

USAID/BOSNIA AND HERZEGOVINA

BOSNIAN RECONSTRUCTION PROGRAM

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GLOSSARY

ABACEELI	<i>American Bar Association/Central and East European Law Initiative</i>
AJF	<i>Federation Association of Judges</i>
BIH	<i>Bosnia and Herzegovina</i>
BDP	<i>Business Development Program (USAID)</i>
CAFAO	<i>Customs and Fiscal Assistance Office (European Commission)</i>
CIRP	<i>Community Infrastructure Rehabilitation Project</i>
CPA	<i>Cantonal Privatization Agency</i>
EBRD	<i>European Bank for Reconstruction & Development</i>
EC	<i>European Commission</i>
EPTF	<i>Economic Policy Task Force</i>
EU	<i>European Union</i>
FBA	<i>Federation Banking Agency</i>
FCA	<i>Federation Customs Administration</i>
FPA	<i>Federation Privatization Agency</i>
FTA	<i>Federation Tax Administration</i>
GOBH	<i>Government of Bosnia-Herzegovina (used herein as acronym for Federation)</i>
HB	<i>Herceg - Bosnia (Croat part of Bosnia which officially doesn't exist)</i>
ICMA	<i>International City/County Management Association</i>
IEBL	<i>Inter-entity Boundary Line</i>
IFES	<i>International Foundation for Election Systems</i>
IMF	<i>International Monetary Fund</i>
IMSLC	<i>Interim Media Standards and Licencing Commission</i>
IPTF	<i>International Police Training Force</i>
ITF	<i>Industry Task Force</i>
MIS	<i>Municipal Infrastructure and Service Program (USAID)</i>
NDI	<i>National Democratic Institute</i>
OBN	<i>Open Broadcast Network</i>
OHR	<i>Office of the High Representative</i>
OSCE	<i>Organization for Security and Cooperation in Europe</i>
OTI	<i>Office of Transition Initiatives -- USAID</i>
PRM	<i>Population, Refugees, Migration Bureau (State Department)</i>
RS	<i>Republika Srpska (BIH Entity)</i>
RSCA	<i>Republika Srpska Customs Administration</i>
SFOR	<i>Stabilization Force</i>
SRT	<i>Serb Radio and Television (RS state media outlet)</i>
UNHCR	<i>United Nations High Commission for Refugees</i>
ZOS	<i>Zone of Separation</i>

BOSNIA AND HERZEGOVINA RECONSTRUCTION PROGRAM

I. Introduction

The Dayton Peace Accords and the associated multinational military and civilian peace implementation efforts have resulted in two years of visible peace and economic recovery in Bosnia and Herzegovina (Bosnia). Maintaining that peace continues to be of direct importance to U.S. strategic and economic interests in Europe. U.S. leadership has been critical in setting the course for rapid reconstruction and critical economic reform.

President Clinton pledged \$600 million in SEED funds over a three-year period to promote reconstruction in Bosnia, and create economic and democratic incentives for Bosnians to cement into place the framework for longer-term peace. **The U.S. assistance program is striving for a stable post-war Bosnia with a functioning and dynamic free-market economy and a democratic society.** Towards this goal, USAID activities are focused on four objectives:

- ***Restoring private sector productive capacity*** to restart production quickly and create immediate, self-sustaining employment;
- ***Establishing a policy and institutional framework conducive to the emergence of a market economy***, by supporting rapid privatization, critical macroeconomic reforms, sound fiscal policies, viable banking supervision, and a professional customs system.
- ***Repairing war-damaged infrastructure*** to facilitate refugee return and reactivate the local economy;
- ***Strengthening democratic institutions that promote a multi-ethnic society and political pluralism***, by fostering an independent media, free and fair elections, a responsive and transparent government, citizen advocacy, and a professional, independent judiciary.

The most immediate task facing Bosnia continues to be economic revitalization to create jobs and income. The resumption of economic activity will enable returning refugees to be reintegrated into their communities with gainful employment, and acquire a stake in lasting recovery. Paralleling the reconstruction process, the country needs to continue to build the legal and institutional framework and create a conducive environment for a private sector market-led economy. Bosnia is also faced with a dual challenge: movement from a socialist to a market economy and simultaneously recover from the war. Further complicating the situation is the on-going process of embracing a more democratic society.

II. Reconstruction Environment

A. Economic Profile

Pre-war Economy: Bosnia was one of the lower income republics of the former Yugoslavia with GDP in 1991 at \$8.7 billion (\$2,000 per capita). The economy was fairly diversified with a large industrial base and a highly skilled labor force. About 50% of the country's output was generated by large-scale industrial complexes in the raw material and energy sectors. Banks, owned and controlled by enterprises, were the only source of credit.

There are positive elements from Bosnia's pre-war economic situation which are smoothing the road towards economic reconstruction. Unlike other communist countries, the prewar economic system was largely decentralized and based on market socialism and self-management. Bosnia's economy was closely integrated with the other Yugoslav Republics, and had strong external ties with trading partners in Europe, the U.S., and the former USSR. The country also has a resilient, entrepreneurial, and well-educated population capable of leading the way to economic recovery.

Economic Collapse: By the end of the war in 1995, GDP had declined by about 70% (to approximately \$2.5 billion) and per capita GDP to \$400. Employment dropped by over 80%, and for the employed monthly wages had shrunk dramatically to DEM 5-20. Some 80% of the population was at least partially dependent on humanitarian assistance. In addition, the war halted the economic reform process that had been initiated in the late 80s, and disrupted or eliminated former supply and trade arrangements. Estimates of direct and indirect war damage range from \$15-20 to \$50-70 billion.

Economic Recovery: Recovery of the economy has been dramatic, primarily in the Federation, where commitment to Dayton principles has resulted in greater donor investment than in the Republika Srpska (RS). Massive inflows of foreign assistance continue to fuel economic growth. Estimates vary, but most analysts accept World Bank figures for GDP growth: 62% in the Federation and 25% in the RS in 1996, 35% in the Federation in 1997, (RS flat). Should these rates be proven accurate and trends sustained, by the year 2000 the Federation's GDP per capita will reach 80% of its prewar level. Employment, wages and production are also growing in the Federation, with the RS fairly stagnant. The strong economic recovery in the Federation during 1996-1997, is due in part to about DEM 2 billion of private imports, reflecting Bosnians' vote of confidence in their country's economic and political future.

U.S. assistance accounts for approximately 20-25% of economic growth in Bosnia.

Economic Priorities: Progress on adopting priority economic policies and institutions in Bosnia has been slow. Many of the constraints to achieving macroeconomic goals are political or managerial, including differences between political leaders in the Federation on the degree of integration and harmonization of the key economic institutions such as tax administration, payments system, customs administration, and privatization. This is due mainly to the different

vision each leading national party has for itself and for the central government. In general, Serb and Croat political leaders want the weakest possible central government, while Bosniak leaders want the opposite. However, the rapid establishment of key economic institutions and adoption of significant structural and economic reforms are central to promoting a secure and prosperous future for the country. Some progress has been made, such as the establishment of a Central Bank in August 1997; the successful conclusion of debt negotiations with the London Club in December 1997; and agreement, albeit forced by the international community, on a new currency in early 1998.

Some of the necessary immediate and medium-term economic policy reforms and actions include:

- rapid privatization;
- establish a commercial legal framework which clarifies the rules of the game and is conducive to private sector growth and foreign investment;
- the joint institutions called for in Dayton must begin to function;
- mobilizing domestic resources through a fair and transparent intergovernmental finance system; and
- meet the necessary conditions for the IMF agreement (e.g., capitalization of the Central Bank, reaching agreement with the Paris Club creditors, and normalization of BiH's relations with its external creditors by clearing outstanding arrears (\$2 billion) and servicing restructured debt.

