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BOSNIA-HERZEGOVINA

COUNTRY DEVELOPMENT
COOPERATION STRATEGY
FOR
BOSNIA AND HERZEGOVINA
2012-2016

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USAID/Bosnia and Herzegovina

Country Development Cooperation Strategy

2012-2016

The Country Development Cooperation Strategy (CDCS) is a U.S. Government Working Document drawing upon the President's National Security Strategy and the President's Policy Directive on U.S. Global Development (PPD-6), which recognize development as a strategic, economic, and moral imperative. CDCSs help ensure that USAID implements programs and activities in a way that coordinates effectively with other U.S. Government agencies and donors to support the sustainable development of democratic states. Through the CDCS process, the agency seeks a division of labor with other development actors while ensuring USAID resources follow a strategic vision to ensure that critical development goals are achieved and needs are met in the most efficient manner.

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LIST OF ACRONYMS

ADS	Automated Directive System
AEECA	Assistance for Europe, Eurasia and Central Asia
ASP	Assessment and Strengthening Program
BAM	Bosnia and Herzegovina Convertible Mark
BEEPS IV	Business Environment and Enterprise Performance Survey
BiH	Bosnia and Herzegovina
CAS	Country Assistance Strategy
CDCS	Country Development Cooperation Strategy
CEFTA	Central European Free Trade Agreement
CLO	Community Liaison Office
CSO	Civil Society Organization
DA	Development Assistance (Fund)
DCHA	Democracy, Conflict, and Humanitarian Assistance
DFID	Department for International Development (United Kingdom)
DO	Development Objective
DPA	Dayton Peace Accords
EBRD	European Bank for Reconstruction and Development
ESF	Economic Support Funds
EU	European Union
EUCHR	European Union Convention on Protection of Human Rights
EXBS	Export Control and Related Border Security
FDI	Foreign Direct Investment
FY	Fiscal Year
FYR	Former Yugoslav Republic
GDA	Global Development Alliances
GfK BiH	Growth from Knowledge Bosnia and Herzegovina
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (formerly GTZ)
GSO	General Services Office
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
ICASS	International Cooperative Administrative Support Services
ICITAP	International Criminal Investigative Training Assistance Program
ICT	Information and Communications Technology
ICTY	International Criminal Tribunal for the Former Yugoslavia
IMF	International Monetary Fund
IR	Intermediate Result
ISAF	International Security Assistance Force
KM	Convertible Mark
MSRP	Mission Strategic Resource Plan
NATO	North Atlantic Treaty Organization
NCO	Non-Commissioned Officer
NEC	New Embassy Compound
NGO	Non-Government Organizations

NIT	Nations in Transit
OE	Operational Expenses
ODC	Office of Defense Cooperation
OHR	Office of the High Representative
OSCE	Organization for Security and Co-Operation in Europe
PMP	Performance Management Plan
PSOTC	Peace Support Operations Training Center
QDDR	Quadrennial Diplomacy and Development Review
RS	Republika Srpska (i.e., Serb Republic)
RSC	Regional Support Center
SAA	Stabilization and Association Agreement
SEE	Single Economy in Europe
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
U.S.	United States
UK	United Kingdom
UNDP	United Nations Development Agency
USAID	United States Agency for International Development
USG	United States Government
USDH	United States Direct Hire (employees)
USPSC	United States Personal Services Contractor (employees)
FSN	Foreign Services National
WB	World Bank
WiMAX	Worldwide Interoperability for Microwave Access

PROFILE OF BOSNIA AND HERZEGOVINA

People

Population (June 2010 est.): 3.8 million.

Ethnic groups: 48.3% Bosniak, 34.0% Serb, 15.4% Croat, 2.3% others.

Government

Type: Parliamentary democracy.

Constitution: Dayton Agreement, signed December 14, 1995, included a new constitution now in force.

Independence: April 1992 (from Yugoslavia).

Branches: *Executive*--Chairman of the Presidency and two other members of three-member rotating presidency (head of State), Chairman of the Council of Ministers (head of government), Council of Ministers (cabinet). *Legislative*--Bicameral parliamentary assembly, consisting of a House of Representatives and a House of Peoples. *Judicial*--Constitutional Court; Court of Bosnia and Herzegovina, which has jurisdiction over war crimes, terrorism, human trafficking, and organized and serious economic crimes; Ministry of Justice.

Subdivisions: *Two Entities*--Federation of Bosnia and Herzegovina (divided into 10 cantons) and Republika Srpska. In accordance with Annex 2, Article V, of the Dayton Peace Agreement that left the unresolved status of Brčko subject to binding international arbitration, an Arbitration Tribunal was formed in mid-1996. On March 5, 1999, the Tribunal issued its Final Award. The Final Award established a special District for the entire pre-war Brčko Municipality (Opština), under the exclusive sovereignty of Bosnia and Herzegovina. The territory of the District belongs simultaneously to both Entities, the Republika Srpska and the Federation, in condominium. Amendment I to the BiH constitution, passed in March 2009, codifies this status in the constitution. In accordance with the Final Award, the District is self-governing and has a single, unitary, multi-ethnic, democratic government; a unified and multi-ethnic police force operating under a single command structure; and an independent judiciary. The District Government exercises, throughout the pre-war Brčko Municipality, those powers previously exercised by the two Entities and the former three municipal governments. The Brčko District is demilitarized.

Economy

Nominal GDP (2009): \$17.1 billion (\$1=1.45KM)

GDP real growth rate (2009 est.): -3.2%

Nominal GDP per capita: \$4,700

Inflation rate (2010 est.): 2.5%

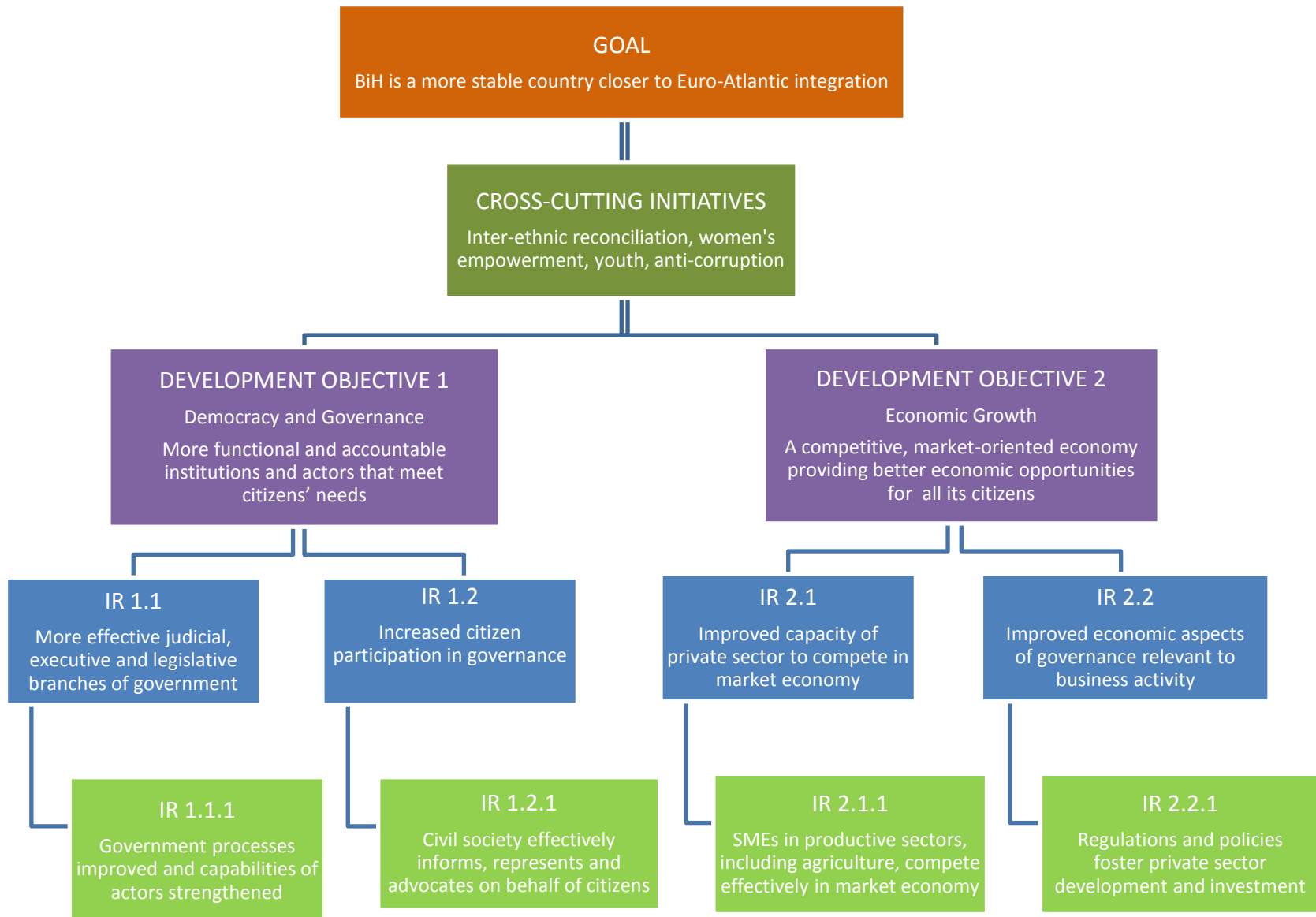
Average monthly net salary (2010): \$550

Natural resources: Hydropower, coal, iron ore, bauxite, manganese, copper, chromium, lead, zinc, cobalt, nickel, clay, gypsum, salt, sand, forests.

Agriculture: *Products*--wheat, corn, fruits, vegetables, livestock.

Industry: Steel, aluminum, minerals, vehicle assembly, textiles, tobacco products, wood furniture, explosives, munitions, aircraft repair, domestic appliances, oil refining.

OVERALL RESULTS FRAMEWORK



I. DEVELOPMENT CHALLENGES AND OPPORTUNITIES

Host Country Strategic Context

Fifteen years after a brutal war, Bosnia and Herzegovina (BiH) still must ensure political stability, foster a national identity, and create a single economic space. BiH struggles to perform basic governmental functions and has not transitioned to full sovereignty given the remaining outstanding conditions needed for closure of the Office of the High Representative (OHR). OHR is an *ad hoc* international institution created by the Dayton Peace Accords (DPA) and responsible for overseeing the implementation of civilian aspects of the DPA which ended the war in BiH. While OHR prepares to close, the European Union (EU) has pledged to increase its commitment to Bosnia and Herzegovina. The EU has recently confirmed this commitment with appointment of a European Union Special Representative (EUSR). The EU Delegation will take on the fundamental duties for steering the country toward EU membership once OHR closes. BiH remains deeply divided along ethnic lines. Divisive ethno-nationalist rhetoric exists at almost every political level, in the popular media, in the education system, and in more subtle aspects of social life. These divisions inflame distrust and impede progress in virtually every socio-political and economic area. According to Freedom House's *Nations in Transit 2010*, BiH citizens continue to show deep distrust in politicians, and trust in public institutions continues to deteriorate.

It is important to recognize the unique geo-political structure of Bosnia and Herzegovina created as a result of the Dayton peace process. The country has a federal government and two administrative divisions, called "Entities": the Bosniak/Croat-led Federation of BiH and the Bosnian Serb-led Republika Srpska (Serb Republic). There is also a self-governing administrative unit called Brčko, which is under the authority of the sovereignty of BiH but is not a part of the Federation or the Republika Srpska. The Federation of BiH is divided into 10 cantons, and further administratively divided into 79 municipalities. These cantons operate as local autonomous units of the Federation. Each canton has its own government, which includes cantonal ministries and agencies. The Republika Srpska has a centralized government and is divided directly into 62 municipalities. The ethnically diverse Brčko District is a division of its own under the direct jurisdiction of BiH.

As the architect of the Dayton Peace Agreement that stopped the war, the USG is committed to helping BiH transition beyond the current political instability and economic stagnation.

The state-level government of BiH has a bicameral parliament comprising the House of Representatives and the House of Peoples, two-thirds of the members of which are elected from the Federation and one-third from the Republika Srpska (RS). A valid majority requires the support of at least one-third of the members representing each Entity. The Federation and the RS Entities also have Entity-level parliaments. BiH has a rotating, collective, three-member presidency made up of one Croat, one Bosniak, and one Serb representative.

The Council of Ministers is BiH's state-level cabinet, headed by a chair, who is the country's *de facto* prime minister. Members serve four-year terms. The Entities have their own governments, and cantons within the Federation also have strong control over local resources. The number of BiH state-level institutions exercising exclusive competencies is small. In other areas, state-building has generally entailed the transfer of only partial competencies to the central state, leaving in place a complex system of shared competencies that relies on the goodwill of several different layers of government to operate. In many of these areas, although the state has a role in policy-setting particularly in regards to inter-Entity harmonization of standards and compliance with international obligations, the Entities continue to have legislative power in all shared competencies, usually

ignoring or undermining the requirements of state law. The state by default usually remains seriously marginalized.

State-level institutions are very limited in their capacities, and there are only a few such institutions that have national-level competencies and authorities that merit support (including the Ministry of Justice and State Parliament). What is highly problematic and, in present form, unsustainable, is the way in which the continued functioning of the state institutions and the exercise of exclusive state competencies can be seriously undermined by Entity/constituent people-based quorum and voting rules. As well, competencies shared between the state and Entities are configured such that there are inadequate mechanisms to ensure Entity compliance with state or joint policy.



USAID support includes capacity building for BiH's Parliament.

Strengthening the legislative process and the justice sector are important for the continued development of BiH's rule of law and for compliance with EU accession criteria. Improving these functions and creating transparency and consistency on established rules and processes will help divorce BiH's economic and political processes from the party-based cronyism that dictates much of the country's economic opportunity today.

Due to the introduction of direct election of mayors, municipal-level government represents a great opportunity for improving the consultative process between citizens and

their leaders, advocating citizens' issues and demands, and raising citizens' expectations of responsive and transparent governance to the national level of government. A survey of government effectiveness found that BiH citizens have the highest level of trust in municipal government.

BiH citizens are generally passive and believe that the state and Entity-level political process is non-responsive to their needs. In the run up to the 2010 general elections, public surveys underscored that the populace's major concerns were unemployment, the economic recession, and corruption. However, major political parties and politicians rarely, if at all, based their platforms on these issues; instead, they largely continued ethno-nationalistic-based campaigning. The prospect of possible future EU accession offers potential impetus for real political and economic reform and a national vision. But, this requires difficult reforms in governance, basic issues of human rights, and inclusion of minorities in the political process. BiH leaders could use this carrot to make the difficult reforms that will lead the country to EU membership. This would entail uniting around universal challenges and issues, and forming a shared national identity, rather than lobbying around ethnic identities.

The complex, ethnic-based, multi-layered governance structure and widespread citizen apathy has enabled non-responsive political leaders to avoid addressing BiH's problems. Reforming the governance structure requires constitutional reform and changes to the current political process that operates through narrow interests and influence. Politicians have little motivation for reform unless citizens raise expectations for governance and demand responsiveness to BiH's socio-economic challenges. Citizens are concerned with issues that have potential for political change such as: representation based on issues rather than ethnicities; respect for minorities and human rights; prosecution and conviction of significant corruption cases; merit-based rather than political affiliation-based opportunities; greater government efficiency; and a clear plan to achieve EU accession.

