

Country Assistance Strategy for Bosnia and Herzegovina

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I. INTRODUCTION

Fourteen years after the signing of the Dayton Peace Accords, Bosnia and Herzegovina (BiH) is still struggling to overcome the effects of a war which poisoned relations among its three main ethnic groups. Physically, the country is largely rebuilt. It has, however, a dysfunctional governance structure geared toward safeguarding the rights of the various ethnic groups. The Dayton Accords provided for two sub-State Entities, the Republika Srpska (RS) and the Federation of BiH, which maintain substantial autonomy from the national government. Multiple levels of jurisdiction at the State, Entity, cantonal, and municipal levels diffuse decision-making make it difficult for all levels of government to be responsive to constituents. Civil society organizations, which should be best suited to put pressure on government to reform, are weak and inexperienced, and strong, articulated public opinion is lacking to support their pressure. The presence of an international overseer, the Office of the High Representative (OHR), has ensured stability, but has not instilled in local politicians the ability and will to implement reforms on their own.

Progress has been made in strengthening law enforcement agencies at the State and Entity levels and in pursuing defense reform, which has allowed BiH to join Partnership for Peace (PfP) in 2006 and sign an Intensified Dialogue agreement with NATO in 2008. Additionally, BiH signed a Stabilization and Association Agreement (SAA) with the EU in June 2008. While the SAA process is potentially a useful vehicle for promoting reforms, thus far it has had little impact.

The BiH State still struggles to perform the functions necessary to sustain itself and the country remains deeply divided along ethnic lines. The last two years have witnessed a sharp and dangerous rise in ethno-nationalist rhetoric designed to play on people's fears, to focus them on the past, and to stir up anger, resentment, and even hatred. The USG has seen State-level institutions, which are required for the country to make further progress toward NATO and the EU, attacked and undermined. Finally, the U.S. has witnessed disturbing attempts to roll back the successful reforms of the last thirteen years, the very reforms that led the EU and NATO to open their doors to BiH.

Bosniak, Serb and Croat political parties have sharply opposing visions of BiH's political future. Bosnian Serbs insist on a decentralized, federalist structure, and have at times speculated about the possibility of RS independence if other parties do not respect their requirements. They have also blocked initiatives to strengthen the capacity of the central Bosnian State. Some Bosniak leaders have stirred ethnic nationalism by repeatedly referring to the RS as a genocidal creation and promoting "one man, one vote" constitutional reform that would eliminate many of the Dayton Accord's ethnic protections. Croat parties have increasingly been promoting constitutional change that would create a third, Croat-dominated, Entity. These opposing views garner support from their ethnic constituencies as clearly articulated through an election system which requires voting by ethnic group and geographical borders and where ethnic nationalist groups win most of the votes. It is clear that citizens do not share a sense of common national identity. Encouraged by political leaders, allegiances are to entities or ethnic groups, not to the country itself.

Ethnic hostilities affect almost every aspect of post-war life in BiH. Not only is the country physically divided into two entities, but it is ethnically segregated. This segregation is apparent in its education system and its media outlets, which cater to particular ethnic interests. Despite legal protections, discrimination based on ethnic identity for employment, housing, and social services is readily apparent and is often supported by governmental systems. Individuals who are minorities in their communities voice their general discomfort and fear with their community, and a significant number of refugees displaced during the war have chosen not to return to their home, fearing threats and discrimination. Youth under twenty who spent their formative years in the ethnically divided post-war environment, lack positive models for interethnic relations.

BiH remains one of the poorest countries in the region and its Gross Domestic Product (GDP) is still less than its pre-war levels. Although the post-war reconstruction phase of the economy is largely completed, BiH is still in transition to a market economy. Economic growth has been roughly 6% per year, but serious problems such as high unemployment (around 30% according to the Central Bank) remain. Prices remained relatively stable since the introduction of a currency board in 1997 until inflation spiked in 2006 with the introduction of a single Value-Added Tax rate. Inflationary pressure rose in 2007 and 2008, due to rising world food, fuel and commodity prices. The business and investment environment continues to be encumbered by a multitude of regulatory impediments, and the divided government means the absence of a single economic space. Efforts to improve the business environment, attract investment, and create desperately needed jobs have been stymied by political gridlock and corruption. Encouraging private sector expansion and foreign investment is the key to the country's economic future, but resistance by nationalist politicians toward the strengthening of national-level institutions threatens to complicate future moves toward the creation of a single economic space.

Host Country Priorities

To address the many challenges BiH is facing the BiH government, with assistance from the World Bank and input from donors and local stakeholders, is developing a BiH Development Strategy which will cover a five year period. This strategy should address the same three priority areas included in their previous strategies, namely improving economic development, reducing poverty, and accelerating EU integration. BiH has created an EU Integration Strategy, outlining specific measures to be undertaken to meet EU accession requirements, including the areas of competitive markets and finance, justice and security sectors, civil society, and public administration. Furthermore, the BiH government signed the Stabilization and Association Agreement (SAA) in June 2008 which outlined specific laws that need to be harmonized before BiH joins the European Union. BiH has also developed sector-specific strategies, in line with the country and EU strategies to elaborate on development issues within a particular sector. The Justice Sector Reform Strategy, Anti-Trafficking National Action Plan, and Entity Strategies for Protection of Nature and Environment are examples of such strategies.

The USG Country Assistance Strategy is fully in line with the BiH strategies focusing primarily on the reforms needed for Euro-Atlantic integration as well as those that will increase citizens' confidence in their government.

U.S. Relationship with the Host Country and Ability to Implement USG Programs

The U.S. has had close ties with the BiH government since taking the lead on the Dayton peace negotiations in 1995. Among international actors, the USG still enjoys the highest credibility. Unburdened with the historical associations of European partners, the U.S. is generally seen as the most honest broker among all groups in BiH. However, the affection for the U.S. among the BiH public for its role in ending the war is declining as the post-war generation comes of age. At the same time, as the U.S. military presence and bilateral assistance has declined, there are fears among much of the BiH public, particularly among Bosniaks (Bosnian Muslims), that the U.S. is abandoning the country.

BiH citizens across the political spectrum credit the U.S. with successfully undertaking such projects as defense reform and managing the advancement of the Brcko District. Politicians from Bosniak political parties favor a continued strong international presence and generally have strongly supported U.S. assistance programs. RS officials have cooperated well with the USG in some areas, such as defense reform or economic assistance to strengthen the RS economy. On other issues, such as strengthening the State-level judicial and law enforcement institutions, Bosnian Serb politicians have opposed USG assistance efforts. Leading Bosnian Serb politicians want to shrink the international presence in BiH. The RS has increasingly refused to transfer powers to the State which will be necessary for EU accession, and has in fact attempted to wrest back certain powers previously transferred. These actions have sparked tensions in relations.

The State is powerless to move on many accession issues without the cooperation of the Entities. Furthermore, the growing transfer of authority from OHR to local institutions increasingly provides opportunities for officials to vie for political gain rather than for the benefit of the citizenry. In addition, fruitless clashes between political parties hinder reforms at all government levels. Under these conditions, reform is guaranteed to be glacially slow and the USG is forced to devote much of its energy and resources to defending and consolidating State building reforms.

Reversals in recent years to BiH's State building agenda has made it painfully clear that the USG's job is far from done. Given threats to the country's sustainability, increased assistance funding will be critical to halting Bosnia's slide toward possible instability. More effective State-level institutions and confidence in government are critical. Ultimately, Dayton cannot be considered implemented if the State's integrity is an open question.

