

**Bosnia and Herzegovina: Poverty Reduction Strategy Paper—  
Mid-Term Development Strategy**

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BOSNIA AND HERZEGOVINA  
COUNCIL OF MINISTERS OF BIH  
GOVERNMENT OF FEDERATION OF BOSNIA AND HERZEGOVINA  
GOVERNMENT OF REPUBLIKA SRPSKA  
OFFICE OF THE BIH COORDINATOR FOR PRSP

**MID-TERM DEVELOPMENT STRATEGY OF BOSNIA AND  
HERZEGOVINA (PRSP)  
2004-2007**

*"Let's support reforms, reforms are worthwhile. Reforms are our path to  
Europe!"*

MARCH, 2004

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## I.1. Abbreviations

ABD / HBS	Anketa o budžetu domaćinstava / Household Budget Survey
ASYCUDA	Automated SYstem for CUstoms Data / sistem za obradu podataka u carinskim upravama
BAC	Bussiness Environment Adjustment Credit / Kredit za prilagođavanje poslovnog okruženja
BEEPS	Business Environment and Enterprise Performance Survey / Anketa ocjene poslovnog okruženja i konkurentnosti kompanija (u zemljama u tranziciji)
BH JŽK	Bosanskohercegovačka javna željeznička korporacija / BiH public railroad corporation
CAFAO	Customs and Fiscal Assistance Office / Ured za pomoć pri carinskim i poreskim
CEE	Central and East Europe / Zemlje Centralne i Istočne Evrope
CERD	Committee on the Elimination of Racial Discrimination / Konvencija o eliminaciji svih oblika rasne diskriminacije
CIPS	Citizens Identity Protection System / Projekat izdavanja osobnih dokumenata
CORINE	Program EU
CRC	Children's Rights Convention / Konvencija o pravima djeteta
CRA	Communications Regulatory Agency / Agencija za regulative komunikacija
CRPC	Commission for Real Property Claims of Displaced Persons and Refugees / Komisija za imovinske zahtjeve raseljenih lica i izbjeglica
CSR	Centar za socijalni rad / Centar for Social Work
CTF	Consultative Task Force / Konsultativno radno tijelo
DERK	Državna regulatorna komisija za električnu energiju / State Regulatory Agency for Electricity
DEI	Direkcija za evropske integracije / Directorate for European Integration
DFID	Department for International Development / Odjel za međunarodni razvoj Vlade Velike Britanije
DOT	Digital Opportunity Task Force / Radne grupe za digitalne mogućnosti
EBRD	European Bank for Reconstruction and Development / Evropska banka za obnovu i razvoj
EC	European Commission / Evropska komisija
EEA	European Economic Area / Evropski ekonomski prostor
EIB	European Investment Bank / Evropska investicijska banka
ESI	European Stability Initiative / Evropska inicijativa o stabilnosti
EUPM	European Union Police Mission / Policijska misija Evropske unije
FAO	Food and Agriculture Organization / Organizacija za hranu i poljoprivredu
FDI	Foreign Direct Investments / Direktne strane investicije
FIAS	Foreign Investment Agency Services / Savjetodavna grupa za strane investicije
FIPA	Foreign Investment Promotion Agency / Agencija za promociju stranih investicija
FTA	Free Trade Agreement / Sporazum o slobodnoj trgovini
GDP	Gross Domestic Product / Bruto domaći proizvod
GDLC	Global Distance Learning Center / Globalni centar za učenje na daljinu
GIS	Geography Information System / Geografski informacioni sistem
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
HDI	Human Development Index / Indeks ljudskog razvoja
IBHI	International Bureau for Humanitarian Issues / Međunarodni biro za humanitarna pitanja
ICAO	International Civil Aviation Organization
IC/MZ	International Community / Međunarodna zajednica
I(C)T	Information-(communication) technologies / Informaciono-(komunikacijske) tehnologije
ICVA	International Council of Voluntary Agencies / Međunarodno vijeće volonterskih organizacija
IDA	International Development Agency / Međunarodna razvojna agencija
IGA	Investment Guarantee Agency / Agencija za garanciju investicija
IGTF PAR	Inter - governmental Task Force for Public Administration Reform / Vladina radna grupa za reformu javne uprave
ILO	International Labour Organization / Međunarodna organizacija rada

IMAS	International Mine Actions Standards / Međunarodni standardi za uklanjanje mina
IS	Informational Society / Informatičko društvo
ISP	Internet servis provajder / Internet service provider
LSMS	Living Standard Measurment Study / Anketa o ispitivanju životnog standarda
MBA	Master in Business Administration
MDG	Millenium Development Goals / Milenijski ciljevi razvoja
MG	Monitoring groups / Monitoring grupe
MIGA	Multilateral Investment Guarantee Agency / Multilateralna agencija za garanciju investicija
MOU	Memorandum of Understanding / Memorandum o razumijevanju
MTEF	Middle-Term Expenditure Framework / Srednjoročni okvir rashoda
MVTEO/MFTEO	Ministry of Foreign Trade and Economic Relations / Ministarstvo vanjske trgovine i evropskih integracija
NGO/NVO	Non-government Organizations / Nevladine organizacije
NHDR	National Human Development Report / Izvještaj o humanom razvoju
NEAP	National Environment Action Plan / Nacionalni akcioni plan u oblasti zaštite okoliša
NEHAP	National Environment Health Action Plan / Nacionalni akcioni plan u oblasti zdravstva
NISP	National Information Society Policies / Nacionalne politike o informatičkom društvu
NORAD	Norwegian Agency for Development Cooperation
OECD	Organization for Economic Cooperation and Development / Organizacija za ekonomsku saradnju i razvoj
OHR	Office of the High Representative / Ured Visokog predstavnika
OSCE	Office of Security and Cooperation in Europe
PDV	Porez na dodanu vrijednost / Value Added Tax (VAT)
PIC	Peace Implementation Council / Vijeće za implementaciju mira
PIF	Privatization Investment Fund / Privatizacijski investicioni fond
PIU	Project Implementation Unit / Jedinica za implementaciju projekta
PRSP	Poverty Reduction Strategy Paper / Srednjoročna razvojna strategija BiH
REFA	German Association in charged for organization and development of enterprises/ Njemačko Udruženje koje se bavi organizacijom i razvojem preduzeća
SAA	Stabilization ad Association Agreement / Sporazum o stabilizaciji i pridruživanju
SAP/SSP	Stability and Association Process / Proces stabilizacije i pridruživanja
SEED	Southeast Europe Enterprise Development
Sida	Swedish International Development Corporation Agency
SMEs/MSP	Small and Medium Enterprises / Mala i srednja preduzeća
SOR	Srednjoročni okvir rashoda / Middle-Term Expenditure Framework
SOTAC	Social Sector Technical Assistant Credit / Projekat tehničke pomoći za socijalni sector
TI BiH	Transparency International BiH
TTI	Transport Training Institute / Institut za transportni trening
UNDP ICT	Forum United Nations Development Project Information communication Technologies / Forum UNDP-a za informaciono-komunikacijske tehnologije
UNMAC	United Nations Mine Action Center / UN-ov centar za uklanjanje mina
UPOV	The International Union for the Protection of New Varieties of Plants / Međunarodna organizacija za zaštitu biljnih vrsta
VAT/PDV	Value Added Tax / Porez na dodanu vrijednost
VE	Vijeće Evrope / Council of Europe
VM	Vijeće ministara BiH / Council of Ministers BiH
WTO	World Trade Organization / Svjetska trgovinska organizacija
WG	Working groups / Radne grupe
WHO/SZO	World Health Organization / Svjetska zdravstvena organizacija
WTO	World Trade Organization / Svjetska trgovinska organizacija

## **I.2. THE GENESIS OF THE BiH MEDIUM-TERM DEVELOPMENT STRATEGY (PRSP)**

The preparation of the BiH Medium-Term Development Strategy (PRSP) started in April 2002 and lasted approximately eighteen months. The preparation of the strategy was initiated by the previous governments, which developed its two earlier versions, while the final text was defined by the present governments. BiH Council of Ministers, Federation Government and RS Government adopted the final version of the Strategy. BiH Presidency also extended its support to the final version of the strategy, while BiH Parliament emphasized its support for implementation phase and requested from BiH Council of Ministers every six months to submit a progress report of the status of implementation of PRSP.

The long duration of the PRSP preparation was the result of the determination of the BiH Council of Ministers and the two entity governments to develop the strategy in consultation with the civil society and other segments of the public. To this end, over 300 round tables were held around the country, with several thousand participants. Three drafts of the PRSP were submitted for public debate, and in keeping with this three cycles of public consultations were organized. All three drafts of the strategy were presented to the competent committees in the BiH Parliamentary Assembly and to the entity parliaments. The media campaign was organized to inform the citizens with the drafts of the strategy and to encourage them to participate in public debates and in this way contribute to the definition of final priorities.

The government structures at all levels led the preparation of the BiH Medium-Term Development Strategy. The Coordination Board for Economic Development and EU Integrations, composed of the Chairman of the BiH Council of Ministers (as the Board's Chair), BiH Minister of Foreign Trade and Economic Integrations, BiH Minister of Finance and Treasury, BiH Minister of Foreign Affairs, prime ministers of both entities, finance ministers of both entities, the Director of the BiH Directorate of European Integrations and the Mayor of the Brčko District. The Coordination Board was in charge of defining the final priorities on the basis of the debates conducted and of the results of the activities of the working groups. During the preparation phase, the Coordination Board met 18 times. The task of technical coordination of the strategy's preparation was entrusted to the Office of the BiH Coordinator for Preparation of PRSP and to entity PRSP preparation offices.

Definition of proposals of priorities and of the strategy itself was the task of 20 working groups, composed of the representatives of the Council of Ministers and of the entity governments, as well as of the lower levels of government (Brčko District, cantons, municipalities). The working groups covered the following sectors: macroeconomic and fiscal framework, business environment, privatization, financial sector, labor market, the combat against corruption, foreign trade regime, public administration reform, statistics, education, social protection, health care, agriculture, forestry, water management, environment, infrastructure, energy, information technologies, mine action and industry.

In keeping with the decision of the BiH Council of Ministers that the PRSP was to be developed through broad public consultations, the working groups included representatives of the non-governmental organizations from both entities, as well as business associations. A particular emphasis was laid on involvement of the youth organizations from around the country. The young people demonstrated a very keen interest and took an active part in the development of the strategy, and the same was the case with the trade unions from both entities. The representatives of foreign investors in our country also contributed to the preparation of the strategy through their association. Involvement of the representatives of civil society into the work of governmental working groups for the preparation of the PRSP provided an opportunity to these organizations to directly influence the definition of priorities.

The preparation of the PRSP required active engagement of the scholars and experts. To this end, the Council of Scholars for the Preparation of PRSP was established, chaired by the chancellors of the Sarajevo and Banjaluka universities. The Council was composed of 22 eminent scholars from universities around the country. The task of the Council of Scholars was to provide expert support to working groups in the development of priorities, through expert reviews, participation in the deliberations of the working groups, participation in public debates and providing advice. In addition to the scholars, a 28-member expert team was formed with the task to perform research for the need of the working groups, collect the statistical data, revise the drafts and, together with the scholars, provide advice concerning definition of priorities.

In view of the necessity to secure additional donor funds for the implementation of the PRSP, representatives of donors and international organizations were consulted during the preparation of the document. It is, however, pertinent to note that the representatives of international organizations took no part in the work of the working groups.

A total of 213 representatives of governments at all levels, civil society representatives, scholars and experts participated in the process of defining the priorities of the BiH Medium-Term Strategy. It is

important to note that only local scholars and experts were involved and that the strategy represents the product of domestic institutions and domestic expertise.

Bearing in mind that the preparation of the strategy was initiated by the previous governments, and that it was completed by the new governments, as well as the fact that local scholars, experts and civil society representatives were involved, that extensive public consultations were held, with the involvement of the parliaments, PRSP should rightly be seen as not only the strategy of the governments in BiH, but of the entire society of Bosnia and Herzegovina, which had been the goal from its very inception.

In this respect **Section 1.3.** of the Strategy contains a list of all 216 Members of the Coordination Board, of PRSP Teams, Working Groups, Academic Advisory Board and Team of Experts who directly participated in preparation of the BiH Medium Term Development Strategy – PRSP.

### **I.3. List of Members of the Coordination Board, of PRSP Teams, Working Groups, Academic Advisory Board and Team of Experts Who Participated in Preparation of the BiH Medium Term Development Strategy - PRSP**

#### **Members of the Coordination Board for Economic Development and European Integrations:**

1. Adnan Terzić, Chairman, BiH Council of Ministers
2. Dr. Ahmet Hadžipašić, FBiH Prime Minister
3. Dr. Dragan Mikerević, RS Prime Minister
4. Dr. Mladen Ivanić, BiH Foreign Minister
5. Ljerka Marić, BiH Minister of Finance and Treasury
6. Dragan Doko, BiH Minister of Foreign Trade and Economic Relations
7. Osman Topčagić, Director, BiH Directorate for European Integrations
8. Dragan Vrankić, FBiH Minister of Finance
9. Branko Krsmanović, RS Minister of Finance
10. Branko Damjanac, Mayor, Brčko District

#### **Representatives of the BiH Council of Ministers and of other state-level institutions:**

11. Orhan Pašalić, Office of the Chairman of the BiH Council of Ministers
12. Dragana Tadić, BiH Ministry of Foreign Affairs
13. Dušanka Basta, BiH Ministry of Foreign Trade and Economic Relations
14. Šefik Rizvanović, BiH Ministry of Civil Affairs
15. Mario Nenadić, BiH Ministry of Human Rights and Refugees
16. Medžid Lipjankić, BiH Ministry of Human Rights and Refugees
17. Jusuf Kumalić, BiH Ministry of Finance and Treasury
18. Maja Križanović, Directorate for European Integrations
19. Saša Leskovac, Office of the State Coordinator for Public Administration Reform
20. Jakob Finci, BiH Agency for Civil Service
21. Jozo Bagarić, BiH Veterinary Office
22. Darwin Lisica, MAC BiH
23. Sahrudin Sarajčić, BiH Statistics Agency
24. Dr. Hasan Zolić, BiH Statistics Agency
25. Slava Popović, BiH Statistics Agency

#### **Representative of the BiH Central Bank**

26. Dragan Kovačević, Vice Governor of the BiH Central Bank

#### **PRSP offices**

27. Zlatko Hurtić, BiH Coordinator for PRSP
28. Srećko Bogunović, RS Coordinator for PRSP
29. Marinko Božić, FBiH Coordinator for PRSP

#### **Members of working groups at the level of the entities and Brčko District**

30. Adila Hodžić, FBiH Ministry of Labor and Social Policy
31. Adnan Pašalić, Brčko District
32. Ahmed Duranović, FBiH Ministry of Agriculture, Water Management and Forestry
33. Aida Bogdan, RS Ministry of Economic Relations and Coordination
34. Aleksandar Kosić, MAC RS
35. Aleksandra Simić, RS Ministry of Finance
36. Alija Tihić, FBiH Civil Defense Directorate



37. Anita Čemažar, RS Ministry of Finance
38. Anka Šeranić, RS Ministry of Health and Social Protection
39. Ante Nikolić, RS Ministry of Finance
40. Asim Zečević, FBiH Ministry of Labor and Social Policy
41. Aziz Čomor, FBiH Ministry of Agriculture, Water Management and Forestry
42. Bakir Mujić, FBiH Pension Insurance Fund
43. Borislav Jakšić, RS Ministry of Regional Planning, Construction and Environment
44. Borjana Krišto, FBiH Ministry of Justice
45. Borovčanin Snježana, RS Employment
46. Boško Stojković, RS Ministry of Education and Culture
47. Božo Stanimirović, RS Ministry of Economy, Energy, and Development
48. Brane Simanić, RS Pension Insurance Institute
49. Branislav Žugić, RS Ministry of Economic Relations and Coordination
50. Branko Grabež, RS Civil Defense
51. Branko Vukadinović, RS Ministry of Refugees and Displaced Persons
52. Čedo Aleksić, RS Ministry of Health and Social Protection
53. Danica Spasov, RS Ministry of Regional Planning, Construction and Environment
54. Danijela Mandić, RS Ministry of Health and Social Protection
55. Darija Sejmanović, RS Ministry Finance
56. Derviš Đurđević, FBiH Statistics Institute
57. Deva Uzelac, RS Ministry of Economy, Energy, and Development
58. Donald Prohaska, RS Statistics Institute
59. Dr. Momir Đelić, RS Ministry of Education and Culture
60. Dr. Radoslav Grujić, RS Ministry of Education and Culture
61. Dragan Kokanović, RS Ministry of Transport and Communications
62. Dragan Milojčić, RS Ministry of Regional Planning, Construction and Environment
63. Dragana Kalabić, RS Ministry of Economy, Energy, and Development
64. Drago Bijelić, RS Ministry of Economy, Energy, and Development
65. Dunja Pejić-Hadžić, RS Ministry of Trade and Tourism
66. Duško Radošević, RS Ministry of Finance
67. Džemaludin Mutapčić, FBiH Ministry of Justice
68. Đorđe Gatarić, RS Agricultural Institute (representing RS Government)
69. Đuro Grbić, RS Ministry of Economy, Energy, and Development
70. Emina Pandžo – Hasanbegović, FBiH Ministry of Education and Science
71. Emir Silajdžić, FBiH Ministry of Finance
72. Ermina Gežo, FBiH Tax Administration
73. Esad Osmanbegović, FBiH Ministry of Transport and Communications
74. Fadil Suljić, FBiH Employment Office
75. Fani Majkić, FBiH Ministry of Health
76. Filip Šarić, FBiH Ministry of Finance
77. Frano Dogan, FBiH Customs Administration
78. Fuad Čerkez FBiH Securities Commission
79. Gojko Mirjanić, RS Agricultural Institute (representing RS Government)
80. Gojko Savanović, RS Ministry of Education and Culture
81. Gordan Jelić, RS Ministry of Health and Social Protection
82. Gordana Đurić, Agricultural Faculty (representing RS Government)
83. Gordana Gardašević, RS Ministry of Governance and Local Governance
84. Gordana Opačić, RS Ministry of Economic Relations and Coordination

85. Izet Žigić, FBiH Ministry of Energy, Mining and Industry
86. Jadranka Stojanović, RS Ministry of Trade and Tourism
87. Jela Radišić, RS Banking Agency
88. Kasema Ćatović, FBiH Ministry of Energy, Mining and Industry
89. Kemal Čaušević, FBiH Ministry of Finance
90. Kutlija Dragan, RS Civil Service Agency
91. Ljiljana Sokolić, RS Ministry of Transport and Communications
92. Ljuban Krnjajić, RS Ministry of Health and Social Protection
93. Ljubo Glamočić, RS Ministry of Economy, Energy, and Development
94. Marinko Biljanović, RS Ministry of Transport and Communications
95. Mehmed Cero, FBiH Ministry of Regional Planning and Environment
96. Mervana Hadžimurterzić, FBiH Ministry of Agriculture, Water Management and Forestry
97. Mevla Softić, FBiH Statistics Institute
98. Milan Srdić, RS Ministry of Economy, Energy, and Development
99. Milan Šicar, RS Ministry of Economy, Energy, and Development
100. Mile Srdanović, FBiH Ministry of Energy, Mining and Industry
101. Milena Mandić, RS Employment Office
102. Miodrag Babić, RS Ministry of Finance
103. Mira Bradara, FBiH Ministry of Finance
104. Mirko Dobrnjac, RS Ministry of Economy, Energy, and Development
105. Miro Maksimović, RS Ministry of Agriculture, Water Management and Forestry
106. Miroslav Rogić, RS Ministry of Governance and Local Governance
107. Mirsad Hromić, FBiH Development Planning Institute
108. Mirsad Nikšić, FBiH Ministry of Energy, Mining and Industry
109. Mirsad Pekić, RS Ministry of Economic Relations and Coordination
110. Mladen Čabrilo, FBiH Ministry of Development, Entrepreneurship and Trades
111. Mladen Radivojević, RS Ministry of Governance and Local Governance
112. Mladen Vasić, FBiH Ministry of Agriculture, Water Management and Forestry
113. Mustafa Brkić, FBiH Banking Agency
114. Nada Rajković, FBiH Ministry of Agriculture, Water Management and Forestry
115. Namik Bukvić, FBiH Ministry of Labor and Social Policy
116. Nedjeljko Babić, FBiH Ministry of Trade
117. Nedžad Branković, FBiH Ministry of Transport and Communications
118. Nemanja Drašković, RS Ministry of Economic Relations and Coordination
119. Nermina Eminović, FBiH Ministry of Finance
120. Nešet Muminagić, FBiH Development Planning Institute
121. Olivera Kunjadić, RS Ministry of Labor and Protection of Veterans and the Disabled
122. Ostoja Kremenović, RS Pension Insurance Institute
123. Ostoja Travar, RS Ministry of Finance
124. prof. Milan Popović, RS Securities Commission
125. Radmila Kostić, RS Ministry of Regional Planning, Construction and Environment
126. Radomir Graonić, RS Ministry of Health and Social Protection
127. Radovan Vignjević, FBiH Ministry of Labor and Social Policy
128. Rajko Kličković, RS Ministry of Labor and Protection of Veterans and the Disabled
129. Ramiz Mehmedagić, FBiH Ministry of Regional Planning and Environment
130. Ranka Kostrešević, RS Ministry of Economy, Energy, and Development
131. Ranko Krsman, RS Ministry of Finance
132. Saša Trifković, RS Ministry of Governance and Local Governance

133. Slaven Pekić, RS Ministry of Justice
134. Slavica Bogdanović, RS Ministry of Economy, Energy, and Development
135. Slavko Šobot, RS Statistics Institute
136. Snježana Marjanac, RS Ministry of Finance
137. Snježana Rudić, RS Ministry of Finance
138. Sreten Blagojević, RS Ministry of Transport and Communications
139. Stanimir Stamenković, RS Health Institute
140. Stevan Jović, RS Ministry of Health and Social Protection
141. Strahinja Ćurković, RS Ministry of Justice
142. Tina Radonjić, RS Ministry of Economic Relations and Coordination
143. Tomo Lučić, FBiH Ministry of Health
144. Trivo Marinković, RS Customs Administration
145. Velinka Topalović, RS Ministry of Agriculture, Water Management and Forestry
146. Zada Gabela, FBiH Ministry of Finance
147. Zaim Hećo, FBiH Ministry of Transport and Communications
148. Zdravko Marjanović, RS Ministry of Education and Culture
149. Zijad Pašić, FBiH Ministry of Education and Science
150. Zlata Jukić, FBiH Ministry of Finance
151. Zlatan Dedić, FBiH Privatization Agency
152. Zoran Došen, RS Privatization Agency
153. Zoran Kovačević, , RS Ministry of Agriculture, Water Management and Forestry (Agriculture Project Coordination Unit)
154. Zoran Stjepanović, RS Ministry of Economic Relations and Coordination
155. Zrinka Simić, FBiH Ministry of Finance
156. Željko Vaško, RS Ministry of Agriculture, Water Management and Forestry (Agriculture Project Coordination Unit)

**Representatives of NGOs, trade unions, private sector and the young people:**

157. Aldin Međedović, representative of the Youth organization of BiH (KOM)
158. Bojana Škrobić, representative of the Youth organization of BiH (KOM)
159. Fikret Zuko, NGO representative
160. Idriz Čilić, NGO representative
161. Igor Stojanović, NGO representative
162. Samir Haljeta, NGO representative
163. Sulejman Hrle, BiH Trade Unions
164. Tomislav Grizelj, private sector representative of FBiH
165. Damir Miljević, private sector representative of RS
166. Duljko Hasić, representative of Chamber of Commerce of BiH

**Academic Advisory Board:**

167. Dr. Alija Lekić, Member of the BiH Academy of Arts and Sciences
168. Dr. Anto Domazet
169. Dr. Aziz Šunje
170. Dr. Azra Hadžiahmetović
171. Dr. Boris Tihi, Member of the BiH Academy of Arts and Sciences
172. Dr. Božidar Matić, Member of the BiH Academy of Arts and Sciences
173. Dr. Dragoljub Mirjanić
174. Dr. Dušan Šušević
175. Dr. Ešref Gačanin
176. Dr. Hasan Muratović

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178. Dr. Midhat Uščuplić, Member of the BiH Academy of Arts and Sciences
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180. Dr. Muris Čičić
181. Dr. Mustafa Omanović
182. Dr. Nedeljko Bilić
183. Dr. Rajko Tomaš
184. Dr. Salih Fočo
185. Dr. Sead Kreso
186. Dr. Zlatko Bundalo
187. Dr. Žarko Papić
188. Dr. Željko Šuman

**Team of Experts:**

189. Amir Hadžiomerađić, Privatization, Financial Sector
190. Azemina Vuković, Education
191. Azra Ferizović, Infrastructure
192. Belma A. Ejupović, Implementation and Monitoring, Human Rights
193. Boris Hrabač, Health Care
194. Dr. Radomir Marinković, Single Economic Space
195. Dr. Tarik Kupusović, Water Management
196. Dragiša Mekić, Foreign Trade
197. Duljko Hasić, Industry
198. Ervin Zolić, Statistics
199. Haris Mešinović, Social Sector
200. Ismet Muratagić, Industry
201. Ivan Bagarić, Health Care
202. Kemal Kačapor, IT
203. Kenan Rašidagić, Social Sector
204. Lamija Kozarić, Financial Sector
205. Milenko Krajišnik, Fiscal Sector
206. Mladen Rudež, Environment
207. Muhamed Hodžić, Forestry
208. Rasim Kadić, Labor market
209. Reuf Hadžibegić, Energy
210. Sabrija Šerifović, Regional Integration
211. Sead Jeleč, Agriculture
212. Seid Jažić, Industry
213. Senad Kikić, Agriculture
214. Senada Spahić, Business Environment, Anticorruption
215. Šefika Hafizović, Fiscal Sector
216. Željko Račić, Fiscal Sector

#### **I.4. GOALS OF THE BIH MEDIUM-TERM DEVELOPMENT STRATEGY (PRSP)**

##### **1. Create conditions for sustainable and balanced economic development**

Through implementation of the macroeconomic reform scenario of the Medium-Term Development Strategy, BiH should, by end-2007, restore a partial creditworthiness on the international capital markets, establish functioning market economy and strengthen the capacity of domestic companies to compete in external markets, particularly in the EU market. In view of existing variations in the level of economic development between different parts of the country, creation of preconditions for balanced development of all parts of BiH is also crucial.

##### **2. Reduce poverty**

One in five inhabitants of BiH may be considered poor.<sup>1</sup> The implementation of the BiH Medium-Term Development Strategy (PRSP) requires acceleration of structural reforms, which in the short term may cause job losses, and consequently an increase in poverty. Therefore, over the coming medium-term period, all levels of government will implement such economic policy measures that will prevent the increase in poverty and will lower the poverty rate by 20% from the present level.

##### **3. Accelerate EU integrations**

Integration of BiH into the EU is a generally accepted goal of all governments and all segments of BiH society. However, to attain this landmark goal, the BiH society must demonstrate that it shares the EU values.<sup>2</sup> In the course of preparation of the BiH Medium-Term Development Strategy (PRSP), in cooperation with the BiH institutions, and particularly with the BiH Directorate for European Integrations, the issues of relevance for achievement of this goal have been integrated into this document. Therefore, the implementation of the Strategy will contribute to accelerated integration of the country into the EU, and the focus was placed on signing and implementation of the Stabilization and Association Agreement (SAA).

In view of the complementarity with SAA, the PRSP strategy will be taken into account on the occasion of the preparation of the National Plan for Adoption of the 'Acquis communautaire' (NPAA), as a fundamental document for the European integration process. The implementation of the PRSP Strategy will contribute to meeting of the second and third Copenhagen Criteria, i. e. existence of a functioning market economy able to endure on the EU market (Criterion 2) and the ability to assume obligations arising from the membership (Criterion 3).

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<sup>1</sup> LSMS findings.

<sup>2</sup> 'The Report of the EC to the Council on Preparations of BiH to Start negotiations on the Stability and Association Agreement with the EU' (EC Feasibility Study), Brussels, 18 November, 2003.

**General priorities for attainment of the goals of the BiH Medium-Term Development Strategy (PRSP):**

- **Achieve a general consensus in the society regarding the reform program to be implemented in the coming period**
- **Maintain macroeconomic stability**
- **Implement fiscal system reform**
- **Secure faster growth of the export-oriented private sector, which will require:**
  - a) enhancement of the business environment for domestic and foreign investment and the support to the development of entrepreneurship,
  - b) acceleration of the privatization process,
  - c) reduction of the corruption in the society and implementation of the judiciary reform,
  - d) maintaining stability of the financial markets and faster development of capital markets,
  - e) implementation of the labor market reform,
  - f) further liberalization of the foreign trade in the region,
  - g) support to exports.
- **Implement the public administration reform**
- **Establish an adequate system of social assistance**
- **Implement sectoral reforms, in particular:**
  - a) education reform
  - b) liberalization of the electric power market,
  - c) liberalization of the postal and telecommunications market
  - d) securing greater support for agricultural production
- **Conclude the Stabilization and Association Agreement with EU, which should result from the implementation of the above reforms**
- **Achieve full membership in the WTO.**

These priorities are developed in more detail in other parts of the BiH Medium-Term Development Strategy (PRSP).

## **I.5. EXECUTIVE SUMMARY OF BiH MEDIUM-TERM DEVELOPMENT STRATEGY (PRSP)**

### **POVERTY PROFILE**

To permit successful planning and conduct of poverty reduction activities, it was indispensable to determine the number of the poor, their territorial distribution and the most vulnerable categories of the population. In measuring poverty, the BiH Medium Term Development Strategy (PRSP) relied on the data collected in the Living Standard Measurement Survey. This survey found that the general poverty line, i. e. the total annual spending below which a person is considered poor is KM 2,198. When this line was applied to the LSMS results, it was determined that some 19.5% of the BiH population is below the poverty line (16% in FBiH and as much as 25% in RS). Moreover around 30% of the population is located very close to poverty line. Although it should be noted that, because it is based on a survey, and not on a list, these figures must be considered as rough, with the confidence interval of  $\pm 3.6\%$  around the base figure.

Another important conclusion in the poverty analysis was that it is widespread among the population and that the poor are a heterogeneous group. Nonetheless, children, people with low level of education, elderly and disabled, classical social cases and rural population are most frequently below the poverty line. Poverty risk is most marked for children, particularly below the age of five, displaced persons and returnees, unemployed and people with low education.

Analysis performed for the needs of the PRSP also pointed to close links between (dis) respect for human rights and poverty, level of education and poverty, gender equality and poverty, as well as to higher vulnerability of rural inhabitants and to differences in poverty levels between members of different ethnic groups in BiH.

### **MEDIUM TERM MACROECONOMIC FRAMEWORK**

Basic goals of the macroeconomic framework of the Mid-term Development Strategy BiH (PRSP) are the achievement 70% of the pre-war GDP and realization of country's limited creditworthiness at the international capital market by the end of 2007. In this context, a Reform scenario is defined and it stipulates that GDP is to grow in the coming four years on the basis of the real growth rate of 5 to 5,5 %. Other significant pre-requisites for the realization of Reform scenario are:

- To maintain inflation at the level from 1 to 2 %. The orientation towards preservation of the Currency Board in the future will present the basic ground for the accomplishment of such pre-requisite;
- To reduce the overall public expenditures from 46% of GDP, to 43% by 2007;
- To lower the public debt to around 49 percent of GDP by 2007;
- To bring the current account deficit to the sustainable level of 11% of GDP, by 2007; The realization of this pre-requisite will largely depend on having the export growth in coming years in compliance with the projected rates from 13 to 15%;
- To ensure larger scale of foreign investments inflow – up to around \$2 billions, by the end of 2007;
- To increase the level of private savings by 2007 for 7 times;
- To ensure new cycles of donor's assistance in the amount of \$1,5 billions.

### **FISCAL REFORM**

A fiscal reform goal within the Mid-term Development Strategy BiH (PRSP) is to reduce the public expenditures and achieve greater sustainability through the fiscal consolidation. Given the ongoing trend of decreasing donor's assistance it will be necessary to ensure bigger participation of the domestic public revenues in the public expenditure financing. Fiscal reform is also related to the Mid-term macroeconomic framework and the following measures will be implemented:

- More efficient mechanism for public revenues collection will be established with the focus at the strengthening of the Indirect Taxation Authority of BiH, bringing in the VAT and establishment of the single Custom Administration at BiH level;
- An adequate allocation of public revenues will be ensured between various levels of authorities in BiH. Strengthening of the state level will initiate the follow-up of the state

budget strengthening. In the context of realizing the poverty reduction activities, it will be necessary to strengthen the fiscal revenues of local communities. Bearing in mind the complexity of the BiH state structure, it is necessary to ensure an adequate VAT allocation between the various levels of governments in the country;

- Sector's expenditure will be brought at the more sustainable level. This primarily refers to the expenditures in the field of education, health, social transfers, defense and police;
- An institutional framework for preparation of consolidated fiscal account at BiH level will also be established;
- The transparency in public revenues collection and spending will be strengthened;
- Treasury operations will be brought in and applied at all levels of authorities as well as in all out-of-budget institutions of governments;
- The public debt will be reduced from 67% of GDP to 50%, by the end of 2007.
- Foreign borrowing strategy will be based on the continuation of concessional borrowing, while the commercial borrowing will be possible only at the end of 2006 or in 2007.

## **PRIVATE SECTOR GROWTH – STRUCTURAL REFORMS**

### ***Business environment for domestic and foreign investors***

Mid-term Development Strategy BiH (PRSP) has paid due attention to the promotion of business environment, local and foreign investments and development of entrepreneurship. In order to complete the process of creating the single economic space in BiH (which is still divided by differences in regulations/provisions between entities) it will be necessary to harmonize *the provisions regulating the freedom of movement of goods, services, capital and persons* with EU laws and regulations. It will also be necessary to establish the legal and institutional framework, which is to guarantee the free competition and protection of consumers and also provide the mutual recognition of technical standards for goods from both entities.

The establishment of a single public procurement system, bringing in the VAT and strengthening the coordination in managing the public infrastructure will additionally promote the business climate. The implementation of already harmonized labor legislation in the entities must ensure the elimination of all forms of discrimination in employment, which is to contribute to larger scale of labor force mobility. The continuation of applying the model of regional development will have a significant role in facilitation of economic development and there must be a defined strategy for this and suitable laws and regulations must be approved for this purpose. In this regard, it is important to strengthen the network of regional development agencies.

The activities of eliminating the administrative obstacles for local and foreign investments will be continued with, especially in the area of business registration. Judicial system reform will provide faster resolution of economic disputes and it will also be necessary to amend the laws on obligations in order to ensure greater protection of creditors. The elimination of unfair competition (smuggling) and more efficient protection of intellectual, industrial and commercial property will be important task for the next mid-term. Inspection services in BiH will be re-organized and rationalized, while the realization of already adopted Action Plan will precede the implementation of reforms for more efficient struggle against corruption.

It is necessary to modernize the system of land, real-estate management and use of it, which will go hand in hand with strengthening of urban planning system.

New structure of economy calls for strengthening of the corporate management system – primarily the strengthening of transparency. Already existing tripartite dialogue with private sector should be further on strengthened too.

Strengthening the competitiveness of BiH enterprises must be the main and long-term goal of reforms and the key fields for urgent operations are: the reduction of taxes, especially pay-roll taxes, reduction in size of informal economy, liberalization of the labor, energy and telecom markets, speeding-up the process of dispute resolution, lowering the cost of entry. Together with aforementioned, further strengthening of the Foreign Investment Promotion Agency's capacities, applying the foreign investment strategy and creation of the State Commission for Concessions (and suitable commissions at lower levels) should ensure the attraction of more foreign investors in our country. In this light, it is very important to continue with and facilitate the process of privatization.

Public opinion is the key point for success of all these reforms. Maintaining the political stability and avoidance of social disorders is certainly the key for successful implementation of the reforms and that is why the public should be regularly informed and included in the open



dialogue on the process of reforms. It is especially important to conduct a campaign, which would promote the understanding of the public about the role and significance of foreign investments. It is also important to work on improving the international image of BiH.

Significance of small and medium enterprises for development of BiH is recognized in the document General Framework of Economic Development Strategy (dated in 1999). It is necessary to adopt the development strategy for easier and faster development of this category of companies, which will be able to utilize the limited investment opportunities in BiH in the best possible way due to their flexibility. It is also necessary to establish legal and institutional framework to support the development of entrepreneurship. Especially is important it initiate the wider affirmation of knowledge on entrepreneurship through inclusion of subjects on entrepreneurs into the curriculums of schools and universities as well as by strengthening the specific education for entrepreneurs and managers. The governments in BiH have recognized the fact that the establishment of Guarantee Fund for Small and Medium enterprises is a significant concrete step that would facilitate access of bank loans to SMEs.

### ***Privatization***

Privatization process, and especially the process of privatizing the "strategic enterprises" that was in tardiness during the past years, will be speeded-up. This will be achieved through the strengthening of an institutional framework. The entity agencies for privatization will take the leading part in preparation of the enterprises for privatization. Other problems related to the country-wide corporate restructuring will be improved by resolving of big and growing corporate debt and by reorganizing the system of protection from unemployment in order to ensure adequate social programs of workers that might lose their jobs due to the process of speeding-up reforms. Special strategies will be prepared for the regulation and privatization in the sectors of energy, telecommunications, railways, and water management, waste-management as well as in the sector of forestry and in media. Strengthening of transparency of the privatization and responsibility of the state-led managing boards and managements in managing the state enterprises will be also important step forward. In parallel with this it is equally important to establish more efficient institutional framework for bankruptcy procedures and prepare list of companies and action plans for initiating bankruptcies.

### ***Financial sector***

It is necessary to strengthen the stability of banking sector by improving the local bank's capacities for risk management. Equally is important to ensure appliance to the rules for capital adequacy. Further strengthening of stability of the banking sector could be improved by having the Central Bank of BiH to play limited role of the bank of last resort in compliance with the currency board rules. The strengthening of the existing framework for supervision of banks will be continued. The State Agency for Supervision of the Banks will be established in 2005 and it will operate within the Central Bank of BiH. The policy of decreasing the number of the banks will be continued: all banks will have to meet the requirements from the State Deposit Insurance Agency, otherwise the working licenses of banks shall be withdrawn.

The measures will be undertaken in order to improve the term structure of deposits. In the sphere of crediting, there will be further work on reduction of risk in the bank operations, which should lead to further decrease of interest rates and greater corporate lending. There is still a need for harmonization of the bank regulations between the two entities as well as with the regulations of EU. Legal and regulatory framework will be established for the operations of leasing, which provides the additional opportunities for induce of economy.

It is also important to harmonize the inter-entity regulations in insurance sector and implement the activities that would equalize the local insurance sector with the foreign insurance companies. It is necessary to improve regulation of the sector, and stimulate companies to develop new instruments and services.

The strengthening of corporate management and transparency is especially important for the faster development of capital market in BiH. This is to increase the attractiveness of these markets as well as their liquidity. Application of the new instruments, such as the short-term certificates of the Central Bank of BiH will also help the further capital market development. The possibility of uniting the regulatory framework at the state level will be reconsidered in order to stimulate merger of the capital markets with positive effects on increasing their liquidity.

Micro-financial sector has turned out to be very successful in providing the financial services to very small enterprises. Its further development will be stimulated through smaller guarantee funds, especially in agriculture. Important step forward in developing this sector will be to improve the regulatory framework by harmonizing it between two entities.

### ***Labor market***

It is necessary to eliminate all forms of discrimination and induce the mobility of labor force in the whole country. System of salaries and collective bargaining agreements should be reformed for the purpose of mitigating of the down wage rigidity of minimal wages, which is to lead to the reduction of gray economy. It is also necessary to strengthen the institutional framework and control over the Employment Offices, especially in the field of financing the employment programs that were quite non-transparent up-to-date. Revision of the use of privileges on the basis of non-employment, such as the right to health insurance, will influence the reduction of gray economy. In order to pave the road for speeding-up reforms it will be necessary to extend the period for utilization of unemployment benefits. It is essential on a long-term basis to reform the education system so that it can meet the needs of the labor market. It is especially important to stimulate the development of vocational education, as one form for re-qualification and additional qualification.

### ***Anti- corruption***

Establishment of the suitable bodies within the state and entity ministries of justice will provide better coordination of anti-corruption activities. Further reform of the judicial system and strengthening of the efficiency of the bodies specialized to uncover and suppress the corruption are the key points for the success in this field. The forthcoming public administration reform will also contribute to more successful anti-corruption activities. Strengthening of the system of management and control over public finances and especially the reform of the indirect taxation system (that leads to the bringing in VAT) will additionally reduce the space for corruption and abuses of power. Especial attention will be given to the management of the public enterprises. It will be necessary to promote greater transparency in privatization process as well as in the financing of education and health system. The establishment of single custom administration at BiH level will also influence the reduction of corruption. Money laundry and human trafficking incidents are the specific problems that BiH is facing lately -- special attention will be given to modification of the legal framework and adoption of suitable action plans to improve the coordination among institutions dealing with these matters.

### ***Foreign trade and export promotion***

The liberalization of foreign trade will be continued within the framework of obtaining the full membership at the WTO and meeting the criteria for integration into the EU. It will be necessary to enhance the coordination in implementing the state laws on foreign trade between respective ministries at the state and entity level. Moreover, it will be important to strengthen the institutional framework for the purpose of utilizing the unilateral trade preferential agreements approved and given to BiH by the EU and other developed countries. Further simplification of the custom procedures, establishment of the institutional framework for protection of local consumers and strengthening the foreign trade statistics are also priority tasks for the next mid-term period. The new Custom Tariff Law will be approved in order to accommodate the needs of the BiH's economy. Introduction of stricter control of the rules of origins and application of the reciprocities in appalling the foreign trade rules will also be one of the main emphasis for the next period. Important step forward will be signing of the Pan-European Charter on Cumulation. In order to reduce the trade deficit, it is necessary to apply more efficient ways to protect and stimulate the development of local agricultural production.

Increasing the rate of export represents the key challenge in the implementation of the PRSP. Aforementioned measures will directly or indirectly stimulate the increase of export. However, an overall strategy for increase of export will be developed, which will define the productions where BiH possess a competitive advantage, the most favorable markets for goods and services from BiH and institutional framework for export. Current low level of production must be increased and the competitiveness of BiH enterprises strengthened. In the context of increasing of export, it is necessary to facilitate privatization and insure bigger inflow of foreign investments. It is especially important to create the system for support to the exporting enterprises, which will be based on transformation of the existing Agency for investment guarantees BiH into Export-Credit Agency BiH. Reviving of railways and inclusion of the road transporters in international associations should create the conditions for reduction of transport costs.

### **Public administration reform**

In order to implement the reform of public administration system, it is primarily needed to conduct functional reviews of administration at all levels of authorities. The strategy of public administration reform and follow-up action plan will be adopted by the end of 2004. It is necessary to strengthen the administrative capacities of BiH for the requirements of the EU integration process. The current activities in implementation of the State Civil Service Law and the reforms in defense and security sector will be continued.

### **Statistics**

It is of great importance for overall reform process to strengthen the statistic system in BiH. It must function as single system to ensure that all institutions will be provided access to data necessary to plan activities. This process will be based on already adopted law at the state level.

### **SECTORAL PRIORITIES**

Strengthening and amending of the legal framework and of institutional structures are indispensable in all sectors covered by the BiH Medium-Term Development Strategy, and specific priorities have been identified for each sector, as follows:

PRSP pays a special attention to the establishment of an adequate **social welfare system**. In order to reduce the exposure of the pensioners to poverty risk, the stability of pension payments will be increased through a more regular collection of contributions and by expanding the coverage of pension payers. It is necessary to regulate relations between the entity pension funds and lay foundations for a comprehensive reform of the pension insurance system. In protection of war and military disabled, veterans and family members of the dead, rationalization of both beneficiaries and benefits will be carried out, mechanisms will be set up to assist these categories in finding employment and administrative capacities of the competent line ministries will be enhanced. The system of social assistance will be adapted to the capacities of the society and it will be ordered along modern principles, with introduction of market elements and alternative models, with the emphasis on equality of all beneficiaries in access to benefits; the legal framework will be established and funds allocated to ensure a common minimum of benefits at entity level, primarily in child protection and protection of civil victims of war. Although available funding for support to sustainable return are being reduced, a greater efficiency in the area will be achieved through linking the work of all administrations in charge of implementation of the Annex 7, from the municipal to the state level. Rebuilding of some 50,000 housing units is planned over the next three years. In all these sectors administrative capacities must be strengthened, particularly for collection, processing and exchange of data.

In the **education sector**, the reform of management and financing methods will permit savings and release funds for sustainable funding of education. The coverage of students at all levels will be expanded and all forms of discrimination will be eliminated. More flexible study programs, with broad application of information technologies, will be introduced, and the standards and methods adapted to the appropriate European ones will be introduced, in conformity with the requirements of the Bologna Declaration and Lisbon Convention. The teacher-training system will be improved and made continuous. A framework state level law will regulate the higher education system, and mechanisms for supporting scientific research will be set up. Alongside the modernization of the vocational education, a system of out-of-school training will be developed.

Achieving universal health insurance coverage of the population, without discrimination, defining the basic package of health-care rights and strengthening of the solidarity system are the priorities in **health care**. Rationalization of the system of health care institutions, to include formalization of the 'network of health care institutions', will reduce expenditures from health insurance funds and will continue in parallel with the continuation of reforms of primary health care, through introduction of the system of family medicine. The contracting mechanisms between health insurance funds and health care institutions will be implemented, as well as new, incentive-based models of compensation to health care employees. The role and capacity of the public health care system will be strengthened, and the system for regulation of medicines will be established at BiH level. Improving the transparency of the systems of procurement and of planning and control of capital investments, as well as adoption of appropriate models for the system of supplementary medical practice, will contribute to combating corruption in the health care sector.

Development of institutional capacities, primarily achieving full operational status of the BiH Veterinary Office and establishment of the BiH Plant Health Protection Administration, and a better coordination between existing cantonal and entity bodies are the main tasks in the **agriculture sector**. The system of subsidies will be established to promote focusing on a limited number of types of production in which BiH has competitive advantages, at the minimum level of 3% of consolidated government budgets. The legal and institutional frameworks for development of organic foods will be set up. The instruments for supporting exports of agricultural products will be developed, and customs protection measures in line with the WTO rules will be applied. The business environment will be enhanced, and development of cooperatives and NGO associations of farmers will be supported.

To improve efficiency in exploitation of forest resources, which are one of the greatest development potentials of BiH, the **forestry** management system needs to be improved. The major tasks are to establish updated databases and conduct the national forest inventory, which will determine the real situation and lay foundations for a new organizational structure for forestry management. Establishing mechanisms for protection of forests from natural and other disasters, as well as for rehabilitation of forests, which had been neglected for long (demining, rehabilitation of degraded forests and barren areas, revitalization and sustainable management of game). Separation of protected forest areas (such as national parks, nature parks and forest preserves) will ensure at least a partial preservation of the most valuable natural heritage. In the exploitation aspect, it is vital to complete privatization and reorganization in forestry (particularly in FBiH), and to enforce the laws regulating sustainability of wood production, as well as other applicable international standards. Exploitation of other forest products (mushrooms, medicinal and aromatic herbs) and productions (bee-keeping) will be supported and promoted.

**Water management** will be organized on the level of river basins. A regulatory mechanism will be established for monitoring the work of municipal councils on setting tariffs and for ensuring the preservation of the quality of water and protection of the environment. The autonomy and management capacity of water utilities will be reinforced, and the degree of cost-recovery of utility services will increase to reflect real costs, with the tendency to prepare these segments for privatization. Investment in expansion of water supply and sewage systems will increase, as well as in regulation of watercourses and protection from harmful effects of waters. More efficient utilization of water for irrigation and power generation, exploitation of mineral and thermal waters, as well as restarting of navigation on the Sava River will respectively receive increased attention.

In the area of **environment**, the BiH Medium Term Development Strategy (PRSP) relies on the priorities of the BiH National Environmental Action Plan (NEAP), which stress the importance of strengthening of the legal and institutional environment and of the intersectoral approach to environmental protection issues. Steps to reduce pollution of air and water are envisaged, as well as enhancement of the systems of land management and soil protection, building of regional solid waste depository sites and rehabilitation of sites of existing illegal garbage dumps. It will be necessary to establish a system of integral land management, particularly for rural areas, in line with the EU standards and accepted international obligations. Over the coming medium term, the systems for preservation of the biological and geological diversity, natural and cultural heritage will be improved.

Along with the adoption of the BiH Energy Strategy, transformation of the legal system and establishment of modern institution, the basic task (in the **electric power sector**). It will be necessary to separate the existing three vertically integrated power enterprises in BiH to transmission, generation and distribution, with the transmission system remaining under the competence of BiH, while generation and distribution will be privatized. The process will go in three stages: reallocation of assets, corporatization and commercialization. Completion of the Power III Project is also envisaged.

In view of the role of the coal-mining sector in the BiH energy production, the restructuring and capital increases for coalmines are indispensable, which should lead to their ultimate privatization. Priorities in the gas sector are to diversify the gas supply sources, expand the distribution network, construct underground storage facilities and establish the internal gas market. Adoption of the oil sector development policy and of appropriate laws and regulations, as well as establishment of the oil and gas regulatory body, are the key prerequisites for revitalization and privatization in this sector. The coverage of urban areas with central heating will be expanded, and the technical efficiency of the systems will be enhanced. The system of setting energy tariffs will be based on economic prices and will include also the costs of the

environmental protection. Energy savings and utilization of renewable and alternate energy sources will be encouraged.

In the course of the implementation period of the BiH Medium Term Development Strategy (PRSP), vital segments of **road and railway networks and infrastructure** will be revitalized and restored, with the accelerated construction of the Corridor Vc highway as the crucial choice. The management, monitoring and planning systems for construction and restoration of the road infrastructure will be strengthened, and appropriate financing mechanisms will be developed, including foreign investments and concessions. In the railways, particularly, economic sustainability needs to be supported with subsidies, but also through reform of tariff policy and through improvement of the marketing. In air and water traffic, the most important task is to restore the existing airports and river ports to the level compatible with international standards.

For a successful development of the **telecom sector**, an IT bus needs to be built in BiH, and linked with the neighboring countries, penetration in the fixed and mobile telephony needs to be increased, as well as of the Internet; the third generation (3G/UMTS) systems should be introduced in the mobile telephony. The activities of liberalizing the market of telecom will be continued with in this sector.

For the postal system, it is crucial to develop new areas of activity, such as hybrid post, sorting centers, Internet kiosks, catalogue sales etc. The sector of electronic media also needs improvements in infrastructure, primarily modernization of the radio and TV signal transmission network and digitalization of the RTV system.

The BiH Medium Term Development Strategy in **sector of industry** identified wood, textile, leather, metal and food industries, as well as energy, tourism and information technologies, as priority sectors, and selected a series of measures for restructuring and modernization of industries, strengthening of competition and export capacities, improvement of the entrepreneurial environment and market transparency. Measures of support to these sectors will include: adoption, or harmonization, of domestic regulations with EU regulations, abolishing of the customs duties on raw materials and equipment, simplification of the customs procedures and systems, provision of cheaper power, improved access to credits and establishment of guarantee funds, as well as creation of entity funds for support to scientific research, and support to companies in adopting international standards.

In wood industry, the goal is to discourage export of timber and develop internationally recognizable strategic products. In food processing, the HAACP should be introduced, and the agency for certification of animal-origin products should be established. For leather and footwear and textile sectors, introduction of modern management and technologies is priority, as well as development of capacity of quality control institutions. Improving management and marketing systems is of importance for metal industry as well, together with the adoption of the international standards and regulations and with introduction of the quality management techniques. To stimulate development of tourism, the strategy of tourism development in BiH needs to be adopted and appropriate laws passed at the BiH level, including the Law on National Parks.

**Demining activities** in BiH must have the highest priority to accelerate normalization of life on the largest possible part of the territory. The effort on removal of unexploded ordnance (UXO) will continue over the next four years, as well as the Mine Reduction Education activities (MRE), with the concurrent strengthening of required capacities.

In the **information and communication technology sector (ICT)**, the process of adoption of relevant international technical standards will continue, as well as the process of liberalization, with the establishment of the CRA Council and transformation and modernization of telecom operators. The legal changes required to permit modern electronic commerce (e-commerce) will be made. All levels of government in BiH will introduce the system of electronic services to citizens (e-government). The system of ICT agencies will be established, and the Academic and Research Network of BiH (Arnet) and the Education Network of Elementary and Secondary Schools (EduNet) will be reactivated.

#### **IMPLEMENTATION AND MONITORING MECHANISM OF THE BiH MEDIUM-TERM DEVELOPMENT STRATEGY - PRSP**

On the basis of the work invested in the preparation of the EC Feasibility Study and the BiH Medium-Term Development Strategy (PRSP), the BiH Council of Ministers of BiH, together with the entity governments adopted the Action Plan for Implementation of Priority Reforms. By

adoption of this AP, whose implementation rate is at 81%, governments introduced an initial monitoring mechanism for implementation of strategic documents. In this context, the Council of Ministers of BiH, together with the entity governments, decided to establish the Office for Coordination of Economic Research and Monitoring of the Implementation of the BiH Medium-Term Development Strategy (EPPU). This office will play an important role in developing future macroeconomic projections and drafting analytical materials required for integration of BiH into EU.

The implementation of the PRSP will retain the same elements utilized in its preparation. The strategic decisions will be made within the framework of the Coordination Board of Economic Development and EU integrations. On the technical level the work will be carried out by the working groups that were established during the preparation of the PRSP, and which consist of representatives of the state and entity governments. As in the preparation stage of the PRSP, NGOs will continue to participate in the work of the PRSP implementation working groups. The EPPU will inform the governments, parliament and the public about the course and results of the implementation of the PRSP, through regular reporting on the status of implementation of its action plans and the success rate in meeting the PRSP targets.

### ***Indicators***

To verify whether the set targets are being achieved, an established set of indicators should be followed over the next medium term. With the assistance of UNDP, PRSP was able to incorporate the millennium development goals and indicators, adapted to BiH, into the PRSP monitoring mechanism. To ensure systematic monitoring of the PRSP indicators, additional strengthening of the capacity of statistics bureaus is planned, as well as partnering with NGOs and international institutions. It is important to stress that an undeveloped system of statistics of BiH, and in this context the lack of the data reliability, will represent a particular problem for monitoring and evaluation of the PRSP, and accordingly for the Millennium Development Goals. Some of the indicators with special importance for monitoring of PRSP are: percentage of population below poverty line<sup>2</sup>, unemployment rate, net rate of enrollment in primary school, primary and secondary school enrollment rate, higher education enrollment rate and ect.

### ***The Major Risks and Preconditions for Successful Implementation of the Medium-Term Development Strategy of BiH (PRSP)***

The implementation of the BiH Medium-Term Development Strategy (PRSP) will require a greater determination of the governments in preservation of the achieved political consensus on implementation of reforms. The BiH Medium-Term Development Strategy (PRSP) envisages adoption and/or amending of a large number of laws and sub-laws. To complete these tasks within the given timeframe will require increased efficiency in the work of the parliaments at all levels. The process of acceleration of reforms will cause a short-term increase in unemployment, which might threaten social peace. In the near term, preservation of the social peace will depend on the governments' ability to implement a social program to mitigate negative consequences of increasing unemployment in first year of the implementation of the Strategy.

In view of declining international aid, in the coming period BiH will have to rely on foreign investment as the most important source of financing future development. In this context, in addition to the acceleration of reforms and strengthening of the political stability of the country, the rate of recovery of the world economy and the increase of investment globally will influence successfulness in implementation of the PRSP.

Finally, a major precondition for a successful realization of the BiH Medium-Term Development Strategy (PRSP) is securing of additional assistance in the form of concessional credits and grants. The focus of the international community on other regions, or a failure of the government to convince the international community to continue extending aid to BiH may pose a serious difficulty to the implementation of PRSP goals.

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<sup>2</sup> Using General Poverty Line for BiH.

## I.6. POVERTY PROFILE OF BOSNIA AND HERZEGOVINA

### Poverty Definition

Until recently the term «poverty» was applied in the meaning of insufficiency of revenues for procurement of the minimum basket of goods and services. Nowadays, it is considered that poverty is the state when basic preconditions for a dignified life are lacking. It is recognizable that poverty is manifested in different ways, among which are: lack of income and resources sufficient to ensure viable existence; hunger and malnutrition, poor health, limited or no access to education and other fundamental services; increased mortality, including mortality from disease; homelessness and inadequate housing conditions; unsafe environment, social discrimination and isolation. Exclusion from decision-making and from civic, social and cultural life of the community are other basic features of the negation of human rights. Multidimensionality of poverty as a phenomenon permit us to view it as a condition characterized by lasting or chronic shortage of resources, abilities, choices, security and powers required for an adequate standard of living and attainment of other civic, economic, political, cultural and social rights.

### 1. Poverty in BiH

The Living Standards Measurement Survey -LSMS that was conducted in BiH between September and November 2001, as the first representative welfare survey at the household level, has served as the most important source of information for the preparation of this overview of the poverty profile in BiH. The survey was conducted on a sample of 5.400 households in 25 municipalities of both BiH Entities, with special attention paid to obtaining representative results both at the Entity and at the BiH level.<sup>1</sup> Using the modular survey approach (in areas of: demography, housing, education, employment, migrations, health care, privatization, loans, social welfare, expenditure, non-agricultural business activities and individual agricultural activities) data were collected on households and individuals, as well as on access to and utilization of services and government programs. The data collected made it possible to assess the poverty level in BiH, the composition of the poor, the relative extent of the poverty threat for individual categories of the population and the causes of poverty.<sup>2</sup> It should be made clear that the Survey, although it currently constitutes the most reliable source of statistical data in this field, is nevertheless only a provisional research instrument and cannot provide answers to all important questions posed in the development policy formulation process.

The data from the Living Standards Measurement Survey (LSMS) made possible the poverty demarcation in BiH needed to establish the number/percentage of the population falling into the category of the poor. The poverty line facilitates the identification of the population that sunk into poverty, as well as monitoring changes in their situation over time<sup>3</sup>, making it easier to assess the effectiveness of the measures taken.<sup>4</sup> The analysis of the Living Standards Measurement Survey (LSMS) has made it possible to draw conclusions necessary for determination of the poverty line.

There are two basic poverty lines: the relative and the absolute one. In determining the relative poverty line, the basic approach is to establish how the standard of living of one population category can be compared with that of other population categories within the same society, and it is usually based on a certain percentage of average income or expenditure in the country concerned. This method has some advantages, above all that it is easily determinable and that it automatically tracks increases in the standard of living. However, this kind of demarcation is not adequate for monitoring changes over time, since a rise in the standard of living in a given country may result in a rise in the

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<sup>1</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 2.

<sup>2</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, pp 3-4.

<sup>3</sup>The changes may be followed over time only if an LSMS or similar survey is taken every year, which is not the case at this time. LSMS is not yet a panel survey, i. e. a survey conducted periodically. Although the Living in BiH Survey has been developed from LSMS, it does not contain the consumption module which may serve to calculate the poverty line. A Household Budget Survey (HBS) is planned, but the problem with the HBS is that most variables from LSMS have not been included into HBS questionnaire, so the analytical possibilities are significantly constrained, though the poverty line, which is the basis for all poverty-related analysis, can be determined from the HBS findings.

<sup>4</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 5.

standard of all population categories, without the relative situation of the poor altering, or even with a deterioration in their situation.<sup>5</sup>

Bearing in mind the limited availability of data in BiH, the researchers chose the absolute poverty line as the most appropriate instrument for defining and monitoring poverty in our country. The absolute poverty line is determined according to the value of expenditure needed by each individual regardless of the place and time he/she lives in. The absolute poverty line itself may take two forms: the extreme poverty line or the general poverty line. The extreme poverty line - or nutritional poverty line - is determined on the basis of the value of the food package that contains the minimum of necessary calories and nutritive substances. In the analysis of the Living Standards Measurement Survey (LSMS), annual consumption per person was selected as the indicator. It was calculated that the average minimum nutritional needs, taking into account the differences between demographic groups, are around 2.240 calories a day.<sup>6</sup>

The determination of the general poverty line takes into account that an individual also has survival needs other than nutrition, such as housing, clothes, etc. Since it is almost impossible to objectively determine a uniform consumer "basket" of non-nutritional goods and services that would be representative for the majority of the population, the general poverty line for BiH is the total consumption of households whose consumption of food enables them to meet the minimum nutrition and caloric needs. In other words, the general poverty line is established by adding the monetary value of non-food goods and services consumed by the households whose consumption of food equals an absolute minimum of nutritional needs (which represents the extreme poverty line), to the value of that minimum, i.e. to the monetary value of extreme poverty line.

The Living Standards Measurement Survey (LSMS) has estimated the level of the total expenditure (including non-food goods) of the households that spend the absolute minimum on food, measured by its caloric and nutritive values (about 2.100 calories per person daily). The total expenditure arrived at in this way amounts to 2,198 KM per person per annum, and this is the general poverty line for BiH (while expenditure on minimum nutritional needs, i. e. the extreme poverty line, amounts to 760 KM per person per annum). The fact that food expenses constitute only about 34.5% of the sum representing the poverty line of BiH indicates that non-food costs are of very considerable importance in ensuring survival.<sup>7</sup>

The analysis of available statistical data on annual expenditure per person in BiH has not shown that there are groups in our country whose standard of living is close to or below the extreme poverty line, but **it has been determined that the living standard of around 19,5% of the population of BiH is below the general poverty line (25% in RS and 16% in FBiH).**<sup>8</sup> The limited format and coverage of the survey inevitably result in a wide margin of tolerance of +3,6%. The percentage of citizens who are below the general poverty line differs for different community types, being lowest in urban communities (14%), higher in rural communities (around 20%), and highest in mixed local communities (near 24%).<sup>9</sup>

Supplementary indicators permit a more in-depth analysis of available data. **The poverty gap** is a total amount needed for all poor in a country to rise above the poverty line, divided by the total number of inhabitants of the country. In BiH, poverty gap is 101 KM, or in other words, for all poor to rise from poverty, all BiH citizens (including poor) would need to give all poor 101 KM per person per annum. The money would need to be distributed in order to allow all poor to cross the poverty line (those in deeper poverty would receive more than others).

The Survey results have also shown that a further 30% approximately of the BiH population are just above the general poverty line determined in this manner (with annual expenditure below 3,297 KM, i.e. in a range only 50% higher than the amount constituting the general poverty line). The vulnerability of this group to potential economic shocks that might push them below the general poverty line is very high.<sup>10</sup> The research by UNDP and the BiH authorities for the needs of the Early Warning System, although conducted in accordance with a different methodology, confirms that poverty is widespread and serious, and indicates a rising trend in the numbers of the poor.<sup>11</sup>

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<sup>5</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 6.

<sup>6</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 5.

<sup>7</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 5.

<sup>8</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 6.

<sup>9</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 9.