B. Political Profile

Fifty years of communism and a bitter war have inhibited Bosnian civil society. Citizens remain generally cynical and apathetic towards government and civic involvement. Few are willing to be vocal and active on issues which, in most western democracies, would attract the attention of established citizens groups, NGOs and others. Although the Dayton Accords stopped the war, people have continued to vote for large, well-established national parties out of fear, distrust, and the memory of war. Widespread corruption and lack of accountability promote apathy rather than protest. Within this context, moving complacent citizens and NGOs into action and advocacy is a Sisyphean task.

Holdovers from communist times include authoritarian governments (state and entity), with rubber-stamp parliaments and weak judiciaries. There are no checks and balances between branches of government, and with a disengaged populace, this authoritarian rule will continue. To further complicate matters, the Dayton and Washington Accords created a complex, and in some ways dysfunctional governmental system. The struggle between the Bosniak leadership for a strong state and the Croat and Serb leadership for a weak central state has continued to obstruct the full functioning of state and some Federation institutions; the continued existence of Republic and Herceg-Bosna institutions also impede progress in this area.

The political space which has opened up in the RS is the result of several media-related events. The existence of an alternative media (mostly started with assistance from OTI) allowed President Plavsic to make public the growing division within the Serb Democratic Party. The takeover of SRT from Pale minimized the propaganda going out over the airwaves. This made the election of Dodik as Prime Minister and the political survival of the reformist elements in Banja Luka possible. The further restructuring of SRT and the planned restructuring of BiH TV could be instrumental in further opening up political space over the whole territory of Bosnia.

The media itself is in transition and operating in a murky regulatory environment. Stations created during the war are preparing for their eventual privatization. The OHR is planning to establish the regulatory framework for media through the Interim Media Standards and Licensing Commission. Many stations and outlets will not survive privatization due to unsound business practices and a poor economy (and the fact that Bosnia is a small country) which cannot support the large number of outlets. Other weaknesses include passive, unskilled journalists reluctant to challenge authority.

Challenges in moving toward a democratic Bosnia remain formidable. Bosnian election officials have developed the capacity to carry out their responsibilities with minimal international oversight/assistance. The administration of elections must move further into their hands. Each post-Dayton election has contributed to emerging political pluralism by eroding single party hegemony, but parties continue to require assistance in developing practical campaign agendas and democratic internal structures. Moderate opposition parties in both entities are uniformly optimistic that the 1998 general elections will further empower them to guide the country's economic and political transition. Sustained peace, the promise of an extended international military presence, and recent political opening in the RS suggest that considerable systemic and institutional reform will be possible in the next few years.

C. Priority Reconstruction Program

With the conclusion of the Dayton Accords in December 1995, Bosnia, with the assistance of the World Bank, the European Commission (EC), the European Bank for Reconstruction and Development (EBRD), and USAID developed a three-year \$5.1 billion Priority Reconstruction Program, calling for financial and technical support to repair infrastructure, provide a safety net for vulnerable segments of the population, and rapidly establish economic institutions for private sector development and sustainable employment. Since then, the EC and World Bank have sponsored three pledging conferences in which 48 donors have committed over \$3 billion. The United States, the second largest donor in Bosnia, has pledged a total of \$524 million to date, or approximately 10% of the total need and 16% of total pledges.

Of the total \$3.2 billion in funds pledged by the international community, approximately \$2.2 billion is currently under implementation, led by the U.S. with 21% (\$478 million) of the total amount. Slightly over half of the \$2.2 billion is allocated to economic revitalization and infrastructure, with the U.S. accounting for 29% (\$331 million) of total funds allocated to these sectors. The remaining half of funds under implementation have been allocated to sectors such

as housing, health, education, and social support. The U.S. is also the principal contributor to economic revitalization, accounting for half of the total funds under implementation by all donors in this area. The vast majority of donor assistance to date has been implemented in the Federation, given the Republika Srpska's unwillingness until mid-1997 to show serious commitment to the implementation of Dayton principles.

TOP 10 DONOR PLEDGES:

European Commission	\$690m
United States	\$524m
World Bank	\$490m
Japan	\$267m
Netherlands	\$171m
Italy	\$101m
EBRD	\$100m
Saudi Arabia	\$ 75m
Switzerland	\$ 70m
Norway	\$ 66m

III. U.S. ASSISTANCE PROGRAM ISSUES:

Republika Srpska: It is critical that the new Dodik government demonstrate tangibly to RS citizens that compliance with Dayton principles will bring positive results. USAID has already undertaken a number of projects in the RS since mid-1997, including \$5 million for Community Infrastructure Rehabilitation Projects (CIRPs). The 1998 MIS program includes \$21 million for projects in the western RS. Nearly \$10 million has been loaned to private RS companies since September 1997. We have also initiated the full spectrum of economic restructuring activities in the RS, including privatization, taxation, budgeting, bank supervision and development, macroeconomic policy advice, and customs training, as well as increased community rehabilitation programs through U.S. NGOs.

Refugee Returns: The flow of displaced persons and refugees to their homes has only recently started to gain momentum and is expected to continue well into 1999. Since Dayton, UNHCR has reported a total of 425,000 registered returns. Approximately 49,000 have been minority returns, primarily Croats moving back to the Federation in 1997. Numerous unregistered returns have also taken place, but official estimates do not exist. By helping create the necessary conditions at the community level, USAID programs facilitate returns. A combination of functioning infrastructure and employment opportunities, especially when linked with our democracy building activities, serves as a powerful magnet. We coordinate with State/PRM, so that USAID resources complement their efforts in the "Open Cities" initiative. In many cases, USAID already had substantial resources in "Open City" municipalities before they were declared "open".

Lautenberg Amendment: Section 573 of the 1998 Foreign Operations Appropriation Act stipulates that no U.S. assistance will be provided to communities that openly fail to meet their obligations to arrest or assist the surrender of publicly indicted persons. Informal and formal mechanisms are in place to ensure that no persons publicly indicted for alleged war crimes benefit from U.S. assistance. USAID consults with other USG agencies and organizations active in Bosnia, such as the OHR, OSCE, SFOR, and IPTF as well as with human rights organizations to see if they have relevant information concerning the presence and activities of publicly indicted war criminals. These consultations take place in both Bosnia and Washington. All principal officers of companies applying business loans are vetted via a formal interagency review prior to loan disbursement. USAID maintains direct control over loan funds disbursed

to the recipient through Bosnian agent banks in tranches. The entire lending process is monitored by a hierarchy of American and Bosnian audit, banking and project management professionals. USAID is in the process of subjecting each of its agent banks to the same interagency checks we apply to each of the borrowers.

Donor Coordination: Donor coordination in implementing the \$5.1 billion reconstruction strategy takes place primarily through a set of established sectoral task forces, which nominally work under the guidance of the World Bank and EU. These task forces, in areas such as power, water, transportation, and industry (chaired by USAID), bring together the leading players in each area to ensure reconstruction efforts are not overlapping, that priority needs are being identified and met, and that common concerns are being raised with the various forms of the GOBH. USAID's economic advisors actively coordinate with the IMF and World Bank, and USAID works closely with the OSCE, the OHR, and the EU in support of democracy building.

SFOR Relationship: The USAID program is linked closely to the success of the NATO mission. USAID's partnership with SFOR has resulted in the completion of over 250 small infrastructure projects in communities within the U.S.-SFOR sector, allowing U.S. troops to participate in the economic reconstruction and social recovery of their areas of coverage. NATO's contribution of labor to the USAID Tuzla-Brcko rail rehabilitation project helped ensure rapid completion and stretch budget resources. USAID has also successfully tapped into the business and banking expertise of U.S.-SFOR reservists to identify viable private enterprises eligible for our business lending program.