Civil society development is essential to BiH's transformation out of political stagnation. Civil society's role in BiH's democratic progress has been growing in recent years, but still needs outside support for funding, planning, administrative and operational functions, and expertise/lessons learned on specific issues. Supporting civil society to help transform BiH will be an important element to USAID/BiH's strategy, and ensuring the full participation of women and youth is essential to progress in development objectives.

BiH faces major economic challenges. The International Monetary Fund's (IMF) *2010 Country Report* summarizes BiH's ability to cope with global economic and financial crisis as "vulnerable". Unemployment is crippling high. Official unemployment is over 40%; the unofficial estimate when factoring in the gray economy is 22%. The majority of unemployed young people fall into the 'permanently unemployed' category. According to the 2009 Labor Force Survey, young people have the highest unemployment rate (48.7 %), and women in both Entities have higher rates of unemployment than men. In 2009, Foreign Direct Investment (FDI) dropped by 70% and real GDP dropped by 3.1% after several years of near 6% GDP growth. World Bank's *2010 Doing Business*

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Report ranked BiH 110th out of 183 countries for ease of doing business within the country. The only country ranked lower in the region was Kosovo (119), and most of the countries BiH outranked were in Africa and Central Asia. The medium-term prospects for economic recovery in BiH depend on the implementation of structural reforms to improve BiH's growth potential. In 2009 the BiH government agreed to address fiscal imbalances through the IMF

Stand-By Arrangement, but since has done little to overhaul public spending particularly for social benefits. BiH is doing little to improve the business environment, including effective commercial law, improving the process for establishing a business, and other measures. The World Bank, the World Economic Forum, and the IMF all point to low use of technology and innovation, lack of market knowledge, and stagnant human capital as major challenges to BiH's economic growth. BiH must compete in the EU market and withstand highly competitive market pressures.

BiH needs to improve competitiveness and productivity, attract investment, and make economic policy reforms. The country has economic potential in specific sectors such as energy and in sub-sectors such as high-value agriculture, wood products, tourism, and light manufacturing. The agribusiness sector is critical for alleviating poverty because a substantial share of those living below the poverty line depends on agriculture and are in rural areas. Private enterprises need improvements in capacity and efficiency, which can only be attained by improvement in technology and human capital. In spite of high unemployment rates, particularly among youth ages 15-24 and females, recent World Bank assessments indicate that 83% of firms have an unfilled need for workers, citing a lack of supply of qualified applicants as the reason for unfilled positions. Lack of skills is a challenge for the government, development community, as well as the business sector to address. BiH's opportunities for growth largely rest with improvements in production capacity, productivity and exports of SMEs. BiH has significant potential in the energy sector for revenue generation and contribution to GDP; BiH is one of the few energy exporters in the European region, and can capitalize greatly on this comparative advantage. But BiH needs to improve infrastructure and distribution, and attract investors; otherwise, according to USAID's energy sector analysis, by 2014 BiH will lose its energy surplus and ability to export, due to lack of investment in power plants and other infrastructure, and lack of policy reform.

Corruption is pervasive in many facets of BiH life including education, health, judicial systems and the public employment sector. However, this issue has not been addressed in a coherent manner. A positive development has been BiH's adoption of a new Strategy for Fight against Corruption (2009-2014) and its Action Plan. BiH has adopted, but not yet implemented, a draft Law on the Agency for Prevention of Corruption and on Cooperation in the Fight against Corruption. BiH has recently made steps to establish an anti-corruption body, implement the updated Strategy and Action Plan, and pursue investigations and prosecutions of corruption cases. Another problem in tackling corruption is that citizens are not reporting cases of corruption. BiH ranks as 99th in Transparency International's corruption perceptions index, putting the country last in the south-eastern European region.

BiH is lagging behind its neighbors' political and economic progress. Croatia is close to EU membership; Serbia and Montenegro made clear progress in that direction in 2010. In comparison, by failing to establish a competitive economy and enact political reforms, BiH is lagging further behind. The Commission to the Council and the European Parliament recently acknowledged that BiH has made limited progress in addressing the political criteria for joining the EU. Investors choose neighboring countries with better EU prospects and more competitive investment environments. According to the Global Competitiveness Index 2010–2011 published by the World Economic Forum, Bosnia and Herzegovina ranked 102nd among 139 economies, and the lowest in Southeast Europe [note that Kosovo was not ranked by the Global Competitiveness Index]. Other economies of Southeast Europe were ranked as follows: FYR Macedonia (79), Montenegro (49), Albania (88), Croatia (77), and Serbia (96).

Host Country Plans and Capacities

BiH has numerous sectoral and sub-sectoral strategies to guide the country's development – at least 66 different sectoral strategies. Most of these are not formally adopted or implemented by the relevant Entity- or state-level authorities. The weak capacity and the multiple and duplicative levels of institutions limit BiH's ability to establish and manage a host country-owned strategic framework. This situation hinders BiH's ability to implement reforms for the EU accession process. Further, the lack of political will for important reforms is a major stumbling block.

As a potential candidate for EU membership, BiH signed a Stabilization and Association Agreement (SAA) with the EU in June 2008. BiH declares that it is committed to the SAA, but overall progress in the implementation of adopted policies and international agreements is very slow. While the EU provides guidance to the BiH authorities on reform priorities as part of the European Partnership, it is solely BiH's responsibility to meet the Copenhagen political criteria. These require stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities. In addition, regional cooperation, good neighborly relations with enlargement countries and member states, and respect for international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), are also considered necessary preconditions. There has been little consensus on how to achieve the main reform priorities among leading BiH political parties, and there have been attempts to reverse previously agreed reforms. Relevant BiH ministries and institutions (at all levels) have produced different strategies and action plans on how the specific commitments stemming from the SAA criteria will be met. The implementation of these strategies and action plans are hampered by the inherent lack of capacity of public sector bodies. BiH has made very limited progress in the creation of a single economic space - a key EU partnership priority. In many areas, BiH has adopted legislative framework for sufficient regulation; however, BiH institutions and processes do not enforce, or are inconsistent in enforcement of, the legal framework. BiH authorities at all levels of government need to agree to

a shared vision on the direction of the country, for the smooth operation of institutions, for creating more functional and efficient state structures, and for speaking with one voice on EU and international matters.

Despite these issues, room for progress still exists. In order to implement important reforms and make progress toward EU integration, USAID/BiH will continue to partner with key government counterparts at the state, Entity and local levels such as the BiH Council of Ministers, Federation and RS Governments, state and Federation parliaments, High Judicial and Prosecutorial Council, State Ministry of Justice, prosecutors' offices and municipal governments, the Central Bank, the Deposit Insurance Agency, the Ministries of Finance, the Ministries of Agriculture and Forestry, and more. Ongoing and focused assistance to these institutions will be critical to develop the country's capacity to join the EU.

Donor Assistance to BiH

BiH has received large amounts of donor assistance since the war. An estimated value of total, post-war donor support is \$8 billion, although BiH does not have exact statistical data. The USG has provided over \$1.5 billion in assistance to BiH since the end of the war. Today, the largest donor in BiH is the European Union (EU). Other key multilateral donors include the European Bank for Reconstruction and Development (EBRD), the European Investment Bank, the World Bank, and United Nations agencies. Other main bilateral donors include Sweden, Germany, Italy, Switzerland, Norway, Japan, and the Netherlands (although the Netherlands will close its bilateral assistance by the end of 2011). The donor landscape has decreased dramatically in the past few years, with several major bilateral donors exiting (i.e., the UK's DFID, Austria, Spain, and Canada).



Following the 1992-1995 war in BiH, USAID assistance focused on reconstruction of infrastructure, including major bridges.

The decrease in donor engagement is happening at a time of worsening politics and economics in BiH, leaving more gaps in development support. Political stagnation – as demonstrated by the lack of a national government for over 15 months (October 2010 – December 2011) — hampers BiH's ability to make reforms, and/or implement reforms already agreed to, in order to access donor funds, such as from the multilateral banks and concessionary loans. Bilateral grant-based assistance to BiH is limited to a few donors; that pool continues to decrease as the bilateral European assistance programs depart and rely on the European Commission to provide assistance to BiH.

The EU plans to provide about Euro 100 million per year for the next several years. Actual disbursement of EU assistance funds is limited, at a rate of about 27%. The complex bureaucratic process to plan, negotiate, agree on, and disburse EU funds means that much of this assistance sits unused. For example, some EU funds from 2007 still require agreement and disbursement. BiH's lack of a state-level institution for aid is a major roadblock to using EU funds and to eventual EU candidate status.

The donor landscape in BiH means a large role for the USG as one of the few stable and robust assistance providers to BiH. As the architect of the Dayton Peace Agreement that stopped the war, the USG is committed to helping BiH transition beyond the current political instability and economic stagnation. Since the era of large-scale assistance and post-war reconstruction, the USG levels have gradually decreased to current modest levels. Even at modest levels, the USG is one of the largest bilateral donors and maintains the strongest post-war

historical legacy. USG influence and voice far outweigh the amount of assistance provided, and BiH and other donors will continue to look to the USG for help and leadership in the international community. The USG plays an active role in all donor coordination efforts and also in sector-specific working groups. BiH remains one of the poorest countries in the region and is still in transition toward a market economy. Continued USG engagement and funding are necessary to help BiH to continue to move forward on the path to Euro-Atlantic integration and to become a well-governed, responsible state. Despite the fact that the EU is the lead donor, the flexibility, speed, and credibility of U.S. assistance means that local authorities are often more willing to focus on collaboration for USG assistance.

USG Opportunities and Benchmarks

The U.S.'s overarching objective is to help a stable, prosperous, sovereign, democratic, and multi-ethnic BiH become fully integrated into Euro-Atlantic institutions (the EU and NATO). Reaching this objective includes functional state-level institutions, respect for basic human rights, inclusion of minorities in the political process, compliance with the European Convention on Human Rights (as well as fulfillment of other EU criteria), rule of law, and economic growth and investment. The U.S. continues its strong commitment to BiH's development and stability. In the past two years, the U.S. has demonstrated this high-level commitment with visits by the Vice President, the Secretary of State, and multiple visits by the Deputy Secretary of State.

USG Assistance

The U.S. foreign assistance priority is to help BiH solidify its future within the Euro-Atlantic community, ensuring that BiH makes the necessary reforms to gain EU and NATO membership. To reach this goal, the following objectives are necessary:

- Effective government institutions and civil society that encourage and enable active citizen involvement;
- Effective, transparent and accountable state-level institutions and processes, namely in the justice and security sector, which uphold the law equally for all citizens;
- Greater economic growth through investment and enactment of EU standards;
- A vibrant society that values tolerance and diversity, and where women and minorities flourish.

Cross-cutting initiatives that are critical to U.S. foreign policy objectives are youth, civil society, empowering women, and inter-ethnic reconciliation. The Embassy has identified these topics as focal points for diplomatic efforts and USG assistance. Task forces meet regularly to design and focus the Embassy's work around these key areas. USAID/BiH is part of these task forces, and integrates these important concepts into the design and work of all its programs. Corruption is also a cross-cutting area of focus since it is a major obstacle for the progress of BiH. Each Development Objective (DO) addresses these priority topics in the overall strategy, as well as at the project level (see DO sections for detailed information).

Overall, the USG assistance presence in BiH is broad and made up of diverse USG agencies. USAID implements about 50% of the Assistance for Europe, Eurasia and Central Asia (AEECA) assistance to BiH and also manages non-AEECA funds. Over \$20 million in the annual AEECA country-level budget goes to the following USG efforts: Department of Defense; State Department and Office of Public Affairs; Department of Justice International Criminal Investigative Training and Assistance Program (ICITAP), and the Overseas Prosecutorial and Development Assistance and Training (OPDAT); Department of Commerce (through Commercial Law and Development Program); Department of Treasury; and direct assistance transfers to the Office of the High

Representative in BiH, the International Commission on Missing Persons, the BiH State Court (i.e., funding U.S. judges to serve as full-time advisors) and the National Endowment for Democracy. The State Department's Assistance Coordinator to Europe and Eurasia annually oversees the funding allocation to USG agencies for assistance efforts. The Mission Strategic Resource Plan (MSRP) sets forth out-year budget levels at the broad level, although it does not set forth budget levels for specific USG agencies and does not discuss strategic details.

USG programs in Peace and Security strengthen BiH's ability to combat terrorism, address trafficking in persons, safeguard its borders, progress on defense issues and promote tolerance. Department of Defense programs strengthen state-level Bosnia defense institutions, develop capabilities at the tactical level, and help BiH advance on the path toward NATO accession. Department of Justice/ICITAP builds stronger cooperation among law enforcement agencies, improves judicial systems, and builds more capable police and intelligence services in BiH. The Export Control and Related Border Security (EXBS) program involves several complementary assistance efforts to increase BiH's ability to check ongoing proliferation concerns: legal and regulatory, enforcement, licensing, industry outreach, and interagency cooperation. The Office of Defense Cooperation (ODC)'s security assistance and other support includes, but is not limited to, foreign military sales of U.S. defense equipment, services and training, management of the budget account for Foreign Military Financing, International Military Education and Training grant funding, the Combating Terrorism Fellowship Program, the Global Peace Operations Initiative, Counter-Threat Reduction and Warsaw Initiative Funding. Additionally, these offices oversee military-to-military programs and play a key role in the State Partnership Program - an initiative that partners countries with states within the United States. Department of Justice programs work with BiH law enforcement agencies to increase their capacity to combat terrorism and organized crime. State Department's Office of Public Affairs promotes civic education, cultural and educational exchanges, and provides small grants for civil society.

II. USAID/BiH's STRATEGIC APPROACH

USAID contributes to the USG objective in BiH by carrying out assistance programs that help BiH progress toward a harmonized economic space, effective and transparent government institutions with a strong civil society, and a multi-ethnic, tolerant society.

USAID's strategic goal is that BiH is a more stable country closer to Euro-Atlantic integration.

Reaching this objective includes functional state-level institutions, inclusion of minorities in the political process, compliance with the European Convention on Human Rights, GDP growth, increased economic competitiveness, and a clear strategy for EU accession.

Specific benchmarks for measuring impact of achieving the overarching goal include:

- 2014 General Elections – an increase in voter participation and issue-based platforms rather than strictly ethno-nationalistic platforms;
- Progress in the path to EU accession;
- Progress in constitutional reform;
- Economic progress – higher competitiveness rankings, increased investment, GDP growth.

USAID/BiH's CDACS proposes two development objectives (DO) to achieve the overarching goal. The democracy/governance DO focuses on functional and accountable institutions and actors that meet citizens' needs, and the economic growth DO focuses on a market oriented economy. The approaches to both DOs reinforce each other and support the achievement of USAID/BiH's overarching goal.

