bosnian authorities for gender equality issues have strengthened their capacity to implement the national gender equality policies. Sweden should continue to be a cooperation partner in these efforts.

3. Direction and scope

3.1 Sectors

In order to be able to contribute to the overall objective of democratic, equitable and sustainable development in BiH through EU integration, Swedish support will be concentrated on the following three sectors:

-
- i) Democracy, human rights and gender equality;
 - ii) Market development;
 - iii) Sustainable infrastructure.

i) Democracy, human rights and gender equality

The objective of cooperation within this sector is: *A public administration at central and local level with an improved ability to deliver on the requirements of EU integration and on citizen rights as well as the emergence of a more pluralistic society containing strong democratic actors.*

Swedish support will be based on relevant and current Bosnian development strategies within the sector, in particular the Public Administration Reform Strategy (PAR) and the Justice Sector Reform Strategy (JSRS).

Support of PAR will be focused at central and local level. At central level, support will primarily build on the ongoing efforts to implement the strategy in close cooperation with the European Commission. At local level, continued support will be given to municipalities in order to strengthen accountability within the local administration, transparency and public participation as well as to develop more effective service to the public.

Within the judicial system, support will continue to be given to the central institutions, with a focus on increased efficiency and due process. As a part of this, support of the work of the central government Ministry of Justice with JSRS and the planned fund for coordinated financing of the reform of the justice sector should be considered. Support of the justice sector will be based on an analysis of the judicial chain and any weak links identified, and paying attention to possible synergy effects. This support can cover issues relating to the administrative courts, enforcement and penal care. Support can also be given to supplementary measures lying outside the remit of the justice sector strategy based on a rights perspective, for example, support to juveniles who come into contact with judicial authorities.

Swedish support within this sector can contribute to better interaction between civil society, parliament and the party system and can contribute to the emergence of new and more representative political parties.

ii) Market development

The objective of cooperation within this sector is: *A competitive business sector with a focus on small and medium-sized companies.*

Sweden should continue, in collaboration with the European Commission and other donors, to primarily work towards creating improved conditions for the growth of small and medium-sized companies. The major projects FIRMA and FARMA that are co-financed with USAID will continue until 2013 and be focused on smaller companies within five strategically chosen sectors (agriculture, food, forestry/wood, metals/plastics and tourism). Sida and USAID have also set up a system for credit guarantees in order to increase the capacity of banks to issue investment loans to small and medium-sized industrial companies. These efforts will continue. Cooperation with local development organisations in parts of the country with high unemployment should continue. Other opportunities to influence structural factors important for the business climate and for access to European markets, employment and women's economic participation should also be examined. Within the framework of those projects and programmes that are developed, the possibility of making use of the experiences of the Bosnian Diaspora in Sweden should be examined.

iii) Sustainable infrastructure

The objective of cooperation within the sustainable planning and development sector is: *Improved water supply, sewage treatment and waste management.*

Support is intended to contribute to an improved municipal environmental infrastructure focused on the management of waste, water and sewage. It can comprise both capacity building and investment at municipal level. Cooperation with international financial institutions should be sought, while the Swedish loan and guarantee system for environmental, climate and energy investments can also be utilised. Support of the strategic planning of environmental issues at various levels of the Bosnian administration could also be considered.

3.2 Aid modalities

A programme-oriented approach should be sought when preparing Swedish-financed contributions and, where possible, the country/organisations' systems for planning, implementation and follow-up should be employed. Coordination with other donors should be sought.

An increased share of Swedish support will be channelled directly into a number of selected Bosnian authorities in order to contribute to their reform processes, strengthen local ownership and thereby attain more lasting results.

The question of budget support is not currently on the table in BiH due to the complex administrative structure and weakness of the central level of government administration.

Development loans and guarantee instruments can be employed, primarily for contributions in the environmental arena. To secure the economic endurance of environmental investments at local level, grant assistance may be provided within the framework of coordinated and co-financed credit arrangements with international financial institutions.

During the strategy period, the access of civil society to international finance is expected to diminish in BiH. At the same time, when the international presence is reduced there will be an increased need for domestic capacity to scrutinise and monitor the exercise of power. The existing forms for Swedish support of civil society, channelled via Swedish framework organisations, are being reviewed with the aim of increasing diversification and strengthening local ownership. Within each of the strategy's sectors, it should be possible to provide support to increase the capacity of civil society to act as an opinion leader and monitor of the public sector, to participate in and influence the implementation of reform within prioritised areas and to strengthen the influence and rights of vulnerable groups.

3.3. Dialogue issues

Reform cooperation has in some cases created a platform for important political dialogue. Ongoing dialogue between BiH and the international community, with Sweden as an active participant, continues. Closer relations with the EU form the most important part of the bilateral dialogue between Sweden and BiH. EU integration is linked to the need for reform within all sectors of society and is therefore not only important at central government level but also at lower levels within the administration.