II. OVERALL STRATEGIC APPROACH AND PRIORITIES

Foreign Policy Goals and Strategic Approach

A top USG priority in Europe is completing transformational work at Europe's "frontiers of freedom," which includes the Balkans. While strides have been made in Bosnia and Herzegovina since the signing of the Dayton Peace Agreement ending the war, the long-term sustainability of BiH is still in question. The resurgence of nationalism and an existential debate among BiH's three main ethnic groups about the future structure of the State threaten BiH's stability. It is a vital American interest to ensure that the country's growing ethnic polarization

and divisions fueled by mistrust and fundamentally different visions do not again become a source of violent conflict. As such, the USG's overriding priority in BiH is to ensure the country's stability and sustainability. The USG will work with its many partners to build a democratic, well-governed BiH that will respond to the needs of its people. Only when citizens are confident in their country's institutions and feel that they effectively promote and protect their interests will the country reach long-term stability.

To promote a more stable and secure BiH, the USG seeks to promote Bosnia's full integration in Euro-Atlantic institutions – namely NATO and the European Union (EU). Specifically, the USG seeks to consolidate BiH's progress in defense reform to advance BiH along the path towards NATO membership and to support political and economic reforms that will help BiH meet its EU accession requirements. It is imperative that the USG continue work to build the capacity of State level justice and law enforcement bodies to strengthen rule of law and security in the country. The USG must also develop BiH's democratic institutions and civil society to enshrine democratic values and practices; build a stronger economy less reliant on foreign assistance; and create and strengthen a tolerant society in which all Bosnians can live in peace and security. On a basic level, these objectives align with the Bosnian development strategy as they both aim to bring security and prosperity to the country. But, as indicated, the USG focus will be on subsuming ethnic differences by primarily (although not exclusively) building effective State level institutions to achieve many of these objectives. Programs to improve municipal governance -- the level of administration that has the most direct effect on the day-to-day lives of BiH citizens -- also add an important grassroots complement to national level State building efforts.

While the USG's long-term strategic plan is to focus primarily on State and municipal institution building (as opposed to Entity or cantonal level institutions), it recognizes that USG assistance must target the institutions where the powers lie as well as ensure maximum impact and sustainability. As such, when it is not feasible to work at either the State or municipal levels, the USG will target its assistance at the Entity level focusing on harmonization of regulations and legislation between and within the entities. However, the ultimate intent of the strategy is to ensure that the State has the basic level of functionality and capacity required to fulfill its Dayton responsibilities and meet its Euro-Atlantic commitments.

There is broad agreement that completing BiH's transformation to a stable, modern European democracy will ultimately depend on reforming the Dayton constitution. However, Bosnia's political leaders persist in approaching this discussion with debates over how to redraw BiH's internal map, rather than seeing it as a vehicle for bolstering government functionality. Provided local leaders are prepared to approach constitutional reform talks with the goal of making BiH more functional and EU-compatible, the USG should be prepared to support a constitutional reform effort, in tandem with the EU.

By the end of this strategy period, the USG hopes to see a more stable and sustainable BiH including: 1) military institutions that meet standards for integration into NATO, meet Bosnia's broader security needs and have a stable and transparent integrated structure; 2) increased effectiveness, accountability and transparency in law enforcement and justice sector institutions; 3) increased accountability, transparency, effectiveness and active citizen involvement in

government institutions and processes; 4) progress achieved toward the creation of a single economic space, able to provide better economic opportunities for all its citizens; and 5) a society that increasingly values tolerance and respects diversity

U.S. Assistance Priority Goals

In identifying themes of assistance, USG personnel took into account the factors specific to the country which will affect the stability and sustainability of BiH as a state. The selected goals reflect the USG's belief in where its assistance can be most effective in advancing these priorities.

There are many other important and worthy goal areas toward which the USG could (and occasionally does) program assistance funds. For instance, the USG recently conducted a Biodiversity Report update in September 2008 which identified problems facing the environment, but as part of its strategic thinking, it was specifically decided not to include issues such as the environment among the highest priority goals. While this issue can play a role in the ultimate sustainability of a country, it was determined that in the context of BiH, these issues were less likely to be critical factors contributing to BiH's stability in the near future. The USG instead chose to incorporate environmental issues into two related goals – developing a single economic space and strengthening civil society and government institutions. Other factors which affected the choice of goal areas included a shrinking SEED budget, work of other donors, past performance of programs, and the need to target sectors where the USG believes it can have the most impact.

Although all of the goals are intimately related, the USG has identified military and defense stability as its number one priority. Two key factors underlie this decision: first, no other actor provides significant assistance in this area; second, without physical security and democratic control of the armed forces, other assistance goals are effectively moot.

The USG has been the driving force behind the defense reform which unified Bosnia's separate ethnically-based armies; other donors are only peripherally involved. This means the USG is uniquely placed to influence the BiH's direction in this sphere. The Armed Forces of Bosnia and Herzegovina (AFBiH) serve as a successful model and driving force for inter-ethnic integration across the entire government structure – the essential factor for a stable and successful future for Bosnia and Herzegovina. At a basic level (and bearing in mind the lessons of the break-up of Yugoslavia and the JNA's¹ role therein) the USG believes that if the AFBiH continues as a coherent, multi-ethnic force under State civilian control, BiH stability will be ensured. The unification and modernization of the Bosnian Armed Forces remains incomplete, however. Bosnia now faces a difficult reform agenda to deepen the integration of the armed forces and strengthen defense institutions so they can withstand a serious interethnic political crisis, should it occur. Should the army dissolve, it would presage the disintegration of BiH. In addition, the AFBiH must take the necessary modernization steps to become a credible candidate for NATO membership.

¹ JNA = Jugoslovenska Narodna Armija/Yugoslav People's Army

Goal 1 - BiH's Military meets requirements for NATO integration, meets Bosnia's broader security needs and has a stable and transparent integrated command structure

Defense reform has been one of the USG's major successes in BiH, and the best example of the building of a State level institution that is approaching the standards necessary for NATO integration. Yet USG attention to further consolidation of these reforms is necessary to ensure the infant Ministry of Defense continues down the path to become fully NATO-compatible, particularly given the reduced political will for strengthening State competencies. If successful, this goal addresses Program Area 1.3 Stabilization Operations and Security Sector Reform.

Goal 2 - Increased effectiveness, accountability and transparency in law enforcement and the justice sector, upholding rule of law equally for all BiH citizens, thereby strengthening these State level institutions

While success in this goal would cut across a number of Program Areas including 1.1 Counter-terrorism, 1.3 Stabilization Operations and Security Sector Reform and 1.4. Transnational Crime: Trafficking-in-Persons and Migrant Smuggling, this goal mainly addresses the USG's overriding strategic priority of ensuring BiH's stability and sustainability by building confidence among all citizens, regardless of ethnic identity, that these institutions are capable and willing to uphold the rights and privileges of all BiH citizens. Success in this goal most specifically addresses Program Areas: 2.1 Rule of Law and Human Rights; and 2.2 Good Governance.

Goal 3 - Increased accountability, transparency, effectiveness and active citizen involvement in government institutions and processes

Bosnia and Herzegovina remains a democracy in transition. Persistent ethnic divisions make it difficult to firmly establish democratic structures resistant to ethno-nationalist political demagoguery. The achievement of this goal is therefore essential to the security and sustainability of BiH. Key reforms are needed in BiH's governing structures, particularly at the State and local levels to increase accountability, transparency and effectiveness of governing structures essential for the country's stability. Reforms are also needed to ensure that citizens are able to effectively participate in the EU integration process. A level of sustainability will be achieved when citizens can hold their governments accountable for failure to address citizen needs. Success in this goal will cut across a number of USG Program Areas including: 2.1 Rule of Law and Human Rights; 2.2 Good Governance; 2.3 Peaceful Political Competition and Consensus Building; and 2.4 Civil Society.