In a virtuous cycle for development, improving governance and the democratic process raises economic growth, and economic growth in conjunction with strong institutions and rule of law provides the foundation for long-term stability. Support to good governance needs to link with support to economic policy through activities related to public finance design, improvements in fostering a business friendly environment, and local economic development. The current economic situation in BiH is unsustainable, with over 50% of GDP going to support the dysfunctional public sector. Stronger, efficient democratic institutions should influence governance by constraining the actions of corrupt officials. The force of the vote means that, over the long run, inept, corrupt officials can be voted out of office. More democratic institutions also facilitate the activities of media and civil society, which monitor corruption and disseminate information on corruption to the public so that government can be held accountable. Corruption represents a "tax" on the entrepreneurs and firms in the economy. This "tax" reduces the incentives to innovate, dampens technological change and inhibits investment, both domestic and foreign. By reducing the corrosive effects of corruption and raising the rewards from creation of new goods, innovation and investment will be stimulated and the growth rate of the economy will increase.

To sustain economic growth, leaders at all levels (both the national and local levels) therefore have to put together effective partnerships between public and private sectors in order to reduce the risks and uncertainty faced by private investors. This in turn can lead to substantial increases in investment. But the risk for these partnerships is that they can be far from transparent and depend on allegiances based around ethnicity and party membership. It is therefore key to develop assistance programs that promote systems of checks and balances between the public and private sectors. A more prosperous country will be a more stable country, and a prosperous citizenry will be less likely to fall under the influence of nationalist leaders.

USAID/BiH does not engage in separate strategies for each geo-political region of BiH, but rather has a strategic approach for the country as a whole. Depending on the topic (e.g., energy, legislative reform, fiscal policy), USAID's programs engage with state level or different sub-national government institutions, such as each Entity's separate parliament, ministry, energy regulator, or tax authority. USAID's programs are present throughout the country, and to the extent possible, support programs that unite, rather than divide, the various regions.

USAID's strategic approach builds on achievements from years of USAID engagement, notably:

- Helping BiH achieve stability in the banking sector after the war, including financial and technical assistance to establish a modern payment system at the Central Bank of BiH; and financial and technical assistance to establish the Deposit Insurance Agency, which ensured BiH banking stability during the recent world economic crisis and maintained public confidence in the security of bank deposits;
- Instituting important fiscal policy reforms such as direct tax reform, especially establishing the Unified Collection System for social contribution collections;
- Playing a lead donor role in energy sector reforms;
- Supporting local organizations to become leaders in civil society efforts;
- Coordinating donor commitment and pooling resources to help municipal governments improve citizen service centers;
- Supporting local governments to come together to influence state and Entity level governance to respond to citizens' needs;
- Supporting first-ever direct election of mayors through lobbying efforts and subsequent reforms;
- Helping establish a credible and functioning elections process;
- Playing a lead donor role in Justice Sector Reform;
- Increasing transparency and outreach capacities of legislators at the state level.

Critical Assumptions and Risks for Achieving Development Objectives

Critical assumptions include the following:

- Commitment of BiH authorities to pursue EU membership and make necessary reforms;
- EU and other bilateral donors continue supporting BiH on the path to EU membership;
- Stable political and security situation in the region;
- USG assistance budget remains sufficient for effective programming;
- Stability of KM (local currency) and the continued operation of the Currency Board;
- Financial sector stability maintained through prudent supervision and surveillance.

Risks include the following:

- The Constitutional Reform process is delayed or stalled;
- Nationalistic rhetoric further divides the reform agenda in BiH;
- Attacks to state-level institutions undermine BiH prospects and lead to crisis;
- Increased youth dissatisfaction feeds into nationalist rhetoric and hinders the reconciliation process;
- BiH reverses or fails to implement prudent fiscal consolidation measures and fiscal policy;

- Currency board abandoned; KM [local currency] stability jeopardized;
- Lack of progress and/or backsliding on EU accession reform criteria;
- A major regional and/or global economic crisis that results in capital outflows and substantial reduction in demand for BiH exports.

USAID/BiH acknowledges that education is a tremendous challenge for BiH. Education is an integral component toward creating both a more participatory, democratic society, as well as a competitive, market-oriented society. If the education system is not providing a qualified, knowledgeable labor force, economic growth and democratic progress is limited. BiH's education system is ethnically segregated in many parts of the country, and uses different curriculum depending on ethnicity. USAID/BiH does not have an education sector reform program for several reasons: lack of political will by key stakeholders (government at national and sub-national levels, and communities); lack of ability to effect major reform without long-term, structural governance reform; and lack of funding for education programs, i.e., significant funding to support the necessary longer-term investments to bring about reform. However, USAID/BiH indirectly works on issues in the education sector, such as establishing anti-trafficking awareness in the curriculum, carrying out teacher training on anti-trafficking and violence prevention, and working with the education ministries to include these issues in the curriculum. Other donors, such as the OSCE, focus more exclusively on education reform in BiH, and the Embassy's Office of Public Affairs also coordinates several educational programs. Other cross-cutting themes, including corruption, women's empowerment and youth, also impact the education system.

Administration Priorities, QDDR and USAID Forward

USAID/BiH's strategic direction will support U.S. Administration priorities in the Quadrennial Diplomacy and Development Review (QDDR), the Presidential Policy Directive on Development, and the USAID Forward agenda. Some of these priorities that USAID/BiH's strategy will support include:

- The U.S. Administration's emphasis on procurement and implementation reform, i.e., the way the USG provides foreign assistance, especially through more diverse implementing partners and increased implementation through local organizations;
- Partnerships with other donors and the private sector, leveraging other resources and increasing USG development impact;
- Use of innovation and technology in development;
- Helping partner countries build effective and accountable security and justice institutions;
- Emphasis on empowering women.

USAID/BiH also contributes to several U.S. Presidential initiatives. In the first year of the CDCS (FY12), USAID/BiH's agriculture program implements an earmark for Feed the Future (FtF); after FY12, USAID/BiH is a "Feed the Future aligned country", with continued agriculture support programs in private sector although not an FtF designated country. Additional funds from USAID/Washington have led to several new programs with local organizations working on SME business processes that support the Presidential Initiative of Global Climate Change (GCC) objectives, although BiH is not a designated GCC country for USAID. The new strategic direction should continue this work, if funding is available.

USAID/BiH initiates and successfully implements creative partnerships with other donors. To date, USAID/BiH has leveraged over \$80 million with other donor countries in projects in agriculture, SME competitiveness, loan guarantees, financial reform, and local governance. This dramatically increases the impact of USG assistance to BiH, and strengthens the impetus for reform on the side of BiH stakeholders. In 2011, USAID implemented five different programs in direct collaboration with other donors, meaning a co-funding partnership. USAID will continue to pursue these close donor partnerships in the new strategy.

III. DEVELOPMENT OBJECTIVES NARRATIVES

a. **Development Objective I -- Democracy and Governance: More functional and accountable institutions and actors that meet citizens' needs.**

This Development Objective (DO) recognizes that BiH needs ongoing support to develop and strengthen its democratic institutions; otherwise, democratic processes and accountable institutions will not govern the country. The complex governance structure and the turbulent political scene in BiH, especially the issue of constitutional reform that continues to sharply divide politicians along ethnic lines, slow efforts to strengthen BiH as a state. BiH suffers from lack of political responsibility of elected officials, apathy of citizens (particularly among youth), lack of democratic tradition, and wide-spread corruption. The prospects of the state-level institutions necessary for EU accession efforts are weak, as is the functionality of the lower level governments including both Entity and cantonal levels.

International and some local stakeholders recognize that reform of the current **BiH Constitution**, which was part of the peace agreement adopted in Dayton in 1995, is urgent and the only systematic way to make BiH a functional state. Reform is necessary to address institutional overlap and inefficiency; the weak powers held by the state government; and some discriminatory provisions in the current Constitution, including lack of enforcement of BiH Constitutional Court decisions on equality of constituent people. This includes the European Court of Human Rights' decision in favor of the claim of Sejdić and Finci - BiH nationals (Roma and Jewish respectively by their ethnicity) who sued on claims that the Constitution of BiH prevented them from being candidates for the Presidency and the House of Peoples of the Parliamentary Assembly solely on the ground of their ethnic origins. The BiH Constitution reserves these positions for members of the so-called three 'constituent' peoples, i.e., Bosniaks, Serbs, and Croats, as part of the Dayton peace settlement. The Court's verdict was that their ineligibility to stand for these positions constituted unjustified discrimination, and lack of enforcement of ratified international obligations (EU Stabilization and Association Agreement, Partnership for Peace) that ask for constitutional changes. However, the process of constitutional reform in BiH remains stalled. Ethnic politics have trumped the need for reform, threatening BiH's long-term stability, as well as its prospects for EU membership. The current political environment so far shows little momentum to initiate reforms to the Constitution.

On the supply side of governance, the lack of effective, unifying state-level institutions and inadequate functionality and capacity of Entity-level and cantonal governments are central issues to the performance and legitimacy of governance in BiH. Fragmented policies and lack of political will at the state and Entity levels thwarts government operations and represents the most pressing problem for progress as a unified nation able to integrate into the EU. Similar problems burden all other government levels. In the Federation, the complex layers of government and budget allocations severely limit resource management and efficient government. In the RS, the governance structure is less complicated, but it attempts to become more and more autonomous from state-level institutions, thus stalling further progress of BiH as a unified nation. Therefore, in order to assist BiH in becoming a more inclusive and democratic society, it is necessary to strengthen the state-level institutions (as Euro-Atlantic integration necessitates), and improve the functionality of sub-state governments.

Below the state and Entity levels, the **local-level government system** is improving and demonstrating the importance of effective, efficient, responsive and accountable governmental structures. This is particularly evident after the introduction of the direct election of mayors as a result of USAID assistance. This change made local governments more accountable and service oriented toward their citizens. Donor support,

particularly the partnership between USAID, Sweden and the Netherlands, is also achieving visible results in improving governance at the municipal level, the level closest to the citizens. This work is making an important contribution to improving governance where it is most visible to the people. Support to local governance should address more concrete work on policy that affects this level, such as key statutory and policy reforms that directly support decentralization and robust democratic local governance that meets European standards. These efforts include supporting associations with drafting and adopting legislation (such as the adoption of the law on forestry, the code on inter-governmental relations, and the law on vital records). BiH needs to better define the roles and responsibilities for levels of government and increase accountability and efficiency of the municipal-level government.

BiH parliamentary bodies are relatively weak. Currently, political parties and leading politicians appear to be more a part of the problem than a part of the solution. Nonetheless, they are in the forefront of any future discussions and consensus about the future of the state of BiH. Thus, political parties require assistance in order to transform their role into a productive part of the democratic process. This includes opening up political platforms based on issues rather than ethnicity, and establishing a broad-based, non-ethnically based constituency. Members of Parliaments lack the skills and experience necessary for effective policy-making, including developing technically sound positions, drafting effective legislation, garnering broad-based support, building coalitions, and ensuring policy implementation. Parliamentary staff lack professional skills, particularly in areas of research, legal analysis and information technology.

In regards to **political processes**, BiH needs broader policy reform at the national and local level; an improved legal framework regulating elections and local self-governance; political party reform; and responsive, capable, representative, and accountable party systems. Female participation in political and public life is low. Out of 8,242 candidates for the 2010 general elections, 3,035 (or 36.82%) were women. However, of 518 elected candidates, only 90 (or 17.37%) are women.

In the **justice sector**, the current governance structure means four parallel and separate jurisdictions: the state, the two Entities of Republika Srpska and the Federation, and the Brčko District. In the Federation there are ten subsidiary cantonal jurisdictions, each with its own set of institutions and budgets. This means that directives are issued by 14 Ministries of Justice, and four court systems and codes of criminal law and procedure exist. The BiH justice sector is characterized by weak state level institutions in charge of the judiciary, slow implementation of the recently adopted Justice Sector Reform Strategy (implementation of which is necessary for EU accession), dissatisfaction of BiH citizens with the work of the judiciary, and lack of civil society oversight and monitoring of the operations of the justice sector. Independence, accountability, and effectiveness of the judiciary are still at a rudimentary stage. Building respect for the rule of law is closely related to the state-building process. Improving the capacity and functionality of other levels of government is an important element in improving democracy and governance. Rights protection, especially for minorities, will depend on the rule of law. The administration of justice is inefficient and does not have legitimacy from the public.

On the demand side of governance, an active **civil society**¹ will lead to effective democracy and just governance, and is a prerequisite for the country to progress toward democratic consolidation. Civil society has had considerable success in advocacy and watch-dog activities on specific issues of concern to citizens; now, civil

¹ USAID uses a broad definition of civil society that allows for diverse interests and activities and encompasses all the organizations and associations that exist outside of the state and the market that is accepted by political scientists and the international development community. Civil society can be either *formal* (including non-governmental organizations, media outlets, academia, universities), or *informal* (such as citizens' groups, and individual sectoral experts).

society needs to develop a more systemized approach to demand change and hold the government accountable. Government at all levels generally does not engage with civil society on issue-based discussions and policy reforms, nor does government respond to monitoring reports by civil society organizations. Public funds allocated for civil society are not transparent and do not have an evaluation system. Civil society and the BiH government have recently established an Agreement on the Cooperation between the Council of Ministers of BiH and the NGO sector called the “Agreement.” This provides a framework to help build the relationship between the NGO sector and all levels of government, and to strengthen the government’s obligations and responsibilities to civil society in BiH. The dialogue of the government and non-government sector is necessary for greater accountability of government actors, more demand for transparent services and more participation of BiH citizens in decision-making processes. USAID assistance should focus on supporting civil society participation in policy-making; this means improving civil society’s role in monitoring government’s functions, and advocating for more transparent public spending and accountability of government officials. USAID support to civil society should be linked to other programs such as rule of law, media, political processes, local government, and economic growth. The EU Integration Strategy of Bosnia and Herzegovina adopted in June 2006 clearly defines an important role for civil society in reforming laws necessary for advancement of the EU integration process. This document states that it is necessary to: “strengthen political consensus by including civil society in the European integration process; and upgrade the presence of civil society and the active participation of NGOs in the process of legislative and other reforms.”



USAID's programs in the democracy sector include education of voters.

In order to create a strong alliance with BiH citizens, civil society needs reliable means to get their message across to the public at large. Building relationships between civil society interests and **media** is an on-going process rather than a specific project. Informed citizens are more compelled to reach decisions that would be of benefit for them, their local communities and the country as a whole. The media itself has an important role to play in the democratic development of BiH. This is especially important knowing that the use and abuse of media in promoting ethnic division is common across the Balkans. The media had a strong role in stoking the divisions that led to the 1992-1995 war. Instead of stoking divisions, media needs to play a corrective and productive role and be a service provider of balanced and neutral information. However, BiH faces a return of ethno-nationalist rhetoric in media, which is reversing post-war reconciliation efforts in this sector. In 2006, substantial USG assistance to media ended after helping the sector improve in quality and become more independent. Over the past few years, there has been a resurgence of entrenched political polarization in the media. Media outlets and journalists with a more moderate, unified voice are constantly undermined. A downward spiral is now in effect. As both the public and private media echo nationalistic rhetoric, there is an increase in intolerant speech, and a decrease in professionalism and ethical standards. This causes further self-censorship and a return to 'patriotic journalism', which serves only the interests of certain political, religious and criminal lobbies. This has devastating effects on society in general and on the democratization processes in particular. Support to media should increase the quality of news available to citizens, thus increase the public trust in the independence and value of media. Media should promote tolerance and engage the viewpoints of

diverse individuals and civil society. Media needs to become more sensitive to targeting women's rights and raising gender awareness.

