

**USAID/BOSNIA AND HERZEGOVINA**



**BOSNIA RECONSTRUCTION PROGRAM**

**MAY 1999**

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**COVER MEMO**

The Dayton Peace Accords and the associated multi-national military and civilian peace implementation efforts have resulted in over three 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, particularly in light of growing instability in the other Front Line States. U.S. leadership has been critical in setting the course for rapid reconstruction and essential democratic and market-oriented reforms.

The international community has entered the fourth and final year of a \$5.1 billion emergency reconstruction program. Donor funding levels are beginning to decline. USAID's initial activities in Bosnia were designed to meet immediate needs and promote recovery from war. While some war-related needs remain, USAID's program is now shifting from an emphasis on recovery to focus on sustainable economic reform, broad-based private sector growth and democracy building.

U.S. assistance has been most effective when focused and targeted on urgent problems which must be solved in Bosnia. USAID will not dissipate our limited resources by trying to address every problem. Rather, we are carefully focused on vital objectives in economic reform, private sector growth and helping Bosnia develop an enduring, resilient democracy.

**U.S. Assistance Program Issues:**

(1) **Bosnia Program Outyears:** There are several options for what the USAID program in Bosnia should do after the period covered by this strategy ends in 2002. We could declare success and downsize quickly. We could phaseout gradually continuing to address the longer-term components of our strategy such as democracy building. Or, we could maintain a significant presence transforming into a more traditional USAID program.

Internally, by 2002, we anticipate that Bosnia will have the necessary foundations in place (e.g., the private sector fueling GDP, a supportive legal environment, and a transparent and efficient financial infrastructure) for sustainable growth in a market-oriented economy, integration with international financial institutions and commercial lenders, as well as acceptance into the WTO. Additional democracy building work will probably be required in areas such as judicial reform and civil society building. Infrastructure rehabilitation and the institutional strengthening of public utilities should be completed. Progress towards full implementation of Dayton principles continues, but we should consider the possibility that the RS will implode forcing us to withdraw and implement in a bifurcated country.

A number of external factors will also affect our decision, including the outcome of NATO action in the FRY, the role Bosnia will play in the post-war Balkans, and the implications of the new Southeast Europe Initiative. In addition, if current budget reductions are any indication, we need to consider how future cuts will slow program implementation and possibly delay the timetable we have set out in this strategy.

(2) **Republika Srpska:** The NATO campaign in the FRY, the Brcko Arbitration Decision, combined with continued domestic political uncertainty have had a significant impact on program implementation in the RS. As the situation remains fluid, this strategy paper has been prepared under the assumption that both the political and security situation will stabilize allowing activities scheduled for the RS to take place this year. Should the security situation further deteriorate or a radical hardline government emerge, the U.S. will have to reconsider through an inter-agency process its approach and objectives in the RS.

The U.S. has invested nearly \$100 million in the RS for infrastructure rehabilitation, business development, and the full spectrum of economic restructuring and democracy activities. This support has been critical for Prime Minister Dodik's government to demonstrate tangibly to RS citizens that compliance with Dayton principles brings positive results. Support for RS moderates remains a key U.S. foreign policy objective. The Dodik government continues to actively seek engagement with the international community despite internal and external turmoil.

Current security conditions in the RS have hampered, but not stopped our operations. The implementation of 1999 MIS projects to support minority return breakthroughs in the RS has slowed, but design work continues. The NATO action has resulted in many BDP borrowers losing natural markets in the FRY. On the positive side, the situation has already begun to foster increased inter-entity commerce. New BDP lending has also slowed, but Bosnian staff continue to monitor the loan portfolio in the absence of international contractors, contributing to increased Bosnian capacity to manage the program albeit in a "trial by fire" environment. Approved loans are continuing to be disbursed and we will continue to offer introductory seminars for potential new borrowers. Economic reform and democracy activities are continuing under the management of Bosnian staff.

(3) **Refugee Returns:** Encouraging and assisting refugees in Bosnia to return to their pre-war homes has proved one of the most difficult challenges in the implementation of the Dayton Accords. Since Dayton, UNHCR has reported over 575,000 registered returns, but over 400,000 refugees and 800,000 internally displaced persons have yet to return home. Numerous unregistered returns have also taken place, but official estimates do not exist. However, a recent USIA survey (3/99) indicates that confidence that the right to return will be enforced in areas where another ethnic group predominates has increased over the past 18 months. The flow of minority displaced persons and refugees to their homes gained momentum in 1998 and is continuing in 1999. There have been significant breakthroughs in hardline communities such as Jajce, Mostar, and parts of the RS. 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. Although enormous progress has been made since 1996 in restoring Bosnia's physical infrastructure, there are still significant reconstruction needs to facilitate sustainable refugee returns. In this context, USAID proposes to continue funding the MIS program to directly support minority returns in both the Federation and RS.

In addition, Bosnia faces the possibility of a massive influx of Kosovo refugees currently in Montenegro and the FRY (estimated 100,000). Over 40,000 Kosovo refugees have entered Bosnia since the crisis began, reducing Bosnian government and international community

resources meant for the over 800,000 still internally displaced from the Bosnian war. Donors have begun to formulate contingency plans for increased refugee flow into Bosnia. USAID will need to factor the resource and management implications of providing assistance to meet Kosovar refugee needs in Bosnia.

**(4) Brcko:** Over the past three years, USAID has invested nearly \$20 million in support of stabilization and minority returns in Brcko. The March 5, 1999, arbitration decision created a neutral district for Brcko under OHR international supervision. Implementation of this decision will require additional resources in FY 2000. USAID has taken the lead in preparing an immediate action plan for executing the arbitration decision, including additional infrastructure repairs, targeted business lending, as well as democracy and economic revitalization initiatives. In addition, we prepared the financial analysis that guided the decision in terms of budget support from the entities (2/3 from Federation and 1/3 from RS). USAID has helped OHR staff prioritize what longer-term issues need to be addressed in terms of timing and subject matter, and package these needs for donor review.

Many of these longer-term activities are dependent on the decisions made by OHR Supervisor Farrand regarding the underlying structures and systems in the Brcko district, as well as improvement of the security situation in the RS. While much remains to be done in Brcko, many of the most urgent and high profile needs have now been met by the donors (utilities, schools, healthcare). The remaining obstacles to long-term economic growth and stability (lack of a proper legal environment for business, non-functioning municipal council, apathetic citizenry, getting refugee returns to downtown Brcko, etc.) cannot be resolved with funding only. We will continue to work with OHR to make sure critical needs are highlighted to attract donor attention. The U.S., however, cannot meet all the needs and other donors need to be called upon to engage in Brcko.

**(5) Media Sector Strategy:** USAID has invested over \$30 million since 1996 in support of independent media in Bosnia. We are increasingly being compelled to direct resources to a variety of schemes to support media, many of which are not sustainable and in some cases serve to undermine efforts to bolster independent outlets (e.g., support for state-run networks). This “flavor of the month” approach has resulted in a growing disconnect between our objectives and where USG resources are being utilized. The end state of USG efforts to reform this sector remains unclear. The USG, both on an inter-agency level as well as with the international community, needs to reach consensus on a clear strategy with defined goals and a realistic timeframe for supporting the media sector. In the meantime, USAID will continue working through ENI and OTI to ensure that independent and objective voices are being heard, commercial viability is reached, sustainable radio and television networks emerge, and independent media coverage increases.