Goal 4 - Progress achieved toward the creation of a single economic space, able to provide better economic opportunities for all its citizens

Bosnia and Herzegovina remains a poor country with stubbornly high unemployment. Supporting economic reform, encouraging private sector expansion and foreign investment and establishing a coherent energy sector is critical for the country's economic sustainability and political stability. The country requires major economic policy reforms, particularly in the fiscal sphere, in order to ensure a stable revenue flow to sustain itself without outside assistance, which is declining. The USG will also need to focus on assistance to the private sector as a means to combat high unemployment and economic despair, which feeds nationalist rhetoric and contributes to Bosnia's continuing instability. 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. The USG selected this goal to address a number of USG Program Areas including: 4.1

Macroeconomic Foundation for Growth; 4.6 Private Sector Competitiveness; and 4.7 Economic Opportunity.

Goal 5 - A society that increasingly values tolerance and respects diversity

The 1992-1995 war left the country more ethnically divided. Indeed the past two years has seen a disturbing increase in polarization and mistrust among Bosnia's Serb, Croat and Bosniak communities. These divisions hinder the effectiveness of all institutions, making it nearly impossible for the country to make progress on the reform agenda. The implications of this trend are particularly alarming for BiH's youth who are largely growing up in segregated neighborhoods and attending segregated schools. The BiH education system, which should be responsible for transmitting universal values of citizenship, tolerance and inclusion to the youth of the nation, perpetuates these divisions by teaching separate curricula (with different histories, culture and languages) and often actual physical separation between the various ethnic groups. Fundamentally, this is a security issue. Failure to bridge these ethnic divides and quash messages of prejudice and hate will increase the potential for future inter-ethnic conflict and lessen the chances for a sustainable Bosnian future. By selecting this goal, the USG addresses Program Areas: 1.6 Conflict Mitigation and Reconciliation; 2.1 Rule of Law and Human Rights; and 2.4 Civil Society.

Cross-Cutting Themes

In prioritizing and planning assistance in BiH, the USG has identified several important cross-cutting themes which are addressed throughout all goal areas as appropriate. Themes of anti-corruption, youth empowerment, and inter-ethnic tolerance were chosen due to clear need within the country and/or overarching USG priorities and concerns.

Anti-Corruption

Bosnia and Herzegovina continues to struggle with corruption at all levels of government and institutions, especially within the political parties. Transparency International's 2008 Corruption Perception Index ranks BiH 92 out of 180 countries and states and is the most corrupt country in the region. Corrupt deals among political parties for economic spoils are particularly well-known, but prosecution is often hampered by political pressure, where judges attempting to rule independently have reported intimidation and pressure from political parties, the executive branch, and others in positions of influence. While some progress has been made in combating corruption, success has been primarily due to pressure from civil society and the international community, and its progress is slower than countries with similar problems. Therefore, the USG aims, wherever possible, to alleviate or stem corruption by increasing the transparency of government institutions and processes at all levels, raising the level of awareness, and increasing demand on the political system to reform.

Youth Empowerment

Unlike their parents or grandparents, the majority of young people in BiH have no experience living in a well-functioning, multi-ethnic society. Many young people have experienced violence, lost family members, been forced to flee their homes – all the ingredients for deep-seated grievances against the other ethnic communities. To complicate matters, within the official unemployment rate of 30%, youth between the ages of 18 and 35 years are

disproportionately represented, with a high number of the younger generation in BiH excluded from access to economic resources. These factors lead to an increasing likelihood that youth may be particularly vulnerable to recruitment to violence. Failure to appreciate the potentially toxic mix of disaffected youth and the irresponsible political and religious leaders who could recruit them to violence could be a serious problem. Either through targeted programs that provide direct assistance to youth or through programs that increase economic opportunities, the USG addresses youth issues wherever possible. It will continue to look for additional opportunities to do so during the life of this strategy.

Inter-Ethnic Tolerance

BiH must contend with the cleavages that led to the war and their exacerbation by the violence during the war which has left a legacy of political, economic and social-psychological damage. Ethnic and religious differences persist and combine with deep-seated, war-spawned grievances. The Dayton framework, by codifying institutional ethnic protections, also complicates the task of bridging ethnic differences in some cases. Nationalist political parties along with calculatingly provocative political leaders increasingly command the support of a large majority of their respective ethnic groups. As a society, BiH has also failed to confront the past, allowing old wounds to fester. This divided society and the nascent State are serious impediments to the development of a stable, tolerant BiH able to introduce the necessary reforms to join Euro-Atlantic institutions. Given how profound the problem of inter-ethnic tolerance is, the USG looks for every opportunity throughout all of its programming to address this issue.

Critical Assumptions/Risks

BiH is undergoing an existential debate among its three constituent peoples, the outcome of which is far from certain. Absent strong engagement by the U.S. and EU, the USG should not assume that the pull of the EU and NATO is sufficient to settle this debate in favor of U.S. strategic goals – namely the development of a stable, peaceful, democratic, tolerant and prosperous BiH. The USG has, since Dayton, invested billions of dollars to advance these goals. If it is not successful, BiH could enter a downward spiral toward “failed state” status or, worse, become a source for regional instability. This strategy assumes that the U.S. commitment to Bosnia will remain steady, but the USG should not assume that other international actors will grasp the stakes involved, or that local leaders will demonstrate the political will needed to overcome the current and future challenges. Although BiH’s economy has less exposure to global markets than many of its neighbors, the ultimate impact of the global financial crisis is unknown and may require significant reconsideration of assistance activities. The USG will need to continually reassess goals to ensure they are aligned with what is achievable given the political realities of BiH and global economic circumstances.

Donor Coordination

The largest donor in BiH is by far the European Commission with plans to disperse up to 440 million Euros through 2011. Other key multilateral donors include the European Bank for Reconstruction and Development (EBRD), the European Investment Bank, the World Bank and the United Nations agencies. Of the bilateral donors, the USG is still one of the biggest, with the strongest post-war historical legacy. As such, the USG gets tremendous leverage from what it

provides. Therefore, despite the fact that the EU is, and must increasingly serve as, the lead donor, the flexibility, speed, and credibility of U.S. assistance means that local authorities are often more willing to focus on USG priorities. Accordingly, it is important that the U.S. continue to play a prominent assistance role. The U.S. is seen as more credible for its ability to get things done. Other bilateral donors include Germany, Sweden, the Netherlands, Spain, Italy, Switzerland, Norway, Japan, the United Kingdom, Canada, Austria and France.

In the past, the U.S. and Europeans generally divided up the work and then coordinated as needed. For example, in the media sector, the U.S. concentrated assistance on private-sector outlets while the Europeans focused on public sector media. However, European bilateral donors' funding is decreasing as they make plans to transfer their portfolios to the European Commission. As such, some European donors, with their limited funds, are seeking partnerships with other donors, requiring more intensive coordination in all sectors.

The USG plays an active role in all donor coordination efforts, participating in broad donor coordination efforts, such as that led by the United Nations Development Program. In addition, the USG participates in sector-specific working group meetings. The USG coordinates with other donors at the project level, which can vary from partnerships with joint financing and/or management, to information sharing and coordination to prevent duplication of efforts. Examples of jointly financed projects include USAID's Governance Accountability Project (GAP), which is jointly managed and financed with the Governments of Sweden and the Netherlands and leverages \$20 million of non-USG funds, and USAID's Excellence in Innovation project managed jointly with the Government of Norway and leveraging \$2 million of non-USG funds. Not only have these efforts enhanced project outcomes, but they have also led to collaboration on other initiatives between these governments.