Critical Assumptions and Risks:

Critical assumptions for achieving Development Objective I are:

- Commitment of BiH authorities to pursue EU membership and make necessary reforms;
- EU and other bilateral donors continue supporting BiH on the path to EU membership;
- Stable political and security situation in the region;
- USG assistance budget remains sufficient for effective programming.

Risks to achieving Development Objective I are:

- The Constitutional Reform process is delayed or stalled;
- Nationalistic rhetoric further divides the reform agenda in BiH;
- Attacks to state-level institutions undermine BiH prospects and lead to crisis;
- Increased youth dissatisfaction feeds into nationalistic rhetoric and hinders the reconciliation process.

The Results Framework for DOI (below) mitigates these risks and builds on important USG assistance successes and investments made to date in advancing justice sector reform, strengthening state- and Entity-level parliaments, improving and opening the political space at the local and municipal level, helping civil society to hold government accountable, and increasing citizens' engagement.

USG assistance to state institutions improves performance and strengthens legitimacy. Most of the reforms necessary for BiH to advance to its stated goal of Euro-Atlantic integration are tightly connected to the operations of the state-level institutions. Strengthening the legislative process and the justice sector are important for the development of BiH's rule of law. Improving these functions and creating transparency and consistency on established rules and processes will also help divorce BiH's economic and political processes from the party-based cronyism that dictates much of the country's economic opportunity today. Building respect for the rule of law is closely related to the state-building process and is an important element in addressing democracy and governance issues.

USAID/BiH's continued engagement in the justice sector will build upon its role as the lead donor in strengthening the independence, accountability and effectiveness of the judiciary and bolstering public confidence in the rule of law. USAID/BiH's work in the justice sector complements other USG agencies' justice sector policy reform. For example, while the Department of Justice provides skills-based trainings to prosecutors, USAID/BiH provides technical assistance on case management and tools for more efficient prosecutions. Together with the EU and other bilateral donors, the USG has invested significant resources and time to build a better coordinated and unified justice system. The donors have provided assistance to all levels in the justice system; BiH still needs assistance to the state and Entity ministries of justice, especially to build communication between these **ministries**. Notable progress in the justice sector has been the following: creation of the High Judicial and Prosecutorial Council and State Ministry of Justice; assistance to the prosecutors' offices and courts throughout the country; initial involvement of civil society organizations in monitoring the work of the justice system and advocating for greater independence and transparency; and the formation of coordinating forums and tools to monitor the progress of the BiH Justice Sector Reform Strategy. BiH must now build on these accomplishments and deepen the implementation of the country's justice reform strategy. This is especially important to withstand constant political pressures on state institutions.

USAID/BiH's strategic approach continues the USG commitment to support BiH's legislatures, at the state and Entity levels. Helping elected representatives answer to their constituents, who usually favor EU integration, may lead to more positions of compromise within parties. Helping the Members of Parliament to substantively interact with their constituents and better represent them may soften hard-line party positions. USAID/BiH's work has helped state-level committee members work better with their non-political, multi-ethnic secretariat staff who are often experts in their fields and can advise party leadership on reform issues. This has led to compromise and results in less controversial, but important fields, e.g., demining (human rights committee), BiH's NATO reforms (i.e., appointment of a military ombudsman, and dealing with surplus weapons and ammunition stocks), and some outstanding EU issues (e.g., transport of hazardous materials).

USAID/BiH's investments in **local governance** have led to visible results in improving governance at the local level – improved services, accountability and transparency, and calling for adjusting of municipal budgets to benefit men and women equally. USAID/BiH will build on these achievements and work on concrete policy issues that will improve local governance operations and build bridges across Entity lines.

Building on the USG's established relationships with political parties from the 2010 Elections, USAID/BiH assistance will support consensus-building and dialogue among political parties, civil society and citizens. Continual work with political parties will help mitigate the risks of increased nationalistic rhetoric that divides the reform agenda in BiH. Previous USAID/BiH assistance to political parties focused on encouraging parties to define their priorities and platforms on issue-based policies, versus nationalist rhetoric. Support for the development of political party platforms based on issues rather than ethnicity should help BiH politics focus on reforms and lead to stability.

USAID/BiH's pivotal work in establishing the "Agreement" with NGOs and the government is an important starting point that this DO will build on to secure the financial viability and enabling legal environment needed for the NGO sector to operate in BiH.

This DO will forge partnerships with and leverage resources with other donors. Direct collaboration and co-funding projects with other donors multiplies the impact of USG assistance and sends a unified donor message to BiH authorities and local partners to continue particular reforms.

USAID/BiH will support civil society engagement in the constitutional reform process. This includes working with political parties, government representatives and association and legal experts on constitutional reform issues to encourage consensus building and broad-based dialogue to reinvigorate momentum for constitutional reform. Strong diplomatic efforts of the U.S., the EU, and other bilateral donors should complement assistance efforts on constitutional reform.

This DO will indirectly address the underlining problem of corruption in BiH at all levels. At the local level, the promotion of democratic, accountable local governance mitigates corruption: decentralization brings government closer to the people and increases the quality of service provision and accountability of those who provide it to citizens. Assistance will continue to support local government institutions to fight corruption by providing technical assistance for budgeting, revenue collection, and procurement. Assistance will support civil society to monitor government performance related to anti-corruption measures through oversight mechanisms such as monitoring the work of government institutions and keeping the public informed about government accountability and effectiveness.



USAID creates safe environments for inter-ethnic reconciliation efforts across BiH.

This DO, along with the economic growth DO, promotes **inter-ethnic reconciliation** by supporting joint activities of different ethnic, political and religious backgrounds. This DO will bring together youth of different backgrounds to participate in joint community initiatives. The goal is to help BiH citizens understand, overcome and reconcile ethno-religious differences that present an impediment to lasting peace, reconciliation, and development in BiH. Governance activities will, to the extent possible, draw out common governance interests across Entity lines in favor of nationwide decentralization reforms, including public administration reform. USAID/BiH's political processes program builds dialogue and consensus across parties. For example, this DO will

bring together young members across party lines to meet and discuss common economic and social issues. Media programming will also be used to emphasize inter-ethnic reconciliation. Political processes and legislative strengthening programs will bring together women across party lines to develop informal networks between them and civil society organizations. This will allow elected women members of parliaments to advocate issues relevant to improve the position of women in BiH regardless of their ethnicity.

Under this DO, a particular focus on **youth** policies and youth engagement will be emphasized to address the issue of apathetic youth. Civil society programs will encourage greater youth civic and political activism, particularly at the grass-roots level. Through local governance programming, USAID/BiH will strive to increase youth engagement by assisting local governments to implement already adopted youth strategies and improve the role of their municipal youth officers; promoting better communication and partnership between youth and their local officials; encouraging youth to become involved in political processes; and promoting youth cooperation across ethnic lines. USAID/BiH's media programming will provide assistance to help expand access to ideas and perspectives on a range of issues, with a particular focus on the needs and interests of youth. In the rule of law area, youth issues will be addressed through small grants with associations which include young lawyers, as well as student NGOs within law faculties.

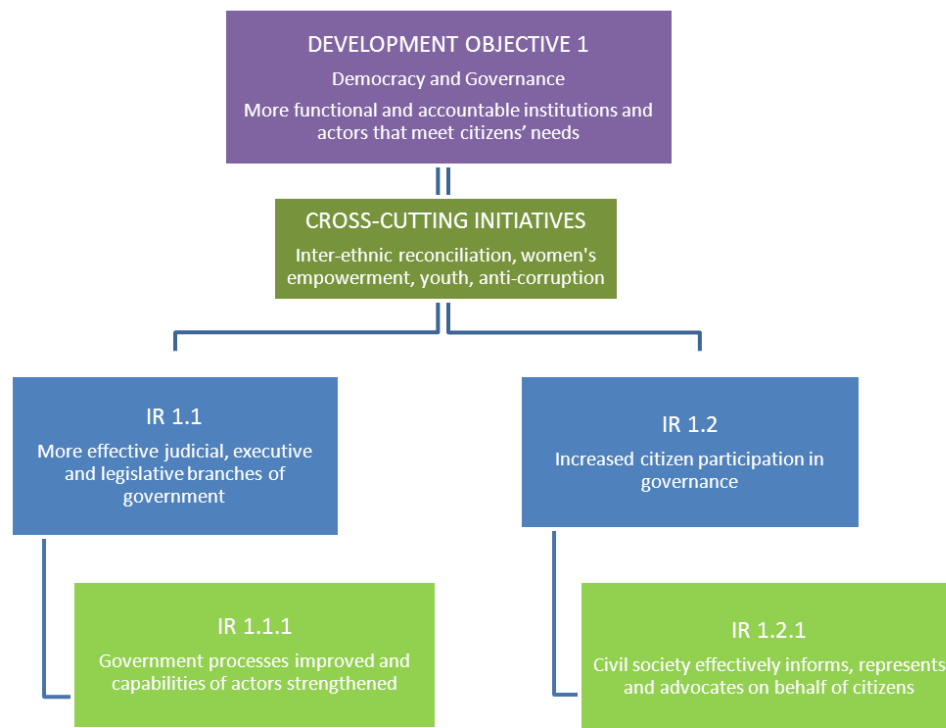
Results Framework for DO1 -- Democracy and Governance: More functional and accountable institutions and actors that meet citizens' needs.

Development hypothesis: *Effective government at all levels, coupled with an engaged citizenry and operating in an environment that respects the rule of law, will result in functional and accountable institutions and actors that meet citizens' needs.*

This USAID Development Objective (DO) will support bottom-up and top-down efforts at the local and national level to improve BiH's democratic stability. In order for BiH society to become more participatory and inclusive, the work of government institutions at all levels needs to be more functional and accountable toward citizens' needs. Support to improve governance needs to link with support to an active civil society that demands improved governance and services. This two-pronged approach is necessary for creation of any democratic society. Without it, the non-governmental sector would not be in a position to play a watch-dog

role to government. Without feedback from civil society and citizens, governments would not be democratic but autocratic and not in service to the people.

RESULTS FRAMEWORK FOR DO1



Several components under this DO will require stronger USG diplomatic involvement to encourage policy changes and political will for such changes. Examples include encouraging BiH to implement various strategies such as the Justice Sector Reform Strategy, War Crimes Strategy, Anti-corruption strategy, and efforts for constitutional reform.

This DO covers two Intermediate Results (IRs): improvements in the supply side of BiH governance by promoting more functional and accountable institutions and actors at all levels; and improvements on the demand side by increasing citizens' engagement in governance. A common theme in all IRs is increasing engagement between citizens and government at all levels and encouraging activism to make governments more transparent and accountable.

IR 1.1: More effective judicial, executive and legislative branches of government

IR 1.1.1: Government processes improved and capabilities of actors strengthened

This IR will address the supply side of governance and help make government at the state, Entity and local level more responsive and accountable to citizens' demands. To achieve this IR, USAID/BiH will provide assistance to increase accountability, efficiency and transparency of judicial, legislative and executive processes and actors.

This IR will improve the performance of state and lower level judicial institutions responsible for judicial and legal reform, as well as for functional improvements and accountability in the **rule of law**. This IR will help bring the justice sector in line with EU accession through the implementation of the Justice Sector Reform Strategy. USAID's work under this IR complements U.S. Embassy policy interventions to strengthen state-level judicial institutions and help them be more independent. Assistance under this DO will help improve: management and administrative standards for courts and prosecutors' offices that lead to more efficient, timely, user-friendly and quality judgments and prosecutions; better budgeting which reduces opportunities for pressure and manipulation; appointment and selection of judges and prosecutors based on transparent, merit-based and performance-based standards; and harmonization of state, Entity and canton laws.

In addition to the justice sector, this IR will work on improving **political and legislative processes** and the legal framework of BiH to lead to more transparent and effective government administration at the national and sub-national levels. While the national government is important for BiH's EU accession processes and international relations, the sub-national and local governments are responsible for most of the daily issues in the lives of citizens; therefore, these processes and actors need to become more accountable and transparent. Assistance under this IR will help BiH develop and enforce legal frameworks for improved governance, especially decentralization and fiscal reform, elections, conflict of interest and political party financing. Activities will increase the quality and effectiveness of legislators to respond to citizens' needs and to increase their oversight abilities. This IR will support political parties' ability to promote policy reforms, to improve constituency relations, and to represent constituents' needs. At the local level, USAID/BiH will help improve municipal level governance structures and increase their transparency, accountability and effectiveness. Local governance support will also encourage greater cross-Entity cooperation between municipalities and greater coordination between the RS and Federation Municipal Associations. All activities under this IR will contribute to the main objective to improve government's ability to develop and implement policy while increasing opportunities for public participation in these processes.

Activities will increase women's political participation at the local and national level to develop a cadre of women who are recognized as leaders in the community. USAID/BiH will provide assistance at the local government level for implementation of the state Law on Gender Equality. USAID/BiH will carry out youth-related programs to assist local governments to implement youth strategies and bring about greater communication and partnerships between youth and local governments. This IR will link to the Economic Growth DO by assisting local communities with economic development through municipal planning, local economic development plans, improving revenue allocation, and fostering relationships between local authorities and businesses. This IR will engage women in the justice sector, especially through development of transparent, merit- and performance-based appointment criteria that will allow for greater participation of women in the administration of justice.

USAID/BiH anticipates renewed and intensified discussions on **constitutional reform** during the strategy period that will inevitably lead to other policy and legislative changes. Such changes may relate to the BiH

Election Law, the Law on Council of Ministers, adding a chapter on the judiciary in the Constitution, and creating a list of all criminal cases without a statute of limitation (i.e., war crimes, criminal cases from privatization processes). More specific legislation will require changes, such as the Laws on Financing of Local Governments, the Law on Volunteerism on the state and the Federation (Entity) levels, the Law on Personal Income Tax, the Law on Corporate Income Tax and many others. Existing projects are addressing technical aspects of this legislation even in the absence of full constitutional reform.

Assistance under this IR will link to assistance under IR 2: Increased citizen participation in governance by engaging citizens in decision-making processes to improve government responsiveness and trust of citizens in government.

Expected results: Improved government processes and actors strengthened. More effective and representative national and local governments. Improved legal frameworks that promote and protect human rights and enable institutions to operate within a policy and fiscal framework that is conducive to accountable democratic governance.

IR 1.2: Increased citizen participation in governance

IR 1.2.1: Civil society effectively informs, represents, and advocates on behalf of citizens

This IR focuses on the demand side of the democracy and governance equation, recognizing that active **citizen participation** is required for a vibrant democracy. Activities under this IR will establish stronger institutional cooperation between the government and civil society and support the civil society side of the governance activities in IR 1.

USAID/BiH's support will encourage involvement of civil society and citizens in decision-making processes in legislative, executive and judicial sectors. This IR will help BiH institutionalize cooperation between the governmental and civil society sector (a prerequisite to enable civil society to engage in the political, economic and social life of BiH) and increase pro-active lobbying and advocacy by citizens. Given BiH's weak public administration, civil society can provide additional technical expertise to government decision-makers to help them make informed and appropriate decisions that reflect the interests of citizens.