<sup>10</sup> Bosnia and Herzegovina: Poverty Assessment, Volume II, World Bank, Report No. 25343-BIH, p. 46.

<sup>11</sup> Early Warning System, Quarterly Report April – June 2002, UNDP and BiH authorities, pp. 15-16.



In many surveys, a distinct majority of those polled assess themselves as poor. Although the reasons for subjective poverty as a phenomenon are numerous, among the most important are comparisons with the pre-war era and reliance on the standards of that time, as well as higher expectations and the inability of many households to afford the variety of goods available on the market.

Insecurity is an additional burden for the poor, but also for many others who do not officially fall into that category. Personal insecurity resulting from the declining influence of society and the authorities leads to rising crime and is an impediment to the integration into society and the equal economic opportunities of minorities and women in particular. Economic insecurity is reflected in exposure to various economic shocks, insecurity in terms of property or housing rights (especially displaced persons), and exposure to corruption.<sup>12</sup>

The poor are also seriously affected by the feeling of powerlessness and inability to make their voices heard in communication either with other members of the community or with the authorities. Even given the extensive decentralization of the resources distribution system, the poor frequently have difficulty gaining access to the institutions responsible for the decisions and rulings that have a significant impact on their lives. This is another problem that affects women with particular severity.<sup>13</sup>

Poverty in BiH is deeper and more widespread than in any other country of former Yugoslavia (it is more widespread only in Kosovo),<sup>14</sup> and some 20% of the poor suffer serious shortages in all or almost all key aspects of welfare, ranging from acceptable housing and sanitary conditions and access to health care services, to literacy and integration into society. In addition, the current relatively low poverty rate of the population is the result of expenditures far exceeding current production capacities. So far, extensive international aid allowed this level of consumption, but it will soon cease to be possible. Thus it is extremely important to increase the rate of economic growth, because the danger of a dramatic increase in the poverty rate is very real.

### **1.1. UNDP Report on Human Development in BiH**

In view of the lack of reliable and accurate information and statistical data in BiH already referred to, the activities of UNDP, in collaboration with the BiH authorities and with the assistance of the domestic statistical and research institutions, make a major contribution to filling the information gaps and providing a fuller picture of the situation in our country. UNDP's activities in this field are formulated as quarterly reports within the Early Warning System, where a number of essential trends from the economic and social sphere are monitored continuously. The second major contribution is the publication of the Human Development Reports that constitute comprehensive research into key areas of society and phenomena that have an impact on the quality and standard of living of the members of society.

The Human Development Report, published in September 2002, introduced the Index of human development for BiH for the first time. This index is a scale that enables ranking of individual countries by their level of development compared with other countries of the world. It includes the economic dimension, but it is specifically adapted to encompass human dimensions of development that could not be adequately represented by other statistical and research methods and procedures. The human development index takes into account the issues of accessibility of education, health care, social services and information, as crucial for the successful and viable development of any society. Although issues such as human rights, oppression and discrimination of all kinds cannot be easily included in the index itself, they are also subject of analyses. In that regard, the possibility of comparison with other countries of the world (166 countries are included) facilitates the identification of specific weaknesses and provides an incentive and guidelines for improvements.

The Human Development Index (HDI) for BiH is 0.718. The significance and meaning of the HDI becomes clearer when its components are considered: HDI is composed of three sub-indices: GDP per capita, access to education and average lifetime of inhabitants. At the same time, bearing in mind the often incomplete and imprecise statistical data available for our country, we are not in a position to rank ourselves precisely on the HDI scale, and this number should be regarded as preliminary only.

The Human Development Report/Millennium Development Goals from June 2003 shed additional light on the poverty issue. This report estimated that 27% of adults in BiH are poor from the standpoint of education, and that 16% suffer from poverty in the health-care sense. From the employment aspect,

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<sup>12</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 13.

<sup>13</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 22.

<sup>14</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 7.

22% of work-capable population is poor. Housing conditions are below the poverty threshold for 11% of inhabitants, and 29% live in conditions of «legal poverty» because they live in apartments for which they lack adequate ownership or tenancy rights. In total, this analysis showed that some 72% of adults in BiH are poor from at least one of these aspects.<sup>15</sup>

## **2. Most Vulnerable Categories of the Poor**

Although the identified poverty rate in BiH is lower than had been presumed, the essential conclusion is that the threat of poverty in BiH is widespread among the population and that the poor are a heterogeneous group, so that even a typical household bears a considerable risk of sliding into poverty.<sup>16</sup>

Below the poverty line are most frequently children, persons with low education levels, the elderly and the disabled as well as the rural population. An analysis of data for the population as a whole indicates that children, especially those under 5 years of age, displaced persons and returnees, the unemployed, and persons with low education levels, are particularly exposed to the risk of poverty. Contrary to received wisdom, the elderly are less threatened by the risk of poverty than the average person, and the same can be said for the disabled and war veterans. Those least at risk are the employed, both those in the non-economic sector and those in the "grey economy".<sup>17</sup> Another surprising conclusion is that poverty is not primarily a problem of the unemployed, displaced persons, the disabled, or the families of soldiers killed during the war. All these groups combined constitute less than half the poor. The majority of the poor in BiH are employed persons living in families with children, the result of low wages and the fact that one wage is inadequate to keep a household above the poverty level.<sup>18</sup>

### **2.1. The Young Generation and Poverty**

Children are one of the categories that are most at risk of having a standard of living below the poverty line. Some 56% of the poor live in families with children. The children in RS are particularly vulnerable, since around half of this age group lives in poor families, while in the FBiH this holds for around one-third of all children.<sup>19</sup> Around 13% of children live in families that fall into the category of the poorest, and 29% in households that are on the poverty line. Poverty of families with children is at its most pronounced where none of the family members are employed, and the situation is particularly difficult for displaced households, where the head of household is unemployed.<sup>20</sup>

Children under 5 years of age are particularly at risk. This threat takes many forms, such as: very low access to preschool education (less than 9% of children attend a preschool education institution), lower access of poor children to secondary education, very low health insurance coverage, especially in rural areas. Surveys conducted among the population also confirm that the absence of health care affects young children of both sexes most seriously, since children are seen as more susceptible to accidents and illness, and as less resistant than adults.<sup>21</sup> Children without parental care and other children in care (in the care of social welfare institutions) are at even greater risk than children living in poor families, since the social welfare systems are financially too weak to provide appropriate care.

Unemployment is probably the major problem affecting the young generation, equally in urban and rural areas of BiH. When this is combined with housing problems, the lasting economic crisis and political manipulation, young people become depressed and desperate and turn to drugs and alcohol, or make plans to emigrate as the only way to secure a better future.<sup>22</sup> According to the available data, 92,000 young people left BiH between January 1996 and March 2001, and surveys show that 62% of the young would emigrate if they had the opportunity.<sup>23</sup> This is probably the most detrimental trend for the long-term revival and viability of economic development of BiH. The fact that there are fewer women among newcomers to the labour market (19 to 29 years of age) is interesting, since this means that a larger number of women than men are leaving the country.<sup>24</sup>

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<sup>15</sup> Human Development Report/Millennium Development Goals, June 2003, p. 17.

<sup>16</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 11.

<sup>17</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 12.

<sup>18</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 36-37.

<sup>19</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 35.

<sup>20</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 36.

<sup>21</sup> Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 6.

<sup>22</sup> Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 6.

<sup>23</sup> Human Development Report, UNDP, September 2002, page 42.

<sup>24</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 111.

## **2.2. Refugees and displaced persons**

The data of the Ministry for Human Rights and Refugees of BiH indicate that 283,900 displaced persons reside in BiH (35% from the territory of FBiH and 65% from RS). It is estimated that more than 500,000 BiH refugees live abroad, and some 100,000 have no permanent status, so the possibility of their return should be anticipated. Some 248,300 displaced persons live in the RS and around 23,500 in Brčko District.<sup>25</sup> According to the data of the Ministry of Refugees and Displaced Persons of BiH and UNHCR, by September 30, 2003, 713,261 refugees and displaced persons returned to the FBiH, while 242,598 went back to their homes in the RS, and 20,951 refugees and displaced persons to Brčko District.<sup>26</sup>

In all parts of the country, these categories, who are frequently without any stable source of income and not being covered by the existing social welfare systems, are considerably more vulnerable to poverty than the population that was not forced to move. In the case of returnees, the picture varies: in the RS returnees are extremely exposed to the risk of poverty, while in the FBiH that risk is lower.<sup>27</sup>

Although LSMS failed to provide sufficient data for an in-depth analysis, the severity of the plight of this category is confirmed by the earlier research. Displaced persons constitute around 45% of the extremely poor in the FBiH, while in the RS, the displaced population accounts for only 21% of all those falling into this category. Eight percent of the poorest and 37% of persons on the poverty line live in a joint household with at least one displaced person. By far the most difficult is the situation of displaced persons still living in collective centers.

In the circumstances of radical cut-backs and the imminent cessation of these types of assistance, the displaced are in an especially difficult position, as there is no organized system at the entity and cantonal level that could take over the role of financing the needs of the displaced. The displaced therefore left in a charge on the municipalities which, in most cases, are unable to provide them with even the minimal conditions for survival. Displacement had an impact on the stratification of the labour market: the displaced are in a much more difficult situation, facing greater difficulties in finding a job and often forced to accept jobs that other groups were not interested in. In view of the difficult economic situation as well as continued ethnic tensions, returnees almost never manage to return to their previous jobs. Single mothers in displaced persons or returnee households face particularly serious problems since, in addition to all the other aspects of discrimination, they do not have access to even the basic forms of social welfare provided to other population groups.<sup>28</sup>

## **2.3. Classic social welfare cases**

There are around 260,000 beneficiaries of social welfare in BiH, i. e. around 7% of the population from each Entity. Additional 125,000 beneficiaries were registered for child care programs (2% of the population in FBiH and 6% in RS)<sup>29</sup>. The categories of social welfare beneficiaries (in both Entities)<sup>30</sup> are children without parental care, educationally neglected children, children whose development is disrupted by their family situation, the disabled and persons with mental and physical developmental problems, persons incapable of working and without any material insurance, elderly persons without any family care, persons with anti-social behaviour as well as persons and families in social need due to special circumstances.<sup>31</sup>

Although 2% of the BiH population is registered as receiving financial benefits as a social welfare right, the reality is that funds are not available for everyone to exercise that right. For instance, only 13% of those registered in the RS are actually receiving welfare payments, and in some municipalities the percentage of those registered that are actually receiving welfare payments is as low as 2-3% while in others it may be over 20%.<sup>32</sup> The situation is similar in FBiH, where some cantons offer no form of social assistance.

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<sup>25</sup> Reform of social security development in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, p. 28 –29.

<sup>26</sup> UNHCR Mission in BiH, [www.unhcr.ba](http://www.unhcr.ba)

<sup>27</sup> Bosnia and Herzegovina: Poverty Assessment, Volume II, World Bank, Report No. 25343-BIH, p. 38.

<sup>28</sup> Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 2.

<sup>29</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 127.

<sup>30</sup> Reform of social security development in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, p. 9, and Analysis of the situation in the social sector in RS with proposed measures, Social Sector Working Group, June 2002.

<sup>31</sup> Reform of the development of social security in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, pp. 7-8 and 11, and Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

<sup>32</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 127.

## **2.4. The unemployed**

According to official statistical data, in December 2002 the official number and rate of unemployment (unemployed registered with employment bureaus) were 435,505, or 41.1% (42.7% in the FBiH and 38.2% in the RS) of active population.<sup>33</sup> Women represented 44,6% of the overall number of unemployed. Approximately one third of the unemployed were demobilized soldiers, while 4% were family members of killed soldiers and military war disabled.<sup>34</sup> About 34% of the population (38,6% of the FBiH population and 26,7% of RS population) regard unemployment as the single most serious problem faced by the country. As a result of cuts in military personnel, as already announced, as well as the impact of privatization, jobless numbers are expected to continue to rise.

Subject to certain conditions, the unemployed who previously had jobs have the right participate in the safety net which provides benefits of between 117 and 240 KM, payable for a period of between 6 and 12 months. Insufficiency of funds for this purpose led to only 3,320 people receiving these benefits in 2002,<sup>35</sup> and in the first six months of 2003 some 4,700 persons, or 1.6% of the total of those registered with employment bureaus in this entity. Unemployed persons in the FBiH are entitled to health care on condition that they are registered with one of the cantonal employment bureaus. In the RS, during 2002, an average of 1,290 persons per month received unemployment benefits, averaging some 70 KM, and there were some 1,530 on average in the first six months of 2003. Eligibility for unemployment benefits, which are payable over a period of between 3 and 12 months, depending on years of service, is based on a specified number of years of employment during the period preceding the claim.<sup>36</sup>

The Poverty Assessment Study, drafted by a team of World Bank experts using data collected under the auspices of the Living Standards Measurement Survey (LSMS) and in collaboration with domestic experts, has reached a surprising conclusion in the preliminary phase that poverty is not primarily a consequence of unemployment. This conclusion is based on findings that less than 20% of the poor live in households in which the head of the family is not working, while more than double that number live in families in which the head of the family has a job. About 63% of the poor live in households in which at least somebody is employed. On the other hand, 28% of the unemployed are poor<sup>37</sup>, while the unemployed represent only about a third of the overall number of the poor.<sup>38</sup> An explanation for such a wide incidence of poverty among the employed and among members of their households should be sought in the difficult conditions in which the BH economy functions. Average wage in the FBiH in December 2002 amounted to 513 KM, and in the RS to 356 KM<sup>39</sup> (in comparison with the estimated monthly price of the consumer basket, which is 459 KM in the FBiH and 458 KM in the RS).<sup>40</sup> At the same time, a significant number of businesses are showing very poor trading results and pay low wages, often in arrears by several months.

Bearing in mind that women account for only a third of the employed in BiH, and 44,6% of the officially unemployed are women - one of the solutions to the difficult position of families with working members is to promote a more active role for women on the labour market. However, the current state of the economy means that increasing the number of employed women will be a difficult and long-term process.<sup>41</sup>

The Poverty Assessment Study also showed that, although all unemployed persons do not fall into the category of the poor, they are at significantly higher risk of seeing their standard of living falling to below the poverty line than any other category of the population.

## **2.5. Low Income Pensioners**

The LSMS data point out that the elderly, as a group, do not belong to the most vulnerable category, mostly because the level of pensions, especially in the FBiH, is above the poverty line. Only 17% of the

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<sup>33</sup> Bulletin 4, January – December 2002, Central Bank of BiH, pp. 148-149.

<sup>34</sup> Education in Poverty Reduction, Federal Ministry of Education, Science, Culture and Sports, May 2002.

<sup>35</sup> Reform of the development of social security in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, pp. 19,

<sup>36</sup> Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

<sup>37</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 33.

<sup>38</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 38.

<sup>39</sup> Bulletin 4, January – December 2002, Central Bank of BiH, pp. 153.

<sup>40</sup> Monthly Bulletin of the Federal Statistical Bureau, June 2002, page 55, and Early Warning System, Quarterly Report April – June 2002, UNDP and BiH authorities, p. 36.

<sup>41</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 120-121.

poor are of retirement age.<sup>42</sup> However, the members of that group are mostly concentrated just above that line. Belonging to a higher age group is, however, a common enough characteristic of the poor, and their specific needs and dependence on assistance from other people mean that this group is in exceptionally difficult circumstances. According to the findings of the team in charge of the Poverty Assessment Study, as many as 20% of the poor are either retired or incapable of working. In addition, at least 25% of the poor over the age of 60 are from the category of those who have not acquired the right to a pension.

In comparison with the year 1991, when the ratio of pensioners and employees was 1:3, by the end of the year 1995 the ratio had decreased to 1:1.3, after which it stabilized at about 1:1.4 in the FBiH. The level of pensions in the FBiH (an average pension of 186 KM was disbursed in December 2002) reflects the strength of the post-war recovery. Owing to the tripling of wages, and the 25% increase in the number of people paying insurance, the average pension has tripled by comparison with 1996 levels. By 2001, the average pension in the FBiH had reached 2/3 of average income per capita, which is above the ratio in most countries in transition. However, average pensions are still only around 36% of an average wage in FBiH (513 KM)<sup>43</sup> this solid average conceals significant differences in pension levels, so that older women, widows of pensioners, are to a significant extent exposed to the risk of poverty, while a household receiving two pensions can enjoy an income significantly above the FBiH average. In addition, women pensioners are, in general, in a more difficult position than men, given that women's pensions are lower because, in general, they had lower-paid jobs.<sup>44</sup>

The situation in the RS is significantly more difficult, with each person paying insurance contributions supporting more than one pensioner: a ratio of 1.08:1. As a result, even the very high contributions and transfers from the budget do not make it possible to pay average pensions of more than 30% of average income per capita. The level of pensions in the RS is half of what it is in the FBiH (an average pension in December 2002 as 120.18 KM), i. e. 34% of the average wage of 356 KM).<sup>45</sup> Despite this,+, the RS pension system can function only with significant transfers from the entity budget.

### **3. Specific Issues Related to Poverty in BiH**

#### **3.1. Human Rights and Poverty**

It must always be stressed that effects and consequences of poverty are multidimensional. This means that negative influence on one dimension of human rights (e. g. the economic aspect) inevitably affects all other rights. It is difficult to claim with certainty that economic growth might by itself lead to poverty reduction and that is why it is of utmost importance to consider poverty from an inter-sectoral perspective.

Existing legal framework in BiH (BiH Constitution, constitutions of entities and cantons, ratified international conventions) provide a high degree of protection of human rights and freedoms. Equal treatment of men and women is guaranteed by law. In addition, BiH ratified a series of international human rights conventions (although it irregularly reported to international monitoring bodies)<sup>46</sup>.

In the summer of 2000, a crucial decision of the Constitutional Court determined that changes must be introduced into entity constitutions to protect the rights of **constitutional peoples** in BiH. Subsequently, constitutional mechanisms were introduced in the entities to balance and safeguard the rights of every constitutional people. This decision ensured equality and proportional representation in political, administrative and judicial institutions.<sup>47</sup>

All areas of social and economic development contain a dimension of human rights and require monitoring and analysis of effects of measures implemented with regard of the individual rights of citizens, as well as rights of different citizen groups, which require a higher degree of protection, such as: children, elderly, women, people in social need, persons with invalidity, families of killed and missing, war victims, displaced persons, and in particular returnees, minorities, refugees, asylum

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<sup>42</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 35.

<sup>43</sup> FBiH Retirement Fund, April 2003.

<sup>44</sup> Human Development Report, UNDP, September 2002, p. 86.

<sup>45</sup> Payment of retirement benefits, RS Retirement Fund, December 2002.

<sup>46</sup> Report of the European Commission to the Council on preparedness of BiH to initiate negotiations with the European Union on the Stability and Association Agreement, Brussels, 18 November 2003, p. 10.

<sup>47</sup> Report of the European Commission to the Council on preparedness of BiH to initiate negotiations with the European Union on the Stability and Association Agreement, Brussels, 18 November 2003, p. 11.

seekers, Roma etc. Social and economic rights of BiH citizens remain constrained because of underdeveloped economy.<sup>48</sup>

According to the reports of the Ombudsmen, the most frequent human rights violation relate to equality before the law, property rights and right to work. The BiH Poverty Assessment demonstrated the strong link between violations of human rights, that are guaranteed by law, and poverty. This link is particularly strong in the case of returnees, as well as of minority populations (Roma).

### **3.2. Education and Poverty**

About 60% of the poor live in households in which the head of the family has primary education only, or not even that. The probability of a household falling into the category of poor households is almost tripled if the head of the family has completed primary school level education only.<sup>49</sup> High-school level education is already a major guarantee of the family's avoiding falling into poverty. This indicates the importance of the improvement of the educational system for young people, as the basic tool for the long-term eradication of poverty. In the medium term, creating new options for adults with lower educational levels would yield positive results for a large proportion of the poor.

One of the basic findings of the majority of studies relates to the negative correlation between the level of education and poverty. In general, the higher the level of education, of either an individual or a household, the lower the probability that they will become unemployed, and therefore that they will fall into the category of the poor. Even in the 25-35 age group, half of all the poor are persons who have primary education only.<sup>50</sup> Lower education levels are linked to working in the "gray economy" - more than a half of the employees with primary school level of education work in the informal economy, while for categories with higher levels of education that indicator is under one fourth.<sup>51</sup> Education level is single most significant of all factors affecting the poverty risk.<sup>52</sup>

### **3.3. Gender Equality<sup>53</sup> and Poverty**

Although there is not enough data to enable an analysis of poverty from the aspect of gender, existing studies point out that poverty takes the same toll amongst women and amongst men. Both men and women believe that the causes of poverty are the war, poorly conducted privatization, lack of the skills in demand on the labour market, corruption and the absence of the rule of law. Both groups seek their way out of poverty through improvements of their employment options, resolving their housing problems, adequate access to health and educational services, as well as through mobilization and activation of the society itself. It is interesting to note that all the groups consider that the alienation and poor cultural life are some of the important consequences of poverty.<sup>54</sup> In the BiH context, the male and female roles were disrupted with the outbreak of the war. Men assumed the role of defenders, protectors with the absolute power and control in public and political life. Women thus lost a role in public life and reverted back to the limits of the home, household and family.<sup>55</sup>

According to the findings of IBHI<sup>56</sup> researchers, the impact of poverty is different on men and on women: men often fall into a depression over unemployment or inability to support their families, while women are more inventive and ready to accept all kinds of jobs, but are prone to stress and tend to sacrifice their own health. In our new social circumstances, women often take on additional responsibilities for supporting their families, together with their traditional roles of mother and housewife.<sup>57</sup>

Women comprise 44.65% of the overall number of unemployed, which is more evident than their share of overall employment (35%)<sup>58</sup>. or active population (37.4%).<sup>59</sup> This is the lowest proportion of women in the total active labour force of any country in Southeastern Europe. Low employment rates among

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<sup>48</sup> Report of the European Commission to the Council on preparedness of BiH to initiate negotiations with the European Union on the Stability and Association Agreement, Brussels, 18 November 2003, p. 11.

<sup>49</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 32.

<sup>50</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 44.

<sup>51</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 60.

<sup>52</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 46.

<sup>53</sup> Global Advocacy for Gender: Vienna Declaration, Convention on Elimination of Discrimination Against Women (CEDAW), and Beijing Action Platform

<sup>54</sup> Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 25.

<sup>55</sup> Human Development Report/Millennium Development Goals – BiH 2003, UNDP BiH, June 2003, p. 41.

<sup>56</sup> Independent Bureau for Humanitarian Issues.

<sup>57</sup> Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 1.

<sup>58</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 38.

<sup>59</sup> Human Development Report, UNDP, Sarajevo, June 2003, p. 18.

women are a problem for two reasons: first, the decline of real wages in comparison with the pre war period indicates that one wage can hardly meet all the demands of a family now; second, the ravages of war and the post war cuts in social benefits for family support have forced families to take on additional domestic responsibilities, without any additional resources.<sup>60</sup>

Women suffer discrimination in employment, in both the private and the public sector, they receive lower wages than men for the same work and they have fewer opportunities for promotion, which has a direct impact on their financial position and makes it harder for them to maintain a satisfactory standard of living. Women are first to be fired during times of restructuring and reform and it is harder for them to find new employment. The available data lead to the conclusion that female-headed households are exposed to significantly higher risks of falling into the category of the poor than male-headed households. A further problem that is a particular barrier to employment for women is the almost virtual non-existence of childcare institutions.<sup>61</sup> For all these reasons, it is not surprising that the data indicate that women in the 19 to 29 age group are less represented in the category of new entrants to the labour market, although it may also indicate that some of the best educated are leaving the country in search of better living conditions.

Even the fact that women have a longer life expectancy contributes to significantly higher exposure of older women to the risk of falling below the poverty line. Women account for 58% of the population over 65. It is very common to find women living alone, without a pension or any other regular income, especially in rural areas.<sup>62</sup> Even when they have acquired the right to a pension, women pensioners receive lower pensions, having as a rule had lower-paid jobs. Bearing in mind that low education levels and illiteracy are the most frequent among the members of this group, it becomes clear how hard it is for such women to make use even of the options that exist for them to receive assistance.

Poor women are especially stricken by the sense of disempowerment and inability to express their opinions, either in their own surroundings or in relation to the authorities. Single mothers (particularly of children with special needs), elderly women, women refugees, Roma women, victims of violence, uneducated and unemployed women, and women in rural areas have special difficulties. Women in returnee households are in by far the worst position of all, due to their minority status and, often, their total isolation from the community to which they have returned. In view of the fact that there are different categories of vulnerable women in BiH, various problems must be addressed when designing assistance programs. Additional research in the area of gender equality is vital to obtain a clearer picture of the situation on the ground.

At the level of BiH, the issue of gender equality is completely regulated by the Law on Gender Equality in BiH<sup>63</sup> This Law regulates, promotes and protects gender equality and guarantees equal possibilities to all citizens, both in the public and private sphere of the society, and prohibits gender-based direct or indirect discrimination. Full gender equality is guaranteed in all segments of society, and particularly in education, economy, labor and employment, social and health care, sports, culture, public life and the media, without regard to marital and family status. However, the focus in the next period must be on the implementation of the Law on Gender Equality in BiH and on integration of gender equality issues into all future strategic documents.

### **3.4. Elderly People and Poverty**

The BiH population is rapidly aging, due to the declining rate in the natural increase of population, increasing life expectancy and emigration of the young. It is estimated that more than 12% of the BiH population is over 65, and for the RS this estimate is 15%. Over 80% of elderly persons are pensioners, about 10% of them receive benefits as war disabled, and about 5% are receiving social assistance.

Bearing in mind that pensions are low and social welfare, which is low and is often in delay, elderly people are one of the potentially most vulnerable groups. Although precise data are not available, some groups, such as elderly women living alone in villages, find it very hard to cope, due to the lack of access to social services, while the isolation of their homes and their own illiteracy often means they have no way of seeking assistance.<sup>64</sup>

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<sup>60</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 38-39.

<sup>61</sup> Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 2.

<sup>62</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 102-103.

<sup>63</sup> This Law has been harmonized with EU standards, adopted by the BiH Parliament and gazetted on 16 June, 2003, "Official Gazette" No. 16/03.

<sup>64</sup> Human Development Report, UNDP, September 2002, pp. 53-54.

### **3.5. Poverty in Rural and Urban Areas**

The consequences of the war have extremely complicated the situation in BiH and the position of its rural population, where the level of poverty is significantly higher. Although BiH has no pronounced potential for the development of agriculture, about half the rural population relies to a large extent on agriculture to survive. Many rural communities have been destroyed and their population displaced, either to third countries or within the country, where they are now largely living in cities. The slow pace of demining means that normal life is still impossible in many parts of the country, and a proportion of arable land cannot be cultivated.

Only about 20% of the poor live in urban communities, and poverty is most present in smaller communities, which frequently suffered the worst damage during the war. The risk of falling into poverty in the RS is significantly higher in non-urban, than in urban areas: 27% to 12%., while in the FBiH this risk is balanced: 16% of the poor live in non-urban, and 15% in urban areas.<sup>65</sup>

Practically all the aspects which influence household living standards are more unfavourable in rural areas. In many parts of the country the basic infrastructure is still lacking. Access to educational and health facilities is more difficult and more expensive, and the quality of those which are accessible is lower. The virtual absence of pre-school institutions is increasingly significant, as they could help children from rural areas to compensate for the limitations which are often the result of growing up in a village. Only 6% of children from rural areas attend such institutions, in comparison with 15% of city-dwelling children.<sup>66</sup>

The lack of a comprehensive agriculture development policy deters people from investing in that activity, while options for other types of employment in rural areas are minimal. All this prevents many displaced persons from leaving their temporary residences in the cities, which creates an additional pressure on the very small number of jobs, increases the cost of housing and gives rise to difficulties in the provision of educational, health care and social services.

### **3.6. Ethnic and Religious Dimensions of Poverty**

UNDP findings<sup>67</sup> prepared in collaboration with the BH authorities, indicate that there is a correlation between the ethnic structure of certain parts of the country and levels of household income. In Croat-majority areas, 6.9% of households fall into the category of the poor based on income levels, in Bosniak-majority areas the percentage is between 22% and 25%, and in Serb-majority areas it is between 40% and 43%. Expressed differently, there is a growing gap in the economic development and standard of living between the different regions of BiH: Croat-majority areas enjoy the highest living standards, Bosniak-majority areas are in the middle, and RS has the lowest standard of living. Bosniak-majority Sarajevo Canton is the exception to the rule, thanks to its specific position as the capital and the presence of so many government authorities and international organizations

Almost everywhere in BiH minorities are much more vulnerable in regard to their financial status. In comparison with the above figures on the majority populations of the various areas, more than half of ethnic minority households in RS are poor, and in the Croat-majority areas of FBiH, 15.6% of ethnic minority households are poor. In Bosniak-majority areas, about 25% of ethnic minority households fall into the category of the poor, but the data from 2002 do not indicate any great differences between majority and minority ethnic groups.<sup>68</sup>

A minority group that is almost entirely marginalized in BiH is the Roma population. Although it is impossible to ascertain the number of Roma living in BiH today with any degree of certainty (the estimates of Roma organizations range between 17, 000 to close to 80,000<sup>69</sup>) it is almost certain that they represent the largest ethnic minority.<sup>70</sup> The number of Roma is difficult to ascertain because many of them still live nomadically. Although no in-depth surveys of poverty among Roma have been conducted, all available information indicates that they are one of the most vulnerable groups, living in conditions below even the most minimal for survival and often without the resources to support their families and ensure that their children can receive an education. As a group, Roma have by far the

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<sup>65</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 42.

<sup>66</sup> Household Survey of Women and Children in BiH, 2000, UNICEF and Statistics Agency of BiH, December 2000, pages 47 and 111.

<sup>67</sup> Early Warning System, Quarterly Report April – June 2002, UNDP and BiH Authorities, pp. 16-17.

<sup>68</sup> Early Warning System, Quarterly Report April – June 2002, UNDP and BiH Authorities, p. 34.

<sup>69</sup> Status of Roma in BiH (Poll Findings), Center for Protection of Minority Rights, Sarajevo, 1999, p. 14.

<sup>70</sup> Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 34.



lowest levels of education in the country, their unemployment rate is almost 100%, and more than 90% have no health insurance. Due to their minority status they are marginalized, and their lack of knowledge of the system means that they are effectively deprived of many legal rights, including the right to social assistance.

Of the Roma families polled, 80% have no family members in permanent employment, and the majority mostly survive by doing temporary work or seasonal jobs, as small-scale traders in outdoor markets, or as scrap merchants.<sup>71</sup> Roma encounter discrimination when job-hunting. A further problem is that very few have any formal education and even fewer have professional qualifications of any kind. The results of polls conducted among the Roma show them to be poorly integrated into the education system, with 23% illiteracy and low attendance rates at pre-school institutions and primary schools, resulting in their almost total exclusion from high school, vocational and university education.<sup>72</sup> By way of illustration, a poll by the Roma association "Our Future", covering 582 Roma children aged 7 to 18 in Sarajevo Canton during the school year 1995/1996 found that only 189, or 33%, attended school regularly.<sup>73</sup> As Sarajevo is an urban area in which the majority of children have the opportunity to attend educational institutions, one can assume that the situation in other parts of BiH is even worse. Confirmation for this can be found in a survey on the status of Roma in Tuzla Canton, which covered 189 families and established that only 10 families enrolled their children in schools.<sup>74</sup>

Roma give as reasons for their children's failure to attend school: poverty, the necessity for children to start working and providing for the family at an early age, lack of confidence in the authorities (including schools), ill-treatment by their peers at school, and their inability to provide an environment conducive to study at home. Another reason often cited is the language issue: 86% of Roma polled give their mother tongue as Roma, which adds to their problems at school, where in the overwhelming majority of cases no special provision is made for pre-school assistance to Roma children. Roma have long faced difficulties and exclusion from community, but the BiH Law on the Rights of National Minorities from 2002, and establishment of consultative fora, created a mechanism for protection of their rights.<sup>75</sup>

#### **4. Causes of Poverty**

##### **4.1. War destruction**

About 250.000 people lost their lives during the war in Bosnia between 1992 and 1995, and more than half the pre-war population of 4.4 million people became internally displaced or refugees abroad. The war caused immense devastation to manufacturing capacity and infrastructure, severed trade connections and put an end to the economic reforms that had just been launched in former Yugoslavia. Direct material war damage is estimated at between 50 and 60 bn. US\$, of which about 20 bn. US\$ on industrial capacities<sup>76</sup>. Adding to this the loss of GDP from 1992 to date, overall damage amounts to more than 100 bn. US\$. Because of the war, from a development country (within the former SFRY) BiH had, in European terms, become a poor country.

##### **4.2. Slow Implementation of Reforms**

In the post-war period, issues related to the implementation of the Dayton Accords were the focus of attention of all governments. Implementation of necessary reforms, that would lead to an economic revival, and consequent increase in employment, were delayed. Lack of political consensus on the reform program represented an additional obstacle.<sup>77</sup>

##### **4.3. Unemployment**

Unemployment, especially widespread among the younger population, one of the most significant causes of poverty in BiH. The unemployed are not in fact a majority of the poor, because many live in

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<sup>71</sup> Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 19.

<sup>72</sup> Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 9.

<sup>73</sup> Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 32.

<sup>74</sup> Analysis on the Current Status of the Roma Returnees to Tuzla Canton, Helsinški parlament građana i romska udruženja iz Tuzlanskog kantona, 1999.

<sup>75</sup> Report of the European Commission to the Council on preparedness of BiH to initiate negotiations with the European Union on the Stability and Association Agreement, Brussels, 18 November 2003, p. 13.

<sup>76</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 49.

<sup>77</sup> Human Development Report, UNDP, September 2002, Pages 47-48.

households where one or more persons are employed. Another significant reason is the very strong informal sector (36,2%)<sup>78</sup>. The size of the "grey economy" led the World Bank to conclude that real unemployment rate (based on the very broad ILO definition) could be as low as 16.7%.<sup>79</sup>

#### **4.4. Human Rights Violations**

Human rights violations in BiH, particularly in cases of returnee and Roma populations, influence the poverty rate. Ethnic discrimination is expressed in difficulties in achieving return of private property, threats to personal security or obstruction of returns to pre-war places of residence and pre-war jobs, as well as the general impossibility of finding work, particularly in the public sector. Access to education, health- and social services or participation in the labor market are all hampered.

#### **4.5. Inadequate Social Assistance System**

In the conditions of insufficient fiscal revenues, the existing social assistance system is incapable of providing for the large numbers of the poor. Discrimination is present in realization of benefits, in that the transfers to military disabled are higher and more regular than to other categories of persons with disabilities. At the same time, discrimination is also regionally-based. Unlike other parts of the country, poor cantons in FBiH and poor RS municipalities are not allocating funds for social assistance, due to the shortage of funds in their budgets. The inadequate organization of social assistance in post-war conditions, together with the decentralized formulation and implementation of social policy, with policy determined on one level (entity) and implemented on another (canton or municipality), makes the adequate provision of assistance much harder. The peripheral municipalities, especially in the RS and Goražde Canton, pose a particular problem, as many were created through a division of pre-war municipalities and most lack even the most basic physical infrastructure, let alone the capacity to organize social assistance and care for the poor within their jurisdiction. Finally, the oversight of the benefits' approval process is inadequate, which leads to the conclusion that social assistance benefits granted to date need to be reviewed.

Social assistance is an important factor in reducing poverty: the current assistance is equal to some 17% of GDP in BiH. Transfers to households comprise the largest share – around 15% of GDP. One in five inhabitants is a recipient of social assistance in some form. This assistance comprises around 11% of total household spending. For some 13% of the polled, the assistance is the shield from sliding into poverty, because for that group it increases spending by 50% on average. Many households in BiH receive some form of assistance, but less than half of the poor households are covered by these programs. Compared with other countries in the region, social assistance in BiH was unequally distributed between vulnerable groups and has limited effect to reduction of general poverty level in the country.<sup>80</sup> As previously mentioned, the existing social assistance system favors one group in relation to others, thus the total social transfers are not equally shared between all those in need of such assistance. The issue of financial assistance of both entity governments to war veterans is a particularly complex. Contrary to the public opinion, the analysis of the data collected during the Living Standard Measurement Survey (LSMS) demonstrated that the war disabled and war veterans face considerably lower risk of sliding into poverty in relation to average inhabitant of BiH. This may be explained by higher sensitivity of governments to this category, owing to their ability to exercise far more effective influence on the public opinion in comparison with other categories of the poor. Thus, for instance, transfers to the veteran populations are 13 times higher in FBiH, and 2 times in RS, than allocations for child protection.

Amounting to nearly 4% of GDP, veteran transfers represent a major burden for entity budgets and restrict the capacity for assistance to other vulnerable categories of the population. In addition, in both entities, significant additional financing is channelled to these categories from lower levels of government. It has been recognized that the most severely disabled (over 50% of disability) are not adequately protected, while the assistance is provided for a great number of work-capable disabled.

That the situation of social assistance beneficiaries is not even worse may be explained by other forms of assistance they receive. During the war and post-war period, humanitarian aid was particularly significant, as it often included, in addition to food, clothes and medicines. Humanitarian assistance was shared and through government bodies and through NGOs, and was available to nearly everyone in need. However, this form of assistance has been considerably reduced in recent years and one must expect that in the near future it will no longer have a significant role in meeting the basic needs of the

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<sup>78</sup> According to LSMS findings.

<sup>79</sup> Human Development Report, UNDP and Economic Institute Sarajevo, September 2002, Page 35.

<sup>80</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BiH, p. 99.

vulnerable categories of the population. On the other hand, other survival strategies are in evidence: many poor rely on assistance of the family and relatives, and many others have access to arable land. Assistance from abroad is also a significant means of substituting or complementing social protection. Most of this assistance flows outside official financial channels, making it impossible to determine their levels with certainty. The BiH Central Bank estimates that private transfers from abroad in 2001 reached KM 2.1 billion, i. e. equal to 22% of GDP, which is far above the other countries in the region. It is, however, impossible to determine what share of these funds goes to the poor or to those who would be poor without such assistance.<sup>81</sup>

#### **4.6. Quality of Education**

The quality of education has a direct influence on employment options, and thus on the possibilities for poverty reduction.

#### **4.7. Corruption**

Corruption, which is widespread in BiH, affects the poor especially hard, whether it is the matter of visit to a doctor, realization of the right to some form of social assistance, obtaining documents, education, return of property or employment.. Displaced persons, the elderly, the rural population and unemployed are often forced to pay for such services because they lack the channels of communication that would allow them to access these services in any other way.

#### **4.8. Inability to Influence the Institutions of the System**

Inability to influence the institutions of the system are both a cause and a consequence of poverty. In most cases the poor lack or are unaware of the channels of communication with the authorities that make the decisions and control the resources affecting their lives, which reduces their chances of breaking out of the "vicious circle" of impoverishment and participating in the formulation of policies and measures adjusted to their needs.

### **5. Priority Activities for Poverty Reduction**

A major goal in implementation of the Medium-Term Development Strategy of BiH (PRSP) is reduction of the poverty level by 20% by 2007. To achieve this goal, it will be necessary to implement the following reforms and measures, which are described in detail in the text of the Strategy:

- implement the fiscal reform to ensure a more effective collection of public revenues and higher assistance to the poor;
- accelerate the growth of the private sector to increase employment as one of the most effective ways of reducing poverty;
- establish a more adequate system of social protection to ensure a minimum of social rights and a more balanced distribution of social assistance for all categories of the poor in the entire country;
- reduce the corruption, which mostly affects the poor;
- reduce the level of "informal economy", which will lead to increases in pensions and reduction of poverty among the elderly;
- ensure safeguarding of human rights guaranteed by the existing legal framework and signed international treaties, which will lead to a better integration of returnee and Roma population into the community and reduce the poverty levels among these categories;
- fully implement the BiH Law on Gender Equality, which will reduce the gender effect on the poverty level;
- implement the reform of the education system, provide out-of-school forms of education and make them accessible to persons with low levels of education, which is most frequently the cause of their poverty.

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<sup>81</sup> Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 27.

## **II. MEDIUM-TERM MACROECONOMIC FRAMEWORK AND FRAMEWORK FOR FISCAL REFORM**

### **II.1. MEDIUM-TERM MACROECONOMIC FRAMEWORK**

#### **1. Objectives**

**1.1. By 2007, reach 70% of 1991 GDP;**

**1.2. By 2007, achieve partial credit worthiness on international capital market.**

#### **2. Situation: Recent Trends**

After the war, GDP in Bosnia and Herzegovina fell to about 20% of its pre-war level. Since 1995, BiH recorded high levels of growth averaging over 25% per year. As a result per capita GDP more than doubled from around KM 900 in late 1995 to an estimated KM 2,900 in 2003, although one needs to emphasize that the aforementioned level of GDP remains around half of the level executed in 1990. There are significant differences between the two Entities, with per capita GDP in the RS being only around 75 percent of that in the FBiH. Substantial regional differences in the level of economic development exist in both Entities.

From very high levels (over 75% in 1996 and 35% in 1997) real economic growth fell to around 10% in 1999 and an estimated 3.5% in 2003. This reflected a number of factors, including the end of the immediate post-war economic rebound, which was a result of a significant inflow of donor funds, falling levels of international assistance, slower than anticipated progress with economic reforms, political instability in the region, economic crisis in the world and the adverse climatic conditions in 2000 and 2003 which affected agricultural output.

In the course of the previous period, certain progress has been achieved in a number of areas<sup>1</sup>. The Central bank of BiH was strengthened: in 2003, the coverage of imports with reserves amounted to around 5 months. Due to the growth of public revenues, consolidated fiscal deficits were decreased, from 9 percent of GDP in 1999 to a modest surplus in 2003. Tax administration was strengthened, which yielded positive results, as constant growth of revenues was being recorded. Trade deficit, which amounted to 50 percent, in relation to GDP, between 1996 and 1999, is now constantly declining. In 2003 trade deficit declined on around 40% of the GDP. In period after the war exports were increased nine times over. Better control of expenditure was established, through the treasury system, which is functioning on the state and entity level, and which is now being introduced on cantonal and municipal levels, too. Fiscal consolidation was undertaken, through the implementation of additional activities aimed at demobilization of soldiers, and the reform of public administration is in preparation, too. Industrial production still shows positive growth rates. After the decline in 2001 and 2002, the scope of industrial production in RS in 2003 grew by 5 percent. In FBiH it grew by about 4,5 percent, which is still less than in 2002. The general assessment is that BiH is developing solid macroeconomic policies and achieving results in structural reforms<sup>2</sup>.

Economic development is multidimensional, and, to a large extent, it depends on maintaining macroeconomic stability and openness of economy in BiH. Economic growth and stable economic developments creates the preconditions for increasing the employment rate and the rate of efficiency of the social protection system, which, at the end, leads to the reduction of poverty.

#### **2.1. Problems**

Recent economic development has been associated with substantial external and internal imbalances generated by the post-war adjustment and reconstruction of the economy. The massive reconstruction programme required a very high level of imports that has been reflected in the still present extremely large current account deficit, which amounted to around 17% of GDP in 2003. Slow renewal of domestic production affected the exports, which were weak, and which, in 2003, amounted to about 31 percent of total imports. Unemployment rate was also at a very high level.

The reconstruction of the country required a significant public investment program, which, for example, in 2001, represented about 10% of GDP, having fallen from around 15% of GDP in the late 1990s. Levels of public consumption have remained high, at around 23% of GDP in 2003, which

<sup>1</sup> Final Mission Report on Consultations on Article IV, IMF, December 2003.

<sup>2</sup> "Commission Report to Council on BiH Readiness for Initiation of Negotiations on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18th 2003

affected the growth of tax burdens and fiscal revenues that have grown in line with the Gross Domestic Product (GDP). The continued high level of public consumption to a significant extent reflects the limited progress with economic transformation. In parallel with that, throughout the period, there is a constant trend of extremely high levels of public expenditure. In 2003 they amounted to about 46% of GDP and they by far outreach the average for transition countries.

High levels of imports, public consumption, public investments and public expenditure were, in the most part, possible due to substantial inflows of foreign aid, the spending of a significant number of foreigner residents in BiH and high levels of remittances from BiH citizens living abroad (refugees).

The data on the overall budgetary deficit are still unknown, and it could turn out to be higher than the data shown in this document indicate, due to strong indications that the cantonal and municipal budgets got indebted in the domestic banking sector. According to the IMF<sup>3</sup> data cantonal budgetary deficits financed in this manner reached the amount of about 42 mill KM in the year 2002, which is far above planned level.

A particular difficulty is present in the level of the so-called corporate debt, which is, in the most part, the debt of companies in state ownership or companies privatized through certificates (vouchers). In fact, of special concern is the appearance of the so-called "non-payer culture" in relation to wages, contributions, taxes and liabilities to suppliers, creditors etc. Debts of those enterprises grew to such an extent that they pose one of the most severe obstacles for privatization and continuing development of the country.

Activities in the recent period failed to result in achieving total integration of the single economic space in BiH, and the size of the gray economy (36 percent of GDP) creates a magnitude of problems. The transition is posing a set of questions bearing social and cultural consequences, that are already present in BiH, such as, for example, «to pay or not to pay the taxes», «to register or not to register the workers».

### **3. Medium-Term Macroeconomic Framework: we have lost 18 years, must we lose another 18?!**

Table 1 shows the projected midterm macroeconomic framework for the PRSP. This framework is called "Reform Scenario" and it implies aggressive implementation of reforms envisaged in the proposal of the Mid-term Development Strategy for BiH (PRSP).

#### **3.1. Reform Scenario**

The scenario envisages that, in mid term, the real GDP growth rate will increase from 3.5 percent in 2003 to 5 percent in 2004, reaching about 5.5% by 2007. Such growth rates envisaged by the Reform Scenario would enable BiH to regain the pre war levels of GDP by the end of the decade, and accelerate the integration of BiH into EU.

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<sup>3</sup> Bosnia and Herzegovina – Second and Third Review Under the Stand-By Arrangement, May 2003

**Table 1. Reform scenario**  
**Bosnia and Herzegovina: Mid-term Macroeconomic Framework, 2003-2007**

	2003	2004	2005	2006	2007
	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Real sector</b>					
Nominal GDP (In millions of KM)	12.173	12.911	13.854	14.893	16.040
(Percentage change)	4,7	6,1	7,3	7,5	7,7
Real GDP (In millions of 1999 KM)	10.806	11.357	11.981	12.640	13.335
(Percentage change)	3,5	5,1	5,5	5,5	5,5
CPI, period average percentage change	0,1	0,9	1,8	2,0	2,2
<b>Savings and investment (In percent of GDP)</b>					
Consumption	111,1	108,4	106,1	103,4	100,5
Public consumption	22,5	22,3	21,2	20,1	19,1
Private consumption	88,7	86,1	84,9	83,3	81,4
Investment	19,9	20,3	21,2	21,8	22,2
Public investment	4,5	4,9	4,9	4,9	5,0
Private investment	15,5	15,5	16,3	16,9	17,2
National savings	2,3	4,5	6,0	8,3	10,4
Public savings	1,8	1,5	2,5	3,2	3,4
Private savings	0,5	3,0	3,5	5,0	7,0
Foreign savings	17,7	15,8	15,2	13,6	11,8
<b>General government (In percent of GDP)</b>					
Total revenue and grants	46,7	45,8	44,7	43,5	42,5
Grants	3,4	3,3	2,3	1,5	1,1
Total expenditure	46,3	46,0	45,4	44,3	43,1
Current expenditure	41,9	41,1	40,5	39,4	38,1
Capital expenditure	4,5	4,9	4,9	4,9	5,0
Own-financed capital expenditure	0,2	0,6	0,8	1,1	1,7
Foreign financed capital expenditure	4,2	4,3	4,1	3,8	3,3
Overall balance	0,4	-0,2	-0,7	-0,8	-0,6
Overall balance excl. grants	-3,0	-3,5	-3,0	-2,4	-1,7
Accumulation of arrears	0,5	0,7	0,5	0,5	0,5
Financing	0,2	0,8	1,2	1,3	1,1
Domestic financing	0,0	-0,2	0,6	0,7	0,3
Foreign financing	0,1	1,1	0,6	0,6	0,8
<b>Total foreign assistance 1/</b>	5	6	4,5	3,7	2,6
(In millions of US dollars)	350	486	372	322	283
<b>Balance of payments (In millions of US\$)</b>					
Current account balance (including official transfers)	-1.237	-1.302	-1.368	-1.324	-1.187
(Percent of GDP)	-17,7	-15,6	-15,2	-13,6	-11,3
Export growth rate (In percent)	34	22	13	14	15
Import growth rate (In percent)	22	12	5,4	6,5	6,4
Gross reserves	1.725	1.714	1.764	1.814	1.864
(Months of imports of goods and n.f. services)	4,5	4,5	4,4	4,3	4,1
Total public debt 2/	2.572	4.930	4.997	5.038	5.041
(In millions of US\$)	34,0	59,7	56,2	52,5	48,5
(In percent of GDP)					
Total external debt service in percent of exports of goods and non-factor services	8,6	7,2	7,0	6,1	4,4
<b>Memorandum item:</b>					
Percentage change in real current public expenditure	1,3	4,9	-1,3	2,5	2,8

Sources: Data provided by the Bosnia and Herzegovina authorities; and IMF staff estimates and projections.

1/ Includes disbursements of foreign loans, and grants.

2/ Includes external public debt, stock of expenditure arrears, debt to domestic banks, and frozen foreign currency deposits. Excludes any liabilities arising out of war damage claims.

The key risk to realization of the Reform Scenario is the possibility that the necessary pace of reforms proposed by the Mid-term Development Strategy for BiH (PRSP) will not be achieved, which would result in lower rates of economic growth. The impact would be further exacerbated by a sharper than expected fall in external resource inflows, which can be expected to be increasingly linked to the timely implementation of reform measures.

### **3.2. Scenario in the Case of a Slower Implementation of Reforms (status quo)**

Due to the risk that the governments might fail to achieve the necessary pace of implementation of reforms, the PRSP team prepared an alternative mid-term macroeconomic projection which is titled "Scenario in the Case of a Slower Implementation of Reforms". That scenario is based on the trends in growth and implementation of reforms, which existed between 1996 and 2002 (status quo scenario).

<b>Table 2: Scenario in the Case of a Slower Implementation of Reforms</b>				
	2004	2005	2006	2007
	Proj.	Proj.	Proj.	Proj.
<b>Real Sector</b>				
GDP in nominal terms (KM million)	11,593	11,924	12,298	12,717
(percentage change)	3.5%	2.9%	3.1%	3.4%
GDP in real terms (KM million)	11,185	11,398	11,614	11,835
(percentage change)	1.8%	1.9%	1.9%	1.9%
CPI: period average percentage change	1.7%	1.9%	2.0%	2.1%
<b>General Government (% of GDP)</b>				
Total balance (KM million)	-321	-341	-353	-347
Total Revenues and Grants	53.3%	53.0%	52.8%	52.6%
Total Expenditure	56.0%	55.9%	55.6%	55.3%
Overall Balance	-2.8%	-2.9%	-2.9%	-2.7%
Total Foreign Assistance (grants and loans in m.US\$)	371	381	356	341

According to this scenario, GDP growth rate in real terms would, in 2004, will fall down to 1.8 percent, after which it would stabilize at the level of 1.9 percent annually (Table 2). In 2006, GDP growth in real terms would be around 10% lower than the one projected within the Reform Scenario. In real terms, public consumption would fall by 8 percent, which would require significant reductions of allocations for social benefits, public service and public investment financing. In case of this scenario, there is a risk that, due to internal and external imbalances, enforced adjustments would take place, which would additionally undermine economic growth and stability. Prospects for building a sustainable economy and reaching the pre war GDP level would be utterly uncertain, international aid would decline drastically, the country would not have credit worthiness to get indebted on the international capital market, and the prospects for entering EU by 2009 would be significantly undermined.

Taking into account the adverse effects of maintaining the status quo and a slower implementation of reforms, BiH does not have any alternative other than to accept the Reform Scenario and accelerate the reforms. Even in the case of the implementation of the Reform Scenario, which requires the implementation of an ambitious reform plan envisaged by the Mid-term Development Strategy of BiH (PRSP), BiH will lose 18 years of development, as the reinstatement of the pre war GDP levels is envisaged in 2009, and not prior to that. **The question to ask the governments and the public in BiH is: must we lose even more?**

### **3.3. Important Prerequisites for the Realization of the Reform Scenario**

In order for the objectives envisaged by the Reform Scenario (Table 1) to be achieved, it will be necessary to undertake the following priority activities and measures:

#### **3.3.1. Maintain GDP growth rate of 5 to 5.5 per cent per annum**

Growth rate in real terms in 2003 amounted to 3.5 percent of GDP. The drought that affected the region this year was also one of the significant causes of the reduction of the growth rate in real terms. In the following four year, the growth rate should reach the level of between 5 and 5.5 percent of GDP. Besides the implementation of the set of priority reform activities and measures, the final results of the Reform Scenario realization shall still be affected by external factors. **The decline of oil prices and rebound of the world economy, and, especially, of European economy,** shall continue to be important factors determining the rate of economic growth.

### **3.3.2. Maintain Low Inflation, Decrease Overall Public Expenditure, Consolidate Public Debt**

With the arrangement of the "currency board" it is to be expected that the inflation will remain low throughout the period, at between 1 and 2 percent. On the fiscal account, the overall deficit before grants is expected to fall from around 3 percent of GDP in 2003 to around 1,7 percent of GDP in 2007. Overall public expenditure, which amounted to about 46 percent of GDP in 2003, shall have to fall to about 43 percent of GDP by 2007. High level of public expenditure in recent years was facilitated by a significant scope of international financial aid, significant expenditure of foreign residents, and significant monetary transfers. In the course of the aforementioned period, it is expected that the level of public expenditure shall fall from around 22% of GDP in 2003 to 19% of GDP in 2007. Fiscal discipline will be further reinforced by continuation of the policy of avoiding commercial external borrowing and restrictive borrowing of governments on the domestic capital market. The realization of entity level plans for the reduction of public debt shall result in the decline of the overall level of public debt from around 60 percent of GDP in 2004 to around 49% in 2007. The highly concessional nature of external debt means that external debt servicing payments will remain modest, falling from 8,6% of export receipts in 2003 to 4,4 percent in 2007.

### **3.3.3. Decrease the Current Accounts Deficit and Trade Deficit and Increase Exports**

In 2002 the foreign trade deficit deteriorated due to a sudden increase of imports caused by a sudden expansion of consumers' credits, the scope of which increased by 102% in comparison with 2001. That caused the deterioration of current account deficit for even 4,5 percent. The adverse set of circumstances is further exacerbated by the fact that in last year the level of remittances from abroad was decreased<sup>4</sup> due to the fact that the refugees are still returning to BiH in significant numbers.

The Reform Scenario envisages that in the course of the 2004-2007 period, exports should grow at a rate of between 13 and 15 percent, and that the growth rate of imports should be retained at between 4 and 6.5 percent. It is envisaged that the realization of those rates of imports and exports should lead to a decrease of the trade deficit and the current accounts deficit from about 17 percent of GDP in 2003 to about 11 percent in 2007.

### **3.3.4. Increase the Scope of Investments; Ensure an Increased Inflow of Foreign Investments**

The scope of investments should grow from about 20 percent of GDP in 2003 to about 22 percent of GDP by 2007. In parallel with the decrease of the scope of public investment as percentage of GDP, primarily due to the decrease of grants and the implementation of rationalization measures in public consumption, growth of private investments is envisaged, from about 15 percent of GDP in 2003 to about 17 percent of GDP in 2007.

Achieving higher rates of private investments shall require a higher scope of foreign investments. The scope of foreign investments have to be increased gradually, from the level of about 2,5 percent of GDP in 2002, in order for it to reach the level of about 9 percent by 2007. In absolute terms, that means that around US\$ 2 billion shall have to be mobilized on that basis by 2007.<sup>5</sup> That is an important prerequisite for the success of the Reform Scenario, as a higher level of foreign investments shall have to compensate for the declining levels of international aid. At the same time, a higher level of foreign investments shall contribute to the growth of exports, as there are other advantages that foreign investments bring, such as new technologies, new management and new markets.

### **3.3.5. Increase the Level of Private Savings**

Regardless of the continuing growth of private savings in the previous years (due to the exchange of old currencies to EURO and the increase of confidence in the domestic banking sector), the level of private savings<sup>6</sup> in 2003 remained at the level of just 0,5 percent of GDP. Reasons should be found in the fact that, in last year, there was a delay in privatization, which slowed down the development of the private sector. Profitability and productivity of enterprises in BiH is at a low level, which has a direct effect on the low level of private savings. An important precondition for the success of the Reform Scenario is for private savings to grow continuously in order to reach the level of about 7 percent of GDP in 2007, which will require implementation of a set of measures that should lead to a more accelerated growth of the private sector and the growth of citizens' savings.

### **3.3.6. Ensure the Continuation of Favorable International Financial Aid**

BiH is not a credit worthy country, which means that it cannot acquire credit indebtedness on the international capital market. Due to that, in order to maintain the growth rates envisaged by the

<sup>4</sup> Central bank of BiH

<sup>5</sup> Between 1996 and 2002 BiH attracted about 1,1 billion EURO.

<sup>6</sup> Defined in accordance with the National Accounts Methodology which implies differentiating total deposits of private entities and companies from total credit indebtedness of the same entities and companies.



Reform Scenario for 2003-2007 period, it shall be necessary to ensure additional international financial aid, at least at the level of about US\$ 1,5 billion. That aid has to comprise of favorable credits and grants, with a very limited share of commercial credits in the later part of the mid term period. On the basis of initial consultations which were held with key donors, there is a level of readiness for a so-called consultative meeting with donors and potential investors to be held after the end of the preparation of PRSP and after the PRSP is adopted by the authorized bodies, and on that meeting additional possibilities for a new cycle of international aid to BiH would be considered. It is quite certain that any international aid for the coming period will be conditioned with a significant level of progress in the realization of reforms, which implies the implementation of the Reform Scenario and the reform program contained in the Mid-term Development Strategy of BiH (PRSP).

In the coming period, it shall also be necessary to reach an agreement with the IMF in connection with the reform program. In contrast with the previous period, characterized by the short term Stand-by arrangement, it shall be necessary to reach an agreement on a mid term program (EEF).

#### **4. Monetary Policy: BiH Central Bank**

Managing fiscal policy on the principle of the "currency board" should keep on being a very important prerequisite for maintaining fiscal stability, in the coming mid term period, too. It should ensure a low level of inflation, fiscal policy that should exert pressure on maintaining low deficit, with an increased level of public investments and accelerated implementation of structural reforms. However, the functions of the Central Bank of BiH should be expanded with the objective of strengthening the financial sector and providing incentives for the development of capital markets.

In view of this, it is necessary to amend the Law on Central Bank of BiH, in order to enable the bank to play a limited role of the "**bank of last resort**" in the coming mid term period, within the framework of the currency board rules. This is important because of the fact that there is term inconsistency present between the deposits and credits awarded, which increases the so-called "systematic risk". Due to the domination of short term deposits, banks (in most cases those with the majority of domestic capital) are, because of the need to maintain liquidity, forced to keep more assets than is usual. Taking into account that those resources are not interest bearing, banks have higher operation costs, which affects the price of banking services and the level of interest. An important prerequisite for the Reform Scenario is the growth of private savings (both citizens' and corporative), which depends in the stability of the banking sector. The Central Bank would, through a limited role of the "bank of last resort", have an instrument with which it could forestall crises of liquidity in certain banks, and, with the reduction of the so-called "systematic risk" it would contribute to the stability of the banking sector.

Central Bank of BiH should also be allowed to issue short term bonds within the framework of the currency board. The domestic banking sector feels the need for short term securities in which it could make investments. Emission of short term securities by the Central Bank would result in a reduction of assets held abroad by domestic banks, and it would facilitate the development of capital markets, as an important prerequisite for the realization of the pension system reform.

As a result of the management of monetary policy on the principle of the "currency board" it shall be necessary to ensure a **stable level of national reserves** in the coming medium term, too. The existing level of national reserves of about 5 months of overall exports is satisfactory and it represents a stabilizing factor in the functioning of the Central bank of BiH. In order to ensure the stability of the currency board, it is necessary to reduce the current account deficit in line with the aforementioned parameters, as that deficit, together with the amount of the public debt, represents the most severe threat to macroeconomic stability. In connection with that, besides the reduction of the public debt, it is necessary to reduce the current account deficit, and, as has already been mentioned, through increasing export rates, decreasing import rates and increasing the inflow of foreign investments.

In parallel with that, it shall be necessary for the Central Bank of BiH to continue with the implementation of measures of monetary policy with the objective of limiting the scope of consumers' credits at the extent to which they represent a threat to the increase of the current account deficit.

## **II.2. FRAMEWORK FOR FISCAL REFORM**

### **1. Objectives:**

**1.1. *Decrease the share of public expenditure in the GDP***

**1.2. *Achieve sustainability through fiscal consolidation***

### **2. Situation**

The entity governments have adopted Budget Framework Papers (BFPs) for the preparation of the 2004 budget which include a Medium Term Expenditure Framework (MTEF) for 2004 – 2006. The fiscal reform programme for BiH as a whole, as presented in this chapter, is broadly consistent with the MTEF for each entity.

Levels of domestic revenues that, in 2003, amounted to about 47 percent of GDP, including grants, and public expenditure, at about 50 percent of GDP, are still significantly higher than in other transition economies with similar GDP levels. The high levels of revenue and expenditure are common to both FBiH and RS, although RS revenue and expenditure is higher than FBiH, when expressed as a % of GDP and lower when expressed as values per capita.

Slower economic growth and the decline of foreign aid flows have resulted in a stagnation of the general government spending since 2000, although current expenditure in real terms continued to grow. Reflecting the differences in GDP per capita, public expenditures in RS are currently at the level of only about 75% of public expenditure in FBiH.

Significant, although declining, level of foreign grants and loans, which, in 2002, amounted to 8 percent of GDP, sustains an important program of public investments relating to reconstruction. High levels of expenditure are present in many important sectors, including defense, law and order, education, health and social protection. Overwhelming public services and relatively high level of public sector wages are resulting in high administration related costs.

Fiscal planning and management is hindered by decentralized government structures: 94 percent of overall budgetary expenditure falls to entity and lower levels, while in FBiH, 55 percent of budgetary expenditure falls to cantonal and municipal levels, with 22 percent of RS expenditure at the municipal level.<sup>7</sup> Resource allocation between different levels of government is often unadjusted to responsibilities for service provision in the public sector.

There are significant discrepancies in per capita spending between the entities, but also within the entities themselves. Overlapping responsibilities are evident, as well as overlapping in the allocation of public revenues on different levels of government, especially between cantons and municipalities in FBiH. Institutional frameworks for macroeconomic analysis of fiscal policies remain very limited.