Coordination of USG Efforts

The U.S. Ambassador to BiH is charged with coordinating all USG foreign assistance to BiH. The Deputy Chief of Mission oversees the day-to-day management of the assistance program. The USG agencies implementing the assistance program include the U.S. Department of State, the United States Agency for International Development (USAID), the Department of Defense through the Office of Defense Cooperation, the Department of Justice through the International Criminal Investigative Training Assistance Program (ICITAP) and the Overseas Prosecutorial Development, Assistance and Training (OPDAT), the Department of Treasury, the Department of Agriculture and the Department of Commerce. While USG agencies have clearly differentiated roles and areas of assistance, they coordinate closely both in strategic planning and in on-the-ground efforts. In some cases, coordination is more formalized, as with the Mission's Security Working Group, which meets regularly to coordinate all efforts in law enforcement and the justice sector. In others, coordination is more informal, or on an ad hoc basis. The U.S. Embassy Political Section and the Office of Public Affairs (OPA) coordinate with USAID on many issues, particularly civic engagement and NGO support. The Department of Treasury and the U.S. Embassy Economic Section complement USAID and other mission members' technical efforts in economic reforms with the political push needed to pass certain reforms. Development of new programs is done in consultation with key members of the Embassy's Country Team.

III. PRIORITY GOAL PAPERS

Goal 1: BiH's Defense institutions meet standards for integration into NATO, meet Bosnia's broader security needs and have a stable and transparent integrated command structure.

Situation Analysis/Problem Statement

Progress in Bosnia and Herzegovina's defense sector has been one of the most successful areas of reform since Dayton. Since abolishing the two Entity level ministries of defense and creating a single State institution in their place in 2005, BiH has taken the first steps to create a unified, effective military that serves as the best example of the reform process creating a functioning, ethnically integrated State level institution. The unified armed forces have a transparent, multiethnic command structure that is capable of providing for the country's domestic security needs and maintaining State level control of all weapons, ammunition and military equipment which formally belonged to the entities. BiH met the conditions for NATO Partnership for Peace (PfP) membership in 2006 and for an Intensified Dialogue (ID) in April 2008. Nearly all of BiH's political leaders publicly support the country's NATO ambitions. As the USG has seen with defense reform so far, the desire to make institutional progress on the path to NATO integration can drive political compromises necessary to meet the U.S. goal of strengthening State level institutions so that the country can function as a member of NATO and the EU. Meeting the conditions for NATO membership – not just in the defense arena but across the government -- will serve as one of the best guarantees of a stable, democratic future for BiH. Still defense reform remains unfinished. Despite the integration of some units and the command structure, infantry battalions remain mono-ethnic and property issues between the State and entities unresolved. Further progress will require the consolidation of the successes in defense reform as well as the engagement of State institutions other than the Ministry of Defense in the NATO agenda. Solidifying gains in the defense sector remains vital for long-term regional peace and security and to advancing BiH's transformation from a consumer to global security provider.

Assistance Approaches

The USG's aim is to consolidate BiH's progress in defense reform to create stable and multiethnic defense institutions under State level control, assist the military to become a contributor to international security abroad, and to guide BiH toward Euro-Atlantic integration.

The USG will continue to support the NATO Headquarters mission in Sarajevo, the Ministry of Defense, and the Armed Forces of BiH on the defense reform agenda. BiH must push forward to fulfill the obligations in its Individual Partnership Action Plan (IPAP), which include the need to solve lingering disputes between the entities about defense property, dispose of possibly destabilizing factors such as unstable or dispersed ammunition stores and stand up a force structure that reflects the security requirements of the country.

Through the Office of Defense Cooperation the USG supplies training, education, equipment and technology to promote interoperability and improve military professionalism of the armed forces of BiH with the ultimate goal of improving their capacity to participate in peace support missions. BiH's small scale international deployments of multi-ethnic units, which promote

further integration, demonstrate the desired future of the Bosnian military as multiethnic, NATO-interoperable, multiethnic forces focused on providing support to international peacekeeping missions. The USG also coordinates with the armed forces in implementing humanitarian projects, raising capacity of BiH's armed forces while improving its public image.

The USG will empower those who are leading the public and political campaigns to push BiH towards NATO accession through visits, exchanges, and joint military exercises. It will continue to take opinion maker and policy makers on annual tours to NATO Headquarters and other allies' defense institutions.

Coordination of USG Efforts/Role of Host Country-Regional Organizations

The USG leads defense reform assistance and closely coordinates with NATO Headquarters Sarajevo, the Ministry of Defense, the Ministry of Foreign Affairs, and the armed forces to promote BiH's defense reform agenda and promote reforms required by BiH's NATO, IPAP and ID papers. The Office of the High Representative (OHR), European Union Force (EUFOR), and the Organization for Security and Cooperation in Europe (OSCE) all play roles in defining and monitoring BiH's defense reform agenda.

Anticipated Results

By the end of this strategy period, State level defense institutions will work effectively to meet BiH's domestic security needs and allow it to effectively support collective security missions abroad. A credible and realizable path to NATO will provide justification for substantial reform outside of defense institutions. Specific results anticipated include:

- Strong, unified State level defense institutions meet BiH's obligations for NATO and EU accession and guarantee BiH's stability and sustainability;
- BiH moves further along the road to NATO membership, at least to the Membership Action Plan stage;
- BiH is increasingly able to deploy integrated, NATO-interoperable forces to international peace-keeping missions.

Goal 2: Increased effectiveness, accountability, and transparency in law enforcement and the justice sector, upholding rule of law equally for all BiH citizens.

Situation Analysis/Problem Statement

The post-Dayton creation of multi-layered decentralized law enforcement and justice sectors, consisting of fourteen State, Entity, cantonal and Brcko District police forces, as well as fourteen justice ministries and sixty-five courts, resulted in inefficient, non-transparent law enforcement and judicial sector institutions rife with political interference, distrusted by the public. BiH, with its porous borders and weak legal regime, is a potentially attractive haven for criminal and terrorist organizations lured by the operating environment and proximity to Western Europe. A major challenge is to continue strengthening BiH's judicial and law enforcement institutions, which are still in their infancy, in order to strengthen rule of law and achieve sustained and

effective action against terrorism and criminal activity, including narcotics and human trafficking, money laundering, public corruption, and organized crime. More effective courts and prosecutors that can resist political pressure are especially needed to overcome the ongoing challenge of combating organized crime, and achieving justice for war crimes. Trans-national criminals may also seek to exploit the country's relatively unstable law enforcement situation to use it as a transit state for trafficking illegal materials.

Assistance Approaches

Strong law enforcement and justice sector institutions, especially at the State level, are crucial for BiH to meet its obligations for NATO and EU accession, to address the ongoing challenges of combating organized crime and achieving justice for war crimes, and to underpin economic development and national reconciliation. The USG will work with State level law enforcement and justice sector institutions to achieve this goal, which is particularly realistic, as the EU's Stabilization and Association Agreement process and EU Instrument for Pre-Accession (IPA) funds mandate a State level instrument.

Through the Department of Justice ICITAP Program, USG efforts in law enforcement are focused on increasing efficiency, accountability and transparency in operations by rule of law institutions so as to increase public security conditions and instill confidence in BiH citizens that they are receiving fair treatment under the law. USG efforts emphasize harmonizing law enforcement and judicial procedures and strengthening State level institutional capacity to fulfill EU membership requirements. Particular emphasis will be placed on promoting better cooperation between police agencies and prosecutors. Although some continued support is needed for Entity police counter-terrorism (CT) and organized crime divisions, USG efforts focus largely on technical development, supplying specialized tactical equipment and associated training as well as operational and organizational support for the newer State level institutions, particularly the Ministry of Security (MoS), State Investigative and Protection Agency (SIPA), the State Border Police (SBP) and the Foreigners' Affairs Service (FAS). Additionally, through the Export Control and Related Border Security (EXBS) programs, the USG will bolster the capacity of border police and customs officials to interdict trans-border trafficking of illicit goods and people.