Other important points for dialogue are gender equality and women's participation in society/politics as well as the need to strengthen the sustainability of civil society.

3.4 Scope (volume)

Sweden's reform cooperation with BiH will amount to some SEK 170 million per year, which totals approximately SEK 680 million during the entire strategy period. This can be compared with the 2006–2010 strategy period, when volumes during the initial years were SEK 250 million per year, dropping to SEK 170 million during 2010.

4. Implementation

Sweden's reform cooperation will support BiH in the implementation of its obligations and commitments to the EU and other agreements relevant to EU integration. BiH's own priorities, as expressed in strategies for closer relations with the EU and national development plans as well as the European Partnership, will be the starting points for Swedish reform cooperation.

Corruption and inappropriate connections between different economic, political and executive interests in BiH do not only negatively influence the development and democratisation process, but also the implementation and efficiency of reform cooperation. Supporting the development of a more effective and transparent administration and justice sector helps to curb corruption and its negative effects. At an operational level, anticorruption measures are a key issue for work with the capacity development of cooperation partners.

4.1 Cooperation with other donors, including multilateral actors

The donor community is set to change during the strategy period since several major bilateral donors plan to leave BiH. The largest remaining bilateral donors will be the USA, Germany, Sweden and Norway. The reduction in the number of donors means that Sweden's relative significance as a will donor increase. Cooperation with other bilateral donors will continue.

The largest donor is the European Commission through the IPA. BiH is likely to achieve candidate country status at the end of the current strategy period, which will entail greater IPA support within more sectors than presently. It is important that Swedish reform cooperation is carried out in close dialogue with the European Commission and other donors. Cooperation with the European Commission locally and in Brussels will be further developed and be guided by the Paris Declaration on Aid Effectiveness and the EU Code of Conduct on Complementarity and Division of Labour. Sweden will drive an active dialogue with the European Commission concerning the effective focusing of the IPA from the point of view of EU integration and how Swedish reform cooperation can best complement this. The possibility of co-financing with the IPA will be examined.

Sweden will continue to identify opportunities for cooperation with multilateral organisations, wherever this provides added-value. One such area is the environment, where the possibility of linking Swedish contributions to larger environmental investments and projects in cooperation with development banks should be considered.

Regional cooperation is important for continued development, both economic and political, and is a central instrument for creating closer ties between the countries involved and the EU. Sweden attaches great importance to regional cooperation within the Balkans and views the Regional Cooperation Council (RCC) as an important actor for coordinating this cooperation.

4.2 Alignment, harmonisation and coordination

The commitments outlined in the Paris Declaration and its action plan for aid effectiveness will guide Swedish-financed reform cooperation in BiH, as well as Sweden's conduct within the donor community. The strategy's process objectives for increased aid effectiveness will be:

- (i) better coordination with the European Commission and the IPA programme;
- ii) increased use of the country's own systems for planning, implementation and follow-up;
- iii) increased use of programme-based approaches.

5. Monitoring

The basis for monitoring the Swedish cooperation strategy at a strategic level will be the EU's progress reports, the Bosnian national development strategy and its monitoring, and discussions with BiH and other donors. At a sector level, monitoring of reform cooperation will take place through available analyses, evaluations, statistics and reports. At a project and programme level, work will be monitored through reports, audits, discussions with implementing parties and beneficiaries and, where deemed necessary, through contribution-specific evaluations.

BiH adopted the Paris Declaration at the beginning of 2010. The Bosnian Ministry of Finance is working to further develop the system for aid coordination and performance monitoring, a task in which Sweden will participate.

Within the framework of the cooperation agreement, an annual review is to be conducted together with BiH concerning the performance and planning of Swedish-financed reform cooperation. Issues that are important when monitoring are the risk factors that can affect the impact of reform cooperation, such as corruption and political developments in the country.

6. Considerations

BiH's complex administrative structure, which was created in connection with the Dayton Agreement, is still one of the biggest hindrances to the country's development and the establishment of closer relations with the EU. An administrative structure based on ethno-political divisions with a very weak central government has resulted in a lack of efficiency and overlapping areas of responsibility. This leads to an overall low level of confidence among the population for the government and doubtfulness about its ability to see beyond ethnically biased political differences and act in the interests of the entire country's survival and development. These are some of the most important risk factors for the successful implementation of the cooperation strategy. Linking strategic dialogue to closer relations with the EU is one way to navigate around these risks and help reduce them. EU integration has not been problem-free, but it offers an overarching way forward and can bridge political differences. Political forces and political actors working for reformation of the complex administrative structure can be important instruments in this endeavour.

The experience of cooperation to date shows that contributions at local level have often produced better results and have had greater opportunity to affect the everyday life of individual people than contributions at national level. At the same time, EU alignment necessitates measures to strengthen the Bosnian state in its entirety. Against this background, as well as from the overall objective of reform cooperation, previous experience at central and local level, and established knowledge within the sphere of administration, Swedish support to strengthen democratic governance in the country continues to be considered relevant.