**(6) Judicial Reform:** Participants at the December 1998 Madrid Peace Implementation Conference underscored their common intent to build the rule of law in Bosnia. USAID continues to work with the OHR and other donors on formulating a judicial reform strategic plan that prioritizes areas where assistance would be most effective, and establishes detailed, realistic goals. However, there are enormous political and systemic constraints to judicial reform, including politicization of the judiciary, continuing threats to judges, and failure of police to implement judicial decisions. In this context, we will focus on areas where our limited resources can produce sustainable results: court administration and judicial training.

(7) **SFOR Relationship:** The USAID program remains closely linked to the success of the NATO mission in Bosnia. USAID's partnership with SFOR has resulted in the completion of over 400 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. USAID is requesting FY2000 funds to continue CIRP activities in partnership with U.S.-SFOR.

(8) **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. USAID expanded activities into Central Bosnia to respond to minority refugee returns in 1997-98, as well as into western RS following political changes in the RS. In 1999, USAID has moved forward with a limited expansion (\$5 million) of the MIS program into the Herzegovina-Neretva Canton (Mostar) in response to significant minority returns, while still maintaining a majority of funds for the U.S.-SFOR sector and Sarajevo. Should there be dramatic breakthroughs in refugee returns in the remaining areas of Bosnia where USAID currently does not work (southeastern RS, west Herzegovina, Una Sana Canton), we would plan on further expansion of our program operations. This will require Congressional consultations.

(9) **Lautenberg Amendment:** Over 50% of publicly indicted war criminals have now been apprehended. Section 573 of the 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. The "Lautenberg Amendment" also calls for monthly reporting on obligations in the RS. 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. The formal vetting of potential borrowers has caused delays in disbursement of approved loan funds. Often, the delay is a result of bureaucratic breakdowns in the inter-agency process rather than problems associated with information on borrowers. In addition, of the thousands of names checked to date, only three were found to have possibly engaged in inappropriate behavior during the war. While we support the continued vetting of names to protect USG resources, improvements must be made to the process to make it more efficient and timely.

# TABLE OF CONTENTS

<b>I.</b>	<b><u>Introduction</u></b>	<b>1</b>
<b>II.</b>	<b><u>Reconstruction Environment</u></b>	<b>1</b>
	<b>A. Economic Profile</b>	
	<b>B. Political Profile</b>	
	<b>C. Recent Events</b>	
	<b>D. Priority Reconstruction Program</b>	
<b>III.</b>	<b><u>Program Elements</u></b>	<b>5</b>
	<b>A. Economic Revitalization and Reform</b>	<b>5</b>
	<b>1. Business Development Program</b>	
	<b>2. Economic Reform Activities</b>	
	<b>B. Municipal Infrastructure Rehabilitation</b>	<b>13</b>
	<b>C. Democratic Reforms</b>	<b>16</b>
	<b>1. Media Development</b>	
	<b>2. Political Pluralism</b>	
	<b>3. Election Administration</b>	
	<b>4. Citizen Participation</b>	
	<b>5. NGO Development</b>	
	<b>6. Judicial Strengthening</b>	
	<b>D. Cross-Cutting Programs</b>	<b>25</b>
<b>V.</b>	<b><u>Management and Budget</u></b>	<b>25</b>

## BOSNIA AND HERZEGOVINA RECONSTRUCTION PROGRAM

### I. INTRODUCTION

In 1996, 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. A fourth year of funding has brought that level to \$800 million. U.S. assistance is part of a broad-based Priority Reconstruction Program spearheaded by the World Bank and the European Union involving over 50 donors which have committed \$4.2 billion to date. 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 achieving four objectives:

- ✓ **Restoring private sector productive capacity to generate immediate employment and sustainable economic growth;**
- ✓ **Establishing a policy and institutional framework conducive to the emergence of a market economy, by supporting rapid privatization, critical macroeconomic reforms, sound fiscal policies, a viable banking system, and capital markets development.**
- ✓ **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 independent media, free and fair elections, responsive and transparent governance, 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 necessary for a private sector market-led economy to emerge. Bosnia is also faced with a dual challenge: simultaneously move from a socialist to a market economy and recover from the war. For the transition to be sustainable, it must be based on 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 1990 at \$10.5 billion (\$2,430 per capita). The economy was fairly diversified with a large industrial base and a skilled labor force. Large-scale industrial complexes in the raw material and energy sectors generated about 50% of the country's output. 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 \$1.9 billion) and per capita GDP to \$540. 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.

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

**Economic Recovery:** Recovery of the economy has been dramatic with the Federation still leading the RS in donor investment and growth. Following the emergence of a moderate government in early 1998, increased levels of foreign assistance helped resuscitate the RS's moribund economy. Massive inflows of foreign assistance continue to fuel economic growth. Estimates vary, but most analysts accept World Bank figures for GDP growth: annual economic growth has averaged about 40% in real terms since 1995. GDP more than doubled over 1995-1998, from \$1.9 billion to \$4.1 billion; per capita GDP has risen from about \$540 in 1995 to \$970 in 1998. Employment, wages and production are also growing in both entities.

**Economic Priorities:** The rapid establishment of critical economic institutions and adoption of significant structural and economic reforms are central to promoting a secure and prosperous future for the country. Movement has been slow, however, on adopting priority economic policies and institutions in Bosnia. The country's commercial, financial and legal infrastructure only weakly supports business growth and transparent financial transactions. The fiscal system in Bosnia remains highly dependent on donor contributions and has not responded adequately to the need to provide a social safety net appropriate to the new free market economic environment. Many of the constraints to achieving macroeconomic goals are political, including differences between political leaders in the Federation on the degree of integration and harmonization of key economic institutions such as tax administration and the payments system. 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 Paris Club in October 1998; and issuance, albeit forced by the international community, of a new currency in June 1998 now widely used in both entities.

However, the Bosnian economy remains fragile. Risks associated with instability in the region will play an important role in investor confidence and ultimately in the success of recovery. In addition, economic growth potential must be placed in the light of declining donor aid flows. The international community has increasingly concentrated on the need for economic reforms over the past year as Bosnia moves from the focus on war recovery to sustainable reform and institution building. Some of the key immediate and medium-term economic policy reforms and actions called for at the December 1998 PIC Ministerial

commercial legal framework which clarifies the rules of the game and fosters private sector growth and foreign investment; 3) Reform the payments systems and liquidate the former agreements.

## **B. Political Profile**

communist times include authoritarian governments with rubber-stamp parliaments and a weak judiciary. The struggle between the Bosniak leadership for a strong state and the effectiveness of state and entity institutions. Neither ruling nor opposition parties encourage citizen participation in the political process. Personality-driven politics discourage new elected officials little opportunity to govern and inhibited party institution building. Corruption goes unchecked as ruling parties continue to abuse the governing structures for presence, reduce Bosnian's ability and incentive to take ownership for political and legislative reforms.

society development in Bosnia and encouraged collective identity, insecurity, and distrust. Citizens remain generally disengaged and apathetic from politics. Citizen groups and being able to serve as civic advocates. Within this context, moving citizens and NGOs into

However, four peaceful and orderly elections have taken place in Bosnia since Dayton. Bosnian election officials are becoming capable of conducting elections with less

Permanent Central Election Commission are still needed to complete the process. Each post-Dayton election has contributed to the development of political pluralism by eroding

opposition parties are uniformly optimistic about political trends. In the RS, the SLOGA coalition holds a slim majority within the National Assembly, but has managed to hold its

There are approximately 280 broadcast outlets in Bosnia, many of which were created during, or immediately following, the war. Continued manipulation of information flow by

major impediments to the growth of independent media. Television is the most common news source for Bosnians and is dominated by State-run networks. Additional weaknesses

broadcasters 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  
airstrikes have tested the  
professionalism and objectivity of many of the media outlets. Internationally-supervised RS

cranked up the propaganda to the level that triggered SFOR's move to shut off transmission

in 1997. Some small RS stations have been threatened for broadcasting Voice of America.