Conditionality: USAID has used its resources to leverage needed policy changes in Bosnia at the national, cantonal, and municipal levels. Other donors have also been persuaded to reinforce USAID conditionality. Examples include: (1) disbursement of 1996 BRFF funds was conditioned on the existence of a Federation commercial bank law, operation of the Federation Banking Agency and its initiating examinations of all licensed banks; and (2) before undertaking MIS projects, each municipality must sign a memorandum of understanding which publicly confirms the municipality's commitment to Dayton principles, such as freedom of movement for refugees and the surrender of persons publicly indicted for war crimes.

Geographic Limitations: Since 1996, Congressional guidance has called for the bulk of USAID reconstruction resources to be confined to the U.S.-SFOR sector and Sarajevo. Until this year, this limitation prevented USAID from undertaking significant activities in Central Bosnia, a mixed-ethnicity region critical to the successful development of the Federation, or in western RS, equally important given recent developments in Republika Srpska and a prime area for economic development. USAID is now moving forward with expanding its programs into these two regions, while still maintaining a majority of funds for the U.S.-SFOR sector and Sarajevo.

Brcko: USAID has the only significant donor program in Brcko, with nearly \$14 million worth of activities to support the arbitration process and the efforts of Ambassador Farrand. Projects include the repair of the Tuzla-Brcko rail line and bridge across the Sava river reconnecting Bosnia to the European rail network; power and water system rehabilitation in villages where

refugees are returning; loans to private enterprises to create immediate employment; and community level infrastructure projects such as road repairs, well cleaning, window glazing, and playground rehabilitation.

IV. PROGRAM ELEMENTS

USAID's reconstruction assistance for Bosnia has four major objectives:

- *Restoring private sector productive capacity, thus providing immediate employment growth and medium-term sustainable economic growth;*
- *Establishing a policy and institutional framework conducive to the emergence of a market economy;*
- *Repairing war-damaged infrastructure to facilitate refugee return and reactivate the local economy;*
- *Strengthening democratic institutions that foster a multi-ethnic society and political pluralism.*

These four objectives are closely integrated. In implementation, they form three themes: economic revitalization and reform, infrastructure rehabilitation, and democratic reforms.

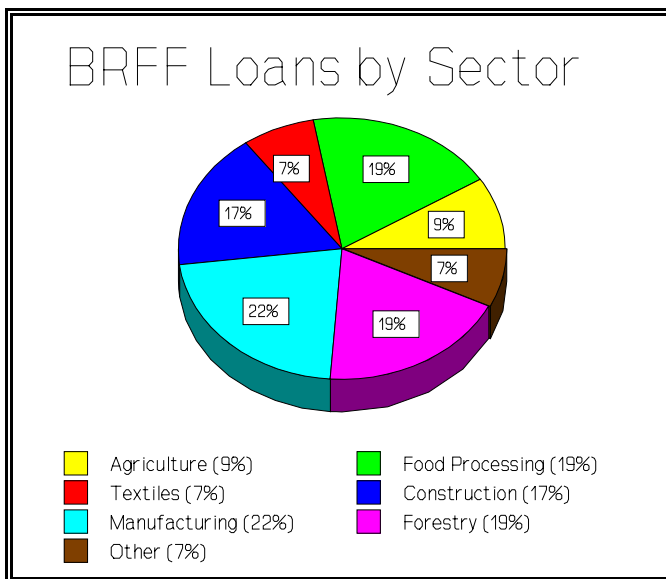
A. ECONOMIC REVITALIZATION AND REFORM

USAID's economic revitalization and reform portfolio consists of activities that can be grouped into two highly interrelated categories:

- Private Sector Reactivation and Development (Business Development Program)
- Economic Policy Reform and Restructuring

1. Business Development Program (BDP)

USAID's \$278 million **Business Development Program (BDP)** provides commercial credit in the form of quick-disbursing loans (average loan size \$425,000), to private Bosnian businesses, enabling them to restart production quickly and create immediate employment. The program also offers business consulting services to improve financial management, marketing, and business plan development skills, and works with local banks to develop their commercial lending capabilities. Thirty-two Bosnian banks serve as agents, identifying viable enterprises, transferring funds to the borrower, monitoring loan implementation, and ensuring loan collections. The experience of agent banks with the USAID lending program has contributed to a major ongoing institutional improvement process for the banking system which is vitally needed to instill public confidence. For business loans, a team of U.S. contractors performs the final credit analysis and makes recommendations to USAID for decision. The program is monitored with the help of the Regional IG office in Budapest.



The BDP is by far the largest and most effective donor effort underway dedicated to revitalization of the business sector and is pointing the way for other donors and investors to follow. Eighty percent of loans have been made in the U.S.-SFOR sector or Sarajevo.

KEY BDP RESULTS:

- BDP has made a major contribution to private sector reactivation in the form of 234 loans worth approximately \$104 million, as of March 1998. Loans in the RS now account for slightly under 10% of the total portfolio (loans, value).
- These loans provide employment to over 15,000 Bosnians, including women and demobilized soldiers of all ethnicities, contributing to the massive drop in unemployment rates in the Federation. Thousands more have found work in related business ventures (suppliers, vendors). Some 750 direct jobs have been created in the RS to date.
- A related bank training program has improved the skills and introduced American commercial bank lending and management concepts to more than 1,700 bankers, over

50% of whom are women. The training has also been requested by new RS financial sector leaders -- a mark of success.

- According to preliminary data collected on 103 companies participating in the BDP, it is estimated that total revenues have risen about 64% between 1996 and 1997 and that combined net worth moved from a negative five to ten million marks to a positive 10 to 20 million. In most of the firms, sales are doubling in the first year of the project with smaller but substantial (over 60%) increases occurring in the second and third years.
- The USAID Business Consulting program, working in partnership with loan operations has assisted some 300 companies in problem analysis. 65% have pursued follow-up assistance in strategic planning, financial management, and marketing skills. Contacts with other markets through the use of Internet and other tools, have helped a number of companies establish new markets and suppliers.
- A comprehensive apprentice training program is helping forty professionals become competent business consultants to better meet Bosnia's enormous need for improved marketing, financial, and management skills.
- BDP experts have completed a series of industrial sector studies, such as forestry, providing data to better target our lending resources to areas where Bosnia has a competitive advantage, and to assist potential foreign and domestic investors.
- BDP has helped leverage reforms. In May 1997, USAID stopped making loans to state-owned enterprises due to the lack of progress on privatization. Pressure from would-be borrowers on political leaders helped generate the necessary political will to pass the privatization laws in March 1998.

BDP SUCCESS STORIES

Vegafruit, a company in Gracanica near the RS border, has quadrupled its capacity with state of the art equipment and a new facility thanks to \$2.3 million in USAID loans. The company is now able to hire 240 additional workers, 75% of which are women. VegaFruit is also the primary source of income for over 300 farming families in the region. The current management is all refugees from Dobo. This year the company expects to gross \$7.5 million.

EKIS, a Sarajevo-based communications company, consummated one of the first joint venture transactions between a major U.S. company and a Bosnian partner. With BDP assistance, including a \$230,000 loan in March 1998, EKIS now represents AT&T in Bosnia.

Constraints: Although BDP has been highly successful to date, it operates under the following constraints: 1) a lack of managerial understanding in Bosnia of modern business practices especially in marketing and finance; 2) loss of prewar markets, making improved marketing skills and product flexibility key to success; 3) obsolete technology and inability to meet ISO standards; 4) a legal framework and business climate not conducive to investment; 5) limited inter-entity communications, trade and business relations; 5) Bosnian investment continues to be perceived

as high-risk in the eyes of Western business; 6) weak banking sector. USAID programs are addressing many of these constraints and other donor/investor (particularly European) involvement will be key to the future.