USAID/BiH will continue supporting civil society organizations to promote specific structural, political, economic and social reforms in line with EU standards.

USAID will support processes which engage people, civil society organizations, media, governmental bodies and politics to work in partnership to improve their communities and foster good governance. This IR will address women's empowerment through mobilizing civil society to campaign and lobby Parliament for issues important to women and to effectively use the media, public, and international community as partners. USAID/BiH will also provide training on preventing gender-based violence as part of its media assistance.

This IR will help increase citizens' participation and oversight in governance processes and decision-making through support for coalition-building, advocacy, monitoring and watch-dog roles of civil society. USAID/BiH will continue supporting civil society organizations to promote specific structural, political, economic and social reforms in line with EU standards. Advocacy campaigns will focus on issues such as anti-corruption, constitutional reform, justice sector reform issues, including rights and responsibilities under the law, and human rights. USAID will work on increasing dialogue between the government and non-government sector and

improving the legal and regulatory frameworks for civil society organizations, such as adoption of the Law on Volunteerism, in order to allow for more citizen participation in social, economic and political processes of BiH. Activities will also increase corporate social responsibility and enforcement of the NGO-Government “Agreement” to secure the financial viability and enabling legal environment needed for the NGO sector to operate in BiH beyond donor assistance. Finally, activities under this IR will increase the availability of reliable and neutral information, thus leading to better-informed citizens able to form their own opinion. By assisting media in providing reliable and unbiased information to citizens, USAID will increase the ability of people and civil society organizations to hold the government accountable.

Expected results: Civic participation in decision-making processes increased. Development and regulation of civil society in BiH, establishment of institutions and mechanisms that allow for financial independence of civil society and that support local organizations to assume ownership of the agenda for civil society development.

Donor Coordination

Over the past decade, USAID/BiH has been the leading donor in local governance assistance which resulted in attracting large funding from other donors for joint projects. Many other donors, such as the EC, IMF and the World Bank, have been largely absent from municipal policy issues for the past several years. The World Bank has, however, been an intellectual ally on policy issues such as fiscal decentralization, municipal borrowing, and revenue allocation. The USG is the largest donor in political processes in BiH. Other donors active in political party assistance include German party foundations, such as Konrad Adenauer (KAS) and Freidrich Ebert Foundations (FES) that engage ideologically like-minded political parties in a handful of activities at state and Entity levels. USAID/BiH continues to be the principal donor for parliamentary strengthening. EU provides ad hoc financial support to improve the IT capacity of the BiH State Parliament and the OSCE provides limited technical assistance. USAID/BiH coordinates closely with the EU Delegation and the OSCE to avoid overlap or duplication of efforts. USAID/BiH and other sections of the U.S. Embassy are major donors in civil society. USAID/BiH’s strategic approach to civil society development through direct contracting with local organizations makes USAID’s funding unique. Although the EU Delegation is the largest donor in BiH, accessing EU funds is slow and difficult. Other bilateral and multilateral donors in the democracy/governance sector are Sida, the Netherlands (although they will close their bilateral assistance by the end of 2011), Norway, Switzerland, OSCE, UNDP and GIZ (formerly GTZ).

Administration Priorities, QDDR, USAID Forward

USAID’s work under this DO will support Administration priorities in the Quadrennial Diplomacy and Development Review, the Presidential Policy Directive on Development, and the USAID Forward agenda. This is especially visible in the procurement and implementation principles that emphasize more diverse implementing partners and increased implementation through local organizations. Strengthening local organizations remains a top priority. Currently, USAID/BiH’s programs in democracy/governance direct one-third of the annual AEECA budget directly through local organizations, and this trend is growing (all current civil society programs are implemented by local NGOs). A number of programs under this DO will focus on sustainable development of local capacities both through direct cooperation with indigenous organizations in implementing USAID-funded projects, but also through use of local policy research and development expertise. Future programs will partner with other donors, BiH governments and the private sector. Future programs will further explore the use of innovation and technology in development, such as through programs using alternative media.

Many activities under this DO will have a strong focus on new technologies and innovative approaches to development, especially through the use of alternative media. The use of internet-based communications and media-sources in BiH is quickly growing. According to Internet World Statistics, out of approximately 4,621,598 inhabitants 1,441,000 are internet users. This brings internet penetration in BiH at 31.2 %. GfK BiH Research, one of the largest market research companies in the world which delivers services in all major consumer, pharmaceutical, media and service sector market segments, found that internet usage is not limited to the cities, as approximately 26% of users are rural. Broadcast digitalization expected in BiH in 2012 will also provide an opportunity for increased Internet access via WiMAX and 3G smart cell phones. Existing USAID programs have already tapped into this opportunity for new development approaches and will further expand these approaches during the CDCS period. A special focus of these initiatives will be on young people (18 - 30 years old), since this is generally an informed internet-savvy group who are often a vehicle for extended family discussions. In addition, “poly-influentials” – a group of people interested and involved in political discussions, including those who are elites within their own communities, will be plugged-in to help drive public debate. Activities will include direct assistance through media projects to on-line media, but also civic educational programming with a media literacy component to educate young people on how to interpret what the media is actually telling citizens. Helping connect citizens with initiatives and activism through on-line media and social networking will raise public awareness about certain problems and inspire government representatives and institutions, as well as passive citizens, to act more accountable toward society.

b. Development Objective 2 -- Economic Growth: Bosnia and Herzegovina is a competitive, market-oriented economy providing better economic opportunities for all its citizens.

The achievement of the economic growth development objective will depend on and reinforce the achievement of the democracy and governance objective. Economic growth is highly dependent on the existence of effective institutions upholding the rule of law. A more efficient business climate at the local level (that is developed through strengthening governance and improving the enabling environment for enterprises) will lead to economic development with more work opportunities for citizens. Increased transparency in government institutions and reduced corruption will promote private sector investment and growth. Growing economic prosperity will lessen the intolerance that often comes with the struggle for livelihood.

One of BiH’s SAA criteria for EU integration is the “Copenhagen Economic Criteria”, which requires BiH to have a “functioning market economy with capacity to cope with competitive pressure and market forces within the European Union” and to meet “European Standards”. The SAA states that BiH must “make substantial progress on creating a single economic space in Bosnia and Herzegovina supporting the free movement of goods, capital, services and persons.” BiH has signed the SAA and has formally declared its commitment to EU accession; however, economic transition, implementation of structural reforms, and further development of a single economic space are hindered by the complicated political and constitutional structures in BiH. The effects of the recent global recession put additional pressure on BiH’s path to EU accession. BiH needs assistance to unlock its potential of domestic sources of growth, increase the productivity of private enterprises, and substantially improve the business environment to attract investment, both domestic and foreign.

This DO explicitly addresses the SAA criteria. With regards to the SAA criteria on a “single economic space”, the USG’s economic policy remains committed to ensuring progress toward this end, including supporting state-level economic institutions and/or processes that will integrate the economic space and harmonize Entity regulations. The USG approach also recognizes that many economic reforms are at the Entity-level. USAID’s

economic growth DO will help BiH to comply with EU standards. This will require harmonization of regulations across the Entities and work on relevant state-level issues so that BiH will have a uniform economic space.

BiH is a small, open economy with a limited domestic market. Table I provides key economic data.

Table I. Key Economic Indicators for BiH 2005-2009

Main Economic Indicators	2005	2006	2007	2008	2009
Nominal GDP (in millions of BAM) current prices	17,157	19,272	21,778	24,717	24,004
Real GDP (growth rate in %)	3.87	5.97	6.19	5.71	-2.95
Expenditure of General Government (as % of GDP)	39.12	41.70	43.96	46.29	47.54
Overall Balance of General Government (as % of GDP)	2.39	2.86	1.18	-2.18	-4.46
Current Account Balance (as % of GDP)	-17.10	-7.95	-10.69	-14.39	-6.84
Trade Balance (as % of GDP)	-45.16	-34.56	-37.20	-38.18	-27.76
External Debt of Government Sector (as % of GDP)	25.30	21.10	18.24	17.16	21.80

Source: Central Bank of BiH

The global economic and financial crises caused an approximately 3% fall of the real GDP in 2009 after several years of nearly 6% annual GDP growth. The economic downturn in 2009 caused severe stress to public finances which led the BiH authorities to sign the IMF Stand-by Agreement to correct fiscal imbalances for the period of 2009-2012. Release of further tranches of funds under the agreement is contingent on implementation of fiscal consolidation measures and policies. In 2009, BiH faced fiscal imbalances caused both by the economic recession and as a result of past policies which generated significant, unfunded obligations for the governments at all levels. The BiH government now faces severe fiscal pressures, and therefore fiscal issues are the focus of its policy setting and attention. This, among other political factors, deters the government from pursuing reforms for the business enabling environment and private sector development.

According to the BiH Central Bank's 2010 economic data, the BiH economy has experienced negligible growth (0.9%) in 2010. Even though BiH showed modest improvements in the state of the economy in 2010, the country faces severe stress to public finances and needs to correct fiscal imbalances in the short- and long-term. According to the IMF, the country "still faces the difficult challenge of dealing with the legacies of the global crises and its own past unsustainable policies, while not hurting the nascent recovery." A return to stronger sustained growth will certainly require a sound banking system and public financial regimen, and a better business and investment climate.

The economic crisis also revealed the underlying structural problems of the BiH economy which, despite progress in some areas, remains vulnerable as the **competitiveness** of the BiH productive sector remains weak. The unofficial **unemployment** rate, which factors in the gray economy, is over 20% and affects primarily the processing industry, namely small and medium size enterprises (SMEs). In 2010, BiH official statistics reported an unemployment rate above 40%. The unemployment rate is particularly high amongst youth and women. Current strategies at the state and Entity levels are not seriously committed to the adoption of methods that would reduce gender-based discrimination in employment. Women make up 38.5% of the labor market in BiH, but they enter it under unequal conditions. Women's participation in business decision-making is unequal; only 5% of managers in public enterprises and 25% of entrepreneurs are women.

In general, the level of Foreign Direct Investment (FDI) per capita is the lowest in the region, and in 2009 the FDI dropped by 70%. The sharp drop in investments, contraction in external demand, and reduction of domestic consumption caused a drastic slow-down of trade and reduction in industrial production and construction activities, all of which increased unemployment.

Although the main elements of a market economy are present, in terms of **private sector activity** and the presence of broad price and trade liberalization, the country continues to face broad structural reform challenges across the board. BiH is still an economy in transition to privatization; the economy is still dominated by state-owned enterprises. BiH's average score for transition to a private sector-driven economy, as measured by the EBRD and reported in the *Transition Report*, is the lowest in central or south-eastern Europe. The quality of the business environment in BiH is weak and the country continues to lag behind other countries in south-eastern Europe, according to various cross-country surveys. In the latest round of the Business Environment and Enterprise Performance Survey (BEEPS IV), more than one-quarter of the enterprises surveyed identified political instability as the main problem affecting their operations. Many businesses also cite **corruption** as a big problem in their day-to-day operations. Additional limitations to private sector growth include lack of capacity among the public institutions to formulate and implement effective business-friendly policies, low adoption of international product standards, and low technology absorption capacity by SMEs.

On the positive side, BiH has a long manufacturing tradition, a relatively **well-qualified work force**, and the potential to integrate into international and EU supply chains. These factors help BiH's competitive advantage in several productive sectors. **SMEs** in agribusiness, wood processing, metal processing and tourism are best poised to generate growth and meet market requirements. In addition, these sectors offer the best prospect for growth and employment by fulfilling the domestic demand and fully exploiting BiH's proximity to the EU market. Based on the SAA framework, the BiH authorities have adopted several strategy documents that guide BiH on its path to EU accession for each programmatic area. These documents set the overall framework and goals for economic and fiscal policies which must be implemented to bring BiH to EU accession. For example, BiH recently adopted the state-level SME development strategy, which is required for EU accession. However, despite adoption and some support initiatives to the SMEs by the government, the SMEs still lack adequate support and an enabling environment conducive to growth. This has repercussions on women's economic independence too. Because Bosnian women possess less collateral than men, they have limited access to more affordable credits beyond expensive microfinance.



USAID recognizes BiH's great potential in the tourism industry.

BiH possesses significant potential for electric-power generation and export. At present, BiH and Bulgaria are the only **energy** exporters in the region. Energy represents approximately 5% of GDP and could contribute much more to the country's economic output and exports. BiH has significant potential in hydro/thermal power that could result in several hundred million dollars in revenue. However, if significant investments in replacement of generating capacities do not commence by 2014, BiH will not be able to meet its future energy needs, much less tap into its export potential. Investments in power-generation facilities are hampered by an unclear investment framework.

BiH is part of the Energy Community Treaty, which represents a de facto “EU membership for energy.” BiH needs assistance to accelerate reforms needed for this Energy Treaty, develop a functioning energy market and foster investment in power-generating capacity. The Energy Treaty requires commitment by BiH toward market-oriented reforms in order to: improve energy conservation and efficiency; improve the use and integration of renewable energy sources; reduce an excessively high energy intensity of production; strengthen national institutional capacities; and adopt legislation and regulations to meet EU norms and practices.

Increased investment in the energy sector in BiH will lead to greater electricity trade and exports, which will directly contribute to a reduced trade deficit and improved macroeconomic stability for BiH. It is important to emphasize that USAID is the main donor currently involved in energy policy reform, in coordination with technical assistance from UNDP and GIZ, while other donors, notably the EU and World Bank, are focusing on such areas as energy efficiency legislation (EU) and power distribution upgrades (WB).

Critical Assumptions and Risks:

Critical assumptions for achieving Development Objective 2 are:

- Continued determination of BiH authorities to pursue EU membership;
- EU and other bilateral donors continue supporting BiH on the path to EU membership;
- Stability of KM [the local currency] and the Currency Board;
- Financial sector stability maintained through prudent supervision and surveillance.

Risks to achieving Development Objective 2 are:

- The Constitutional Reform process is delayed or stalled;
- Nationalistic rhetoric further divides the reform agenda in BiH;
- Increased youth dissatisfaction feeds into nationalistic rhetoric and hinders the reconciliation process;
- BiH fails to implement prudent and responsible fiscal consolidation measures and policy;
- Lack of progress and/or backsliding on EU accession reform criteria;
- A major regional and/or global economic crisis that results in capital outflows and substantial reduction in demand for BiH exports.

Development Objective 2 builds on previous USAID investments and achievements in the economic policy area and excellent partnership with key government institutions and private sector. Specifically, USAID has been the lead donor in reforms in the financial sector. This resulted in BiH having one of the most stable banking systems in the region. USAID has also been the lead donor in important reforms in fiscal policy (such as direct tax reform), public finance management, and energy.

Results Framework for DO2 -- Economic Growth: Bosnia and Herzegovina is a competitive, market-oriented economy providing better economic opportunities for all its citizens.