Assistance to the justice sector is a significant component in the USG's promotion of rule of law and human rights. USG justice sector assistance focuses on strengthening the High Judicial and Prosecutorial Council (HJPC), the State level institution with authority over courts, to secure the independence, accountability and effectiveness of the judiciary. The USG will also continue to build capacity of the State Court and Prosecutor's Office through training and technical assistance. Assistance to the State Ministry of Justice will focus on implementation of the recently adopted Justice Sector Reform Strategy (JSRS), a blueprint for specific justice sector reforms, and help it to prepare the country's judicial institutions for EU accession. Success will be measured by improvements in the functioning of the courts and the prosecutors' offices and the increase in civil society's ability to advocate for the legal rights of citizens, thereby bolstering public confidence in the rule of law. USG assistance to State level justice institutions and to courts and prosecutors' offices throughout BiH will also increasingly focus on anti-corruption efforts as outlined in UN and Council of Europe (COE) anti-corruption and organized crime conventions that BiH ratified. USG programs play an active and urgently needed role in

enhancing the dialogue between the three branches of BiH government with an aim to secure judicial independence and increase judicial accountability. Over the next few years, several donors plan to end or significantly decrease their justice sector assistance, making USG assistance of crucial importance. These improvements in law enforcement and justice sector institutions are also crucial in achieving success in goals three and five.

Role of Host Country/Regional Organizations

The USG closely coordinates law enforcement assistance with the MoS and participates in OHR-sponsored bimonthly law enforcement donor coordination meetings attended by European Union Police Mission and many bilateral donors to avoid duplication of efforts and to create opportunities to leverage assistance funds. Justice sector assistance is coordinated with other bilateral and multi-lateral donors and local authorities under the auspices of the newly adopted JSRS. USG assistance will continue to work with all relevant actors to assist with the appropriate and timely implementation of the JSRS.

Anticipated Results:

By the end of this strategy period, State level law enforcement and judicial institutions will effectively investigate and prosecute major crimes including war crimes, terror financing, organized crime and corruption. The citizens of BiH will feel secure and equally protected under the law. Specific results anticipated include:

- BiH adopts new appointment and selection procedures for judges and prosecutors;
- BiH applies improved management practice and standards for courts and prosecutors;
- Increased cooperation between police agencies and prosecutors leads to an increase in convictions for terrorism and organized crime cases;
- Ministry of Security adopts an effective Book of Rules and provides management assistance to law enforcement agencies it oversees (SBP, FAS, SIPA);
- Border Police use donated specialized equipment to prevent the illegal import of radioactive or dual use materials;
- A fully staffed and well-trained SIPA exercises its country-wide jurisdiction to investigate war crimes, organized crime and corruption cases;
- FAS utilizes state-of-the-art training and equipment to enforce a new, tighter immigration regime to detain and expel foreigners who threaten security in BiH.

GOAL 3: Increasing accountability, transparency, effectiveness and active citizen involvement in government institutions and processes.

Situation Analysis/Problem Statement

Democratic development in BiH is hampered by the lack of a common vision about the basic nature of the State. Aggravating factors include the country's communist legacy and that fact that the Dayton Constitution -- while creating the ethnic checks and balances needed to secure peace -- has created cumbersome, inefficient and ethnically-divided government institutions. Key reforms are needed in BiH's governing structure to increase the accountability, transparency and effectiveness essential for the country's stability. Furthermore, reforms are needed to ensure that citizens are able to effectively participate in the EU integration process.

Legislative development in BiH is still in a fairly primitive state, at least with respect to European standards. Parliamentary institutions lack sufficient accountability and responsibility. Interested stakeholders are not included in the discussion process, and limited effective policy analysis is being done before drafting or proposing new legislation.

Civil society organizations are less influenced by ethnic division and politics and have been able to raise awareness and demand change on a number of social issues. However, their effect has been limited because, although they can successfully identify an issue and advocate for it, they have not succeeded in generating a level of public following that obligates governments to take account of their positions. Most organizations are small and inexperienced and lack a stable domestic financial base, making them dependent on donor funding.

Critical in the governing process are municipal institutions. Their work tends to be the most scrutinized by the citizenry, as well as the most directly connected to meeting urgent community needs and providing critical services. Without transparent, accountable and efficient local governing structures and authorities that are trained to perform their role well in a democratic society, citizens will not be satisfied with the government's response to their needs, local businesses will in effect face disincentives to do business legally, and local initiatives will be strangled.

Assistance Approaches

The USG aims to strengthen the governing system in BiH, particularly at the State and local levels, to increase its responsiveness, effectiveness, transparency, and accountability, allowing BiH citizens of all ethnicities to actively participate in political decision-making. USG efforts in this area work to minimize opportunities for corruption and bring together diverse populations to work collaboratively on items of joint concern. In addition and particularly in the civil society sector, the USG reaches out to young people to include them in programming and to advocate for reforms that will improve their quality of life. All interventions listed below are inextricably linked. For instance, USG civil society advocacy work may encourage the State Parliament to address reforms that would improve the functioning of municipal governments and therefore benefit the citizenry.

The USG will work to make BiH legislatures more effective and representative. The focus will be on addressing selected capacity constraints in parliamentary representation, policy development, legislation formulation and oversight functions. In addition, through public hearings and other outreach efforts, parliaments should be more effective in engaging the public and turning consensus-based policies into better legislation. Issue-based policy making is thus viewed as a tool for building confidence and enhancing public perceptions of parliaments as

more dependable and trustworthy institutions for addressing constituency concerns. The main purpose of this approach is to avoid sensitive ethnic and political issues and instead, address matters of common concern, particularly those that would enable parliamentary leaders to bridge ethnic and political rifts.

BiH's democratic development will remain stunted until citizens believe they are capable of organizing themselves to influence public policy. The USG will also support local civil society organizations to advocate for specific reforms essential to moving BiH closer to EU integration and to improving the quality of life of BiH citizens. Civic actions (including those supported by the media sector) will target the appropriate level of government or private sector decision makers, empowering citizens and providing officials with expertise and information that gives them opportunities to prove to the public that they can be effective leaders responsive to citizen concerns. A key focus of this civil society advocacy program will be to combat corruption in the health and education sectors. USG civil society support will also assist non-governmental organizations to continue building strategic partnerships with government at all levels, and to build the financial viability of the sector by improving the legal and regulatory framework for NGOs. The USG will also continue to support CIVITAS and other local civic education organizations to infuse quality democracy and civic education in the school system throughout BiH and actively involve citizens to participate in political and social issues in their communities.

The USG will also work to make local governments more effective and accountable. Assistance to local governments will improve the customer service profiles and the administrative/management systems of 71 local governments through direct interventions, including the construction of One-Stop-Shops. This service will reduce waiting times as well as opportunities for corruption, as all transactions are carried out in a public area and are increasingly computerized. The USG will also provide technical assistance to local governments to improve management of their finances through better control of revenues and expenditures. In conjunction with mayors and municipal associations, the USG will support local efforts to advocate for policy reform for functional and fiscal decentralization in accordance with the Local Self-Governance Development Strategy. This advocacy work will help local governments to strengthen their common voice through association building.

As shown in the Biodiversity Analysis report, there are well over 50 BiH NGOs working on environment and other conservation issues. However, they are relatively small, local, and limited in their potential sustainability and power to influence and affect change on a larger scale. While not specifically targeted for assistance through USG civil society activities, these NGOs may benefit, increasing their sustainability and ability to effect change on BiH's conservation and environmental policy. The USG sees its efforts in this goal as directly benefiting conservation and environmental NGOs and therefore broader biodiversity goals and the USG's environmental program.