Future Plans in Business Development:

By the end of 1999, the USAID Business Development program will have injected over \$250 million in lending capital into the Bosnian economy and created directly over 30,000 jobs. Continued business support activities will help capitalize on the recently initiated privatization process and keep up the momentum toward a free market economy. In 1999, USAID will implement a multi-faceted program comprised of: (1) continued lending and business consulting to Bosnian private sector enterprises, reaching down in scale to target smaller companies and risk-taking entrepreneurs; (2) a gradual phaseout of technical assistance and training for Bosnian commercial banks; (3) placing the lending process and responsibility into the hands of a select group of Bosnian banks; (4) legal reform efforts to enhance the overall climate for investment, exports, and growth; (5) the establishment of a Bosnian institutional apparatus to manage the use of BDP resources upon project closeout; and (6) support for indigenous private institutional capacity to provide the business community with the reform, consulting and other services it requires to prosper. USAID envisions transferring the business finance component of the BDP into Bosnian hands by the end of the year 2000, and focusing on continued business consulting assistance in support of private sector growth.

2. Economic Reform Activities

Since 1996, USAID has implemented a comprehensive economic policy reform agenda in Bosnia to accelerate its transition to a market economy in the context of post-war reconstruction. USAID has taken the lead in supporting key financial and economic institutions implementing macroeconomic policy in both entities, including the formation and operations of the Central Bank and the Federation banking supervision agency, training of Customs officers in both entities, and on-the-job training of government officials in budgeting and fiscal management. USAID also provides technical assistance in a range of key areas for Bosnia's economic transformation, such as privatization, business law reform, capital markets, and corporate governance. The objective is to provide sound guidance to decision-makers at the state, entity, cantonal and municipal levels of government to undertake defined responsibilities, smoothly transfer economic functions to the private sector, and regulate the new market economy fairly and transparently.

KEY ECONOMIC REFORM RESULTS:

- USAID helped establish the Federation Banking Agency (FBA) and drafted the legislation creating a similar agency in the RS, which was adopted by the RS parliament in mid-March, 1998. A functioning and effective FBA has increased public confidence in the banking system. The FBA has examined 95% of Federation banks and 100% of RS banks. Bank inspections are leading to the closure of problem banks as the sector is reformed.

- Federation privatization laws have been passed and eight Cantonal Privatization Agencies are in place (2 pending). USAID advisors played the key role in drafting and facilitating the passage of legislation, establishing critical privatization institutions, and conducting on-going training for government officials, enterprise managers, and the media on the privatization process. USAID is also conducting direct public education campaigns using a variety of media. USAID is now leading RS efforts to restructure its existing privatization program and harmonize it with the Federation program.
- By October 1998, the joint USAID-European Union customs modernization program will have trained 100% of customs officials in both the Federation and RS. Monthly customs revenues in the Federation have increased by 50%, from 37 million DM in November 1996 to 55 million DM in November 1997. The average waiting period for customs clearance in the Federation has been reduced from 6-7 days to 3-4 days.
- USAID-funded Treasury advisors helped Bosnian officials prepare for the London Club negotiations, successfully concluded in December 1997, essential for Bosnia to normalize its relations with external creditors.
- Critical legislation has been drafted on corporate governance issues, addressing the most appropriate methods for regulation of private corporations and capital markets in the post-privatization period. This includes the formation of a Corporation and Securities Board and Laws on Share Registries, Securities, Commercial Enterprises, Management Companies and Investment Funds, Foreign Exchange, and Bankruptcy.
- USAID's fiscal federalism program has helped strengthen the Federation by compelling Bosniak and Croat authorities to work together on making the cantonal and municipal budgeting process more effective and transparent. As a result, the first public budget hearings in Bosnia and Herzegovina were held in the Tuzla-Podrinje and Zenica-Doboj Cantons in 1997.
- USAID targeted assistance to the newly-established Central Bank (a key Dayton common institution) has helped get the institution up and running.
- USAID assisted the Federation Tax Administration (FTA) in setting up a modern data processing system and launching an unique taxpayer identification numbering (TIN) system, thereby improving the FTA's efficiency and ability to collect personal and corporate taxes.

Privatization: USAID technical assistance is helping Bosnian authorities implement a comprehensive enterprise privatization program. This includes advisory services on implementation policies and strategies for enterprise and strategic sector privatization efforts, post-privatization structures and markets, and public education. Privatization in the Federation will start with small-scale auctions in June 1998, leading to the sale of some 800 small firms in

all ten cantons. Larger companies will develop privatization plans and be ready for large-scale auctions in December 1998. The entire process is expected to be completed by March 1999.

The Privatization Project has assisted in training, equipping, and organizing the FPA and cantonal agencies, including organizational plans and procedures. USAID will continue with both the FPA and CPAs to set up workable and efficient implementing plans. The Public Education and Information Project is providing public relations assistance and training to the same groups.

USAID is now engaged in the large and critically important task which will give definition to the deliberately vague privatization laws, begin the claims registration and asset inventory processes, establish the computer system needed to implement the electronic voucher, bidding, and share conversion operations, train new staff at all levels, make recommendations to the Government on how to privatize several strategic industries, and educate the public on its rights and obligations under the new laws and regulations. USAID is now providing similar assistance to the RS.

Commercial Law Reform: USAID technical assistance is helping Bosnia re-orient current commercial and non-banking financial laws to facilitate privatization and the subsequent development of a market economy. The Legal and Regulatory Reform Project focuses on three integrated components: legal reform, accounting/auditing standards and enforcement, and corporate governance in business and capital markets. The project has identified laws which are constraining the development of a market economy, examined models which are more favorable, drafted appropriate laws for the entities, will track them through Parliament to passage, will monitor enforcement, and will educate the public on what the changes entail.

The project has also proposed measures to raise Bosnian accounting and auditing procedures to international standards. It is assisting in the establishment of internationally-accepted systems useful for enterprise managers, bank officials, privatization agencies, and corporate regulators, and the development of professional associations that could serve as self-regulating organizations.

Bank Supervision: USAID's program has helped establish the FBA, to build FBA capacity to regulate, supervise, and monitor the banking system, and to develop supervisory policies and procedures to deal with problem banks. Both the IMF and World Bank are working with USAID and the Federation to draft and implement banking legislation fundamental to the development of a market-oriented banking system.

The FBA has been established on a sound legal basis and key organizational and policy issues regarding the operation of the agency have been addressed. In its first full year of operations, the FBA has completed a full round of bank examinations, issued corrective actions to five banks, and revoked the licences of two.

This program is one of the most successful in USAID's portfolio and should achieve its objectives by July 1999. However, there are constraints to achieving these objectives in a timely

fashion, including: (1) the slow adoption of the amendment to the FBA and commercial banking laws giving the FBA more authority to deal with problem banks; (2) inadequate funding for the FBA in the Federation budget; and (3) uncertainty about the resources, staffing, and independence from political pressure of the RS banking agency.

Customs Modernization and Training: This activity is an integral part of a multi-donor customs assistance program, being coordinated by the EU-sponsored Customs and Fiscal Assistance Office (CAFAO). The joint USAID-EU customs training program improves the professional capabilities and skills of customs staff. It has compelled Bosniak and Croat customs officials to work together for Federation purposes, contributing not only to strengthening the Federation, but to generating much-needed revenue. The program has expanded into the RS to ensure that both entities carry out customs administration along common lines.

This program is another success story in USAID's portfolio and should achieve its objectives by September 1998. There are constraints that may hinder the program, including: (1) the lack of full and true ethnic integration in the FCA; (2) the prevailing low salaries of customs officials may lead to corruption and high turnover; and (3) efficiency is hindered by the lack of facilities, computers, communications and detection equipment at most customs houses in both entities.