The judicial system remains far from impartial or independent. Few citizens consider the judicial system a guarantor of their basic human or civil rights. Political pressure, combined with administrative backlog, material shortages and arbitrary (often discriminatory) delays in case management, ensure that courts rarely reach decisions on controversial cases. Political parties continue to dominate judicial selection. Judges who do stand up to political pressure find themselves threatened and their decisions ignored by local police. Judges lack access to, and training in, new legislation, the Dayton Accords, and the European Convention for the Protection of Human Rights and Fundamental Freedoms. Courts also lack an autonomous funding mechanism. Since few allies for reform exist, only limited progress is expected in the near future in developing a judiciary which serves as an independent, credible branch of government.

### **C. Recent Events**

Recent events have tested Bosnia's democratic institutions and processes. The removal of RS President Poplasen by the OHR, the Arbitration Decision making Brcko a neutral district, and NATO airstrikes have heightened tensions in both entities. Despite his removal by the OHR in March 1999, RS President Poplasen continues to play a game of cat and mouse with moderates in the RS and the international community on implementing the 1998 election results, by nominating candidates with the distinct aim of undermining support for "caretaker" Prime Minister Dodik and ungluing the SLOGA coalition.

The March 1999 Arbitration Decision made Brcko into a neutral district under international supervision. In protest, Serb members of Bosnia's Presidency and Council of Ministers withdrew [they recently returned to work] and Dodik temporarily resigned as RS Prime Minister. Both entities are now focused on implementation of the decision.

Within the Federation, the recent assassination of the Deputy Minister of Interior, a Croat, has soured relations between Croats and Bosniaks and led Croat officials to withdraw temporarily from Federation government activities. Many Croat politicians continue to pursue the concept of a third entity.

NATO airstrikes resulted in demonstrations throughout the RS and damage to the USAID/US Embassy office. Both entities have suffered significant economic (trade, foreign reserves) losses due to the conflict. Approximately 40,000 refugees have entered Bosnia since the crisis began, reducing Bosnian government and international community resources meant for the over 800,000 still internally displaced from the Bosnian war.

Against this political and economic background, USAID assistance remains a critical tool for creating both the economic and democratic institutions necessary for an enduring peace. While other donors are expected to assume the greatest financial burden for rebuilding Bosnia, the U.S. program serves as a model and catalyst for other donors.

### **D. Priority Reconstruction Program**

Following Dayton, Bosnia, with the assistance of the World Bank, the European Union (EU), 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 and sustainable employment. Since then, the EC and World Bank have sponsored four pledging

billion. The United States, the second largest donor in Bosnia, has pledged a total of \$766 million to date, total pledges. Of the \$4.37 billion in funds pledged by the international community, approximately \$2.9 has nearly 80 percent of its pledged funds under implementation (\$600 million) representing 21% of

EC	\$1,007 m
United States	\$766 m
World Bank	\$590 m
Japan	\$386 m
Netherlands	\$245 m
Italy	\$114 m
Norway	\$112 m
Switzerland	\$104 m
Sweden	\$101 m
United Kingdom	\$ 84 m

### III. PROGRAM ELEMENTS

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

**Restoring private sector productive capacity to generate immediate employment**

- **market economy;**
- **Repairing war-damaged infrastructure to facilitate refugee return and reactivate the local economy;**

**Strengthening democratic institutions that promote a multi-ethnic society and**

These four objectives are closely integrated. In implementation, they form three themes:

#### A. ECONOMIC REVITALIZATION AND REFORM

USAID's economic revitalization and reform portfolio consists of activities that can be

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##### 1. Business Development Program (BDP)

USAID's \$278 million Business Development Program (BDP) provides commercial credit

production quickly and create immediate employment. The program also offers business consulting services to improve business planning, financial management, and marketing skills, and works with local banks to develop their commercial lending capabilities and institutionally improve the banking system. 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.

Sixteen Bosnian banks serve as agents, identifying viable enterprises, disbursing funds to the borrower, monitoring loan implementation, and ensuring loan collections. An on-site team of U.S. bankers performs the final credit analysis and makes recommendations to USAID for decision. The program is monitored aggressively through a concurrent audit by the Regional Inspector General office in Budapest. USAID is averaging about \$2 million a month in repayments (a total of \$32 million to date). However, this rate may decline as loan size gets smaller and some loans are made on longer terms.

#### **BDP Success Stories**

The **Zlatno Zrno** flourmill, in Gradiska (RS), received a BDP loan of \$850,000 in June 1998 to double its bakery production, expand the company's market, and introduce a new pasta product. BC arranged for an Irish consultant to work with the company for three weeks to improve production capabilities and train staff on the production of flour, semolina and cattle feed according to European quality standards. In 1998, Zlatno was profitable earning a net margin of nearly 20%. In 1999, the company is on track to triple sales and double its net income.

**Polet**, in the Zenica-Doboj Canton (Federation), utilized a 1998 BDP loan (\$120,000) to purchase equipment, feed and a flock of hens to enter the egg production business. Within six months, the demand for Polet's eggs was larger than their supply. The entrepreneurial owner turned to USAID to help him expand his business, arguing that there are not too many egg producers in Bosnia, only too many inefficient producers. BDP approved a second loan of \$150,000 and Polet is on its way to becoming the largest egg producer in the region.

Significant progress has been made over the past year to reach out to borrowers with lower capital needs. Average loan size has dropped by thirty-five percent from \$270,000 in December 1998 to \$180,000 in April 1999, reflecting both shifts in the demand for loans as well as the impact of increased lending in the smaller (in scale) RS economy. By facilitating access to the program for smaller borrowers, USAID is filling a critical financing gap in Bosnia helping businesses too large for microloans, but too small for larger donor credit programs, obtain necessary capital.

Also in 1998, the BDP revamped and simplified its application procedures conducting public seminars for potential borrowers to better understand lending conditions and eligibility. These public seminars show that the BDP is open to all borrowers in eligible communities who meet lending criteria thereby reinforcing commercial lending and transparency concepts.

Business Consulting (BC) has emerged as an integral component of the BDP, ensuring the integrity and quality of the loan portfolio. BC conducts a basic diagnosis of every potential borrower to weed out weak companies and BC advisors help those borrowers struggling with repayments to restructure or make improvements.

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- loans worth approximately \$142 million, as of April 1999, primarily in the U.S.-SFOR sector and Sarajevo (80% of portfolio).

Loans in the RS (105 loans, \$26.4 million, 2,000 jobs) account for 25% of the total

- refugees and demobilized soldiers of all ethnicities, contributing to the rapid improvement in employment rates in the Federation and increasingly in the RS.

- commercial bank lending and management concepts to more than 2,600 bankers, over 50% of whom are women.

BC has contributed to private sector growth by directly helping over 580 Bosnian

performance, using a combination of regular workshops, in-company consulting, and over forty private sector volunteers from the U.S., UK and Canada.

BC maintains an internal Best Practices Rating (BPR) system on a scale of 1 to 100 to

participating companies has risen 20%, from 31 to 39, since 1996. Likewise, external indicators such as company sales and exports indicate strong growth for BDP-supported

were expected to grow 48 percent in 1998, about double estimates for the economy at large. Exports from these firms were expected to expand 70 percent in 1998. In volume

- professionals become competent business consultants to better meet Bosnia's enormous need for improved marketing, financial, and management skills.