Development hypothesis: *An economy with competition and based on market forces will result in new and better enterprises and ideas that lead to more jobs and opportunities. Private sector-driven economic growth provides the only means for a country to generate public and private resources it needs to address development challenges on its own and emerge from dependence on foreign aid. Economic growth provides the material basis for progress in all other dimensions of development and long-term stability.*

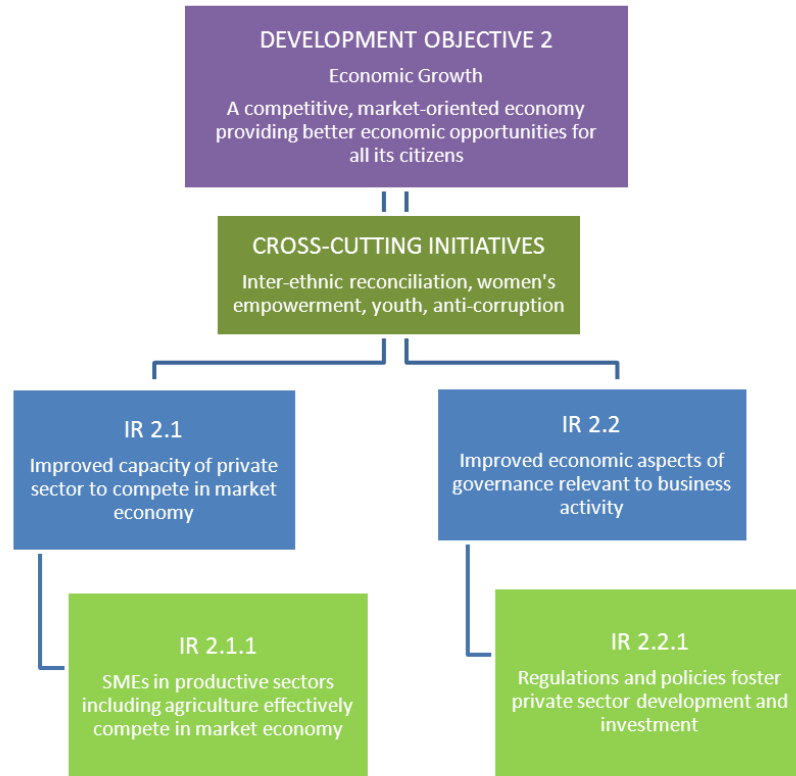
Achievement of this DO will require achievement of two Intermediate Results (IRs): improved capacity of the private sector to compete in the market economy; and regulations and policies which foster a single economic space and private sector development and investment. This DO will help BiH meet the EU's "Copenhagen Criteria" necessary for accession. Several assistance activities planned under this DO, such as in energy sector reform and continued financial sector reform, will require stronger USG diplomatic involvement to help push for policy changes and political will necessary for such changes.

This DO will help firm-level competitiveness, i.e., increase enterprises' productivity, profits and employment opportunities. Firm-level competitiveness will drive country-level competitiveness and will lead to private sector expansion and investment. Increasing the role of private sector enterprises will help spur economic transition away from the domination of state-owned enterprises. The DO will focus on SMEs in several competitive sub-sectors, and the agriculture and energy sectors especially. Access to finance is necessary for this private sector, enterprise-level growth. This DO will also continue regulatory and policy reform that will harmonize the BiH economy and improve the business environment. Major limiting factors to BiH's business enabling environment and attractiveness for foreign investment are political instability, weak transport links, and key economic policy and regulatory issues. For the first factor, the democracy/governance DO in this strategy tries to improve political stability. Similar to the democracy/governance DO, the economic growth DO recognizes the importance of progress at the local, i.e., municipal level where citizens and governance institutions have the most interface; USAID/BiH will support economic planning and development at the local level. Regarding transport links, USAID/BiH's strategy does not address this issue due to lack of resources needed for major infrastructure and the fact that other donors such as World Bank, EU, and EBRD work on the transport sector. Therefore, this DO will identify and support those regulatory and policy topics that are priorities to enable business and where BiH shows clear commitment to reform. Priority topics are financial sector reform and energy.

USAID/BiH's two-pronged approach helps enterprise-level competitiveness (notably in agriculture and SMEs in key sub-sectors) and supports priority regulatory and policy reform to improve the business environment in BiH. The key criteria for USAID to continue to engage in policy reform are as follows:

- EU accession;
- Reform is a binding constraint to growth;
- Partners are committed and have the appropriate capacity;
- Reform leverages USAID's previous accomplishments.

RESULTS FRAMEWORK FOR DO2



Research (World Bank’s *Doing Business Report*) has shown that among the top reforming countries, some 85% of microeconomic reforms occur within 15 months of a change of government. BiH had general elections in October 2010, and at the time of writing this, not all levels of government have been formed. USAID/BiH will continually monitor political will and traction in economic policy reforms to determine whether certain sectors such as banking and energy policy, continue to progress and merit ongoing assistance.

The energy sector represents substantial economic opportunity for BiH and builds on past USAID investments and accomplishments, but it requires strong host country commitment. Likewise, the financial sector is a priority area for USAID/BiH assistance due to the following: financial sector performance strongly affects productivity growth (the sector is critical to mobilize savings and channel domestic and international private capital to support productivity growth); and modest future investments in the financial sector will capitalize on earlier USAID investments and accomplishments, ensure that BiH meets its SAA and IMF commitments, and help harmonize regulations across Entities. The IMF 2010 (Article IV Reviews Under the Stand-By Arrangement) Report specifically emphasizes the role that USAID plays in fostering a single economic space in the financial sector, noting that “the banking agencies are receiving technical assistance from USAID as part of a multi-stage program to gradually adopt risk-based supervision and move to Basel II, which will help harmonize supervisory

practices and regulations in the two Entities.” USAID/BiH’s current assistance in the financial sector is focused on the banking sector, given that this is an area where the greatest demand for assistance existed, due to the global financial crisis and the risk that a bank-centric financial system in BiH carries.

This development objective will cover activities throughout BiH. The targeted beneficiaries under this DO are private enterprises, agricultural producers and cooperatives, relevant local-level authorities, government institutions and agencies, trade associations and non-government stakeholders across BiH.

This DO includes priority topics of inter-ethnic reconciliation, **women’s empowerment**, and youth leadership. Increased trade and investment across ethnic lines will contribute greatly to overall stability and interethnic reconciliation in BiH. This DO will provide technical assistance and training in multi-ethnic environments to emphasize the benefit of working across administrative boundaries to maximize trade and investment opportunities. This DO will also build on current programs in the SME development portfolio that directly promote interethnic cooperation and economic development. This DO will support cooperation across Entity and ethnic lines through exchanges, such as in the energy sector and the banking sector.

Women’s economic empowerment is integral to this development objective. Obstacles preventing women’s successful participation in the economy represent a lost economic opportunity for BiH to benefit from the knowledge, skills and abilities that BiH women can contribute. To maximize women’s economic contribution, this DO will promote the participation of women and women-owned business in key industries. This DO will also work on expanding women’s access to finance and promotion of women’s entrepreneurship. This DO will build on current programs that work on women’s business networks and women’s role in agriculture in BiH.



USAID supports women's important role in BiH's economy.

This DO will address youth economic empowerment, especially through promoting opportunities for youth involvement in SMEs. The mismatch of skills youth can offer and of those that are needed in the marketplace leads to high rates of youth unemployment. This DO will support transfer of skills and competencies required by modern manufacturing processes. This DO will provide business development and support services for young entrepreneurs. USAID/BiH will try to improve innovation by BiH youth, especially through gaining and using ICT skills in increasing productivity. USAID/BiH will facilitate partnership between business incubators, leading technology firms (international, regional and local), business development support providers and the public sector. Where possible, value chain and competitiveness analyses and interventions will incorporate a youth lens; access to finance in select value chains will include expanding access to finance by youth value chain actors. Furthermore, business environment reform efforts will include relevant youth representatives/associations in the policy prioritization and vetting process.

Like DO I, this DO will address the cross-cutting issue of corruption. USAID/BiH’s private sector development programs will look for opportunities to promote transparency within all beneficiaries’ business processes, and policy reform activities will help increase transparency of business policies and procedures in order to reduce corruption. USAID’s efforts in tax and fiscal along with energy policy reform include efforts to enhance transparency and eliminate opportunities for corruption.

Programs under this DO also support the Presidential initiatives of *Feed the Future* and *Global Climate Change*. In the first year of the CDCS (FY12), USAID/BiH's **agriculture** programs implement *Feed the Future* (FtF) earmarks; in future years, agriculture programs will be aligned with FtF, but will be part of overall private sector competitiveness. USAID's SME programs will address environmentally sustainable aspects of production, which will help address challenges due to climate change. BiH has a high sensitivity to climate threats because of the significant economic role of traditionally climate-sensitive sectors, such as agriculture and forestry. BiH has a very limited adaptive capacity to address climate changes in a systematic way.

IR 2.1: Improved Capacity of the Private Sector to Compete in a Market Economy

IR 2.1.1: SMEs in productive sectors, including agriculture, effectively compete in a market economy



USAID supports organic farming and connects these products to international markets.

This IR will support private enterprises that have the highest potential to generate growth measured in increased sales, exports, profitability and employment. USAID/BiH's work with private enterprises in productive sectors will build upon advances already made in support of wood processing, tourism, light metal processing and agribusiness sectors. Assistance under this IR will address constraints to growth such as low productivity, poor quality/design of products, inadequate marketing and poor links to global markets, limited supply of skilled labor, and limited access to finance. Assistance under this IR will help private enterprises introduce new technologies and ICT applications to improve productivity and meet relevant EU export standards and

requirements. This IR will help improve results at the level of enterprises, clusters or value-chains, at the same time seeking to achieve sector-wide impact. In agriculture and agribusiness sectors, this IR will help BiH agriculture producers and processors improve their ability to withstand market competition from the Central European Free Trade Agreement (CEFTA) and EU accession process, and also enable ag-businesses to capture opportunities in domestic, regional and EU markets. Assistance under this IR will help farmers, cooperatives, market integrators and food processors address constraints along the entire value chain in selected sub-sectors. This IR will foster vertical and horizontal integration of SMEs to take advantage of trade opportunities. Within this framework, women-specific programs should be part of a long term mainstreaming strategy.

Assistance under this IR will continue USAID's successful use of Development Credit Authority (DCA) **credit guarantees** to improve access to finance for SMEs and capitalize on technical assistance through other programs. USAID/BiH has successfully integrated credit guarantee programs into its broader programs to support SMEs and other private sector actors. Currently, USAID has six different DCAs with a combined ceiling of over \$100 million in credit guarantees, with a relatively low default rate so far. One of these DCAs is specific to the energy sector - to support energy efficiency.

Certain activities under this IR will address the *Global Climate Change* initiative. Assistance in promoting clean and efficient energy technologies in BiH will encourage private sector delivery of energy and environmental management services; create an environment that is conducive to accepting clean and efficient energy technologies; and promote the use of clean and efficient energy technologies, products, and energy and environmental management services. Activities under this IR will address the agriculture sector's capacity to mitigate the effects of climate change. By supporting the agriculture sector in BiH to become "climate resilient", USAID directly supports its climate change mitigation and adaptation priorities. If funding is available, USAID will build upon current initiatives, such as one project with a local partner that identifies, develops and tests technical

solutions on five demonstration farms for adaptation to disruptions in normal weather patterns that affect productivity. These solutions may then lead to adoption of standards at the municipal, cantonal, and Entity level.

Programs under this IR will align with the Presidential initiative of *Feed the Future*. In the agribusiness sector, USAID/BiH will continue programs to improve productivity of environmentally sustainable commercial agricultural production, food processing and obtaining EU quality requirements and exports. The agribusiness sector is critical for poverty alleviation a substantial share of those below the poverty line depend on agriculture and live in rural areas.

Expected results: Output of private enterprises in targeted sectors will grow; private enterprises in targeted sectors will meet EU quality and export requirements; private enterprises in targeted sectors will expand.

IR 2.2: Improved economic aspects of governance relevant to business activity

IR 2.2.1: Regulations and policies foster private sector development and investment

This IR will help improve BiH's business environment. This will help the BiH public and private sector establish strategies and policies, then prioritize, draft and implement regulations that stimulate economic growth, investment and jobs.

Regulatory and policy reform assistance under this IR will address harmonization of regulations across Entities, and will also address local level issues (i.e., regional, cantonal- and municipal-level policies) to build BiH capacity to attract investment. This support may include cooperation with regional and local development agencies that implement BiH programs for SMEs, planning, zoning, permits and other local level regulations that affect the business environment and, in turn, affect private sector expansion and foreign investment. As the competition among local communities throughout Europe to attract investment is increasing, improved business conditions at the local level are becoming critical building blocks for the country's economic sustainability and political stability. This IR will help improve capacity of local authorities to strategically plan local economic development, attract new investments and support local entrepreneurship. This IR will help establish policy-dialogue mechanisms/platforms to bring together the business community, local government representatives and civil society organizations to identify and prioritize policy changes necessary to accomplish economic transformation of local communities. By helping authorities at the local level to spur economic growth and generate employment, this IR directly supports and contributes to the democracy/governance DO of more effective and accountable governance and increased citizen participation in governance. At the time of writing, USAID/BiH identifies **financial sector** reform and **capacity building** as a priority for assistance under this IR due to the importance of financial sector stability in attracting investment to BiH. USAID will help the growth of competitive financial systems while strengthening transparency and supervision to enhance the stability of financial markets. USAID/BiH's current programs in the banking sector wind down in 2012; at that point, USAID/BiH will determine whether there is continued political will and progress to maintain assistance, or whether to direct assistance toward other financial sector topics such as insurance and pension reform. BiH has a relatively weak insurance sector; USAID/BiH will investigate further to what extent this weakness affects BiH's business environment and attractiveness to foreign investors. The pension sector is a fundamental problem for the financial stability of the Entities, but USAID thus far does not propose assistance to this topic pending political will and other donors' (i.e., World Bank and EU) potential plans for supporting pension reform.

This IR will also support energy sector reform in BiH, given the importance of the energy sector for exports, revenue-generation for BiH, and attractiveness for foreign investment (i.e., power stability). Building on the

success of past reform activities, USAID will continue to assist BiH in developing transparent, functional and responsive energy regulatory bodies. These efforts will help lead to a market-driven energy market and promote the integration of the BiH energy sector into the larger Southeast and European Energy Market and energy trade bodies. This IR will expand USAID's current work in the energy sector to focus on creating a more investor friendly energy sector environment. This work should lead to significantly increased revenue for BiH.

Expected results: BiH will adopt EU-compliant policies and regulations which foster a single economic space in BiH, facilitate trade and enable growth of private enterprises in productive industries. BiH is attractive for private and foreign direct investments. Investments in the energy sector in BiH will increase. Prudent policies, regulations and supervision of financial services will preserve the stability of the financial sector and offer increased access to finance for private enterprises.

Donor Coordination

Overall donor coordination is carried out at general coordination meetings, bilateral meetings, industrial sector working groups and other forums. In the economic growth sector, other donors provide significant funding to improve the general institutional capacity of the host government. The European Commission as the largest donor in BiH helps BiH attain candidate status for EU accession. As a potential candidate for the EU, BiH receives assistance mechanisms and funding from the EC. The EC assistance programs help BiH institutions to execute reforms and strategies required by the accession process. About 75% of EC funding to BiH targets political and regulatory criteria of the EU; the remaining 25% of EC funding goes to economic development. The EC expects to increase assistance in these areas through 2013; if and when BiH obtains candidate status, it will receive more EC assistance in agriculture and rural development, regional development and human resources development. As some of the EC's assistance programs are conditioned on political, institutional and legislative reforms in BiH, the actual implementation of EC-funded projects is frequently delayed until BiH partners meet the criteria. In some cases, the planned and budgeted assistance programs cannot be carried out due to lack of progress in meeting the EC criteria.