Role of Host Country/Regional Organizations/Private Sector Partnerships

The USG continues to be an important actor in the area of democratic institution strengthening and civil society building in BiH. Other donors include the United Nations Development Programme (UNDP), which works on e-government capacity at the State Parliament, the EU, which is building awareness of EU accession requirements, OSCE which is working on

improving human resource practices with local governments and community involvement in education, the United Nations Children's Fund (UNICEF) and the Council of Europe which supports citizenship education, and several embassies that provide ad hoc assistance (for example, specific equipment and training) to the State Parliament to improve its day-to-day operations. The USG's contribution to local government reform efforts is leveraging \$20 million of joint funding from the Governments of Sweden and the Netherlands. The UNDP also works with local governments on municipal planning and the OSCE on improving human resource practices.

Furthermore, the USG is actively engaged with the newly established Civil Society Donors Coordination Group, which also includes the European Union through the European Commission, the Swedish International Development Agency (SIDA), Norway and the Netherlands, and works closely with the government of BiH towards implementing their EU Integration Strategy related to civil society.

Anticipated Results

By the end of this strategy period, parliament and local government institutions will become more effective, accountable, and transparent and citizen involvement in political decision making will be higher than current levels. Specific results anticipated include:

- Civil society organizations play a stronger role in advocating for critical reform measures and in carrying out important government watchdog functions;
- Parliaments increasingly engage in policy analysis and seek citizen feedback when drafting new legislation resulting in an improved quality of legislation and legislation that better addresses issues important to citizens;
- Municipalities increase their effectiveness in providing services and in managing municipal responsibilities, as seen through measures such as reduced service wait times, improved financial management, and increased public sector revenues;
- Functional and fiscal decentralization policy frameworks (such as Local Self-Governance laws of entities, Civil Service law and Value Added Tax law) are improved and further implemented to allow for increased local autonomy in decision-making and clearer distinction of responsibilities;
- Legal and fiscal environments that enable civil society activism are improved; specifically restrictions are lifted on volunteerism and funding sources and incentives are provided for corporate philanthropy;
- More teachers implement quality democracy and civics education in their classes.

Goal 4: Progress achieved toward the creation of a single economic space, able to provide better economic opportunities for all its citizens

Situation Analysis/Problem Statement

BiH has yet to complete the transition to a modern market economy from its prewar socialist economy. BiH is not competitive on the world market: exports trail imports by a 3:1 margin, and firms are not competitive within the region. With a small market that has little spending power, BiH offers little incentive for companies to locate facilities in the country. Moreover, its investment climate is one of the worst in the region, with widespread corruption and complex rules governing businesses. Small and medium-sized enterprises (SME) face serious constraints as the business environment suffers from weak rule of law; administrative barriers that hamper business registration; confusing or conflicting regulatory practices; poor contract enforcement; and high social contribution rates to pension and health funds that deter legal employment. These factors combine to create a large informal sector and obstruct the positive benefits of SME development. BiH needs to harmonize the required market reforms across its multi-layered governments in order to create a viable single economic market.

Assistance Approaches

USG activities follow two separate and interrelated tracks working on policy reform and government capacity development, and providing direct support to targeted sectors in the economy.

On the policy side, the USG will focus on economic reforms and institution-building to increase the ability of government institutions to support economic growth and development. It will promote a business-friendly environment which is no longer a deterrent to entrepreneurship and is attractive to both domestic and foreign investment by reducing or eliminating barriers to entry. Efforts will include streamlining processes for registration, compliance, and enforcement, establishing a more transparent system of taxation and social benefits, and promoting transparent banking, investment, and insurance policies with State institutions and the Central Bank. In energy, creating a reliable regulatory environment will help Bosnia's development of hydropower and coal resources as potentially competitive economic sectors as well as ensuring stability of energy supply. These efforts will create a friendlier environment for the private sector, allowing it to become the main engine for growth and employment in BiH. Additionally, the USG will look at the processes of budget setting, debt management and privatization (as a source of government revenue) as a means of rationalizing the country's macroeconomic foundation and improving its growth potential.

Economic opportunities for citizens will improve as the USG targets sectors in BiH's economy with the highest growth potential and helps improve their competitiveness, including the wood processing industry, tourism, light industry and agriculture. These activities include assisting the marketing of BiH as a tourist destination, introducing new technologies in the agriculture sector to increase productivity, promoting marketing linkages and private standards in the wood and agriculture sector to help local producers meet the demands of the European market, identifying and developing vocational training programs for key sectors, and supporting the use of IT applications to improve SME efficiency and productivity. These efforts will assist key sectors in becoming more regionally competitive, create new employment opportunities, and lead private sector growth.

The EU is poised to take on a larger role in economic policy reform. As part of the EU efforts and agreed SAA with BiH, the EU will be releasing funds to assist BiH ministries develop and implement policies aimed at achieving full accession. It is essential that USG reform activities target areas where EU assistance is not foreseen in the next three to five years. This will require close coordination with EU counterparts as US assistance programs are implemented and developed. Consistent with the USG's approach for private sector development, other bilateral donors such as the Netherlands, Sweden, and Norway are targeting specific industries within the private sector. This assistance is in-line with the USG's current approach on private sector development. The U.S. is currently working closely with several other donor nations (including Norway and Sweden) in developing jointly-funded programs or coordinating efforts to achieve complementarities over duplication.

As these activities achieve success in promoting a more transparent and investor friendly business climate the opportunities for corruption will decrease.

The USG assists the development of new private sector employment opportunities combined with a reduction of the percentage of the economy involved in the grey market to provide new opportunities for youth employment and other unemployed persons. Additionally, as appropriate for the targeted sectors, USG activities are exploring the opportunities and need for vocational education and training programs. These programs if implemented will be open to BiH youth providing additional economic opportunities for BiH's growing younger population.

USG efforts to develop the wood industry, tourism, and agriculture sectors of BiH's economy are working to promote the sustainable use of wood products with proper international certification, eco and adventure tourism that requires a safe and clean environment, and agriculture products that meet EU standards. As such, current and future activities are not likely to negatively impact the environment and conservation efforts. Per USG regulations, all activities are implemented and monitored to ensure or mitigate against negative environmental consequences and specific activities are monitored and vetted continuously.

Role of Host Country/Regional Organizations/Private Sector Partnerships

Success of many of the USG activities under this goal relies on host-country government support for reform. While BiH has been supportive of USG efforts in the past, increasing nationalist trends indicate this could change, particularly for reforms involving the transfer of Entity competencies to the State.

USG efforts in developing the private sector are tied with the ongoing needs for policy reform. However, non-state actors (business persons international and domestic, business/trade associations, etc.) can have a large impact on the ability of the private sector to develop even in the face of restrictive and fractured government regulations. But for complete success and to ensure on-going economic growth, it is necessary to fully engage all the above partners.

Anticipated Results

By the end of this strategy period, BiH will have significant progress in meeting the conditionality for EU membership, and the investment environment will be improved. In

addition, employment opportunities will be greater and emigration will be lower because of the growth of small and medium-sized enterprises. Specific results anticipated include:

- A Tax Administration that can effectively collect and distribute revenues;
- Adoption of legislation related to licensing of businesses, reduction of time to obtain construction permits, and coordination of social contributions collection across Entity lines to promote a business and investment friendly climate;
- Freed labor market regulations and increased compliance and transparency, including an IT-based system to record and distribute social contributions;
- Growing private sector able to meet the demands of the European market including the return of the wood sector export levels and GDP contribution to prewar levels, a 5-10% annual increase in annual tourism arrivals, and an agriculture sector that is able to export to the EU market;
- Most Basel II conditions on banking regulation are met.