Although the BDP has been highly successful in providing access to credit for Bosnian companies, the following results are necessary for sustainable business sector

environment must be established and enforced; 2) State-owned enterprise and banking resources are inefficiently used and must be released to the private sector; 3) Managerial

raised; 4) The supporting infrastructure for Bosnia's banking system and bank services must be strengthened; 5) Obsolete technology and products must be retooled for today's

and business relations must increase; 7) Capital markets institutions must be established and functional; 8) The stranglehold on the economy held by the government-controlled

10) Indigenous institutions capable of furnishing needed training and technical assistance to firms must be established. USAID is directly addressing many of these constraints through

its economic reform portfolio.

**Future Plans in Business Development:** By the end of 2000, the BDP will have disbursed over \$250 million in lending capital into the Bosnian economy and directly created some 30,000 jobs. Continued business support activities will help capitalize the privatization process keeping up the momentum toward a free market economy. In FY 1999-2002, USAID will implement a multi-faceted program focused on: (1) Continued lending and business consulting to Bosnian private sector enterprises, reaching out to newly privatized and restructured firms and increasingly down in scale to smaller companies and risk-taking entrepreneurs; (2) Intensive technical assistance and in-bank training for Bosnian commercial banks focused on modern credit policies and procedures to complement a new initiative (described below) for strengthening bank services and systems; (3) The detailed design of a Bosnian institutional apparatus to manage the use of BDP resources upon project closeout expected in 2002; and (4) Support for indigenous private institutional capacity to provide the business community with the reform, consulting and other services it requires to prosper, allowing phaseout of the BC component by 2001.

These efforts will continue to be closely coordinated and integrated into the broader array of economic reforms described in the next section, including: bank supervision, bank privatization and restructuring, payment bureau restructuring and reform, and legal reform efforts to enhance the overall climate for investment, exports, and growth.

## **2. Economic Reform Activities**

Since 1996, USAID has implemented a comprehensive economic policy reform agenda to accelerate Bosnia's transition to a market economy. USAID provides technical assistance in a range of critical areas, such as privatization and capital markets development, commercial law and banking reform, and macroeconomic policy at the State and entity levels. Our objective is to provide sound guidance for decision-makers 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, in 1998, its counterpart the Republika Srpska Banking Agency (RSBA). Functioning and effective banking agencies are raising public confidence in the banking system and leading to the closure of problem banks as the sector is reformed. Most importantly, the FBA is now self-financed operating on fee-based revenues.
- Federation privatization laws have been passed and all ten Cantonal Privatization Agencies have been established (with nine currently functioning – Neretva being the exception). The privatization process was officially launched in the Federation on April 23, 1999, with the mailing of citizen claims. In the RS, the Dodik government repealed the previous government's unfair law and cancelled the results of the lottery and, with USAID assistance, put in place a voucher-based mass privatization scheme harmonized with the Federation in June 1998. USAID advisors in both entities played the key role in drafting and facilitating the passage of legislation; establishing critical institutions such as the Federation Privatization Agency (FPA) and the RS Directorate for

Privatization (DFP); training government officials, enterprise managers, and the media on privatization; and providing hardware and software for the claims registry and

- valuable data about where they would prefer to participate and the role of public education in shaping their opinions. Full-scale public education campaigns began in
- completed ahead of schedule. The project trained 100% of customs officials (over 1,250) in both the Federation and RS, leaving behind a cadre of experienced Bosnian  
the Federation have increased by over 50% since 1996, while the average waiting period for customs clearance in the Federation has been reduced from 6-7 days to about 3 days.  
USAID-funded Treasury advisors helped Bosnian officials conclude London and Paris for Bosnia to normalize its relations with external creditors. The debt team is also helping establish External Debt Management Units at the State and entity levels.  
Critical legislation on corporate governance issues, addressing the most appropriate privatization period, has been drafted with USAID assistance and adopted by parliaments in both entities. The Federation Law on Commercial Enterprises is in the
- registry, investment funds and management companies) were enacted in both entities in 1998. The Federation Securities Commission has five active commissioners and is  
RS has yet to establish its securities institutions.
- USAID technical assistance helped the Federation adopt internationally accepted accounting and auditing standards. RS is in the process of developing such standards.  
USAID's fiscal federalism activities (completed in September 1998) helped strengthen level budget reform and democracy efforts to promote transparency. Training in the use of budget classification codes, developed in coordination with the U.S. Treasury team account for funds in accordance with international standards. Public budget hearings have now been held in six cantons and five municipalities to allow citizen input into  
Financial Management Officials has been established to support further professionalization in this field.  
USAID targeted assistance helped the Central Bank (a key Dayton common institution)



**Future Plans in Economic Reform:** With comprehensive and effective USAID technical assistance, Bosnia has made significant progress towards economic recovery and business reactivation. 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. USAID technical assistance in FY 1999-2002 will help Bosnian authorities complete implementation of a comprehensive enterprise privatization program with popular participation, sale of housing, and extinguishing of domestic arrears and claims on government through implementation of the privatization process. Our program includes advisory services on implementation policies and strategies for enterprise and strategic sector privatization efforts, post-privatization legal and regulatory structures and markets, and public education. USAID technical assistance will also continue to help Bosnia re-orient current commercial and non-banking financial laws to facilitate 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, employer and enterprise associations, corporate governance, and commercial law, requiring significant resources through 2002. Lastly, USAID will focus resources on strengthening Bosnia's financial infrastructure and institutions.

**1. Privatization and Capital Markets:** In the Federation, small-scale auctions will start in June 1999, 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 the second half of 1999. The entire process should be completed by mid-2000. USAID has also taken the lead in the development and implementation of the RS privatization program.

Anticipated actions in 1999 include: (1) Citizen's claims in the Federation mailed (commenced April 1999) and eligible citizens in RS registered, providing the basis for debt reduction and citizen purchasing power in both programs; (2) Securities Commissions operating in both entities to regulate nascent capital markets; (3) Small enterprises and selected assets and parts of enterprises in private hands in both entities, and socially owned apartments and municipal business premises sold in the Federation; (4) All technical steps necessary for the privatization of large firms taken in both entities; and (5) Privatization of strategic enterprises begins through public offering of shares and tender offers. By the end of 1999, the private sector should account for more than 60% of GDP and a broad segment of the population should have a shareholder stake in the economy.

The privatization of small and large-scale enterprises will provide Bosnia's private sector with a solid foundation for growth in the 21st century. In FY 1999-2002, USAID activities will increasingly focus on supporting the emergence of a well-functioning, efficiently regulated, transparent and open capital market operating in an environment of good corporate governance. Specific interventions include strengthening the Securities Commissions' ability to oversee the market and technical expertise to facilitate the privatization of strategic sectors, such as media. The availability of credit and business advisory services through our BDP will complement this process.

USAID will continue to support the establishment of policy, enactment of legislation, and development of regulatory procedures necessary to promote good corporate governance, break up monopolies, establish markets, expand the private sector, and strengthen competitiveness in key economic sectors. For example, USAID will continue work on the mass conversion of enterprise accounting to IAS standards. Accounting efforts dovetail with our efforts to reform the payments systems (e.g., establishing a Treasury function), to

budgeting mechanisms and procedures.

USAID will work with local experts and other donors to develop in-country capacity to

number of private sector businesses being licensed and a growing number of private firms entering in (a) local markets once dominated by state-owned enterprises and (b)

associations, such as a National Confederation of Employers, which represent a wide range of businesses and advocate on behalf of the private sector. Lastly, work may be needed to

and purchase available at competitive interest rates, including transparent and efficient land registry procedures.