Macroeconomic Assistance: USAID's macroeconomic assistance program includes: a resident advisor who works directly with government decision-makers at the State and entity level; an active role in the Economic Policy Task Force (EPTF), co-chaired by the IBRD and IMF, including the formulation of an economic policy reform agenda for Bosnia, sequencing required reform actions, and monitoring the program; and chairmanship of the Industry Task Force (ITF), which brings together all donors active in privatization and industrial reactivation to establish common policies and ensure coordination.

Fiscal Infrastructure: USAID efforts to establish an adequate fiscal infrastructure include budget and revenue enhancement measures, public debt management, and fiscal federalism issues. These concern the uniformity of tax administration and politically sensitive questions related to expenditure assignments among the various levels of government. Through the U.S. Treasury, we have two resident tax advisors (policy and administration), a budget advisor, and a public debt advisor, all actively working on these issues.

Working closely with the U.S. Treasury team, the USAID-funded International City/County Management Association (ICMA) has provided technical assistance in budgeting and financial management to officials of the Zenica-Doboj and Tuzla-Podrinje Cantons. That Tuzla-Podrinje is the only Canton to have prepared its 1998 budget illustrates both the importance and success of the ICMA project. This year, at the request of local authorities, the program was expanded to the Federation's remaining eight cantons. This project is directly linked to macro-level budget reform and supports our democracy efforts to promote government transparency.

In September 1997, ICMA facilitated establishment of a Federation-based Association of Finance Officers expected to play strong advocacy role in issues related to public financial management

and budgeting and to serve as a vehicle for training its members. This initiative is also linked to reforms supported by USAID's democracy program.

Future Plans in Economic Reform:

With comprehensive and effective USAID technical assistance, the country is moving in the desired direction and significant progress has been made in economic recovery, business reactivation, and policy reform. The institutions and legal infrastructure necessary to support a market economy are slowly being developed, and the transition to market-mandated fiscal policies and infrastructures is in progress.

Progress on the Mostar City Administration

In June 1997, the World Bank requested USAID to help create and implement a unified Mostar City Administration. The World Bank conditioned the provision of up to one million DM for salaries and infrastructure projects, if the City administration could describe its functions, anticipate outcomes and performance indicators for city departments, project 1997 and 1998 budgets, and identify sustainable sources of revenue to support city operations. ICMA provided city officials with Western-style budget formats and played a critical role in assisting the Neretva Canton authorities to secure revenues for the City of Mostar. The World Bank Resident Representative in Bosnia described the successful completion of this task as "a major institutional achievement for the region and the Federation."

1. Privatization

Rapid implementation of the privatization process is essential. USAID will continue to lead the Federation in implementing the small-scale and large-scale mass privatization programs through completion in 1999. USAID will also taken the lead in the development and implementation of the RS privatization program.

USAID assistance will continue to play an essential role in ensuring the establishment of a post-privatization legal and regulatory environment, conducive to both private sector growth and foreign investment. Emphasis will be on the establishment of securities institutions, corporate governance, and commercial law, requiring significant resources through 2000.

2. Financial Sector Reforms

USAID will continue to support the Central Bank in maintaining appropriate monetary policy. Because the Central Bank will operate as a Currency Board, its most important function will involve establishing rules for the operation of Bosnia's Payment Systems. Currently, Bosnia's Payment System is dominated by the Payments Bureaus (ZPP in Federation and SPP in the RS), which evolved into powerful government institutions under the old economic system. This system is now obsolete and incapable of supporting viable and efficient financial intermediation or a market-oriented payment environment. It is also opaque and open to manipulation by those in power. Beginning in FY99, USAID will help restructure the ZPP and SPP, privatize its functions or, where appropriate, move them under the control of other public bodies. The result will be a modern Payment System that will support a market based economy.

3. Tax Administration

The need for a comprehensive integrated taxpayer database for efficient tax administration remains critical for establishing confidence among Bosnians and the international community regarding the integrity of tax and customs operations. Bosnia must dramatically improve tax and customs compliance to increase government revenues and consequently reduce reliance on donor assistance. USAID-funded Treasury advisors will help achieve this objective.

4. Government Transparency

The pervasive corruption throughout Bosnia has provoked high-level interest and concern within the international donor community. The OHR is establishing an anti-corruption unit within its office, but its focus appears to be on prosecuting individual cases. Systemic legal, judicial, and institutional reforms are needed to stem the tide of corruption. USAID will continue and expand activities which address corruption by improving transparency and accountability. Treasury's efforts with the Federation Ministry of Finance should improve the budgeting process and tax administration systems increasing transparency at the Federation level. ICMA's budget and financial management broadens this to the Federation cantons and municipalities. A similar program may be undertaken in Republika Srpska.

USAID will initiate a modern public accounting and auditing system program in FY99. This will develop public accounting standards, policies, and practices that support fiscal management controls, will train accounting and auditing professionals, and will establish an independent audit self-regulating institution. USAID's on-going judicial reform strengthening activities will be expanded to include training in the new criminal code as well as to encompass new laws in the areas of procurement, disclosure, ethics, witness protection, criminal fraud, and obstruction of justice. Under the MIS project, USAID will insist on reviewing the books of all public utilities that we finance to ensure that hidden expenditures are made public. Further, USAID will condition the provision of balance of payments obligations on having all appropriate expenditure transfers brought on-budget.

B. MUNICIPAL INFRASTRUCTURE REHABILITATION:

The Municipal Infrastructure and Services Program (MIS) is a \$265 million initiative to finance the repair of war-damaged infrastructure, in order to facilitate the return of displaced

persons and refugees to their homes and reactivate the local economy. Over 100 projects worth \$114 million in the power, water, transport, education and health sectors are underway or have been completed in both the Federation and RS. MIS funds are also being used for a related Community Infrastructure Rehabilitation Project (CIRP), implemented in partnership with U.S.-SFOR troops. CIRPs are designed to provide short-term employment for demobilized soldiers and other community residents to conduct high-impact community restoration activities. Over 300 CIRP activities worth \$12 million have been identified in both the Federation and RS, of which 65 percent are already completed.

HOW ARE MIS PROJECTS SELECTED?

The following criteria or “filters” are used in the MIS project selection process: A) Priority of project based on World Bank Sector Task Force consultation; B) Impact on rapid economic reactivation and employment; C) Synergy with other USAID projects; D) Technical feasibility; E) Performance of community on Dayton Principles including freedom of movement, presence of publicly indicted war criminals, and security; F) Impact on creating conditions for refugee return; G) Certification of municipality for implementation of 1997 municipal election results; H) Geographic location (U.S.-SFOR Sector, Sarajevo, Middle Bosnia, or Western RS) and opportunities for cross-IEBL cooperation; I) High profile in terms of showing international support for reformers and advancing U.S. foreign policy objectives; J) Number of beneficiaries; K) Possible involvement of U.S. suppliers; L) Extent of leveraging other donor or local resources; and M) Bosnian interest in/commitment to the project.

KEY RESULTS:

Employment:

- MIS construction activities have created 5,000 short-term jobs and some 17,000 people will be permanently employed working in reconstructed power, water, transportation, education and health facilities or through the use of refurbished infrastructure. In addition, 8,700 demobilized soldiers were temporarily employed through almost 300 Community Infrastructure Rehabilitation Projects.

People:

- 8,000 children are attending schools rehabilitated by USAID.
- 44 power projects benefit more than 750,000 people or 25% of the BiH population.
- 24 water projects have helped almost 800,000 Bosnians see a 30% increase in water supply.