The existing model of fiscal operations produces high tax burdens. That creates significant disincentives for the development of economy in the private sector and contributes to the growth of gray economy and wide expansion of tax evasions

### **3. Fiscal reform in the Conditions of the Reform Scenario and the Scenario in Case of a Slower Implementation of Reforms**

In the context of fiscal reform it is also necessary to analyze the effects in the case of both the realization of the Reform Scenario, which implies an aggressive implementation of reforms envisaged by the Mid-term Development Strategy of BiH (PRSP), and the scenario in case of a slower implementation of reforms. While PRSP does not expect that the slower reform will take place, it is, nevertheless, necessary to make contingency plans for managing public finances in case external factors actually cause a slower rate of economic growth.

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<sup>7</sup> FBiH and RS BFPs, October 2003.

### **3.1. Fiscal Reform: Reform Scenario<sup>8</sup>**

Relatively rapid economic growth will permit progress to be made towards fiscal consolidation with the overall general government deficit for 2004-2007 remaining at a low level of about 0,6 percent of GDP (including grants). That should provide scope for funding regular servicing of foreign and domestic debt in line with plans for the reduction of public debt. Total revenues and grants over the period are projected to fall from about 47% of GDP in 2003 to about 43% of GDP in 2007. This is in line with the entity MTEF projections (BFP)<sup>9</sup>.

On the public expenditure side, total expenditure is projected to fall from about 46% of GDP in 2003 to 43% of GDP in 2007, which is also in line with entity MTEF projections (BFP).

Thanks to the favorable structure of external debt it is expected that the servicing of foreign debt will decline from 8.6 percent of overall exports in 2003, to around 4.4 percent by 2007. In view of the importance of capital investments for the development of the country in the conditions of insufficiently developed private sector, in the coming mid term period it shall be important to maintain their scope at the level of about 5 percent of GDP, regardless of the decline of international aid. However, domestically financed public investment will have to be increased, from 2% in 2002 to 2.6% of GDP in 2007, to compensate for a decline in foreign financed investment.

External concessionary credits will continue to provide the primary source of financing of the budget deficit, although total foreign assistance is expected to fall from 8% of GDP in 2002 to 2% of GDP in 2007. Public sector borrowing from domestic sources will continue to be tightly controlled.

### **3.2. Fiscal Reform: Scenario in Case of a Slower Implementation of Reforms**

This scenario illustrates possible consequences of a slowdown in the pace of economic reform leading to lower rates of investment and growth. It assumes that real economic growth from 2004 onwards will only be one third of that in the Reform Scenario and that external aid flows would only be two-thirds of expected as donors respond to the slow pace of reform by delaying the release of planned financial aid and reducing new funding commitments. As a result, public expenditure would remain static in real terms. That would lead to significant deterioration in the quality of public services and would make it more difficult to meet the demands for social assistance, which would increase the level of poverty in comparison with the current one.

## **4. Fiscal Reform Priorities**

Priority activities in the area of fiscal reform shall be directed towards decreasing the share of public spending in the GDP. In connection with that, allocations for defense and law and order should be reduced, and allocations for wages in public administrations should be constrained. In parallel with that, mechanisms for more efficient collection of public revenues and reduction of the scope of gray economy shall be established, control over the collection and expenditure of public revenues shall be strengthened, budget management and planning shall be improved. Finally, sector spending shall also have to be reduced to sustainable levels.

### **4.1. Establish a More Efficient System of Public Revenue Collection**

Significant progress has already been made in the harmonization of indirect taxes, rationalization of exemption policies and reduction of high rates of labor taxes<sup>10</sup>.

The focus of this reform area is put on establishing the BiH Board for Indirect taxation, within which a unified customs administration is going to function on the state level. Another important step is the introduction of value added tax (VAT) on the BiH level, with the fundamental aim of elimination of the existing obstacles to economic development, more efficient collection of direct revenues, prevention of fraud and corruption, reduction of the level of gray economy, and achieving progress towards EU integration and WTO membership.

In the same period, it is necessary to prepare and realize the reform of direct taxation, also with the aim to modernize the system and harmonize it with European practices. In this context, it is important to eliminate all present forms of double taxation, especially in the case of profit tax and income tax.

<sup>8</sup> Separate projections of fiscal operations for the state level have not been developed yet. However, one can expect that the state level expenditure will grow, from the initial low levels, due to the expected expansion of functions necessary for fulfilling the criteria of EU integrations.

<sup>9</sup> Adopted by both entity governments in October 2003.

<sup>10</sup> Especially in the case of RS

Finally, in parallel with the strengthening of the customs administrations, it shall be necessary to continue with the strengthening of tax administrations.

The establishment of a new system of revenue collection shall contribute to increasing efficiency, as well as to the reduction of the level of gray economy. Introduction of the VAT is an importantly instrument in achieving this goal. However, taking into account that the implementation of the VAT is expected in the final phases of the implementation of the Mid term Development Strategy for BiH (PRSP), positive effects of its introduction could not be taken into account when designing entity Mid Term Expenditure Frameworks (BFPs).

Although the general objective of the BiH Medium Term Development Strategy (PRSP) is to reduce the overall tax burden, especially for the economy, through the reduction of the scope of public spending, it was determined that there is room for increasing certain types of taxes. That primarily refers to the so-called «property taxes» which are under the scope of authority of sub-entity levels of government. However, on those levels, especially municipal ones, there is a practice of enforcing new tax burdens which do not have any foundation in the legislation. This concerns the introduction of various administrative fees. In line with that, it is necessary to ensure the implementation of the legislation and prevent such occurrences.

With the objective of more efficient collection of public revenues based on oil, it is necessary to create preconditions for the transport of oil and oil derivatives by rail and waterways exclusively (Brčko).

#### **4.2. Ensure Adequate Allocation of Public Revenues to Different Levels of Government and Strengthen Coordination Between Them**

A further set of issues relates to the assignment of revenues and expenditure responsibilities. As has already been mentioned, BiH is functioning as a highly decentralized system, in which almost all revenues are collected and spent on sub state levels. According to the Constitution of BiH, institutions on the state levels have limited authorities, only, so, due to that, the level of expenditure on the state level is also low. The largest part of public revenue spending happens on entity and cantonal levels. In both FBiH and RS, municipalities play a limited role, directed primarily to urban planning, public utility services, local facilities, culture and limited functions in health and education. As has already been mentioned, municipal expenditure accounts for just 7-8 percent of overall entity spending, and in RS it amounts to 22 percent.

There are substantial regional variations in per capita revenues, especially in FBiH, which was, in the absence of sufficient equalization mechanism, reflected in the quality of public service delivery. For example, in 2001-2002 cantonal per capita revenues averaged KM 521 across all cantons, ranging from KM 299 in Gorazde to KM 1,172 in Sarajevo.

On the other side, entities have adopted policies which had implications on expenditure programs on cantonal and municipal levels, without a thorough consideration of the availability of resources for covering the resulting costs on the sub entity level. That presents a special problem, especially when it comes to legislation in the sector of social protection. When determining tax-sharing mechanisms, insufficient attention was paid to public expenditure needs of sub entity governments. For example, in FBiH, although canton governments have the major responsibility for the delivery of public services, their share of total FBiH revenues<sup>11</sup> has fallen from 61% in 1999 to and estimated 49% in 2002. The situation improved due to the change of the point of collection of sales tax, which occurred in the course of 2003<sup>12</sup>. However, the cantons are, in general, faced with enormous difficulties in budgetary expenditure planning because of the insufficient level of coordination between the entity and the cantonal level in decision making, which results in the change of revenue and expenditure policies.

The strengthening of state level revenues shall be executed in parallel with the introduction of the VAT, and, until that period, the state budget shall be filled with transfers from entity budgets. A part of the reforms is directed towards the strengthening of public administration (for example. Defense reform, customs reform...) which should not lead to an increase of the overall public spending: the transfer of entity authorities to the state level shall lead to the reduction of their budgets. In 2004 the Brčko District shall initiate regular transfers of a part of its revenues to the state budget.

In the course of the coming period one can expect a further decrease of customs revenues, of up to 20 percent per annum, especially because of the implementation of the free trade agreements with the countries of the region. Taking into account that the customs represent a very important source of revenues for entity budgets (especially in FBiH), and in order for disturbances in entity financing to be avoided, it shall be necessary to compensate for the loss of revenues, primarily through increasing the

<sup>11</sup> Excluding extra-budgetary fund revenues.

<sup>12</sup> Sales tax is now collected on the point of production or import, instead at the retail level.

level of efficiency in the functioning of customs administration, and, in the coming mid term, through the reallocation of revenues on the basis of VAT. An important step in that direction is the reduction of the number of customs offices, customs desks and border crossings for the trade of goods.

The preparation of public administration reform in BiH is ongoing and one of its objectives is to eliminate the overlapping of activities, to increase efficiency and establish coordination between different levels of government. In line with the strengthening of the system of public revenue collection and reforms in the area of public administration, it shall be necessary to ensure **adequate allocation of public revenues to different levels of government**.

In connection with those issues, it is necessary to:

- Ensure the coordination of activities in relation with the decision making with implications on the change of revenue and expenditure policies. This is especially important in the case of FBiH, where the Ministry of Finance of FBiH has established regular coordination with cantonal ministries of finance, which needs to be strengthened constantly,
- Ensure that the allocation of resources between entity and sub entity levels reflects the distribution of responsibilities connected to public service provision,
- Establish a higher level of solidarity, in order to assist poorer cantons and municipalities.

#### **4.3. Constrain Public Sector Wage bill Spending**

At 19.6%<sup>13</sup> of GDP in BiH, wage bill spending in the public sector is almost three times the level of other Central and Eastern European (CEE) transition countries. One consequence is that spending on current operations and material costs are on a low level, which is threatening the quality of public services.

The high level of wage bill spending in BiH is not, to such a degree, a consequence of the size of public service employment<sup>14</sup>, as of the level of public sector wages and salaries, which are significantly higher than in similar transition countries (especially in the case of FBiH and the state level). An equally significant factor is that the levels of public sector wages are different on different levels of government: wages on the state level are up to 40 percent higher than wages in RS public services. Wages in the district of Brcko and City Administration of Mostar are the highest in BiH. In FBiH, wages on public administration are by 35 percent higher than average, and, in RS, by 37 percent, while the difference in the District of Brcko is the most pronounced (67 percent). The disparity in the level of wages in the country additionally affects the differences in the quality of public service provision.

In contrast with the practice present in all developed countries, the level of public sector wages is significantly higher than the level of wages in the real sector of economy, with the exception of the financial sector<sup>15</sup>. Polls among the employers (see section on labor market) have ascertained that they have significant difficulties in finding adequate labor force on the market, which is, inter alia, a result of the high level of interest for working in public administration and public enterprises. Nevertheless, there continue to be substantial pressures for additional salary and wage increases in public administration. In the course of the previous year (2002), the Government of FBiH has increased the budget item for wages by about 30 percent in comparison to the year before, while the RS did the same, at the level of about 10 percentage points. The trend of growth in public sector wages continued in 2003 also.

In view of the aforementioned, in the coming mid term period (2004-2007) it is necessary to constrain the allocations for public sector wages. However, taking into account the different wage levels, this measure should not be implemented equally in both entities and the Brčko District. That means that the average budgetary wage increase in FBiH should not be over 2 percent, while in the RS it should not be over 4-5 percent, and any additional wage increase should be compensated for with an adequate decrease of the number of public servants.

Constraining wage allocations shall enable the decrease of overall allocations on that basis as the share of GDP in the coming mid term – in RS, from about 10 percent in 2003 to 7.8 percent in 2006, and in FBiH from about 16 percent in 2003 to 12.3 percent in 2006.

<sup>13</sup> From Aid Dependence to Fiscal Sustainability, PEIR, World Bank, September 18th 2002

<sup>14</sup> Studies by ESI (Bosnia and Herzegovina Public expenditure and explosive debt, 2003) show that the number of officials in BiH is not overwhelming (except in the case of the Brčko District). About 4.5 percent of BiH population (about 3.8 million) are public sector employees, which is lower than in Croatia, and two times lower than in Czech Republic.

<sup>15</sup> World Bank estimates show average sector wages and salaries in the public sector as 67% higher than industrial sector earnings in the FBiH. The corresponding ratio for the RS was even higher at 86%. (PEIR, WB, 2002).

#### **4.4. Reduce Allocations for Defense and law and Order (including Judiciary)**

Budgetary spending on defense at 4.5% of GDP<sup>16</sup> (2.7 percent in RS, 5.1 percent in FBiH<sup>17</sup>) is over twice the average (1.9% of GDP) for other CEE countries. Substantial off-budgetary expenditure and arrears means that in recent years, the true level of defense expenditure has been significantly higher<sup>18</sup>. Spending on defense is also excessively concentrated on personnel (around 80% of budget).

Spending on public order and safety at 4.4% of GDP<sup>19</sup> is over twice the average for other CEE countries and four times the average for EC countries. Expenditure in the sector is driven by high levels employment which are substantially above pre-war levels.

In the defense sector, reforms and demobilization should be continued, in order for the allocations for defense in FBiH to be reduced from 5.1 percent of GDP in 2002 to 2.3 percent in 2006, and, in RS, from 3.8 percent in 2002 to 1.9 percent in 2006. In the course of 2004, alone, both entities are planning to demobilize about 8,000 soldiers, which will lead to additional savings at the level of about 1 percent of GDP.

In the area of law and order, rationalization plan needs to be prepared, in order for the allocations for that purpose in FBiH to be reduced from 4.5 percent of GDP in 2002 to 3.5 percent in 2006, and in RS, from the same level in 2002 to 3.9 percent in 2006.

#### **4.5. Adopt Legal Framework for Public Procurement**

The adoption of a legal framework for public procurement shall lead to further strengthening of the single economic space and transparency in public revenue spending. The adoption of this legal framework is a conditions for a faster integration of BiH in the EU and for the membership in the WTO. However, it is important to mention that the new legal framework in this area shall lead to more significant savings in public expenditure.<sup>20</sup> Besides the adoption of the legal framework, it shall be necessary to establish adequate public procurement agencies, as well as bodies for auditing public procurement.

BiH needs to gradually harmonize its laws on public procurement with those of the EU. It is also necessary to strengthen the corresponding institutions and judiciary, in order for the public procurement procedure to be implemented according to the regulations.<sup>21</sup>

#### **4.6. Increase the Share of Domestic Public Revenues in the Financing of Current (Operating) Costs**

The major part of public revenues is being spent on public administration wage bill. In recent years, allocations for material (operating) costs were below the necessary level, and the majority of those costs were covered from donors' resources. However, the overall allocations, from both domestic and donor revenues, were not sufficient, which lead to weaknesses in the level of equipment in public administration and the deterioration of government infrastructure. In order for public services to be improved, in the coming mid term (2003-2007) it is necessary to ensure a higher share of public revenues in the financing of current (operating) costs of public administration. Constraining the nominal level of allocations for public administration wage bill shall enable an increase of allocations for that purpose, which should, in 2006 amount to 4 percent in FBiH and to 4.5 percent in RS (of GDP).<sup>22</sup>

#### **4.7. Increase the Share of Domestic Public Revenues in the Financing of Public Investments**

Since 1996 the international donor community has, mostly through donations, largely financed the public investment program in BiH. For example, in the previous years, domestically financed capital spending has accounted for around 10% of all public investment. The need to move ahead quickly with reconstruction projects has meant that the major share of internationally financed projects have been managed through independently established project implementation units (PIUs) operating

<sup>16</sup> PEIR, WB, 2002.

<sup>17</sup> FBiH and RS Government BFPs, October 2003.

<sup>18</sup> World Bank estimates put total defence spending at around 9% of GDP (PEIR, WB, 2002).

<sup>19</sup> PEIR, WB, 2002

<sup>20</sup> World Bank Study on the BiH Public procurement System, 2002.

<sup>21</sup> "Commission Report to Council on BiH Readiness for Initiation of Negotiations on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18th 2003

<sup>22</sup> FBiH and RS Government BFPs, October 2003.

outside of the framework of the government budget. This has resulted in a number of problems. It has been difficult for Entity and sub-Entity governments to track credit investments into public investment, which has seriously undermined accountability related to the servicing of those credits. On the other side, decisions on public investment projects have often been taken without adequate harmonization with financial capacities.

Due to the expected decrease of international aid flows, the share of domestically financed public investment will have to increase substantially. By 2006 it is estimated that domestically financed projects will account for two-fifths of all public investment, with externally financed projects largely being financed from concessional credits.

Therefore, in the coming mid term period (2004-2007) it shall be necessary to increase the share of domestic resources in the financing of public investment programs, by 15% per year in comparison with the 2003 allocations.

There is an urgent need to strengthen the planning and management of the public investment program in both entities, and recent establishment of Aid Coordination Units on the state and entity level is a step in that direction. The RS Government has already adopted a Public Investment Program for the coming mid-term, and it is expected that the FBiH Government shall do the same by the end of February of this year.

#### **4.8. Reduce Sectoral Spending to Sustainable Levels**

An analysis of expenditure by function suggests that spending levels in Bosnia across a number of major sectors are substantially higher than those in other CEE countries.<sup>23</sup> Consequently, there is considerable scope for the reform of spending programme linked to the overall reduction of public expenditure as a share of GDP.

Spending on **education**, at 6.4% of GDP, is also higher than average for other transition economies (3.3% of GDP), with spending considerably higher in the FBiH (6.8% of GDP) than in the RS (4.7% of GDP).<sup>24</sup> The highly fragmented education system, particularly in the FBiH, results in high unit costs, inequitable provision, and poor outcomes. High levels of spending and inefficiencies show that an increase of spending on education in nominal terms should not be permitted, but, instead, it should be reduced, especially in FBiH. Education sector reform, which is ongoing, shall reduce the spending for this purpose to 5.6 percent of GDP in FBiH and to 4.5 percent of GDP in RS, by 2006.<sup>25</sup>

Public spending on **health** is financed primarily from Health Insurance Fund contributions, and, to a lesser extent, by budget interventions. At 6.9% of GDP in FBiH and 6.4% of GDP in RS<sup>26</sup>, spending levels in the health sector are significantly higher than average allocations for that area in other transition countries (4.4%). It is estimated that the level of allocations on the basis of payments for health services in the private sector accounts for an additional 5% of GDP in both entities. However, health revenues fall significantly short of the financial requirements of the legally stipulated level of health services.

In view of that, the efficiency of health spending needs to be improved, through the rationalization within the sector itself, which implies the improvement of management in public health funds, direction of resources to priority programs of prevention and treatment, and improvement of public procurement procedures. Future spending on health shall depend on the level of inflow of resources into health funds. It is expected that by 2006 spending in this sector shall fall to 6.9 percent of GDP in FBiH and, in RS, from 6.4% in 2002 to 5.9 percent.<sup>27</sup>

Public spending on **social transfers** (including allocations on the basis of veterans' rights, unemployment, pensions and classical forms of social protection) at 18.9% of GDP in FBiH and 14.7% in RS<sup>28</sup> is only slightly higher than the average for CEE countries (14.2% of GDP). However, the high percentages of allocation do not show the real picture of the situation, taking into account the relatively generous and extensive veterans' entitlements. Allocations on that basis account for around one third of total social transfers. On the other side, social welfare services continue to face acute funding problems and an unclear and overlapping division of responsibility between different levels of Government. In the FBiH, the recent Law on Social Services placed considerable additional spending

<sup>23</sup> Comparisons of functional allocations with the level of GDP should be taken with a certain level of caution, due to the still significant presence of gray economy.

<sup>24</sup> FBiH and RS Government BFPs, October 2003.

<sup>25</sup> FBiH and RS Government BFPs, October 2003.

<sup>26</sup> FBiH and RS Government BFPs, October 2003.

<sup>27</sup> FBiH and RS Government BFPs, October 2003.

<sup>28</sup> FBiH and RS Government BFPs, October 2003.

responsibilities on the Cantons without any corresponding adjustment in revenue assignment. There is still a lack of clarity in the assignment of responsibilities and resources with respect to refugees, displaced persons and returnees, especially in FBiH.

Spending on social transfers need to remain in the existing levels. It is expected that spending on this purpose in 2006 shall amount to 17.8 percent of GDP in FBiH and 13.5 in RS.<sup>29</sup> Social transfers towards the veterans' population shall remain at the same level, while other social transfers shall be increased by 4% per annum<sup>30</sup>, in order to finance poverty reduction oriented programs.

Spending on utilities shall increase at 5% per year, to allow for improved services, especially amongst the poorest areas. Finally, spending on development programs shall be increased by 2.5 % per annum, to allow for a higher level of agricultural support.<sup>31</sup>

The necessary reform measures in each of those sector are identified in the following text of the PRSP.

#### **4.9. Reorienting Public Expenditure in Compliance with the Priorities of the Mid Term Development Strategy for BiH (PRSP)**

The priorities identified in the Mid Term Development Strategy for BiH (PRSP) will have an impact on the nature of future public expenditure, both for investment and for recurrent activities. The instruments for the realization of those priorities will include the entity Mid Term Expenditure Frameworks (BFPs) entity Public Investment Programmes (PIP) and discussions with donors.

The Reform Scenario of the Macroeconomic Framework of the PRSP expects rapid implementation of reforms to generate growth of about 5,5% per year. Under this reform scenario, it is expected that the public revenues in both entities shall grow at the rate of 4.5 percent per year.<sup>32</sup> The total level of public investment during the four year period 2004 – 2007 will be about KM 2.3 billion, of which about KM 500m is already programmed for completion of ongoing projects. The allocation of the remaining KM 1.8 billion is ascertained by entity Public Investment Programmes which are an integral part of the PRSP.

The PRSP working groups have done some initial work on estimating the financial implications of the reforms. This work has included consideration of financial implications of the implementation of reforms within conventional investment projects, as well as other 'one-off' and recurrent costs. The recommendations of the PRSP are presented in figures 1 and 2 below.

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<sup>29</sup> FBiH and RS Government BFPs, October 2003.

<sup>30</sup> FBiH and RS Government BFPs, October 2003.

<sup>31</sup> FBiH and RS Government BFPs, October 2003.

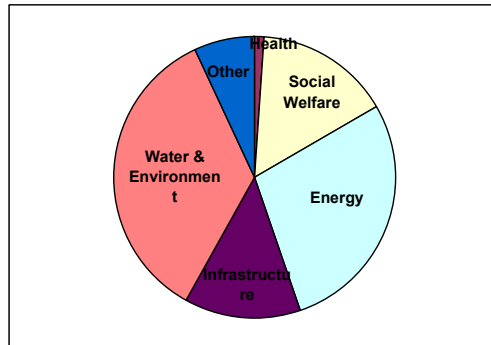
<sup>32</sup> FBiH and RS Government BFPs, October 2003.



Allocations for the program of public investments and other one-off interventions are presented in Figure 1.

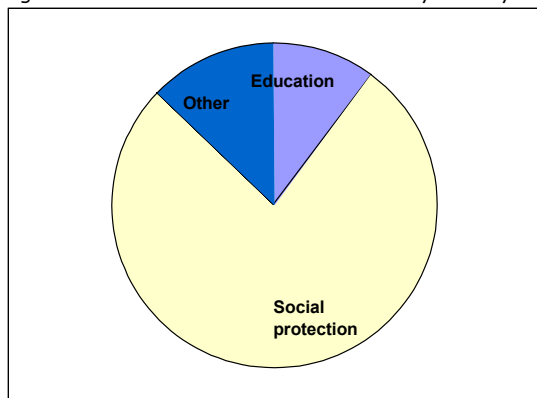
Investment requirements for the financing of the public investment program are substantially higher than the projected growth rate of public revenues, so that it shall be necessary for a part of the public investment program to continue to be financed by donors, but in amounts significantly lower than before.<sup>33</sup> Most reforms will have to be funded from savings in recurrent spending arising from increased efficiency. However, in case the expected growth rate of 5 % per annum in real terms is ensured, some incremental resources will be available in the coming four years, which will in most part be a result of the decrease of the defense spending, spending on law and order, public administration wages (as a share of GDP), internal savings, including the implementation of new legal regulations in the area of public procurement, and more efficient collection of public revenues. According to the Reform Scenario, it is expected to be KM 87 million higher in 2007 than

Figure 1: Indicative Share of Public Investment and 'One-Off' Expenditure suggested by the PRSP



in 2003, in real terms. It is also expected that defense savings shall provide an further KM 88 million per year by 2007, thus allowing for non-defense spending to be KM 175 million higher in 2007 than 2003, in real terms.

Figure 2: Allocation of Public Resources by Priority



Work on reorienting recurrent expenditure in line with the PRSP is ongoing, and is linked to the MTEF and budget process. Figure 2 presents an early indicative sectoral allocation of incremental recurrent costs. Most education reforms will be funded from savings and all health improvements will be self-funding within the Health Insurance Fund. As a result, it is the reforms in social welfare which dominate incremental recurrent spending. Some increase in agricultural subsidies is also foreseen, in line with recent parliamentary decisions.

Figure 2 represents sectoral recommendations of the PRSP for the allocation of those additional public revenues. The major part of reform in education sector shall be financed from savings, and in the health sector through the increase of efficiency and self-financing of health insurance funds. As a result, the major part of additional public revenues should be used for the financing of reforms in the social protection sector, inter alia for the financing of social implications of accelerated implementation of structural reforms (acceleration of privatization, reform of public administration, restructuring of mines etc.). A certain increase of subsidies in agriculture is also envisaged, in line with the recent decisions of entity parliaments, and it shall also be necessary to ensure a higher share of domestic public revenues in the financing of works in the sectors of transport and water management, which will be most affected by the reduction of donor aid.

Savings executed through the realization of the Reform Scenario in the coming mid term should also be used for the reduction of taxes. In that, priority should be given to the reduction of tax burdens and contributions levied on wages, which would yield multiple results: it would have a stimulating effect on the growth of the private sector, attraction of foreign investments and reduction of the gray economy.

The level of additional public resources available is strongly related to the rate of economic growth envisaged by the Reform Scenario. On the other side, in the Scenario of Slower Implementation of reforms (ie with only 1.9% growth), total revenue envisaged for 2007 are by KM 113 million lower than according to the Reform Scenario. If growth is only 1.9% and defense savings are not realized, then recurrent spending would have to decline by KM 26 million in real terms, to protect the

<sup>33</sup> In the first part of 2004, a consultative donors' meeting shall be held, and the aid programme to BiH at the level of \$ 1.5 billion should be considered. That is the amount identified in the PRSP as necessary for assistance to the payment balance and financing of the public investment program.

KM 2.3 billion investment levels, the servicing of external debt and the reduction of the level of domestic public debt.

#### **4.10. Improve the System of Public Spending Planning and Management**

In 1999 both entities undertook steps directed to the development of the Mid-term Expenditure Framework (MTEF), with the objective of strengthening macro-fiscal planning and improving connections between government policies and resource allocations. In the course of that year, entity governments adopted mid term expenditure frameworks for 2004-2006, which were used as an important document in the preparation of the Mid Term Development Strategy for BiH (PRSP).

It shall be necessary for the entity governments to revise the BFP regularly, in line with the priorities of the PRSP. The MTEF shall present an important element for strengthening the annual budget preparation cycle, through the provision of more reliable and detailed projections of revenues. This issue is extremely important in the case of FBiH, where the cantons are faced with serious difficulties in connection to revenue projections. The FBiH Government, and, especially, the Federation Ministry of Finance should establish a regular practice of holding monthly meetings with cantonal governments and ministries. In that context, activities in connection with the planning and realization of public investment programmes need to be adjusted with the priorities of the PRSP and entity mid term expenditure frameworks.

In line with the recommendation of the EU Feasibility Study, it shall be necessary to adopt budget laws on all levels, in line with the Mid Term Expenditure Frameworks (MTEF), and introduce unified government accounts. It shall also be necessary to undertake steps on recording all payments to public bodies on all levels of government, including payments of grant funds and other modes of international assistance.<sup>34</sup>

Entity ministries of finance need to strengthen their departments for: macroeconomic analysis and projections, fiscal analysis and analysis of budgetary policies, consolidation and analysis of fiscal data and reporting. On the other side, line ministries will need to strengthen their departments for sector policy analysis and public investment program planning. It can be expected that it will include the establishment of sectoral units for creating strategies, programs and budgets in the most significant line ministries.

#### **4.11. Establish Institutional Framework for Preparing Consolidated Balances on BiH Level**

On the state level there is no mechanism for the preparation of consolidated fiscal balances. So far, that was done by the IMF and that is a practice that needs to be terminated. Besides the BiH Ministry of Finance and Treasury, the BiH Indirect tax Administration should be engaged in the preparation of consolidated fiscal balances, and a body (a council) could be formed within that institution, with the task of coordinating fiscal issues on BiH level.

#### **4.12. Introduce Treasury Operations in All Public Institutions**

The establishment of treasury functions in 2001 has significantly strengthened budget execution, as it enabled a more efficient control of spending and a better management of cash assets. It will be necessary to establish treasury operations on the sub entity level, which includes both cantons and municipalities<sup>35</sup>. Additional steps which need to be taken include: the implementation of treasury procedures on the functioning of extra budgetary funds, the improvement of the classification of public expenditure in order for a higher level of consistency and correctness in recording to be ensured.

#### **4.13. Strengthen Transparency and Accountability in Collection and Spending of Public Revenues**

In the area of public finance, a significant step ahead has already been achieved through the establishment of external audit offices and through the establishment of treasury procedures. Additional steps which need to be taken include the following: presentation of mid-term expenditure frameworks to entity parliaments, preparation and publishing of reports aimed to the general public, on public revenue spending, further strengthening of audits, involving parliamentary commissions into the control of budgetary execution.

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<sup>34</sup> "Commission Report to Council on BiH Readiness for Initiation of Negotiations on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18th 2003

<sup>35</sup> In the FBiH, the Sarajevo Canton has introduced the treasury system of operations, while in the RS the introduction of that system is prepared in five pilot municipalities.

There is a practice of managing significant public revenues and other resources outside of the budget. In both entities, almost 50 percent of public spending happens outside of the budget, mostly through health and social insurance funds. Necessary mechanisms of coordination between different levels of government do not exist, which has led to overlapping of functions, inconsistencies between the allocation of revenues and expenditure responsibilities, especially on the cantonal and municipal level. Entity ministries of finance must get enabled for the monitoring of extra budgetary funds, which represent a significant element of Government fiscal operations. In FBiH, insufficient analysis of spending on sub-entity levels has contributed to significant imbalances that appeared in the allocation of public sector resources, both between different levels of government, and on individual levels. The elimination of those weaknesses shall require that the entity ministries undertake activities on including the remaining extra budgetary sources of financing into the budget and improving the comprehensiveness and quality of budgetary analysis and monitoring. It shall also require that the ministers of finance make the presentation of budgets of extra budgetary funds to the parliaments, together with annual budgets, as is stipulated by the relevant laws on budgets in each of the entities. It shall be necessary to establish an adequate mechanism for coordination of budget planning issues with the District of Brčko.

In line with that, the Roads Directorate in RS shall be totally included in the Budget in 2004, and, in FBiH, full transparency in view of the usage of resources of the federal Roads Directorate, including the cantonal directorates, shall be ensured.

It shall be of key importance to increase the level of transparency and financial management in the operations of public enterprises.

#### **4.14. Public Debt**

Internal public debt in BiH in 2003 amounted to about 67 percent of GDP. In 2002, the total external debt amounted to Km 4,045,862,013<sup>36</sup>, which is about 40 percent of GDP. In view of external indebtedness, BiH can be considered a moderately indebted country. However, what makes BiH an over-indebted country is the size of internal debt, which represents one of the most severe threats to macroeconomic stability of the country. According to the Reform Scenario, the total public debt should, by 2007, be reduced to about 49 percent of GDP. In connection with that, entity governments opened an *escrow* account,<sup>37</sup> on which a part of privatization proceeds are deposited, together with the resources from succession, in order to ensure a starting basis for the reduction of the public debt.

The reduction of public debt to the level of 49 percent of GDP is important element for achieving credit worthiness of BiH on the international capital market. That would have a positive effect on the macroeconomic stability, prospects for a faster integration of BiH in the EU, increasing the level of interest of foreign investors and enable a larger scope of credit funds for the development of BiH.

Both entity governments have adopted plans for the reduction of the public debt, in which the following claims were identified as parts of the internal public debt:

- general claims (arrears of budgetary and extra budgetary beneficiaries),
- claims on the basis of old foreign currency savings,
- claims on the basis of war damages (mobilized and taken over tangible and technical assets and equipment, delivery of materials, produce, goods and services rendered for the demands of military operations, pecuniary assets taken over).

In compliance with the plans for the reduction of public debt, the amount of resources to be used for the repayment of internal debt is limited to the level of 10 percent of GDP. A part of the claims shall be settled in cash, with resources from the *escrow* account, but the majority shall be settled through the emission of long-term bonds. A significant amount of internal debt needs to be written off.

In order to realize the plans for the reduction of public debt, it is necessary to adopt a legal framework in the first part of 2004.

#### **4.15. External Borrowing Strategy**

The macroeconomic framework envisages that BiH may attain external and fiscal sustainability, as well as limited external creditworthiness, by 2007, but this will require a considerably greater effort on structural reforms, along with the continuation of donor support. This requires adoption of a strategy of foreign borrowing.

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<sup>36</sup> BiH Ministry of Finance and Treasury

<sup>37</sup> An account on which resources are kept until the signing of a contract or fulfillment of other conditions

#### 4.15.1. Analysis of the External Debt of BiH

After the dissolution of former Yugoslavia, and during the wartime period, BiH had considerable arrears to all its creditors<sup>38</sup>. Recognition of all obligations accruing to the end of the war was a precondition for the normalization of the membership and continued extension of credits by the International Monetary Fund (IMF) and the World Bank. In the course of the debt-rescheduling process in 1996 – 1997, BiH managed to normalize relations with the majority of creditors and renew its membership in the IMF and the World Bank<sup>39</sup>. An agreement was reached with the Paris Club, which led to the reduction of BiH debt by 67%. In December 1998, an agreement was concluded with the London Club to write off 73% of this debt<sup>40</sup>.

At end-2001, the overall indebtedness of BiH, was KM 4,045,862,013 (about 40 percent of GDP), of which KM million 2,613 (64.4%) concerns FBiH, and KM million 1,432 concerns RS (35.4%). The indebtedness of BiH on the basis of old (pre-war) debt, with December 31<sup>st</sup> 2002, amounts to KM 2,310,334,262 (57% of overall debt), and the new (post-war) indebtedness amounts to KM 1,732,528,751 (43% of overall debt).<sup>41</sup>

The major share of the external debt was incurred with the World Bank (KM 2,173 million): on the basis of pre-war indebtedness, this debt amounts to KM 967 million, and on the basis of post-war indebtedness, KM 1,206 million (see Table in the text below). The write-off and the rescheduling of a significant part of commercial credits on the basis of IDA conditions<sup>42</sup> have contributed to the favorable situation in connection with the servicing of the external debt. The private sector had limited access to foreign credits, mostly because of the lack of credit worthiness of the country. Excluding the amount for which the repayment is outstanding, the debt of the private sector represents only 0.6% of overall remaining external debt. The currency structure of the external debt is mostly in US\$ and EUR.

Through analyzing the structure of post-war indebtedness, one can notice that the majority of credits were spent on budgetary support and financing in the sectors of education, health and social protection (KM 938 million). That is followed by credits for infrastructure investments (KM 493 million), and the credits spent on investments in economic activities, mostly in the private sector, are at the bottom (KM 303 million).<sup>43</sup>

TABLE 1: SUMMARY REVIEW OF THE STRUCTURE OF BIH BORROWING BY CREDITOR AND SHARE OF "OLD" AND "NEW" DEBT IN 1998-2002 PERIOD

	BALANCE OF DEBT				
	1998	1999	2000	2001	2002
	<b>Amounts in KM</b>				
<b>Old debt – total</b>	<b>1.375.827.701</b>	<b>2.464.536.214</b>	<b>2.496.374.897</b>	<b>2.599.815.973</b>	<b>2.310.334.262</b>
Paris Club	80.342.730	1.071.465.724	1.093.562.388	1.093.669.493	1.038.252.520
London Club	261.919.000	261.919.000	261.919.000	261.919.000	261.919.000
World Bank IBRD	956.811.503	1.035.250.094	1.089.745.567	1.197.609.567	967.255.022
Other	76.754.485	95.901.396	51.147.942	46.617.913	42.907.720
<b>New debt – total</b>	<b>863.835.536</b>	<b>1.271.475.797</b>	<b>1.531.960.515</b>	<b>1.766.064.588</b>	<b>1.735.528.751</b>
European Invest, Bank	0	0	0	7.370.670	20.210.420
World Bank IDA	729.637.014	962.675.512	1.093.900.935	1.252.873.845	1.206.232.151
Saudi Fund For reconstruction and development	29.764.717	34.893.329	42.703.705	47.637.535	47.200.235
IFAD	16.569.656	33.178.008	39.245.806	40.064.806	38.651.223
IMF	56.965.675	141.215.973	220.643.699	245.714.475	260.849.552
European development Bank Council	3.347.200	9.516.602	10.391.991	10.936.149	9.258.267
EBRD	20.520.717	55.365.170	89.407.091	108.214.122	99.671.845
European Commission / Union	0	19.558.300	19.558.300	39.116.600	29.116.600
Other	6.994.557	15.090.903	16.108.988	14.136.596	14.338.458
Balance of debt – old and new debt – together	<b>2.239.663.237</b>	<b>3.736.012.011</b>	<b>4.028.335.412</b>	<b>4.365.880.561</b>	<b>4.045.863.013</b>

<sup>38</sup> The arrears in end 1995 were estimated at USD 1.9 billion, of which USD 342 million to the World Bank alone.

<sup>39</sup> After the repayment of the arrears, BiH became a member of the IMF in December 1995. By signing the Consolidated Loan, which regulated the arrears, BiH renewed its membership in the World Bank.

<sup>40</sup> It was agreed that, out of the total amount only USD 147.8 million will be serviced over the following 20 years, while the rest of the debt will come due only after BiH GDP per capita reaches USD 2,800.

<sup>41</sup> BiH Ministry of Finance and Treasury

<sup>42</sup> 20-year WB loans, with over 10-year grace period and interest 1-2%.

<sup>43</sup> BiH Ministry of Finance and Treasury

**STRUCTURE OF NEW DEBT BY SECTOR – PURPOSE**      Amounts in KM

	1998	1999	2000	2001	2002
<b>New debt - total</b>	<b>863.835.536</b>	<b>1.271.475.797</b>	<b>1.531.960.515</b>	<b>1.766.064.588</b>	<b>1.735.528.751</b>
Credits for investments in infrastructure*	270.320.213	384.425.126	475.993.330	530.446.973	493.549.822
Credits for investments in economic activities**	132.983.799	187.244.233	242.600.114	261.097.636	303.121.281
Credits for public – budgetary expenditure***	460.531.524	699.806.384	813.427.071	974.519.979	938.857.648

SOURCE: MINISTRY OF FINANCE AND TREASURY OF BIH

\*Water, roads, electricity, waste management, telecommunications

\*\*Privatization projects, small enterprises, agriculture IGA

\*\*\* Social program, PFSAC, IMF, education, health

**4.15.2. Is the External Debt of BiH a Large One?**

When assessing the external debt burden of a country, the nominal value of the total external debt is not a useful indicator. The important element is the debt structure (share of concessional with respect to commercial credits). In the case of BiH, more than one-third of the total external debt is comprised of concessional credits, and an important share of the commercial debt has been rescheduled under concessional terms (London Club).

In comparison with the countries of Southeastern Europe and with the countries with a similar per-capita income, BiH debt is relatively high (around 67% of GDP). Despite the rescheduling and consolidation, the debt-to-GDP ratio of BiH is second highest in the region of Southeastern Europe, after Bulgaria<sup>44</sup>. However, there is a major difference: the debt structure of BiH is relatively good, which is illustrated by a relatively favorable ratio of debt servicing and the exports of goods and services. As of end-2002, the payments coming due for the total foreign obligations were only around 8.6% of the total exports of goods and services. A high share of concessional credits in the overall structure of external debt of BiH, and favorable arrangement made with the London Club of Creditors put BiH in a privileged position from the aspect of external debt servicing in the coming mid term period (2004-2007). The Reform Scenario envisages that the ration between the annual debt servicing allocation and overall exports will fall in comparison with 2003 (8.6%) and that in 2007 it will amount to about 4.4 percent.

Regardless of the overall relatively favorable foreign debt-servicing situation, its inflexibility is evident, i. e. it would be extremely difficult to get any further debt restructuring, even in the event of sudden economic shocks.

***In view of all this, when it concerns external indebtedness, one can conclude that BiH belongs to the category of moderately indebted countries.***

**4.15.3. Sustainability of the external debt of BiH and external debt strategy in the coming medium-term**

When assessing a country's potential creditworthiness, the analysis of the external debt sustainability is normally based on three key determinants: total existing debt and its repayment terms, fiscal and external repayment capacities, increase, composition and terms of new foreign financing.

The analysis performed in the context of the Reform Scenario shows that the conditions of external borrowing in the course of the implementation of the Medium-term Development Strategy of BiH – PRSP (2003 – 2007) will be crucial for restoration of the creditworthiness of BiH at the international capital markets by 2010. Securing additional US\$ 1.5 billion in new credits and grants (non-returnable aid) is also a vital precondition for this scenario.

Debt sustainability analysis within the Reform Scenario indicate that creditworthiness may be restored by the end of this decade. In that context, the strategy of foreign borrowing in the coming mid term period needs to ensure the following:

- that the majority of external borrowing is exclusively under favorable terms, especially in the first part of the mid term period,
- that a limited level of commercial borrowing is engaged exclusively in those sectors that can repay it by themselves (such as, for example, telecom, energy), and in the second half of the mid term period,

<sup>44</sup> It is important to remember that the high debt-to-GDP rate is partially caused by the steep decline of the production after the war.

- that the level of credits taken for budgetary support is reduced, and that the borrowing for the support to accelerated development of private sector is increased,
- that borrowing on the basis of technical assistance provision is reduced and ensured through grant resources.
- to start with realization of so called Swap arrangement<sup>45</sup>

Further development of debt-servicing and monitoring mechanisms between the State and the entities is a crucial prerequisite for strengthening the capacities for foreign debt management and for prevention of further borrowing by local authorities from the domestic banking sector. Its goal is to: create a comprehensive reporting system on indebtedness of all levels of governments and of all public funds, establish clear procedures for budgeting, monitoring of indebtedness and issuance of guarantees and develop procedures for coordination of intra-entity borrowing.

It is important to emphasize that Bosnia and Herzegovina has high claims on the basis of works executed by BiH companies before the war. Negotiations with Russian federation on the pre-war clearing debt are ongoing. Similar negotiations have to be initiated with other countries (Iraq, Libya).

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<sup>45</sup> In the framework of reprogramming of debt towards Paris Club

### **III.1. ENHANCING THE BUSINESS ENVIRONMENT FOR DOMESTIC AND FOREIGN INVESTMENT AND SUPPORTING ENTREPRENEURSHIP**

#### **1. Goals**

##### **1.1. Promote entrepreneurship and more rapid private sector development**

Remove administrative barriers for the start up of businesses -- reduce the time period required for the registration of business to 15 days.

##### **1.2. Create conditions for a more efficient privatization process**

A more favorable business climate will significantly improve the privatization process.

##### **1.3. Attract more foreign investment**

In the time period between 1996 and 2002, BiH attracted about USD 2,1 billion KM (1,1 billion EURO) in foreign investments. It is necessary to attract an additional USD 2 billion in foreign investments during the period from 2003 until the end of 2007 in order to meet the macroeconomic goals outlined in the midterm proposal of the Poverty Reduction Strategy Paper (PRSP).<sup>1</sup>

#### **2. The Current Situation:**

The enhancement of the business environment along with stimulation of entrepreneurship is an important prerequisite for private sector growth. This implies, above all, the establishment of an appropriate legal, business, social, security, and in general, socio-economic climate.

The European Bank for Reconstruction and Development (EBRD) publishes a *Transitional Report* in which it, among other areas, assesses the business environment of countries in transition. In its 2002 Report, BiH was placed among the countries that have improved their business climate compared to previous years, but still must resolve a number of issues before the business environment could be considered attractive for domestic and foreign investment.

The Economic Intelligence Unit of the prominent magazine, *The Economist*, analyzes business environments of countries in transition and on the basis of its findings ranks countries according to the quality of their business environment. In its latest report<sup>2</sup>, which analyzes 27 countries, Bosnia and Herzegovina fell from the 20<sup>th</sup> position to the 22<sup>nd</sup> position, despite the fact that its cumulative score went up from 4.15 to 4.77. The explanation for this fall can be found in the fact that other countries, such as Serbia and Montenegro, which used to be ranked below BiH, improved their business environments with a greater level of success in less time. Out of all the countries in transition, Serbia and Montenegro made the highest jump, managing to get to the 14<sup>th</sup> position from the 25<sup>th</sup> position in just two years.

In 2001, the Ministry of Foreign Trade and Economic Relations of BiH, in cooperation with the World Bank (Foreign Investment Advisory Service – FIAS), conducted two studies in order to find answers to the question of creating a more favorable business environment for domestic and foreign investment. The two studies in question are *An Investigation into Administrative Barriers to Investment in BiH* and *A Diagnostic Examination of Corruption in BiH*. In 2001, the Council of Ministers of BiH, together with the entity governments, adopted a long-term *Action Plan for the Enhancement of the Business Environment to Attract Domestic and Foreign Investment*, which is now in the implementation phase. Additionally, the Council of Ministers of BiH has adopted a *Jobs and Justice* document, with the goal of improving the business environment and initiating reforms in the shortest time span possible.

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<sup>1</sup> Source: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, IMF

<sup>2</sup> Economies in Transition: Regional overview, Country Forecast, September 2003

Businessmen from all over the country, together with government representatives and the international community, led by the OHR, have formed a so-called "Bulldozer Committee". The goal of the Committee is to propose concrete measures to improve the business climate in accordance with the already adopted strategic documents. The Bulldozer Committee has already presented the governments on all levels with two sets of reforms geared at improving the business climate.

In April 2003 there was an advisory meeting of the BiH Council of Ministers, entity governments, and representatives of entity and state parliaments at Mt. Bjelašnica in which a *People First* declaration was adopted. The declaration underlines, among other issues, the need to implement the midterm PRSP document, and the comprehensive reforms in order to ensure private sector growth. As a result of this meeting, the Council of Ministers, together with the entity governments, adopted a six-month Action Plan at the end of July 2003 for the Implementation of Urgent Reforms geared towards improving the business climate.

### **3. Noted Problems:**

The absence of a single economic space is a great obstacle to the creation of an attractive business climate for domestic and foreign investors and approximation to the European Union. There are still a number of barriers to inter-entity trade alone.

Administrative barriers to setting up and operating businesses, i.e. drawn out registration, high start up costs, tax rates that are among the highest in Europe<sup>3</sup>, inspections, and corruption are all obstacles to faster private sector development. The legal framework on bankruptcy in the Federation of BiH, which has not been updated, is a part of this problem. The size of the gray economy presents a particular problem. According to European Commission estimates and the World Bank, the gray economy accounts for 36 to 40 percent of the country's overall economy.

Judiciary inefficiency in resolving commercial disputes and a weak legal framework protecting creditors further attribute to the weak business environment.

The above factors, combined with competitiveness and a poor world image, have greatly contributed to the low foreign investment numbers attracted to date. Rather high tax rates, comparatively expensive labor, insufficiently developed technology, an internally divided market, and the high costs of doing business (permits, electricity, postal services, etc.) rate among the highest.

### **4. Priorities**

As compared to previous years, there has been noted improvement in removing administrative barriers for domestic and foreign investment. The pace of implementation of reforms in this area leads one to believe that by the end of 2004 a majority of administrative barriers will have been removed, commercial disputes will be resolved at a higher rate, and appropriate protection of creditors will be ensured. Thus, the focus of improving the business climate will shift from removing administrative barriers to creating conditions for higher competitiveness of the local economy, reducing tax rates, and strengthening corporate management.

#### **4.1. The strengthening of a single economic space in BiH**

The provisions of the BiH Constitution guarantee freedom of movement of persons, goods, services, and capital.<sup>4</sup> However, despite the success of the past few years, there still exist certain obstacles that make it difficult to conduct business countrywide.

The harmonization of the tax system was achieved largely in the area of indirect taxation. However, in the area of direct taxes, e.g. income tax, one still finds double taxation.

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<sup>3</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

<sup>4</sup> "There shall be freedom of movement throughout Bosnia and Herzegovina. Bosnia and Herzegovina and the Entities shall not impede full freedom of movement of persons, goods, services, and capital throughout Bosnia and Herzegovina. Neither Entity shall establish controls at the boundary between the Entities." Article I (4) BiH Constitution.



The European Commission project, Single Economic Space<sup>5</sup>, noticed a number of inter-entity problems pertaining to trade, production, carrying out services, and the mobility of the work force. The project focuses on a limited number of activities, including the production and trade of medicines for human consumption, the movement of goods with the CE mark, phyto-sanitary controls in the entities, inspection (Brčko), market barriers in the entity laws, bus transport, free movement of the labor force, and market surveillance. Practices in all of the above areas points to an absence of the constitutionally guaranteed freedom of movement of goods, services, capital, and persons.<sup>6</sup>

The fact that the state level government does not have a larger role in creating and coordinating the economic policy of the country poses a particular problem.

Infrastructure is an area that is quite fragmented, as can be seen in the functioning of the railroads.<sup>7</sup>

The transposition of the EU *Acquis Communautaire* (the complete legal heritage of the EU), as a part of the stabilization and association process, will help resolve the above problems and integrate the BiH economic space. Added institutional building and technical infrastructure modeled after the internal EU market, will aid in creating a single economic space and movement towards integration into the EU market. This, in turn, will accomplish three important goals – an improved business climate and increased efficiency of the BiH market; better consumer protection; the creation of preconditions for more exports to the EU.

**In line with the above, it is necessary to achieve the following priorities:**

**4.1.1. Harmonizing regulations pertaining to the freedom of movement of goods, services, capital, and persons with respective EU regulations**

In drafting the National Plan for the Adoption of the *Acquis Communautaire* (NPAA) particular attention must be given to those regulations which deal with the freedom of movement of goods, services, capital, and persons. The Stabilization and Association Agreement with the EU (SAA) does not regulate the issue of movement of persons in its entirety; rather, its provisions pertain to the movement of the work force from a candidate country to the EU member states and vice versa.

**4.1.2. Establishing a legal and institutional framework for fair competition and consumer protection**

In order to achieve a properly functioning market economy it is necessary to have effective consumer protection. In this respect, BiH must<sup>8</sup>:

- Create and active consumer protection policies in line with EU legislation,
- Harmonize Consumer Protection Laws with those of the EU,
- Establish independent and efficient administrative structures to ensure the fulfillment of basic requirements in terms of health and safety,
- Ensure consumer advocacy, information, and education.

It is necessary to establish a BiH Council of Competition and provide sufficient funding from the budget for its work. Following the establishment of the BiH Council of Competition, Entity Offices for Competition and Consumer Protection should be established as well.

In order to safeguard consumer health and safety, it is necessary to harmonize three important market segments with the EU laws -- product legislation, conformity assessment, and market

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<sup>5</sup> "Single Economic Space Strategy in BiH", European Commissions, September 2003.

<sup>6</sup> Bosnalijek from Sarajevo is treated as a foreign enterprise in the RS; Saniteks Company from Velika Kladuša, which has a CE mark which allows it to export to the EU market, must undergo a conformity assessment procedure with FBiH legislation in the Federation of BiH, while the same procedure is not required in the RS; there are different lists of seed sorts in the two entities; inspectors in the Southern part of the Brčko District apply RS laws, while those in the Northern part of the District apply FBiH legislation; bus transport between the RS and Serbia and Montenegro is considered local, while passenger transport between the FBiH and Serbia and Montenegro is considered international travel; nationals of Serbia and Montenegro are not treated as foreign laborers in the RS, while in the FBiH they are.

<sup>7</sup> Locomotives are still changed at the inter-entity boarder.

<sup>8</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

surveillance. It is particularly important to adopt by-laws and create an institutional framework for the implementation of the BiH Law on Consumer Protection. The SAA itself also stresses the significance of the issue of consumer protection, as its proper functioning is essential for ensuring an effective market economy.

In the future Stabilization and Association Agreement (SAA) with the EU, BiH will have to refrain from those measures which have a negative impact on fair competition. Therefore, it will be necessary to ensure full transparency in government subsidies, by developing and publishing an annual subsidy inventory.<sup>9</sup>

#### **4.1.3. Introducing mutual recognition provisions for products to the BiH legal system<sup>10</sup>**

In this respect it is necessary for both entity governments to mutually recognize all technical trade standards in order to prevent having to obtain two licenses and two permits. This would allow businesses to operate unobstructed throughout the BiH market.

#### **4.1.4. Establishing a single public procurement system for the entire country**

In public procurement, there still exists discrimination of companies based on the entity they come from, despite the BiH Constitution. Therefore, with the aim of improving the business climate, it is necessary to adopt a new legal framework on public procurement on the state level. The implementation of such laws will contribute to strengthening the single economic space in the country.

#### **4.1.5. Increasing the mobility of the labor force and eliminating discrimination in hiring practices**

Despite contemporary labor laws that are also harmonized between the two entities there is still discrimination in hiring practices, especially when it comes to the returnee population. In addition to political factors, there are also other factors, which affect the low mobility of labor force in the national market (see the Labor Market segment). Therefore, for example, the minimum wage, unemployment benefits, and pensions differ between the entities, while the levels of social welfare, healthcare, and the quality of education differ not only between the entities, but also among the cantons in the Federation of BiH.

#### **4.1.6. Improving public infrastructure management coordination**

It is necessary to intensify the activities of the BiH Public Railroad Corporation (BHJŽK) in order to make a plan for restructuring the railroad and developing regulations for a more efficient flow of railroad traffic. It is further necessary to intensify the work of the Public Road Traffic Corporation, which should coordinate the activities of both entities in the area of the road network. Accelerated activities on the liberalization of the electricity and telecommunication markets will further contribute to greater integration of the BiH market (see Infrastructure, Telecommunications, and Energy segments).

#### **4.1.7. Stimulating regional economic development**

According to the EU regional development model, an economic region is a single economic space comprised of multiple local units bound together by geographic, historic, cultural, and economic ties. With the support of the European Commission, a process to strengthen regional development has started. This process was well received by municipalities. There are five economic regions being developed in BiH at this time. Several regional development agencies have been established.

The experiences of Hungary, Poland, Slovenia, and the Czech Republic show that regional development has a large effect on the overall improvement of a country's economy. In the case of BiH, the establishment of economic regions will lead to a strengthening of the single economic space in the country.

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<sup>9</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

<sup>10</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

The existing network of regional development agencies in BiH is very weak at the moment. Due to insufficient staff and resources, these agencies have extremely limited capabilities in stimulating regional development. Therefore, they must be strengthened and provided with sufficient funding by interested municipalities. Furthermore, it is necessary to improve coordination between the agencies and with governments on the local level.

The priorities, to further develop economic regions are as follows:

- Adopt a suitable legal framework and establish a proper forum, at the BiH level, which would propose policies and measures for regional economic development;
- Finalize the process of defining economic regions, based on voluntary linking of municipalities;
- Define a strategy for regional development;
- Strengthen the existing and establish new regional development agencies.

#### **4.2. Maintaining macroeconomic stability**

In the years following the end of the war, BiH succeeded in maintaining macroeconomic stability. This is an important presumption for a better business environment in the upcoming period.

#### **4.3. Eliminating all forms of unfair competition**

A significant portion of the BiH economy is still gray (36%). There is smuggling of goods, especially those with higher tariffs. Even though an accurate analysis has never been carried out, the international community, the OHR, and CAFAO in particular, have made public audit information that shows an amount of up to KM 1 billion a year.<sup>11</sup> Unfair competition is also a large obstacle to substantial domestic production, and consequent increased employment.

It is important to strengthen the State Boarder Services, establish a customs administration on the state level, simplify customs procedures and reduce the number of custom-houses, adopt procedures that will ensure the import of petroleum and petroleum products by rail only, and increase control over the free custom zones. It is especially important to establish a BiH indirect taxation authority and introduce a value added tax (VAT) before the end of 2006.

#### **4.4. Removing all administrative barriers to domestic and foreign investment and reducing the cost of registering businesses**

In 2001, it took an average of 120 day to register a business. According to this year's research conducted by the World Bank, over the last two years the number of days has dropped<sup>12</sup>; it now takes 59 days<sup>13</sup> to register a business. Nonetheless, this change does not constitute a satisfactory improvement. However, the entity governments report that the number has fallen down to around 30 days.<sup>14</sup> Regardless of the various data, it takes too long to register a company in BiH. There are several factors that attribute to this, including strict administrative regulations, inadequate administrative apparatus, and the large number of state level institutions involved with registration (12 to be exact). It is therefore necessary to simplify registration procedures and reduce the number to institutions involved in the process to a bare minimum, as in the case of the registration of foreign enterprises.

When comparing registration costs, it is evident that start up costs for companies registering their business in BiH are extremely high, and much higher than in other countries in transition or the OECD countries<sup>15</sup>. Consequently, measures need to be taken to reduce the costs of registering a company in BiH.

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<sup>11</sup> Statement given by the Ambassador Don Hays, Senior Deputy to the High Representative in BiH, in *Oslobođenje*, the BiH daily newspaper, issue number 20370 of 24 October 2003.

<sup>12</sup> Since the Action Plan for Enhancement of Business Environment for Domestic and Foreign Investment has started to be implemented.

<sup>13</sup> "Doing business in 2004, Country Profile of Bosnia and Herzegovina", WB, June 2003.

<sup>14</sup> "Bosnia and Herzegovina, Report on the Implementation of the European Charter on Small and Medium-Sized Enterprises," Ministry of Foreign Trade and Economic Relation of BiH, September 2003.

<sup>15</sup> "Bosnia and Herzegovina, Report on the Implementation of the European Charter on Small and Medium-Sized Enterprises," Ministry of Foreign Trade and Economic Relation of BiH, September 2003.

In relation to the above, it is paramount to adopt a framework Law on the Registration of Businesses, as well as respective entity laws, and to establish entity business registers and one single date base for BiH.

#### **4.5. Accelerating commercial dispute settlements**

Settling commercial disputes in BiH is a lengthy and costly affair. According to World Bank research,<sup>16</sup> the average time period required to settle a commercial dispute in a judicial proceedings takes around 630 days. With the exception of Slovenia and Poland, in BiH this procedure lasts longer than in any of the other countries in transition and twice as long when compared to the OECD average.

At the moment, judicial reform is underway, a part of which is amended criminal and procedural laws. Several activities have been underway in cooperation with USAID, including the formation of 16 commercial divisions as a part of first instance courts in BiH, the appointment of judges, and judicial training in the area of commercial disputes. In addition to the above, there should also be an alternative, out-of-court system for commercial dispute settlement (arbitration).

#### **4.6. Simplifying the tax system in BiH**

There is double taxation in BiH, especially in the areas of profit and income taxes. The introduction of a VAT will to a large extent simplify the country's tax system.

Reform of tax on profit and income tax would lead to their simplification and the abolishment of double taxation. Additional activities should include continuing with the reduction of tax withholding which would automatically stimulate a reduction of the gray economy; adopting a Code of Conduct for tax officials on all levels; and the establishment of an independent appellate body on all levels to decide on appeals of tax administration decisions.

#### **4.7. Strengthening corporate governance<sup>17</sup>**

Efficient corporative governance is an important prerequisite for the creation of better business environment, which means the proper functioning of the financial market in BiH. Strong corporative governance improves access to capital markets, increases the trust of investors, and strengthens a company's competitiveness. The main problem with corporate governance in BiH lies with the fact that 60 percent of the economy is still state owned. On the other hand, the privatization model used has led to ownership dispersion, the appearance of PIF, as well as a fragmented and insufficiently liquid capital market. The fact that there is no tradition of corporate governance results in a lack of information on the part of owners regarding their rights and responsibilities, and this presents a particular problem.

In addition to focusing on the ongoing reforms in the area of enterprise legislation, other issues, such as a quicker privatization process, continued activities in strengthening the capital market, and especially its regulatory framework must also be dealt with. An important measure in supporting corporate governance would be if stock companies and public companies were required by law to be quoted on the stock market. This would not only contribute to the development of the capital market, but would also increase their transparency.

#### **4.8. Restructuring of inspections**

Due to the multi-layered system of state organization, there is much overlap of authority when it comes to inspections. The system of inspection of private sector activities is massive, the required coordination does not exist, and the inspectors' discretionary power is too great. There are too many inspections, and this work is not transparent. The governments of the Federation of BiH and the RS

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<sup>16</sup> "Bosnia and Herzegovina, Report on the Implementation of the European Charter on Small and Medium-Sized Enterprises," Ministry of Foreign Trade and Economic Relation of BiH, September 2003.

<sup>17</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

have adopted action plans for the reorganization of inspections. These action plans address reforms in three major areas – drafting regulations, the internal organization of entity inspections, and the training of inspectors.

In the upcoming period it will be necessary to adopt a BiH framework Law on Inspections, as well as respective entity laws. Furthermore, a Federation inspectorate and the RS inspectorate must be established. In the Federation of BiH, each canton has its own inspectorate. The aim of the restructuring of the inspectorates is to centralize inspections into several inspectorates in order to increase their efficiency, transparency and to reduce costs.

#### **4.9. Ensuring more efficient protection of creditors and creating greater access to bank loans**

As previously stated, there should be a more efficient system for the resolution of commercial disputes. This must be accomplished in the upcoming period. In addition to slow court procedures, another problem is the fact that a proper system for the protection of creditors does not exist. Credit securing is not systemized, nor is there an efficient mechanism for collection, both of which present obstacles to greater availability of loans to the private sector. The collection of collateral in BiH is still quite complicated and must be simplified. It is necessary to adopt a number of new laws and to amend existing ones, so that there is a more efficient mechanism for the protection of creditors in place. In relation to the above, it is necessary to adopt mutually harmonized entity level Law on Obligations and Law of Things in the FBiH and the RS, and the Law on Notaries in the RS. It is particularly important to adopt a state level Law on the Registration of Pledges on Movable Property, as well as entity Laws on the Registration of Pledges on Movables, and to establish a single register of pledges on the BiH level.

The Bankruptcy Law and the Law on Liquidation play a significant role in creating an attractive business environment. Recently, the RS adopted a Bankruptcy Law, which meets the requirements of the contemporary business climate. However, the same cannot be said of the FBiH, which gives an unlimited right to collect back salaries in full. In this way, other creditors are put in an unfavorable position and have no incentive to decide for bankruptcy and restructuring of a company in order to revive it. With such a law, creditors are more likely to liquidate a company. Therefore, the FBiH Bankruptcy Law must be amended.

#### **4.10. Implementing reforms in order to combat corruption more efficiently**

According to research done by the World Bank in cooperation with local experts<sup>18</sup>, the level of corruption in BiH presents a big obstacle to private sector development. According to this research, "18 percent of costs incurred by companies go to pay bribes"; and in the process of doing business, managers spend one tenth of their managing time communicating with government representatives.<sup>19</sup> It is necessary to implement an action plan for combating corruption, which is an integral part of the PRSP.