**Financial Infrastructure Reforms:** USAID efforts to strengthen Bosnia's financial

bank privatization, and more efficient expenditure assignments among the various levels of government. Government revenue generation systems must shift to predictable, transparent,

among Bosnians and the international community in the integrity of tax and customs operations. Bosnia must dramatically improve tax and customs compliance to increase

working on tax policy and administration, budget, public debt, and bank restructuring/privatization are actively addressing these issues.

viable financial services sector. Transparent and efficient financial infrastructure is a key requirement for building a private sector capable of supporting sustainable employment

USAID will focus on the following activities in FY 1999-2001:

**Payments Systems Reform:** Currently, Bosnia's payment system is dominated by obsolete

RS) incapable of supporting viable and efficient financial intermediation or a market-

taken the lead in a multi-donor effort to transform Bosnia's payment bureaus and system in

including moving their functions to private sector or other public bodies.

USAID has been the lead donor in the area of bank supervision and

components of an effective bank supervision function in both entities. We intend to

legal/regulatory framework, enhance on- and off-site supervision, resolve resource and

system during a period of industry restructuring and consolidation.

With bank privatization underway and the recently adopted

is undergoing significant structural changes. It is expected that less than half of the existing

banks will survive. A viable banking sector is critical for sustainable economic growth and to increase both domestic and foreign investment in Bosnia. Our program has addressed this issue by improving the commercial banking skills, through training and on-the-job assistance, of individual bankers implementing the BDP, and at the regulatory level through our Bank Supervision program. Building on the success of these interventions, our program, starting in FY 1999, will provide assistance to improve the capabilities of selected banks to offer a full range of private and commercial services and help the industry better respond to its role in a capital market environment. An increasing number of licensed viable commercial banks will ensure the sustainability of our BDP credit line, and will complement our efforts to reform and strengthen Bosnia's financial infrastructure (supervision, payments reform).

3. **Anti-Corruption Efforts:** The pervasive corruption throughout Bosnia has provoked high-level interest and concern within the international donor community. Systemic legal, judicial, and institutional reforms are needed to combat and forestall corruption. The OHR has established an anti-corruption unit, based on a strategy presented by USAID, which has started to intervene in specific cases involving abuse of power or financial misconduct. Taking advantage of the linkages between our economic reform and democracy building portfolios, USAID has focused on an institutional approach to fighting corruption rather than a case by case attack. Addressing corruption not only contributes to the realization of our economic reform objectives, but also provides opportunities to make progress on democracy building. The transparent use of public funds will help spark economic growth, while publicizing the corrupt acts of individuals and institutions may provoke splits within the ruling nationalist parties.

We will continue and expand activities which reduce opportunities for corruption within Bosnia's legal, financial and political systems. Our U.S. Treasury's efforts with the Federation and RS Ministries of Finance will improve the budgeting process and tax administration systems increasing transparency at the entity level. Our democracy efforts related to civil society building, judicial training through ABA/CEELI and the DOJ, and improving the political process (developing codes of conduct and ethics, financial disclosure, conflict of interest, "Sunshine Laws") also contribute to making leadership more accountable to the public. Our new legislative assistance program is focused on making entity parliaments more transparent and responsive to constituents. It will also strengthen the parliament's ability to hold the executive branch accountable. Our civic advocacy efforts embolden citizens to demand accountability of elected leaders. USAID's assistance to independent media, particularly the strengthening of investigative journalism skills, bolsters the above efforts by supporting the media's role as an effective mechanism for exposing waste, fraud and abuse.

The 1997 World Bank Public Expenditure Review concluded that a key challenge for Bosnia is to build policies and mechanisms ensuring the efficient use of public resources. The current lack of transparency and accountability are detrimental to investment and growth. In FY 1999, USAID will initiate a public accounting reform program to strengthen public and professional institutions fundamental to good public sector management and controlling corruption. Technical assistance will help raise accounting standards, develop policies and practices that support fiscal management controls, establish an independent self-regulating audit institution, upgrade existing government information systems, and train accounting and audit professionals. This activity will be a key component of our payment system reform program. The establishment of a modern accounting system, coupled with

independent (external) audits, is a powerful method of discovering and preventing fraud.

The \$265 million Municipal Infrastructure and Services Program (MIS) is meeting urgent in the US-SFOR sector, Central Bosnia and Western RS. Nearly 215 projects worth \$198 million have been completed or are

restoration of normal economic and social life. Road and bridge repairs have reopened electricity for large geographic areas. water supply and quality for homes and health clinics have not only allowed much-needed employment. MIS funds Infrastructure Rehabilitation Project U.S.-SFOR troops and local employment for demobilized soldiers impact community restoration activities. million have been completed or are

#### HOW ARE MIS PROJECTS SELECTED?

MIS project selection process: A) Impact on project based on World Bank Sector Task Force reactivation and employment; D) Synergy with Performance of community on Dayton Principles publicly indicted war criminals, and security; G) Middle Bosnia, or Western RS) and opportunities terms of showing international support for objectives; I) Number of beneficiaries; J) Possible leveraging other donor or local resources; and L)

The MIS program demonstrates the tangible benefits for those municipalities which support conditioned on municipal, cantonal, and sometimes entity officials signing a Memorandum such as freedom of movement and the surrender of publicly indicted war criminals. cooperation with the OHR and other donors, specific conditions related to the for 1999.

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#### **Employment:**

sustainable full-time employment for people working in reconstructed power, water, infrastructure. In addition, 10,000 demobilized soldiers have been temporarily

**People:**

- 40,000 children are attending 115 rehabilitated schools and kindergartens.
- 76 power projects benefit 1.3 million people (40% of Bosnia's population).
- 59 water projects have increased water supply by 30% for 1 million Bosnians.
- 1.5 million people are benefitting from the repair of 8 hospitals and health centers, while 800,000 benefit from rebuilt health clinics and pharmacies.

**Refugees:**

- UNHCR has reported over 35,000 minority returns in communities where MIS is active. USAID works closely with other donors to maximize its impact on sustainable minority returns by restoring basic services and rehabilitating roads, schools, and health clinics in areas where minority returns are taking place.
- USAID supported significant minority returns (3,800 families) to the Middle Bosnia Canton in 1998, restoring electricity in 21 villages to complement other donor housing reconstruction programs. In the villages of Podkraj and Djelilovac, abandoned during the war, USAID provided power to 150 homes reconstructed by Croat returnees. 1999 funds have been programmed to encourage further returns to this region.
- USAID also supported minority returns to Zone of Separation (ZOS) areas in the RS. In the village of Sevarlije (Doboj), USAID power projects facilitated the return of 600 Bosniak refugees. USAID will rehabilitate the local school and water system to support 1,000 additional returnees in 1999.
- Continuing its support for OHR-led efforts to promote stabilization in Brcko, USAID power and water projects in ZOS villages have supported the return of 1,500 minority refugee families in 1998-1999. USAID has invested over \$14 million in infrastructure rehabilitation in Brcko.

**Future Plans for MIS:** Although delays in other donor funding reaching the implementation stage continue to plague the overall reconstruction effort, physical reconstruction is well advanced in Bosnia. The World Bank reports that road networks have been restored to 90% of their pre-war level, primary schools to 85%, power generation to 80%, and significant progress in reestablishing urban water service. The physical reconstruction objectives set forth in the \$5.1 billion Priority Reconstruction Program for Bosnia will have been largely achieved after 1999, and the existing pipeline of donor funding should meet most remaining capital needs. However, the rehabilitation of services, especially for rural minority returnee areas, is not complete and institutional sustainability issues need to be addressed.