Economy:

- The repair of the Tuzla-Brcko rail line and Brcko rail bridge has reopened a vital South - North railroad link between Bosnia and the rest of Europe, critical for the economic

development of Bosnia. The completion of this link helped spur the entities to agree, after years of stalemate, to needed reforms of the public rail system.

Refugees:

- UNHCR has reported over 18,000 minority returns in communities where MIS is active.
- Busovaca, one of the first municipalities to be named an “Open City” for minority returns, has seen 200 Bosniak families return home to date. USAID is funding the electrification of the villages where people are returning. USAID is also rehabilitating Busovaca's water system benefiting 13,000 people.
- In the primarily Bosnian Croat municipality of Odzak (Posavina Canton), USAID has repaired the power distribution network, helping create conditions for some 11,000 people to return, 21% of whom are Bosniaks.
- USAID is reconstructing the power distribution network, providing electricity connections to 1,100 households and improving the local water supply in communities in the Zone of Separation (ZOS) near Brcko targeted for minority return. Over 500 Bosniak and Croat families have returned so far, with another 1,400 families expected in 1998.

Reforms:

- USAID infrastructure projects have fostered cooperation between the power and water utility companies from all three regions of Bosnia. Both the MIS and the economic restructuring programs are actively bringing about pricing reforms and greater user fees so that investment and operating costs are covered by the utilities. USAID technical/policy studies for electricity are being used as a primer for institutional reform, and USAID helped prepare for similar efforts in water (to be financed by other donors).
- For 1996 MIS electricity projects, USAID did not have to pay for local installation costs because the revenue-generating utility company contributed labor, helping stretch our limited resources on those projects by an estimated 40%.
- During negotiation of the \$24 million Kakanj thermal power plant and mining project, Bosnia agreed to implement a number of environmental protection measures. This commitment helped leverage \$7.5 million in Japanese funding for environmental equipment.

Future Plans in Municipal Infrastructure Rehabilitation:

There will still be critical infrastructure rehabilitation needs in Bosnia-Herzegovina in FY99. Delays in other donor funding reaching the implementation stage currently plague the overall

reconstruction effort. The 1999 MIS program will fund additional power, water, transport, health, and education sector projects identified as priorities both in the Federation and Republika Srpska. By 2000, the MIS program will have completed the reconstruction of approximately 180 major infrastructure projects in the energy, water, transportation, health and education sectors as well as approximately 500 small community level infrastructure activities. By the turn of the century, we expect the Bosnian government and other donors to assume responsibility for remaining needs in infrastructure repair and to phase out the MIS program's rehabilitation component.

USAID infrastructure rehabilitation in the immediate post-war period focused on emergency and immediate reconstruction activities. In an effort to improve the capacity of public utilities, USAID and other donors have recently begun imposing conditions on planned projects, including cost recovery plans, rate restructuring, and institutional management reforms. USAID is increasingly looking at future sustainability and improving management practices, with the objective of privatizing the provision of public services. There are many areas where timely interventions must be coordinated with other donors active in a particular sector, including raising productivity, accurate cost accounting, the development of user fees, realistic price setting, and rigorous account collection procedures. At the same time, the introduction of private participation in infrastructure and the contracting out of public services must be accompanied by better public accounting systems, a transparent procurement system, and appropriate anti-corruption laws with effective enforcement. In the coming two years, USAID will intensify its efforts, in coordination with other donors, to create a favorable environment for the effective privatization of public services.

C. Democratic Reforms

USAID's Democracy Program gives top priority to achieving the following objectives over the next several years:

- **an independent media offering consistent, objective, and balanced information to Bosnian citizens;**
- **free and fair elections with high voter participation;**
- **a pro-democratic political leadership governing in response to a vibrant civil society;**
- **a professional and independent judiciary operating in an environment governed by the rule of law.**

1. Media Development

USAID efforts in support of independent media are aimed at encouraging high-quality and objective news reporting, and developing viable independent radio and television stations in Bosnia. Through support to Internews, USAID assistance has focused on training to improve technical, programming, and management skills. Through OTI, USAID has been at the forefront of supporting alternative media outlets, particularly in the RS, through direct grants. Lastly, USAID has provided significant resources for the internationally-created OBN, which is finally

making headway with respect to gaining audience share. Recent USAID polls indicate that 79% of those who can get the OBN signal (the OBN has a limited footprint), are watching. An expanded footprint could boost OBN's impact, but it continues to be plagued with management problems.

Technical Assistance and Training

Training activities are designed to increase the sophistication of the local stations' production in order to provide them with more professional and higher quality reporting and programs. Over the last 18 months, Internews has provided on-site technical assistance and organized seminars covering such topics as advertising and news production for participants from 25 different television stations from both the Federation and RS. As a result of these efforts, Bosnian television and radio stations improved the quality of their reporting, programming and management.

Production, Program Distribution, and Production Grants

Independent stations in Bosnia are in dire need of quality programming, but foreign programs are expensive and many fill their airtime with pirated programs. This year, working with local producers, journalists, and cameramen, Internews began producing FRESH, a weekly news magazine program, which has become a popular feature of the OBN program schedule.

KEY MEDIA RESULTS:

- USAID technical assistance helped the young independent station ATV in Banja Luka (an OBN affiliate) broadcast on-site reporting of critical political events in Banja Luka (CNN used ATV feed), which also helped build local viewership for non-State dominated TV in the RS.
- USAID supported the first multi-ethnic political reporting since before the war, bringing together mixed teams from Croat, Bosniak and Serb TV stations to produce short election pieces.
- USAID/OTI support has increased the circulation of alternative print media outlets from virtually zero in 1995 to over 100,000 independent dailies, weeklies and monthlies. OTI has helped create and develop 18 radio stations, reaching 70% of the populace in Bosnia-Herzegovina.
- TV Gorazde used USAID training and equipment to increase its advertising/marketing revenues by more than 100%, bringing the station closer to becoming truly independent as it relies less on the municipality for financing, and make the first on-site field reports from Visegrad (a hard line municipality in the RS) since the war.

2. Political and Social Process / Elections

Bosnia continues to make progress in its difficult, dual transition towards lasting peace and democratic governance. Several USAID programs aim to facilitate this transition by ensuring the technical credibility of the electoral process, encouraging political pluralism and promoting citizen engagement in political life.

Three peaceful and orderly elections and one unprecedented full voter registration have taken place since Dayton with high voter turnout. Bosnian election officials have -- after organizing three electoral cycles under international supervision -- developed the capacity to carry out their responsibilities with minimal international oversight/assistance.

Elections Administration

The Organization for Security and Cooperation Europe (OSCE) has repeatedly asked for USAID technical assistance to fill the most difficult leadership positions in each election cycle. USAID has provided key technical expertise for OSCE through the International Foundation for Election Systems (IFES). The administration and management experience brought to the electoral process by the Director General for Elections and Director of Voter Education were essential to their successful implementation. Likewise, the specialized expertise of the USAID-funded IT team proved critical to the execution of a full voter registration and ballot reconciliation. In 1998, elections administration will, with IFES's guidance, move further into the hands of the Bosnians.

Political Party Training

Though the results of Bosnia's first post-war nationwide elections confirmed the primacy of the ruling national parties, each election since has contributed to emerging political pluralism by eroding single party hegemony. USAID assistance in message development, media relations, voter contact, election organizing, strategic planning, and volunteer recruitment has produced the following improvements in opposition (moderate) political parties in the Federation and RS since June 1996:

- Increased party membership through door-to-door campaigning. The Social Democratic Party (SDP) recruited 300 new members through door-to-door campaigning in Tuzla. Using similar techniques, the Party of Independent Socialists was the only small RS opposition party to retain seats in the November 1997 RS Assembly elections.
- Increased number of seats in Parliament by organizing at the grassroots level. The SDP used community-based events rather than large rallies to reach out to constituents, and became the opposition party with the strongest single gains in the September 1997 municipal elections.