These results will depend partly upon the success of other USG priority goals. Economic growth is highly dependent on the existence of effective institutions upholding the rule of law. Increased transparency in government institutions and reduced corruption will promote the growth of legitimate economic interests. Conversely, success in the USG's economic priorities leading to a growing prosperity will build more civic trust of government and democratic institutions, and will lessen the intolerance that often comes with the struggle for livelihood.

Goal 5: A society that increasingly values tolerance and respects diversity

Situation Analysis/Problem Statement

Ethnic divisions in BiH are profound and exacerbated by political manipulation and corruption. These divisions hinder the effectiveness of all institutions, making it nearly impossible for the country to make progress on the reform agenda. Failure to bridge these divisions and quash messages of prejudice and hate will increase the potential for future inter-ethnic conflict and lessen the chances for a sustainable Bosnia.

The most blatant manifestation of ethnic division is the phenomenon of "divided schools" or "two schools under one roof," where in mixed areas of BiH youth are physically divided from each other based on their ethnicity. The education system is divided based on ethnic grounds with three separate curricula created for each of the three constituent peoples - Serbs, Croats and Bosniak - negatively affecting young people's ability to live and prosper together. Students live within the boundaries of their own ethnicity, learn from the ethnically slanted textbooks and some young people never see or interact with their peers from other ethnic groups. Minority students feel disrespected and in some cases ostracized. Students have few positive role models or skills for solving problems or mitigating conflict. This divided system emerges from and reinforces national distrust and fear fuelled by ethnic politics.

Unfortunately, an increasing number of media outlets have developed strong political ties that in some cases are intertwined with commercial interests. At the same time, the media environment is being co-opted by nationalists who use it as a forum to spread intolerance, division, and ethnic hatred. Those journalists or media establishments that attempt to differ from the political establishment are increasingly coming under attack. Progress in the media sector will depend upon the USG's ability to professionalize it and detach it from its political ties.

Assistance Approaches

The USG believes that the problem of intolerance among the three constituent peoples in BiH is significant enough that it must be one of the five priority goals. As such, the USG seeks to address this goal throughout its assistance programs, as well as through specific programming designed to target this issue head-on. Currently due to funding constraints and issues of political will, assistance specifically targeted to address this concern is limited to small-scale projects. However, the USG conducted an assessment in early 2009 to identify programming that would have the most impact in this area. As such, by 2011, the USG expects to have more comprehensive targeted programming in place that would work to improve relations between the three main ethnic groups in BiH. Possible interventions could focus on formal and non-formal education working to help youth understand their rights, analyze ethnic differences, and transform their attitudes so that they can build cooperative relationships with individuals from different ethnic backgrounds. The USG also expects to continue (and possibly expand) current planned programming in this area (detailed below), including coalition building, exchanges, youth empowerment activities, and media support.

As a community institution designed to shape future citizens and build public awareness, the school system is a natural mechanism to develop national and community level capacities for the promotion of respect for differences and conflict mitigation. As such, the USG will work with and through the school system and local NGOs such as CIVITAS to build tolerance and respect by advancing curriculum that promotes tolerance, human rights, and conflict mitigation and by providing different ethnic groups opportunities to interact and cooperate on projects that build community awareness and involvement. In particular, educator, youth, and community advocacy campaigns targeting local decision makers will be encouraged and supported through the schools in connection to implemented curricula.

The USG helps to build multi-ethnic and cross-Entity associations, advocacy groups and coalitions. In addition, USG educational and youth exchange programs remain a potent tool -- both by exposing BiH educators and students to positive models of integration and by ensuring that BiH citizens from different ethnic groups all have access to our trainings and academic and professional exchanges. In some cases these exchanges give members of different ethnicities their first opportunity to interact.

In addition to nationwide civic education programs, the USG will support community organizations and the general public outside of schools.

The media can also play an important role in building tolerance through awareness building and multi-ethnic oriented reporting. Yet, many independent media outlets willing to do so suffer

from lack of funds and staff untrained in unbiased reporting. In response, the USG will provide expert training to strengthen the professional capacity and standards of journalists, and provide small grants to support independent, multiethnic-oriented media outlets. Furthermore, the USG will also continue to support independent, multiethnic-oriented media to address the immediate problems of self-censorship, ethno-nationalist rhetoric, growing political control of media outlets, and physical threats to journalists, all of which increase the general sense of intolerance in BiH.

Role of Host Country/Regional Organizations/Private Sector Partnerships

The USG will work with the Ministries of Education and the State Ministry of Human Rights and Refugees to develop and implement school curricula focused on tolerance (respect for differences) and conflict mitigation. The USG is also actively coordinating the efforts in the education sector with UNICEF and the European Union through the European Commission. As the OSCE plays a key role in this sector, charged with overseeing and monitoring the education system in BiH, USG activities are closely coordinated with them as well. As the USG develops additional programming, it will likely work with new partners to address this goal.

Anticipated results

By the end of the strategy period, additional areas of opportunity will be created in which citizens of all backgrounds can come together and express themselves without fear that their ethnicity will provoke censorship or intolerance. While the USG may not be able to influence the political rhetoric that breeds intolerance within the next five years, it hopes to have increased communication between ethnic groups, particularly among youth exposed to new education standards and tolerance curricula. Progress in the media will depend upon the USG's ability to professionalize it and detach it from its political ties. Specific results anticipated include:

- More schools teach tolerance and conflict mitigation skills;
- Education standards based on multiculturalism and non-biased, multiple perspectives are developed;
- Communities increasingly work together to address issues of conflict and intolerance, as seen by community-based plans for conflict mitigation, teacher and student led initiatives, and government official involvement in related community programs;
- Media outlets and self-regulating institutions demonstrate improved professional standards and increasingly engage in nonbiased reporting and in the promotion of tolerance and reconciliation;

The USG will identify additional results throughout the strategy period as we develop new programming.

IV. RESOURCE ASSUMPTIONS

Required Resources

This strategy assumes that over the next five years the USG funding allocation for BiH will remain at roughly the same level. The sharp decline in Foreign Military Financing (FMF) account resources in FY 2008 should be halted and reversed. For fiscal years 2008 to 2010, there was a request for modest increases in SEED resources. This strategy's expectation is that funds will approach a straight line from FY 2008 onwards. However, should the political situation in BiH deteriorate, resource needs will significantly increase.

For the past several years, the USG had additional funds, on average \$8 million per year, from a local currency trust fund, available to supplement SEED funding. These funds were generated from a prior USAID-managed economic growth activity and have since been supporting 50% of ongoing economic growth projects. However, these funds are decreasing and expected to be exhausted in 2010. Thus, once these funds are depleted, fewer funds will be available, in effect decreasing assistance funding.

If funds decrease instead of being straight-lined, this would result in a significant negative impact on both the USG's image and transformational diplomacy efforts in BiH. With already limited funding levels, the USG in BiH is maximizing its efforts to affect change. If funds unexpectedly decrease, the USG could lose influence and standing as a development leader, stifling progress of many reform-oriented projects. The USG would need to maintain a similar mix of projects, but the effect would be to lessen impact in each area.

The tolerance goal should be particularly noted. Past assistance to BiH in this area has been mainly limited to small scale grants and local initiatives in civic education, while the USG has left others, such as the OSCE, to focus on other areas such as educational curriculum development. In developing this strategy, however, the USG realizes that current efforts are not nearly enough to counter the ethnic forces preventing the nation's young people from growing up with a common national identity. One of the priority goals under this strategy, therefore, is to work to reduce intolerance and increase respect for diversity. This goal reflects a shift from past priorities as current programs are insufficiently addressing it. The USG is beginning discussions and reviewing programs in order to determine how best to address tolerance within current and future programming.