Accelerating minority refugee return is one of the highest priorities of the international community, as well as a key component of USG foreign policy in Bosnia. In partnership with other donors, MIS directly supports returns, especially of minority populations, by creating the necessary conditions for people to return and stay. These include job

opportunities in businesses which can restart production thanks to MIS-restored utilities and roads as well as functioning health facilities and schools (all critical factors identified by

both spontaneous and registered returns in communities adhering to Dayton.

USAID has formed effective strategic partnerships with other donors to leverage and protect

1999, combined USAID, World Bank and EU pressure forced the power companies in both entities to establish a common dispatching center. The EU and World Bank focus on

common energy law, transparent commercial structures, greater integration of public utilities, and cooperative management of resources across entity borders. USAID has

have focused on removing operational and financial constraints to long-term sustainability and privatization. A series of cost recovery workshops for sixty municipal water companies

USAID's FY 2000 MIS program (\$45 million) will achieve two objectives: (1) meet remaining reconstruction needs associated with minority returns in 2000; and (2) protect

local utility companies, setting the stage for privatization.

***Minority Returns:***

support minority returns in both the Federation and RS. The magnitude of minority returns in 2000 is unknown at this point. However, the momentum generated in 1998 and 1999

protected and continued economic improvements in Bosnia indicate that significant returns will be likely next year. USAID will maintain its current geographical focus. However,

prepared to respond.

FY 2000 funds (\$10 million) will continue MIS activities to support implementation of the arbitration decision in Brcko, including additional infrastructure

the newly-formed district.

***CIRP:***

and local communities to provide grass roots support for minority returns and contribute to SFOR force protection.

Building on our efforts since 1996 and extensive experience at the local level, USAID proposes FY 2000 MIS funding (\$5 million) for continued

company dependence on public subsidies, promote profitability, and prepare for eventual privatization. Technical assistance will focus on improving cost recovery (rates, billing,

management, workforce). USAID institutional strengthening activities will complement European efforts to reform the national level framework and pave the road for the World

selected municipalities.

We expect the Bosnian government and other donors to assume responsibility for remaining needs in infrastructure repair. Closeout of the MIS program's physical rehabilitation component can be expected by the end of 2001. The introduction of private participation in infrastructure and the contracting out of public services requires better public accounting systems, a transparent procurement system, and appropriate anti-corruption laws with effective enforcement. USAID's economic reform and democracy portfolios are active in all three areas.

## **C. DEMOCRATIC REFORMS**

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

- **Independent media offering consistent, objective, and balanced information;**
- **Bosnian-administered free and fair elections with high voter turnout;**
- **Pro-democratic political leadership governing in response to a vibrant civil society;**
- **Targeted judicial system improvements contributing to the development of 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, television, and print outlets. Through OTI, USAID has been at the forefront of supporting alternative media, particularly in the RS, through direct grants. USAID, through Internews, continues to support independent broadcast media with a comprehensive package of assistance to improve technical, programming and management skills in selected television and radio stations, help production houses provide programming for a starved local market, and foster the development of an independent broadcasters association. In 1998, USAID, through IREX, initiated a print media program to ensure the commercial viability of promising print outlets, strengthen news wire services, and create a professional and unified journalists' association. For example, our assistance is helping transform the Sarajevo daily paper "Vecerne Novine" from a sensationalist tabloid into a respectable daily. We are also helping "Nezavisne Novine," a Banka Luka daily paper previously supported by OTI, increase revenues through special color supplements, expand coverage in the Federation and the Eastern RS, and develop a commercial business plan.

NATO action in the FRY has tested the commitment of many RS media outlets to serve as independent and objective sources of news and information. SRT has used direct feed from Belgrade to broadcast anti-western propaganda and false information. Smaller stations have been threatened for broadcasting Voice of America. USAID will reassess our local partners in light of their performance during the recent political crises to ensure that we are working with those who are committed to professionalism and objectivity.

USAID funding in 1998 also helped establish the Independent Media Commission (IMC), tasked with creating a legal/regulatory environment to eliminate nationalistic broadcasting and support independent media. With significant support from USAID since 1996 (over \$6 million), the inter-entity Open Broadcast Network (OBN) can now be seen by half of Bosnia's population. Its news and information programming continues to be praised for its objectivity, although it must compete with powerful State television outlets. OBN's Steering Committee has accepted the business plan we prepared to help ensure the commercial viability of the network over the next five years and reduce its dependence on donor funding.

In 1998, the OHR began the restructuring of RTVBiH to reduce SDA (Bosniak political party) control. USAID technical assistance is helping RTVBiH develop more Croat-oriented programming to broaden its appeal beyond a primarily Bosniak audience. Both state broadcasters, RTVBiH and SRT, need significant further restructuring, and the illegal broadcasting of both Croatia State television (HRT) and Serbian State television (RTS) on Bosnian territory still needs to be addressed.

### **KEY MEDIA RESULTS:**

- USAID/OTI support (\$6.3 million since 1996) has increased the circulation of alternative print media outlets from virtually zero in 1995 to over 100,000 for a combination of independent dailies, weeklies and monthlies. OTI has helped create and develop 19 radio stations, reaching 70% of the Bosnian population.
- In 1997, USAID helped a local production group create "Fresh," a popular television news magazine. This year, FX Concept, a private production company created by professionals formerly associated with "Fresh", signed an agreement with a Hungarian production company to produce a sitcom for the Bosnian audience based on a popular Hungarian series. USAID advisors helped broker the agreement, providing production expertise, negotiating advice, and production funds for 26 episodes. Bosnia's first locally-produced situation comedy premiered on the OBN in early April 1999, enjoying a key slot on Sunday evenings. Improving entertainment programming helps attract and keep viewers, thus building audience share for OBN's news shows. USAID made another grant to a second production house to produce Bosnia's first home improvement show, also broadcast on the OBN.
- USAID on-site training, using Bosnian technical professionals supplemented by foreign journalism and business advisors, has helped TV stations produce better programming, introduce neutral graphics and programs, make better business decisions, and overcome equipment shortfalls. GLS TV in Srbac (RS) used USAID-provided audio equipment to produce election roundtable and information programs, enabling viewers to make more informed choices on Election Day in 1998. RTV Travnik and CV7 in Vitez, both based in the multi-ethnic Middle Bosnia Canton (Federation), eliminated ethnic-based iconography from their station identification. In addition, CV7 broke away from municipal control and registered as a private company. The station began broadcasting its first daily newscast in September 1998, objectively presenting local news in Vitez.
- USAID business and management advisors assisted Banja Luka's daily newspaper, Nezavisne Novine, in the selection of a marketing and sales manager for the paper, and advised on future marketing strategies. The assistance resulted in ten one-year



advertising contracts with a total of \$40,000 in additional revenues.

- Seven TV stations receiving USAID assistance pooled their funding to legally acquire copyrighted entertainment programming at an international programming sales exhibition. NTV Hayat in Sarajevo subsequently syndicated its purchased programming to other stations in Bosnia. The stations have started to balance cost and income potential in making programming decisions, and have made important strides towards respecting international copyright laws.
- Twenty-eight television and radio stations from both entities have agreed to form an informal association of broadcasters to share programming, improve production, lobby the government, and protect members' interests. The seven-member "Presiding Council" consists of outlets from all three ethnic regions and is the first organization of its kind in post-war Bosnia.
- TV Gorazde in the Federation expanded its news coverage to include on-site field reports from communities in the RS (Cajnice, Rudo, Visegrad) to encourage cross-entity information exchange. TV Gorazde also agreed to join the OBN.
- Five additional stations in RS agreed to broadcast Radio Free Europe as a result of a seminar we offered to RS radio stations which focused on the benefits of increasing international news and information programming for local audiences. Prior to this seminar, only 14 stations in the Federation and one in the RS were broadcasting RFE.