Multilateral financial institutions such as the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) provide on-lending funds for infrastructure, economic development, social protection and microfinance institutions. The long-term approach of multilateral financial institutions represents a mix of support for BiH's accession to the EU, poverty alleviation and infrastructure and industrial sectors. BiH receives support from the IMF and the World Bank to implement the program of fiscal adjustments and structural reforms under the Stand-By Agreement.



The USAID/BiH Mission is a leader in partnering with other donors, particularly on local development projects.

With the ability to quickly mobilize and implement targeted assistance programs, USAID/BiH has a unique donor position in providing assistance to the private sector and engaging in specific policy interventions identified by the private sector as critical constraints to growth. Since 2004, USAID/BiH has successfully implemented several private enterprise support programs which were featured as models for other USAID missions in the region. USAID currently manages several economic growth projects co-funded by other donors,

such as Sweden, the Netherlands and Norway. This unique partnership amplifies the impact of the donors and provides a powerful message to the BiH government on needed legal or policy changes. The United Nations Development Program (UNDP) and German Gesellschaft für Internationale Zusammenarbeit (GIZ) have significant programs working in youth workforce development in BiH.

USAID/BiH is the leading donor working directly on private sector development and is able to identify and prioritize key policy obstacles to economic growth – this process helps other major donors in designing and formulating their assistance programs in BiH. The approved multi-year strategies of major donors in BiH focus on institutional capacity building required by the EU accession process, infrastructure investments, and limited investments in private enterprises. This creates a void for private enterprises development services which are still acutely in demand in BiH given the low technological readiness of BiH SMEs, the poor quality of workforce at all levels, and inadequate access to finance and markets. Over the course of this strategy, USAID/BiH will transfer the knowledge and expertise in private enterprise development to host country partners and targeted beneficiaries, institutionalize business development support services, and promote commercial-fee based services so that service providers are sustainable after USAID support ends.

Administration Priorities, QDDR and USAID Forward

USAID/BiH will continue to expand the ways it implements projects and works with donors. This includes creating partnership opportunities for BiH partners that have not previously worked with USAID/BiH, as well as channeling some of its assistance through host country programming mechanisms, such as joint programming with the Central Bank of BiH and the Deposit Insurance Agency of BiH. USAID/BiH will continue to pursue partnerships with indigenous organizations. Currently, USAID/BiH uses several models for partnering with local organizations. For example, under key SME and agriculture support activities, USAID/BiH requires implementers to develop formalized partnerships with local organizations. Such arrangements help achieve the development objectives and at the same time enable a transfer of knowledge and expertise to the local organizations. USAID/BiH will work with local governments to develop their skills and capacity to strategically plan local economic development, attract investment, and support local entrepreneurship. USAID/BiH will design activities under this DO to contain specific requirements for partnership with BiH partners as part of a sustainability plan.

This DO aligns with the Presidential initiatives of Feed the Future (FtF) and Global Climate Change (GCC), although USAID/BiH does not anticipate implementing FtF and GCC earmarks over the course of this strategy.

In line with the QDDR and USAID Forward emphasis on incorporating innovation and science and technology in development efforts, many activities under this DO will have a strong focus on new technologies. The World Economic Forum's report measuring progress of developing countries showed that technology and ICT have proven to be a key enabler of socioeconomic progress and development. Application of technology has significant positive impact on national competitiveness and economic growth, and it represents a useful tool for decision makers and civil society to foster national progress in general. While SMEs in several key sectors of BiH have certain competitive advantages, the current global economic situation is making it more difficult for SMEs to participate in global value chains that are increasingly technology driven. BiH does have the necessary infrastructure and growing internet usage but needs the level of absorption of new technologies by SMEs to spur innovation. SMEs in BiH can significantly improve their operations efficiency and skip piecemeal stages of development and growth by applying the latest ICT.

New programs under this DO will build upon USAID's current efforts to help BiH enterprises use technology and innovative approaches to increase competitiveness. This includes introducing specific ICT solutions to SMEs, such as the use of computer-based design techniques to improve consistency and quality and lead to more complex product designs. Assistance under this DO will try to help transfer knowledge on innovative solutions for SMEs. It is critical that the knowledge transfer is based on the latest developments in software design, business (and manufacturing) processes management, and hardware solutions. These mechanisms will also provide an environment and infrastructure for the development, testing and marketing of new technology/software solutions. USAID/BiH will foster partnerships between the leading ICT firms, academia and public sector institutions.

IV. MONITORING AND EVALUATION

USAID/BiH will establish a separate Performance Management Plan (PMP) to monitor results and progress over the life of the strategy. The PMP will finalize the indicators and set targets, and establish the monitoring tools, including the regime and frequency of data collection for overall progress on USAID/BiH's Development Objectives. The PMP will re-institute a formalized and consistent, multi-year monitoring process. While the projects demonstrate success at achieving project-level results, a formal PMP at the strategy level will help USAID/BiH to aggregate the project-level results into an assessment of Development Objective-level results and achievement of USAID/BiH's overall goal. USAID/BiH will perform quality control and verification through impact evaluations and assessments.

All monitoring and evaluation efforts – whether through a mid-term evaluation, a final evaluation, or impact evaluation – include coordination with local beneficiaries, other donors, and other counterparts. This coordination typically involves intense meetings with these stakeholders, and sometimes stakeholders' participation in the evaluation team.

USAID/BiH tracks several known indicators that will guide monitoring and evaluation. The indicators shall include sex disaggregated data in order to capture information about changes in gender status achieved by projects. To assess the extent to which gender will be integrated into the activities, the PMP shall include the following information: how will the different roles and status of women and men affect the work to be undertaken; and how will the anticipated results of the work affect women and men differently.

Illustrative Indicators

DO1: More functional and accountable institutions and actors that meet citizens' needs

Indicator: Improved score on Nations in Transit, Democracy Score

IR 1.1: More effective judicial, executive and legislative branches of government

Indicator: Number of new legislative and policy reforms initiated to strengthen governance at all levels

Indicator: Number of government officials trained with USG assistance

Indicator: Number of improved rules of procedures adopted at all levels

IR 1.2: Increased citizen participation in governance

Indicator: Percentage of citizens that participate in decision-making processes

Indicator: Improved score on NGO Sustainability Index

Indicator: Improved score on Media Sustainability Index

To track results for DO1, USAID/BiH will use a number of monitoring tools to chart progress along this DO's development hypothesis that effective government at all levels coupled with an engaged citizenry and operating in an environment that respects the rule of law will result in functional and accountable institutions and actors that meet citizens' needs. The monitoring and evaluation framework will capture results and attribute those to USAID interventions using indicators in the following areas: civic participation increases; media provides neutral and balanced information; national and local democratic governance are functional and effective; and judicial independence, transparency and accountability increases. This DO will also monitor progress along the Freedom House Nations in Transit (NIT) index, which measures democratic trends and changes in the country and regionally, as well as trans-Atlantic-agreed standards of democratic governance. NIT is not an absolute indicator of the situation in BiH, but is valuable for making general assessments of how democratic or

authoritarian the country is. NIT also allows for comparative analysis of reforms year by year, and for analysis of long-term developments. In addition to NIT, USAID/BiH uses specialized monitoring tools to measure progress in specific areas. The Media Sustainability Index and the NGO Sustainability Index provide annual information on trends in development of the media and civil society in BiH. In addition, Transparency International's Corruption Index provides reliable quantitative diagnostic tools regarding levels of transparency and corruption, both at global and local levels. USAID/BiH will also monitor progress along similar selected indicators for the U.S. Foreign Assistance Framework Program Elements of: Rule of Law & Human Rights; Good Governance; Political Competition & Consensus-Building; and Civil Society.

Impact Evaluation DO1: USAID/BiH will conduct at least one impact evaluation for this DO during the course of the CDCS. One likely impact evaluation will be on civil society development, and will examine the impact of USAID/BiH's various civil society programs on the overall goal of increased participation in decision making processes. A potential high-level evaluation question is: Does support for development of civil society, increased capacity of advocacy organizations, and increased availability of reliable information lead to better informed citizens who are able to hold the government accountable?

Other large programs implemented under this DO will have performance evaluations that will respond to the following questions: To what degree are local and national governments supported through this DO experiencing improved performance of citizen's service delivery? Has support to courts and prosecutors' offices resulted in better service of justice to citizens of BiH?

DO2: BiH is a competitive, market-oriented economy providing better economic opportunities for all citizens.

Indicator: Improved score on Monitoring Country Progress, Economic Reform Index

Indicator: Increased annual growth (% of overall growth) in targeted sectors

IR 2.1: Improved capacity of the private sector to compete in a market economy

Indicator: Number of firms in selected sectors (including agriculture producer organizations), receiving USG assistance, with improved sales. [In addition to improved sales, similar indicators can track improved: exports; management practices.]

Indicator: Number of firms in selected sectors (including agriculture producer organizations), receiving USG assistance, make progress in achieving certification with international quality control and other market standards.

IR 2.2: Improved economic aspects of governance relevant to business activity

Indicator: Number of new legislative, policy reforms and regulatory practices initiated to strengthen economic governance at all levels.

Indicator: Number of public sector officials trained with USG assistance

To track DO2, USAID/Bosnia will monitor the annual growth of GDP in the region to benchmark the progress of BiH, and will monitor BiH's progress in key indicators for the business enabling environment. The development hypothesis asserts that economic growth happens at the level of productive enterprises, thus the monitoring and evaluation framework will focus on capturing results of improved performance of private sector enterprises attributable to USAID assistance interventions. USAID/BiH will continue to monitor progress along select indicators for the U.S. Foreign Assistance Framework Program Elements of: Infrastructure; Agriculture; Private Sector Competitiveness; and Economic Opportunity.

Impact Evaluation DO2: USAID/BiH will conduct at least one impact evaluation for this DO during the course of the CDCS; a potential impact evaluation is on the contribution of USAID/BiH's strategic interventions in private sector competitiveness to helping move BiH forward in EU integration. Possible high level evaluation questions include: Is USAID's support to private enterprises contributing to increased competitiveness at the sector level? Are USAID policy and regulatory interventions contributing to growth of private enterprises and increased investment? What are the most significant constraints to growth for private enterprises? What is the role of local communities in job creation and growth of private enterprises? How is reform in economic growth sustained after USAID assistance?

Impact Evaluation Across Both DO1 and DO2: In addition to separate impact evaluations in DO1 and DO2, USAID/BiH anticipates carrying out an impact evaluation across the two DOs. This evaluation will examine USAID/BiH's new approach for cross-sectoral programmatic interventions in local economic development and local governance. An impact evaluation will include questions that test the contribution of this approach to BiH's stability and progress toward EU integration. A potential high-level evaluation question is: To what extent did a cross-sectoral approach achieve improvements in local governance and economic development? To what extent did a cross-sectoral approach improve BiH's progress toward EU integration?

Assessments/Analysis: Prior to developing this CDCS, USAID/BiH conducted assessments and internal reviews in several topics, including:

- youth
- gender
- forestry and wood processing sector
- tourism sector
- light manufacturing sector
- agriculture
- financial sector report
- ICT sector assessment
- trade assessment
- tax and labor
- energy policy
- analysis of competitiveness projects in South-East Europe
- political processes
- civil society
- local governance
- rule of law
- conflict resolution
- tolerance

For more information on recommendations and lessons learned from these assessments, see Appendix B.

Appendix A: Cross-Cutting Initiatives

While all of USAID/BiH's programs interweave cross-cutting initiatives (interethnic reconciliation, women's empowerment and youth), the following provides an overview of these efforts:

a) Inter-ethnic Reconciliation

In the context of pursuing a single economic space in BiH, interethnic reconciliation and cooperation is key for achieving this goal. Increased trade and investment opportunities spurred across ethnic lines will contribute greatly to overall stability and interethnic reconciliation in BiH. In addition, USAID/BiH will actively pursue opportunities to provide technical assistance and training in multi-ethnic environments to emphasize the benefit of working together in one single economy. Furthermore, USAID/BiH will continue to seek opportunities within its SME development portfolio that directly promote interethnic cooperation and economic development similar to its current \$1.9 million, three-year grant to a local NGO for the Women Empowerment through Organic Farming Program. This program brings Bosniak and Bosnian-Serb communities together through a network of microenterprises. In the energy sector, USAID/BiH promotes harmonization of regulation between the two Entities and the state level energy regulators through an exchange program. This exchange allows members of the three regulatory bodies to work together to achieve a better understanding of how to construct an energy policy that is in the best interest of all the citizens of BiH. In the financial sector, USAID/BiH will harmonize regulation between the two Entities and the state level regulators and policy makers.

Within the democracy and governance development objective, programming will focus on promoting joint activities for individuals of different ethnic, political and religious backgrounds which positively impact peace building. Assistance will also focus on building relationships among youth of different backgrounds and will facilitate conflict mitigation as well as transformational processes among youth by enabling ethnically and gender mixed youth-led groups to participate in joint community initiatives. Governance activities at the local level will, to the extent possible, draw out common governance interests across Entity lines in favor of nationwide decentralization reforms, including public administration reform. USAID/BiH's political processes program builds dialogue and consensus across parties. For example, this DO will bring together young members across party lines to meet and discuss common economic and social issues. Political processes and legislative strengthening programs will bring together women across party lines to develop informal networks between them and civil society organizations. This will allow elected women members of parliaments to advocate issues relevant to improving the position of women in BiH regardless of their ethnicity. These programs will also focus on increasing dialogue between members of parliament and citizens to address communal and social issues in targeted municipalities where ethnic tensions still remain an obstacle for democratic and economic development. Media programming will also be used to increase the quality of unbiased news and incorporate tolerance promotion and political reconciliation.

b) Women's Empowerment

Women's economic empowerment is integral to USAID/BiH's development objectives. In terms of economic development, obstacles preventing women's successful participation in the economy is a lost opportunity for BiH to benefit from the knowledge, skills and abilities that Bosnian women can contribute. While women have legal equality, this does not translate to equal opportunities in the job market. It is often difficult for women to obtain loans due to lack of collateral. To address these issues, USAID/BiH's SME development program includes promotion of women's participation in supported industries, increasing women's access to finance and

promotion of women's entrepreneurship. In addition, USAID/BiH will continue to support programs that exclusively support women's economic empowerment, such as the current Women's Business Network (a \$1.7 million, three-year grant to a local NGO), which supports women in their endeavors to manage their enterprises and farms and improve their capability to address business risk. USAID/BiH also supports the Women Empowerment through Organic Farming Project which directly targets women.