#### **4.11. Modernizing the system for land and real estate management**

There are no harmonized laws regarding ownership and transfer of ownership of all types of real estate. Obtaining zoning permits and building permits is a slow and costly affair. The unresolved issue of restitution poses an added problem. A number of problems have been discovered during privatization regarding the transfer of ownership of real estate, which additionally complicates privatization, making it less efficient, especially in the case of PIF.

What is needed is to strengthen the urban planning system and coordination at all levels to eliminate the Institute for Urban Planning's monopoly in the process of preparation of infrastructure development of locations, as well as to introduce private sector competition, and to merge the procedures for obtaining zoning permits and building permits. In this context, modern cadastre laws must be adopted in order to integrate land books and the cadastre, a state Law on Restitution must be adopted, and the process of amending existing laws must be accelerated in order to resolve property

<sup>18</sup> A Diagnostic Examination of Corruption in BiH, World Bank, 2001.

<sup>19</sup> A Diagnostic Examination of Corruption in BiH, World Bank, 2001, pg.25-26.

rights issues related to privatization in a more expedient manner. It is particularly important to introduce a harmonized system for land registration, which would bring about a greater level of trust in exercising one's property rights.<sup>20</sup>

#### **4.12. Providing more effective protection of intellectual, industrial, and commercial property**

One of the prerequisites of the Stabilization and Association Agreement (SAA) is more effective protection of intellectual, industrial, and commercial property, including protection from counterfeiting and piracy. BiH also needs to sign multilateral European conventions in this area.<sup>21</sup>

#### **4.13. Institutionalize existing activities which would bring about dialogue with the private sector**

The influence that the private sector has over the government is quite weak, with a visible tendency of strengthening associations, formed outside of chambers, on the basis of voluntary membership. Still, considering the tradition, it would seem most logical that the chambers, and the Foreign Trade Chamber of BiH in particular, would be the most important partner for the governments at all levels. In the past two years, the so-called Bulldozer Committee has yielded the best results in terms of cooperation between the private sector and the government on the issue of improving the business climate. This is in part due to the fact that this committee has been established by the OHR. Taking into account the results achieved so far, it is paramount to continue with the activities modeled after the Bulldozer Committee. The local authorities must takeover the ownership of this initiative from the OHR. In the same context, it is important to schedule regular work of the economic and social councils in the entities.

## **5. Business Climate and Attracting Foreign Investment**

### **5.1. Situation**

In the time period between 1996 and 2002, BiH attracted around USD 710 million in foreign investments. In 2002, the inflow of foreign investment grew (USD 240 million) and achieved a 100 percent increase in comparison to the previous year. Nonetheless, the number of investments in BiH is generally low. The total per capita inflow of foreign investment in the postwar period has been around USD 166, far below the average for countries in transition. For the sake of comparison, during the same time period, per capita foreign investment in Croatia was USD 1,321, in Bulgaria USD 480, and in Romania USD 288. The level of foreign investment in Macedonia and Albania is also high three times higher<sup>22</sup> It should be noted that in just two years Serbia and Montenegro succeeded in attracting three times as much foreign investment as BiH.

There has been no considerable foreign investment in the real sector in BiH. This presents a particular weakness from the point of view of competitiveness of the local economy, and consequently exports and employment. The structure of foreign investments by sectors is not particularly dispersed. Investment in the exploitation of resources (the steel plant in Zenica and the cement factory in Kakanj) and the finance system (as much as five out of the ten largest investments are in the banking sector) are at the forefront.

In order to meet macroeconomic goals set in the midterm proposal of the Poverty Reduction Strategy Paper (PRSP) by 2007, it will be necessary to attract an additional USD 2 billion in foreign investment. This represents a great challenge, given the situation of the BiH economy, the worldwide investment crisis, and the fact that there is strong competition among countries in the region, which also base their economic development on attracting foreign investment.

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<sup>20</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

<sup>21</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.

<sup>22</sup> PRSP team's research based on the World Bank data.

The attraction of a greater share of foreign investment remains an important priority of the midterm proposal of the Poverty Reduction Strategy Paper (PRSP), given the many positive effects that these investments create, including increased employment, new management skills, new technologies, new markets, and more exports.

## **5.2. Priority activities**

In order to attract more foreign investment, the above priorities must be achieved, starting with the strengthening of a single economic space and maintaining macroeconomic stability, as well as putting in place all the other elements important in the creation of a business environment more conducive to domestic and foreign investment.

The following text emphasizes the reforms and measures that would affect the increased competitiveness of the BiH economy, an important prerequisite for attracting a larger share of foreign investment, as well as private sector development.

### **5.2.1. Strengthening the competitiveness of the BiH economy**

Local experts, in cooperation with the MIT Center at the School of Economics, University of Sarajevo, using World Economic Forum methodology, have surveyed local businessmen, in order to access their view of the competitiveness of BiH on the global market. This methodology is based on 184 indicators (134 qualitative and 50 quantitative), ranked in several categories, such as the openness of the economy, efficiency of government institutions, the finance sector, infrastructure, the labor market, technological development, and others.

According to their findings, the level of competitiveness of our country is satisfactory in only 18 categories, while in the remaining 98 it shows low competitiveness in the global environment. The country scored favorably mainly in the area of macroeconomics. According to the managers surveyed, in the area of infrastructure, it is railroad transport, maritime traffic, and the overall state of infrastructure that are particularly deficient. Financial markets have also been assessed as insufficiently developed and inefficient in financing development and investment.

Conditions are also extremely dissatisfactory. A number of shortcomings have been detected in the structure of the system; the implementation of regulations is inconsistent and discriminatory; and tax collection is not at a desirable level. As a result of the above shortcomings, technological development and productivity are low, while weakness in the area of business strategy and operation pose additional problems. According to the conclusions of the study, it will take the BiH economy a minimum of ten years of intensive efforts to overcome the above shortcomings.

In 1999, the World Bank and the European Bank for Reconstruction and Development (EBRD) jointly developed The Business Environment and Enterprise Performance Survey (BEEPS). This survey examines a wide range of issues related to business environment and competitiveness of companies in transition countries, including BiH. The 2002 BEEPS' report lists lack of competitiveness in the form of difficult access to capital, a complicated tax system, and corruption, as the main barriers to foreign investment in BiH.

**The Tax system** has a destimulating effect on investment. In the past three years, efforts have been made, especially in the RS, to reduce contributions paid out of wages and with that the cost of labor for employers. Nonetheless, tax withholding still remains an obstacle to foreign investment. The level of public spending in the country is at around 56 percent (somewhat lower in the RS at 50 percent), a number that is far above the 40 percent average of transition countries. Public spending and the budget deficit must come down in the coming period, as do taxes and contributions, in order to further stimulate private sector growth and encourage foreign investment.

Taxes on profit are different in the FBiH (30 percent) and the RS (10 percent). Moreover, FBiH legislation provides for profit tax cuts, depending on the amount of foreign investment, while this option does not exist in the RS. This is not in the spirit of the BiH Law on Foreign Investment, which prohibits tax breaks that could create competition between the two entities or could put the domestic private sector in a less favorable position than foreign investors. For instance, a VW automobile

manufactured in the FBiH is more expensive in the RS because that entity has a higher tax rate than the FBiH.<sup>23</sup>

**The Informal sector** of the economy (at 36 percent of the GDP) is widespread, leading to unfair competition. Further income tax withholding cuts and strengthening of inspections are the necessary steps to reduce the informal sector and unfair competition.

**Labor costs** are rather high when compared to other rival countries<sup>24</sup>, partially due to the fact that taxes and income tax withholding are high.

**Costs of public utilities** are higher than in other countries in the region, and in part higher than the European average. This also presents a problem in attempting to attract a substantial share of foreign investment.

According to analysis done by the World Bank and the OHR, electricity prices for businesses are far above the European average. International calls are up to ten times as much as in other transition countries, and also higher than in European Union countries. On the other hand, the level of services does not meet the needs for greater private sector development and attracting foreign investment. For instance, BiH has a low penetration of mobile telephones (only Albania has lower), as well as low fixed telephone penetration (with only Romania having lower). Internet access, with the exception of Albania, is also the lowest among the transition countries.<sup>25</sup> Expensive services of inadequate quality provided by public companies, combined with relatively expensive labor, comparatively high tax rates and start up costs for companies, make BiH less competitive in the area of foreign investment.

In order to make our country more competitive, it will be necessary to implement a series of reforms. With the introduction of the VAT and the reform of the profit and income taxes, the entire tax system will be simpler. Parallel with this, activities geared at reducing the informal sector of the economy, cutting taxes, liberalizing the electricity market and postal and telephone services must continue. For this reason, the upcoming reform of the labor market and education are aimed at strengthening the competitiveness of the labor force in BiH.

### **5.2.2. Accelerating privatization**

There is a co-relation between the efficiency of privatization and the share of foreign investment. Unlike many other transition countries, slow privatization in BiH, among other factors, has contributed to the small number of foreign investments. According to the EBRD annual Transition Report, the BiH privatization index, when compared to other transition countries, received low marks<sup>26</sup>. One of important reasons attributing to foreign investment in the banking system comes from the fact that the privatization of the banking sector was much more efficient than in other sectors.

### **5.2.3. Establishing an institutional framework for concessions**

It is necessary to establish a state level Commission for Concessions and the respective commissions on lower levels as well.

### **5.2.4. Further liberalizing the labor market, current payment regime and capital flow**

As a part of the Stabilization and Association Agreement (SAA), BiH will have to commit to a progressive liberalization of the internal and external flow of capital, particularly in relation to foreign direct investment. Better protection of investors in terms of liquidation must be ensured (this is not the case in the FBiH, where liability towards workers takes precedence), as well as the repatriation of investment and profit. At the same time, discrimination against nationals of EU countries when it comes to issuing working permits and giving priority to the hiring of local labor must be eliminated.<sup>27</sup>

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<sup>23</sup> Investment Climate in BiH – Benchmarking, FIPA, September 2003.

<sup>24</sup> Conclusions from the MIT Study on the Competitiveness of the BiH Economy, School of Economics, University of Sarajevo, 2002.

<sup>25</sup> Investment Climate in BiH – Benchmarking, FIPA, September 2003.

<sup>26</sup> Transition Report 2002, EBRD, 2003.

<sup>27</sup> "Commission's report to the Council regarding BiH's readiness to start negotiating with the EU about the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003.



### **5.2.5. Reducing political instability and social unrest**

Political instability, as seen in the dissatisfactory level of safety of returnees, still presents a serious impediment to any substantial foreign investment. Also, more frequent threats to social order caused by accelerated reforms, privatization in particular, deter foreign and domestic investment.

### **5.2.6. Improving world image**

War and postwar events in BiH,<sup>28</sup> and the region, have helped to create a poor world image. Consequently, there is no interest on the part of businesspeople to invest in our country.<sup>29</sup>

### **5.2.7. Organizing a public campaign to improve the public's perception of foreign investment**

There are certain prejudices among the public, including some politicians and professionals that are causing resistance to creating climate conducive to foreign investment. These prejudices are caused by a lack of understanding of the advantages foreign investments offer.

### **5.2.8. Developing a strategy for foreign investment in BiH**

The strategy should define those sectors in which BiH has the highest comparative advantage for foreign investment, as well as a strategy for attracting those foreign investments that would be the most beneficial for the BiH economy.

### **5.2.9. Strengthening capacities of FIPA**

Lately, FIPA has been quite successful in promoting the investment capabilities of BiH. However, because of its limited capacities, FIPA is unable to produce better results.

### **5.2.10. Signing agreements on preventing double taxation and protecting investments with a greater number of countries**

Priority here should be given to countries in the region, those with whom we have already signed Free Trade Agreements.

## **6. Support for Small and Medium-Size Enterprise (SME) development**

### **6.1. Situation**

Strengthening entrepreneurship in BiH has already been identified as a need and a potential for a rapid private sector development, particularly for small and medium-sized enterprises (SME). For this reason, the Ministry of Foreign Trade and Economic Relations of BiH prepared a document in 2001, titled "*The Entrepreneurial Society*" (A global framework for the economic development of BiH), which served as a framework for defining policies in SME development.

At the EU Summit, held this year in Thessaloniki, BiH adopted the European Charter on Small and Medium-Sized Enterprises, and in doing so, has committed to implement its recommendations.

So far, considerable effort has been made in the two entities and the Brčko District to improve the business environment. Nonetheless, the problems that SMEs and potential entrepreneurs face are still great. The varying dynamics at which the activities aimed at improving the business environment and entrepreneurship that were implemented resulted in ununiform legal and institutional framework that is at different stages of development.

Generally speaking, one can say that entrepreneurship in BiH is in its infancy. The legal and regulatory framework is yet to be adapted and harmonized, starting with business start ups, which as a rule take too long; complicated administrative requirements for doing business; drawn-out court procedures and procedures related to bankruptcy and liquidation. Furthermore, the tax system is neither uniform

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<sup>28</sup> Foreign media have contributed to a poor world image regarding corruption ("Leaders in Bosnia are said to steal up to \$1 Billion, New York Times, 17 August 1999). Foreign media reporting on the presence in BiH of individuals connected with terrorist organizations, failure to apprehend those indicted of war crimes, violation of the UN embargo in the "Orao" case, trafficking in humans, have all contributed to a poor world image of BiH.

<sup>29</sup> Unsuccessful bid for the 2010 Winter Olympics and the consequent explanation of its decision by the International Olympic Committee also point to the fact that BiH needs to work on its world image.

nor adapted to the circumstances in which SMEs operate in BiH. A policy for supporting start-ups of SMEs has not been developed. The banking system presents a particular problem, since it considers investing in SMEs high risk. There is the widespread practice of investing more in micro credits, which is actually absurd from the point of view of risk. However, the reason lays with the fact that donors have given much more support and have invested more in micro credit sector development, and far less in SME development. The local governments have not created instruments through which to encourage the banking sector to invest more in SMEs.

## **6.2. Priority Activities**

For the future strengthening of entrepreneurship and SMEs in BiH, the governments ought to rely on the recommendations of the European Charter on Small and Medium-Sized Enterprises. In the area of industrial cooperation between SMEs and tourism, BiH must create a policy that will aim at modernizing and restructuring the industry, as well as strengthening the SME sector.

### **6.2.1. Adopting a strategy for supporting small and medium-sized enterprises in BiH**

A strategy, to be harmonized with the European Charter on Small and Medium-Sized Enterprises, must define measures and institutions which will support the development of entrepreneurship and of small and medium-sized enterprises taking into account the specific characteristics of the FBiH, RS and the Brčko District. Defining the measures for the enhancement of the business environment for the development of SMEs is a particularly important segment, which includes the removal of administrative barriers, the reduction of costs for SME registration, the definition of incentives for SME support in the area of fiscal policy, and the development of new technologies.

### **6.2.2. Establishing a legal and institutional framework for supporting the development of entrepreneurship**

The RS has already adopted a Law on the Development of Small and Medium-Sized Enterprises and now the FBiH and the Brčko District must do the same. In signing the European Charter on Small and Medium-Sized Enterprises, BiH has made a commitment to establish an Office of a State Coordinator within the Ministry of Foreign Trade and Economic Relations of BiH (Sector for support to and promotion of entrepreneurship). The Ministry of Development, Entrepreneurship and Trade of the FBiH, and the Ministry of Economy, Energy and Development of the RS, deal with the above issues. Furthermore, local communities must have centers for development that will support SMEs in defining their programs and projects, and in disseminating information on SMEs and their projects. These centers must be equipped to assist the SMEs in strengthening their competitiveness, increasing their productivity, and continuously improving their technical capacities, through promoting business incubators, clusters, technological networks, industrial parks, and associations. With the establishment of agencies for the promotion of human resources, the SMEs would have assistance in the training of their staff.

In light of the above, it is important to enable the relevant ministries to implement the recommendations of the European Charter on Small and Medium-Sized Enterprises and to coordinate with the Office of the State Coordinator for the implementation of the Charter, as well as with other ministries and institutions in the process of implementing SME development projects. It is particularly important that the Office act as a promoter of BiH SMEs in European and regional development projects.

### **6.2.3. Creating a Guarantee Fund to support small and medium-sized enterprises**

As it has already been stated, the banking sector considers investing in small and medium-sized enterprises extremely risky. Having noted this as a general problem for the private sector in BiH, USAID, in cooperation with commercial banks in BiH has established a Guarantee Fund, as a means of support to enterprises. However, this Fund is intended for larger enterprises, so small and medium-sized enterprises cannot benefit from it.

Using the above model, the entity governments in BiH should establish a Guarantee Fund to support small and medium-sized enterprises. The Fund could be established in partnership with interested commercial banks that would, in addition to investing their own funds, also make the risk

assessment.<sup>31</sup> The Fund would provide guarantees for a part of the business risk, which would then encourage banks to issue loans to this sector. Taking into account the experiences of other transition countries, it is the young labor force that would benefit most from such Funds. At the moment in BiH, it is this category of young workers that are most often involved in the gray economy. The establishment of a Guarantee Fund is also one of the recommendations of the European Charter on Small and Medium-Sized Enterprises.

#### **6.2.4. Encouraging training and education of entrepreneurs and managers**

One of the more important recommendations of the European Charter on Small and Medium-Sized Enterprises is the affirmation of knowledge on entrepreneurship through education. At present, only the Brčko District has Entrepreneurship as a part of its secondary school curriculum. The existing five Schools of Economics at the universities in the FBiH and the three in the RS offer four-year undergraduate programs, which, in addition to courses in economics, also offer a range of management courses, including Marketing, Management, Accounting, and Finance. All of the universities have departments that offer specialized training in areas such as Business Finance, Accounting, International Business, and Marketing in the senior year.

In addition to four-year programs, four Schools of Economics at the universities in the FBiH also offer two-year undergraduate programs; these are now so-called "Business Schools". Graduate studies offering a Master's Degree in Business Administration (MBA) are offered at five universities in BiH.

NGOs and Chambers of Commerce also conduct business training and give support to SMEs in addition to the Schools of Economics and the training centers at the universities. The network of Enterprise Development Agencies (EDA), comprising of five organizations throughout BiH, is the most important group of institutions providing SME support, even though other NGOs also offer training in this field. International donors most often finance the activities that these institutions carry out, even though they are also partially funded by their attendees. There are several manager-training centers – two in Sarajevo, one in Tuzla and Banja Luka each, and since recently one in Zenica. They are financed by tuition, sponsorship for certain courses, and through consultancy fees. Such centers also exist within the Chambers of Commerce of the FBiH and the Sarajevo Canton.

BiH participates in the South-East Europe Enterprise Development (SEED) program, established and supported by the IFC, which works on increasing demand for management training among SMEs. SEED also organizes training for managers. And finally, with the help of the World Bank, the School of Economics of the University of Sarajevo, in cooperation with the Universities in Banja Luka and Mostar, has founded a Distance Learning Center (GDLC), organizing training in which some of the world's best universities and experts take part. The GDLC offers great possibilities for manager training in accordance with international standards and it is, therefore, paramount that both entity governments continue supporting its work.

All of the above leads us to conclude that the system of training and educating entrepreneurs and managers in BiH is quite developed. However, there are numerous problems in this field. Courses offered by a majority of providers are mostly standardized, often too theoretical, and rarely tailored to the needs of clients. There is no suitable literature or journals in the local language. Many lecturers are quite old fashioned in their approach to training. Service providers are passive when it comes to assessing market needs and conducting training. University courses are often a result of internal compromises between various university institutions engaged in business training.<sup>32</sup> The UK Department for International Development (DFID) has conducted labor market research and has found that employers find it difficult to find employees trained in management, while many employers have stated that they cannot afford to finance their training.

One of SEED's projects works on assessing the long-term needs of SMEs. The analysis of 41 replies from SME representatives shows that general managers, financial managers, and marketing managers are the most sought after in the hiring process. As a result of these findings, SEED is preparing appropriate training courses.

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<sup>31</sup> A fund like this one functions well in several countries in transitions, and is particularly successful in Estonia.

<sup>32</sup> Management and Business Improvement through Education and Training in Bosnia and Herzegovina, Croatia and Yugoslavia, Aziz Šunje, Ph.D., April-October 2001

Taking into account the importance of having suitable education and training in place for entrepreneurs and management in order to develop the private sector, the following must be done:

- Promote, award, and support successful managers,
- Encourage young people to choose management as a profession,
- Include Entrepreneurship in secondary school curriculum.
- Support introduction of independent four-year undergraduate studies in Business and Management,
- Toughen the standards for institutions and trainers carrying out management training,
- Encourage cooperation with similar institutions training entrepreneurs and managers from other countries,
- Contact other governmental and nongovernmental organizations worldwide, which offer training in this field, to enable stakeholders in BiH to take part.

## **III.2. PRIVATIZATION**

### **1. Goals**

**1.1. Complete the privatization of "strategic" enterprises;**

**1.2. Define strategies for the privatization of the infrastructure sector<sup>1</sup> and restructure the enterprises in this sector (public enterprises and utilities companies).**

### **2. Situation**

Privatization, during its initial phase, failed in the restructuring of the production capacities of companies. The predominantly voucher-based method, used to date, has not secured fresh capital, new technologies, or new management practices.

However, a recent survey by the World Bank and domestic experts, based on a sample of 100 newly privatized companies, indicates the emergence of a different trend<sup>2</sup>. Industrial production over the last three years has been constantly on the rise, especially export-oriented production. On the other hand, employment in these companies has remained relatively at the same level with only a slight increase. Although most of these companies still operate with losses, their results are significantly better than of the remaining state-owned companies. These are grounds to state that the newly privatized companies will continue to operate successfully and have a positive effect on the overall economic development of the country. The experience of other transition countries was that it took roughly three years for the effects of reforms to start being felt.

Although privatization investment funds play an important role, the result of mass public share offerings, due to the large dispersion of firm ownership, the shortage of capital and the lack of stockholder interest, was only the transformation of ownership and not a real revival of production. In light of the requirements of the Stability and Association Agreement, the success of privatization leads to the creation of a functioning market economy, which represents the fulfilment of the Second Copenhagen Criterion.

#### **2.1. Enterprise privatization**

Privatization is operationally managed by the FBiH Privatization Agency and the RS Privatization Directorate, in accordance with the entity laws. There are also cantonal privatization agencies in the FBiH.

Privatization has, up to now, mainly been conducted through the sale of state capital for certificates/vouchers or through public offerings of shares. The new ownership structures created in this way, with a multitude of small stockholders, either independent or in privatization investment funds (PIF), have failed to induce the restructuring of enterprises or the restarting of production. Because such developments had been anticipated even before voucher privatization began, a number of "strategic enterprises" were selected for tender privatization.

By mid-2003, significant progress had been achieved in small privatization; 77% of state capital in the FBiH and 47% in RS had been sold. The privatization of large enterprises (with more than 50 employees or over KM 500,000 in capital) has proceeded more slowly. In the FBiH, by mid-2003, 272 out of 411 large enterprises had been privatized, and in the RS, during the same period, 304 out of 648 enterprises from the same category had been sold.

In the FBiH, 86% of enterprises have (fully or in part) gone through the privatization process, and 65% have completed the process. The total value of privatized state capital in the FBiH is KM 5 billion, or 37 per cent of the total planned for privatization. The proceeds amounted to KM 8.8 billion, of which only KM 338 million was cash and the rest was privatization certificates (KM 1.76 was paid for each 1 KM of state capital). Over KM 800 million of new investments was contracted,

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<sup>1</sup> Involves electric power sector (including mining), telecommunications and transport sector (railways, airports, gas), water management sector, utilities sector (district heating, garbage disposal, other communal services), forestry sector, electronic media sector.

<sup>2</sup> "Study of Achieved Results and Conditions for Improvement of Operation of Privatized Industrial Companies in BiH," October 2002, the World Bank, (prepared by Muris Čičić, Ph.D.)

of which KM 371 million was foreign investment. In the RS, in addition to voucher sales, the privatization proceeds included KM 133 million in frozen foreign currency savings and KM 20 million KM in cash.

Despite the international community's support for privatization of so-called 'strategic' enterprises, by mid-2003 only 17 out of 56 firms in this category had been sold in the FBiH and 4 out of 52 in the RS. In a few prominent cases, the privatization negotiations failed, mainly because of inflexible laws, the inexperience of the privatization agencies, and the lack of political will on the part of previous governments to accommodate potential investors, or, in other words, because of the non-transparency of the process. The acceleration of the privatization of 'strategic' enterprises is an absolute prerequisite to boosting economic development.

## **2.2. Bank privatization**

Bank privatization in both entities was conducted in accordance with special laws. The banks could not have been privatized for certificates/vouchers, only through cash investments selected through international tenders.

During privatization in the RS, the capital of 13 banks, 11 of which were majority state-owned, was offered up for sale. Eight banks were sold or merged with other banks, two were closed, two are in receivership, and the sale of the last bank, the Dobož Bank, is underway. Due to the poor situation in the banking sector, total proceeds were KM 7.4 million.

In the FBiH, there were separate processes of privatization of the group of banks with majority state capital and of the banks in which the FBiH had minor ownership stakes. Most banks were successfully privatized. The privatization of the remaining banks is underway, while five banks were placed into receivership. Unlike enterprise privatization, banking sector privatization was much more effective and it resulted in the stabilization of the banking system. Although there was significant foreign investment in the banking sector, the proceeds from bank privatization to date only amount to KM 6.8 million.

## **2.3. Privatization Investment Funds**

Privatization investment funds (PIF) emerged as a result of the voucher privatization model. So far in the FBiH, eleven PIFs have been registered and have collected KM 4.5 billion in certificates. By the end of the public offering of shares, these eleven PIFs had bought KM 1.9 billion of state capital. In the RS, there are 13 PIFs that have collected KM 1.6 billion in vouchers. The shares of these investment funds are listed on the Sarajevo and Banja Luka stock markets, creating the conditions for trade in the shares of these funds.

Given the nature of PIFs and their combined share of ownership in privatized firms, unrealistic public expectations have arisen regarding the capacity of PIFs to contribute to more dynamic economic growth. The negative public image of PIFs, aggravated by their lack of effort to counter negative publicity, has been one of the major reasons that people have neglected to spend a large share of their certificates/vouchers (about KM 4 billion) in the privatization process. The failure of voucher privatization was not only caused by the passive ownership role of the PIFs, it was also the fault of the large ownership dispersion of newly privatized companies and the limited possibilities for securing fresh capital.

The PIFs have played a positive role in accelerating privatization and stimulating the capital markets. Their capacities for boosting the investment cycle are limited due to a lack of capital. On the other hand, PIFs have 5% to 80% share of ownership in several hundred privatized firms. Unfortunately, PIFs hold majority ownership in the poorest companies that could not have been privatized through other methods. PIFs are usually minority owners in better companies. Therefore, their ability to contribute to the acceleration of the economy is limited. Access to new capital is hard to secure for those companies in which the PIFs hold majority shares. The poor results achieved by the PIFs are also, to a large extent, a reflection of the lack of tradition of in corporate governance.

## **2.4. Privatization of infrastructure enterprises – public enterprises and public utilities**

The privatization of public enterprises that produce, transmit and distribute electricity, PTT services, public utility services and other infrastructure sector enterprises (railroads, water management, forestry, and electronic media) is still in its preparatory phase. The adoption of the

Law on Concessions at the BiH and entity levels in 2002 created preconditions for more substantial inflows of private capital for infrastructure through the privatization of these enterprises.

The most significant activities so far have taken place in the energy sector with the adoption of a legal framework and the entity action plans for restructuring and privatization. In their initial stages, the action plans focus only on restructuring and leave privatization for the next stage.

Unlike the FBiH, the RS has made considerable progress in preparations for the privatization of their telecommunications. In its Action Plan, the RS Government committed to privatize Telekom Srpske a.d. by the end of 2005, and has already raised a pre-privatization loan from the EBRD for this purpose.

Public companies producing and distributing electricity, as well as telecom services in BiH, have already offered part of their total capital (before incorporation and/or restructuring) up for sale through public share offers (10 percent in the FBiH and 20 percent in the RS), while majority ownership will be offered to strategic investors. There has not been major progress in the restructuring or privatizing of other infrastructural sectors. Some sector laws (such as forestry, water management, and railroads) have been adopted at the entity level and activities are underway to prepare some studies, but there is no clear or harmonized direction for reforming these sectors. In the future, it will be necessary to make a consistent legal and regulatory framework in order to attract and secure private capital participation in these sectors.

### **3. Problems and obstacles to privatization**

#### **3.1. *Main causes of the poor results of the privatization process to date:***

- Slow privatization, indecisiveness on the part of the government to undertake the necessary steps to accelerate privatization, lack of public trust in the transparency of the process, insufficient attempts to educate public about privatization, frequent elections;
- Insufficiently transparent privatization process thus far;
- Complex and disharmonized legal framework,
- Inappropriate privatization model and an attempt to use privatization to settle arrears owed to citizens;
- Poor management of companies and inadequate preparedness of companies for privatization, including incomplete and questionable integrity of companies' legal and financial records;
- Poor business environment, fragmented economic space, poor world image, inconsistent application of laws, political instability in the country and the region, instances of open and indirect political interference and obstruction of privatization;
- Inconsistent approach and poor results of the international community when involving foreign consultants to assist with sale of strategic companies,
- Economic crisis in most parts of the world, which caused a global decline in investment.

#### **3.2. *The main obstacles to more efficient privatization:***

- Companies are heavily burdened by debt;
- Lack of social programs to deal with surplus labor;
- Investors encounter terms and deadlines that are not market-based, including requirements to provide welfare support, rigid business rules, and public policies that raise the cost of doing business through imposing excessive administrative requirements and unnecessary political interference;
- Part of the state capital has not been prepared for privatization owing to ownership disputes or potential hidden liabilities of such enterprises;
- Overestimated enterprise values;
- Inconsistent legislation treating the same subject in different ways; the non-existence of the Law on Restitution;
- Overly decentralized institutional framework for privatization in the FBiH;
- Management boards and managers tend to resist privatization in order to maintain their privileges;
- Lack of funding for the preparation of enterprises for privatization;
- Lack of strategy for privatizing public enterprises and public utilities, which slows down the legal and regulatory frameworks needed for attracting investors.

## **4. Priority Activities**

### **4.1. Accelerating the privatization of "strategic" enterprises**

Accelerating the privatization of strategic enterprises will:

- Prevent the erosion of state capital: privatization must be accelerated, because the pace of the process so far has contributed to the erosion of the value of state capital and to the accumulation of debt to suppliers, commercial banks, the state and employees. The greatest weakness of the privatization process is not in the model (which may not be the most appropriate), but in the slowness of the process.<sup>3</sup>
- Accelerate economic growth and increase employment: Despite the fact that it could increase unemployment in the short term, accelerating privatization provides opportunities for stable economic growth and an increase in employment over the next medium-term period<sup>4</sup>.
- Increase the volume of foreign investment: The level of foreign investment in BiH is still very low. Accelerated privatization offers opportunities for faster inflow of foreign capital, which, in addition to new jobs, introduces new technologies and new management and opens new markets.
- Accelerate integration into international markets and create conditions for increased exports: by definition, and on the basis of the experiences of other transition countries, privatization offers a more efficient way of managing enterprises, which leads to greater competitiveness of domestic products on the international market<sup>5</sup>
- Secure incomes: despite the modest results in securing additional revenues from privatization so far, accelerated privatization of strategic enterprises could potentially create substantially larger future revenues, which could then be channelled into job creation, stabilizing the pension funds, reducing public debt and into social assistance programs.

### **4.2. Increasing accountability of management boards and managers in state enterprises**

The large share of the responsibility for the erosion of state capital in state-owned enterprises often lies with management boards, who are appointed by the governments at different levels. Along with management, they presented a large obstacle to faster privatization. In order to increase accountability and professionalism in managing state enterprises, management board members should be reappointed and selected in publicly advertised competitions. But, since it cannot be expected that even this measure would significantly improve enterprise management, the possibility of eliminating management boards as instruments of managing state capital should be considered; management could be contracted out through so-called management contracts, with performance overseen by the appropriate government bodies.<sup>6</sup>

### **4.3. Strengthening institutional framework for privatization**

The decentralized institutional framework for privatization in the FBiH, where, in addition to the FBiH Privatization Agency, there are also ten cantonal agencies, has not yielded the desired results. In the upcoming period, competent FBiH privatization agencies must be strengthened, particularly in the segment of privatization of strategic enterprises, and clear rules for coordinating activities with the cantonal agencies must be established.

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<sup>3</sup> Despite the fact that, during the process of determining the initial balances of firms, debts of firms in the amount of several billion have been written off, due to apathy and slowness of privatization, the debts of state enterprises towards the state commercial banks and employees have again grown to such levels that make these firms less and less attractive for privatization.

<sup>4</sup> The above mentioned survey by the World Bank and domestic experts, based on a sample of 100 newly privatized companies, showed that the level of employment in privatized companies has been maintained, and even increased.

<sup>5</sup> The above mentioned survey of the World Bank and domestic experts based on sample of 100 newly privatized companies shows that the exports in these firms have been constantly on the rise.

<sup>7</sup> The method of managing state capital through a managing contract is often used in other transition economies, especially to manage companies providing services in the infrastructure sector. In that case, the government publishes an advertisement inviting offers for a management team that will contract to achieve pre-set business and other goals. In this way, the institution of management boards, which have not proven effective, will be eliminated, while state bodies, as owners of the state capital, will have the task of direct oversight of the management of such enterprises.



The role envisaged by the legislators for the agencies in the FBiH and the directorate in the RS in preparing enterprises for privatization was noticeably weak in the past. The negative perception the public had of privatization, often equating it to criminal activity, additionally limited the agencies in the FBiH and the directorate in the RS in negotiating more actively sales agreements, which lead to their inefficiency. Rules for tenders do not allow for negotiating an offer after the selection of the best bidder. On the other hand, the method of direct bargaining was, because of public pressure, burdened by the demands of the agencies in the FBiH that investors keep current employees on (even though the law does not stipulate this), which in turn discouraged potential investors. Therefore, the FBiH agencies and the RS directorate need to be given greater flexibility and discretion in choosing the best privatization strategies. Furthermore, they should be empowered to prepare for the process of privatization, including short-term restructuring of enterprises, as well as the possibility of meeting the requests of potential investors during the negotiation of contracts.

**4.4. Categorize "strategic" enterprises by their readiness for privatization and then adopt operational plans for privatization, including restructuring, bankruptcy and liquidation proceedings**

The attractiveness of strategic enterprises for potential investors varies from company to company. Since the amount of debt incurred by an enterprise is one of the most important parameters for accessing its attractiveness for privatization, the Federal agency and the RS Directorate, jointly with the World Bank and DFID, have carried out a financial analysis of the debt incurred by strategic enterprises. Taking this analysis as a starting point, the Federal agency and the RS Directorate should categorize enterprises according to their readiness for privatization into the following categories: privatization-ready; requiring restructuring; and those for bankruptcy or liquidation. The entity governments should adopt a document with the categorization of enterprises, which would greatly accelerate privatization.

Based on categorization, the operational plan for privatization should be adopted to include restructuring plans for enterprises selected for restructuring by the entity governments, which would be done in such a way as to selectively split up the existing enterprises -- liquidating unprofitable parts of an enterprise, while offering the competitive ones to the market. Such a way of getting enterprises ready for privatization requires a tailored approach to each enterprise and a change in the powers of the entity privatization institutions.

The process would include short-term restructuring only, including:

- Property restructuring: sale of property and technology (separating main business from strategically unimportant activities),
- Financial restructuring of debt to state and commercial banks,
- Organizational restructuring: establishment of strategic business units (profit centers), strengthening marketing and sales, further education and training of managers and other employees.

The categorization document would determine the enterprises for which it will be necessary to start bankruptcy or liquidation proceedings. In order for this to be successful, entity laws on bankruptcy and liquidation must be amended in such a way as to put creditors and potential investors in a more favorable position.

**4.5. Improve the mechanism for privatization of enterprises that are not categorized as "strategic"**

In this case we are talking about small enterprises. It is necessary to give a deadline for the privatization (including debt or without it) to the management of these enterprises. The most adequate method of privatization of these companies should be sale through stock exchange and public auctions. If companies fail to secure buyer within given deadline, and still have problem of indebtedness, the bankruptcy procedure will have to be initiated.

**4.6. Defining the policies of entity governments and resolving the issues of accumulated debt of strategic enterprises**

As was previously mentioned, the FBiH Privatization Agency and the RS Privatization Directorate, jointly with the World Bank and DFID, have prepared a financial analysis of the debt incurred by the strategic enterprises. These enterprises owe the FBiH KM 203 million, of which KM 112 million

(55 percent) is back taxes, KM 45 million (22 percent) is back wages, and KM 34 million (16 percent) is debt to connected persons.

According to the experiences of other countries, Hungary in particular, it would be useful to establish entity units to manage debt incurred by strategic enterprises. These units would take over the debt to the state in the form of back taxes, back wages, and unpaid contributions for health insurance, pension funds, and to employment bureaus, but not the debt for bank loans or any other business activity.

At the same time, the entity governments should define a repayment plan for the debt taken over by the entity debt management units. The basis of these plans should be a write-off of debt to the state for taxes and health insurance. The remaining debt should be reprogrammed and gradually repaid partially out of privatization revenues and partially out of funds received through the succession of property of the former Yugoslavia and favorable loans from international banks for development. In relation to this, an agreement must be made with the IMF that the revenues received through privatization and succession should be used for reducing public debt.

The debts that the strategic enterprises have incurred to commercial banks and suppliers are another impediment to faster privatization. The Federal Agency for Privatization and the RS Directorate for Privatization should discuss the possibility of writing-off part of the debt or reprogramming the debt with the commercial banks. For this, the Federal Agency for Privatization and the RS Directorate for Privatization should set up special departments to mediate the reduction and reprogramming of the debt that the strategic enterprises have incurred to commercial banks and suppliers.

- ***Companies privatized through voucher schemes***

Special attention should be given to the companies privatized through voucher schemes and which are managed by Investment Public Funds (IPFs). It is necessary to change book of rulers of the IPFs in order to insure that level of fee they get for managing these companies depends on results in recovery of them.

Given the fact that most of these companies are in debts, it is necessary to give them a deadline by which they have to settle debts. In the case they fail to settle debts the bankruptcy procedure should be initiated.

#### ***4.7. To improve institutional framework for more efficient bankruptcy procedures***

In most cases timely bankruptcy procedure could result in preserving companies and jobs. In order to put in place more efficient bankruptcy procedure it is important to complete nominations of judges in the sixteen regional courts and judges for newly established commercial chambers of courts. Besides inadequate legal framework (which has been changed), the biggest problem for efficient bankruptcy procedures in the past has been the lack of political will on the government's sides to move bankruptcy procedures and lack of the adequate social program for those who would loose their jobs. Thus, parallel with improving the institutional framework and securing the social program it will be necessary to prepare the list and the action plan of the companies for initiating the bankruptcy procedure.

#### ***4.8. Reorganizing the unemployment insurance system***

Lack of social programs is quite worrisome to employees about to lose their jobs following privatization and, at the same time, it is a great obstacle to faster privatization. The current practice of transferring social problems onto investors has not yield positive results since it makes already debt-burdened BiH enterprises even less attractive for privatization.

In relation to the above, the following must be assessed:

- Surplus labor in strategic enterprises;
- Arrears to surplus labor in the form of back wages and contributions.

Following the assessment, the unemployment insurance system must be reorganized and the social protection system must be strengthened. In relation to this, the existing legal framework must be modified in order to help the unemployed in resolving their existential problems:

- Tying years of service to meet retirement conditions;
- Purchasing years of service to meet retirement conditions;

- More appropriate unemployment insurance (longer-term).

In addition to funds from the unemployment bureaus, a share of revenues collected through privatization, succession, and favorable international bank loans should be the main source of financing a reorganized social unemployment insurance system. Considering the limited nature of these funds, the Federal Agency for Privatization and the RS Directorate for Privatization should be given powers, when negotiating with potential investors, and depending on the attractiveness of the enterprise for privatization, to partially resolve the issue of unemployment insurance through sales contracts, particularly in relation to back wages and severance pay. In relation to this, and taking into account the fact that the unemployment contributions in the RS are as much as three times lower than in the Federation, consideration should be given to an increase in the RS from 1 percent to 2 percent for a three year period in order to ensure sufficient funds for compensating the large number of unemployed workers. Consequently, this would speed up privatization.

Once again, an agreement must be reached with the IMF to have a portion of revenues received through privatization and successions used for unemployment insurance.

Finally, labor unions will have to influence workers, especially those working in enterprises that are not attractive for privatization, to reach an agreement with the state and investors on reprogramming payment of back wages, in order to facilitate their sale and start production.

#### **4.9. Adopting a strategy for privatizing public companies and public utility companies**

Defining strategies and action plans for companies for the sector of infrastructure will contribute to better the operational planning of the privatization of these important sectors.

Taking into consideration the fact that many public utility and infrastructure enterprises in transition countries suffer from years of neglect and lack of investment, outdated technology, inefficient management, and low quality of services provided to clients, it is quite understandable that, with an injection of private capital into the public utility and infrastructure enterprises, the governments want to:

- Increase efficiency in providing services;
- Obtain funds for new investments;
- Take advantage of private sector abilities and knowledge.

Taking the above as reasons for privatizing public utility and infrastructure enterprises, it is possible to define the following privatization goals:

- Increasing the economic efficiency of an enterprise;
- Obtaining considerable private capital investments or gaining access to private capital markets;
- Introducing new technologies, and technical and managerial skills and knowledge;
- Reducing public subsidies to this sector or redirecting them to the needy;
- Making the sector more responsive to the wishes and needs of its users;
- Shielding the sector from political interference and the influences of interest groups.

Firms from these sectors (telecommunications, mining, forestry, water supply, and infrastructure) are generally unsuitable for privatization by the methods applied so far. Because of the marked public interest in these sectors, the entry of private capital into these sectors, and the mode of management. Appropriate legal and regulatory frameworks must be adopted at all levels of the government to ensure the consistency of regulations and the establishment of an attractive and stable environment for investments.

Further steps in preparing for privatization pertain to institutional systematization of infrastructure (separately for each of the areas), including the adoption of sector laws, liberalization of sectors in order to make room for competition, setting tariffs, regulation, and determining the responsibility for building and managing infrastructure.

Following the institutional systematization of this sector, it will be possible to start privatizing companies providing individual services, with the possibility of private capital participation ranging from contracts for services, management contracts, and rental agreements, to concessions, and sale of property/shares.

#### **4.10. Restructuring and Privatization of the Power Sector**

Based on the Power Sector Restructuring and Privatization Study, a legal framework was adopted for the said activities in the form of the Law on Electricity Transmission, State Regulator and Independent System Operator in BiH, as well as the laws on electric power at the Entity level. By forming the State Electric Power Regulatory Commission of BiH (SERC) and the entities, conditions have been established for issuing licenses for new commercial organizations that will be established in this sector and for implementing tariff methodologies that are related to the production and distribution tariffs.

The above mentioned Study provides for two phases: the transition phase (assets reallocation, incorporation and commercialization) and the privatization phase. Incorporation means that the companies will be organized in a way that is different from the present situation where there are three companies. Commercialization means the adoption of a profit oriented philosophy for the companies in this sector. Concerning privatization, the generation and distribution companies would be privatized, while power transmission would remain state owned.

Based on the Action Plans adopted by the entity Parliaments, what follows next is the adoption of the Law on Independent Power System Operator. During 2004, the following activities were conducted: reorganization and re-registration of generation and distribution companies as new joint stock companies; provisional licenses were issued to the new companies; SERC and the Entity Regulators adopted tariffs and market rules, and future investment plans were updated. The second phase of the Privatization Action Plan will follow in 2005 and 2006. The State is supposed to remain the majority owner in this sector, which should be run under the "Managerial Contract".

#### **4.11. Restructuring and Privatizing the Telecommunication Sector**

In the early stages of the transition of the telecommunication sector, the new Law on Communication was adopted at the state level in 2002, providing that the Council of Ministers was responsible for developing and adopting the sector policy, while the Communication Regulation Agency was responsible to regulate the telecommunication networks and services, including licensing, pricing, linking and specifying the basic conditions for provision of joint and international means of communication. The post-war development of this sector in Bosnia and Herzegovina was characterized by monopolistic behavior of the three operators in the country's divided market.

Preparation of the companies for privatization in the Federation of BiH started in 2002 by splitting the PTT BiH and HPT Mostar into telecom and postal services companies. This process included: dividing property, liabilities, managerial structure, and the workforce; making the opening balances, auditing the financial reports in accordance with international standards and by independent auditors; accepting the obligation to provide subsidies to the postal companies, etc. In the Republika Srpska, the separation of the telecom services from postal services into separate legal entities was completed much earlier.

The Council of Ministers' decision on the telecommunication sector policy in BiH has limited the number of operators to three by the end of 2005. In accordance with this act, the state owned mobile phone operators were to receive their licenses without any compensation (such licenses have already been issued to BH Telecom and Telekom Srpske), while the procedure for awarding the third GSM operator license is currently ongoing.

#### **Next steps:**

- Re-balance tariffs and liberate services: develop a market oriented tariff structure, identify the cost structure for each service, meet the users' demands for each service, improve operational performance, and optimize the profit on the basis of the service provided.
- Pass decisions on selling the telecom companies: make the sale on the basis of the decisions made by the Governments and Parliaments in accordance with the relevant legislation.
- Conduct privatization: prepare the companies for privatization, define the obligations of the strategic investor, specify criteria for selection of bidders, specify the size of the share package that will be offered, choose an advisor for the privatization transaction, and determine the optimal timing of the sale.

#### **4.12. Restructuring and Privatizing the Railway Sector**

The railway system in Bosnia and Herzegovina was destroyed during the 1992-1995 war. The total damage to the railway system in BiH has been assessed at USD 854 million, of which USD 767 million or 90% is for the vehicles, while USD 87 million or 10% is for infrastructure.

By the end of the war, the scope of work of the operators in Bosnia and Herzegovina was limited. Operators are organized into three companies – two in the Federation (ŽBH and ŽHB) and one in the Republika Srpska (ŽRS). The two Federation companies have merged on the basis of the Law on Railways of the Federation of BiH from 2001. In accordance with the agreement between the Federation of Bosnia and Herzegovina and the Republika Srpska from April 1998, a joint railway public corporation was established as a part of the transport corporation.

Recognizing the Conclusions by the ministers from European countries (ECMT) and the EU Directives (e.g. Directive 440/91) further steps in restructuring this sector would be the following:

- The railway companies should be given the status of independent operators who will work on a commercial basis and in accordance with the needs of the market;
- It is necessary to distinguish between the provision of transport services and infrastructural operations and to have separate accounts for the two;
- Improve the structure of the company (reduce the debt);
- Make sure that access to railway infrastructure and transit rights are guaranteed to international groups for international services between member countries.

#### **4.13. Restructuring and Privatizing the Water Management Sector**

Conversely to the power sector, the water management sector (managing water resources, water supply, removal and treatment of waste waters) has seen no concrete reform actions undertaken so far. There have been (and some are still ongoing) international community several projects to reform this sector, but they were implemented in way that lacked comprehensiveness and coordination. They failed to materialize in the form of a single reform concept that would be accepted by the Governments in Bosnia and Herzegovina.

The studies implemented to date indicate that in the restructured sector, the Governments should work on defining the long term development goals for the sector and on formulating policies for competition, investment, and ownership. Sector planning is also an important function that needs to be developed. The interests of various future users (for instance, hydro-power, water supply, flood protection) must be reconciled, so the final restructuring plan must treat all users in an objective and fair manner on the basis of sound technological reasoning and appropriate sector investment policy.

Legislation in the sector should move in the direction of creating an independent regulatory institution whose major task would be to determine prices, i.e. a tariff structure that would provide for the sector's financial sustainability. Private investors seek projects that provide them with an acceptable rate of return on their investment. The regulatory authorities should be developing structures that will make sure that the tariffs for potable and waste waters reflect the actual expenses incurred in their supply and removal, as well as provide for a sufficient profit to meet the needs of the management companies (no matter whether they are municipal utility companies or private companies). The system should be structured in a way that provides for easy collection from consumers and meeting the goals of the community (for instance, minimum water supply for low income consumers).

The necessity of restructuring the water sector is reflected in the need that policy, planning and legislation are retained as responsibilities of the state, while the private sector provide services in the area of water supply, sewer operation and treatment of waste waters.

#### **4.14. Preparation and Privatization of Utilities**

If one takes into consideration the fact that among the total number of utility companies registered for privatization the water supply and waste water removal companies (water supply and sewer) have a dominant position, the link between the utility and water sectors becomes evident.

The other utility companies that are to be found in the above mentioned registry are the district heating companies, the gas distribution companies, burial/funeral services, public transport, park maintenance, fire fighting, public housing companies, and produce and green markets.

The regulations applicable to the establishment and operation of utilities, which were passed by cantonal and municipal authorities in FBiH and municipal authorities in RS, vary from one to the other to reflect the needs of the individual local community. In some smaller communities, those companies are organized to include all utilities, however, in most cases there are separate legal entities that provide different services.

Next steps:

- Restructure the sector (identify the utility services where monopolies have to be retained for reasons of their nature – water supply and sewer, gas distribution, district heating – and those services where several companies may compete -- produce and green markets, waste disposal, parks, fire fighting);
- Supplement the legislation (change the sector regulations that define what is a good in general use and specify the procedure for proclaiming goods in special use for each utility, adopt a regulatory regime and a methodology for tariff determination, adopt and implement laws that enable various forms of partnership between the public and private sectors);
- Specify privatization criteria (incorporation and commercialization prior to privatization for some companies, choosing the privatization option among the available range of options).

#### **4.15. Preparation and Privatization of the Forestry Sector**

Forests and land represent one of the major natural resources in Bosnia and Herzegovina. They are valuable for their ecological, social and production functions. Forests and forest land, being of general importance, demand special care and protection from the state.

Special problems in this sector are a lack of sector policy at the state and entity levels, a lack of institutional definition, variations in regulating forest management and use in various parts of the country.

One attempt to adopt a single approach to forest management included the establishment of public enterprises in the entities (BH Forests and HB Forests in the Federation and the Forests of RS in the other entity). In the Federation, particularly the territory managed by BH Forest, the results were rather poor, which can be explained by the diverging interests of the local communities.

Once the sector has been properly legislated and the property, management and use of forests defined, it will be possible to determine the following directions in terms of activities in the privatization of forests:

- First, privatize the so-called non-strategic areas (parts of the enterprises that handle the transport of logs, road construction and maintenance, catering facilities in forestry, facilities for the processing of timber, plants for extraction and the processing of river gravel);
- Privatization (private sector involvement) of the strategic parts of the forest industry should wait until the documents prescribed by law are adopted (forest program etc.) and until the new organization has been realized. Before the strategic capital is privatized, all material and non-material profits and losses in forestry must be analyzed from the aspect of the public and private sectors;
- Supplement the existing and adopt new privatization regulations (bylaws) to reflect the unique characteristics of this sector;
- Reinvest revenues earned in the process of privatization into forestry for the purpose of developing the industry and renewing the forests;
- Special attention needs to be paid to the social aspect of privatization, i.e. resolving the excessive workforce.

#### **4.16. Regulating and Privatizing the Media**

The media market in Bosnia and Herzegovina after the war includes 272 media outlets, 203 in the Federation of BiH and 69 in the RS. Through the Dayton implementation process, the international community has shown a strong interest in regulating the media in BiH. In the early days, this was carried out through various media commissions, until the CRA was established under the 1998 Law on Telecommunications and it became the regulatory agency for electronic media. This Law defined the method of frequency management, including media frequencies at the level of BiH.

During 1999 and 2000, the High Representative passed decisions on restructuring the public broadcasting system in Bosnia and Herzegovina, whereby imposing the tasks of establishing commercially and technically sustainable RTV companies and laying the foundations for a strong public media sector. The Law prescribed the establishment of a Public Broadcasting Service at the BiH level (PBS BiH), as well as entity broadcasting services (RTV FBiH and RTV RS).

The activities related to restructuring public broadcasting, as well as the prohibition of privatization until licenses were issued for the electronic media that was imposed by the OHR, slowed down the implementation of privatization activities. Before those decisions, there were sporadic examples of privatization of some local media, radio stations in particular.

Once the sector has been regulated and companies reorganized, it will be necessary to organize the following privatization activities:

- Make a list of companies to be privatized;
- Prepare the companies and choose the privatization method;
- Implement the privatization transaction.

Concerning the preparation and choice of the privatization method, in the case of other companies (regional and local RTV stations) one has to take into account that all outlets require some investment capital and additional professional skills. Because of this, the best option would be to choose the strategic investor, because it is not very likely that the financial investors will be interested in investing in a small, underdeveloped and fragmented market that can not yield profits and liquidity of shares over a short term. One possible option for privatization that deserves some consideration is the involvement of managers and employees in the privatization of those media outlets (the MEBO method).

The privatization transaction itself needs to be fully transparent and the future buyer is to be requested to comply with the requirements specified by the CRA when receiving a broadcasting license.

#### ***4.17. Improving the Business Environment for Investing in BiH***

An improved business environment is an important prerequisite for achieving better quality privatization. Therefore, it is necessary to implement the Action Plan for the improvement of the business environment for domestic and foreign investors<sup>7</sup>. In this same context, it will be necessary to implement a six-month Action Plan for the implementation of emergency reforms.<sup>8</sup>

#### ***4.18. Speeding up the Resolution of Disputes Conducted before the Responsible Courts or through Arbitration***

The privatization process has stalled in a significant number of large companies because those companies are involved in legal disputes before the national courts, or in arbitration. It is necessary to encourage the speediest possible resolution of such disputes by pointing out the positives of streamlining the procedures conducted before the responsible institutions or achieving non-institutional agreements between parties in a dispute.

#### ***4.19. Improving Transparency in Privatization***

In the opinions of national and international experts, the privatization process implemented to date in BiH has not been transparent in all its phases. This has resulted with a certain number of purchase and sale agreements that have not properly protected the rights of state property and workers, while mechanisms were not provided to ensure proper performance and control whether the obligations undertaken by the buyer were actually met.

In order to overcome such a situation, it will be necessary to adopt appropriate legislation that would provide for an effective control mechanism to check whether obligations undertaken in the process of privatization have been met. One such mechanism would be the termination of a contract where the buyer was found in default.

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<sup>7</sup> The Business Environment Improvement Action Plan was adopted by the Council of Ministers and both entity governments, and this Action Plan was further developed under the process of preparing the Poverty Reduction Strategy Paper (see the special part on business environment).

<sup>8</sup> The six-month Action Plan for implementation of urgent reforms was adopted by the Council of Ministers and the entity governments in August 2003.

**4.20. Strengthening the Promotion of Investment Opportunities within the Privatization Process as one Form of Overall Investment Opportunity in BiH**

It will be necessary to coordinate activities between FIPA and the agencies responsible for privatization.

**4.21. Starting a Public Campaign on Privatization**

Considering the negative public perception of the privatization process, it will be necessary to initiate a public campaign with the purpose of educating the general public about the main activities of the process and secure public support for these activities. It will be particularly necessary to stress the importance of accelerating privatization as one possible generators of BiH economic development.



### III.3. FINANCIAL SECTOR

Contrary to the situation in the industry sector, the financial and, especially, the banking sector have, for the most part, realized the reforms successfully and should represent one of the pillars of economic development of the country in the coming medium term period.

#### 1. Objectives

##### 1.1. *Ensuring an increase of domestic private savings*

In the situation characterized by declining levels of international aid, it will be necessary to increase the level of domestic private savings to about 7 percent of GDP by the end of 2007, and enable the financial system to answer to the growing demands for financial intermediation.

##### 1.2. *Ensuring a more favourable source of financing for the private sector*

The existing level of interest rates is still high, and the term structure in banks is unfavourable for longer-term borrowing by the private sector.

##### 1.3. *Ensuring a higher share of credits to enterprises in comparison with household credits*

In the last two years, a trend of increased crediting of households was evident. A higher volume of loans to enterprises will lead to an increased pace of economic growth and an increase of employment.

##### 1.4. *Increase Liquidity of the BiH capital market*

It is necessary to ensure the growth of liquidity in the capital market and the introduction of new financial instruments.

##### 1.5. *Building a functional insurance market in BiH*

The insurance market in BiH is fragmented, while the reforms in this area are aimed at ensuring the future growth of this sector. There are inconsistencies between laws and regulations on BiH level, while the supervision over insurance underwriters is weak.

#### 2. Banking sector

##### 2.1. *Current situation*

Financial intermediation in BiH is, almost totally, executed through the banking system, which dominates in the financial sector. In recent years, the most evident progress has been achieved in the banking system, and the results were visibly better in FBiH than in RS.

##### ***The most significant achievements are the following:***

- Privatisation has been completed, almost in full, and the regulatory framework has been put in place;
- The number of banks has been reduced, foreign banks are present, interest rates are falling;
- The process of the payment system takeover by commercial banks has been finalized successfully;
- Confidence in banks has been strengthened, deposit insurance system has been established, the level of savings has been increased;
- Bank supervision has been developed and it is continuously being improved.

The results of the successful reform in the banking sector in the recent period are reflected in the consolidation of the entire sector, increased injections of capital in banks, a higher level of foreign capital entering the country, growth of balance sheet items and increase of profitability. The process of consolidation and restructuring is continuing, and the legal framework and bank supervision have been improving for a number of years.

According to information available to entity banking agencies in November 2003, with September 30<sup>th</sup> 2003 there were 37 banks operating in BiH (with banking licenses): 27 in FBiH and 10 in RS. Nine banks from FBiH had the total of twelve organizational units in RS and nine in the District of Brčko, while three banks from RS had the total of five organizational units in FBiH. Interim administration was instituted in five banks in FBiH, and in one bank in RS, while bankruptcy proceedings are ongoing in four banks in the later entity. Arrangements leading to the merger of the HVB Bank with Central Profit Bank, as well as the merger of Zagrebačka Bank with Univerzal Bank, are ongoing, so that, by the end of the first half of 2004, the number of banks in FBiH will be reduced to 26.

In FBiH, there are 20 banks with majority private ownership (84 percent of capital), and in RS all banks are in majority private ownership (98 percent of capital). There are 7 banks in FBiH with majority state owned capital (16 percent of capital), while in RS only about 2 percent of capital falls into this category. In the same period, there were 5,341 employees working in banks in FBiH (5 percent more than in 2002), and in RS there were 2,343 employees (3 percent less than in 2002).

The aggregate balance sheet amount for all banks in FBiH in the first nine months of 2003 amounted to KM 5.4 billion, which is 17 percent higher than with December 31<sup>st</sup> 2002.<sup>1</sup> In the majority of banks with majority privately owned capital there was an increase of assets, and, among them, 11 banks recorded growth rates higher than 15 percent. The most significant change in the structure of assets is the increase of the share of loans by 2.8 percent, while the share of monetary assets was decreased by 0.8 percent. Loans and monetary assets represented 91 percent of overall balance sheet assets. Of the total growth of the balance sheet sum, 73 percent concerns the five largest banks. The structure of bank liabilities remained almost unchanged in comparison with the end of 2002, and the deposit potential of 75.4 percent remains the dominant item in the formation of the banks' financial potential.

The aggregate balance sheet total of the RS banks for the first ten months of 2003 amounted to KM 1.4 billion, which is 22 percent higher than in December 31<sup>st</sup> 2002. There was an increase of assets in RS, too, where monetary assets and loans represent 86 percent of total balance sheet assets. In the same period, three banks in RS held a share of 58 percent of total assets. The structure of bank liabilities grew by about 18 percent, while the deposit potential amounts to 72 percent and is dominant in the banks of this entity, too.<sup>2</sup>

On the liabilities side, in the banks of both entities, growth was mostly financed by the increase of on sight deposits (both government deposits and citizens' deposits) in local currency, but also through a significant increase of external borrowing.

As has already been mentioned, the major part of liabilities in commercial banks consists of deposits, which, in the course of the first nine months of 2003, in FBiH grew by 15 percent in comparison with December 31<sup>st</sup> 2002 (in the privately owned banks, exclusively). If one analyses the deposits by sector, the highest growth rate was present with deposits of banking institutions (57 percent), but the deposits of privately owned enterprises were reduced by 8 percent. There were no significant changes in the sectoral structure: citizens' deposits are dominant, at 41 percent. The remainder consists of deposits of governmental institutions (12.8 percent), public enterprises (12.9 percent), private enterprises (15.1 percent), and banking institutions (11.5 percent). It is important to note that the growth of savings deposits, which are the most important segment of the financial potential of banks in general, was continued, at 9 percent. In 2003 we saw a continued trend of moderate improvements in the term structure of deposits. A higher growth rate of long-term deposits was observed, and now, their share of overall deposits amounts to 27.4 percent, while short-term deposits are still dominant, at the share of 73 percent of overall deposits. Just as in other segments, savings are concentrated in a couple of banks: 67 percent of total savings is deposited in the three largest banks. Mostly due to the increase of the interest rate on mandatory provisions instigated by the Central Bank, there was a significant change of currency structure of deposits: share of deposits in foreign currencies was reduced from 70 percent to 64 percent, while the share of deposits in local currency was increased from 30 to 35 percent.<sup>3</sup> However, taking into account that, in the meantime, the Central Bank decreased interest rates on mandatory provisions, one can expect that the BiH banks will increase the scope of assets

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<sup>1</sup> Information on the Federation of BiH Banking Sector, September 30<sup>th</sup> 2003

<sup>2</sup> Information on the RS Banking Sector, September 30<sup>th</sup> 2003

<sup>3</sup> Information on the Federation of BiH Banking Sector, September 30<sup>th</sup> 2003

deposited abroad, which should change the currency structure of deposits, at the expense of the KM.

In the first nine months of 2003, growth of deposits was recorded in RS, too, and by higher rates than in FBiH. Contrary to the situation in FBiH, where citizens' deposits are dominant, in RS the share of deposits of government institutions (18 percent), public institutions and state owned enterprises (6 percent), privately owned enterprises (17 percent), banking institutions (27 percent) and citizens (23 percent) is roughly similar. A sectoral analysis indicates that the highest growth of deposits (92 percent) was recorded in the item "other deposits", mostly relevant for foreign organizations which illustrates the fact that the citizens' confidence in the banking sector in RS is being regained at a slower pace than in FBiH, but also to the fact that there is a difference in the level of development of the two entities. The rate of growth of other deposits is followed by the rate of growth of bank deposits (51 percent). In view of the term structure of deposits, it is evident that, just as in FBiH, 73 percent of overall deposits in RS are short-term deposits, and 27 percent are long-term deposits. As a consequence of the growing confidence in the local currency, deposits in KM in RS are growing, at the rate of 33 percent, and, in September 2003, they represented 52 percent of overall deposits.