## **2. Political Pluralism**

USAID's principal objective is to level the political playing field in Bosnia by reducing the power of the ruling nationalist parties and rendering the political system more representative, responsive and transparent. In 1998, through the National Democratic Institute (NDI), USAID offered targeted training in message development, media relations, voter contact, and strategic planning to seventeen democratically-oriented opposition parties assessed as viable in late 1997. These included the Western-backed moderate SLOGA ("Harmony") coalition in RS, the Social Democratic Party and the Social Democrats of BiH in the Federation, and former President Zubak's New Croat Initiative (NHI). Moderate opposition parties are increasingly chipping away at nationalist party support, particularly at the Cantonal and municipal level. In the RS National Assembly, a block of moderate parties holds a slim majority of seats. In the Federation House of Representatives, moderate parties in 1998 tripled the number of seats won in the 1996 election, although the SDA-led coalition maintains its majority. Growing cracks within the ruling parties, as evidenced by the continued strength of moderate RS parties and the birth of the breakaway NHI party in 1998, provide opportunities for continued exploitation. Our fiscal reform and anti-corruption efforts are helping this process by reducing the nationalist parties' access to public funding.

### **KEY POLITICAL PLURALISM RESULTS:**

- 1998 was the first year in which opposition parties, most notably the Social Democratic Party, actively campaigned in the field, conducted voter interest surveys (34 local branches of 15 parties collected 11,000 voter surveys), and ensured that party candidates at all levels shared a unified message. This resulted in a dramatic increase in political

pluralism within the Federation cantons and at the parliamentary level in both Entities.

- USAID-funded public opinion polling assisted political parties gauge voter attitudes and finesse campaign strategies in the immediate run-up to the 1998 elections.

### 3. Election Administration

USAID, through the International Foundation for Election Systems (IFES), has provided specialized technical assistance directly to the OSCE for supervising the four elections held since Dayton. The team of IFES elections administration experts, which has included the Director General for Elections, the Director of Out-of-Country Voting, and the Director of Voter Education, has provided crucial continuity and expertise to OSCE's oversight of the electoral process. In 1998, for the first time, Bosnians held key positions within OSCE's election department illustrating movement towards institution building and Bosnian ownership of election administration. More recently, an individual trained by USAID/IFES was named the Associate Director General for Elections.

### 4. Citizen Participation

USAID programs are helping community groups mobilize and coordinate citizen participation in shaping political party platforms and NGO agendas, influencing the legislative process, and holding elected leaders accountable.

#### **KEY CITIZEN PARTICIPATION RESULTS:**

- Several citizen groups hosted well-publicized candidate fora during the 1997 campaign period. In 1998, they launched an unprecedented nationwide monitoring effort. Under the guidance of NDI advisors, local organizations in Tuzla, Sarajevo, Mostar, and Banja Luka recruited 2,500 volunteers to cover 865 polling stations in 57 municipalities, helping strengthen the overall credibility of the elections in the eyes of the public.
- From 1996-1998, USAID, through IFES, implemented interactive voter education programs to engage voters and encourage citizens to reflect on the link between their ballot and the efficacy of their government. IFES-trained Bosnian civic educators have reached over 70,000 people directly through 4,500 discussion groups in 2,100 localities throughout Bosnia.
- USAID-supported communities have begun to reap the benefits of increased activism. In Srbac (RS), residents prompted their elected councilor to appeal for improved local water supply. In Zenica (Federation), three citizens groups cooperated in securing subsidized bus transportation for high school students. Lobbying by their local community President resulted in new street lights for residents of Kakanj (Federation). In Teslic (RS), parents

USAID-funded **Centers for Civic Initiatives (CCI)** supports grassroots participation in the political process by helping citizens advocate on behalf of their communities. In 1998, CCI encouraged the Association of Displaced Bosniak Persons from Doljani and Sovici (Federation) to conduct a community survey to see if other families wanted to return. All 169 families who responded stated they would return and that the important issues were housing repair and security. CCI then assisted the group in prioritizing short- and long-term goals, and approaching potential partners. Since then, the group meets regularly with local authorities and international organizations, and has succeeded in having a number of houses rebuilt.

and teachers successfully petitioned for improved traffic safety for children.

## **5. NGO Development**

The post-war period has seen the emergence of NGOs committed to a range of activities associated with civil society development, including gender issues, human rights, legal advisory services, civic education, conflict resolution. NGOs continue to face substantial external and internal obstacles to sustainability and effective advocacy. Externally, NGOs must grapple with limited resources, insensitivity to their role among authorities and the general population, and an ambiguous legal environment. Internally, NGOs often lack basic skills in organizational and financial management, fundraising, or developing constructive partnerships with their communities, the media, the business sector and government.

In April 1999, USAID launched a local NGO development program to support a core group of NGOs capable of advocating on behalf of the citizens they represent, in sectors such as economic development, democracy and governance, and women's rights. This program builds upon the successful efforts of the U.S. NGO community over the past three years to foster civil society development in Bosnia.

### **KEY NGO DEVELOPMENT RESULTS:**

- Since 1996, USAID has offered hundreds of civic and political groups, including student unions, women's organizations, children's groups, and cultural associations, direct financial support through OTI and the Embassy's Democracy Commission.
- In 1999, the International Rescue Committee (IRC), completed a capacity-building program to help local NGOs meet the needs of war-affected populations. Over 90 grants (\$2 million) to 45 NGOs have helped develop local capacity to provide the trauma counseling and humanitarian assistance, particularly for women, children and refugees, once handled by the international NGO community.
- Completed in 1998, the USAID-funded Delphi International "STAR" Project offered intensive training in public policy advocacy, conflict resolution, financial management, and organizational development to women's NGOs throughout Bosnia. The project culminated in the publication of an advocacy workbook prepared by NGO participants in the program from throughout the Balkans.

## **6. Judicial Strengthening**

Since 1995, through the American Bar Association's Central and East European Law Initiative (CEELI), USAID has helped Federation authorities establish key judicial institutions, such as the Constitutional and Supreme Courts. In 1999, CEELI is focusing almost exclusively on improving case management and reducing case backlogs to increase efficiency at the Federation Cantonal Courts. CEELI is working with the Federation Minister of Justice to develop model internal court rules for each canton to improve administrative efficiency and reform conflict of interest guidelines. Court administration assistance is to expand to the RS later this year. CEELI is also working with the Ministries of Justice and judicial associations in both entities to ensure the financial independence of the judiciary. The goal is to reduce dependence on the executive branch by fostering greater autonomy and removing opportunities for political pressure.

- Federation's progressive new Criminal Codes and Procedures, drafted with CEELI assistance and enacted in 1998. Through CEELI and the Department of Justice, USAID includes a rape shield provision, the right to counsel, the right to remain silent, and mandatory reporting on child abuse. More comprehensive training is continuing
- (AJF), CEELI advisors in 1998 helped judges and prosecutors in the RS create the Association of Judges and Prosecutors of Republika Srpska (AJPRS). The Association the judiciary and enhancing administration of justice in the RS. One of the primary goals of this activity is to develop constituencies for reform.

A critical element of USAID's democracy strategy is to build upon the successful efforts of USAID/OTI in fostering the emergence of independent media and civil society, as OTI

independent media and supporting the development of moderate political parties. A balanced and impartial media along with new political leadership responsive to citizen

**Independent Media:** will continue to support viable,

where alternatives to State-run and party-controlled media are not currently available. We will assist broadcast and print outlets st chances for economic survival and consistent professionalism and objectivity. Economic improvement and privatization will help become less dependent on political party and state subsidies.