Women's empowerment will also be addressed through mobilizing civil society to campaign and lobby Parliament for issues important to women. Activities will aim to increase women's political participation at the local and national level. This includes trainings on how to effectively run for office and engage in politics. Finally, assistance will be provided at the local government level for effective implementation of the State Law on Gender Equality. A special focus will be on engagement of women in the justice sector, especially through development of more transparent and fair appointment criteria based on merit-based and performance-based criteria that will allow for greater participation of women. Finally, legal aid clinics for women should be further developed to prevent the increase in domestic violence cases.

c) Youth

Youth-oriented programs will have a central importance in USAID/BiH's new strategy. According to a recent World Bank report, the current unemployment rate among 15-24 year olds is 47%, signaling that the current labor market offers few opportunities for secondary school graduates to find employment. Furthermore, the same report indicates that 83% of firms have an unfilled need for workers, citing a lack of supply of qualified applicants as the reason for unfilled positions amongst high unemployment in the population. Given that other donors, such as United Nations Development Program (UNDP) and German Gesellschaft für Internationale Zusammenarbeit (GIZ), have significant programs working in youth workforce development in BiH, USAID will complement those programs by promoting youth focused SME programs through grants to local implementing partners. Furthermore, through target partnerships with ICT companies, the Mission will work to promote innovation among youth and increase their ICT skills to increase both youth entrepreneurship and youth employability.

Within the democracy and governance development objective, USAID's youth-related programs encourage greater youth civic and political activism; promote youth activism at the grass-roots level to increase communication and partnerships between youth and local governments; and assist local governments to implement already adopted youth strategies. USAID's media programming will provide assistance to help expand access to ideas and perspectives on a range of issues, with a particular focus on the needs and interests of youth. In the rule of law area, youth issues will be addressed by working, through small grants, with associations including young lawyers as well as student NGOs within law faculties.

USAID/BiH is also in the process of developing a new stand-alone youth program that will focus on developing youth leadership skills to create active and responsible citizens that are civically and politically active, and possess the skills and abilities necessary to be assets to the BiH economy.

Appendix B: Findings from USAID Assessments and Analyses

YOUTH: Programmatic focus on youth should be increased through improved workforce development to address widespread unemployment amongst youth, as well as increased youth civic participation to engage youth in the political and community spheres.

GENDER: Although BiH made significant progress in promoting gender equality through various legal and institutional frameworks, Bosnian women still face numerous challenges to achieving full economic, social and political participation for themselves and their families. While women in BiH have emerged as significant leaders in the NGO sector and to some extent in politics, women's economic status remains low. Women in BiH are largely absent from national and local decision making bodies. Unequal access to government forums restrains women and their potential contributions to economic and social development of the country. USAID/BiH shows keen awareness of gender considerations and has made obvious efforts to enable an equitable gender balance in its programming. However, in accordance with USAID/Washington's worldwide requirements, USAID/BiH will place even more emphasis on gender analysis at every stage of activity designs and procurement processes.

FORESTRY AND WOOD PROCESSING SECTOR: BiH is located near the EU market with annual imports of wood products valued at EUR 200 billion. BiH's wood processing industry could capture a larger size of the EU market by improving the quality of products, meeting EU import standards, improving efficiency in production and marketing. The BiH forest industry has considerable growth potential. As the EU market increasingly requires furniture and wood products with Chain of Custody (CoC) certification, USAID/BiH will complement the work of other donors who provide assistance to forestry management companies in obtaining the EU-mandated Forestry Council Certificate (FCC).

TOURISM SECTOR: BiH offers a unique landscape for a variety of tourism opportunities. Tourism offers the opportunity to increase sales of natural resource products, including small market processed agriculture goods. With rising transportation costs, BiH's proximity to the EU makes it a more attractive tourist destination. USAID/BiH will assist the BiH tourism industry to better position itself among the fast-growing regional destinations such as Croatia, Slovenia, Montenegro and Albania.

LIGHT MANUFACTURING SECTOR: Prior to the global economic recession, the fabricated metal products sector demonstrated a high growth rate. The main characteristic of the light metal processing sector is that certain value chains within the sector have significant potential for growth. USAID/BiH's continued support to private enterprises in value chains within the metal sector can positively impact exports and generate employment.

AGRICULTURE: USAID/BiH is achieving visible results in improving productivity of agriculture and food processing. USAID/BiH's approach to the development of the agribusiness sector in BiH is recognized as one of best models in developing farmer-to-markets linkages along the entire value-chain. USAID/BiH should continue assistance programs in agribusiness sub-sectors which promise the highest potential for growth.

FINANCIAL SECTOR: Access to modern commercial financing (short and medium term lending) is a key component to the ability of a SME to plan and grow in today's economy. The BiH financial system is able and willing to fund SME development; however, SMEs are unable to tap into this due primarily to a lack of knowledge on how to properly prepare and market their enterprise to lending institutions. USAID/BiH should provide a

support mechanism for SMEs to develop proper business plans and better package financial materials for commercial banks.

TAX AND LABOR: Given that the legal framework governing personal income and corporate income tax were drafted and implemented at the Entity level, there is need for continuation of support to achieve better harmonization of ICT technologies. USAID/BiH should continue to support strengthening of the capacity of key counterparts, namely the Ministries of Finance and Tax Administration authorities as well as the taxpayers' community. USAID/BiH should support implementation of a modern property tax regime which will replace unnecessary property fees.

ENERGY POLICY: The BiH potential for increased electricity generation is not only a significant priority for BiH, but for the region. Its energy sector is one of the key sectors for attracting substantial foreign direct investment. BiH is also important as a transit country that exporters and importers need for completing trade. Electricity exports constitute the single largest BiH foreign exchange earner with significant potential for expansion and foreign direct investment. The impact on economic growth and small and medium enterprise development will be negative without further energy reforms. One key recommendation of the expert assessment is to extend reform assistance to BiH. Secondly, priority should be given to a regulatory partnership with a U.S. regulatory commission structured in a manner that facilitates achieving the broader reform objectives. In addition, USAID/BiH should focus on residential energy efficiency. This is an area of comparative advantage for USAID. Given the importance of energy as an economic resource, the assessment recommendations also stressed the need for expanded work in the energy sector to focus on creating a more investor friendly energy sector environment, including policies and procedures to support foreign direct investment in renewable energy.

POLITICAL PROCESSES: Currently, political parties and leading politicians appear to be more a part of the problem than a part of the solution to Bosnia's governance problems. Nonetheless, they are in the forefront of any future discussions and are a necessity for any new consensus about the future of the Bosnian state. They are not demonstrating that kind of political will now. Thus, USAID/BiH should continue with political parties, especially on the topics of constitutional reform and the role of State Parliament and its legislators.

CIVIL SOCIETY: Civil society starts to mark considerable success in the advocacy and watch dog activities aimed at specific issues of importance for BiH people. Also, important work has been initiated in institutionalization of relations between civil society and government through signed agreements of cooperation. USAID/BiH future assistance should focus on supporting active civil society participation in policy making to improve its watch-dog role in monitoring and advocacy for more transparent public spending and accountability of the government officials. It is important to continue building strategic links with other programs such as rule of law, political processes and local government.

LOCAL GOVERNANCE: The local government system is improving and donor programming, particularly USAID/BiH's, is achieving visible results in improving governance at the level closest to the citizens. This work is making an important contribution to improved governance where it is most visible to the people. This should be combined with more concrete work in the policy arena.

RULE OF LAW: Building respect for the rule of law is closely related to the state-building process and should be considered an important element in addressing democracy and governance issues. The administration of justice is inefficient and does not enjoy public confidence. Rights protection, especially for minorities, will

depend on the rule of law. USAID/BiH's involvement should emphasize state-level institution-building and public service delivery improvements in the courts and prosecutors.

CONFLICT RESOLUTION: BiH remains at risk for localized violence that has the potential to escalate because of the ethnic-based cleavages and deep-seated grievances. To address the economic, political and social drivers of violent conflict more directly, USAID/BiH should recognize that BiH is contending with a spate of conditions and factors that are highly correlated with conflict and struggle against inertia and complacency on the part of the indigenous political establishment and international community.

TOLERANCE: The roles of trauma, negative social patterns, lack of resources, and poor governance structures that have in the past caused war and separation of the people of the region are again playing out in BiH. The current lack of inter-ethnic and religious cooperation has heightened the threat to forming a national identity in BiH. Social grievances and intolerance are evident—and political and religious elitism, as well as instability caused by local and global economic issues—have all played a role in the present status of citizen perception of the country. The USG and other international actors, in partnership with local communities need to look for opportunities to support, enhance, or develop effective institutions and healthy relationships among the people of BiH. The interventions should be done in the field of education, youth, workforce development, media, and civil society.

BIODIVERSITY ANALYSIS: USAID's Biodiversity Analysis from 2009 expanded the identified threats to biodiversity in comparison to those in the USAID Biodiversity Analysis from 2003 and grouped them around institutional, management, and public awareness threats. In addition to this, the Assessment from 2009 defined concrete activities that needed to be carried out in order to address the identified threats. All related USAID programs are evaluated based on their contribution to carrying out these activities, all in order to support integration of biodiversity into all segments of USAID's programming, as practicable, in the future. The team will revisit these activities in the current evaluation of USAID programs, and amend it as a result of the analysis of identified threats, and problems discussed in the previous paragraphs.

Current Actions Necessary: In compliance with FAA 119, Table 2 (below) identifies the actions necessary to conserve biodiversity in BiH. It lists the root causes of the threats and identifies actions that address them. The Biodiversity Assessment team derived the actions necessary to conserve biodiversity based on interviews, document review, and personal knowledge of the biodiversity situation in BiH.

Table 2. Root Causes of and Actions Necessary to Address Biodiversity Needs in BiH

Identified Problems/ Root Causes	Conservation Approach Applicable to the Identified Problems ²	Threats to Biodiversity, as defined in USAID Biodiversity Analysis (2009), amended by additional items ³		
		Threat	Action Area	Actions Necessary
Weak environmental policy-making at the state level	Policy and Reform	Institutional	Government Capacity	<i>Establish state bodies for environment and biodiversity</i>
Low awareness for biodiversity	Environmental Communication	Institutional, Public Awareness	Government Capacity and Public Perception, Education Curricula	<i>Develop sustained, country-wide environmental campaigns for the general public and targeted user groups Institute environmental education in primary and secondary schools</i>
Inadequacy of existing coordination mechanism between entities	Policy and Reform	Institutional	Inter/Intra Government Cooperation/Coordination	<i>Develop an integrated communication plan to inform the various and complicated system of government in BiH State-level reforms to assume greater responsibility for coordination and implementation of environmental legislation Establish a donor coordination body</i>
Weak capacities to ratify, transpose and enforce environmental treaties	Policy and Reform	Institutional	International Treaties	<i>Ratify and enforce all relevant treaties Build human and technical capacities of state bodies responsible for the ratification of international treaties and transposition of local legislation</i>
Incomplete legislative framework and inadequate regulatory capacity	Policy and Reform	Institutional	Legislative Reform	<i>Continue development of required legislation to meet EU accession and other international treaty obligations</i>
Ineffective institutional framework	Policy and Reform	Institutional	Government Capacity	<i>Institutional reform to increase efficiency and effectiveness of administration at the state and entity levels Build human and technical capacities</i>
Lack of integrated information system on biodiversity	Environmental Communication	Management	Species/Protection Abatement	<i>Develop conservation clearinghouse or database of endangered species</i>
Lack of monitoring for biodiversity on entity and state levels	Environmental Communication	Institutional, Management	Government Capacity, Inter/Intra Government Cooperation/Coordination	<i>Introduce an organizational setup and system for the monitoring of environment, especially for the biodiversity Train and equip the staff for monitoring and include NGOs in the monitoring</i>
Uncertain funding for biodiversity conservation agenda	Policy and Reform (to some extent)	Institutional	Government Capacity	<i>Increase government commitments on all levels to provide steady financing of PA protection Carry out targeted PA support programs</i>
Low capacities for planning and management of protected areas and integrating biodiversity considerations into the operations of other sectors	PA management and Cross-sectoral linkages to biodiversity conservation	Institutional, Management	Government Capacity, Spatial Planning and Land Use, PA development	<i>Promote the development of a national spatial plan which includes proposed protected areas Require the immediate completion of cantonal or municipal level spatial plans which incorporate natural resource use and biodiversity values Promote staff development and additional hiring to spatial planning departments Finalize current PA plans and begin appropriate implementation and management</i>
Policy and market failures combining to substantially undervalue environmental goods and services	Economic incentives for conservation	Management	Economics and Markets Certification/ISO Requirements	<i>Enforce the polluter pays mechanism Value the environmental goods and services and support establishment of market mechanisms for them where possible Develop and implement transparent tender process for forest resources and non-timber forest products</i>

² Conservation Approaches based on the recommendations of *Biodiversity Conservation: A Guide for USAID Staff and Partners* (USAID, 2005)

³ New items amended to initial Action Areas and Actions Necessary from the USAID Biodiversity Analysis 2009 are shown in italics

Identified Problems/ Root Causes	Conservation Approach Applicable to the Identified Problems ²	Threats to Biodiversity, as defined in USAID Biodiversity Analysis (2009), amended by additional Items ³		
		Threat	Action Area	Actions Necessary
Poor economic performance that limits access to sustainable livelihoods	Economic incentives for conservation	Management	Economics and Markets	<i>Rural development Develop and support small and medium-sized enterprises (SMEs), with the emphasis on sustainability and environmental criteria for their day-to-day operations Introduce environmental and quality management certification to SMEs</i>
Lack of cross-sectoral cooperation and exchange of information	Cross-sectoral linkages to biodiversity conservation	Institutional	Inter/Intra Government Cooperation/Coordination	<i>Strengthen cross-sectoral dialogues Inform and increase capacities of other sectors to integrate biodiversity safeguards into their operation Harmonize sector policies and strategies</i>
Lobby of other commercial sectors (e.g., hydropower)	Cross-sectoral linkages to biodiversity conservation	Institutional, Management	Inter/Intra Government Cooperation/Coordination Economics and Markets	<i>Enforce independent and adequate evaluation of activities of other sectors that may have significant adverse impacts to biodiversity (especially for the hydropower projects), and cost-benefit analysis that will be communicated to all interested stakeholders</i>
Unsustainable use of natural resources	Sustainable use of natural resources	Management	Forest Management Certification/ISO Requirements Economics and Markets	<i>Assist forest management units and companies in obtaining or meeting certification requirements for forest products and other industry standards Develop and implement policies to support national certification and compliance with ISO standards</i>
Weak capacities of local environmental NGOs to represent the biodiversity conservation interests	-	Public Awareness	NGO Capacity and Coordination	<i>Form NGO working group or coordination council for environmental and nature protection issues, Increase capacity of NGOs to help manage and protect natural resources and related heritage sites, and raise public awareness through partnerships with local governments and tourism clusters Develop internal capacity of local groups to increase their sustainability and reach</i>
Weak capacities to implement legal framework with regards to biodiversity	Policy and Reform (to some extent)	Institutional	Enforcement	<i>Develop secondary legislation to empower Inspectorates Strengthen internal capacity of inspectorates Create state-level department to coordinate inspections and enforcement</i>
Weak professional capacities and professional networking, and technical management expertise for biodiversity and PAs	-	Public Awareness	Education Curricula Networking	<i>Develop an inter-governmental education coordination committee Empower Ministries of Education to implement programming Support scientific and applied research</i>