Development of the justice sector plays a central role in BiH's nation-building process and its EU integration; partly from a stability and security point of view, where not least the handling of war crimes cases is of importance for reconciliation, and partly for the country's economic development. Based on previous experience in the area, continued Swedish support in the justice area is considered to be important to the work of creating a more effective justice system that can fulfil the legal rights of all. By strengthening institutions at a central level, increased uniformity and reduced fragmentation of the judicial system can also be promoted.

BiH's economic structures are still in transition and the country cannot fully benefit from the CEFTA free trade agreement with its neighbours. There are a number of structural weaknesses and problems in the

economy in the form of an over-regulated bureaucracy, a large informal sector, unimplemented privatisations, an education system that is not demand-steered as well as a lack of research and innovation promotion. All of this inhibits economic development and results in an unfavourable business climate and poor competitiveness among economic actors. Furthermore, the rate of employment is low, especially among women. In the national development strategy for BiH, priority has been given to competitiveness and employment. The SA Agreement is to a great extent focused on changing regulations and conditions within the economic area in order to prepare the Bosnian economy for future EU membership. To benefit economic development, employment and EU alignment, Swedish support to improve the conditions for small businesses in particular is still considered to be relevant.

Environmental issues have long had low priority in BiH. When it comes to moving closer to the EU, however, the environment has central importance, as reflected in the requirements and recommendations of the SA Agreement and the European Partnership. This has led to significantly improved environmental legislation. Implementation of the regulations is, however, imperfect. Swedish experience of development cooperation with Bosnian municipalities, likewise the competence of Swedish companies and authorities within the environmental area, give Sweden comparative advantages. It is considered that support to municipal infrastructure can build upon previous experiences and work towards necessary EU alignment within a defined area.

BiH is expected to decide on its own development strategy in the near future. It is anticipated that it will include six prioritised areas: macroeconomic stability; competitiveness; employment; sustainable development; EU integration; social integration. *Macroeconomic stability* lies mainly within the remit of other actors and Sweden is not considered to be able to contribute any added-value to this area. *Social integration* is in itself a pressing area for the country's development, but Sweden only has limited experience of working in this sector in BiH. The demands for greater focus within reform cooperation make it necessary to deprioritise the social sector. Otherwise, the direction of the Swedish cooperation strategy matches well with the Bosnian priorities: *competitiveness, employment, sustainable development* and *EU integration*.

In the choice of sectors and modes of implementation, account has been taken of several factors that are specific to BiH.

-
- i) Closer ties with the EU appear to be the only road to stability and development for a country that is still marked by the armed conflict of 15 years ago.
 - ii) The state is weak and the administration is politicised. Arbitrary blocking of necessary reforms is not unusual.
 - iii) The number of donors is limited and aid makes up a very small proportion of the country's economy. Combined donor aid during 2008 amounted to 1.3 per cent of GDP, and Swedish aid was equivalent to just 0.13 per cent of GDP.

Overall this leads to a need for strategic alignment in the implementation of reform cooperation with the possibility of gaining alternative inroads to each sector. It is important to have good knowledge of the problem areas and to carry out regular stakeholder analyses.

There are obvious synergies between the three chosen sectors. Within the sector of sustainable infrastructure, support is provided which enables local government services to be improved, which has a direct relation to the objective in the sector of democracy, human rights and gender equality. Investments in improving the environment help to increase employment, and an improved environment is a prerequisite for the development of tourism, a business area with huge potential for small and medium-sized companies in Bosnia. When the public administration is made more effective and the legal rights of the individual are improved, better conditions for business development are created. With economic development comes a tax base that can be used to improve public service.

Coherence with other policy areas in Sweden will be sought in accordance with the Policy for Global Development in order to strengthen the overall contribution to development. There are no obvious conflicts of interest. Swedish foreign policy places high priority on EU enlargement as well as on the creation of stability and development in the Balkans.

In this respect, Swedish support should take into account the fact that the capability of the entire security sector needs to be improved. A strengthened democratic and transparent security sector is a prerequisite for BiH's continued development of closer relations with the EU. Many of the proposed measures in this cooperation strategy support the development of the justice system and administration and therefore contribute to a strengthened democratic and transparent security sector.

Trade between Sweden and BiH is low, but growing. It is important that the Swedish business community is involved in development cooperation. The establishment of the business sector in developing markets contributes to economic growth, more jobs, increased tax revenues, reduced poverty and the spread of Swedish values.



REGERINGSKANSLIET

**Ministry for Foreign Affairs
Sweden**

103 39 Stockholm

Telephone: Int+46-(0)8-405 10 00, fax: Int+46-(0)8-723 11 76, web site: www.ud.se

Cover: Editorial Office, The Ministry for Foreign Affairs

Printed by XGS Grafisk service, 2010

Article no: UD 10.067