In both RS and FBiH, interest rates have shown a constant declining trend for the last four years.<sup>4</sup>

In the first nine months of 2003, 17 banks in FBiH achieved positive financial results, in the total amount of KM 53.3 million, while nine banks had losses totalling KM 15.5 million, and the consolidated positive financing result of the banks amounted to KM 37.8 million. Three private banks earned as much as 96 percent of overall profits, which points out to a conclusion that the profitability of the majority of banks is unsatisfactory. Revenues from interest show a steep increase of about 10 percent in comparison with 2002, and represent 71 percent of overall revenues. The share of total costs is 89 percent of total revenues, which is a decrease of 5 percent in comparison with 2002.

The profitability of banks in RS is lower than in FBiH, but it is improving, which is a signal showing that the reforms in the banking sector, which were delayed in this entity, have started to yield results. Two banks in RS made losses of KM 41 million in total, while eight banks have achieved positive financial results, in the overall amount of KM 9 million. Contrary to the situation in FBiH, where revenues from interest represent the majority of overall revenues of the banking sector, in RS operative revenues of the banking sector represent 64 percent, and revenues from interest represent 36 percent of overall revenues, which points out to a far lower level of crediting activity in this entity.

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<sup>4</sup> Information on the RS Banking Sector, September 30<sup>th</sup> 2003

### ***Role of banks with majority foreign capital***

Regardless of the negative and, often, contradictory public reactions on the role of banks with majority foreign capital, there are many reasons to believe that the competition from the foreign banks has had a positive effect on the growth of confidence in the banking sector, and, in connection with that, on the growth of savings, decrease of interest rates, decrease of the level of banking fees and increase of the quality of banking services. The share of foreign capital in the overall capital in FBiH was increased from 14 percent in 1996 to 68 percent in 2002, while in the RS the growth of foreign capital recorded in 2002 amounted to 239 percent, so that the banks with majority foreign capital are, in practice, dominant on the market. Those banks hold the share of 80 percent in the total crediting of companies in BiH, and about 80 percent of domestic savings is concentrated in those banks, which is a reflection of the confidence of the population in their work. The fact that a large amount of deposits collected in the country has been transferred to accounts abroad is often used as an argument against those banks.<sup>5</sup> However, it is equally often forgotten that the same is also done by the banks with majority domestic capital, just as by the Central Bank of BiH, too. The placement of short-term deposits abroad is a regular practice of all commercial banks in transition countries, just as of all central banks of those countries. On the other side, there are no adequate instruments (treasurer's bonds) in the capital market of BiH, which would enable the banks to execute the placement of assets within the country. The Central Bank of BiH had increased the interest rates on mandatory provisions, which enabled the banks to execute the placement of assets in BiH, and, in 2003, that contributed to the decrease of the level of assets that the banks have deposited abroad. However, as has already been stated, the Central Bank of BiH cut these interest rates and because of that an increase of deposits abroad can again be expected. The essential reason for this should be sought in the fact that this concerns short-term deposits, which, in either case, are not adequate for borrowing to enterprises. The second reason is that the majority of enterprises in BiH are still in majority state ownership, and that, in line with that, there is not a sufficient number of creditworthy clients. Finally, an important reason for the aforementioned situation also concerns the level of risk involved in the placement of assets in BiH, which is still above average for transition countries and which is related to the slow pace of resolution of commercial disputes and inadequate protection of creditors.

The Banking Association on the BiH level has not yet been formed, although the legislative conditions for its establishment are present. The existing entity associations of banks have not shown a high level of activity. Preparations for the establishment of the banking association at the level of BiH are ongoing. The lack of strong associations makes it impossible for the banks to exert influence on improvements in the business environment for their activities in a more efficient way.

## **2.2. Priority activities and measures**

### **2.2.1 Strengthening the stability of the banking sector: improving risk management and increasing capital adequacy**

#### **• Improving risk management**

Contrary to the situation in other transition countries, the majority of credit risk in domestic banks concerns long-term credits (with maturity of over 12 months), i.e. 67 percent of overall credits in 2002. Those long-term credits are partially covered with long-term deposits, which, according to the banking agencies, reach the level of 45 percent of the amount of long-term credits. According to liquidity regulations of entity banking agencies, the banks are under obligation to cover credits with maturity of up to 90 days in full. However, in practice, term inconsistencies between deposits and credits are present. According to the findings of the IMF<sup>6</sup>, the majority of banks do not follow these regulations, regardless of penalties stipulated for their breaking. The frequency of deviation from the regulations leads to a conclusion that the penalties are not strict enough, so that it is necessary to review those regulations and strengthen the mechanism of their implementation.

The existing inconsistency between the term structures of deposits and credits is putting the liquidity of banks in question. In order to mitigate that risk, the banks are holding significantly higher amounts of assets, in order to ensure liquidity, which increases their operating costs. Deviation from the liquidity rules is a serious problem, and even more so in the absence of a "lender of last resort" mechanism, as it increases the so-called systematic risk and can undermine the confidence in the banking sector. This presents a far more serious problem for banks with majority domestic capital, than for the banks with majority foreign capital that, in case of a liquidity crisis, can count on interventions of their head offices abroad. Looking at the consolidated balance sheet of commercial banks<sup>7</sup>, one can notice a significant growth of foreign liabilities in the last year, which is a result of the increase in domestic banks' borrowing abroad. In this way, the bulk of the credit expansion was covered by increased foreign borrowing, and, to a much lesser degree, by the growth of domestic deposits. In keeping with this, it is necessary for the banks, in

<sup>5</sup> In 2003, the amount that banks in FBiH held deposited equaled to around KM 1.1 billion.

<sup>6</sup> "Report upon the fourth review of the Stand-by Arrangement", IMF, November 2003.

<sup>7</sup> Central Bank of BiH Bulletin No. 2

cooperation with entity banking agencies, to prepare and execute plans to adjust their foreign currency exposure and liquidity ratios. Besides that, it is also necessary to tighten the regulations on the breach of liquidity rules and harmonize the rules for the classification of assets and provisions for the coverage of losses with international standards.

On the other hand, some analyses indicate that the banks in both FBiH and RS failed to adequately adjust the level of provisions for contingent bad placement, and that, in relation to that issue, the banking practices are not in compliance with the regulations of the banking agencies in either entity. This information points to the possibility of a liquidity crisis, which would, as has already been noted, endanger the banks with majority domestic capital in most cases. A liquidity crisis outbreak in any of the BiH banks would result in multiple adverse consequences for the restoration of confidence in the domestic banking sector, which is one of the basic prerequisites for the realization of the macro-economic objectives of the PRSP, specifically the sevenfold increase of private savings by 2007.

In 2002, for example, the general credit risk and contingent credit losses in the banking sector of FBiH were increased by about 4 percent, i.e. by 3.8 percent of total assets, including non-balance-sheet items, which is by a modest 0.4 percent lower in comparison with 2002. In general, the risk management in banks still can be said to be in its initial development phase. Banks have very little experience, both with regard to credit and market risks, and with regard to general systems and procedures. Capacities for risk management within banks, as well as within the banking agencies, must be strengthened, as the banks are taking higher and higher risks, and the system is growing in complexity. This especially concerns the exposure to foreign currency risks and capital. In 2002, a number of banks defaulted from the regulations on foreign risks and capital exposure. Therefore it is necessary for those banks to prepare action plans, in cooperation with the entity banking agencies, to ensure the urgent implementation of regulations on foreign risks and capital exposure.

In view of the term inconsistencies between deposits and credits, default from the liquidity rules and insufficient capacities for risk management in banks, the Central Bank can also give a very significant contribution to the reduction of the so-called systematic risk and to the strengthening of the banking sector stability. Therefore it is necessary to review the options for amendments to the Law on Central Bank of BiH, and, in compliance with the Currency Board rules, empower it to serve, in a limited fashion, as a **"lender of last resort"** in the coming medium term period, to have the possibility to intervene in case of a liquidity crisis in one of the banks.

Although there is a possibility of larger, more liquid banks taking over a part of the market through lending to smaller banks to improve their liquidity, this is not a current practice. The larger banks with excess cash are not willing to lend, as they do not want to expose themselves to credit risk towards banks with liquidity problems, since they believe that potential profits would not be in proportion with the risks and costs involved in such an operation. There probably is room for establishment of such a market, based on strict aggregate thresholds for banks with liquidity problems. Such a market has not yet developed, but it could be developed through short-term securities, whose maturity would be extended in line with the increase of confidence between banks.

An additional problems for the domestic banking sector may arise from the loss of correspondent relations with foreign banks, due to the lack of procedures and controls in connection with money-laundering and other forms of financial crime. More and more attention will have to be paid to the implementation of those measures, for which the adoption of legislation alone will not suffice, as it will also require strengthening of capacities in banks and regulatory institutions for a consistent implementation of international standards, to counter money laundering, funding of terrorism etc. In this context, it is especially important for the banking agencies from both entities to continue the special monitoring of bank transactions with connected persons, in line with the Basle Principles. The steady drop of the share of transactions of this kind in the banking sector of both entities is encouraging.

- **Improving capital adequacy**

The growth of risky assets and a much more modest growth of net capital indicate the necessity of capital injections in a number of banks. Additional capital will, most probably, be needed in the form of direct investments, since the retained earnings in most of the banks are relatively modest, and that an active market of securities for capital supplementation is non-existent. Therefore, the largest banks, i.e. those with majority foreign capital, will most probably increase their capital through transfers from their head offices abroad.

### Capital in the BiH banking system (1997-2002)

(in KM million)	1997	1998	1999	2000	2001	2002	Difference 2001-02
Capital Accounts	1,043	1,305	1,257	1,097	1,121	1,216	95
Other, Net	-438	-672	-699	-373	-346	-420	-74
Net Capital	605	633	558	724	775	796	21
Capital minus Other, Net / Total Assets	18.14%	16.96%	14.29%	16.98%	13.90%	12.72%	-1.18%
Net Capital per Bank	N/A	N/A	N/A	13	16	20	4

Source: BiH Central Bank, PRSP Research Team

The growth of capital in the Federation of BiH, so far, was significant, as only in the course of 2002 it amounted to KM 124 million, and, in the overall structure of liabilities, capital accounted for 13.7 percent. However, the level of capitalization in banks is declining, and, in comparison with previous years, the adequacy ratio of capital, which 19.6 percent in 2003, is also dropping. In the Republic of Srpska, apart from the decrease of the capital adequacy ratio to 21 percent in comparison with the end of 2001, when it was 38 percent, the total capital was left unchanged, which is a consequence of the transition process and strict compliance with regulations.

The high growth rate of credit activities, especially in FBiH, boosted the level of risk in view of the fact that it was not accompanied by a corresponding increase in net capital. For example, in this entity, in 2003, 24 out of 27 banks had the capital adequacy ratio higher than the legally stipulated minimum of 12 percent. The capital adequacy ratio in banks in both entities exhibits a declining trend, as a result of the growth rate of risky assets being higher than the growth rate of capital.

Therefore, one of the key tasks is to provide incentives for the capitalization of banks and for their mergers. In this context, it is necessary to amend the entity banking laws so that they force the banks to hold at least 10 percent of capital, in the total assets, at all times. Also, the entity banking agencies should, by passing appropriate decrees, place the banks, especially those with adequacy ratio of under 15 percent, under obligation to strengthen their capital base. Any additional growth of risky assets is sure to require a corresponding growth in capital. Therefore, the entity banking agencies should introduce an obligation for the banks to develop programs for bank capital management.

It is necessary to finalize activities on the determination of the international credit rating of the country to ensure more favorable terms for access to capital for the domestic banking sector on the international capital market.<sup>8</sup>

#### **2.2.2. Continuing the efforts on strengthening the bank supervision framework**

Supervision over the banking sector is divided between the entities. Both entity banking agencies invested significant efforts in personnel and technical development. The quality of bank supervision is a significant factor for the stabilization of the sector. There is a need to improve the supervision of banks, in order to facilitate timely and high quality monitoring and ensure fair conditions for bank operations throughout the country.

In the last two years, the level of business cooperation between banks in BiH grew steadily. Some banks are opening their branches in both entities. Nine banks from FBiH have 12 business units in RS, and nine in the Brčko District, while three banks from RS have five business units in FBiH. Therefore it is necessary to strengthen the coordination of operations between the entity banking agencies within the established Payment System Council, operating within the Central Bank of BiH. However, the option of **establishing a single Banking Supervision Agency on the level of BiH** should also be considered. This would permit a reduction of the costs of bank supervision, a better utilization of capacities, but, above all, it would strengthen the single economic space in BiH.

It is especially important to continue the harmonization of banking regulations with the Basle Principles and the EU guidelines. Supervision should force the banks to **better manage their credit risks, borrowing limitations and credit concentration limits**, as some of the banks are overly focused on their shareholders and meeting their needs. Similarly, risk assessment of the country and of the market in domestic banks is quite weak. In recent years, domestic supervisors

<sup>8</sup> The Central Bank of BiH involved HVB bank on activities in regards to the determination of the country's international rating. Those activities are ongoing, and they should be completed in the first half 2004.

failed to look into that problem, but its significance in their future activities will keep increasing. In the coming period, the entity banking agencies should:

- Establish better policies and procedures for the control of country risk and market risk;
- Add by-laws regulating domain of banking agency powers (foreign currency risk, capital related standards) in compliance with the Basel Principles and the EU directives,
- Build capacities for risk management in non-traditional banking operations, which will be increasingly expanding,
- Prescribe better procedures of internal control within banks,
- Prescribe procedures for control and prevention of money laundering,
- Establish coordination with other countries, in connection with the supervision of foreign banks with branches in BiH,
- Complete the work of the remaining receivership administrations,
- Establish special supervision over the banks with the highest level of citizens' savings and banks with above average expansion rate,
- Establish a database on risky bank clients,
- Establish a single registry of the bank accounts in BiH.

### **2.2.3. Providing incentives for additional mergers in the banking sector**

A smaller total number of banks would lead to an increase of efficiency and a decrease of operating costs, to improvements of capital adequacy, reduction of the systematic risk from the failure of one of the banks, and more favourable interest rates. The number of banks in FBiH has fallen drastically, while the same process in RS has proceeded at a slower pace.

Up to and including 2002, only two banks in FBiH had assets in excess of KM 500 million, and their share of total assets was 34.9 percent. In RS, three banks held assets in the value of KM 158 million, and their share of total assets was 58 percent. Average assets of banks in FBiH were to about KM 135 million, and in RS KM 85 million, which is significantly lower than in other transition economies.<sup>9</sup> Average capital increased from KM 13 million in 2000 to KM 20 million in 2003, which means that the capital in the banking sector remained at a relatively low level. Incentives for further concentration of the banking sector should be provided through a tighter implementation of regulations on capital adequacy and risk management, obligatory membership in the Deposit Insurance Fund, the most significant conditions for which are the capital adequacy of 12 percent and majority private ownership, 90 percent at the minimum.

### **2.2.4. Improving the term structure of deposits: providing incentives for the growth of long-term savings**

In recent years, since the consolidation of the banking sector began, private savings have constantly grown, primarily through the growth of citizens' savings, while the corporate savings have been at a low level. Also, while bank capital remains low, deposits have grown significantly. Citizens' savings in RS in the first nine months of 2003 were only KM 179 million, and in FBiH reached KM 1.6 billion. However, because of the above mentioned predominance of short-term deposits (73 percent of total deposits in both entities), term inconsistency between deposits and credits is present in the BiH banking sector, as well as the growth of risky assets and the decline of the capital adequacy. The shortage of longer-term credits for businesses is a grave problem, far exceeding the importance of interest rate levels.

The constant growth of citizens' savings in the recent period was a result of a gradual restoration of citizens' confidence in the banking sector, more so in FBiH than in RS. This is, inter alia, reflected in the presence of majority foreign-owned banks, in the stability and convertibility of the domestic currency, and exchange of DEM to EURO. Confidence in KM has grown significantly, but it is noticeable that KMs are most often used in transactions, while the majority of citizens still prefer to keep their savings in foreign currencies, most often in EURO.

The acceleration of the pace of economic growth and the strengthening of confidence in the banking sector are important preconditions for the growth of private savings, especially long-term deposits. The fundamental measures for stimulating further growth of savings and long-term deposits should be the following:

- **Repayment of old frozen foreign currency deposits**

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<sup>9</sup> Average capital in banks in Slovenia amounts to about KM 900 million.

The problem of old frozen foreign currency savings has been a burden on the banking sector in BiH for a long time, and, at the same time, it can be viewed as a cause of poverty of certain population groups. Claims arising from old frozen foreign currency savings have been recognized as public debt, and both entity governments have adopted plans for their settlement. In this context, it is necessary to ensure that Slovenia and Serbia and Montenegro repay the old frozen foreign currency savings from the Ljubljanska banka and Investiciona banka.

- **Strengthening the deposit insurance system**

Deposit insurance is a proven instrument for building confidence in the banking system and increase of savings. In 2002, a significant step was taken by the establishment of the relevant legal framework and creation of the BiH Deposit Insurance Agency, covering the entire banking system. By August 2003, of all the banks in BiH, 15 had fulfilled the criteria for deposit insurance, of which as many as 13 are in FBiH. The level of deposits insured is limited to KM 5,000. It is a cause for concern that only two banks in RS have met the criteria for deposit insurance.

In this respect, the BiH Deposit Insurance Agency requested from all commercial banks that failed to fulfill the criteria for deposit insurance to submit action plans by the end of 2003, detailing the steps to be taken for the fulfilment of those criteria. In keeping with this, it is necessary for the BiH Deposit Insurance Agency to ensure, in cooperation with the entity banking agencies, that banking licenses of the banks unable to fulfill the deposit insurance criteria in the course of 2004 are revoked.

- **Introduction of new savings instruments: savings certificates**

The introduction of new instruments, such as *savings certificates*, represents a very acceptable solution, in the situation characterized by an enormous need for long-term savings, and, at the same time, the demand from the savings holders for a higher level of flexibility in the management of their deposits. In the existing set of circumstances, citizens prefer their savings to be more liquid, than to yield higher interest rates, in order to insure themselves for their short-term needs. Savings certificates would permit this level of flexibility, as their ownership is transferable from one person to another, so that the savings holders get an option to use their savings as guarantees, or to use them before their maturity, contrary to the options present with term deposits. The standard maturity of those certificates would amount to between 24 and 36 months, and they would be denominated in KM 500 and 1,000.

- **Improvement of profitability of companies through the strengthening competitiveness of the domestic economy**

- **Maintaining stability and exchangeability of the local currency**

***2.2.5. Implementing the measures leading to the reduction of risk, and, through that, reduction of interest rates, and a higher share of credits to enterprises, in comparison with the share of household credits***

In the course of the last three years, a sudden drop in interest rates in BiH was recorded. The level of interest rates was cut by half, and, in the course of this year, the average interest rate for business loans has fallen to below 10 percent. However, the differential between the passive (3 percent) and active interest rate (10 percent) is still marked.

The decline of interest rates in the recent period was predominantly a result of the strengthening of competition between the banks, rather than of the decline of the risk in the placement of credit funds. It would be difficult to expect any further decline of interest rates, in the absence of accelerated reforms resulting in a higher number of creditworthy clients for the banks.

Credit services, as one of the key elements of development, became more accessible to both businesses and citizens. In 2002, a sudden increase of household credits was recorded: household credits grew by as much as 102 percent in comparison with 2001, while the increase of business loans in the same period was to about 40 percent. In the first nine months of 2003, the slowing down of household crediting in FBiH was evident, while the growth in comparison with 2002 was only 27 percent. In the same period, the growth of private sector credits reached the level of 23 percent. In total, loans to the economy (private, state-owned and public enterprises), which accounted for 47 percent of total credits, closed in with the volume of household credits, which made up 49 percent of total loans issued.<sup>10</sup> A smaller volume of household credits is a direct result

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<sup>10</sup> Information on the FBiH Banking Sector, September 30<sup>th</sup> 2003



of monetary policy measures taken by the BiH Central Bank to stabilize the macroeconomic situation in the country. Namely, the increase of household crediting represents a difficulty for the macroeconomic stability of the county, as it contributes to increased imports and has an effect on high trade deficits, and, through that, on high current account deficits.

Contrary to the situation in FBiH, in RS in the composition of total credits, credits to the economy were predominant, at 56 percent, while 40 percent of the total credits were approved to households.<sup>11</sup>

Composition of credits by sectors (end of period, in KM million)

Year	Domestic institutional sectors								
	Governments	Social protection funds	Non-banking financial institutions	Public enterprises	Private enterprises and non-financial institutions	Non-profit organizations	Households	Other	Total
1	2	3	4	5	6	7	8	9	10 = 2+...+9
1997	132.0	0.3	8.3	1,099.1	1.034.8	6.8	121.0	35.9	2,439.6
1998	108.9	1.5	5.4	1,100.0	1.314.3	6.9	247.5	133.5	2,920.8
1999	50.9	6.3	4.8	1,114.2	1.322.9	7.0	247.0	141.1	2,896.8
2000	48.1	7.1	6.2	1,143.2	1.332.4	6.7	248.4	21.0	2,815.6
2001	44.3	6.1	5.3	1,061.7	1.363.5	3.6	255.5	22.1	2,765.0
2002	41.8	5.9	21.7	1,181.6	1.351.0	24.0	1,040.2	23.3	3,697.7

Source: BiH Central Bank

The significant level of household credits is the result of the banks' intent to diversify the risk, but also a direct consequence of the above mentioned lack of creditworthy clients in the economy. The risk in household credits is lower, due to a more efficient method for the collection of claims, which is not the case for credits to businesses, in view of inadequate regulations and the slowness of the judicial system. Therefore, the key challenge facing the banks is to decide what to do with the excess liquidity in the conditions when the BiH Central Bank securities are non-existent, the number of creditworthy companies on the market is not sufficient, and there are no regulations ensuring a more efficient protection of creditors.

To encourage the continuing decline of interest rates and a higher level of lending to the economy, it will be necessary to implement a set of reforms to create conditions for an accelerated growth of the private sector. For example, the BiH economy is still dominated by state-owned enterprises (60%), and it is only natural that the interest of commercial banks to lend to state-owned enterprises is low. Therefore it is necessary to ensure the following:

- **Accelerating privatisation (See the privatisation chapter)**
- **Improving the business environment for an accelerated private sector growth (see separate chapter devoted to business environment and improvement of entrepreneurship)**
- **Ensuring adequate protection of creditors**

The banks face the problem of maintaining the quality of their assets and of exposure to credit risks. The level of arrears and outstanding claims is not decreasing, and bad assets are not being reduced. To resolve this problem in the functioning of banks, it is necessary for governments to intervene. In this regard, the commercial disputes resolution procedure must be accelerated, which will occur as a result of the **establishment of 16 specialized commercial departments within first instance courts throughout the country.**

In addition, amendments to the entity laws on obligations and to the RS Law on Notaries should be adopted, to improve the legal framework for a more efficient collection on security instruments

<sup>11</sup> Information on the RS Banking Sector, September 30<sup>th</sup> 2003

(collateral). Finally, it is of special importance to improve the institutional framework for more efficient execution of bankruptcies.

The establishment of a unified registry of bank accounts is a significant step towards increasing the level of protection of creditors. Upon an initiative of the Anti Money-Laundering Committee, under the auspices of the OHR, the Central Bank of BiH has already initiated activities on the establishment of a single registry of bank accounts. In addition, it will be necessary to establish a single registry of pledges on movables.

As previously mentioned, a significant amount of funds (KM 1.1 billion) is transferred abroad by domestic banks, because of the shortage of high quality instruments for capital multiplication in the country. One of the problems is the lack of adequate instruments on the securities market (bonds) in BiH. In keeping with this, the legal framework should be amended to **permit the BiH Central Bank to issue short-term securities**.

### **2.2.6. Providing incentives for competition between banks in order to improve quality in the provision of banking services**

The banking sector in BiH has high operating costs, which is the result of a weak business environment, a high level of risk, expensive provisions that have to be paid to state institutions and internal inefficiencies. As a result, besides the relatively high interest rates and unfavourable term structure of credits, expensive banking fees – especially in the international payment system – are an additional burden on the private sector and citizens. In most cases they amount to as much as 1 percent of total profits of businesses. The lending to the economy is under additional burden of transaction costs at the rate of 1 percent. The share of operating income (fees) in total earnings represents the most significant source of income of RS banks, while in FBiH, the interest income exceeded operating income in 2003.

The analysis of the profitability of BiH banks given above indicates that it is still far below the world standards, and the reasons are to be found in the inadequate efficiency of the BiH banking sector. Profitability would be even lower if the world standards for provision levels had been applied.<sup>12</sup>

Earnings and efficiency coefficients (2001-2002)

(all in %)	Federation*		RS*	
	2001	2002	2001	2002
Return on average assets	-1.18	0.41	1.00	1.00
Return on average total capital	-5.62	3.04	3.0	3.00
Return on average equity	-6.15	3.56	4.00	3.00
Revenues from interest / average assets	5.26	4.50	4.00	6.00
Revenues from fees / average assets	7.64	5.50	4.00	4.00
Operating and direct costs / average assets	6.54	3.73	N/A	N/A
Operating costs / average assets	7.40	5.80	11.00	8.00
Total costs excluding interest / average assets	13.94	9.52	16.00	20.00

Source: Banking agencies of FBiH and RS;

\* Data for the Federation concerns all banks, data for RS concerns profitable banks only

One of the key challenges faced by the banks is the reduction of costs. Inefficiencies of some of the banks in BiH are the result of inadequate financial infrastructure, an outdated method of operation and surplus working force. The banks lack a developed network of correspondent relations with banks abroad, because of which too much time is spent on executing transactions.<sup>13</sup> Loan approval procedures are complex, and, due to the lack of coordination between government bodies, as well as between banks, the private sector suffers increased losses of time and incurs additional costs.

The introduction of the new payment system, relying on banks, was a very useful reform, which led to a decrease in transaction costs for the economy. However, costs for small users are relatively high, which has adverse effects on the poor and their living standards. For example, the payment system costs for certain administrative procedures amount to above 10 percent, which means that a payment of KM 10 carries with it a KM 1 amount of transaction costs.

<sup>12</sup> In most part, due to losses in one bank, amounting to 58% of overall losses.

<sup>13</sup> In the course of consultations with bankers and entrepreneurs organized by the PRSP team, the general manager of Klas factory from Sarajevo pointed out that it sometimes happened that trucks arrived for upload much sooner than the money paid on the account of a foreign partner.

The domestic banks have not yet sufficiently developed their lending methods, and they mostly rely on solid collateral, and much less on a more active financial management of investment projects. Commercial banks will have to improve their financial management and offer more varied lending arrangements to their clients, on the basis of the cash flow, which would require a more complex analysis and staff training, as well as the development of long-term business cooperation and the division of risk. According to the opinion prevailing in the banking sector, institutions for assessment of creditworthiness (i.e. LRC) still do not have enough to offer to meet the demands of the banking sector. However, there is a need for the development of the creditworthiness assessment system.

The new banking products offer their users a higher level of comfort and reliability in the utilization of banking services. Credit and debit cards and e-banking, by relying on new technologies, increase the efficiency of banking operations and decrease the clients' transaction costs. This trend will continue due to the increase of competition on the market and the need to increase the level of compatibility with the developed financial markets. The introduction of credit and debit cards brings additional benefits, as it lowers the use of cash in the economy, and, through that, the scope for the informal economy. Credit and debit cards also provide incentives for the development of new technologies. However, the development of credit and debit cards is facing difficulties related to high transaction costs, which can amount to as much as 2 percent per transaction.

In this context, the privatisation of the remaining banks should be finalized, to allow for clear standards of operations and efficiency for banks to be established by the authorized banking agencies, especially with regard to the introduction of credit and debit cards. It will be necessary to improve the coordination between the banking agencies, the Deposit Insurance Agency and the Central Bank in their work. On the other hand, it will be necessary to establish better coordination between government institutions in charge of the implementation of money laundering laws (tax and customs administrations, employment institutes etc.) in order to eliminate additional administrative burdens on banks and, through that, reduce the costs of their operations.

#### **2.2.7. Harmonizing regulations concerning the operations of the banking sector within BiH, but also with the EU directives**

The legislative and regulatory aspects have been significantly improved and, in part, harmonized with the international standards. Legislation on commercial banking has, to a significant extent, been harmonized between the entities, but not in full and not in conformity with the EU standards. The banking laws in the two entities have been harmonized. In the coming period it will be necessary to build on the existing legislation in compliance with international experiences, especially with regard to the compatibility with the EU standards. In the area of the regulation of foreign currency operations, there are inconsistencies between the two entity laws. In FBiH, the law in force was adopted in 1998, and it will need to be modernized. On the other hand, in RS the law in force dates back to before the war, and only in 2004 the procedure for the adoption of an up-to-date law in this field has been initiated. In view of these inconsistencies, an umbrella law on foreign currency operations in BiH should be adopted on the BiH level,<sup>14</sup> in order for the entity regulations to be harmonized. Similar inconsistencies exist in connection with the regulations concerning promissory notes and cheques, so that, because of the same reason, a framework BiH law on promissory notes and cheques need to be adopted.

#### **2.2.8. Creating the legal and regulatory frameworks for the renewal of leasing operations**

In the set of conditions characterized by relatively high interest rates and unfavourable term structure of credits, leasing operations offer a possibility for domestic businesses to initiate production without the classic banking intermediation. The interpretation of certain provisions of the entity laws on obligations, indicates that there are options for leasing activities. On this basis, some banks in BiH have entered into activities similar to leasing, but, in this case, these primarily involve financing of household consumption. The non-existence of a precise legal framework, which would regulate leasing, makes it impossible to develop this very important mode of operations for the domestic private sector. Therefore it is necessary to amend the entity laws on obligations in order to regulate the relations between contractual parties arising from a leasing transaction, in detail, and especially with regard to the protection of creditors, which is a shortcoming of the existing legislation. In addition, it is necessary to **adopt mutually harmonized entity laws** on

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<sup>14</sup> The RS Law on Foreign Currency Operations is in the adoption phase. However, in view of the increasing level of business cooperation between banks in the country, it will be necessary to regulate this area in a unified way throughout the country.

leasing, which would prescribe the criteria for the provision of these activities and the method of their regulation.

### **3. Insurance sector**

#### **3.1. Current situation**

The insurance sector in BiH is passing through a phase of stabilization and strengthening, after an interruption in its functioning during the war. Almost the entire sector is privatised, apart from one insurance company, which is also in the process of ownership transformation. Constant increases of the volume of operations is recorded: between 1996 and 2002, revenues from premiums increased by 300 percent and, in 2002, they reached KM 265 million (KM 193 million in FBiH and KM 72 million in RS). At this point, there are 28 insurance companies operating (18 in FBiH and 10 in RS), and one insurance company is a specialized provider of re-insurance. The total number of employees in the sector is 1,650. The dominant activity is auto insurance (about 70%), while other forms of insurance (life insurance, property insurance, insurance from professional accountability etc.) have a very modest share. The insurance sector is stronger in FBiH: in 2002, profits grew by 16 percent, return on assets was 3.4%, and return on capital 4 percent. With respect to liquidity, current assets were three times higher than current liabilities, with respect to solvency, the capital amounted to 85 percent of total assets.

The field of insurance is regulated by different laws in different entities, and the supervisory function is also realized separately, through the Insurance Office in FBiH and a department of the Ministry of Finance in RS.

An association of insurance companies, espousing high standards of professionalism and expertise, should be established as soon as possible. Only joint efforts can find resolutions for issues ranging from increasing competition, complicated conditions for market operations, access to international insurance markets, and membership in international associations, which, on their part, seek a partner on the national level. The shortage of adequate staff and statistics is felt throughout the sector, so the insurance companies will have to continue investing into the development of professional staff, capable of better risk assessment, improving the structure of coverage and of more adequate pricing of insurance policies.

#### **3.2. Priority activities and measures**

##### **3.2.1. Harmonizing inter-entity regulations and putting the domestic insurance industry in an equal position with foreign insurance underwriters**

The inconsistency of the regulations makes it impossible for insurance companies to operate throughout the territory of the country, which undermines the unity of the economic space. Poor client protection and difficulties in the resolution of commercial disputes are general weaknesses. With the objective of reforming and harmonizing the legal and regulatory frameworks for the insurance of persons and property and harmonization with the EU directives, a new legislation on the BiH level has been prepared. The Parliamentary Assembly of BiH adopted the Law on Insurance Agency of BiH. The next step will be the adoption of identical laws on insurance in both entities, creating identical conditions for operations and supervision in the insurance sector.

These enactments would improve the regulations and tighten the criteria for issuing licenses for operation. Operations of foreign insurance companies are not regulated and present a risk for local clients, while hindering the development of the domestic sector. With the implementation of the new regulations, domestic insurance industry would be placed in an equal position with foreign insurance companies.<sup>15</sup>

The market regulation is separated by entities, based on the location of the head office of the insurance company. The new legal framework should ensure the harmonization of the legal and regulatory frameworks for the insurance of persons and property in conformity with the EU directives, as well as the unification of the economic space. The BiH Insurance Agency will allow the resolution of differences between the existing regulatory agencies, the introduction of the new

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<sup>15</sup> New regulations would, inter alia, introduce licenses for operations with precise lists of the types of insurance covered by the license, prescribe provisions on the marginal solvency and the minimal level of the guarantee capital, increase the founding capital and provide incentives for the increase of safety provisions, prescribe the minimal level of information exchange etc.

legislation with the objective of the implementation of EU directives, the supervision of the Green Card Bureau and the representation of BiH in international forums.

### **3.2.2. Improving the supervisory framework in the area of insurance**

Contrary to the situation in the banking sector, supervision in the area of insurance is not efficient enough and does not possess adequate penalty instruments. Due to oversights in supervision, problems of unfair competition between domestic companies have occurred, which increases the volatility of the entire sector and reduces the level of protection of policy holders. Therefore, the supervision of the operations of insurance companies should be improved, in conformity with the EU standards, which implies a better information flow for the market supervision, introduction of on-site inspections and the improvement of the general risk assessment covering liquidity, solvency, methods of investment and resolution of damage compensation claims. In FBiH, there is the Office for the supervision of insurance companies, functioning as a separate supervisory institution. In RS, however, supervision is entrusted to the Ministry of Finance, which is, at the same time, in charge of the definition of regulations in that area, which is not in keeping with the international practices. The new RS Law on Insurance stipulates the establishment of an Insurance Agency, which will become operational after a transition period of three years.

### **3.2.3. Strengthening the capital market in order to create preconditions for more efficient operations of insurance underwriters**

Because of the underdeveloped capital markets, insurance companies often invest their surplus funds in a risky fashion, in the form of loans without guarantees. This also calls for creation of a legal framework, in order for the BiH Central Bank to start issuing short-term securities, which would, together with the issuance of state bonds (such as, for example, for the reduction of internal public debt and, in this context, settlement of old frozen foreign currency savings) have a stabilizing effect on the insurance sector.

### **3.3. Providing incentives for all kinds of insurance**

The dominant activity in the domestic insurance sector is auto insurance (about 70%), while the share of other forms (life insurance, property insurance...) is modest. It is of special importance to develop life insurance, which yields a lot of benefits for the economy of a country, as, besides their basic function of the collection of damage compensation, they also have an effect on the increase of private savings. In addition, this type of insurance brings general benefits for the society, as it provides for the families of those who get hurt or die in accidents, without the need for interventions from public funds. At the same time, life insurance funds can be a long-term source of high-quality revenues. Therefore, to encourage development of this mode of insurance, life insurance should be treated as social and pension insurance. It is of special importance to sanction illegal foreign competition, which has been expanding.

## **4. Capital markets**

### **4.1. Current situation**

The development of the capital market in BiH was initiated by the privatisation through certificates (vouchers), as well as by the consequent transformation of state owned capital in shareholders' capital. There are two stock exchanges in BiH (in Sarajevo and in Banjaluka). The volume of trading on those stock exchanges is still very low, and the capitalization is insignificant (KM 9 billion in FBiH, or KM 15 million in average per issuer, while in RS the total market capitalization is KM 500 million, i.e. KM 1 million per issuer), while the annual market turnover is only KM 63 million for both stock markets, and average transaction size amounts to KM 2,000 in FBiH and to about KM 1,000 in RS. Intensified and expanded trading of shares and securities can be expected only after the end of the privatisation. Issues of new shares, apart from those issued in the mass privatisation program, has not started yet, and, so far, only two voluntary initial public offers (IPO) were registered at the stock market in FBiH, and they both failed.

In general, the main obstacle for the development of the securities market is the non-existence of institutional investors and the shortage of companies attractive to investors. Profitable banks in BiH generate KM 46 million, i.e. less than 2 million per one profitable bank, while the average profit per one insurance company is less than million KM, which means that the institutional sources for investments are limited, even if all funds were to stay in the domestic market. The second reason can be found in the domestic companies, which are still incapable of meeting all requirements regarding the transparency of their business results in a way satisfactory to investors, so that even

the introduction of a regional stock market would not serve to attract more capital, as long as the companies are incapable of offering the level of information accuracy required by the investors.

The supervision of the operation of the stock exchanges is conducted by the authorized entity securities commissions, while the trading is executed electronically. In keeping with the practices of other transition countries, the commissions were given a extensive powers regarding the establishment, regulation, supervision and development of the capital markets. In the preparation of the legal framework, identical solutions were introduced in most cases and harmonized legal provisions adopted, in both entities. The Capital Market Council was established within the Central Bank, with an advisory role.

To date, there are 11 investment funds in FBiH, which collected over KM 4.5 billion in certificates, and, after the conclusion of the public offer of shares, they bought the capital in the value of KM 1.9 billion. In RS, there are 13 privatisation investment funds, which collected KM 1.6 billion in vouchers. The shares of these investment funds are listed on the stock exchanges in Sarajevo and Banja Luka, which created the preconditions for trading in the shares of the funds as well.

## **4.2. Priority activities and measures**

### **4.2.1. Promoting corporate governance and transparency on capital markets**

The development of the capital market in BiH is still in an early stage, and it still does not represent a significant mode of financial intermediation, nor a source of financing for businesses. In the recent period, major efforts were devoted to the establishment of institutions and legal preconditions for the operation of the capital market or the securities market.

In the context of the further development of the capital market, it is important to resolve the disputed ownership relations in newly privatised companies. This would permit more successful operations of privatisation investment funds. To promote corporate governance, it will be necessary to amend a number of laws (company laws, laws on the fund management, on securities commissions, on securities registries). Amendments to the company law should harmonize the status of joint stock companies, with the objective of facilitating the trading of their stock. It is of special importance to adopt entity level laws on company takeover, which would guarantee the protection of minority investors' rights. The Rulebook on Listing State-Owned Capital at the Stock Exchange should adopted in FBiH as soon as possible. Standards of corporate governance harmonized with the OECD recommendations, including the application of the international accounting standards, should also be adopted as soon as possible. In this context, it is important to adopt the Law on Audit and Accounting on the BiH level.

In the context of strengthening of corporate governance, all joint stock companies with a highly dispersed ownership and a certain level of capital must be legally required to be listed on the stock market. In addition to the strengthening of the capital market, this would also ensure a higher level of transparency in the operations of these businesses, as the stock market listing would requires businesses to submit regular public reports on their operations. In addition, it is necessary to harmonize the laws on public enterprises with other business regulations, and to require public enterprises to list on the stock market for the same reason.

### **4.2.2. Developing other instruments on capital markets**

The capital markets in BiH are limited to the issuance of shares, while the other types of securities are still non-existent. This is a severe obstacle for the development of the so-called institutional investors (insurance companies, pension funds) whose development is, inter alia, extremely important for the reform of the pension insurance system.

Among the share issuers, the majority are legally required to convert to the shareholders' form of organization, such as, for example, the privatisation investment funds. By core capital, the privatisation investment funds are leading, with nearly half of total capitalization, followed by privatised joint stock companies.

For this reason also, it is very important to empower the BiH Central Bank to issue short-term securities, especially to encourage the development of institutional investors, and to lay the groundwork for the issuance of state bonds for the regulation of old foreign foreign currency savings and internal debt.

On the other hand, a legal framework for the issuance of so-called municipal securities should be created. The initiation of trading in this kind of securities will require the strengthening of municipal

fiscal revenues and of instruments for budget management and institutions for the supervision of the collection and expenditure of public revenues.

#### **4.2.3. Providing incentives for an increase of liquidity of the capital market in BiH**

The above information shows that the stock exchanges in BiH lack the necessary liquidity to make them attractive for investments. On the other hand, the fragmented regulatory framework also increases the costs of their operations. The non-existence of a single capital market in BiH has been assessed as one of the shortcomings in the EU Feasibility Study for our country.

The stock exchanges were established as private joint stock companies and they are independent in decision-making on their operations. However, in view of the importance of the stock exchange for the development of the capital market, and, in this regard, for the reform of the pension insurance system, it is necessary to encourage their cooperation, which would increase their liquidity, as well as promote integration in the regional capital market, which is envisaged by the action program of the Stability Pact. To achieve this objective, the conditions for the integration of the capital markets must be created through harmonization of legislative regulations in the area of their operations, which would, as the final objective, facilitate the trading of shares of all enterprises, registered at both stock exchanges.

In view of this, the existing regulatory framework should be adjusted to facilitate interest-based cooperation between the stock exchanges, and allow private participants to decide what their interest is.<sup>16</sup> In this context, it is important to support a higher level of coordination between the entity regulators, through the Capital Market Council with the Central Bank of BiH. However, in the near future, it is necessary to consider the options for the development of a regulatory framework on the level of BiH that would reduce the costs of stock exchange operations, harmonize the regulations concerning the licensing of brokers and brokerage firms, facilitate trading to brokers and brokerage firms on both stock exchanges, and, in a later stage, prescribe identical conditions for listing and, thereby, encourage competition between the stock exchanges.

## **5. Micro finance sector<sup>17</sup>**

Micro financing, in the broader sense, represents a mechanism for the provision of financial services: loans, savings, insurance, leasing etc. Clients are mostly found amongst the poorer categories of the population, without access to traditional financial institutions. The micro-finance movement has proven its worth as a successful instrument in the resolution of problems faced by the low-income population in many parts of the world. Subsidies in this sector may yield a higher level of benefits for the society than the level of costs involved, as those programs are capable of covering a wide range of beneficiaries, including marginalized social groups, which is of great importance. The clients of micro financing institutions emphasize that the simple procedure and accessibility of services represent the main advantages of this method of financing.

### **5.1. Current situation**

The organization of the micro finance sector in BiH was facilitated by donor assistance, primarily from the World Bank, and some commercial banks have also been involved in this type of lending. At this point, there are 11 major micro credit organizations (MCOs) active. The two projects (Local Initiatives Project I and Local Initiatives Project II), besides establishing the MCOs, also served to develop the environment for their future self-sustainable operations. The total assets in the micro-finance sector is over KM 120 million, which makes this sector still relatively small in the overall BiH financial market. The average number of loans granted in a month exceeds 5,000, while the total number of active clients is 50,000. The average value of credits is about KM 3,000, and the majority of credit beneficiaries are women (51%). The rate of repayment of those loans is high, at 98 percent. To date, more than 100,000 jobs have been created and supported in this way.<sup>18</sup> At the outset, the micro credits were mostly used for service provision activities and trade, but lately the number of beneficiaries in rural areas and the number of loans for agricultural activities have been on the rise.

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<sup>16</sup> In the course of discussions held so far within the Capital Market Council, operating with the Central Bank of BiH, a high level of understanding was expressed amongst the major actors, including both stock exchanges, in view of the unification of the regulatory framework on the state level.

<sup>17</sup> Data from the Local Initiatives Project II (Micro Financing) Impact Assessment, April 2003, and LIP II Annual report,

<sup>18</sup> Micro Crediting Institutions Report 2003.

In parallel with the significant lending activities, institutional development was also taking place, and nowadays most MCOs have achieved full financial sustainability. The MCOs have trained their own staff and developed policies and procedures, in line with the best world practices of financial institutions management, which today enables this sector to function independently.

The adoption of entity laws on micro crediting organizations has established the legal framework for the operation of non-governmental and non-profit lending institutions.

## **5.2. Priority activities and measures**

### **5.2.1. Providing incentives for future development of micro credit financing, especially in the agricultural sector**

The level of poverty is higher in rural than in urban areas. In this regard, it is necessary for municipal government bodies to establish relations with micro credit institutions, to secure co-financing of agricultural activities, in the form of small-scale guarantee funds.<sup>19</sup>

### **5.2.2. Strengthening the supervision over the operations of the MCOs in order to eliminate the informal economy**

The fact that only about 50 percent of micro credit beneficiaries are part of the official economy is an issue unto itself. The main reason for this is the situation in which the majority of self-employment modes (small scale agricultural production, in-house crafts etc.) are not required to register. On the other hand, the number of registered micro credit beneficiaries in the sectors of trade and service provision is increasing, and, to date, is about 65 percent.

To boost the inclusion of micro credit beneficiaries in the official economy, it is necessary to introduce tighter criteria for financing, especially for permanent clients of the MCOs and for more profitable activities. It is particularly necessary to tighten the criteria for those clients who have reached a sufficient level of economic strength and who can now access other sources of financing, but are still preferring micro credits, in order to avoid taxes. This necessitates development of clearer criteria for access to micro credits. In this regard, the MCOs should improve their cooperation with local authorities, to improve their targeting.

### **5.2.3. Harmonizing regulations for supervision over the micro credit sector operations**

The existing entity regulations are preventing the development of the micro credit sector on the territory of BiH as a whole. In this regard, it is necessary to harmonize the existing laws on micro finance in both entities, amend the existing solutions with provisions on investments in core capital, on prevention of money laundering and on reporting. In the first stage, it is particularly important to entrust the supervision over the operations of the micro-credit sector to the FBiH Ministry of Finance, as is done in RS (at this stage, the FBiH Ministry for Displaced Persons and Refugees is currently in charge of this in FBiH), and, in the near future, the supervision over this sector needs to be transferred to the entity banking agencies. It is necessary to improve the legal framework in order to extend the micro financing industry to other financial services (leasing, insurance, housing cooperatives). In view of the constant necessity of strengthening the citizens' confidence in the banking sector, micro-crediting organizations should not be allowed to collect deposits in the coming medium term period. However, it would be useful to permit the transformation of micro finance institutions to commercial forms of financial services provision.

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<sup>19</sup> Guarantee funds of that type have already been established in the District of Brčko and the Municipality Center in Sarajevo.



### **III.4. LABOR MARKET REFORM<sup>1</sup>**

#### **1. Goals**

- 1.1. Increase labor force mobility as a vital factor for strengthening the single market in BiH**
- 1.2. Reduce the grey labor market**
- 1.3. Reorganize the employment brokerage system**

#### **2. Situation**

##### **2.1. Employment**

In 1987, there were about 1.076 million employed in BiH, approximately one fourth of the total population at the time. In later years, however, the number of those employed stagnated and by 1990 (not counting those employed in agriculture) this figure fell to 1.054 million.

The total number of employed in BiH today is estimated at (based on data from LSMS) 999,500 persons, out of which 638,000 (63.8%) are formally employed. Postwar BiH was marked by "growth without employment," which speaks in favor of the hefty figure of 361,500 (36.2%)<sup>2</sup> who are employed in the informal sector. According to the same source, the share of those informally employed is noticeably higher in the RS (41.4%) than in the FBiH (32%).

Compared to 1990, the labor force in the formal sector is now considerably older. Young and unqualified workers are relegated to the informal sector. Also, the participation of women in the labor force is unsatisfactory: women constitute only about 30 percent of the labor force in the FBiH, and 39 percent in the RS.<sup>3</sup>

There is employment discrimination based on ethnicity, age and sex.

##### **2.2. Unemployment**

According to the official data, the unemployment rate in BiH is almost 41%. However, lending support to the thesis on the existence of a large informal sector, the World Bank, in several studies (based on data from LSMS), stated that the real unemployment rate in BiH could be around 16.4% (16.9% in the Federation BiH, 15.8% in the RS).<sup>4</sup>

According to World Bank research, the average waiting period for a job in BiH is over three years. Older individuals (between 35 and 55 years of age) on average spend longer than five years looking for work.

The fact is that, since 1995, growth in BiH has been based on employment in the informal sector. This sector has, among other things, enabled many families in BiH to stay above the poverty line. Still, when it comes to future growth, the existence of an informal unemployment sector is undesirable for the following reasons:

- its harmful effect on efficiency and equality,

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<sup>1</sup> Owing to the lack of reliable statistics, the major part of data for the analysis of the labor market was obtained from LSMS. In addition, some donors, such as the World Bank ("Labor Market in Post-War BiH: How to Instigate New Job Creation and Increase Worker Mobility", World Bank, 2002) and DFID (Qualitative Labor Study) carried out their own labor market studies. DFID completed a series of panel surveys on households – SPID/HSPS, on the basis of the samples from Zenica, Travnik and Trebinje, among three target groups: individuals, employers and employment brokers.

<sup>2</sup> LSMS

<sup>3</sup> ("Labor Market in Post-War BiH", World Bank, 2002)

<sup>4</sup> UNDP estimated the number of unemployed, when contrasted with the estimate of the working age population actually residing in BiH, and put the unemployment rate at 41.8%, with a 43% rate in FBiH and 40% in the RS (UNDP: Early Warning System in Bosnia and Herzegovina, Report on Basic Indicators – Base Line Report, June 2000, p. 27). These estimates contradict the initially surprisingly low unemployment rate indicated by the data from LSMS. As will be seen, the survey data collected for this Study uphold the claim of a lower unemployment rate, and consequently a lower poverty rate.

- the number of workers who are denied rights to social insurance and retirement benefits,
- the detrimental effects on budgets and pension insurance funds.

### **2.3 Employment Structure by Sector**

In both BiH entities, the employment structure by sector has changed in comparison to the employment structure in 1990. In the FBiH, it is estimated that employment in manufacturing fell from 41% of all jobs in 1990, to 32% in 2000.<sup>5</sup>

Of the total number of those employed, 27% are in the public sector (28% in the FBiH and 24% in the RS). This significant employment rate in the public sector can be explained by the slow recovery of the industrial sector, coupled with the parallel development of the administrative structures after the war. The best illustration of this change in the relationship is the fact that, before the war, the ratio of employees in the non-economic sector and those employed in the economy was 1:5.6. After the war it fell to 1:2.8. Characteristically, there is an overwhelmingly large number of younger workers in the informal sector: more than 3/4 of employed young people work in the "grey economy"<sup>6</sup>.

In addition to very high employment in the non-economic sector, in comparison with other transition countries, considerably higher public sector salaries in BiH (in the FBiH, salaries and benefits in the public sector are 67% higher than in industry, while they are 86% higher in the RS) make the share of wages and salaries in the GDP reach around 20%, or more than 33% of total budgetary spending in 2000 (by comparison, the average for Central and Eastern European countries is around 17.3%). Furthermore, these numbers do not reflect expenditures on the defense sector, which currently employs close to 1% of the total population.<sup>7</sup>

According to the same World Bank study,<sup>8</sup> the number of employees in public administration almost doubled (from 5.9% to 11.6%), while the share of employment in the trade sector increased by over 30% (from 9.1% to 14%), as well as the share of employment in the education sector (from 5.8% to 8.5%). In comparison to the official statistics, the general trend is essentially unchanged.

High employment in the service sector, particularly in the informal sector, is also a significant indicator. Although its share in the economy may not look great by international standards<sup>9</sup>, the service sector is very sensitive to the overall state of the local economy. A downward trend in spending, for example, as a result of a reduction in donor assistance, will immediately have a negative effect on this sector, and by the same token, on the total employment in the country.

Employment is highest among people with higher education and high qualifications.

### **2.4 Outlook**

It is quite certain that any increase in employment can be expected mainly in the private sector, and that the best path to reducing unemployment is to stimulate entrepreneurship. However, polling of representatives in the private sector point to a huge mistrust in the system and business partners, which presents an increasingly serious obstacle for the development of the private sector. The previously mentioned report by the World Bank showed that the level of interpersonal trust and confidence in the system in BiH is among the lowest in the region. In the opinion of private sector representatives, along with high taxes and inadequate bank financing, these are the most important obstacles to the development of the private sector and new job creation, even more so than legislation.<sup>10</sup> However, by the end of implementation period of the PRSP it is expected increase in employment rate and decrease of the unemployment rate of around 30% in relation to the current one.

<sup>5</sup> An estimate produced by World Bank BiH Mission experts.

<sup>6</sup> BiH: Poverty Assessment (First Draft), World Bank, September 18, 2002. p. 49.

<sup>7</sup> BiH: From Aid Dependence to Fiscal Sustainability, World Bank, 2002, pp. 35-36.

<sup>8</sup> BiH: From Aid Dependence to Fiscal Sustainability, World Bank, 2002.

<sup>9</sup> In a highly developed economy, such as that of Great Britain, 71% of total employment is in the service sector. If we exclude financial services, this share of the employment market falls to 52%.

<sup>10</sup> Labor Market in Post-War BiH, World Bank, 2002.

Considering that the implementation of vital reforms still lies ahead, a large increase in unemployment may occur over the early medium-term period (2004-2005), particularly in the public sector. Estimates claim that up to 100,000 jobs could be lost in the FBiH alone and another 50,000 in the RS<sup>11</sup>. Even some public officials accept such statements. However, exact estimates have not yet been made and in their absence it would be difficult to discuss the scope of this projected reduction. All available data indicate that the hardest-hit in any such drop in employment would be wait-listed workers, as well as the large number of workers who are only formally employed, but who are not receiving salaries or benefits. Therefore, it is possible to conclude with certainty that the official statistics will register job losses in the industry sector, but that in reality there will be no large increase in unemployment. In other words, few of those currently employed who are receiving their salaries and benefits will be affected. This, however, does not hold true for the energy sector, where there may be job losses because of reforms aimed at liberalization of the power market. According to the studies performed by the responsible entity ministries in cooperation with a number of international institutes, the restructuring of mines will lead to between 7 and 8 thousand redundancies, mainly in the FBiH.<sup>12</sup>

In corroboration of the thesis that accelerated privatization will not cause an increased number of job losses, one may turn to recent research by the World Bank and local experts, conducted on a sample of 100 newly-privatized companies, and indicating the emergence of a different trend.<sup>13</sup> Production in the past three years has seen continued growth, especially export-oriented production. At the same time, employment in these companies has remained unchanged, and even slightly increased. Therefore, the fear of massive job losses due to privatization, based on the example of companies tracked for the study in question, does not seem justified.

As previously mentioned, a large number of people are employed in the service sector, mainly in the informal sector. The major consumers of services in BiH are foreign citizens permanently residing in BiH (numbering around 25,000). According to estimates by the UNDP ICT Forum<sup>14</sup>, this group of consumers spends about 3 million KM daily in Sarajevo alone. Other estimates claim that foreign organizations in BiH employ about 9,000 local staff. Unless economic activity is intensified in the next few years, the expected reduction in the number of foreign citizens in 2005-2007 will add to the projected rise in unemployment.

Due to new reforms, job losses are expected in the latter part of the medium-term period (2005-2007) in the areas of public administration, education and healthcare. Along the same lines, there will be another round of demobilization of professional soldiers, in conformity with principles and guidelines adopted earlier.

Finally, due to the reforms in the sector of energy and telecom (liberalization) it will be necessary to reorganize public companies in areas that will deal with solving problems of job losses that is evident.

## ***2.5. Institutional Framework: Employment Agencies***

The system of state employment agencies follows the organizational principle for BiH established by the Dayton Accords, meaning that the employment agencies are organized at the entity levels and cantons in the FBiH, while the RS Employment Agency is a centralized institution with six regional branches and a number of municipal offices. A BiH Agency for Labor and Employment has been established at the state level. Three ethnically divided employment agencies still exist in the Brčko District.

Employment agencies and their activities are financed through wage contributions paid by employers and employees. The rates and formal titles of these contributions are significantly different between the entities. In the RS, the rate of contribution is 1% of net wage and is called an employment contribution. This rate is also assessed against all benefits arising from employment (hot meal, vacation subsidy,

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<sup>11</sup> Accelerated privatization, implementation of laws on bankruptcy and liquidation.

<sup>12</sup> The following feasibility studies were prepared by international companies: Marston&Marston of U.S, for the mines in the Central Bosnian and Tuzla Basin, DMT-Montan Consulting GmbH of Germany, for the mines in the FBiH, Kennedy&Donkin Ltd. of U.S. for the Gacko mine and thermal plant, JCI of Japan for the Stanari Lignite Mine and Ugljevik mine and thermal plant, as well as Fichtner of Germany for the BiH power sector.

<sup>13</sup> Report on Progress and Conditions for Improving Commerce Among Privatized Industrial Enterprises in BiH, October 2002, World Bank (prepared by Dr. Muris Čičić)

<sup>14</sup> UNDP Information-Communication Technologies Forum.

holiday bonuses, so called "thirteenth salary" etc.). In the FBiH, the contribution rate is officially 2.5% and it is called an unemployment insurance contribution.

### **2.5.1. Separation of powers between employment agencies**

The state-level BiH Agency for Labor and Employment has authority in the domain of representing BiH internationally, signing and implementing international agreements regarding labor and employment, as well as regulating relationships with other states for the purpose of enabling our workers to seek work abroad. One of its important responsibilities is to manage compensation payments for returnees from Germany after the recent war.

Labor ministries in both entities establish guidelines for the work of the employment agencies. As part of the traditional role of the employment agencies, the entity-level agencies provide cash payments to individuals as unemployment assistance, as well as payments to their healthcare and pension insurance schemes. Assistance in the form of cash payments is received only by those unemployed fulfilling certain criteria, most importantly that they were employed for a certain period of time and that their unemployment insurance was paid for them during this time.

In the area of active employment programs, the Federal Employment Bureau provides loans, while the RS Employment Bureau provides grants<sup>15</sup>, as assistance to companies that submit programs for new job creation and organize or provide funding for the re-training of potential hires or continued education of employees. The Federation Employment Bureau is authorized to use its funds to assist cantons failing to collect sufficient contributions to fund cash assistance payments, as well as payments for health-care and pension insurance. Formally, the employment agencies are responsible for tracking/monitoring the situation in the labor market and have a brokerage role in finding employment. In practice, however, these activities are neglected.

As mentioned above, there are still three separate, ethnically divided employment bureaus in the Brčko District. The powers and resource base for their operations are significantly weaker than in the entities. Some form of health care insurance is envisaged for all unemployed, but no cash assistance is paid in case of job loss. The expenses of the employment agencies in the Brčko District are borne by the entity bureaus.

### **2.6. The wage calculation system: real level of wage taxes and contributions, and unemployment contribution levels are higher than officially recognized**

In the RS, the wage calculation system is very simple, since the following deductions are made against the net wage:

- 5% - income tax
- 24% - contribution for pension and disability fund
- 15% - contribution for employee health insurance,
- 2% - child care contribution
- 1% - employment contribution.

In RS, the same rates are applied to all other income from employment.

In the FBiH, the wage calculation system is determined by the Law on Contributions and it is significantly more complex than in the RS. The 5% tax is calculated against the net wage and it is cantonal revenue. Contributions are calculated by a two-fold application of the coefficient 1.4705 to:

- contributions from wages
- contributions against wages.

In conclusion, the system of wage calculation in FBiH is complicated and needs simplification. Due to the complex system of wage calculation, the real allocations for wage tax and contributions are higher (69%) than officially claimed (62%). The same holds for the unemployment insurance contribution, which in reality is 3.7% and not 2.5%, as officially stated. In the RS, because of the simpler wage calculation system, wage taxes and contributions, though in reality also higher, are closer to the official figure (around 52%), as well as the employment contribution (1-1.5%)<sup>16</sup> Bearing this in mind, it is clear

<sup>15</sup> RS Regulations do not allow banking and credit activities outside the banking system.

<sup>16</sup> Research of the PRSP Team.

that taxes and contributions in the FBiH are higher (69%) than in the RS (52 to 54%) and that, consequently, labor costs are higher in the FBiH.

### **2.7. Spending of funds collected from unemployment contributions: employment bureaus have high administrative costs.**

In the FBiH, employment contributions are divided at the point of bank transfer, and 70% is allocated to the given cantonal employment bureau, and 30% to the Federation Employment Bureau. In the RS, all contributions are paid into the Employment Bureau account.

In 2002, the total revenues of the RS Employment Bureau were 8,681,980 KM. Out of this amount, 2,705,711 KM, or 31.17%, was spent on the Bureau's operational costs (including salaries). Gross unemployment benefits comprised 2,212,496 KM (25.48%) of the total revenues (cash benefits accounted for 2,015,543 KM, the pension fund contribution for these benefits totaled 121,190 KM, and the health insurance contribution was 75,762 KM). In the course of 2002, unemployment assistance cash benefits in the RS Employment Bureau were paid to an average of 1,290 unemployed every month. The average benefit was 70 KM. For active employment measures, the 2002 allocation was 1,612,500 KM or 18.57% of total revenues.

Over the first half of 2003, the 2002 trends in RS continued, except that the share of operational costs increased (from 31.17% to 38.77%). There was also an increase in the number of unemployed receiving cash benefits – from 1,290 to 1,530 persons in the first half of 2003.<sup>17</sup>

Total revenues of the Federation Employment Bureau and cantonal employment agencies in the first half of 2003 were 75,242,072 KM. Unemployment insurance contributions for this period were 33,846,967 KM. Other revenues were 7,275,914 KM and the amount of 29,099,191 KM was carried over from 2002.

The operations of the Federation Employment Bureau and employment agencies in the first half of 2003 cost 5,485,703 KM, which comprises 13.33% of the total revenues, excluding funds carried over from 2002. The basis for calculation of cash benefits was the average wage in the given canton over the three preceding months, which is why the levels of the cash benefit in FBiH vary across the range from 117 to 240 KM. In the same period, 6,361,910 KM, or 15.47% of the total revenues – not counting that carried over – were used to pay unemployment assistance cash benefits. The total number of unemployed registered in FBiH in July 2003 was 297,477, but the cash benefit was paid to only 4,786 persons (1.61%). The situation is even bleaker when one considers that these figures include the benefits received by returnees from abroad.

The health care system in the FBiH in the first half of 2003 was used by an average of 170,000 persons every month, which comprises 58% of the total number of those who are unemployed and registered with the cantonal agencies. The allocation for health care was 4,924,533 KM, or 11.97% of the total revenues. To support employment (credits, grants, subsidies, retraining etc.) the Federation Employment Bureau and cantonal agencies allocated 13,148,942 KM, or 31.97% of their total revenues.

The funds of the Federation Employment Bureau and the cantonal agencies carried over from 2002 to 2003 were 29,099,199 KM, and the surplus of funds found in the preparation of the semi-annual statement was 36,906,196 KM.

The total revenues, just from contributions, for the first half of 2003. came to 33,846,967 KM, so it is possible to estimate that annual unemployment insurance revenues in FBiH are around 68 million KM.<sup>18</sup>

An analysis of the above numbers confirms that the unemployment funds in the RS are much lower than in the FBiH, where unemployment assistance contributions are higher. The number of unemployed receiving benefits is low. Both in the FBiH and RS the operational costs of the employment agencies is relatively high. An audit conducted by the World Bank on behalf of the entity governments in 2002 pointed to the non-existence of clear criteria and inadequate use of funds earmarked for stimulating job creation, which were mainly provided in the form of credits in the FBiH and in the form of grants by the

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<sup>17</sup> Research of PRSP team.