In the run up to the 1998 general elections, USAID is focusing its assistance on select parties that support the Dayton Accords, represent a significant political constituency as determined by their performance in the 1997 elections, and have the inclination and institutional capacity to absorb and use the training. Regional priorities, chosen on the basis of the opposition's performance, include Sarajevo, Tuzla, Zenica and Travnik in the Federation, and Banja Luka, Prijedor, Novi Grad, Doboje, Teslic and Bijeljina in the RS.

Domestic Pollwatchers

USAID also focused on enhancing Bosnian ownership of the electoral process by providing pollwatcher training to over 1,000 party activists and select non-partisan monitors throughout the country, and distributing 3,000 copies of a pollwatcher manual based on OSCE rules governing the elections. In Banja Luka, USAID and OTI supported an independent citizen monitoring effort, which fielded 210 domestic monitors in Banja Luka, Prijedor, Bijeljina and Doboje.

Voter Education

In September 1997, Bosnian voters went to the polls to elect 142 municipal councils. USAID conducted a comprehensive and interactive voter education program to inform and engage voters in the electoral process, including the distribution of voting procedure guides, the publication of party platforms, and Bosnian-moderated voter education seminars. By disseminating practical information and provoking discussion on common concerns related to electoral transparency and political accountability, USAID contributed to high voter turnout (approximately 80%) in the election.

IFES teams held over 2,300 voter education sessions with 33,000 participants on voter registration and the broader electoral process.

Civic Education

Since October 1996, USAID has created a network of community discussion groups, moderated by NDI-trained Bosnians, designed to raise the political awareness of Bosnian citizens and promote greater citizen participation in the political process. In the Banja Luka region, one NDI-led discussion group is taking the initiative to contact elected government representatives in preparation for round-tables or public hearings for municipal leaders, another is establishing a war invalids' association, and a third group raised 15,000 DEM to finance local community reconstruction. Perhaps most importantly, several groups have expressed interest in designing and carrying out their own public opinion surveys to assess citizen concerns as a first step towards organizing redress.

Each month NDI reaches 700 people in the Tuzla Canton and 600 people in the Banja Luka environs to examine fundamental issues related to democracy and the Bosnian transition process.

Advocacy

USAID/OTI has supported a broad range of advocacy and civic organizations, which have played a significant role in opening up political space and allowing alternative voices to be heard. The Delphi International "STAR" project, launched in 1995, is helping build the capacity of women's NGOs and independent women leaders in Bosnia-Herzegovina. Training and technical assistance is helping these local NGOs move towards sustainability, undertake innovative projects and motivate women to play a more important role in their communities.

3. Judicial Strengthening

The judicial system remains far from impartial and independent. Political parties continue to control the selection process for judges, and political pressure ensures that the courts will rarely reach decisions on controversial cases. Few citizens expect that they can get a fair trial or use the judicial system to right a wrong. Considerable attention must be paid to the judicial sector over the next several years to ensure that the courts are transformed into an independent, credible branch of government in which a fair justice is meted out.

Over the last two years, through the American Bar Association's Central and East European Law Initiative (CEELI), USAID has helped Federation authorities make progress in establishing the judicial institutions created in the 1994 Washington Accords. Continued technical assistance will ensure that these institutions are efficient and effective. In January 1998, ABA CEELI placed a liaison in Banja Luka to begin providing judicial reform assistance in RS. The liaison has begun discussions with RS judges to explore the formation of a judges association which could be a force for judicial reform in the RS.

Federation Judicial Institutions

In 1996, respectively, USAID helped inaugurate the Federation Constitutional and Supreme Courts and has since actively assisted both in developing their administrative rules and procedures. Comprised of equal numbers of Serbs, Croats and Bosniaks, the Federation Constitutional Court has broad jurisdiction to resolve disputes between Federation entities. As the highest court of appeals in the Federation, the Supreme Court will play a key role in ensuring the integrity of the Federation's judicial system. Both Courts recently heard their first cases.

Judicial Independence

In July 1996, CEELI working groups designed to strengthen the Federation's judicial institutions, led to the creation of a Federation-wide Judges' Association (AJF) to promote the independence of the judiciary. The multi-ethnic association gathers over 200 members representing all 10 Federation Cantons. The AJF has been at the forefront of monitoring the cantonal judicial appointments process and leading the effort to develop safeguards to maintain an independent judiciary.

The establishment of functional cantonal courts is critical to the successful implementation of the Federation judicial system. CEELI advisors have assisted in the development of essential enabling legislation at the cantonal level. Workshops in partnership with the Federation Ministry of Justice and the Association of Judges (AJF) have resulted in the creation an AJF-led task force to reform cantonal-level judicial appointment processes.

Revising Federation Criminal Codes

CEELI assumed a lead role in facilitating revision of the Federation's Procedural and Substantive Criminal Codes, completing draft codes and procedures that will significantly enhance due process protections and address several new substantive offenses, including hate crimes and domestic violence offenses. The draft criminal code was re-written with a view to bringing criminal legislation into harmony with the new constitution and human rights instruments set

forth in its annexes. Final drafts were put before the Federation parliament in January 1998, and are awaiting final passage.

Future Plans in Democracy Building

A critical element of USAID's future democracy strategy is to build upon the successful efforts of USAID/OTI in fostering the emergence of an independent media and civil society as OTI phases out in 1998. USAID assistance over the next year will continue to give priority to strengthening media and supporting the development of moderate political parties. USAID's media program, to date focused exclusively on broadcast media, will expand to include work on the legal and regulatory environment, and support for print media. The 1998 national elections will serve as the focal point for transforming their international administration into Bosnian-administered elections. Political party development and civic education/activism will be expanded. Support for the development of the legal framework for NGOs will be completed, while we will step-up programs of direct support and systematic institution-building for NGOs. Judicial reform activities will focus on making cantonal courts functional, and on ensuring judicial independence. Government transparency and accountability activities will focus on putting into place the fiscal infrastructure which has been introduced at the canton and municipality level as well as expanding into the RS.

Media: The introduction this year of a regulatory regime, especially for broadcast media, through the Interim Media Standards and Licencing Commission (IMSLC), will begin to ferret out the more egregious offenders of ethical journalistic/media standards. As the economy improves, we are likely to see stations become more economically viable without political party and state funding. The privatization of media will also contribute to the emergence of viable independent media in Bosnia, although in the immediate term will probably cause some stations to die (without government funding) or become reliant upon the international community for survival. Programmatically, we will need to continue to support the improvement of journalistic skills, the development of quality programming, and the business operations of promising television and radio stations. Our print media program, which is expected to begin this year, will likely continue through the year 2001, mostly due to the limitations that the current Bosnian economy places on making alternative media financially viable. We will focus our program on the most promising of print media outlets, choosing 5-6 and helping them become financially viable. Financing for both our broadcast and print media assistance will be stepped-up in 1998, levels that will continue in 1999 and 2000.

Elections Administration: This year, USAID is supporting IFES in three major areas to facilitate the transition to Bosnian-run elections: transforming the Provisional Election Commission into a Permanent Election Commission; developing 1998 rules and regulations which will help the transition into the Permanent Election Law; and providing training and technical assistance to Bosnians in key areas of elections administration. In 1998, a new election law likely to apply only after the 1998 general elections is expected to be passed. Municipal elections will take place in 1999, marking the first election in which significant Bosnian involvement in administration is expected. Therefore, we will keep a similar IFES effort in place through the

end of 1999. However, we do not expect to continue this program beyond calendar year 1999.