Proposed Shifts in Allocation

Given the depletion of the local currency trust fund, the overall number of economic growth projects will decrease. Without additional SEED funds, the USG will be forced to reduce the number of economic growth projects, thereby lowering its profile and reducing its influence in the sector. This is expected to come from the modest increase in SEED funding after fiscal year 2010. No significant shifts are expected in funding levels to the different priority areas unless additional funds become available to help address the tolerance goal.

Expected External Contributions

As a consequence of previous funding decreases, the USG forged partnerships with other donors. With the expected overall decrease in available assistance funds, donor collaboration and public-private partnerships are essential to maintain and extend current efforts in USG priority areas. The USG has begun working closely with a few other donors to compile resources and jointly plan and/or manage projects, expanding and strengthening the projects' results and stretching

USG funds and impact. For example, USG assistance to local governance successfully leveraged a tripling of available funds through collaboration with two other donors. Some success has also been achieved in securing partnerships with private enterprises to further USG goals. In all future project planning, the USG will continue to seek partnerships and shared resource opportunities with other donors and private enterprises as appropriate.

Increased Funding Scenario

Increased security assistance funding (FMF and IMET) would allow the USG to increase development of NATO capabilities for Bosnia, advancing BiH's progress toward NATO and enhancing the country's contributions to global peace support operations. In the event that SEED funding to BiH increases by 10% or more, activities for strengthening parliament, rule of law, and civic education could be broadened to increase their impact, and new projects could be developed related to trade and property rights, economic industry certification standards, or land titling leasing. It is also expected that if additional funds are available, USG activities towards building a respectful and tolerant society will be expanded. If sufficient additional funds became available the USG would consider options and opportunities for working more directly in the education sector. Decisions regarding how this increase would be allocated would depend on the ongoing availability of funds and whether it is a one-time increase or a multi-year allocation.

Decreased Funding Scenario

If, alternatively, funding for assistance to BiH is decreased by 10% or more, some projects will have to be scaled back and any new or planned projects would have to be reconsidered. The USG would focus remaining resources in priority strategic sectors. Projects jointly funded and/or managed with other donors, such as USAID's municipal strengthening and planned small business development projects, would require careful handling if targeted for cuts, given the involvement of other donors.

Biodiversity Analysis

As required, USAID conducted a 118/119 biodiversity analysis to inform strategic assistance direction. The full report is on file in Sarajevo. The report shows that while there has been progress in BiH to address biodiversity issues much work remains to be completed, including a central strategy for the development and conservation of natural resources and a BiH ministry with the appropriate competencies to coordinate needed reforms and their enforcement. It is the position of the US Mission that environmental concerns are important but that other issues (that are critical for developing a stable and sustainable BiH) supersede the need and ability for them to be specifically addressed at this time. Biodiversity and environmental protection will remain an indirect objective of USG activities, addressed where biodiversity and private sector/civil society development intersect as seen in goals three and four.

V. APPENDICIES

List of Acronyms and Abbreviations

AFBiH -	Armed Forces of Bosnia and Herzegovina
BiH -	Bosnia and Herzegovina
COE -	Council of Europe
CT -	Counter Terrorism
EBRD -	European Bank for Reconstruction and Development
EU -	European Union
EUFOR -	European Union Force
EXBS -	Export Control and Related Border Security Program, U.S. Department of State
FAS -	Foreigners' Affairs Service, BiH
FMF -	Foreign Military Financing
GDP -	Gross Domestic Product
HJPC -	High Judicial and Prosecutorial Council
ICITAP -	International Criminal Investigative Training Assistance Program, U.S. Department of Justice
ID -	Intensified Dialogue, NATO
IMET -	International Military Education and Training
IPA -	Instrument for Pre-Accession Assistance, EU
IPAP -	Individual Partnership Action Plan, NATO
IT -	Information Technology
JNA -	Jugoslovenska Narodna Armija / Yugoslav People's Army
JSRS -	Justice Sector Reform Strategy
MoS -	Ministry of Security, BiH
NATO -	North Atlantic Treaty Organization
NGO -	Non-Governmental Organization
OHR -	Office of the High Representative
OPA -	Office of Public Affairs, U.S. Embassy Sarajevo
OPDAT -	Overseas Prosecutorial Development, Assistance and Training Program, U.S. Department of Justice
OSCE -	Organization for Security and Cooperation in Europe
PfP -	Partnership for Peace, NATO
RS -	Republika Srpska
SAA -	Stabilization and Association Agreement
SBP -	State Border Police, BiH
SEED (SEED Act) -	Support for East European Democracy
SIDA -	Swedish International Development Agency
SIPA -	State Investigative and Protection Agency, BiH
SME -	Small and medium-sized enterprises
UNICEF -	United Nations Children's Fund
UNDP -	United Nations Development Programme
USAID -	United States Agency for International Development

BiH Studies, Assessments, Reports 2006 - 2008

The USG took into account the following documents when developing the country assistance strategy. They are available for review upon request.

1) Planned and On-going

- Study of residential energy efficiency incentives and legal barriers (planned fall/winter 2008)
- Study of e-governance options and current status in BiH (planned fall/winter 2008)
- Study of trade barriers and IPR legislation in BiH (planned fall/winter 2008)
- Media Assessment February 2009
- Tolerance Assessment February/March 2009
- Biodiversity Analysis Update for Bosnia/Herzegovina February 2009

Other Donors

- Swedish assessment of agriculture, metal working, tourism, and wood sector (draft completed June 2008)

2) 2008

- Bosnia Financial Sector Report - March 2008
- Analysis of Competitiveness in SE Europe - March 2008 (includes Bosnia)
- Evaluation of USAID/BiH's Justice Sector Development Project
- Evaluation of Civil Society programs in BiH, final report – February 2008
- NGO Sustainability Index for 2007, November 2008
- Research report on violence against children in primary schools- Save the Children UK, 2008
- MPRI Execution of the Assistance Program for BiH State Level Defense Institutions, October 2008
- IMET Assessment Project 2008-2007, Center for Civil-Military Relations

3) 2007

- Background information related to Partnership for Advancing Reforms in the Economy, USAID/BiH RFP Research Document
- BiH Destination Management Manual - January 2007
- Environment Public Opinion Survey - July 2007
- Sutjeska National Park - Tourism Protection Assessment - September 2007
- Review of the Grant B component of the Governance Accountability Program - GAP, March, 2007
- Assessment of BiH's administrative legal system - 2007
- BiH Democracy and Governance Assessment - 2007
- Philanthropy in B&H: Policy Implications for the Government and Non Government Sectors – CEPOS, 2007,
- Recommendations to BiH Ministry of Foreign Affairs on the changes needed to have an adequate and efficient Ministry of Foreign Affairs and Diplomatic and Consular Missions – Center for Security Studies, 2007,

- Manual on Tax and Accounting Issues Affecting NGOs - CCSP/ICNL, 2007
- NGO Sustainability Index
- Assessment of the Alternative Dispute Resolution - 2007
- Assessment of Victim-Witness Coordination System for Victims of Trafficking in Bosnia and Herzegovina, conducted in 2007

Other Donors

- Priority Solutions for Obstacles to Investment and Growth in BiH, White Paper, Foreign Investors Council, 2007 (hard copy only)
- Trade Related Needs Assessment (European Commission)
- Doing Business 2008 (World Bank, 2007)
- Fiduciary Update on Public Financial Management, Bosnia and Herzegovina (World Bank, 2007)
- Country Partnership Strategy for Bosnia and Herzegovina, FY08-FY11 (World Bank, 2007)

4) 2006

- Assessment of Audit Capacity in Bosnia and Herzegovina (FSVC, draft 2006)
- Study of Taxes and Fees Linked to Property in Brcko District, 2006
- Wood Processing Sector Survey, April 2006
- BiH Tourism Demand Survey - March 2006
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