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long-term goals of increased professionalism among journalists, higher quality locally-produced programming and print formats, and sustainability through commercial means.

the development of more Croat-oriented programming on RTVBiH. We encourage the

run broadcasters in both entities into public broadcasters based on European models.

Recent events in the FRY and in the RS, however, have shown that in times of heightened

Financing for both our broadcast and print media assistance, which will be consolidated into one cooperative agreement in 1999, will continue at significant levels in 2000 and 2001.

following results:

- Using improved management, journalism, and production skills, USAID-assisted television and radio stations (estimated 12) provide consistently objective programming

and are increasingly viable commercially.

- USAID-assisted print outlets (estimated 6) demonstrate professionalism and self-sustainability as evidenced by increased readership and revenues.
- A newswire service provides objective news and information reporting to a broad range of media outlets that use those services in their news programs.
- Commercial production houses produce quality programming for Bosnian audiences.
- Radio and television broadcasters increasingly use associations and formal/informal networks to collaborate programmatically and professionally.
- The Open Broadcast Network (OBN) grows increasingly viable by adhering to its 5 year commercial business plan, showing declining donor funding and increased revenues from alternative sources.
- A Bosnian-managed Independent Media Commission (IMC) effectively enforces media standards, laws and ethics.

**Election Administration:** USAID assistance will shift from direct administration of elections to training Bosnian officials and building institutions capable of administering elections without international oversight. We will work with OSCE's Election Unit to consolidate its operations and will no longer supplement OSCE with election experts to administer elections after FY 1999. Municipal elections (date to be determined) will mark the first election in which significant Bosnian involvement in administration is expected. In FY 1999-2000, USAID will focus on achieving the following results:

- A permanent election law and legal framework are developed in partnership with OSCE and OHR.
- The new Permanent Central Election Commission (PCEC) and auxiliary Bosnian institutions involved in elections administration function efficiently and professionally.
- Bosnian election officials conduct technically sound, free and fair elections.

**Political Pluralism:** Political parties targeted to receive USAID/NDI assistance in 1999-2000 were selected on the basis of their democratic orientation, commitment to Dayton principles, viability as demonstrated by election results, and ability to absorb NDI's assistance. Our 1999-2000 programs will support constituency outreach, message development, strategic coalition building, internal party democratization, and national/regional branch development in preparation for planned municipal elections and the 2000 general elections. We will help parties pre-position themselves to exploit political openings through more targeted political party-building and civic education programs. USAID's FY 1999-2000 efforts to support political pluralism will focus on achieving the following results:

- Political parties actively identify their constituencies, including women and youth, gauge voter interests and develop messages that resonate with voters.

- 
- Applying improved organizing and communications skills at the local, regional and national levels, an increasing number of parties develop transparent and effective areas.
  - Political parties operate with more transparent and inclusive internal structures, including the democratic selection of officers, ensuring officers and candidate lists
  -

**Legislative Strengthening:** Bosnia is governed by a complex tiered political system which undermine participatory, substantive debate on legislation within parliamentary parties and, in turn, parties do not interact systematically with constituents. Members of Parliament at legislative oversight of the executive branch and promoting government accountability through improved parliamentary transparency supports USAID's civil society and political

Based on assessments conducted by NDI in early 1999, USAID will initiate a legislative strengthening program targeting entity-level parliaments, where the most power resides and elected officials to citizen concerns, and provide them with the skills to undertake effective legislative reform. USAID will focus on achieving the following results in FY 1999-2001:

Parties use the media and other civic mechanisms to ensure systematic public input into

- disclosure requirements, and anti-corruption measures, effectively governs the behavior of legislative officials and promotes accountability.
- Improved parliamentary procedures, such as providing draft legislation in advance of
- incorporating public participation in committee deliberations through public hearings.
  - Party caucuses serve as effective, transparent mechanisms for developing, debating and implementing party policy and strategy.

USAID, through IFES and NDI, will continue supporting the opening of the political process to citizen scrutiny by empowering citizens to influence local NGOs, and developing community leadership. USAID will use discussion of democratic concepts and effective organization and lobbying techniques to encourage and assist

leaders will be encouraged to share strategies and techniques. In FY 1999-2001, USAID will focus on achieving the following results:

Broadly representative community groups, including women and youth, effectively

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**NGO Development:** Over the next two years, USAID programs will seek to ensure that

organizations, whose internal structures are strong enough to adapt to a fluid external environment. In addition to strengthening advocacy skills, our program will focus on

introducing accountable financial management systems, and using fundraising to develop increasingly diverse and reliable sources of funding. In addition, legal reform through the

NGOs ensures freedom of association. The International Human Rights Law Group will continue to work on advocacy around human rights issues (women's rights, employment

Human Rights and Fundamental Freedoms into Bosnia's domestic legal system. USAID's FY 1999-2001 efforts to support NGO development will focus on achieving the following

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reforms.

- NGOs increasingly reach out to communities soliciting input for key decisions and increasing volunteer participation.

NGOs increasingly use media to inform the public about their activities and the community and government.

**Judicial Reform:**

comprehensive and sustainable reform of the judicial sector and the introduction of the rule of law. In this environment, USAID will intervene in areas where our limited resources can

1999 and 2000 will focus on achieving the following results:

- Fully trained judicial professionals enforce and continue to reform criminal codes and procedures in the Federation and RS.

New constituencies for judicial reform emerge, such as law students, bar associations,

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Convention for the Protection of Human Rights and Fundamental Freedoms in

administering justice.

#### **D. CROSS-CUTTING PROGRAMS**

The skill and experience of U.S. NGOs in promoting community development while meeting priority reconstruction needs has been a valuable asset. In addition to

to international NGOs to implement a wide range of programs including municipal rehabilitation, shelter repair, democratic reforms and local NGO development. Examples of

- “Reintegration of Children and Youth into Society” program which repaired 275 also helped reintegrate communities through recreation programs to foster youth October 1998, ARC organized the first inter-entity bicycle ride in Banja Luka with
- USAID, through CARE, has funded the repair of 5 schools and rural power networks in work in 1999 including creating conditions for minority returns in Bosanski Petrovac. schools and provide training for local teachers since 1995. To date, 490 sites have been self-sustainable. In August 1998, USAID expanded the program into the eastern RS. 1998, a health partnership between Buffalo General Hospital and the Tuzla Medical AIHA also established a modern nursing resource center in Tuzla.

Since 1995, USAID’s participant training program has sent over representatives, and citizen activists from both entities to the United States and third banking to public utility management to NGO development, directly complement USAID democracy building. The training is strengthening the knowledge and skills of Bosnian models and approaches. Participant training will continue to augment the major components

#### **IV. MANAGEMENT AND BUDGET**

program. USAID/Bosnia is implementing this tightly focused program with ten 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 fifth year of funding at the level of \$175 million, as other donors continue to delay in turning pledged funding into tangible results. In FY 2000-2002, 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 2000-2002, (in \$ million):

<b>OBJECTIVE</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Restoring Private Sector Productivity	\$60	\$50	\$45
Establishing a Market Economy	\$30	\$35	\$40
Repairing War Damaged Infrastructure/ Institutional Strengthening	\$45	\$20	\$15
Strengthening Democracy	\$25	\$30	\$35
Other (Cross-cutting programs, transfers to other USG agencies)	\$15	\$15	\$15
<b>Total:</b>	<b>\$175</b>	<b>\$150</b>	<b>\$150</b>