<sup>18</sup> Research of PRSP team.

RS. The effectiveness and transparency of the programs for stimulating job creation were also questioned.

### ***2.8. The labor market: problems observed***

The labor market in BiH is burdened with a number of problems. Above all, it is still fragmented and does not provide workforce mobility. The existing labor legislation is suited to the demands of a market economy, but in practice there is discrimination on the basis of ethnicity, age, and sex. Political divisions also impede the mobility of the workforce. There is also an inertness and inflexibility in the workforce as well. There is less inclination to move from one profession to another, which is the consequence of socialist practices, an educational system unsuited to the contemporary demands of the labor market, and an inflexibility concerning the level of minimum wage. Employers are not sufficiently involved in bargaining over collective contracts and as a result the level of the minimum wage is a disincentive to the employment of younger, highly productive workers (especially in the FBiH). Employment agencies have a very narrow scope of activity. Large numbers of people are employed in the informal sector, especially the young.

## **3. Priority Activities and Measures**

### ***3.1. Strengthen the single economic space: reduce market fragmentation in BiH***

Markets in both entities are geographically confined and employers focus primarily on local labor markets. The fragmented state of the BiH economy and the existence of a number of isolated local economies inside each of the two entities are causes for concern because local markets offer little opportunity for building an economy with the scope and capacity for specialized production based on the comparative advantages of BiH. The smaller the market, the greater the likelihood of unstable demand. Local markets offer little opportunity for expanding businesses and by the same token for increasing employment.

In the case of both BiH entities, the foreseeable instability of demand, in the midst of a small market, is a very serious problem, especially when taking into account the implementation of announced reforms in the areas of privatization, bankruptcy proceedings and business insolvency. If a major local source of income vanishes or is reduced, for example, by the restructuring of a large enterprise, or a reduction of financial aid from international donors, the local economy could experience a sudden drop, or even a collapse, and a subsequent increase in poverty.

Another potential problem is the disparity in regulations concerning the legal requirement to publish Calls for Tender for work contracts and public procurement. Often such announcements are only made in the local media. This problem is especially visible in the FBiH<sup>19</sup>, but is also present at the national level. In this context, it will be vital to strengthen regional development<sup>20</sup> and appropriate local-level institutions, with the mission to promote business opportunities of their respective communities throughout the country. It is expected that the adoption and implementation of the legal framework for public procurement on a national level will strengthen the single market.

### ***3.2. Implement education reform: promote continuing education<sup>21</sup>***

Of a group of employers surveyed who employed new workers in the previous 12 months, 48% in Trebinje, 49% in Zenica and 25% in Travnik said that their greatest difficulty was finding workers with adequate qualifications. In a country with such high levels of education,<sup>22</sup> this is an alarming finding. Considering that most workers completed a high-school education, this response from employers leads

<sup>19</sup> According to some canton regulations (such as the Zenica-Doboj Canton), it suffices to publish local tender offers only in the local media.

<sup>20</sup> With the support of OHR and other donators, the European Commission has approached the realization of the project to unite local communities on the basis of economic regions. This process is in motion, and several regions composed of municipalities in both entities have already been formed. The PRSP team had the intention of giving priority to regional development, but was unable to gain the support of the PRSP team in RS, which does not consider this a priority.

<sup>21</sup> Based on research done by DFID (HSPS, 2002) on several localities in BiH.

<sup>22</sup> In Trebinje 67% of individuals surveyed had completed a high school education, while 17% had higher or university education. In Zenica, the corresponding numbers were 70% and 8%; in Travnik, 58% and 8%.

to the conclusion that formal education is failing to provide the needed qualifications. Therefore, the preparation of a study of the skills needed in the BiH labor market, which should serve as the basis of a second stage of education reform.<sup>23</sup>

Within the framework of the same survey, the employers listed work experience as the main hiring criteria, before qualifications. That is why, in addition to education reform, it is necessary to develop mechanisms to enable youth to acquire experience through voluntary (trainee) work. Students would develop working habits, acquire knowledge and experience in the fields they are training for, establish links with employers during the training, acquire necessary qualifications, not just receive diplomas, and eventually they would find jobs more easily after the completion of their education, often with the same employers with whom they did their trainee work.

The contacts with employers confirm that the service sector has a constant problem finding qualified workers. It also appears that the industrial production sectors in Trebinje and Travnik are encountering similar difficulties. In any case, most employers stated that they would be willing to train their workers, and some would have done if financial considerations allowed. Many employers in Zenica attempt to train their workforce on their own, because of, in their view, the high cost of specialized institutions. In view of the great need for training a young workforce, it is of utmost importance that the imminent education reforms allow all forms of extra-mural education, as well as to find modalities to subsidize training, particularly for the younger workforce. A share of funds collected by the employment agencies should be channeled to financing these programs.

It is important to emphasize that unemployed workers are interested in acquiring new skills. About 84% of those unemployed in Trebinje, 70% in Travnik, and 95% in Zenica, expressed their willingness to attend free training sessions to acquire new skills. An interesting experience is that of Malaysia, which provides free training and skill-acquisition for unemployed individuals, in a wide range of skills required for participation in the contemporary labor market.<sup>24</sup>

The education system must be reformed to successfully contribute to poverty reduction. According to data from the public employment institutions in BiH, there is demand for only 20% of the 252 occupations which are currently being trained within the secondary education system. Out of 32 higher-education professions, jobs are available in only four.<sup>25</sup> Holders of high-school and college diplomas comprise 62.6% of the registered unemployed. The unemployment rate is 2.6 times higher among the young (19-25 year olds) who have recently left school than among the members of the 25-49 age group, and even 3.6 times higher than among those aged 50-60.<sup>26</sup>

### ***3.3. Eliminate all forms of discrimination in employment: women participating in the labor force is among lowest the region<sup>27</sup>***

In the future Stabilization and Association Agreement with the EU, BiH will be required to remove all forms of discrimination with regard to working conditions, wages and firing workers.<sup>28</sup>

Some individuals in Zenica and Trebinje expressed the conviction that there is discrimination in employment based on sex, ethnicity, age, and status. Only 25% of those polled in Zenica, 27% in Travnik, and 16% in Trebinje believe that there is no discrimination.<sup>29</sup> According to a study entitled "Gender and Poverty"<sup>30</sup>, displaced persons are in an exceptionally difficult position, since they rarely find work, and are therefore compelled to accept jobs that were undesirable to other social groups. The cruelest form of discrimination on the basis of ethnicity concerns returnees who have great difficulties in finding jobs in public administration or public companies. This will require the enforcement of the constitutional changes, which establish the obligation of all levels of government to ensure a

<sup>23</sup> In agreement with the responsible ministries and the PRSP team, DFID initiated preparation of this study.

<sup>24</sup> Report of the Malaysian Team of Experts, March 2003.

<sup>25</sup> Education in the Fight against Poverty, Ministry of Education, Science, Culture and Sports of FBiH, May 2002.

<sup>26</sup> Human Development Report, UNDP/Economic Institute Sarajevo, September 2002, p. 36.

<sup>27</sup> LSMS

<sup>28</sup> "The Report of European Commission to the Council on preparedness of BiH to initiate SAP negotiations with the EU" (Feasibility Study), Brussels, 18 November 2003.

<sup>29</sup> Somun et. al. (2001), also discovered a widespread conviction that there is discrimination in employment. See also, WB, ECSSD, Local Level Institutions and Social Capital Study

<sup>30</sup> Gender and Poverty, IBHI, June 2002.

composition of employees in the public administration that reflects the ethnic composition of the local population from 1991. The efficiency of the implementation of the regulations prohibiting discrimination on any basis when hiring and at work, and a strengthening of the activities of the ombudsmen in this area are needed.

Women, in particular, suffer discrimination in employment, receiving in both the private and public sector lower salaries for the same type of work and with less chance of promotion. This is inevitably reflected in their material status and complicates the maintenance of acceptable living standards. Women are first to lose their jobs in times of restructuring and reform and have more difficulty in finding new employment. Action should be taken to design and implement measures to prevent discrimination in the areas of labor, employment, the share of women in the public life etc., in line with the Law on Gender Equality in BiH.

In the surveys which DFID carried out with employers, respondents stated that they are slow to hire handicapped persons. In view of the specific situation of BiH, as a post-conflict country, and of the needs of this population, it is necessary to adopt a legal framework, which would ensure that at least 3% of employees in public administration are persons with disabilities.

It is particularly important to strengthen the existing micro-credit institutions to stimulate employment, especially among women and returnees.<sup>31</sup>

### ***3.4. Reduce the rigidity of the wage-setting system, increase youth employment***

The average age of those employed in the formal sector has grown considerably from 36.6 years in 1991 to 40 years in 2000<sup>32</sup>, which means that the young workforce predominantly works in the informal sector. The share of workers below the age of 36 is considerably lower than before the war. The share of the 25-34 age group in the labor force in 2000 was 23%, comparing to 37% in 1990. According to LSMS data, 18% of the total number of employees in the informal sector are under 25, while this age represents only 7% of the employees in the formal sector. One of the main reasons for this is the rigidity of wage-setting system. The minimum wage, especially in the FBiH, is above average for countries in transition (only in Slovenia it is a little higher). In essence, the government and the unions negotiate about the wage level, still without the effective participation of employers. Younger workers tend to be more willing to work for a smaller wage, which is not stimulated by the existing wage schemes. For this reason, the average age of workers rose and productivity in the formal sector dropped, while the younger work force was relegated to the informal sector. This is another way the informal sector became more competitive than the formal sector – due to the larger share of young employees, as the more productive segment of the workforce.

Apart from the rigidity regarding the minimum wage, the wage system in general is burdened with other payments unfamiliar to a market economy, particularly in the public sector. This category includes entitlements on the basis of past work, hot meals, thirteenth salary etc. In a market economy, wages are exclusively linked to the productivity of the workforce. This above all applies to wage schemes based on past labor, which impedes workforce mobility: older workers when they lose their jobs have a much harder time getting new jobs, due to the obligation the employer must pay for such a worker because of a higher salary on the basis of past work. In this way, the older workforce is also forced into the informal sector. This necessitates improvement in the work of the Economic and Social Councils at all levels of government to involve employers in the dialogue and to introduce greater flexibility into the wage system.

In the coming period, all levels of government in BiH will be required to drastically reduce public expenditures and particularly public sector wages. In this context, and in order to reduce existing wage system anomalies, it will be necessary to gradually reduce such benefits as hot meals, vacation subsidies and, at later stage, to eliminate compensation for past labor.<sup>33</sup>

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<sup>31</sup> According to the reports of micro-credit institutions, funded from the World Bank credit, the majority of credit recipients are women.

<sup>32</sup> Labor Market in After War BiH: How to stimulate companies to open new positions and increase mobility of the workers, WB, November 2002.

<sup>33</sup> This practice is mainly present in public administration.



For some groups of the young who are especially needy, such as orphans and school drop-outs, special employment programs need to be developed, e.g. through subsidies to companies that hire them. Employers should be stimulated to employ young people, particularly first-time entrants into the labor market.

### ***3.5. Stimulate workforce mobility: the labor market is static***

Analyses performed so far indicate that workforce mobility is insufficient. When asked where they would like to seek employment, of the surveyed participants currently looking for another job (working in the formal sector) 71% in Trebinje, 73% in Travnik, and 57% in Zenica stated that they were looking for work only locally. None of the participants were prepared to look for work in another part of their entity, let alone in the other entity, although many expressed willingness to work abroad.<sup>34</sup> One contribution to the many obstacles to workforce mobility is the fact that the market in BiH has not entirely adapted to the changes in the state of the economy and has not started to allocate the available labor force efficiently. In this case, too, the inflexible system of setting the minimum wage represents just as great an obstacle to employment creation, as for the mobility of the employed from one job to another. A particular problem arises from political instability, which discourages unemployed workers from seeking work in areas where their ethnic group is a minority.

The existential vulnerability of a part of the workforce is an additional cause of its reduced mobility. Only a very small number of survey participants regularly receive social assistance. Most individuals who do not work survive on financial assistance from family members. As in many poor societies, it appears that the family is the main source of social and economic support. This factor accounts for the obvious disinclination of workers to look for work outside of their local region. Workforce mobility is also destimulated by the inequalities in the levels of unemployment benefits, past work, pension and health insurance.

Around 28% of respondents in Zenica, 45% in Travnik, and 46% in Trebinje have access to some land for growing food or raising animals. Agricultural activities play an important role in the survival strategy of BiH, which also contributes to less workforce mobility.

In conclusion, the labor market is static, which is primarily a result of the slow recovery of the economy and lack of new job creation. Thus, for instance, growing companies created an average of 4.2 jobs, while shrinking companies lost about 5.3 jobs annually. The situation in the RS is considerably more difficult, compared to the FBiH. The low dynamic of creation of new productive jobs and the closing of unproductive ones, moving from an unproductive to a more productive job, undoubtedly slowed the productivity growth and the general growth potential, including the growth of employment.<sup>35</sup> Interestingly enough, the rate of employee turnover in the public sector, mainly in loss-making firms, does not lag by much when compared to the employee turnover rate in profitable companies.

A reduction of political tensions, the strengthening of the single economic space, the harmonization of the system of social assistance as well as unemployment benefits and rights, the harmonization of the quality of education, health care, minimum wage and pension levels – are all important prerequisites for higher workforce mobility in BiH. It is particularly important to strengthen the role of employment agencies in the identification of the needs of the local labor markets and their brokerage role in finding jobs, and to link their databases electronically.

### ***3.6. Strengthen the monitoring of use of unemployment benefits: the present system stimulates expansion of the informal sector***

The system of “automatically” awarding unemployment benefits is counterproductive. It seems that the primary motivation for registration with an unemployment agency is obtaining the right to health insurance. There is no efficient system of verification that unemployed persons fulfill the requirements for receiving benefits, especially health insurance. This stimulates employment in the ‘grey economy’, because individuals can formally claim unemployment in order to receive assistance and health insurance. Finally, the absence of control over the realization of benefits leads to irrational spending.

<sup>34</sup> Studies performed by the World Bank in 2002 reached similar conclusions.

<sup>35</sup> Labor Market in After War BiH: How to stimulate companies to open new positions and increase mobility of the workers, WB, November 2002.

Considering the sizable informal sector, unemployment benefits, particularly health insurance, should be reserved for those unemployed who are in a difficult financial situation, and employment agencies must play a more active role in verifying the fulfillment of criteria for receiving benefits.

It is necessary to clarify and tighten the criteria for attaining and losing the status of an unemployed person, taking into account the International Labor Organization Convention, particularly to ensure an appropriate level of social security for the unemployed. This necessitates harmonization of the employment contribution rates in BiH. Finally, the criteria for attaining the right to health care must be tightened and its implementation more closely monitored.

### ***3.7. Promote the activities and strengthen the efficiency of employment agencies: the current system of funding employment stimulation programs is inefficient and non-transparent***

One of the conclusions drawn from the above mentioned surveys is that the employment agencies, especially in relation to the EU standards, do not play a sufficiently relevant role in facilitating job searches. None of the respondents was of the opinion that the employment agencies are familiar with the situation in the labor market. This reaction conforms with the recognition that both employers and job-seekers are more likely to turn to other methods when seeking to hire or be hired. The majority stated that personal connections were their primary method in seeking work. Even persons currently employed in the formal sector do not consider employment agencies to be an important channel for finding a new job. None of the respondents employed in the formal sector in Trebinje and Zenica used employment agencies in finding work, while only one person did this in Travnik.

In this context, the employment agencies need to be reinforced in the area of identification of the needs of the labor market and in the labor market brokerage role.

There is inefficiency and a lack of control over the way in which employment agencies allocate resources for job-creation support programs.

Employment agencies in the FBiH and in the RS direct some of the resources collected from employment insurance contributions to projects that, in their opinion, contribute to job creation. Inefficiency and non-transparency of the present system are a cause of concern, particularly because, according to rough estimates, since the end of the war the employment agencies have collected around 450 million KM, at least two-thirds of which went to the Federal Employment Bureau.

Until now, the practice has been that both entity employment bureaus, as well as the cantonal employment agencies, had discretionary powers to evaluate the suitability of projects for financing. The Federation Employment Bureau provides loans for such projects, while its RS counterpart provides grants. In both cases, banks are merely service-providers. This system of allocation of funds, in which public agencies have the role of banks, is inadequate, since these institutions are not equipped to perform credit analysis. On the other hand, the control over spending of the funds by the recipient private companies is questionable, as is the responsibility for potential poor performance. Both entity employment bureaus have so far failed to perform regular verifications on the level of compliance with conditions for receiving loans and grants.<sup>36</sup> The monitoring of this type of activity of these agencies by the overseeing entity ministries has been insufficient so far. In consequence, the RS should change to a system of providing credits, and not grants, as support to job-creation projects. In that case, both entity employment bureaus should abolish the practice of selecting projects for job creation support and should leave this task to the banks, which should also bear the risk of the placement of funds.

### ***3.8. Strengthen the institutional framework and oversight of employment agency operations***

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<sup>36</sup> The most recent research by Project Implementation Units for the social sector and the World Bank in connection to the work of employment agencies.

On the institutional level, the BiH Labor and Employment Agency, and the single Brčko District Employment Agency need to be established. A tripartite management (government, unions, and employers) should be established to ensure adequate representation of interest of all stakeholders. In particular, it is imperative to reinforce oversight of the operations of employment bureaus by competent entity ministries and bodies, and to set, in percentage terms, a ceiling for the share of administrative costs in the total revenues.

### ***3.9. Expand and ease requirements for acquiring the right to unemployment benefits***

The existing system, in which all unemployed who previously regularly paid their contributions, have the right to one-year of unemployment assistance, is unjust to those workers who, after a longer period of work and paying contributions, lose their jobs. Therefore the length and duration of unemployment benefits should be determined on the basis of the duration of previous employment and the period when contributions were paid. This becomes particularly important for the next period, when job losses because of privatization and the implementation of other reforms are expected, and the funds collected by the employment agencies should be a part of the overall social program for all those who lose their jobs due to acceleration of reforms.

### ***3.10. Strengthen the activities aimed at reduction of the informal sector***

As mentioned above, a large informal sector exists in BiH, which, according to LSMS data, consists of around 362,000 workers. A large number work in agriculture (47%), construction and the services sector (17%), as well as production (9%). Most workers are employed in the private sector, and around 28% are self-employed. The young and workers without qualifications are especially predominant in this sector. On the other hand, employers register minimal salaries in order to avoid full payment of contributions, which the LSMS found to have a discouraging effect. To achieve the goals of this priority, it is necessary to stimulate employers, as well as employees, to cross from the informal into the formal sector. Exemption from the payment of contributions for a certain period proved effective in other transition countries. To increase efficiency in this area, activities on reorganization of inspection services, and particularly of labor and employment inspections, should be brought to completion. Finally, in line with the above, the criteria for receiving unemployment benefits, and particularly health insurance, must be tightened, and compensation for past work should be gradually eliminated.

### ***3.11. Strengthen the existing system of social assistance to ensure more adequate support for those losing jobs due to acceleration of reforms.***

It must be emphasized again that there is no reliable data on the actual unemployment rate in BiH. The number of employed workers who have not received wages, nor have had contributions for them paid, for a long period, are expected to register with employment agencies, together with all other categories of unemployed workers. Many of these, despite holding only fictitious employment, have still not registered with an employment agency. Their registration will exert further pressure on the employment agencies as they seek to provide health care coverage and other for unemployment assistance for these workers.

Based on the poverty analysis performed by the PRSP team, it was estimated that around 20 percent of the BiH population lives at or below the poverty line. It was also established that another 30 percent is positioned just above the poverty line for various reasons: holding insecure jobs or employment in the informal sector, working on a very localized labor market sensitive to economic shocks. Such workers are at a high risk of job loss, reduction of income, and descent into poverty.

Increased unemployment must not be the sole concern of the employment agencies. It requires the mobilization of funds from various sources. In this context, it is necessary, through the existing system of social assistance and unemployment insurance, to secure funds for linking interrupted pension insurance payments or purchasing missing pension insurance for early retirement.

### III.5. STRATEGY FOR COMBATING CRIME AND CORRUPTION

#### 1. Goals

- 1.1. To strengthen the rule of law;**
- 1.2. To establish transparency and responsibility in the public sector;**
- 1.3. To strengthen the trust in government institutions among citizens: ensure equality in access to public services for all citizens;**
- 1.4. To improve business climate;**
- 1.5. To eliminate organized crime.**

#### 2. Introduction

Corruption (*lat. corupere – rot, spoil, bribery, buying off, to bribe a person with money or other material goods*), in a broader sense, is a term that encompasses all types of misuse of an official position for self-serving motives, and in a narrower sense denotes bribery. Passive bribery is the bribe accepted by a public official who asks for or receives gifts or favors, or takes the promise of gifts or favors, in exchange for using his/her power to perform or fail to perform some official action.

Corruption, as a general phenomenon in the world, and especially in post-conflict and transition countries, is an exceptionally tangible problem in BiH. The processes of transition, privatization, and the very process of state-building on an entirely new foundation, allowed the quick spread of corruption at all levels and in all areas of social life. Beginning in 1998, the governments at all levels in BiH began organized anti-corruption activities. The World Bank, on request of and in cooperation with the BiH Council of Ministers in cooperation, prepared the Diagnostic Survey of Corruption in BiH, published in 2001, which provided first insights into the causes of corruption in BiH. The Global Framework of the BiH Economic Development Strategy (I-PRSP) stressed that the corruption is among the greatest problems for achieving economic development and growth in the country and ranked anti-corruption combat among highest priorities.<sup>1</sup> Additional activities were taken as part of the Stability Pact programs, within its SPAI<sup>2</sup>, with the purpose of introduction and implementation of European and international anti-corruption instruments.

In August 2002, the BiH Council of Ministers presented to the Peace Implementation Council (PIC) the "Jobs and Justice" document, which contains urgent measures for establishment of a system for fighting corruption and crime.

- promoting transparency and responsibility in the public (government) sector;
- creating an environment conducive to free competition in the private sector;
- strengthening trust in government institutions among citizens, by facilitating their inclusion and participation in establishing policies and institutional reforms;
- implementing all-encompassing legal reform.

#### 3. Situation, causes and problems related to corruption in BiH

The 'Transparency International' NGO, headquartered in London, every year publishes the CPI<sup>3</sup> Report, which measures the degree of corruption in most countries in the world. In the most recent report – published on October 7, 2003 – BiH is ranked 70<sup>th</sup> out of 133 countries where research was conducted. Several transition countries are ranked lower than BiH, for instance Romania, Russia and Turkey, while Macedonia and Serbia and Montenegro were given ranks above 100.

The analysis of corruption in BiH, prepared by a number of organizations<sup>4</sup>, points out that the major causes of this phenomenon are:

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<sup>1</sup> I-PRSP, p. 24.

<sup>2</sup> Stability Pact Anticorruption Initiative

<sup>3</sup> Corruption Perception Study. CPI is an index measuring the level of corruption in a country. The best grade is 10, and lowest is 0.

<sup>4</sup> Diagnostic Surveys of Corruption, World Bank, UNDP, TI and Anti-Corruption in Southeastern Europe: First Steps and Policies, SELDI. [www.seldi.net](http://www.seldi.net)

- a) absence of the rule of law and inadequate judicial system;
- b) presence of organized crime;
- c) corruption in public administration, widespread bribing and conflicts of interests;
- d) warped business environment;
- e) complicated political and administrative system;
- f) poverty;
- g) inadequate influence of the private sector and civic society on the work of governments.

### **Corruption in government and administration**

The Diagnostic Surveys of Corruption in BiH differentiated between two basic forms of corruption – corruption in government and in administration. **Corruption in government** concerns acts of individuals, groups or firms – in either public or private sector – aimed at shaping laws, regulations, ordinances and other elements of government policies to their benefit, which originate through illegal and non-transparent award of benefits to public officials. **Corruption in administration** is intentional departure from regular implementation of existing laws, rules and regulations in order to place either public or non-public actors in a more favorable position, as a result of extending illegal and non-transparent benefits to public officials.

*Source: Anticorruption in Transition, Contributions to the Strategy Debate, World Bank, 2000.*

### **3.1. Features of corruption in BiH**

#### **3.1.1. Public opinion is that the level of corruption is high, which causes low level of confidence of citizens into governments and public institutions.**

The organization “Transparency International” (TI BiH) conducted a series of studies about public perception and causes of corruption in BiH. The principal conclusion was that one in five inhabitants of BiH see corruption as second most important issue facing the society:

Problem	BiH (%)	RS (%)	FBiH (%)
Unemployment	25,8	25,6	25,4
Corruption	20,3	17,0	21,9
Political instability	14,0	12,3	14,9
Poverty, low standard of living	12,6	12,5	12,6
Crime	10,9	12,0	10,4
Economic reconstruction	7,3	11,0	5,5
Poor inter-ethnic relations	3,3	2,3	3,9
Refugee return	2,3	1,8	2,6
Poor health care	1,7	2,3	1,4
Prosecution of war criminals	1,2	0,8	1,4
Other	0,4	1,3	0,0

The findings of the Diagnostic Survey of Corruption in BiH, conducted by the World Bank, also confirm that “the public in BiH believes corruption to be very widespread and that it contributes to the growing gap in economic stratification of the population, deters foreign investment and undermines government stability.”<sup>5</sup>

#### **3.1.2. Widespread bribing**

It is worrisome that the practice of bribing is increasingly seen as ‘morally neutral’, as part of the “efficiency of the system”, thus directly causing moral erosion of the society.

The surveys by TI BiH showed that 84.7% of the respondents believe that it is necessary to offer money to a clerk to solve a problem. The views are similar concerning gifts: 85% of the respondents believe that offering a gift to a clerk greatly increases the likelihood of resolving a problem, while 82% consider it likely that the same result will be achieved by offering the clerk a reciprocal favor.<sup>6</sup> A particularly striking finding of the survey among civil servants is that one in three respondents believe that colleagues who

<sup>5</sup> Diagnostic Surveys of Corruption, BiH, World Bank, 2001.

<sup>6</sup> ‘Study of Perception of Corruption in BiH’, Transparency International, Sarajevo, June 2002.

refuse to ask for, or accept, bribes are sometimes ostracized, criticized, victimized or forced out of their institutions.<sup>7</sup>

**3.1.3. Customs administration, health care and education are among most corrupt public services**

According to TI research, the following table contains ranking of public services by degree of corruption:

Institution <sup>8</sup>	Number of respondents – clients	Percentage of respondents paying bribes
Health Care	610	26%
Education	600	7%
Police	147	17%
Judiciary	157	5%
Other	571	5%

TI research demonstrated that 89.3% of respondents believed corruption existed in higher education. The findings about perception of corruption are similar for health care, where, in the opinion of 76.5% of respondents believe that there is corruption among health care employees. It is worrying that in reality there is a “typical price list” and that access to some services and physicians depends on the capacity to pay.

Conflict of interest is particularly present in public agencies and institutions. 75% of respondents believe that at least some of their colleagues own private companies. The customs administrations are at the head of the most corrupt list: nearly 90% of the customs administration employees who responded, believed that corruption is widespread in their agencies. Abuse of office also occurs in the customs service, to protect interests of businesspersons linked by political or other connections to employees of the customs administrations.<sup>9</sup>

**3.1.4. Corruption in judiciary, prosecution authorities and police: doubtful independence.**

Judiciary, prosecution authorities, as well as police, take a particular place in corruption analysis, exactly because their fundamental role of safeguarding and enforcing the law. The recently published fact that, as of September 4, 2003, 3,040 complaints were registered against judges and prosecutors, is alarming.

In this context, it is notable that TI research found that 64.4% of respondents stated that there is corruption in these institutions. In the case of police, only 3.3% of respondents stated that police is not corrupt. According to this study, one in four inhabitants was asked to pay bribes to policemen.

**3.1.5. Corruption has direct effect on increase of poverty**

A high degree of corruption in public institution, particularly in health care and education, undermines the principle of equality in provision of public services, and thereby causes an increase of general poverty and the gap between the rich and poor.<sup>10</sup> It should be noted that the poor are particularly sensitive to corrupt practices.<sup>11</sup>

**3.1.6. Corruption adversely affects the development of private sector and attractiveness for foreign investment**

Potential for investing in BiH and strengthening of private sector is further reduced by findings that ‘18% of company outlays are bribes, while one-tenth of the managers’ time is occupied by various communications with the authorities.<sup>12</sup> Such facts make the country less attractive for investment. By undermining the efficiency of the legal system, corruption increases the degree of uncertainty and causes the rise in investment costs, thereby reducing the interest of foreign investors in BiH.

<sup>7</sup> Diagnostic Surveys of Corruption, BiH, World Bank, 2001.

<sup>8</sup> Diagnostic Surveys of Corruption, BiH, World Bank, 2001.

<sup>9</sup> Diagnostic Surveys of Corruption, BiH, World Bank 2001.

<sup>10</sup> Diagnostic Surveys of Corruption, BiH, World Bank 2001.

<sup>11</sup> Right to equal access to justice: International Convention on Civil and Political Rights (ICCPR), Article 14, Convention of the Rights of the Child (CRC), Article 40, Convention on Elimination of All Forms of Discrimination against Women (CEDAW), Article 15.2, Convention on Elimination of Racial Discrimination (CERD), Article 5a.

<sup>12</sup> Diagnostic Surveys of Corruption, BiH, World Bank, 2001.

## 4. Priority activities

### **4.1. Establish appropriate bodies within the state and entity justice ministries, in order to improve coordination of anti-corruption activities<sup>13</sup>**

An appropriate body within the BiH Justice Ministry should be responsible for international cooperation and investigative activities related to the analysis of causes and manifestations of corruption in BiH. Anti-crime and anti-corruption sub-committees should be established in the parliaments at all levels of government. In this context, it is important to consistently implement the Law on Conflict of Interest and to reinforce the election commissions for its implementation.

### **4.2. Continue the reform of the judiciary<sup>14</sup>**

The goal of the court system reform is the establishment of an efficient professional, independent, autonomous, professional, transparent and modern system, which will operate on the same basis throughout the country.

In the FBiH and RS, the structure of the court system has been reformed, with municipal and cantonal, or regional, courts. The implementation of the law on the number and composition of court employees is under way, and establishment of commercial departments at the cantonal/regional courts is imminent, which should considerably reduce the scope for corruption in the business sphere. It is vital to continue and intensify activities to ensure transparent election of judges and consistent insistence on professional and ethical criteria.

Legislative reforms of procedural laws are important for the reform of the judiciary. In the area of criminal law, criminal procedures were introduced at the level of BiH, FBiH, RS and Brčko District in order to:

- exclude judges from criminal proceedings
- expand the powers of the prosecution authorities in investigations
- introduce new investigative techniques
- enhance procedural efficiency, with ensuring protection of human rights.

It is particularly important to implement the new criminal laws, which define new criminal acts, such as money-laundering, breaches of payments system security, bribing etc. It is also important to reform regulations of offences, misdemeanors and economic crime, including introduction of modern techniques of investigation for uncovering and prosecuting corruption, in line with the European standards and principles of protection of human rights. The BiH Parliamentary Assembly enacted a series of state laws which describe these offences, but a body in charge of their prosecution needs to be established.

It is of highest importance to implement the new laws on administrative proceedings, which serve to protect creditors and implement valid court decisions and court execution orders, as well as of the laws on bankruptcy and the laws on entering legal persons in court registers.

The reform of the laws on obligations must be accelerated, to regulate debts and collection of claims, in line with the European Law, as well as the reform of property codes, which would regulate the area of property and other property rights in a single fashion, as well as passage of the state law on money-laundering.

Legislative reforms go in parallel with institutional reform of courts and other judicial institutions. By mid-2004 departments for commercial disputes should be established in 16 first-instance courts around the country (10 in FBiH, 5 in RS and 1 in RS), and the training of judges for working in such specialized commercial departments within first-instance courts should start, to ensure efficient implementation of, first of all, the new laws on legal proceedings and administrative proceedings.

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<sup>13</sup> Report of the European Commission to the Council on Preparedness of BiH to Start the Negotiation on the Stabilization and Association Agreement with the EU, Brussels, 18 November 2003.

<sup>14</sup> OHR, which coordinates important reforms of the legal system and judiciary, has greatly contributed in the combat against corruption. Enactment of the BiH Criminal Code, BiH Law on Criminal Proceedings and the Law on Court Police.

The prosecution offices at all levels have been recently restructured, and the BiH State Prosecution Office has been established. The enacted laws on prosecution authorities considerably altered the role of prosecutors, who assumed responsibility for investigations. The practice of police, customs and financial inspectors conducting investigations were abolished, which reduced the scope for corruption and enhanced efficiency. The reform of the prosecution authorities is one of the most significant activities for strengthening the rule of law and the confidence of the public in the institutions of society.

In consultation with civil society, conducted within the framework of the preparation of the BiH Medium-Term Development Strategy, it was emphasized that more severe penalties for persons offering bribes, or corrupting the public sector in any other way, need to be introduced. The focus was particularly directed towards the professional lawyers, who are, in the opinion of the NGOs, most frequently involved in the process of corrupting civil servants. In this context, the bar associations must devote special attention to strengthening of the code of the legal profession and to monitoring of the law practice.

#### **4.3. Strengthen efficiency of anti-crime and anti-corruption bodies<sup>15</sup>**

Normative penalization of corruption, through provisions of the criminal laws of BiH, FBiH, RS and Brčko District, and the newly enacted laws on criminal proceedings, is surely an important factor in combating corruption and crime in general. Amendments of the regulations of the powers of prosecution authorities and the new role of justice ministries in the prosecution process provide new and more efficient ways to uncover and combat corruption.

The bodies in charge of investigation and reporting (such as ministries of interior, financial police, customs administration, tax administration, authorized auditors, prosecution authorities, criminal courts etc.), which are responsible for the implementation of most laws and regulations, must be strengthened. It is particularly important to continue efforts to curb political influences and accelerate modernization of the investigative and reporting bodies.

It is further necessary to establish daily and functioning cooperation of all these bodies on combating acts of corruption. In this sense, it is particularly important to continue adding to the normative and legal framework, as in the case of enactment of the Law on Anti-Fraud Administration and the Law on Prevention of Money Laundering, or with continued implementation of the CIPS project.

Abolishment of the role of the investigating magistrate in the Law on Criminal Proceedings at all levels, and by assigning a more active role in the investigation and prosecution process to the justice ministries, processing of crimes will be accelerated, and the preconditions for a higher efficiency of the judiciary as a whole have been created. These reforms should continue, in order to keep reducing the opportunities for bribing and corruption.

To increase effectiveness of the investigative and prosecution bodies, the prerequisites for implementation of the laws on post-trial protection of witnesses exposed to threats and to danger.

Finally, it is indispensable to secure adequate funding for operations of investigative and prosecution bodies.

#### **4.4. Continue reform of the indirect taxation system**

The reform of the indirect taxation system has an important role in the combat against corruption. The change of place of collection of the sales tax for high-excite goods from retail to point of imports or production, has already produced positive results, reflected in the increase of public revenues.

As previously mentioned, independent studies showed that, of all public services, the customs administration is the most corrupt. Therefore it is important to implement the reform of the indirect taxation system, which requires establishment of a single customs administration at the state level and which will reduce corruption in this branch of public administration. Introduction of the Value-Added Tax (VAT) will significantly reduce scope for currently widespread fraud and reduce the loss of public revenues, as well as enhance the business climate.

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<sup>15</sup> Report of the European Commission to the Council on Preparedness of BiH to Start the Negotiation on the Stabilization and Association Agreement with the EU, Brussels, 18 November 2003.



#### **4.5. Reform of public and state administration**

At the level of BiH, RS and Brčko District, civil service agencies have been established, while founding of such an agency in FBiH is in progress. The purpose of establishment of these agencies is to strengthen and depoliticize the civil service. Establishment of respective agencies at the cantonal and municipal level needs to be accelerated. In the coming period, it is important to devise the codes of conduct of civil servants and to improve their qualifications. In practice, there are overlaps in responsibilities between different levels of government, as well as excessive bureaucratization, which creates opportunities for corruption. Activities on preparation of the strategy for reform of public administration are underway. The Action Plan for Reform of Civil Service in BiH is scheduled for adoption by September 2004.

Among other things, these reforms should allow citizens access to information. The right to information is a crucial human right, which allows even the most vulnerable categories of the population to participate more actively in conduct of public affairs.<sup>16</sup>

#### **4.6. Strengthen the public finance management and control system**

Strengthening the system of management and control of collection and spending of public revenues remains a vital activity in the struggle against corruption. In this context, it is necessary to:

- strengthen auditors' bureaus at all levels, through increasing their budgets and their staff,
- establish electronic links between auditors' offices at all levels, and with tax administrations,
- introduce treasury system in all cantons and municipalities,
- enact a new legal framework for BiH on public procurement,
- enact the BiH Law on Accounting and Auditing
- establish the systems of internal control of collection and spending of public revenues in all bodies of public administration, including ministries,
- ensure transparency in collection and spending of public revenues by publishing budgets at all levels,
- establish systems of internal auditing in all larger institutions and public enterprises and identify an appropriate model for smaller institutions,
- strengthen the role of parliamentary committees, responsible for auditing on all levels of government, in the sense of monitoring of the realization of recommendations and conclusions following the findings of audits and demanding responsibility for errors identified.

#### **4.7. Continue activities in combating human trafficking<sup>17</sup>**

Bosnia and Herzegovina is, in most international reports, described as one of the countries that faces the problem of human trafficking, both as a transit country or a final destination, and most recent indicators show that female citizens of BiH have also become victims of trafficking.<sup>18</sup>

In the previous period, considerable activities were conducted to strengthen the institutional framework for combating this problem. The BiH Council of Ministers adopted the Action Plan on Prevention of Human Trafficking in BiH on 6 December, 2001, and the State Commission, established on 14 March 2002, was tasked with its implementation. The Council of Ministers appointed the State Coordinator for Combating Human Trafficking and Illegal Immigration, whose task is to operationally coordinate activities of domestic and international institutions that deal with this issue. In this context, the Law on Movement and Stay of

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<sup>16</sup> Political rights and freedoms: International Convention on Civil and Political Rights (ICCPR), Articles 19, 21, 22 and 25, General Comment No. 10, (XIX Session, 1983), adopted by the Human Rights Committee (HRC), International Convention on Economic, Social and Cultural Rights (ICESCR), Article 8, General Comment No. 25 (57, 1986), adopted by the Human Rights Committee (HRC), Convention on the Rights of Child (CRC), Article 13 and 15, Convention on Elimination of All Forms of Discrimination against Women (CEDAW), Article 7, Convention on Elimination of All Forms (CERD), Article 5c, d, viii and ix.

<sup>17</sup> Report of the European Commission to the Council on Preparedness of BiH to Start the Negotiation on the Stabilization and Association Agreement with the EU, Brussels, 18 November 2003.

<sup>18</sup> For more information see: Report of Human Rights Watch, November 2002, work of the STOP (Special Trafficking Operations Programme) Team of UNMIBH, IOM and Ministry of Human Rights and Refugees

Foreigners and on Asylum was adopted<sup>19</sup>, and the control of the visa regime was strengthened, particularly for citizens of countries where victims of human trafficking most often come from.

Many problems, however, persist. The human-trafficking prevention activities are inadequately supported by international organizations, with the exception of the U.S. Embassy. There was no necessary degree of coordination of international and domestic NGOs with the governments in BiH, which had no insight into their work. Funding for planned activities was insufficient for achievement of better results.

Measures to be taken in the next period:

- secure funding for implementation of the BiH Action Plan for Prevention of Human Trafficking,
- in conformity with the Law on Movement and Stay of Foreigners and on Asylum, amend the temporary instructions and transform them into a Rule Book on Protection of Victims of Human Trafficking,
- conduct intensive activities to collect data and electronically link institutions charged with activities on combating human trafficking,
- adopt guidelines on special protection of minors, which should be integrated as part of the Action Plan for Combatting Human Trafficking, and ensure that ministries responsible for social assistance assume a leading role in their protection,
- educate members of the State Border Service (DGS), particularly to ensure effective implementation of the BiH Criminal Code, Law on Criminal Proceedings and Law on Movement and Stay of Foreigners and on Asylum,
- establish, within DGS, an investigation department for combating human trafficking, and ensure responsible government institutions assume a larger share of responsibility for operations of shelters for victims of human trafficking.

#### ***4.8. Strengthen transparency in privatization***

According to assessments of both domestic and foreign experts, the privatization process in BiH to date has not been transparent, with the consequence that a number of privatization contracts were concluded in which the public property and employees' rights were inadequately protected, nor were the mechanisms for ensuring that the obligations assumed by the purchasers are met.

To overcome this problem, it is necessary to:

- pass legislation to ensure an effective mechanism for dissolution of those contracts in which the buyer (investor) failed to meet the contractual obligations,
- strengthen the role of the FBiH Privatization Agency and RS Privatization Directorate in conducting the privatization process,
- initiate a public information campaign to ensure that the public is better informed about the privatization process.

#### ***4.9. Strengthen transparency and modernize the system of funding education***

The data on perception of corruption in education indicate presence of corruption in this area. The education reform, which is underway, has for its primary goal harmonization of education at the level of the state, participation in the regional integration processes, modernization of legislation in this area and reintegration of universities in line with European models. Over and above these reforms, it is necessary to strengthen transparency and modernize the system of funding education throughout the country, which will lead to reduced corruption in this area.

#### ***4.10. Implement the health-care system reform, particularly in its financing segment***

In the studies conducted by TI BiH and the World Bank, it was determined that, together with the customs administration, health care is highest among the branches of civil services by the level of corruption. A central goal of the reform of the health care system is to ensure equality in provision of health care services, which entails reduction of corruption in this area. For this purpose it is necessary to:

- regulate by law execution of supplementary activities in health care

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<sup>19</sup> On the basis of Article IV.4.a) of the BiH Constitution, the BiH Parliamentary Assembly, at the session of the House of Representatives, held on 27 June 2003, and at the session of the House of Peoples, on 18 July 2003, adopted the Law on Movement and Stay of Foreigners and on Asylum, Official Gazette 06/10/2003, Year VII – No. 29.

- reform the funding system of the health care funds,
- increase efforts on reduction of the grey labor market, to increase the health care contribution collection rate,
- adopt the law on public procurement in BiH, which will regulate the system of procurement.

#### **4.11. Strengthen effectiveness in combating money-laundering**

In cooperation with the European Commission, appropriate standards in the fight against money-laundering need to be introduced.<sup>20</sup> It is particularly important to:

- implement the BiH Criminal Code, which categorizes money laundering as a crime,
- adopt the legislative framework for prevention of money laundering at the level of BiH and FBiH,
- improve coordination of bodies dealing with money laundering (DGS, entity banking agencies, tax police, tax administration of FBiH and the Department for Combating Money Laundering Activities of the RS Finance Ministry),
- implement the adopted Action Plan for Combating Money Laundering,
- establish the single register of bank accounts with the BiH Central Bank.

### **5. The role of the media and civil society in combating corruption**

In the course of preparation of the BiH Medium-Term Development Strategy (PRSP), public debates about the Action Plan for Combating Corruption were held with participation of NGO representatives. NGOs demonstrated a great interest for cooperation and this dialogue should continue.

The role of the media and civil society in combating corruption is of vital importance. Therefore a greater transparency in the work of governments and public institutions is needed, both in publishing action plans and in consulting with preparation of strategic documents. It is particularly important to ensure transparency in planning and implementation of budgets at all levels.

It is also necessary to establish mechanisms and bodies to allow citizens to point to cases or instances of corruption, as well as mechanisms for processing requests or complaints. It is crucial to provide for further strengthening the offices of state- and entity-level ombudsmen.

In the context of forthcoming reform of income tax, the possibility to allocate a share of this revenue for funding NGO activities will be considered.

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<sup>20</sup> Report of the European Commission to the Council on Preparedness of BiH to Start the Negotiation on the Stabilization and Association Agreement with the EU, Brussels, 18 November 2003.

### **III.6. FOREIGN TRADE POLICY, MEMBERSHIP IN WORLD TRADE ORGANIZATION AND SUPPORT TO EXPORT**

The fact that the BiH market is small explains the necessity of adopting a liberal foreign trade policy. Further liberalization of the foreign trade regime in the region should remain a priority for BiH, together with the creation of conditions for integration into the EU market.

#### **1. Goals**

##### **1.1. Reduce trade deficit**

The existing trend of a growing trade deficit is unsustainable. An increase in exports, together with accelerated economic growth, is the precondition for maintaining macroeconomic stability and for the functioning of monetary policy on the currency board principles. Maintaining a liberal foreign trade regime is a vital prerequisite for this. In order to achieve macroeconomic effects projected for BiH Medium-Term Development Strategy - PRSP, the level of exports should increase substantially, with a simultaneous drop in the level of imports. Over the next three years, the export growth rate must increase, to stabilize at the rate of 15% annually by 2007. At the same time, the imports growth rate should be reduced (in 2007 at the rate of 6,5%).

##### **1.2. Accelerate economic development of the country**

There is agreement among experts that free trade accelerates economic development. However, views on whether an increase in international trade effectively contributes to poverty reduction fundamentally differ. For this reason, only a small number of developing countries expressed interest for the Uruguay Round of Talks. Since the establishment of the World Trade Organization, the situation has changed substantially. The WTO now comprises 146 member countries, which together account for about 90% of world trade. Furthermore, more than 30 developing and transition countries are negotiating accession to this world organization because it is economically hazardous to stay out. More recent studies have shown that developing countries with open economies achieved an average annual growth of 4.5% during the decade from 1970 to 1980, whereas countries with closed economies achieved only 0.7%. Countries with open economies grow 18 times faster than countries with closed economies and the former take 16 years to double their economic potential, whereas countries closed to the outside require more than 100 years.

##### **1.3. Strengthen quality and competitiveness of domestic production**

Experiences of other countries with liberal foreign trade policies, as well as of other transition countries, indicate that competition of foreign goods on the domestic market contributes to strengthening the quality and enhancing the competitiveness of domestic products in international markets, which subsequently leads to increases in exports.

##### **1.4. Encourage foreign investment**

Due to bilateral free trade agreements, the market for goods produced in BiH has expanded to tens of millions of customers, which should also entice foreign investors to invest in our country, and a higher volume of foreign investment will lead to faster rates of export growth.<sup>1</sup>

##### **1.5. Accelerate integration of BiH into the EU**

The establishment of the liberal foreign trade policy is one of the main preconditions for accelerating the process of EU integration, as well as for the utilisation of unilateral trade privileges that the EU has granted BiH.<sup>2</sup>

*“Ensuring the free flow of goods is one of the main objectives of the EU Accession Agreement to the EU. Within the coming SAA, BiH should progressively establish a free trade zone with the Union, gradually, over the period that will be negotiated. This free trade zone has to be in compliance with the relevant WTO regulations. BiH has to eliminate all quantity restrictions and measures with equivalent effect and to progressively eliminate the tariffs in the trade exchange*

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<sup>1</sup> Thus, for instance, 60% of total Hungarian exports are realized by foreign companies based in that country.

<sup>2</sup> Unilateral trade privileges are insufficiently used because there are no adequate institutions in the country.

with the EU. The BiH Customs Service must be capable of monitoring and safeguarding the trade regime".<sup>3</sup>

## **2. Situation**

Pursuant to the Constitution, foreign trade and customs policies fall within the competence of BiH institutions. The provisions of the BiH Law on Foreign Trade Policy are very similar to those of other modern market economies, and are based on the free trade of goods and services. Exceptionally, and only as a temporary measure, the authority has been granted to the Council of Ministers of BiH to introduce certain restrictions in the entire territory of BiH, only in cases of the legitimate protection of interests of the country.

The tariff structure in Bosnia and Herzegovina consists of four tariff categories (between 0% and 15%) while the simple average of those tariffs amounts to 6.4 percent.

All goods originating from BiH and meeting the prescribed technical and technological requirements can, by the end of 2005, be imported to all 15 countries of the European Union, without any quantity restrictions and exempt from payment of any customs or other duties. The only exceptions to this general rule are beef and wines, for which quotas are set. The EU has also set precise conditions and procedures that must be complied with or this preferential treatment approved can be discontinued at any time. This concerns the following requirements: obeying the EU rules on the origin of goods, refraining from introducing new import duties or increasing existing ones, including customs, or quantity restrictions for goods originating from the EU; the inclusion of BiH in an efficient effort to combat crime; the readiness of BiH for actual economic reforms and regional cooperation with other countries involved in the EU process of stabilization and accession. As an insufficiently developed country, Bosnia and Herzegovina was unilaterally, i.e. without the requirement of reciprocity, granted preferential export regimes for a number of countries in the world, on the basis of international preferential schemes - GSP or GSTP, which opens to BiH the possibility of favorable exports even to the largest world markets.

Among the countries that approved preferential status and exemptions from customs duties or quality related restrictions for BiH are the following: Switzerland, Norway, Japan, USA, Russia and Canada. In all cases, there are exceptions or quota restrictions for certain, especially volatile goods, for individual countries.

As of 2002, countries in the region have committed themselves to bilateral free trade agreements. Some of them have concluded free trade agreements with countries outside the region. For instance, Slovenia, Turkey, Bulgaria, and Romania have the greatest number of free trade agreements, for which the transition period has expired, and have allowed unrestricted access of goods from over 25 countries to their markets. Croatia also has over 20 free trade agreements. Serbia and Monte Negro, Macedonia, Albania, and Moldavia, have each concluded nine free trade agreements *within* the region. BiH has also concluded nine free trade agreements, of which four have entered into force, and the others are in the process of ratification.

Because BiH still does not meet international foreign trade regulations and standards, only a small number of products can be exported, mostly raw materials and semi-finished goods. On the other hand, owing to non-existent regulations and the non-existent system of safety and quality control of goods imported to BiH, it is possible to import almost anything into our country, including products inadequate and even potentially harmful to the health and life of domestic consumers. BiH is currently going through the WTO accession procedure and full membership is expected during 2005.

### **2.1. Analysis of imports and exports**

BiH is executing over 80 percent of its trade exchange on markets in neighbouring countries and the EU. The coverage of imports with exports is increasing. In the course of the last year, the coverage of imports with exports amounted to around 27 percent. However, according to the January 2004 data of the External Trade Chamber of BiH, the coverage of imports with exports in 2003 improved and reached 30 percent. In view of the fact that the overall scope of external trade exchange in 2003 grew by 6.5 percent, one can conclude that the coverage of imports with exports

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<sup>3</sup> "The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18, 2003.

grew by 12 percent in comparison with 2002. In the same period, the growth rate of exports was recorded at 18.7 percent, while the growth rate of imports decreased 3.7 percent, which is an improvement in comparison with the projected rates of export growth and import reduction for the last year<sup>4</sup>. In accordance to this in 2003 (in comparison to 2002) trade deficit was increased from 49% to 41% in relation to GDP.

The growth of exports was mostly recorded in the FBiH, where the coverage of imports with exports grew from 29 to 34 percent. However, the draught, which affected our country in the course of this year, caused a decline in the scope of agricultural production, especially in the RS, which resulted in a modest increase of exports in that entity and in the District of Brčko.

The most important export markets for BiH goods are the markets of countries with which BiH has concluded free trade agreements. In 2003, a total of 42 percent of overall BiH exports was directed to those markets. It is a special cause for concern that the trade exchange with the EU is stagnating. The value of BiH exports to the EU in the 2001-2002 period amounted to EURO 0.6 billion, while the value of imports from the EU amounted to about EURO 1.3 billion.<sup>5</sup>

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<sup>4</sup> Generalized System of Preferences – EU system of trade exemptions.

<sup>4</sup> Global System of Trade Preferences – System of trade exemptions between developing countries.

<sup>4</sup> Despite the fact that such support has not been used enough in current BiH situation, either due to insufficient budget resources, or due to unregulated internal market.

<sup>4</sup> Activities in connection to admission to WTO last on average 5,5 years, starting from the submission of the Memorandum on Foreign Trade Policy, having in mind that the shortest waiting period was 2 years and 4 months (Kyrgyz Republic).

<sup>4</sup> In our case, these will mostly be regulations on gradual reduction of import tariffs to other countries, as well as regulations on accepting international standards for trade in services and intellectual property.

<sup>4</sup> The final draft of BiH Working Group Report should include all obligations that BiH has accepted, including lists of required customs tariffs with individual tariff numbers, tariff calculations and calculations of maximum compounded tariff according to percentage defined by particular tariff list, transformation of certain fiscal obligations into absolute amounts (customs evidentiary list, for instance), requirements of domestic support to agriculture, requirements of limiting export subsidies, lists of requirements in services sector, ultimate exemptions from national treatment, etc.

<sup>4</sup> This is especially important given the prevalent practice in BiH to decide on, and give interpretations of, foreign policy and legislation at various levels, even without authority sometimes. Disputes among WTO member countries are very frequent. Fines are quantitatively expressed, and sometimes are monetary. In cases where BiH has introduced a measure that contravenes WTO regulations (for instance, a temporary ban on imports of petroleum by the RS Government in 2002), WTO affected countries can impose very high additional tariffs on any BiH exports (aluminum, for instance), and practically prevent us from exporting.

<sup>4</sup> IMF Trade Statistics 2002.

<sup>4</sup> BiH Statistics Agency, preliminary estimate.

<sup>4</sup> IMF Trade Statistics 2002.

<sup>4</sup> BiH Statistics Agency, preliminary estimate.

<sup>4</sup> Study on Achieved Results and Conditions for Improvement of Privatisation and Restructuring of Industrial Enterprises in BiH, World Bank BiH, Sarajevo, October 2002, prepared by Muris Cicic, Ph.D.)

<sup>4</sup> Implement Action Plan on Business Climate Adjustment for Domestic and Foreign Investment, adopted by the Ministry Council of BiH and entity governments.«Characteristics of Overall Trade Exchange of BiH for twelve months of 2003», BiH External Trade Chamber, January 2004.

<sup>5</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18, 2003.

### Coverage of imports with exports

In thousands KM

	2002				2003			
	BiH <sup>1</sup>	ENTITIES		BD <sup>4</sup>	BiH <sup>1</sup>	ENTITIES		BD <sup>4</sup>
		FBiH <sup>2</sup>	RS <sup>3</sup>			FBiH <sup>2</sup>	RS <sup>3</sup>	
EXPORTS	1,897,873	1,432,055	456,266	9,552	2,252,423	1,768,687	467,066	16,671
IMPORTS	7,154,568	5,022,553	1,858,757	273,258	7,416,841	5,167,889	1,943,777	305,175
TOTAL EXCHANGE	9,052,441	6,454,608	2,315,023	282,810	9,669,264	6,936,576	2,410,843	321,846
BALANCE	-	-	-	-	-	-	-	-
	5,256,695	3,590,498	1,402,491	263,706	5,164,418	3,399,202	1,476,711	288,504
Coverage of exports with imports in%	<b>27%</b>	<b>29%</b>	<b>25%</b>	<b>3%</b>	<b>30%</b>	<b>34%</b>	<b>24%</b>	<b>5%</b>

Source: Characteristics of overall trade exchange of commodities of Bosnia and Herzegovina for 12 months of 2003, External Trade Chamber of BiH, January 2004

<sup>1</sup> Data results from adding the entity data with the Brčko District (BD) data

<sup>2</sup> Customs Administration of the Federation of BiH H

<sup>3</sup> Republic Tax Administration of RS

<sup>4</sup> Central bank of BiH and the Statistics Bureau of the Brčko District of BiH (2002); Customs services of the Brčko District (2003)

In the course of the entire post-war period, BiH has executed deficits with the majority of its external trade partners, as can be seen in the tables attached.

**TOTAL TRADE EXCHANGE WITH MAJOR BIH EXTERNAL TRADE PARTNERS**

DESCRIPTION	2003																
	BIH <sup>1</sup>							ENTITIES							BD <sup>4</sup>		
	FBIH <sup>2</sup>			RS <sup>3</sup>				FBIH <sup>2</sup>			RS <sup>3</sup>						
EXPORTS	IMPORTS	SCOPE	EXPORTS	IMPORTS	SCOPE	EXPORTS	IMPORTS	SCOPE	EXPORTS	IMPORTS	SCOPE	EXPORTS	IMPORTS	SCOPE	EXPORTS	IMPORTS	SCOPE
<b>TOTAL</b>	<b>2,252,423</b>	<b>7,416,841</b>	<b>9,669,264</b>	<b>1,768,687</b>	<b>5,167,889</b>	<b>6,936,576</b>	<b>467,066</b>	<b>1,943,777</b>	<b>2,410,843</b>	<b>16,671</b>	<b>305,175</b>	<b>321,846</b>					
Croatia	414,692	1,779,376	2,194,068	358,559	1,467,665	1,826,224	52,294	236,659	288,953	3,840	75,052	78,892					
Slovenia	150,868	946,116	1,096,984	115,374	791,239	906,613	34,287	145,521	179,808	1207	9,356	10,563					
Germany	345,283	732,209	1,077,492	325,541	554,553	880,094	18,215	167,883	186,098	1,528	9,773	11,301					
Serbia and Monte Negro	388,584	650,865	1,039,449	176,868	118,844	295,712	205,692	474,942	680,634	6,025	57,080	63,105					
Italy	307,309	591,877	899,186	262,104	456,298	718,402	43,006	127,794	170,800	2,199	7,786	9,985					
Austria	83,817	452,547	536,364	75,012	353,034	428,046	8,693	82,204	90,897	113	17,310	17,423					
Hungary	15,744	514,878	530,622	11,026	240,670	251,696	4,696	174,133	178,829	22	100,075	100,097					
Switzerland	221,362	118,301	339,663	217,730	98,435	316,165	3,559	18,220	21,779	73	1,646	1,719					
Czech Republic	9,454	193,686	203,140	7,195	163,816	171,011	2,111	29,400	31,511	148	470	618					
Poland	5,983	154,235	160,218	5,082	121,540	126,622	901	31,916	32,817	-	779	779					
Turkey	12,371	147,688	160,059	10,675	132,469	143,144	1,696	13,370	15,066	-	1,848	1,848					
Great Britain	70,836	53,817	124,653	16,571	43,105	59,676	54,265	10,479	64,744	-	233	233					
France	20,857	91,903	112,760	18,505	55,605	74,110	2,336	34,845	37,181	17	1,453	1,470					
USA	17,574	94,126	111,700	16,761	80,640	97,401	813	12,828	13,641	-	658	658					
Netherlands	14,444	93,407	107,851	10,832	70,173	81,005	3,467	22,561	26,028	145	674	819					
Other countries	173,245	801,810	975,055	140,852	419,803	560,655	31,035	361,022	392,057	1,354	20,982	22,336					

Source: Characteristics of overall trade exchange of commodities of Bosnia and Herzegovina for 12 months of 2003, External Trade Chamber of BiH, January 2004

\*FBIH, RS and BD BiH tax administration information include exports and imports of goods according to ICD and UCD.

<sup>1</sup> Data results from adding the entity data with BD data

<sup>2</sup> Customs Administration of the Federation of BiH

<sup>3</sup> Republic Tax Administration of RS

<sup>4</sup> Central Bank of BiH and the Statistics Bureau of the Brčko District of BiH (2002); Customs services of the Brčko District (2003)



The leading group of imports, by value, is agricultural and food related products, accounting for almost one quarter of the total value of imports. On the other hand, according to the value of imports of individual products, the most significant products are energy sources, beverages, alcohol and cigarettes, which are, in most part, imported from countries with which BiH has signed free trade agreements, while agricultural products are imported, at a higher percent, from countries that are candidates for EU accession, as well as EU member countries. It is especially important to emphasize that in 2003 machinery, equipment and tools represent the second most significant group of import products (at 18.5 percent of total imports), which is an indication that the import rate is growing because of development that is beneficial to GDP growth.<sup>6</sup>

### COMMODITY IMPORTS STRUCTURE IN BIH

In US\$ million

Type of Commodity	Executed				Grade 2003	Ratios			
	2000	2001	2002	I-IX 2003		2001 2002	2002 2001	2003 2002	2003 2000
Agricultural foodstuffs	497	545	665	571	732	110	122	110	147
Beverages and tobacco	141	151	187	155	206	107	124	110	146
Ore and construction materials	176	188	222	186	248	107	118	112	141
Energy sources	347	386	320	296	355	111	83	110	102
Hydrated alumina and inorganic chemistry products	50	61	50	41	55	122	82	110	110
Medicines	67	66	85	81	108	99	129	127	161
Chemistry products and plastics	326	342	387	377	503	105	116	127	154
Leather and footwear	62	79	87	73	98	127	110	112	158
Textiles	153	171	202	187	249	112	118	123	163
Paper and celluloses	80	90	121	110	147	112	135	122	184
Timber	32	37	42	36	48	116	114	114	150
Furniture	74	74	88	64	85	100	119	97	115
Steel and iron	143	150	190	179	238	105	126	125	166
Aluminum	40	41	35	33	44	103	85	126	110
Machinery, equipment and tools	513	557	668	615	807	109	120	121	157
Vehicles and spare parts	261	219	236	230	307	84	108	130	118
Other	12	16	18	85	90	133	113	...	...
<b>TOTAL BIH IMPORTS</b>	<b>2.974</b>	<b>3.173</b>	<b>3.603</b>	<b>3.297</b>	<b>4.395</b>	<b>107</b>	<b>114</b>	<b>122</b>	<b>148</b>

Source: Analysis of BiH external trade exchange, BiH Ministry of External Trade and Economic Relations, December 2003.

Timber, furniture and paper represent the most significant group of products exported from BiH, and that group, at the same time, does not include many imported substances. It is especially important to emphasize that, in 2003, the growth rate of exports of furniture and paper was significantly higher than the growth rate of exports of timber. Last year, that group of products represented more than a quarter of overall BiH exports. The second group of products, according to

<sup>6</sup> Analysis of BiH external trade exchange, BiH Ministry of Foreign Trade and Economic Relations, December 2003.

value of exports, is the group of products related to machinery, tools, vehicles and spare parts, which accounts for 17 percent of overall Bosnian and Herzegovinian exports, followed by leather, footwear and textiles with 14 percent of overall exports. Data on exports, in line with the research executed in the course of the Mid Term Development Strategy of BiH (PRSP) preparation, show that BiH has competitive advantages in wood processing, metal, leather and textiles industry and that, therefore, those branches should be designated as strategic branches for further economic development of the country. Agricultural and food related products account for just 5 percent of the overall BiH exports, while the coverage of imports with exports in that area remains on a very low level of just 9 percent.<sup>7</sup>

### COMMODITY EXPORTS STRUCTURE IN BIH

In US\$ million

Type of commodity	Executed				Grade 2003	Ratios			
	2000	2001	2002	I-IX 2003		2001 2002	2002 2001	2003 2002	2003 2000
Agricultural foodstuffs	34	40	46	41	55	118	115	120	162
Beverages and tobacco	13	15	15	15	20	115	100	133	154
Ore and construction materials	15	21	24	22	29	140	114	104	193
Energy sources	77	69	93	75	100	90	135	108	130
Hydrated alumina and inorganic chemistry products	57	21	1	1	10	37	...	...	18
Chemistry products and plastics	40	35	30	36	47	88	86	134	118
Leather and footwear	83	94	66	68	90	113	70	136	108
Textiles	98	112	55	57	76	114	49	138	78
Paper and celluloses	11	13	19	24	32	118	146	168	290
Timber	186	172	193	164	219	92	112	113	118
Furniture	41	56	75	68	90	137	134	120	220
Steel and iron	50	69	63	66	88	138	91	140	176
Aluminum	172	160	154	128	171	93	96	111	99
Machinery, apparatus and tools	86	94	103	123	164	109	110	159	191
Vehicles and spare parts	32	32	39	36	47	100	122	121	147
Other	47	49	154	84	106	104	314	69	226
<b>TOTAL BIH EXPORTS</b>	<b>1,042</b>	<b>1,052</b>	<b>1,130</b>	<b>1,008</b>	<b>1,344</b>	<b>101</b>	<b>107</b>	<b>119</b>	<b>129</b>

Source: Analysis of BiH external trade exchange, BiH Ministry of Foreign Trade and Economic Relations, December 2003.