Political Party Development:

USAID technical assistance and training offered through NDI has introduced opposition parties to the importance of developing platforms, strengthening their organizations and reaching out to their voters. In 1998, the parties will compete, for the first time, in an environment in which practical issues predominate. It will also be the first year in which the national parties will have a record to defend. Parties will receive continued assistance in gauging constituent concerns, developing practical messages that resonate with voters, establishing democratically-structured parties that reflect the interests of their membership, developing enduring coalitions and building consensus across party lines. Through the 1999 municipal elections, parties will also be encouraged to and assisted in engaging women and youth in the political process to ensure that the political agenda is inclusive and broadly representative.

Judicial Reform: USAID will work with numerous donors working in judicial reform to undertake a comprehensive assessment of the Bosnian judiciary and to develop a strategy for strengthening it. USAID is likely to implement assistance from two directions. We will continue to work with judges associations, lawyers associations, and others who could serve as advocates for professional independence. We will also look to support efforts which provide lawyers with the tools to effectively argue cases in court, using the European Convention as well as other international instruments newly incorporated into domestic law. We will scale back institution-building programs implemented by ABA CEELI, but continue to provide technical assistance and training designed to expedite the effective functioning of the court system. We will also focus on developing laws that promote transparency and accountability while training officials to enforce them.

Civic Education/Activism: Democracy must be institutionalized through a culture of participation in which individual citizens emerge as central political actors and give direction to political structures. In 1998-1999, USAID will expand its civic education programs to cover Northeastern RS and Southwestern Herzegovina, strategically important areas which have received relatively little attention from the international community due to their "hardline" status. The programs will move beyond voter education and discussion of democratic concepts to provide citizens a better conceptual understanding of how their political system works and empower them to exercise that knowledge through community organization. To the extent possible, the program will assist communities in conducting opinion surveys to identify issues of common interest, organizing panel discussions or public hearings, and communicating effectively with elected representatives.

NGO Development: USAID will also bolster the institutional development and sustainability of Bosnia's "third sector" to ensure that local NGOs evolve into effective vehicles through which citizens can both articulate their needs and ensure that government policies reflect their interests. To this end, USAID will launch in 1998 a two-year NGO Development program -- composed of integrated training, technical assistance and small grants components -- to sustain "third

sector” momentum, and develop a core group of NGOs capable of leading sectoral and social reform. This follows on OTI's pioneering support for local advocacy groups. The program will focus on developing the sustainability of a core group of NGOs in four major sectors of activity: democracy/governance, rule of law, women's issues, and business. The sector's immaturity and an economy unable to support the non-profit sector, mandate that NGO development programs be funded through 2001.

D. CROSS-CUTTING PROGRAMS

NGOs: International and local NGOs played a vital humanitarian role during the war. They not only provided essential supplies, but helped people cope with war-related trauma. The international and local NGO programs contribute directly to assisting vulnerable segments of the population, bringing an important element of on-the-ground contact and complementing brick and mortar reconstruction.

Since Dayton, many international NGOs have taken a pro-active approach in dealing with rapidly diminishing donor funding, shifting their country programs from pure humanitarian relief work to targeted elements of the reconstruction process. Some are successfully leveraging other donor funding. Others have enormous local resources, such as experienced construction engineers and social workers, and are helping local staff members form local NGOs, civic organizations, or private businesses as they enter the post-international NGO world.

There are at least 250 national NGOs operating today in Bosnia, many of which are now providing the trauma counseling and humanitarian assistance, particularly for women, children and refugees, once handled by the international NGO community. More importantly, the emerging network of local NGOs advocating for change represents progress being made in strengthening a civil society governed by democratic principles and the rule of law.

The skill and experience of NGOs in promoting community development while meeting priority reconstruction needs is a valuable asset. In addition to humanitarian and food assistance programs, USAID has, to date, provided over \$65 million to international NGOs to implement a wide range of programs including municipal rehabilitation, shelter repair, democratic reforms and local NGO development.

Examples of key NGO-related programs include:

Emergency Shelter Program - Eight international NGOs repaired over 2,500 homes in 46 communities throughout the Federation (1996, \$29 million).

Community Rehabilitation and Resocialization - USAID-funded NGOs, such as Catholic Relief Services and the International Rescue Committee, have replaced broken glass in residences and community buildings, repaired the gas heating system for two-thirds of Sarajevo's residents, and rehabilitated apartment building rooftops and elevators. Through the American Refugee

Committee, USAID repaired twenty playgrounds in Sarajevo in 1996 and is currently rehabilitating 150 additional playgrounds and adolescent playing fields. USAID, through CARE, has funded the repair of 5 schools and rural power networks in the Bihac area, an UNHCR “Open City”, significantly impacting on refugee return in the area. Save the Children has established over 1,000 pre-schools since 1994, of which over 60% are self-sustainable, and conducted teacher training to improve early childhood educational skills. Through the American International Health Alliance (AIHA), USAID funds a health partnership between Buffalo General Hospital and the Tuzla Medical Center which focuses on improving healthcare services and quality for local citizens.

Local NGO Development - Through the International Rescue Committee, USAID is managing an umbrella grant program designed to develop local NGO capacity for dealing with the needs of war-traumatized citizens, particularly youth, in Sarajevo and Central Bosnia. In partnership with Delphi International, USAID is helping build the capacity of women's NGOs and independent women leaders in Bosnia-Herzegovina. Both NGO programs focus on the sustainability of local NGOs, and complement the work of USAID's Office of Transition Initiatives (OTI).

Future USAID assistance will be focused on developing or utilizing Bosnian NGOs. Other USG agencies and international donor organizations continue to fund a significant number of NGO programs. UNHCR, along with State/PRM, manage the “Open Cities” project. UNHCR is also funding a large-scale shelter repair program as well as the Bosnian Women's Initiative. The World Bank relies on both international and local NGOs to implement its micro-lending activities. The EU recently awarded over \$80 million worth of grants to NGOs.

Participant Training: Since 1995, USAID's participant training program has sent over 350 (40% women) mid and senior level officials, business leaders, and citizen activists from both entities to the United States and third countries for intensive short-term training. Training topics have ranged from commercial banking to public utility management to NGO development. Each training program is designed to directly complement USAID activities in support of economic growth and reform, infrastructure rehabilitation, and democracy building in Bosnia. Each program is aimed at strengthening the knowledge and skills of Bosnian professionals in decision-making positions by offering an opportunity to examine U.S. models and approaches. Participants are recruited and selected competitively from the professional and functional levels identified as critical to effecting change in institutions with which USAID is working. Participant training will continue to augment the major components of the Bosnian program.

V. MANAGEMENT AND BUDGET

USAID/Bosnia is currently managing the third year of the \$600 million reconstruction program promised by President Clinton. USAID/Bosnia is implementing this tightly focused program with nine USDHs, through a central office in Sarajevo and field offices in Tuzla, Banja Luka, and Zenica. At this personnel level, USAID staff time and energy are fully concentrated on rapid program implementation to generate immediate and tangible results.

The Administration has called for a fourth year of funding at the level of \$225 million, as other donors continue to delay in turning pledged funding into tangible results. In the year 2000, USAID expects to remain fully engaged on the economic policy reform arena, continue supporting the growth of the private sector through loans and technical consulting, and increase resources being used to foster the emergence of democracy. We do not envision financing activities outside the scope of our current objectives.

Recommended Budget FY 1999-2001:
(in \$ million)

OBJECTIVE	FY99	FY00	FY01
Restoring Private Sector Productivity	\$95	\$60	\$40
Establishing a Market Economy	\$30	\$25	\$35
Repairing War Damaged Infrastructure	\$65	\$35	\$0
Strengthening Democracy	\$25	\$30	\$30
Other (Cross-cutting programs, transfers to other USG agencies)	\$10	\$10	\$5
Total:	\$225	\$160	\$110