### 3. Priority activities in the area of external trade

#### 3.1. Further liberalization of external trade in BiH

It is necessary to continue further liberalization of trade and the conclusion of new free trade agreements, in which the priority should be given to countries in the region. In addition to this, the practice of concluding asymmetric free trade agreements should be continued, wherever possible.

<sup>7</sup> Analysis of BiH external trade exchange, BiH Ministry of Foreign Trade and Economic Relations, December 2003.

Within the future Stabilization and Accession Agreement with the EU (SAA), BiH shall have to commit to progressive and reciprocal liberalization of services, especially, in compliance with the relevant WTO rules, especially Article V of GATS.<sup>8</sup>

There is criticism within the general public in connection with the justifiability of the existence of free trade agreements. However, the results of the enterprise sector studies show that the majority of companies in BiH assess the effects of the free trade agreements positively.<sup>9</sup> As has already been mentioned, the most significant markets for BiH goods are the markets of the countries with which BiH has signed free trade agreements, and, in the 2000-2003 period, 38 percent of overall Bosnian and Herzegovinian exports was to those markets.<sup>10</sup> Exports to those countries are showing constant increase and in 2003 they amounted to 42 percent of overall BiH exports. Contrary to this, imports from those countries grew at rates slower than the growth rate of imports from other countries and, in comparison with 2002, when they amounted to around 40 percent of overall imports, in 2003 their share fell to 36 percent of overall imports.

Despite public controversy, BiH has strong reasons for concluding bilateral free trade agreements, since these agreements, among other things:

- a) **Create conditions for increasing exports.** BiH is a small economy that is forced to export, particularly in the conditions of a monetary policy based on the currency board principles. As mentioned above, in recent years BiH has managed to channel nearly 90% of its exports to the EU markets and to the markets of neighbouring countries. Several years ago the EU unilaterally granted very significant preferential treatment to BiH exports. However, our production was hardly able to satisfy the standards of the European markets, and the institutions which are authorized to issue certificates about meeting certain standards do not even exist. Therefore, it was necessary to find more suitable markets for our goods and signing asymmetrical bilateral free trade agreements with neighbouring countries was the most logical solution<sup>11</sup>. One must stress that all countries which BiH signed FTAs have signed similar agreements with numerous other countries. This fact was crucial in the decision about negotiating and signing FTAs, because if they did not exist, BiH exports would not be competitive in these markets.
- b) **Help the poor.** Low customs duties and liberal trade policies in previous years have helped the poor in BiH because they maintained low food prices.
- c) **Stimulate production dependent on imported semi-finished goods.** Low customs duties have acted as stimuli to domestic production, which is based on imports of semi-finished goods, because inexpensive imports were made possible.
- d) **Contribute to lower level of smuggling.** Though smuggling is a major problem, low customs duties and liberal foreign trade regime help reduce smuggling to a level lower than if the customs duties were higher.
- e) **Strengthen the quality and competitiveness of domestic product offering.** The liberal imports policy contributes to improved competitiveness on domestic markets, which creates important preconditions for better quality of domestic products and for strengthening of competitiveness of goods offered on international markets, which then facilitates exports.
- f) **Stimulate inflow of foreign investment by securing greater market possibilities than is the case in BiH at the moment.** As mentioned above, the existence of FTAs makes BiH more attractive to foreign investment because it opens the path to larger markets.
- g) **Contribute to faster integration into the EU.** In addition to economic interests, signing bilateral trade agreements with countries in the region contributes to faster integration into the EU. By signing the Declaration of the Zagreb Summit in November 2000, held as part of the Stability Pact, heads of states and governments committed themselves to making agreements on cooperation that would result in free trade. At the end of June 2001 in Brussels, foreign trade ministers of the

<sup>8</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18, 2003.

<sup>9</sup> Early Warning System, Quarterly Report, April-June 2003, UNDP.

<sup>10</sup> Analysis of BiH external trade exchange, BiH Ministry of External Trade and Economic Relations, December 2003.

<sup>11</sup> Free trade agreements with countries in the region are also needed because tax burdens in all the neighboring countries are very high. If BiH did not have free trade agreements with these countries, our goods would be very significantly non-competitive on their markets. For instance, average *ad valorem* customs tax is 12.0% in Albania, 12.4% in Croatia, 13.4% in Yugoslavia, 16.5% in Macedonia, 12.2% in Slovenia, and 12.0% in Turkey. At the same time, average *ad valorem* customs tax in BiH is 6.8%.

Stability Pact countries signed a Memorandum of Understanding committing them to conclude bilateral free trade agreements before the end of 2002. Finally, it should be noted that the EU conditions the application of the preferential treatment granted to goods exported from BiH with the readiness of BiH to engage in regional cooperation with countries involved in the Stabilisation and Association Process (SAP), specifically manifested through the establishment of free trade zones, pursuant to Article XXIV and other relevant WTO rules. The EU also issued guidelines on free trade agreements of the SAP-participant countries with EU candidate states or third countries.

**h) Contribute to faster accession of BiH to full membership of the WTO**

The liberal foreign trade regime will facilitate WTO accession.

In this context it is important to emphasize that the liberalization of trade cannot, by itself, result in accelerated economic growth and that, in parallel with liberalization, the implementation of structural reforms needs to be accelerated, especially in regards to the privatization of enterprises, the improvement of the business environment, as well as infrastructure etc.

The fact is that the free trade agreements concluded so far have not, in spite of being asymmetric<sup>12</sup>, yielded the expected results in view of the reduction of the trade deficit and that they have, to a higher extent, led to the redirection of imports, from imports from other, more developed countries, towards imports from, in most cases, the Republic of Croatia, Slovenia, Serbia and Montenegro (*trade diversion*), and, to a lesser extent, to the growth of Bosnian and Herzegovinian exports (*trade creation*), and, in line with this, to a faster pace of economic growth in BiH.

A large trade deficit is a threat to macroeconomic stability of the country and to retaining the currency board arrangement, as an instrument for the management of the monetary policy. Reasons for the weakening of export results should, primarily, be sought in the lack of competitiveness of Bosnian and Herzegovinian exports, which is the result of the slow pace of implementation of reforms and the best illustration for this is the fact that roughly 60 percent of the BiH economy is still state owned. On the other hand, the lack of an institutional framework for meeting the standards in connection with the "acquis communautaire", the lack of regulation in the domestic agricultural sector and fiscal restrictions related to increasing the level of support to agricultural production<sup>13</sup> are also important reasons for weak export related results.

It is a known fact that the free trade agreements with the Republic of Croatia and Serbia and Montenegro were meant to lose their asymmetric features as early as 2004. The loss of the asymmetric features in the case of these two countries, with which BiH carries trade deficits, is a cause for concern. The BiH Council of Ministers reached a decision in December of 2003 according to which the implementation of the zero level customs rates on a number of products from the Republic of Croatia and Serbia and Montenegro was prolonged by three months. In view of the state of competitiveness of domestic agricultural production, it is necessary to ensure that customs protection is retained for these types of products, by ensuring the following through bilateral discussions:

- Extension of customs protection for the group of agricultural products in which BiH has a special interest over the coming two years,
- Prolonging the application of standards related to the "acquis communautaire" for a year and the acceptance of Bosnian and Herzegovinian technical standards in view of quality and safety of products,
- Sign Veterinary Protocols with countries with which BiH signed free trade agreements

**3.2. Provide incentives for a higher level of harmonization of external trade policies for countries in the region (signatories to free trade agreements)**

An important dimension of the Stability Pact is the liberalization of external trade in the countries of the region. With that objective, a Working Group for Trade was formed, representing an important forum for the signatories to the Stability Pact.<sup>14</sup>

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<sup>12</sup> Such agreements on asymmetric establishment of free trade were concluded with Croatia, Slovenia, Yugoslavia, Macedonia, Turkey and Romania. BiH was given free and custom exempt access for all its goods to the markets on the aforementioned countries right away, while their goods have access to the BiH market only with gradual reduction of customs and other import duties.

<sup>13</sup> Which is a precondition for exporting to countries with which free trade agreements were concluded.

<sup>14</sup> Besides that initiative, there is also the SECI initiative with the same objective – liberalization of external trade.

In addition to trade liberalization within the member countries of the Stability Pact, it is of special importance to initiate the harmonization of external trade policies of all country – signatories to free trade agreements, with other trade partners, especially in the EU. It is also important for the signatories to free trade agreements to keep liberalizing their trade regimes towards the EU (decreasing the tariffs for industrial goods even further), in parallel with the full implementation of free trade agreements and the elimination of all non-customs barriers, as well as to maintain equalized policy in that regard. This would have a strong positive impact, as it would decrease the danger of the relocation of certain industrial branches from less developed countries of the region to more developed ones (as in the case of South-South trade integration), but it would also equalize the conditions for doing business with EU companies. In connection to this, it is necessary to initiate the signing of a regional free trade agreement within the Working Group for Trade of the Stability Pact, which would replace the existing, mutually harmonized bilateral agreements.<sup>15</sup> In this way, trade barriers, relating to the rules on the origin of goods, could be eliminated or reduced, which is one of major causes of the smaller scope of exports from BiH to the EU.

In the context of further management of external trade policy, it is necessary to ensure additional strengthening of the BiH Ministry of External Trade and Economic Relations of BiH.

### **3.3. Conclude agreements recognizing so-called diagonal accumulation**

The other way to reduce the adverse effect of the implementation of the rules on the origin of goods is accession to the Pan-European Agreement on Origin and Accumulation. The existing free trade agreements and rules on origin envisage bilateral accumulation only, which is a disincentive for linking different production processes, with the objective of exporting to the EU.<sup>16</sup> In this context, the recognition of the so-called diagonal accumulation within the signatory countries to free trade agreements and between all those countries and the EU would, without a doubt, improve the situation in this regard.<sup>17</sup>

### **3.4. Establish an adequate level of coordination in the implementation of state laws on external trade**

The BiH Indirect Taxation Board, which is in the phase of establishment, shall contribute to a higher level of coordination of external trade policies, as both the policy and administration for policy execution shall be concentrated in one area. It is necessary to ensure that the authorities at the BiH level start supervising the implementation of laws in the area of external trade and implement sanctions for failing to follow them. Solutions have to be sought in order to avoid differing interpretations and blockages in the implementation of state level laws in this area. In this regard, it is necessary to adjust terminological differences between the laws on external trade activities and customs policy. It is of special significance to adjust the implementation regulations in the area of customs policy with the European Standards and simplify procedures in internal processing systems for textile companies. These measures should also be implemented in the course of the transitional period, until the full functionality of the Indirect Taxation Administration in BiH is established.

In the area of external trade balance, there is a need to manage payment and balance statistics. In this context, it is necessary to strengthen the capacities of the Central Bank of BiH for monitoring sectoral and entity capital flows from BiH and into BiH, so that on the basis of those information measures could be proposed for the equalization of the payment balance.

The implementation of free trade agreements shall result in a decrease of customs revenues, which still represent a significant source of revenues for entity budgets. Therefore, in the context of the establishment of the BiH Indirect Taxation Administration, it shall be of special importance to improve the level of efficiency in the operations of the customs administration (to be formed at the state level), in order to ensure fiscal stability until the introduction of the VAT, which shall become the most important fiscal revenue source.

It is of special importance, in line with the recommendation of the EU Feasibility Study, to strengthen the Ministry of Foreign Affairs, for it to be prepared for activities it shall face in

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<sup>15</sup> In view of all the advantages, one of the possible solutions would be to establish a customs union of all countries in the region. However, that option implies serious political difficulties as all countries of the region are more focused on the integration in the EU market.

<sup>16</sup> Because the inputs of all countries signatories to free trade agreements are treated as imports.

<sup>17</sup> Because the inputs of all countries signatories to free trade agreements are treated as imports.

connection with the negotiations on the WTO membership, but also for the conclusion of the Stabilization and Accession Agreement (SAA).

The External Trade Chamber is a significant institution, and coordination in the preparation and realization of measures in this area with that institution should also be ensured.

### **3.5. Review the existing system of customs tariffs, especially for strategic branches of industry**

In the course of the preparation of the Mid Term Development Strategy of BiH (PRSP), studies were undertaken with the objective of defining the strategic branches of industry. On the basis of a number of studies, executed by the GTZ, USAID and inter-entity working groups, a conclusion was made that BiH has competitive advantages in metal processing, wood processing, the textile and leather industries, food processing and electricity production (see the chapter relating to sectoral priorities in the area of industry). Because of a direct influence on increasing productivity levels and, through this, increasing the level of competitiveness of production, the status of a strategic branch of industry should also be given to the new technologies (IT) sector.

Tourism should also be evaluated as an export directed activity, and it should be included in the ranks of industrial branches for which future fiscal and other exemptions should be ensured.

In line with this, it is necessary to invest efforts into the reduction of customs tariffs in the import of raw materials for all the above listed strategic industrial branches. It is also necessary to phase out customs duties on reproductive materials that are not produced in BiH. In order to define policy in this area, in as precise a way as possible, it is necessary to:

- continue activities initiated by the Mid Term Development Strategy of BiH (PRSP) in the definition of strategic industrial branches, as well as through the drafting and adoption of a study of industrial policies,
- strengthen statistical institutions in order to ascertain, in as precise a way as possible, the balance of demands for the import of reproductive materials, and in order for an analysis of options for their production in BiH to be prepared,
- adopt a new BiH Law on Customs Tariffs.<sup>18</sup>

Apart from this, it is also necessary to regulate the import of old equipment and machinery, through legislation. In view of the fact that the level of importance of customs, as a source of fiscal revenues, is going to decline (because of the signing of free trade agreements), it is necessary for domestic companies, just like foreign ones, to be exempt from paying customs duties on the import of machinery and equipment for production.<sup>19</sup>

With the objective of attracting new investments for certain types of economic activities, such as, for example, assembling cars, it is necessary to redefine the level of customs tariffs.

In parallel with these activities, it is necessary to define strategic branches of production in agriculture, in order for options to be opened for maintaining the existing level of protection, or even increasing it, through negotiations with the WTO, EU and bilateral partners, with which free trade agreements were signed. It is especially important for a so-called transition period to be ensured for this type of production, in the course of the coming negotiations with the WTO. The most significant reason behind this is the existence of fiscal restrictions for increasing the level of subsidies. Options for the introduction of the so-called seasonal customs rates should also be reviewed.

### **3.6. Strengthen the institutional framework for the utilization of trade exemptions, approved by the EU and the majority of developed countries for BiH**

As has already been underlined, BiH is not able to utilize the trade exemptions approved to it unilaterally by the majority of developed countries due to the lack of adequate institutional framework for the certification of goods in international trade. This is one of the reasons why the existing free trade agreements have failed to yield the expected results.

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<sup>18</sup> Upon a proposal of entity governments, the Council of Ministers of BiH adopted a conclusion in November of 2003 that a new BiH law on customs tariffs was to be drafted. A special commission was established with that objective, working on the propose text of the law.

<sup>19</sup> The existing Law on Foreign Direct Investments puts domestic companies in an unfavorable position, as foreign investors are exempt from paying customs duties on imports of equipment and machinery for production.

In line with the recommendations of the EU Feasibility Study, it is necessary for BiH to improve its capacities for ensuring the authenticity of certificates on origin. It is necessary to adopt a number of legislative regulations, with the objective of meeting the requirements pursuant to the "acquis communautaire", for the definition of technical requirements for products and conformity assessment, which would define new principles in the area of technical legislation, transferred from the EU, as well as the exact allocation of authority in the adoption of new regulations, by individual types of products. It is also necessary to adopt by-laws necessary for the implementation of the Law on Quality Control of Imported Goods and Goods for Exports, establish new institutions for standardization and accreditation, meeting the requirements of the WTO and the EU, and adopt a number of other legislative and regulative enactments, as well as establish new and strengthen the existing institutions.

In that context, special efforts must be put into the establishment of legislative and institutional frameworks for intellectual property protection, which is, at the moment, to a high extent unregulated.

It is of special importance to review the functioning of the so-called free trade zones, and prevent the practice of using those zones as "irregular" entry points to the BiH market, which can, potentially, undermine the preferential treatment granted by the EU.<sup>20</sup>

### ***3.7. Ensure BiH accession in the WTO as a full member***

The constitutional definition of freedom of movement of people, goods, services, and capital, which has been developed in the BiH laws on foreign trade policy, customs policy and policy on direct foreign investment should be the basis for negotiations on WTO accession. Joining the WTO will require adopting international standards on economic policies, institutions and the legal system. This will naturally be subject to negotiations, especially with respect to the duration of the transition period. BiH has submitted its responses to questions received from the WTO member states and the Secretariat. The first meeting of the Working Group was held in early November 2003 and the preparations for the second meeting are underway.

In the course of the negotiations on membership, it is necessary for BiH to utilize the advantages provided to smaller countries in transition in order to ensure a transitional period, as long as possible, for the adjustment of customs rates and legislation, on individual WTO agreements, and in line with the rules of that organization and obligations accepted. In this context, it is necessary to prepare an initial list of concessions for goods, according to individual customs tariff items and the List of Liabilities in services.

As the average customs rate in BiH is low (around 6 percent), and lower than the majority of WTO member countries, especially transition countries, potential demands for a more significant reduction of customs rates should not be accepted. However, this does not relate to the reduction of "zero to zero" customs rates from products in the product groups for which the bodies of the WTO have issued decisions. Finally, in view of the fact that customs rates for a certain group of products in BiH are significantly lower than other member countries of the WTO, it is necessary to request for their increase to be facilitated, up to the present level in other member countries.

### ***3.8. Simplify customs procedures and strengthen statistics in the area of external trade***

The introduction of the ASYCUDA system provides significant possibilities for the simplification of customs procedures, which should certainly be taken advantage of. It is especially necessary to simplify the customs procedure for the execution of commissioned (loan) activities, through the adoption of a special rulebook. With the same objective, it is necessary to reduce the number of customs offices and customs desks, as well as the number of border crossings for the trade of goods (currently there are 25). It will also be necessary to establish a database with the Ministry of External Trade and Economic Relations on external trade representative offices, link this unified with the entity authorities, strengthen border inspection, modernize border crossings, and strengthen the control over the operation of free trade zones.

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<sup>20</sup> "Commission Report to Council on BiH Readiness for Initiation of Negotiations on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18th 2003

In the context of EU recommendations<sup>21</sup>, it is necessary to find a model for the establishment of adequate border inspection services, which would encompass market, sanitary, veterinary, and agricultural and product safety inspections. It is also necessary to regulate and harmonize the operations of phyto-sanitary, veterinary and customs services on border crossings in compliance with the EU standards, and especially in regard to timing, location etc.

An important task is also to strengthen statistical institutions, as well as the Statistics Department with the Central Bank of BiH, in connection with data relating to external trade.

**3.9. *With the objective of reducing trade deficits, it is necessary to ensure an increased scope of protection of domestic agricultural production***

A higher level of protection of domestic agricultural production can ensure a reduction of the trade deficit, because of the fact that the food related products account for the majority of imports into BiH. Due to fiscal restrictions for ensuring a higher level of incentives for agricultural production, it is necessary to ensure the continuation of the asymmetric approach to the implementation of free trade agreements. It is also necessary to prepare a strategy for export substitution. Also, in the course of the negotiations on the accession of BiH to full fledged membership in the WTO, it is necessary to ensure favourable status for BiH in order to utilize exemptions. In the same context, it is necessary to tighten the procedures for the control of the origin of products, in order to prevent the import of products not covered by free trade agreements into our country. Finally, it is also necessary to implement the "Buy Domestic" campaign continuously.

**3.10. *Establish institutional framework for the protection of domestic consumers***

BiH is importing goods without checking their safety and without continuous control. Therefore it is necessary to create a policy of active customer protection in compliance with EU standards. In this context, it is necessary to establish independent and efficient administrative structures that will ensure the fulfillment of the basic requirements concerning health and safety (Competition Council of BiH, entity offices for competition and consumer protection). It is of special importance to adopt bylaws and establish an institutional framework for the implementation of the BiH Law on Consumer Protection.

**3.11. *Ensure reciprocal application of rules in external trade practices***

BiH imports goods without conducting quality and other standard types of controls. On the other hand, in addition to harsh competition, BiH exports are exposed to exasperatingly long and expensive procedures of securing entry permits for goods moved into the markets of BiH foreign trade partners. BiH exporters themselves are helpless in this matter and need the support of the state. Establishing a system of quality control for imported goods, and imposing reciprocity in trade practices with foreign partners would serve to stimulate domestic production and reduce trade deficit.

Together with the FTA-signatory countries, it is necessary to eliminate the so-called non-customs barriers. While in the case of Albania, Croatia and Macedonia, and all WTO members, there are no formal customs barriers. Serbia and Montenegro approve imports for certain types of goods. Contrary to Serbia, which requires import permits for a certain number of products from the area of metal processing industries, Montenegro has the most rigorous stance in the region and it requires import permits for a number of industrial branches.<sup>22</sup> Macedonia and Slovenia have tightened the procedure for verification of the origin of products, which has slowed down the export of goods from BiH to those countries. It is necessary for BiH to undertake similar steps.

**4. *Support to exports***

**4.1. *Recent trends***

In 2001, 2002 and the first eight months of this year, a growth in industrial and other production and exports was recorded, which was executed in parallel with a continuous reduction of the

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<sup>21</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU" (Feasibility Study), Brussels, November 18, 2003.

<sup>22</sup> Policies and Institutions in the Countries of SEE in the EU Stabilization and Association Process, Regional Report, March 28, 2003



number of those employed. The reduction in the number of those employed by 5,800 persons, or 1%, implies that productivity has increased, together with, most probably, all other qualitative parameters of BiH economy operations. Exports have grown, in comparison with last year, but imports are also showing constant growth and at a higher rate. A study executed by the World Bank, in cooperation with local experts, showed a trend toward increase in exports with privatised enterprises. According to this study, of the overall scope of production of privatised enterprises analysed, exports increased from around 32 percent in 2002 to 50 percent, mostly to markets of the former Yugoslavia.<sup>23</sup>

#### **4.2. Identified problems preventing the growth of exports**

##### **4.2.1. Slow private sector growth**

The slow process of privatisation and weak inflows of foreign investments, pillars of exports in the majority of transition countries, as well as the still unfavourable business environment, represent obstacles for the further growth of the private sector, in which the most significant results are expected in relation to exports. On the other hand, the low level of commitment to exports among the domestic companies is a cause for concern.<sup>24</sup>

##### **4.2.2. Lack of competitiveness of domestic production**

Around 60 percent of the BiH economy is still in state ownership, which is the cause of its lack of competitiveness. The lack of competitiveness of domestic production is mostly reflected in the lower level of productivity, more expensive labor force in comparison with the region, high tax burdens, high level of smuggling, inefficiency of courts, high transport costs, relatively expensive capital, and high costs of electricity and PTT services. This is confirmed by the Competitiveness Review Study of BiH, in global proportions, executed in 2001 and 2002, by local experts, mostly from the Economic Faculty in Sarajevo (MIT Center). Contrary to this, the trade deficit is even further aggravated by the constrained local production and its low quality. This fact, together with the significant level of local demand, determines the scope of imports.<sup>25</sup>

It is necessary for BiH to improve industrial competitiveness through improved corporate governance and increased availability of financing.<sup>26</sup>

##### **4.2.3. Lack of adequate institutions for exports to the EU**

On the level of the state, as well as on the entity level, institutions, which would satisfy the criteria of the "acquis communautaire", have not been developed.

These institutions should enable the certification of products that would be recognized both within the region and on the internal market of the EU. With this objective, it is necessary to ensure the adoption of an adequate legislation concerning the products, as well as a wider regulatory framework of institutions from the domain of quality provision infrastructure.

##### **4.2.4. Fiscal restrictions for increased incentives for agricultural production**

Regardless of the evident necessity of increased incentives for domestic agricultural production, this is not possible due to constrained budgetary resources.

#### **4.3. Priority activities**

##### **4.3.1. Prepare a comprehensive strategy for increasing the scope of exports, which would define the following, on the basis of efforts invested so far in the preparation of the Mid Term Development Strategy of BiH (PRSP):**

- the areas of production in which BiH has competitive advantages,
- the most favourable markets for goods and services from BiH,
- the institutional framework for the promotion of BiH exports,
- sources for support to exports.

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<sup>23</sup> Study of Performance and Conditions for Improvements from Privatization and Restructuring of Industrial Enterprises in BiH, World Bank BiH, Sarajevo, October 2002

<sup>24</sup> Presentation of Ante Domazet, Ph.D. on the «Strategic directions of external trade policy and support to exports» workshop, BiH External Trade Chamber, Sarajevo, December 3rd 2003

<sup>25</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU (Feasibility Study), Brussels, November 18, 2003.

<sup>26</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU (Feasibility Study), Brussels, November 18, 2003.

The preparation of the Strategy should be coordinated with the research continuously executed in this area by the External Trade Chamber.

#### **4.3.2. Accelerate reforms in order to increase the level of industrial production**

The main problem for BiH exports is the low level of production in general, and especially of production able to compete in external markets. Production capacities, which are in part devastated and in part outdated, cannot offer competitive products. All the segments of the pre-war economy are facing the loss of international markets, which changed in the meantime. The other problem is that a significant number of processing industrial capacities are based on imported raw materials. This does not enable them to utilize the preferential treatment in the most important export markets.

Insufficient commodity funds for external markets and weak competitiveness of BiH products are also the result of the unfavourable business environment (lack of a single economic space in BiH, unfair competition, slow courts, high costs and long registration procedures, corruption), the slow privatisation process, unfavourable conditions for financing and expensive banking services, relatively high tax burdens, high costs of public services (electricity, PTT services). A separate problem is posed by the relative lack of competitiveness of the labour force in BiH in comparison with the region.<sup>27</sup>

In order to achieve a higher growth rate of industrial production, it is necessary to ensure accelerated growth of the private sector, through the following:

- improvement of the business environment for domestic and foreign investments,
- finalization of the privatisation process, especially in relation to strategic enterprises which have to become the pillars of exports,<sup>28</sup>
- attracting more foreign investment which, aside from new technologies and new management systems, also brings the benefit of new markets.

#### **4.3.3. Implement reforms that will result in an increase of the competitiveness of BiH exports**

In order to increase the level of competitiveness of domestic production in the international market, it is necessary to implement reforms in a number of important areas:

- labor markets,
- indirect taxation,
- judiciary,
- strengthening capital markets,
- liberalization energy and PTT service markets,
- reduction of tax burdens.

In the same context, it is necessary to:

- introduce exemptions for investments in new technologies, as well as restrictions on the imports of outdated technologies;
- adopt regulations and bylaws for the Law on Customs Exemptions on Equipment Intended for Production.<sup>29</sup>

#### **4.3.4. Ensure incentives for export oriented enterprises**

Support for enterprises in the areas of strategic industries needs to be ensured through the following:

- establishment of an export crediting bank (which needs to be established through the transformation of the IGA)
- strengthening the existing Guarantee Fund<sup>30</sup> for export oriented enterprises,

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<sup>27</sup> The major element affecting poor competitiveness of the labor force in BiH in comparison with the region is lower productivity owing to relatively older labor force in the official sectors, and higher wage levels.

<sup>28</sup> Within the research used in the preparation of the PRSP, a number of industrial branches were identified that could be included in the ranks of strategic ones: metal processing industry, textiles and leather, wood processing, food production, electricity and new technologies.

<sup>29</sup> Foreign investors are exempt for paying customs duties under this law, and therefore adequate bylaws and regulations should be adopted for exempting the domestic private sector from paying customs duties.

<sup>30</sup> The Guarantee Fund was formed with the support of USAID in order to support export-oriented enterprises.

- establishment of a Fund for assisting export oriented enterprises in receiving CE and ISO standards.

- **IGA as an official BiH Export Credit Agency**

In order to establish a successful export credit agency, it is necessary to:

- **Create the legal framework for the functioning of the state export credit agency.** The adoption of the BiH Law on Establishing Conditions for Increasing Exports and on the BiH Export Credit Agency, would provide this Agency with clearly defined regulations for functioning, which would enable it to provide effective support to exporters and banks.
- **Transfer funds to the IGA balance account.** Through a decision of the Council of Ministers of BiH and with the World Bank's approval, transfer funds from two loans and three grants, from the accounts of the BiH State to the IGA account, this would represent a necessary increase in the balances of the IGA, which are at the moment insufficient for a proper export credit agency.
- **Financially strengthen the IGA.** Within one year from enacting the BiH Law on Securing Conditions for Increasing Exports and on the Export Credit Agency, it will be necessary to secure additional resources for strengthening the agency's financial situation. Giving medium-term loans to buyers of BiH exports will require significant financial resources, but it will enable BiH companies to enter quality contracts that they could fulfil technically, if only they would have adequate financial support that is equal to that of their competitors. IGA currently uses World Bank funds, as well as grants from some donor countries. This is not sufficient capital for a serious and comprehensive support to BiH exporters. IGA compensates for its lack of resources by securing contracts with private insurance companies such as Lloyd's, and with other European re-insurance houses. These contracts are still unfavorable for BiH because insurers and re-insurers often reject good business due to their own risk assessment. Thus, IGA cannot support solid export contracts, which would be in the interest of the state.
- **Adopt the BiH Law on Buyoff of Export-Related Claims (Factoring).** At this moment, the IGA provides factoring services. However, the lack of an adequate legislative framework constrains the capacities of the IGA and BiH banks to provide working capital for exporting enterprises in BiH in a more efficient way through the buyoff of export-related claims.<sup>31</sup>

#### **4.3.5. Create preconditions for the reduction of transport costs**

The revitalization of rail transport would contribute to the reduction of transport related costs for domestic exporters, in the same way that enabling the BiH economy to utilize the port of Ploče would. The construction of the 5C Corridor would also result in more efficient and less expensive transport for Bosnian and Herzegovinian goods.

Reciprocal elimination of transport permits for trucks and collection of road toll should be agreed with those countries with which BiH has concluded free trade agreements.

In addition, it is necessary to gain membership to the Association of Transporters with the External Trade Chamber and the IRU (International Road Transport Union), and to provide guarantees for acquiring TIR and ATA carnets, which would significantly facilitate our transporters in crossing borders. The introduction of the TIR system in BiH is ongoing within the External Trade Chamber of BiH, which needs support in those activities. However, regardless of the fact that BiH is not a signatory to the ATA Convention, legislation in BiH allows for the implementation of the ATA carnet. Therefore it is necessary to establish a mechanism for the utilization of the ATA carnet and enable the transporters from BiH to use this advantage too.

In line with the recommendations of the EU Feasibility Study, it is necessary to implement the already signed TIR. In connection to this, it is important to conclude a guarantee agreement between the External Trade Chamber of BiH and the BiH Customs Administrations, which is an important prerequisite for the accession of BiH to the TIR system. It is necessary to regulate the conditions for acquiring the right to provide international freight forwarding on the level of BiH in compliance with EU standards and simplify customs procedures in regards to exemptions from freight forwarding guarantees when transporting goods up to 48 hours. In view of the significant legislative variations in this area, it is necessary to adopt the Law on Transport on the level of BiH, which will be harmonized with the remaining legislative and regulatory enactments. With this objective, it is necessary to adopt bylaws for the implementation of the BiH Law on International and Inter-entity Road Transport, as well as the Decree on Road Toll. Because of the lack of these bylaws, only domestic transporters pay road toll, while the foreign transporters do not. This

<sup>31</sup> IFC, a part of the WB Group dealing with private sector support, is included in the preparation of the Law on Buyoff of External Claims, through its specialized agency for the region of South East Europe (SEED).

practice, through which the local legislators put local economic entities in an unfavorable position in comparison with foreign ones, needs to be corrected. Domestic transporters also pay road tolls in all other countries.

In the area of CEMT permits, it is necessary to ascertain clear criteria for their issuance on the BiH level and execute regular monitoring of the control of their usage.

It is especially important to achieve an agreement with those countries that are the main trading partners for the simplification of procedures for awarding visas to businessmen.

#### **4.3.6. Standardize laws and institutional framework for exports**

*"To meet the conditions of the Stabilization and Association Agreement (SAA), BiH should gradually harmonize its laws with the EU technical regulations and the EU practices in standardization, metrology, accreditation and conformity."<sup>32</sup> Only firms which, on their own initiative, went through a long, complicated, and expensive procedure of harmonizing their production with the EU regulations can export into the EU. Products of animal origin and agricultural products which meet the requirements of international veterinary and sanitation regulations still cannot be exported, until all the EU requirements have been met, which requires the establishment of the legal framework and the necessary institutions at the level of BiH. "BiH needs laboratories and certification bodies which may verify that the agricultural goods conform to the EU acquis in this area."<sup>33</sup>*

In addition to being a barrier for meeting quality requirements, the non-existence of adequate regulatory and institutional framework results in poor utilization of a number of privileges arising from the concluded bilateral free trade agreements and other unilateral preferential treatments granted to BiH by the EU<sup>34</sup> and most developed world countries.

In view of all this, it is necessary to:

- adjust all future laws and regulations with the requirements of the "EU acquis communautaire" (old and new approach),
- provide incentives for the development of infrastructure in the area of standards, certificates and quality, in compliance with the EU rules,
- provide incentives for the usage of technical regulations and procedures for conformity assessment, compatible with the rules and procedures of the EU,
- encourage the participation of BiH in the work of various European and international organizations,
- initiate procedures that would result in the conclusion of agreements with the European Commission and the European Economic Area (EEA) on conformity assessment and product acceptance,<sup>35</sup>
- harmonize all adopted laws with the "EU acquis communautaire" (old and new approach).
- establish a quality control and monitoring system for the BiH market, in compliance with the requirements of the EU market and the WTO agreements on technical barriers to trade (TBT), sanitary and phyto sanitary supervision (SPS).<sup>36</sup>

The highest level of priority in this area should be the establishment of a relevant body on the level of the state of BiH for the preparation of technical legislation in regard to the free flow of goods within the EU market.

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<sup>32</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU (Feasibility Study), Brussels, November 18, 2003.

<sup>33</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU (Feasibility Study), Brussels, November 18, 2003.

<sup>34</sup> To be able to use all types of preferential treatment, it is necessary to satisfy Regulations on origins of goods, which can done either through Form EUR.1, or Form A. In addition to satisfying this requirement, BiH products must satisfy in quality, which should be standard (according to EU). Achieving EU standards and other quality certifications represents the biggest problem for BiH exporters and it is the reason why they cannot make use of preferential treatment in practice; meaning they rarely achieve allowed quotas.

<sup>35</sup> The Report of the EC to the Council on the Preparations of BiH to Start Negotiations the on Stabilization and Accession Agreement with the EU (Feasibility Study), Brussels, November 18, 2003.

<sup>36</sup> Croatia, Albania, Macedonia and, lately, even Serbia and Montenegro have made significant steps towards the fulfillment of important standards in compliance with the requirements of the EU market. In the sector of pisciculture, alone, Albania has 24 locations for fish production certified by the EU, while BiH has none. Of all the countries in the region with which BiH has signed free trade agreements, BiH is the only one with not even one location for production certified by the EU.

In view of the existing situation, and in compliance with the aforementioned, it is necessary, through bilateral discussions with signatory-countries of free trade agreements to ensure our exporters a delay in the implementation of standards on the basis of the "acquis communautaire", to one year. In the course of this period, country-signatories of free trade agreements would accept the technical standards of our country, which would be regulated through special protocols. In this context, it is especially important to conclude an Agreement on Veterinary Medicine with the Republic of Croatia, which has represented an obstacle for the export of Bosnian and Herzegovinian products of animal origin to that country so far.

#### **4.3.7. Organize export promotion**

Current activities on Bosnian and Herzegovinian export promotion are insufficient, as well as fragmented from the institutional point of view. Within the BiH Ministry of External Trade and Economic Relation there is a Department of Exports. There is also a BiH Foreign Trade Chamber, while the BiH Ministry of Foreign Affairs is developing special activities in regards to so-called economic diplomacy, which should be active in the promotion of Bosnian and Herzegovinian exports. Finally, the IGA is functioning on the level of BiH, providing support to exports, and it should develop into a state export-crediting bank.

The promotion of exports in the conditions of BiH should be focused on the following:

- Ensuring information on favourable markets for the export of goods and services from BiH and organizing public campaigns, in order to get the local enterprises acquainted with that information,
- Providing consultant services in regards to the analysis of certain markets, production of goods and provision of services for exports (such as, for example, in connection with designs etc.), organizing marketing for presentations on interested foreign markets,
- Acquainting local managers with regulations on the fulfilment of standards and procedures for exports to interested markets, organizing training for marketing presentations on those markets, as well as training for export financing, ensuring guarantees, establishing joint ventures etc.,
- In cooperation with the BiH Ministry of Foreign Affairs, it is necessary to simplify the procedure for acquiring business visas for businessmen in BiH,
- Within the diplomatic and consulatory network, it is necessary to strengthen the economic departments of embassies on those markets assessed as especially interesting for BiH.

From the institutional point of view, activities on export promotion should be located in the BiH Ministry of External Trade and Economic Relations.<sup>37</sup>

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<sup>37</sup> Within the BiH Council of Ministers there are views that export promotion might be entrusted to FIPA.

### **III.7. PUBLIC ADMINISTRATION REFORM**

#### **1. Goal**

- 1.1. *Establish functioning system of public administration at all levels***
- 1.2. *Establish a civil service modelled after the EU practices***

#### **2. Situation**

In the "Public Administration Reforms" document of March 2003, the government in BiH recognized the fact that public administration fails to meet the needs and expectations of citizens. A study done by the UNDP demonstrated that only 23 percent of citizens hold a favorable opinion about the work of the public administration, 52 percent is dissatisfied with its work, and 25 percent are undecided.<sup>1</sup> The administration is slow and non-transparent, and the multi-layered system, encompassing the state, entity, cantonal and municipal bureaucracies often acts from opposing positions. Employees are insufficiently qualified and lack the skills required for working in public administration, while the system has never been standardized. These weaknesses are the inheritance of the past. The principles of professionalism and nonpolitical stance in the work of the civil service are only slowly taking hold. A clear legal framework which would define the system of accountability within the civil service is not yet in place.<sup>2</sup>

BiH is facing acceleration of implementation of important reforms and a huge effort related to preparations for the EU accession. The success of this effort will depend on the pace of implementation of the public administration reform. On the other hand, the need for fiscal consolidation of the budgets of all levels of government in BiH make the reorganization of public services urgent. Within the administration, the number of employees (at 4.5-5% of the population) is within the average for Central and Eastern European countries<sup>3</sup>, but the salaries in the public administration are higher than in the rest of the economy<sup>4</sup>, and far exceed the average for transition countries.

The adoption of the civil service laws at the level of the state, entities and the Brčko District represents a major progress in the process of establishment of the public administration system. While the implementation of these laws has begun in the RS and at the state level, in the FBiH, where 70 percent of all civil servants in BiH are employed<sup>5</sup>, the implementation of this key law is only to begin. It is important to note that the RS initiated the process of civil service reform as early as 1997. The legal framework was put in place, and the board of directors and operational bodies for the preparation of the reform project had been set up. In 2000, the RS Government verified the reform program, and the Action Plan for Civil Service Reform (2003-2006) was adopted in May 2003.

#### **2.1. *Inter-Ministerial Working Group for Public administration Reform***

In conformity with the decisions of the Peace Implementation Council (PIC),<sup>6</sup> which supported the ongoing public administration reform activities in BiH and adopted the 'Public Administration Reform' document, the Inter-Ministerial Working Group for the Public Administration Reform was established,<sup>7</sup> to oversee and coordinate these activities, with the special mission to work out a detailed strategy of public administration reform in all of BiH by the Fall of 2004, and to adopt the action plan for its implementation.

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<sup>1</sup> Survey on the Work of Public Administration at All Levels of Government in BiH, UNDP and CSSC program, April 2003, p. 24.

<sup>2</sup> Report of the European Commission to the Council on the Preparations of BiH to Start Stabilization and Accession Negotiations (Feasibility Study), Brussels, November 18, 2003, p. 7-8.

<sup>3</sup> Research conducted by ESI (European Stability Initiative), BiH Public Expenditure and Explosive Debt, 2003.

<sup>4</sup> Research conducted by ESI (October 2003).

<sup>5</sup> BiH: From aid dependence to fiscal sustainability (draft), World Bank, p. 39.

<sup>6</sup> PIC meeting on 28 March in Brussels.

<sup>7</sup> At the meeting in Brčko, 15 April 2003. The working group was composed of the BiH Minister of Justice, RS Minister of Governance and Local Governance, FBiH Minister of Justice, Mayor of Brčko, heads of civil service agencies of BiH and RS, and it is planned that the head of the future FBiH Civil Service Agency will also be a member. The auditing institutions of BiH and entities, DEI, PRSP Coordinator, and the international organizations involved in public administration reform projects. It is envisaged that, other domestic and international agencies may be included in these working groups as needed. The Office of the Public Administration Reform Coordinator, attached to the BiH Justice Ministry and financed by the EU, has the task of coordinating the activities on the preparation of the strategy.

The main goal is to create solid, efficient, reliable and transparent public administration in all of BiH, with a qualified and professional civil service at all levels. The strategy for meeting this goal should be devised jointly by all levels of government in BiH, after a comprehensive public debate and analysis of the country's needs in this area. It is particularly significant that citizens, businesspeople and civil society representatives are consulted. The reforms that are underway should be accelerated, and the prepared plans should be incorporated into the public administration reform strategy which should be ready in the Fall of 2004.<sup>8</sup>

### **3. Priority activities**

#### **3.1. Conduct a functional review at all levels of government**

The public administration reform in BiH is particularly complex and demanding, because available information on the present state of the administration is incomplete and unreliable. To plan and monitor the implementation of reforms successfully, a functional review should be conducted at all levels of government, in order to determine the present situation, define sectors and types of needed reforms.

#### **3.2. Adopt the Public Administration Reform Strategy and implement its action plan**

This strategy should be developed along the lines set by the 'Public Administration Reform – Our Program' Document, adopted by the BiH Council of Ministers and entity governments at the meeting of the PIC Steering Board (in Brussels, March 28, 2003), which set the following priorities:

- establish a more efficient and better organized public administration,
- ensure conditions for spending tax revenues in an economical and transparent fashion,
- establish a professional civil service, composed on the basis of the principle of equal representation,
- ensure functioning of the public administration in accordance with the best practices of the EU,
- ensure that public services are of high quality and adapted to the needs of citizens.

#### **3.3. Continue the current activities on implementation of the civil service laws**

In this context, it is crucial to **continue with the activities of verification of civil servants** at all levels. Urgent **establishment of the Control Agency for Civil Service** is vital for the achievement of this goal.

#### **3.4. Continue current activities on reforming the defense and interior affairs sectors**

After several years of efforts on reducing defense expenditure in BiH and on aligning the defense structures with the budgetary capacity of the country, the manpower levels of the armed forces in BiH were reduced to around 19,500 professional military personnel in late 2002. The adoption of the BiH Defense Law was an important step towards further reform in this sector. The institutions in both entities and the BiH State realize that further reduction of troop strength is inevitable in 2003-2004. Since all modalities of the armed forces reforms have not yet been determined, it is extremely hard to provide exact numbers, but a rough assessment is that further 8,000 servicemen would need to be demobilized from the BiH armed forces

Rationalization will be necessary in the interior affairs sector (law enforcement and public security) as well. The trend that dismissed servicemen found employment in the interior affairs services has been noticed. However, in view of the continued sensitive political situation, marked intensity of criminal activities in the country and the region, and insecurity of returnees, the rationalization in this sector should proceed very carefully. Establishment of the SIPA (state-level intelligence agency) is a major step in further reform of this sector

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<sup>8</sup> The 'Public Administration Reform – Our Program', the PIC Steering Board, Brussels, March 28, 2003..

### **3.5. Reinforce administrative capacity of BiH for European integrations**

To meet the requirements that BiH will face in the European integration process, it is evidently necessary to expand existing administrative capacities. The level of understanding of the integration processes is still low, and particularly of the requirements arising from the Stability and Association Agreement (SAA). The SAA will require a more effective coordination between a large number of ministries. This role was given to the newly-established Directorate of European Integrations (DEI), which, although not yet fully developed, coordinated the preparation of the BiH responses to the questionnaire from the Feasibility Study exceptionally well. The Statutes of DEI were adopted in September 2003, and these should allow reassignment of staff and employment of new civil servants, which should enable the Directorate to strengthen its capacities for strategic analysis, legal harmonization and aid coordination. The DEI must speedily formulate a comprehensive integration policy, agree it with competent ministries and, through adoption of the European Integration Strategy, ensure a coherent national approach. Bringing the DEI to full functionality is an urgent task.<sup>9</sup>

In the context of inclusion of BiH into the European integration processes, it is necessary to develop public administration that will be capable of implementing the *Acquis communautaire*. The existing administrative capacities in the country are considerably weaker than necessary for a country negotiating EU membership. For this reason, creation of a stable, efficient, professional and independent public administration must be seen as both a major challenge and a great chance for acceleration of the Europeization process in this country.<sup>10</sup>

Additional EU membership criteria, agreed at the Meeting of the European Council in Madrid, require the candidate country to establish the precondition for integration through adaptation of its administrative capacities. Although it is important that the entire BiH legislation is aligned with the European system, its efficient implementation, through appropriate administrative and judicial structures in BiH, is even more important.

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<sup>9</sup> Report of the European Commission to the Council on the Preparations of BiH to Start Stabilization and Accession Negotiations (Feasibility Study), Brussels, November 18, 2003, p. 8.

<sup>10</sup> Report of the European Commission to the Council on the Preparations of BiH to Start Stabilization and Accession Negotiations (Feasibility Study), Brussels, November 18, 2003, p. 7.



### **III.8. STRATEGIC DIRECTIONS IN THE DEVELOPMENT OF THE STATISTICAL SYSTEM<sup>1</sup>**

#### **1. Goals:**

##### **1.1. *Harmonization of the BiH statistical system with international standards***

#### **2. Situation**

The shortage of statistical capacity and reliable data creates difficulties for precise assessment of the economic situation in the country. The statistical system in BiH is not harmonized with international standards, including those applied in the EU.

'BiH needs to build a statistical system capable of timely provision of reliable, objective and correct data, required for planning and monitoring of the transition and reform processes.'<sup>2</sup>

The issue of the BiH statistical system was for the first time defined by the Decision on the Establishment of the BiH Statistics Agency, adopted by the BiH Council of Ministers in late 1998, and subsequently by the BiH Law on Statistics, promulgated by the High Representative on October 21, 2002.

Despite all efforts, the legislation with the Brčko District is still not harmonized, nor are the statistical methodologies between competent institutions in BiH which are as follows: the BiH Statistics Agency (with its branch office in Brčko), the FBiH Statistics Bureau and the RS Statistics Bureau.

An effective and sustainable statistical system is indispensable for economic planning and monitoring of the macroeconomic situation. The SAA treats these matters within the framework of the Cooperation Policies.

#### **3. Priority activities**

##### **3.1. *Implement the existing legal framework***

According to the assessment of the EU Feasibility Study, implementation of the existing legal framework for the statistical system in BiH is a crucial precondition for the initiation of the Stability and Association Agreement. Therefore it is necessary 'to fully implement'<sup>3</sup> the legal framework promulgated by the High Representative, to strengthen the system of statistics in BiH. The implementation of this law should ensure that the BiH Statistics Agency and the competent entity statistics bureaus provide necessary statistical data for the BiH level and the entity level, which are at present 'poor (or non-existent) and which prevent creation of a development policy, as well as regular trade relations'.<sup>4</sup>

In this context, the BiH Parliament should pass the BiH Law on Statistics. For implementation of this law, the Manager and the Deputy Manager of the BiH Statistics Agency and the Council of the BiH Statistics Agency, as well as prepare the BiH Statistical Program, which should be harmonized at all levels. This document should also specify the funding necessary for its implementation.

In the preparation of future statistics programs, the requirements from the General Data Dissemination System should receive special attention, in conformity with international standards.

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<sup>1</sup> The statistical system includes the system at the level of BiH, FBiH and RS

<sup>2</sup> Report of the European Commission to the Council on Preparations of BiH to Start Negotiations with the EU on the Stabilization and Association Agreement, Brussels, November 18, 2003.

<sup>3</sup> Report of the European Commission to the Council on Preparations of BiH to Start Negotiations with the EU on the Stabilization and Association Agreement, Brussels, November 18, 2003

<sup>4</sup> Report of the European Commission to the Council on Preparations of BiH to Start Negotiations with the EU on the Stabilization and Association Agreement, Brussels, November 18, 2003

### **3.2. Strengthen the statistics of the national accounts**

National accounts, as per international methodologies of the System of National Accounts 1993 (SNA 93) and the European System of Accounts 1995 (ESA 95) have a pivotal place in the modern statistics. The systems of national accounts play an integrative role in the entire statistical system and represent the methodological framework for the entire statistics and, among other things, include the estimates of the informal economy, which is crucial for the statistical system in BiH.

### **3.3. Increase sample-based surveys**

Sample-based surveys have a crucial role in the statistical system, because they represent a rich source of data for a large number of statistical indicators. The preparations for the Household Budget Survey are in the final stage and it should take place in 2004, with results available in 2005. The Labor Market Survey is planned for a later period. This would provide reliable data for monitoring of social trends, preparation of the national accounts (personal consumption), weighting and indices of consumer prices, poverty indicators etc.

It is of particular importance that the Household Budget Survey, which should subsequently take place periodically, adapts its methodology in order to acquire the most detailed possible data about the poverty rate in BiH.

Economic indicators for lower levels of territorial integrations should be defined by 2005.

### **3.4. Strengthen the price statistics**

The price statistics envisages replacement of the existing retail price index with the consumer price index, which, in line with the EU recommendations, should be counted in 2005, at the level of BiH and of the entities. The consumer price index will represent the official inflation measure for BiH. For international comparison purposes, indices of investment goods prices, export and import prices will be prepared annually. In 2004 it will be necessary to harmonize the producer price indices with the EU methodology.

### **3.5. Strengthen agricultural statistics**

Those agricultural enterprises and agricultural cooperatives that are currently included in the statistics, comprise only a small share of the agricultural production in BiH, while for individual farms there are only estimates. Therefore, new statistical activities in the plant and livestock production, sample-based and in conformity with international standards should be introduced by 2007, instead of the existing estimates, both for BiH and for its constituting entities. Establishment of the farm register is indispensable for introduction of such activities, requiring a series of activities related to the census in the agricultural sector, for which the preconditions should be in place in 2005.

### **3.6. Strengthen the wage and employment statistics**

According to the EU definitions, by 2006 a new employment index and a new labor force indicator should be introduced, which will be facilitated by the Labor Market Survey for BiH and for the level of its constituting entities.

### **3.7. Strengthen the statistics of other short-term economic indicators**

By end-2004, an aggregate index of the industrial production at the level of BiH should be prepared, and harmonization of the index of industrial production completed between FBiH, RS and the Brčko District.

Demographic statistics should remain a corner stone of the statistics system. Usefulness of the vital statistics data is limited by the lack of population data. Bosnia and Herzegovina is one of the rare countries where a census is not taken in regular 10 year cycles, and for this reason it has not been possible to determine spatial, demographic, economic and educational characteristics of the population, characteristics of households and families, and neither the characteristics of housing and other elements.

In 2004 the political decision on the timing of the census should be made, to allow for the timely start of the preparations.

### **3.8. Strengthen foreign trade statistics**

Together with the customs administration, it is necessary to define a harmonized structure of a data set, which will be submitted to the BiH Statistics Agency and entity agencies. The activities on harmonization of the structure and the format of the BiH foreign trade statistics, in line with the EUROSTAT recommendations, should also continue.

### **3.9. Establish statistical registers**

For implementation of modern methods of data collection, processing and analysis, over the next medium term the following statistical registers should be established: statistical register of businesses, register of households and farm register. These registers must be in conformity with the EU Ordinance on Registers for Statistical Needs and with the EUROSTAT Methodology for Maintaining Registers.

### **3.10. Harmonize statistical classifications with the international classifications**

With the purpose of producing comparable statistics, uniform statistical definitions should be used, and continuous harmonization of classifications in use should be conducted, with the attention to priorities.,

### **3.11. Define the format of publication of statistical data**

During 2004 the format should be defined and competences determined for dissemination of data to various users. The basic principle is that the BiH Statistics Agency and entity bureaus are responsible for their dissemination.

### **3.12. Conduct a regular training of statisticians**

Although certain improvements in the training of statisticians were made, such training should continue, but adapted in such a way as to be of a more practical character in implementation of the methodologies and the sample, of standards and of information technology.

### **3.13. Strengthen coordination with other institutions**

The BiH Central Bank, in line with its competences, developed statistical capacities which, at present, are not a part of the entire BiH system of statistics. Therefore the legal conditions should be created to incorporate statistical capacities of the BiH Central Bank and other institutions (finance ministries, tax administrations, the State Border Service (DGS) etc.) into the BiH system of statistics.

## **4. Required resources**

Through the end-2004, a detailed plan of human and material resources for implementation of priority and other statistical activities should be prepared, in line with the capacities of BiH, FBiH and RS.

#### **IV. THE MAJOR RISKS AND PRECONDITIONS FOR SUCCESSFUL IMPLEMENTATION OF THE MEDIUM-TERM DEVELOPMENT STRATEGY (PRSP)**

##### **1. Governments' determination to accelerate reforms**

In the post-war period, the governments in BiH failed to implement the reforms speedily. The implementation of the BiH Medium-Term Development Strategy (PRSP) will require a greater determination of the governments in:

- a) preservation of the achieved political agreement on implementation of reforms;
- b) successful coordination in implementation of the proposed reforms;
- c) strengthening competence and capacities of all levels of administration for implementation of the reforms.

##### **2. Efficiency of parliaments at all levels**

In the previous period, sluggishness in the implementation of reforms was also a result of inadequate efficiency in the work of the parliaments. The BiH Medium-Term Development Strategy (PRSP) envisages adoption and/or amending of a large number of laws and by-laws. To complete these tasks within the given timeframe will require increased efficiency in the work of the parliaments at all levels.

##### **3. Maintaining social peace and political stability**

The process of acceleration of reforms will cause a short-term increase in unemployment, which might threaten social peace. In the near term, preservation of the social peace will depend on the governments' ability to:

- a) implement a social program to mitigate negative consequences of increasing unemployment; and
- b) achieve a consensus on implementation of major reforms, through a dialogue with all segments of the civil society.

In parallel, the political stability of the country will need to be preserved, which will require further progress in the reduction of political tensions.

##### **4. Stability in the country and the region, as well as a recovery of the world economy**

In view of declining international aid, in the coming period BiH will have to rely on foreign investment as the most important source of financing future development. In this context, in addition to the acceleration of reforms and strengthening of the political stability of the country, the rate of recovery of the world economy and the increase of investment globally will be major factors. BiH should retain interest in active participation in all regional initiatives, to support strengthening the regional stability.

##### **5. Decline of the interest of the international community for BiH**

A major precondition for a successful realization of the BiH Medium-Term Development Strategy (PRSP) is securing of additional assistance in the form of concessional credits and grants, to a lower extent than previously. The focus of the international community on other regions, or a failure of the government to convince the international community to continue extending aid to BiH may pose a serious difficulty to the implementation of PRSP goals.

#### **IV.1. IMPLEMENTATION, MONITORING AND EVALUATION MECHANISM OF THE BiH MEDIUM-TERM DEVELOPMENT STRATEGY - PRSP**

The EU accession will remain high priority for BiH in the coming years. This process requires the governments in BiH to develop the capacities for strategic planning, as well as an effective mechanism for policy implementation and monitoring. The process of preparation of the BiH Medium-Term Development Strategy (PRSP) helped the governments to strengthen their capacity in the area of strategic planning. There is still, however, need and scope for strengthening this segment.

On the basis of the work invested in the preparation of the EC Feasibility Study and the BiH Medium-Term Development Strategy (PRSP), the BiH Council of Ministers, together with the entity governments, on 29 July, 2003 adopted the Action Plan for Implementation of Priority Reforms, which introduced an initial monitoring mechanism for implementation of strategic documents, However, as in the case of strategic planning, the monitoring and evaluation capacities need further strengthening.

During the preparation of the PRSP, both on the technical and ministerial level there were consultations on the most suitable mechanism for implementation, monitoring and evaluation of this strategic document. In this context, the Council of Ministers, together with the entity governments, decided to establish, within the framework of the implementation of the Action Plan for Implementation of Priority Reforms, the Office for Coordination of Economic Research and Monitoring of the Implementation of the BiH Medium-Term Development Strategy (PRSP), which will function as a part of the Office of the Chairman of the BiH Council of Ministers.

The main tasks of this Office are as follows:

- to coordinate future socio-economic research related to economic development and European integrations,
- to monitor implementation of the action plans which will guide implementation of the PRSP and other strategic documents.

In view of the high priority of all governments related to the integration of BiH to the EU, the Office will closely cooperate with the Directorate for European Integrations. All important activities concerning the EU integration have already been integrated into the PRSP.

The offices of the entity prime ministers will be strengthened to improve coordination in the implementation of the PRSP, as well as the entity finance ministries, for the continuation of the activities on revision of the medium-term expenditure frameworks and on linking of PRSP priorities with the budget cycle. The FBiH Government will, use the framework of the established coordination with the cantonal governments for the implementation of the PRSP priorities. Finally, further strengthening of the coordination between the PRSP implementation teams and the units in charge of preparation of the public investment program will be necessary.

The implementation of the PRSP will retain the same elements utilized in its preparation. The strategic decisions will be made within the framework of the Coordination Board of Economic Development and EU integrations, which is chaired by the Chairman of the BiH Council of Ministers and consist of entity prime ministers, finance ministers at the state and entity level, Deputy Chairman of the Council of Ministers for Economic Matters, Minister of Foreign Trade and Economic Relations and the Head of the Directorate of European Integrations. On the technical level the work will be carried out by the working groups that were established during the preparation of the PRSP, and which consist of representatives of the state and entity governments.

Civil society will have an important role in the implementation of the PRSP. The Office for Coordination of Economic Research and Monitoring of the Implementation of the BiH Medium-Term Development Strategy (the Office) will lead the process of consultations and of involvement of the NGOs and other organizations, as well as of scholars and scientists, trade union, youth and private sector representatives, in the preparation of further strategic documents and in the implementation of the PRSP. As in the preparation stage of the PRSP, NGOs will continue to participate in the work of the PRSP implementation working groups. The funding for supporting NGOs in the implementation of specific PRSP-related projects is already planned in the budget of the Office.

The Office will inform the public about the course and results of the implementation of the PRSP, through regular reporting on the status of implementation of its action plans and the success rate in

meeting the PRSP targets. BiH Council of Ministers will send reports on implementation of the PRSP every six months to the BiH Parliament.

To verify whether the set targets are being achieved, an established set of indicators should be followed over the next medium term. In September 2000, the adoption of the Millennium Declaration by 189 UN member states pointed to the crucial goals of humanity at the outset of the new millennium, as well as to concrete measures to assess progress in meeting these goals. In the case of BiH, UNDP is working on the National Human Development Report (NHDR) and the Millennium Development Goals Report (MDGR). Preparation of the BiH Medium-Term Development Strategy (PRSP) and of the UNDP's NHDR and MDGR took place at the same time and in cooperation. With the assistance of UNDP, PRSP was able to incorporate the millennium development goals and indicators, adapted to BiH, into the PRSP monitoring mechanism. The BiH Development Strategy (PRSP), is defined as the medium-term strategy (2004-2007), while the MDGs are a long-term strategy (through 2015), and therefore these two strategies are complementary.

To ensure systematic monitoring of the PRSP indicators, additional strengthening of the capacity of statistics bureaus is planned, as well as partnering with NGOs and international institutions. One of the instruments envisaged to be useful for monitoring of the implementation of the BiH Medium-Term Strategy (PRSP) is the Panel Survey 'Living in BiH'<sup>1</sup>. It must be emphasized that the use of this survey will not be at the expense of the results of other surveys and estimates.

A portion of the data connected by the Panel Survey relates to the BiH Medium-Term Development Strategy (PRSP), and the questionnaire used may be adapted further, in order to ensure monitoring of even more indicators. The Panel Survey 'Living in BiH' in its third- and fourth-wave questionnaire does not include the module for monitoring the poverty rate. To obtain these data, crucial for the implementation of the PRSP, additional funding is needed, so that the panel survey questionnaire can serve to collect poverty rate information for BiH. If this is not the case, there is a risk that for 2004 – 2005 period BiH will have no poverty rate indicators, as the results of the household budget survey, in view of the different methodology compared with LSMS, will not be known before the end-2005.

During the coming period, the Household Budget Survey and the Labor Market Survey are planned, and these surveys should contribute to monitoring of the targets of the BiH Medium-Term Development Strategy (PRSP). It is worthy of note that some NGOs (ICVA) already developed projects for monitoring of the PRSP implementation, which are an integral part of the overall monitoring and evaluation mechanism of the PRSP strategy.

It is important to stress that an undeveloped system of statistics of BiH, and in this context the lack of the data reliability, will represent a particular problem for monitoring and evaluation of the PRSP, and accordingly for the Millennium Development Goals. It is known that the last census, taken before the war (1991), can not serve as a reliable statistical basis for conclusions on conditions and trends in the post-war period. Further strengthening of the institutional framework for strategic planning within governments, and for implementation of the development policies, necessarily entails concurrent strengthening of the statistics for the entire country.

### **PRSP and MDG implementation indicators**

#### **Indicators for monitoring of MDG accomplishments and PRSP objectives**

<b>Indicators</b>	<b>Data sources for BiH</b>	<b>Assessments for BiH (2000/2001)</b>	<b>Projections for 2007</b>
<b>OBJECTIVE I: Eliminate extreme poverty and famine</b>			
Percentage of population below poverty line <sup>2</sup>	LSMS <sup>3</sup>	19.1% (general)	16%
Poverty gap	LSMS	4.6%	
Participation of the poorest fifth in domestic consumption	LSMS	9.6 %	
Prevention of under-nourished children up to age of 5	UN Statistics Division, UNICEF	4%	

<sup>1</sup> The project is funded by DFID, and implemented by BSAL/IBHI (implementation in three waves covers 2002-2006 period).

<sup>2</sup> Using General Poverty Line for BiH.

<sup>3</sup> Living Standards Measurement Survey for BiH.

Gini Coefficient	IHR MRC Report	0.26	0.27
Share of income of the richest fifth of population	LSMS	35.8%	
Unemployment rate	LSMS WB Poverty Assessment 2003 Official Statistics	16.4% 28.1% 41%	13.5% 22% 30%
Participation of informal sector in total employment rate	LSMS	36.2%	
<b>OBJECTIVE II: Achieve universal inclusion in primary education</b>			
Net rate of enrollment in primary school	BiH NHDR 2002 WB BiH Poverty Assessment 2003 BiH from dependence on aid to fiscal self sustainability, ECSPE, 2002 LSMS	97% 95% 92.8% 98.9%	99%
Percentage of 5 <sup>th</sup> grade students of those enrolled in 1 <sup>st</sup> grade	BH Common Country Study Development Indicators, Final Draft, 2002	99.0% 97.9% (m) /98.2% (f)	99%
Literacy rate over age of 15	BH Common Country Study Development Indicators, Final Draft, 2002	99.6% 99.6% (m) 99.7% (f)	99%
<b>Additional indicators for BiH</b>			
Secondary school enrollment rate	BiH NHDR 2002, estimate BiH from dependence on aid to fiscal self sustainability, ECSPE, 2002 LSMS	56.8% 72.6% 68.3%	75%
Higher education enrollment rate	BiH NHDR 2002, estimate BiH from dependence on aid to fiscal self sustainability, ECSPE, 2002 LSMS	19.8% 24.2% 23.0%	25%
Percentage of children included in pre-school education	WB BH Poverty Assessment, 2003 BiH from dependence on aid to fiscal self sustainability, ECSPE, 2002	4.3%	12%
Percentage of GDP for education	BiH from dependence on aid to fiscal self sustainability, ECSPE, 2002	6.0%	5.6% (FBiH) 4.5% (RS)
Literacy rate of population over age of 15	BiH NHDR 2002, estimate LSMS	85.9% 88.9%	90%
<b>OBJECTIVE III: Improve gender situation and social position of women</b>			
Ratio between boys and girls in primary, secondary and higher education	BiH NHDR 2002, estimate  LSMS	98:96 - primary 56.3:57.5 - secondary 18.4:21.3 - higher 98.5:99.2 - primary 67.2:69.2 - secondary 16.9:20.6 - higher	98.8:99.5 - primary 73:76 - secondary 20:26 - higher
Participation of women in paid employment in non-agricultural sector	FBiH ZS <sup>4</sup> , RZS RS <sup>5</sup> , as of March 2001, calculation of IHR MRC report	39.2%	40%
Percentage of women MPs in BiH Parliament	CEDAW, Art. 7 – participation of women in political and public life	14.3%	16%

<sup>4</sup> FBiH Statistics Bureau.

<sup>5</sup> RS Statistics Bureau.

<b>Additional indicators for BiH</b>			
Rate of registered women unemployment	FBiH ZS, RZS RS, as of March 2001, calculation IHR MRC report	45%	44%
Women employment rate (participation of employed women in female population)	BiH NHDR 2002, estimate	11.9 %	13%
Rate of economically active female population (participation of women in total employment)	BiH NHDR 2002, estimate	37.2%	38%
Participation of women in executive authorities	CEDAW <sup>6</sup> , art. 7 – participation of women in political and public life	2.38%	4%
Literacy ratio of men and women over age of 15	LSMS	94.1%	96.8%
<b>OBJECTIVE IV: Reduce children mortality</b>			
Children mortality below the age of 5 (per thousand)	UN Statistics Division, UNICEF, WHO ZZJZ FBiH <sup>7</sup> , Fund ZZ RS <sup>8</sup> , FBiH ZS <sup>9</sup> BH Common Country Study Development Indicators, Final Draft, 2002	18 (19m/15f) 13 (2000), 10.3 (2001) 11.2(2000) 9.61(f)/12.69(m)	9.3
Infant mortality rate below age of 1 (per thousand)	UN Statistics Division, WDI 2002 ZZJZ FBiH, Fund ZZ RS, ZSFBiH ASBiH <sup>10</sup> , bulletin 2/2003	13-15 11.2 (2000), 8.5 (2001) 9.7 (2000), 7.6 (2001) 8.51(f)/10.78(m)	7.0
Percent of children below age of 1 vaccinated against variola	UN Statistics Division, UNICEF, ZZJZ FBiH, Fund ZZ RS, FBiH ZS	83% 80.74%–95.06%	98%
<b>Additional indicators for BiH</b>			
Percentage of new-born children weighing 2.500 grams or less	ZZJZ FBiH, Fund ZZ RS, FBiH ZS	4%	3%
Percentage of breast-fed infants up to age of 6 months	ZZJZ FBiH, Fond ZZ RS, FBiH ZS	2.1%	5%
<b>OBJECTIVE V: Improve health of women in childbed</b>			
Mortality rate of women in childbirth (per 100,000 babies)	UN Statistics Division BH Common Country Study Development Indicators, Final Draft, 2002	5.05 estimate	4
Percentage of deliveries with expert assistance	UN Statistics Division ZZJZ FBiH, Fond ZZ RS, FBiH ZS BH Common Country Study Development Indicators, Final Draft, 2002	100% 99% 99.6%	100%
<b>Additional indicators for BiH</b>			
Fertility rate (total number of babies per woman)	ASBiH Bulletin 3/2003	1.3 (2000) 1.4(2001)	1.5
Birth rate (per thousand)	ASBiH Bulletin 3/2003	10.5 (2000) 9.9 (2001)	11.5
Mortality rate (per thousand)	ASBiH Bulletin 3/2003	7.8	7.1

<sup>6</sup> Convention on Elimination of All Forms of Discrimination Against Women.

<sup>7</sup> FBiH Public Health Protection Institute.

<sup>8</sup> RS Health Care Fund

<sup>9</sup> FBiH Statistics Bureau.

<sup>10</sup> BiH Statistics Agency.



Natural growth rate (per thousand)	ASBiH Bulletin 3/2003	2.4 (2000) 1.9 (2001)	3.7
Life expectancy	BiH NHDR, 2002 WDI 2002	73.3 (1995-2000) 73 (76(f)/71(m))	73.5
<b>OBJECTIVE VI: Fighting HIV/AIDS and other contagious diseases</b>			
Percentage using contraception	WHO BH Common Country Study Development Indicators, Final Draft, 2002	49 % (2001) 47.5% (2000)	55%
Number of children infected with HIV/AIDS	ZZJZ FBiH, Fond ZZ RS, FBiH ZS	N / A	*
Number of adults infected with AIDS, number of new cases	WDI 2002 HDR 2001	51 3	
Case and deaths of tuberculosis (per 100,000)	WHO	4 deaths 50 cases	0 30
TBC cases discovered and treated under DOTS (per 100,000)	WHO	90	N/A
<b>Additional indicators for BiH</b>			
Percentage of GDP spent on health	BiH BiH from dependence on aid to fiscal self sustainability, ECSPE, 2002 IHR MRC report	7.3%(2000) 5.5 (2000) 4.8 (2001)	6.7% (FBiH) 5.9% (RS)
Percentage of population with health insurance	ZZJZ FBiH and ZZZ RS <sup>11</sup>	78% (2001)	85%
Number of doctors per 1000 people	ZZJZ FBiH and ZZZ RS	1.3 (2000) 1.5 (2001)	1.5
Number of hospital beds per 1000 people	ZZJZ FBiH and ZZZ RS	3.7 (2000) 3.2 (2001)	3.2
<b>VII OBJECTIVE: Ensure environment sustainability</b>			
Percentage of forested land	WDI 2002, WRI IHR MRC report	44.6% 55.6%	52%
Percentage of land protected for maintaining of biodiversity	WDI 2002, WRI	0.5%	1.5%
GDP per unit of consumed energy (economic efficiency indicator)	Based on WDI 2002, calculated for IHR MRC report	47.5	40
Carbon dioxide emission /pc (1,000 kg)	IHR MRC report	3.2	3.5
Percentage of population connected to water supply system	IHR MRC report	53%	58%
Percentage of population with available hygiene/percentage of households with sanitation	IHR MRC report	33%	36%
Percentage of population with private property	WB Poverty Assessment 2003 Calculated by IHR MRC team	Approx. 71%	75%
<b>Additional indicators for BiH</b>			
Consumption of el. power/pc (kwh/pc)	WDI 2002	540	1050
Percentage of cleared mine fields	IHR MRC Report	5%	20%
<b>OBJECTIVE VIII: Develop global partnership for development</b>			
Percentage of population who can obtain medicines on regular basis	IHR MRC Report	50% (2000)	60%
Phone lines per 1000 inhabitants	WDI 2002, WTDR 2001 Transition Report 2003, EBRD	103 (2000) 111 (2001)	150
Personal computers per 1000	Global project Science policy in	30	40

<sup>11</sup> RS Health Care Institute.

inhabitants	FBiH, ANUBiH, 2002.		
Total public debt (foreign and domestic) of country/GDP, in%	Ministry of Finance and Treasury	67 (2003)	51%
Country debt per capita	Ministry of Finance and Treasury, calculation in IHR MRC report	789 \$ (2000) 687 \$ (2001)	
<b>Additional indicators for BiH</b>			
Public expenditures as part of GDP	Ministry of finance and treasury BiH	47%	Around 43%
Number of Internet users per 100 inhabitants	UN Statistics Division	4.61 (2000) 1.11 (2001)	4.0
Expenditures on research and development % GDP	Global project: Science policy in FbiH, ANUBiH, 2002.	0.05 (2000)	0.4
Number of published scientific papers in relevant journals per 100,000 inhabitants	Global project: Science policy in FbiH, ANUBiH, 2002.	0.61 (2000)	4.8
GDP	Council of Ministers BiH	12,1 billion KM	16 billion KM

## **V.1. SECTOR PRIORITIES – SOCIAL AND PENSION POLICY**

### **1. The policy goals of the governments of FBiH and RS are:**

- 1.1. create a modern legislative framework, which would promote human and social rights, in accordance with the undertaken international standards,**
- 1.2. create institutional and budget mechanisms for development of social policies, which would identify strategic goals in social sector,**
- 1.3. define the minimum of social rights at the level of BiH,**
- 1.4. create effective measures of social security and secure financial programs that would reach the poorest ones, and involvement the local community,**
- 1.5. preserve the minimum standards of the most vulnerable ones, in the context of fiscal restrictions and establishment of FBiH,**
- 1.6. ensure transparent horizontal and vertical coordination between the governmental and non-governmental sectors for providing assistance to the most vulnerable,**
- 1.7. reallocate the public revenues and total gross domestic product to benefit the poor.**

### **2. Introduction**

Development strategies of modern states are based on the capacities for political, economic and social development. When planning its own future, Bosnia and Herzegovina needs to start with economic and social development and, in its founding documents, it has to strive for the rule of law and for the welfare of its citizens. The implementation of the Poverty Reduction Strategy (PRSP) addressing social policy issues in BiH will be very important, as it is the first time in our country that so many groups are being systematically consulted in the preparation of a comprehensive development strategy for the country. In addition, within the framework of the EU integration processes, it is important for BiH to adapt its social protection systems to the new economic situation and new social needs.<sup>1</sup>

In drafting a development strategy for social welfare in FBiH and RS, which includes social protection, protection of families with children, protection of civilian victims of war, employment, pension and disability insurance, displaced persons, veterans' and invalids' protection, it is necessary to start from basic human rights, as a set of principles, standards and norms, the objective of which is to ensure decent living conditions for dignified and comprehensive development of individuals.

Bosnia and Herzegovina and, especially, the Federation of Bosnia and Herzegovina, spends less on social welfare of the indigenous population than any other country in the region, which is difficult to justify for a country with such a level of social needs. For example, according to the data of the World Bank, the share of gross domestic product (GDP) allocated on social and child protection in 2000-2002 was 1.1 percent in Slovenia, 1.6% in Macedonia, 1.9% in Croatia, 1.4% in Bulgaria, 2.4% in Latvia, 2.1% in Estonia. In Bosnia and Herzegovina, in the Republic of Srpska, allocations for social and child protection in 2000 amounted to 1.1 percent of GDP, and, in the Federation of Bosnia and Herzegovina, just 0.7 percent of GDP.<sup>2</sup>

Comprehensive reforms are needed in social policy, as well as an increase in expenditure on social protection (in absolute terms and as a share of GDP) up to the levels closer to regional averages. Neither of the entities finances nor supports social protection benefits from the entity budget, which is unsustainable.

From the aspect of European integrations, it will be necessary to maintain the balance between the economic and social dimensions. Therefore, the area of social policy, according to the White Paper<sup>3</sup>, covers many areas, such as freedom of movement of labor, coordination of social security programs,

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<sup>1</sup> „European Commission Report to the Council on BiH readiness to start the negotiations with the EU on stabilization and accession», Brussels, November 2003, p. 34.

<sup>2</sup> This refers to social assistance to classical social cases and excludes transfers for veterans and disabled.

<sup>3</sup> The White Paper is the main document for creation of preconditions for working operation on the EU internal market. It provides guidelines to administrative and judiciary bodies of the countries who wish to approximate the European standards, with the long term goal being the integration in the EU structures.

ensuring equality between men and women, and adjustment of certain provisions of the labor law. The Stability and Association Agreement (SAA) treats those issues through its Cooperation Policies.

### **3. Pension and disability insurance**

#### **3.1. Present status**

According to the data of the Federal Statistical Institute, as of November 2003, 286,039 pensions were paid, while the average pension amounted to 199.39 KM, or 36.0% of an average wage in FBiH (528.19 KM)<sup>4</sup> as of November 2003. In December 2003, the PIO RS Fund paid the pensions to 183,167 pensioners, in the average amount of 162 KM<sup>5</sup>.

A very important measure for stabilization of the situation in the pension system was the decision made by the High Representative in 2000, according to which the pensions are paid in proportion to the amount of the pension contributions collected, without any delays and arrears in the pension system. In November 2003, improvements at the level of collection of contributions for pension insurance brought about a significant increase in pensions in RS.

##### **3.1.1. Legislative and institutional framework**

According to Annex 4 of the Dayton Peace Accord, which represents the Constitution of BiH, the system of pension and disability insurance is under the authority of entities. That means that each of the entities has its own separate legal regulations in the area of pension and disability insurance. The new Law on Ministries of BiH foresees a certain role of the state level, which will require some more precise definition in future.

The Law on Pension and Disability Insurance, which took effect on July 30<sup>th</sup> 1998, is based on principles of reciprocity, solidarity between generations and obligatory pension and disability insurance. Citizens who do not have mandatory insurance can execute the entitlements from the area of pension and disability insurance only through voluntary insurance. According to this Law, certain entitlements of social character are no longer being executed (protective addition, pecuniary compensation for other person's assistance and care and pecuniary compensation for bodily damage). According to the Law on Contributions, the rate of contributions for pension and disability insurance amounts to 17 percent levied on the insured person and 7 percent levied on the employer, i.e. a total of 24 percent of net wages. The new FBiH Labor Law was passed in 2000.

In the RS, the Law on Pension and Disability Insurance establishes mandatory pension and disability insurance and determines the rights and responsibilities based on that insurance, as well as the options for persons who are not covered by mandatory insurance to get voluntary insurance. This Law, adopted on October 1<sup>st</sup> 2000, carried out the most important changes in the system of pension and disability insurance, i.e. eliminated the right to pecuniary compensation for bodily damage and pecuniary compensation for assistance and care of another person, made the conditions for acquiring the right to old age pension more strict, and stipulated that the determination of the pension base is executed in accordance with the average wage of the insured person.

In FBiH, in line with the Law on Organization of Pension and Disability Insurance, the Federal Institute for Pension and Disability Insurance started functioning on January 1<sup>st</sup> 2002, as the single institution responsible for pension and disability insurance. With the beginning of the operations of this Institute the pension and disability institutes in Sarajevo and Mostar ceased to function.

To provide for execution of rights to pension and disability insurance, as well as of ascertained needs and interests in this field of insurance, the RS Pension and Disability Fund was established. The Fund has branch offices at regional and local levels, and, at the level of the Fund, a specialized administration was established.

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<sup>4</sup> Statistical data on economic and other trends, the Federation Institute for Statistics, January 1, 2004.

<sup>5</sup> Fond PIO RS, January 2004.

In accordance with the new Law on the BiH Council of Ministers, the Ministry of Civil Affairs has certain jurisdiction with respect to coordination of the entity pension funds, as well as in resolving pension-related issues at the international level.

In cooperation with the World Bank, the preparations have started for the reform of pension system through the Social Insurance Technical Assistance Project (SITAP<sup>6</sup>). The purpose of this project is to strengthen the effectiveness and efficiency of the health care and pension insurance system through provision of technical assistance and training in implementation of the planned reforms and development of options for future reforms of social insurance. In the area of pension insurance, the SITAP will help to: develop options and instruments for expanded coverage and transferability of insurance rights, identify and implement the mechanisms for consolidation of collection of social insurance premiums, improve reporting, control and collection of contributions and consider the medium-term reforms of pension policy. In addition, the Project will support the competent ministries to build capacities in defining the strategic goals, business and financial planning and effective implementation of the adopted reforms, and it will assist in strengthening the IT capacities in the institutions to ensure harmonization of the data systems, provision of IT support, and training in good management practices in the fields of communication and information technologies.

### **3.2. Problems**

The marked discrepancy between expenses and revenues is the basic cause of difficulties in the functioning of pension insurance, of delays and reductions of pensions, which, for the majority of pensioners increases the risk of falling into the category of the poor. In comparison with 1991, when the ratio of pensioners and employees was 1:3 in BiH, by the end of 1995 that ratio decreased to 1:1.3, and, after that, in the part served by the Social Pension and Disability Fund Sarajevo) it climbed to about 1:1.4<sup>7</sup>. There are significant variations in the level of pensions, which are additionally increasing the exposure of individual groups of pensioners to the risk of falling into poverty.

In RS, there are more pensioners than insured persons – the ratio is 1:1.08. Because of that, even the extremely high contributions do not enable the payment of average pensions which would be above 30 percent of average income per inhabitant. The level of pensions in the RS is by one third lower than in FBiH, and the ratio between pensions and wages is 1:2. Regardless of that, the pension system in the RS is functioning only because of significant transfers from the entity budget, and it is still in a difficult position. In the early 2003, only pension payment coefficient of under 0.6 was achieved, so, due to poor collection of revenues, the pensions actually paid are only 60 percents of the level of pensioners' entitlements.<sup>8</sup>

### **3.3. Priorities in the area of pension insurance**

In choosing the priorities and setting the modalities of their realization, the working groups took care of the size and the speed of the improved inflow of resources into the pension and disability funds and the facilitation of their operations, with the objective of ensuring regular payment of pensions. The focus is on activities which will ensure or improve the implementation of already existing regulations and which will eliminate deviations in the functioning of the system, which were incurred in the course of the war and later, as a consequence of political disputes and the weakness of the system. The priorities for strengthening the pension and disability insurance funds are as follows:

#### **3.3.1 Improve the financial position of the PIO funds to ensure stability of payment of pensions:**

- ensure regular and full payment of contributions for all employees in BiH on actually received wages, through strengthening inspections to regularize payment of contributions and increase penalties for work in the informal economy,
- ensure regular payment of contributions for all employees, and the inclusion of BiH citizens who are employed with foreign or international organizations and institutions, as well as in consular or diplomatic representative offices, into the system
- repay debts owed to pensioners,

<sup>6</sup> Social Insurance Technical Assistance Project.

<sup>7</sup> Social Insurance Technical Assistance Project (SITAP), Report No. 25672, World Bank, May 12 2003, p. 5.

<sup>8</sup> SITAP, p. 6.

- collect pension and disability insurance contribution arrears from previous years,
- set pension levels on the basis of the average wage throughout the working age,
- separate outlays for pensions arising from contribution payments from pensions received on the basis of privileges and benefits, as well as all payments not preceded by insurance payments,
- rationalize the administration of the PIO funds, to lower the operational costs,
- resolve property related issues – in connection with the real estate belonging to the pension and disability insurance funds,
- strengthen the capabilities of the personnel and capacities of the funds, particularly for computer processing and exchange of data, both within and between the entities.

### ***3.3.2. Improve the relations in the pension system and lay groundwork for its reform***

- resolve disputes between entity pension and disability insurance funds in connection with the payment of pensions earned in one entity to beneficiaries now living somewhere else. The possible options are signing a new agreement between the entity funds, or adopting a state level law which would regulate this area, which would:
  - define the responsibilities of BiH for implementation of international agreements in the field of pension and disability insurance,
  - ensure the minimum of social security for pensioners in BiH, and
  - ensure the harmonization of regulations in this field.
- consider the possibility of establishment of the single state-level pension and disability insurance fund,
- initiate pension reform simultaneously in both entities,
- within the reform of the pension system, offer the insured persons additional or supplemental models of pension insurance which would include the option of insured persons retaining the right to manage those resources.

### ***3.3.3. Strengthen the capital market in the country***

A functional capital market, characterized by liquidity, is a very important precondition for reform of the existing pension system. However, the capital market in BiH is fragmented, which is an important reason for its lack of liquidity. This primarily applies to the stock exchanges, that have mostly been used, and still are, in implementation of the privatization process. In order for the pension system reform to provide better results, measures must be taken to strengthen the capital markets (see the Financial Sector section).

These priorities do not require significant resources of pension and disability insurance funds, except when it comes to the rationalization of administration, where it might be necessary to pay severance payments to former employees. The novelty compared to the previous period is the determination of both entity pension and disability insurance funds to harmonize their activities, which requires adoption of new laws and regulations or amendments to the existing ones. Depending on the adopted level of connection of entity pension and disability systems, the resources necessary for the equalization of pension levels in both entities can amount to over 150 million KM annually (for equalizing the level of pensions in RS with the level achieved in FBiH).

Most proposed measures aim for the stabilization of the financial situation of the pension and disability insurance system, which would improve the regularity of pensions and the social status of pensioners. The issue of improving connections and cooperation of entity pension and disability funds will require a political decision to be made at the highest level, for which the most favorable alternatives should be presented. The resolution of this issue will reflect on the formulation of the reform of the pension system in BiH. This reform should radically resolve the difficulties inherent to the existing system, in which the current employees are financing the pensions of current pensioners (pay as you go system), which creates distrust in the system and encourages the avoidance of the payment of contributions. In keeping with the expected capacities of BiH society in the coming period, it is envisaged that the reforms will take the form of introduction of additional types of voluntary pension savings funds.

## **4. Protection of the disabled and family members of the killed**

### **4.1. Present status**

According to the provisions of the three existing laws in the Federation of BiH, which define the basic rights of military invalids and families of killed soldiers, the right to personal and family disability benefit is acquired by the total of 97,746 beneficiaries. There are 45,377 military invalids of war and 52,419 family members of killed and missing soldiers<sup>9</sup>. The funds required for personal and family disability benefits for those beneficiaries exceed 23 million KM per month. The data includes the beneficiaries of veterans' and invalids' protection who acquired these rights before the 1992-1995 war, i.e. on the basis of the participation in the 1941-1945 war of national defense.

The fact that in FBiH, in practice, there are still two separate legal frameworks, which regulate the area of veterans' and invalids' protection in different ways, points to the necessity of adopting a unified Federal law on the rights of veterans and family members of killed soldiers, as soon as possible, which would provide adequate protection of the members of these categories of populations, especially the most vulnerable ones, under the same conditions and in the same way, throughout the FBiH.

According to the proposed new law, the rights to benefits of military disabled and families of killed soldiers need to be within the framework of realistic funding capacity of FBiH, and will be paid from the FBiH Budget, in keeping with the position of the IMF Mission for BiH. The provisions of the new law, it is expected, would not recognize the right to exceptional support payments.

According to the proposals contained in the new law, the burden of funding veterans' and invalids' protection in the FBiH will be distributed, depending on the jurisdiction, between the Federal, cantonal and municipal budgets. Only the basic rights, i.e. the disability benefits (personal and family), would be financed from the FBiH Budget, while the additional rights would be financed from the cantonal budget (health care, professional rehabilitation, unemployment support, education, scholarships, exemptions from paying certain taxes, customs exemptions etc.).

According to the data available to the RS line ministry, the rights on the basis of veterans' and invalids' protection in that entity are executed by 40,659 persons with recognized status of military invalids, classified in 10 categories, from 20 percent to 100 percent disability. The number of family members of killed soldiers and deceased military invalids, who are executing their rights on the basis of veterans' and invalids' protection, amounts to 41,994. Family disability benefit, acquired on the basis of family member - killed soldier is used by 25,190 persons, of which the family benefit on the basis of a family member - deceased military invalid is used by 2,633 beneficiaries and 633 co-beneficiaries. The number of beneficiaries of civilian personal disability benefit is 2,293. The number of beneficiaries of family civilian disability benefit is 1,949.

Because of the inability to ensure resources for veterans' and invalids' protection over the amount envisaged by the RS budget, the Government of RS issued the Decree on Determination of Priorities in Payments Arising from the Law on Rights of Veterans, Military Invalids and Families of Killed Soldiers. In compliance with this Decree, in 2001, resources were secured for funding the following rights:

- For military invalids: personal disability benefit, allowance for care and assistance, orthopedic allowance, contribution for health insurance and subsidy for expenses for the purchase of orthopedic aids and for the costs of health care,
- For family members of killed of missing soldiers - family disability benefit, family disability benefit supplement, family disability benefit complement, contributions for health insurance, subsidy for the costs of health care, while the subsidy for the cost for erecting gravestones for killed soldiers were paid subject to availability of funds.

#### **4.1.1. Legislative and institutional framework**

There are two legal frameworks from the domain of veterans' and invalids' protection in FBiH: one is for the members of the FBiH Army and the other is for the members of HVO. For the members of the FBiH Army, this area is regulated by the following legal regulations:

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<sup>9</sup> Information of the Federal Ministry of Veterans' Issues, April 2003.

- The Law on Basic Rights of Military Invalids and Families of Killed Soldiers, which is as a law of the SFRY, taken over and implemented as a Republic level law ("Official Gazette of the RBiH", no. 2/92 and 13/94);
- The Law on Extraordinary Material Security of Military Invalids of War and Families of Killed Soldiers ("Official Gazette of RBiH", no. 33/95, 37/95 and 17/96);

There is a separate system of veterans' and invalids' protection functioning for the members of HVO, which is based on the Law on Protection of Military Invalids and Families of Killed and Missing Defenders.

In the RS, the forms and the scope of rights of veterans, military invalids and family members of killed soldiers, as well as the conditions and the procedure for realization of these rights are stipulated by the Law on Rights of Veterans, Military Invalids and Families of Killed Soldiers.

In compliance with the existing regulations of FBiH, the right to personal and family disability benefit is, in the first instance, resolved by authorized municipality services. In the process of revision and in the process of deciding on appeals filed in regards to the first instance decisions, the Federal Ministry of Veterans' and Invalids' Issues decides in the second-instance. The Federal Ministry also decides on the rights to extraordinary personal and family material benefit, in the first instance.

Cantonal ministries, i.e. administrations for veterans' issues, adopt regulations on additional rights of veterans' population members and, in the second instance, decide upon appeals filed on the first instance decisions of authorized municipal services, made on the basis of cantonal regulations. Cantonal ministries for veterans' issues and the municipal services for administration are not organizationally subordinate to the Federal Ministry of Veterans' and Invalids' Issues, but to the authorized cantonal and municipal bodies on the higher level, so that their organizations, rights, responsibilities and authorities are stipulated by cantonal and municipal regulations. The Federal Ministry has inherencies over the administrative and fiscal supervision over the implementation and application of Federal regulations from the area of veterans' and invalids' protection in authorized municipal services.

In compliance with the existing regulations in RS, arising from the Law on Right of Veterans, Military Invalids and Families of Killed Soldiers and the Law on Protection of Civilian Victims of War, the first instance decisions are made by municipal administrative bodies. The decisions made in the first instance determine the level of military disability, the right to personal disability benefit, family disability benefit, increased disability benefit and the increase of family benefit, addition for care and assistance, orthopedic addition, health protection and the status of a veteran and the classification into the relevant category are subject to revision, which is conducted by the Ministry for Veterans' Issues, Victims of War and Labor.

#### **4.2. Problems**

The difficulties faced by the entities of BiH in ensuring veterans' and invalids' protection are, primarily, the result of the inability of entity budgets to ensure sufficient resources for the large number of beneficiaries of rights in this area. Despite the revisions executed earlier, the division of the system (especially in FBiH) and the lack of updated databases on the beneficiaries of these rights, make the determination of the existing situation and the planning of adequate reforms more difficult. Extraordinary sensitivity of entity governments to the protests of the beneficiaries of these rights has made the implementation of the reform of the system of veterans' protection more difficult. In fact, the reform in this area implies a more equitable distribution of resources, focused on providing adequate protection to the categories of the most disabled military invalids and the most vulnerable families of killed soldiers. The activities on reforming the system of protection of war veterans and families of killed soldiers are under way, and the RS Government has in the recent period made significant progress in preparation of this reform.

#### **4.3. Priorities in the area of protection of disabled veterans**

##### **4.3.1. Rationalize the system of protection of disabled veterans and families of killed and missing soldiers:**

- Adopt a unified Law on Veterans' Rights in FBiH, which requires the assistance of the international community. This law should ensure the establishment of a unified system of



protection of the rights of invalids, veterans and families of soldiers in FBiH, taking into account the realistic level of resources available for those purposes.

- Establish functional information systems for veterans' and invalids' protection in RS and in FBiH.
- Conduct a revision of the beneficiaries.
- Rationalize the number and forms of benefits.
- Significantly improve functioning and the effectiveness of the social security network for the members of the disabled veterans' population, to ensure that the funds allocated for those purposes are better targeted to the most vulnerable categories most in need of assistance.
- Assist in solving housing issues of the veterans' population.

#### **4.3.2. Develop instruments to encourage and assist in employment of disabled veterans, veterans and family members of killed and missing soldiers:**

- Develop and implement training programs for providing skills for easier employment for the disabled veterans and family members of killed and disabled soldiers.
- Improve the level of physical and psychological capacity of invalids through specialized centers for rehabilitation.
- Earmark funds for co-financing generation of new jobs for military disabled, as it is the best method of their labor related rehabilitation,
- Earmark funds for adaptation of work areas and procurement of special technical equipment, needed for employment of people with more severe disabilities.

Limited capacities of entity budgets imply the necessity of a gradual reduction of allocations for veterans' and invalids' protection. The entity governments are committed to preventing that this reduction worsens the living conditions of the most vulnerable categories of this population. The number of beneficiaries of veterans' and invalids' protection will be reduced through the planned review, and the beneficiaries with remaining work capacity will be assisted in securing adequate employment, through the re-training and other forms of assistance in employment.

## **5. Social protection**

Social protection aims to ensure social welfare of citizens in the state of social need and of their families. The term "social need" implies a permanent or a temporary situation in which citizens or families can find themselves in, which is caused by the events of war, by elements, by the general economic crisis, by the psychological or physical condition of individuals or by other causes, which cannot be eliminated without the assistance of the social community.

### **5.1. Situation**

In compliance with the existing laws in FBiH and RS, the beneficiaries of social protection are persons in the state of social need, specifically:

- Children without parental care, or who are neglected by their parents
- Children whose development was disturbed by family circumstances,
- Persons with disabilities either physical or psychological,
- Materially uninsured persons incapable of labor,
- Elderly persons without family care,
- Persons with socially negative behaviors,
- Persons and families who need social protection because of a set of special circumstances.

Social protection, as an increasingly important function and form of social policy in the conditions of transition, operates in the conditions of limited resources and criteria inherited from the socialist system. Many cantons and municipalities are unable to provide the necessary level of social protection. The growing needs for social protection in the population and the inability of the existing system to meet those needs result in an increase of the number of unprovided for and vulnerable persons, together with the drop in the quality of services provided by institutions for social work.

The total number of social protection beneficiaries in FBiH in 2002 was 96,961, of whom 84,157 adults and 12,794 children. These figures indicate a decline compared to 2001, when the number of social

protection beneficiaries was 153,396, 140,465 adults and 12,841 children.<sup>10</sup> This change is partly explained by the continued process of return, which has removed a significant number of people from the records of the social work centers. The number should also include persons who are able to work, but who are under the care of the employment bureaus.

The data from the centers for social work and services of social and child protection in the RS indicate that, in 2002, 138,266 adult and 5,990 underage citizens had the right to social protection. The socially vulnerable population seeking assistance from these institutions, also include refugees and displaced persons, as well as 23,252 citizens entitled to subsidies.

Debts which have accrued between the entities, for beneficiaries from RS who are situated in the institutions of social protection in FBiH, and vice versa, are an additional burden on the functioning of social protection. After the mediation of OHR, the Agreement on Mutual Compensation of Costs between RS and FBiH was signed. However, this problem is still not resolved in a satisfying way.

The FBiH Law on Distribution of Public Revenues and Financing defines the distribution of public revenues between FBiH and the cantons. A significant part of revenues was given to cantons. Through their own regulations, cantons are determining the type and the level of revenues they are giving to municipalities. This is the main source of funding for social protection.

#### **5.1.1. Legal and institutional framework**

In 1999, the Parliament of FBiH adopted the Law on Basic Social Protection, Protection of Civilian Victims of War and Protection of Families with Children (codified regulation). With the adoption of this Law, transition processes in the social sector were initiated, as the legal framework for the beginning of the reform was created. The final objective of the reform in this sector is to ensure social care and assistance to all who are in the state of social need, in the most economic and most humane way.

The Federal Law on Basic Social Protection, Protection of Civilian Victims of War and Protection of Families with Children contained the provision which obligated the cantons to adopt their own laws on social protection within three months. Unfortunately, the adoption of cantonal laws was delayed, so that, by now, eight cantons have adopted their regulations, while in the remaining cantons the parliamentary procedure is still ongoing.

The basic legal act regulating this area in RS is the Law on Social Protection, adopted in April 1993, and amended in July 1996. This Law contains concepts inherited from the pre-war period, such as, for example, "social security and material provisions" which imply a higher level of social protection than the one possible in the current conditions.

In FBiH, the immediate provision of social and child protection is managed by 10 cantonal ministries for labor, social policy, refugees and displaced persons, through the operations of 79 local services (54 centers for social work and 25 services from the provision of activities from the area of social and child protection and two cantonal centers for social work, in Sarajevo and Bosnian Podrinje cantons). The institutions in charge of social protection in RS are the RS Government and the local community. The RS is responsible for regulating and defining relations, rights, responsibilities, authorities and contents of social protection. The local community is the framework for meeting the majority of personal and joint needs of citizens, including social protection. Municipalities are the framework in which one can have influence on the prevention and the elimination of various social problems, and it is the decision maker in the execution and improvement of social protection.

#### **5.1.2. Institutionalized care**

Prema podacima iz 2002. godine u FBiH u 25 ustanova socijalne zaštite bilo je zbrinuto 3.169 korisnika. U kraćem razdoblju u FBiH osnovano je 11 centara za dnevno zbrinjavanje lica sa mentalnom retardacijom.

Besides the centers for social work, there are 10 institutions in the RS, which, as a priority, provide care for elderly and for children, i.e. for persons with special needs. On average, 1,600 persons from the population of elderly people and children are located there, as their needs could not be met in any other way.

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<sup>10</sup> Federalno ministarstvo rada i socijalne zaštite, Ministarstvo zdravstva i socijalne politike RS, septembar 2003.

## **5.2. Problems in the area of social protection**

The system of social protection in both entities of BiH is in grave difficulty, as it is faced with an enormous increase of demand for various types of social assistance, which are still growing. The functioning of that system was made more difficult by inadequate laws, which are prescribing a far wider scope of social protection than the budget capacities allow. This problem is additionally complicated by the division of authorities between the levels of government (especially in FBiH), where the entity is prescribing the level of social protection, and the lower levels of government are under obligation to ensure resources for its realization. An additional difficulty is the lack of updated and comprehensive databases on social protection beneficiaries.<sup>11</sup>

Social protection is at present characterized by:

- economic vulnerability of the majority of the population and constant worsening of social problems, i.e. increase of the number of people who are requesting social assistance (refugees, civilian victims of war, returnees, veterans etc);
- lack of realization of legally stipulated social protection rights, as well as weak linkages between the social protection institutions on municipal and entity level in RS;
- funding the forms of social and child protection on cantonal level in FBiH faces serious difficulties, due to the lack of funds in cantonal budgets. The capacities of Federal government to assist the cantons in this area are limited, as the jurisdiction social and child protection, i.e. the provision of funding is, in keeping with the FBiH Constitution and the FBiH Law on Distribution of Public Revenues, lies exclusively with the cantonal or municipal bodies;
- inadequate definition of methods of funding the social protection system and a high indebtedness within it;
- poor material and staff capacities in social protection institutions;
- inequalities between different regions or cantons and non-existence of a solidarity system;
- problems resulting from the privatization process;
- lack of programs for poverty reduction, underage criminal behavior, struggle against substance abuse, alcoholism etc.;
- lack of records and monitoring, which would enable timely detection of the needs of population and timely provision of protection

## **5.3. Priorities in social protection**

### **5.3.1. Establish the modern system of social protection adapted to the possibilities of the community:**

- adopt harmonized laws on social protection in FBiH and RS, which will determine the scope of basic entitlements from the area of social protection, which will be financed from the entity budget or from some other source,
- adopt the law on assuming founder's rights over social protection institutions,
- provide adequate support to centers for social work: increase investment in development of local services, training of personnel, adoption of norms and standards in labor, conduct permanent revision of beneficiaries in cooperation with the local community, NGOs, etc.
- establish a new database of beneficiaries of social protection, to determine the actual condition of social vulnerability of the population and the establishment of new social and economic statistics, in the entities and BiH, to ensure information system compatibility for the identification, as well as revision, of the number of socially vulnerable persons. It is also necessary to adopt a manual on the content, obligations and methods of keeping the single registry records of the beneficiaries of social protection in the FBiH and the RS,
- develop intersectoral cooperation for a sustainable system of social protection, but also for the improvement of the system, implies a much stronger connection between the social protection system and the following: health protection, education, judiciary, local police forces, financial sector etc.,
- conduct regular surveys of households and of living standards to collect reliable data for developing and planning social protection in the FBiH and the RS and for the harmonization of social policy on the level of BiH.

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<sup>11</sup> Ovaj problem ističe i Studija izvodljivosti EC („Izvještaj Komisije Vijeću o spremnosti BiH za otpočinjanje pregovora sa EU o Sporazumu o stabilizaciji i pridruživanju“, Sarajevo, 18. novembra 2003., str. 34.)

### **5.3.2. Introduce market principles and alternative forms of care into social protection system:**

- promote volunteer work in the social protection system,
- develop the nongovernmental (NGO) sector in the social protection system, as an equal partner for the governmental sector,
- reform of funding regulations and by introduction of tax benefits, encourage involvement of the local community and the private sector, through introducing stimulating measures for grants and tax benefits for aid channelled to socially vulnerable groups,

To establish a mixed system of social protection in the FBiH and the RS, it is also necessary to amend regulations, as follows:

- In the area of health protection,
- In the area of education,
- In the reform of the existing disincentive fiscal system.

### **5.3.3. Ensure equal access to social protection**

- determine a single minimum of social protection rights for the entire BiH,
- ensure regular payments of social protection benefits to the most vulnerable categories,
- ensure that legal benefits in an equal amount are paid to all users regardless of the place of residence.

The plan is to achieve this by affirming the principle of solidarity by allocating the funds from the entity level (in FBiH) and mandatory allocation of a predetermined share in the municipal budgets (in RS), which will necessitate changing the laws on allocation of revenues. The limited funds impose the partial approach to this matter: FBiH plans to implement this reform in 2004-2005 in the area of child protection and protection of civilian victims of war.

## **5.4 Specific segments of social protection:**

### **5.4.1 Individuals with disabilities**

The protection of persons with disabilities has significantly deteriorated in the post-war period in both entities, for numerous reasons, and it might be said to be in inverse proportion with increase of the number of persons with disabilities. According to the accepted methodology, persons with disabilities who are social protection beneficiaries are persons with bodily damage, psychological difficulties and arrested development, persons with combined difficulties, persons with hearing, sight and speech impediments. The number of persons with disabilities in BiH is difficult to determine, as the data are collected in accordance to different criteria and different methodologies, taking into account that in a number of cantons (FBiH), and a number of municipalities (RS) not even lists of disabled persons have been compiled (particularly in returnee municipalities).

In the coming period it is necessary to harmonize legal protection of all persons with disabilities on the basis of standard rules for the equalization of opportunities for persons with disabilities. This will require harmonization of the legislation with international standards and norms, together with facilitating the process according to which the beneficiaries acquire those social protection benefits, along with the rationalization of administrative procedures for applying for these social protection benefits. It is also necessary to set new standards in the appropriate laws in the regional planning and construction segments, adapted to the needs of numerous persons with disabilities.

### **5.4.2. Protection of families with children**

Recognizing the enormous importance of families and the rearing of children, one of the objectives of the strategy is to establish, further develop and improve the system of protection of families with children. This objective needs to be achieved through ensuring realistically possible forms of protection, i.e. basic rights of families with children.

The most important forms of protection of families with children are stipulated by Federal and cantonal laws:

- Children's allowance is paid only in the Sarajevo Canton, for 19,648 beneficiaries with 36,261 children. The other cantons pay no children's allowances.

- Wage remuneration to employed mothers, for the duration of their absence from work caused by the care of children, and allowance for mothers who are not employed.

The Children's Fund operating in RS is seen as the most effective segment of social protection in BiH, and further development in this field is expected to introduce similar solutions in RS.

In this area it is necessary:

- adopt a special law on child protection in FBiH and adapt the existing law in RS,
- eliminate existing legal and legislative barriers for realization of children's rights, especially for children with disabilities, in the sectors of education, health, spatial arrangement and urbanism, finance etc., and the adoption of more strict legislative penalties for breaching the rights of children,
- in connection with child protection, it is necessary to adopt and amend the following laws in FBiH: the Family Law, the Law on Amendments to the Criminal Code of FBiH, the Law on Criminal Procedure, the Amendments to the Law on Distribution of Public Revenues and Financing of the Federation of BiH, the Amendments to the Law on Lottery and Games of Fortune, the Amendments to Federal and cantonal laws on internal affairs, as well as to eliminate the existing legal and legislative barriers for the execution of children's rights, especially for children with disabilities, in the sectors of education, health care, regional planning and urbanism etc.,
- to define family related policies in FBiH and RS, within the framework of defining population related policies. The most important measures include the children's benefit, tax exemptions, paid maternity and paternity leaves, family services etc.,
- establish the Child Protection Fund in FBiH. In the meantime, it is necessary to fund at least the minimum of rights (children's allowances) in the same amount for all beneficiaries in FBiH, on the basis of the principles of solidarity and subsidiarity, within the framework of reaching the objectives of the poverty reduction strategy and assistance to the most vulnerable groups in the society, particularly since the children, particularly those up to age of five are the category of population most vulnerable to poverty.
- establish a new database for monitoring the beneficiaries of child protection in the FBiH, according to European standards, with constant monitoring of the actual situation of the vulnerability of families and children,
- develop and strongly support alternative forms of care, primarily accommodation in foster families, day centers and half-day centers, as they are a more humane, but also a less expensive, form of care for children without parental care and children with special needs (physical and mental disturbances), in comparison with institutional care.

#### **5.4.3. Civilian victims of war**

In FBiH, there are 8.330 persons entitled to personal or family disability pension, and additional 11.589 in the Republika Srpska. The basic rights of the civilian victims of war, as specified under this law, and exercised at the level of FBiH, are as follows: personal disability pension, allowance care and assistance by another person, orthopedic allowance, family disability pension, and child allowance. In RS, the rights of the civilian victims of war have been regulated by the same law and in the same way as the rights of the disabled war veterans.

Specific priorities in this segment are:

- to transfer the protection of civil victims of war in FBiH from the cantonal to the entity level, and within the framework of the protection of the protection of disabled veterans, as is the case in the RS (a relevant law is in the parliamentary procedure),
- in this segment, as for the other programs of assistance for persons with disabilities, it is necessary to harmonize the criteria for the determination of the level of disability, i.e. prepare a standardized manual to be used in all centres for social work, and establish the single commission for determining the level of disability.

## **6. Refugees, displaced persons and expelled persons**

### **6.1. Situation**

Of the total of 2.1 million of refugees and displaced persons, the BiH Ministry of Human Rights and Refugees estimates that 283,900 displaced persons still live in FBiH (35% from the territory of FBiH and 65% from RS). In RS, there are around 248,300 displaced persons, and about 23,500 in the Brčko District. It is estimated that about half a million of refugees from BiH live abroad, of which about 100,000 do not have a permanent status, and therefore it is necessary to anticipate the possibility of their return to BiH. According to the UNHCR, there still are 29 collective centers, housing 1,997 persons. In FBiH, there are 16 centers with around 1,219 persons, and in RS there are 13 centers with 778 persons.<sup>12</sup>

According to the data of the BiH Ministry of Human Rights and Refugees and UNHCR, from the signing of the Dayton Peace Accord until the September 30, 2003, the total of 976,810 returns of refugees and displaced persons in BiH was registered, of whom 436,883 are refugees and 539,927 are displaced persons. 713,261 persons, i.e. 73.02 percent, returned to the territory of FBiH, 242,598 persons, or 24.84 percent, returned to the RS, and 20,951 persons, or 2.14 percent of refugees and displaced persons returned to the Brčko District.

Concerning the so-called minority returns, 2002 was the most successful year, ever since the signing of the Dayton Peace Accord, as of 107,909 registered returns, 102,111 of them, which is close to 92 percent, were categorized as "minority returns". The return of members of minority nations in the course of 2002 outweighed the results achieved in all previous years of return.

Although the tempo of return, and, especially, of minority return, has significantly accelerated in the last two years, the representatives of the Ministry of Human Rights and Refugees of BiH estimate that about 50 percent of refugees and displaced persons are still not in their homes. This Ministry also estimates that some 114,000 refugees from the countries which have extended their hospitality to refugees, and about 300,000 displaced persons (of about 574,000 – according to a survey conducted in 2000), want to return to their homes. Therefore it is necessary to ensure close cooperation with competent institutions in those countries to bring back to BiH as many of the remaining refugees as possible.

Creation of the conditions for sustainable return and implementation of property law constituted an important part of the Road Map<sup>13</sup>. In the Report of the European Commission to the Council on readiness of BiH to start negotiations on stabilization and accession, the issue of refugees, displaced and expelled persons is seen as crucial in the process of preparation for SAA negotiations in the area of political trends, which, among other things, needs to be addressed on the regional level.

#### **6.1.1. Legislative and institutional framework**

The legislative framework at the level of Bosnia and Herzegovina comprises:

- the Constitution of Bosnia and Herzegovina (Article III, item 1. paragraph f),
- Annex 7 to the General Framework Agreement for Peace in Bosnia and Herzegovina,
- the Law on Refugees from BiH and Displaced Persons in BiH, with its accompanying bylaws.

The legislative framework of FBiH in the field of protection of refugees, displaced persons and refugees comprises:

- The Law on Displaced Persons – Refugees - Returnees to FBiH, and accompanying bylaws,
- The adoption of cantonal laws on displaced persons and refugees is currently underway.

The legislative framework of the RS in the field of protection of refugees and returnees includes:

- The Law on Refugees, Displaced Persons and Returnees, and accompanying bylaws;

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<sup>12</sup> 2003 UNHCR Programme in Bosnia and Herzegovina, Collective Center Status (as of October 31, 2003), <http://www.unhcr.ba/programme/ccentar.htm>

<sup>13</sup> The Road Map is the reference document providing 18 conditions the national bodies had to meet in order to qualify BiH for the feasibility study. In 2002, the requirements of the Road Map have been declared essentially met.

- Property laws and bylaws in the entities (The Law on Abrogation of the Law on Abandoned Apartments and the Law on Abrogation of the Law on Temporarily Abandoned Property Owned by Citizens).

Governments on various levels handle the issues related to refugees and displaced persons:

- BiH Ministry of Human Rights and Refugees;
- FBiH Ministry of Displaced Persons and Refugees with the Office for Displaced Persons and Refugees;
- RS Ministry for Refugees and Displaced Persons, with 52 municipal sections and 4 regional offices in FBiH, with the total of 520 employees;
- Sector for Refugees in the District of Brčko;
- Sector for Planning and Economic Development in the Brčko District;
- Cantonal line ministries in all ten cantons;
- Municipal services in 84 municipalities of FBiH, working in this field.

Funds for supporting the return of refugees and displaced persons are set aside by all level of government and significant, although declining, assistance of international organization and donors is still incoming for this field:

- Funds from the budget of FBiH (3% of the return needs);
- Funds from cantonal budgets;
- Funds from municipal budgets;
- Other funds in compliance with decisions of the FBiH government and cantonal governments and also in compliance with administrative decisions of municipalities;
- Other funds.

Among the international organizations active in the field of assisting the return of refugees, the most important role, naturally, belongs to the UNHCR, who had been vested with the leading humanitarian role in BiH. The OSCE and the CRPC also play significant roles with respect to property rights of refugees and displaced persons, and they have, together with many other organizations, contributed to creating conditions for more successful return. The EU, USAID, UNDP, IOM and a whole range of other international, governmental and non-governmental organizations, have been providing, and still do, the assistance in the reconstruction and return process. Prior to the end-2003, the RRTF (Return and Reconstruction Task Force) had also had an important role of coordinating international activities related to return and reintegration of refugees and displaced persons, operating under the OHR. Its tasks will be assumed by the BiH Ministry for Refugees and Displaced Persons.<sup>14</sup>

## **6.2. Problems**

Despite the favorable situation and a more accelerated tempo in the last two years, the most serious barriers for the finalization of the process of return of refugees and displaced persons are the safety of returnees from harrasment and violence, the implementation of property regulations, still not fast enough in some municipalities, the need for reconstruction of the houses of returnees, provision of economic and social conditions for the sustainability of return, and the lack of updated databases on refugees and returnees.

The repatriation of refugees, resulting in the relocation of returnees, directly influences the constant increase of the number of displaced persons in FBiH.

### **6.2.1 Security**

Personal security is certainly a key factor for the sustainability of the return of refugees and displaced persons. Although the security situation is gradually improving, occasional incidents directed against the returnees of minority nationalities still occur occasionally, particularly in RS.

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<sup>14</sup> It is important to emphasize the recently initiated process of transfer of responsibilities of the international institutions whose mandate expired on December 31, 2003. First of all, this applies to the CRPC, whose mandate in BiH ended on December 31, 2003, but also to RRTF, which will assume a somewhat different role in BiH from 2004. All responsibilities handled by these international organizations have been transferred to the agencies of Bosnia and Herzegovina Government.

### **6.2.2. Implementation of property regulations**

Over the last two years, the process of return of property and occupancy rights to the refugees and displaced persons from the war period has been greatly accelerated. As of August 31, 2003, of the total number of applications for return of property (privately owned or occupancy right) submitted, 95 percent of cases were resolved, and in 88 percents of the cases the property in question had been returned. In FBiH, the process of passing decisions is in its final stages, with 97 percent of applications resolved, and the property returned in 88 percents of the cases. In RS, the return of property has achieved the same pace as in FBiH, which is happening for the first time since the property return process has been monitored in both entities; so the percentage of the applications resolved is 94 percents, and 88 percents of the applications were resolved by this time.

The issue of property return also reflects on the aspect of "legal uncertainty" because the regulations in this area have changed so many times since 1992. There still are around 28,000 cases to be resolved.

### **6.2.3. Reconstruction of housing units**

The document titled "Strategy of Bosnia and Herzegovina in Implementation of Annex 7 to the Dayton Peace Agreement", which was endorsed by the Peace Implementation Council in Brussels, on January 20, 2003, and later adopted by the Council of Ministers and the Presidency of BiH, foresees a reconstruction of 50,000 housing units for the needs of the returnees. This number is based on the fact that around 400,000 persons have been registered in the data bases as those who want to return to their pre-war homes. In the initial phase, ending in 2004, planned is the reconstruction of around 30,000 houses, while the remaining 20,000 housing units would be reconstructed by end-2006.

Iz budžeta svih nivoa uprave u BiH, u 2002. godini je za potrebe podrške povratku izdvojeno oko 100 miliona KM, a procjenjuje se da su sredstva koja je upotrijebila međunarodna zajednica bila na istom nivou. U okviru Sporazuma o udruživanju i načinu realiziranja sredstava za potrebe rekonstrukcije i povratka u BiH u 2002. godini, izdvojeno je 15,8 miliona KM (3 miliona KM iz budžeta BiH, po 6,4 miliona KM iz entitetskih budžeta) za zajedničke projekte na osnovu kriterija, koje je definirala Komisija za izbjeglice i raseljene osobe.

The similar agreement for 2003, which was signed by the entity ministries and the BiH Ministry for Human Rights and Refugees, provided 14 million KM (2 million from BiH budget, and 6 million KM from each of entity budgets). The novelty compared to the previous period is that the European Commission also decided to co-fund in the joint project with the amount of 2 million EUR.

According to the available information, it can be reliably stated that, in the coming years, the available funds will not by far suffice in meeting the assessed needs because the in-flow of international donations will diminish more and more, while the budgets of the governments in Bosnia and Herzegovina will not be able to fully assume the burden of financing the return process.

### **6.2.4. Databases**

One of the most serious problems, which has hampered the process of refugee return, is the lack of a database on the activities which have been undertaken, those ongoing and those being planned. A better approach to such information would permit the recognition of actual priorities and eliminate double beneficiaries from the program. Because of undefined links between various administrative levels, the exchange of information is insufficient. Coordination with international organizations could also be improved. The negotiations with the European Commission and the RRTF on the transfer of the HVM (Housing Verification Monitoring) database on housing units reconstructed by donor funds, and this database has already been made available to the BiH Ministry of Human Rights and Refugees.

The existing data base on displaced persons needs to be updated through registration of the returns implemented, i.e. by de-registering the displaced persons who ceased to qualify for that status. By determining the actual number of displaced persons who remain would greatly facilitate future planning and finalization of the return process.

### **6.2.5. Sustainability of return**

The most important problem for the majority of returnees, even after they return to their property, is how to ensure economic existence. Apart from the difficulties with finding employment, returnees also face problems in access to the basic public services: education, health care and social protection, the



payment of pensions. In the activities so far, a number of agreements between the entities were reached in various areas, such as education, but there are no practical results yet.

### **6.3. Priorities**

#### **6.3.1. Supplement the legislative framework and ensure its full implementation**

- for full achievement of goals stated in the strategic document – BiH Strategy for Implementation of Annex 7 to the Dayton Peace Accords, it was necessary to adopt the Law on Changes and Amendments to the Law on Refugees from BiH and Displaced Persons in BiH. This Law was published in the "Official Gazette of BiH" No. 33/03, of November 5, 2003, and the urgent adoption of bylaws, which would ensure the implementation of the assorted legislation is now urgently needed,
- harmonize entity laws with the Law on Refugees from BiH and Displaced Persons in BiH;
- harmonize laws and by-laws in the following areas: education, health care, employment, pension and disability insurance, distribution of socially-owned land, property-related regulations and their implementation,
- ensure protection of human rights guaranteed by the BiH Constitution in the entire BiH and implement the decision on the constitutive peoples on all levels, in line with the 1991 census.

#### **6.3.2. Strengthen the coordination between the institutions implementing the return of the refugees:**

- urgently reorganize and rationalize the administration engaged on the implementation of Annex 7;
- establish a vertical chain of communication in which the BiH Ministry of Human Rights and Refugees would act as an umbrella institution defining policies in the field of return and coordinating the implementation, which would be the responsibility of line structures in the entities and in the Brčko District;
- intensify the activities in creation of regional centers of the BiH Ministry for Human Rights and Refugees that are to be established in Banja Luka, Tuzla, Mostar and Sarajevo,
- appoint the members and strengthen the role of the Commission for Refugees and Displaced Persons;
- urgently establish the fund for return as an independent financial institution at the level of BiH, in accordance with the Law on Refugees from BiH and displaced persons within BiH. Make sure that the Agency for Civil Service starts hiring the personnel for this fund as soon as possible,<sup>15</sup>
- intensively continue the activities started in relation to Bosnia and Herzegovina joining the Development Bank of the Council of Europe, which would provide access to the funds of this financial institution under the most favorable conditions.

#### **6.3.3. Improve the institutional capacities:**

- organize professional training of employees in the social protection network, in information technology, in adequate provision of social services, in financial planning and analysis, writing narrative and financial reports, drafting bylaws and laws;
- take over and maintain the database on beneficiaries of donor aid in reconstruction;
- update the existing data base on displaced persons by registering the realized returns, or by de-registering the displaced persons who ceased to be so.

#### **6.3.4. Plan the return by placing focus on long term sustainability:**

- create preconditions for returnees to stay in their homes: conduct demining (4.2% of BiH territory is still inaccessible due to the landmines), establish infrastructure, power and phone connections, remove all forms of discrimination in employment,
- consistently implement the BiH Constitutional Court's decision on constituent peoples of BiH;
- governments at all levels should adopt and implement the laws and regulations required for normal inclusion of the returnees into the life of local community, which also implies the guarantee of their personal and property safety. Appropriate solutions need to be agreed and implemented urgently to enable the returnees to use the services of education, health care and social systems, receive pensions, etc., under the same conditions as everybody else.
- provide alternative housing for individuals legally entitled to it;

<sup>15</sup> The concern about the slowness in creation of the fund for return in BiH has also been shown in the EC Feasibility Study of the Preparedness of BiH for Starting Negotiations with the EU on the Stabilization and Association Agreement ("Report of the Commission to the Council", Sarajevo, November 18, 2003, p. 12)

- establish mechanisms for taking care of the elderly returnees who have nobody to care for them;
- take steps to finally close collective centers;
- introduce and implement tougher sanctions for destruction of other people's property when leaving the illegally occupied houses and apartments;
- review the grants of construction land.

#### **6.3.5. Continue the implementation of property laws and the reconstruction of housing units**

In spite of the progress made in implementation of property laws over the recent period, this activity will have to continue in 2004, when the remaining 28,000 cases will have to be resolved.

A plan was made to renew 30,000 houses in the 2003-2004 period, and additional 20,000 in the period 2005-2006. According to the current parameters, a number of housing units have been reconstructed in 2003, but the actual needs by far exceed the results so far. There is a real danger that the whole process might extend after 2006, which would, most certainly, affect the final decision of refugees and displaced persons concerning return to their pre-war homes.

#### **6.4. The issue of return should be dealt with on the regional level**

Since refugees from Croatia and Kosovo are present in BiH, this problem will have to be addressed on the regional level.

### **7. Funding social sector reforms in FBiH**

The present difficult economic situation in FBiH and limited public resources have caused that only three most urgent reforms in the sector of social assistance and protection requiring yearly funding are proposed. These three changes are as follows:

- 1) funding child allowance from FBiH budget in 2004 – 2005,
- 2) funding basic benefits to the civilian victims of war from FBiH budget,
- 3) funding minimal social assistance benefits from 2006.

The above measures are proposed with the aim of remedying the present discrepancies in the level of benefits between the cantons in FBiH and of ensuring equal minimal allowance to all beneficiaries. In accordance with the FBiH Constitution, the cantons and municipalities would retain the right to fund supplemental benefits, in accordance with their respective legislation. Due to limited funds, these measures would be phased in, one by one, every year, starting from 2004.

#### **7.1. Funding child allowance in FBiH**

The proposed amount of child allowance was defined as 6 percents of the average salary in FBiH, so in 2005, it would amount to 32 KM. It was estimated that about 150,000 children would be receiving this allowance, so the annual outlay would total KM 68 million, to be sourced from gradual increase of employment and GDP by the end of 2007.

#### **7.2. Funding basic benefits for civilian victims of war from the FBiH budget**

For civilian victims of war in all parts of FBiH, the personal or family disability pension would be paid. In 2004, the total of KM 8,735,000 would be needed to pay benefits to 8.330 beneficiaries (the distribution costs would amount to KM 40,000); it is planned that the level of disability pensions would match the growth of GDP in the coming four years period.

#### **7.3. Funding minimal social assistance benefit**

Some 97,000 beneficiaries of social assistance in FBiH are qualified to receive the harmonized minimal benefit. This benefit may be defined as a certain percentage of the lowest pension or the lowest wage in FBiH. According to the most conservative proposal, the minimal benefit would amount to 40 percents of the lowest pension, i.e. 84 KM, which would require KM 97,776,000 in 2006. These benefits would increase in line with the GDP growth.

## 8. Funding the social sector reforms in RS

The need to finance one basic benefit at the entity level in RS has been identified, in order to provide to all beneficiaries with a harmonized minimum of social assistance. The determination of the required funding is underway. This process has proceeded slowly and with difficulties owing to the lack of adequate records and coordination between the municipal level and the Ministry for Health and Social Policy of RS.

## 9. Indicators :

Monitoring the following basic indicators would allow a sound analysis of the results of implementation of the Medium-Term Development Strategy – the PRSP and government policies.

Indicator	Source (with BiH statistical agencies)	Assessment for BiH (2000/2001)	Projections for 2007
Percentage of population living under the poverty line <sup>16</sup>	LSMS <sup>17</sup> WB BiH Poverty Assessment 2003	19.1% (general) 20.0% (general)	16%
Poverty gap	LSMS WB BiH Poverty Assessment 2003	4.6%	
Share of the poorest fifth in the national consumption	LSMS	9.6%	
Prevention of malnutrition in children under 5 years of age	UN Statistics Division, UNICEF	4% (2000)	
Population eating less than daily energy needs (malnutrition)	UN Statistics Division, FAO	200,000 stat. (1998)	
Gini index/coefficient	IHR MRC Report	0.26	0.25
Share of the richest fifth in the revenues	LSMS	35.8%	
Unemployment rate	LSMS WB BiH Poverty Assessment 2003	16.4% actual	13.5%
		28.1% narrower	22%
		43.6% broader	35%
Rate of unemployment in the age group 15-24	NHDR 2002	34.8%	30%
Informal sector share in the overall employment	LSMS	36.2%	

<sup>16</sup> The general poverty line for BiH has been used here.

<sup>17</sup> The complete reference is: UNDP, DFID, WB LSMS ("The BiH Living Standards Measurement Survey"); the preliminary report has been published as a publication of the BiH Statistics Agency, of the FBiH Institute for Statistics and the RS Institute for Statistics, who have cooperated in implementation of the LSMS.

## V.2. SECTORAL PRIORITIES – EDUCATION

### 1. Goals

- 1.1. ***Modernize and improve the quality of education on all levels, with special emphasis on information technology and the environment***
- 1.2. ***Eliminate discrimination in education***
- 1.3. ***Reform primary education, ensure total inclusion, change the structure of and develop curriculum for secondary education that would allow student access to tertiary education and ensure harmonization with the European model***
- 1.4. ***Implement institutional and teaching staff reforms in tertiary education in order to ensure international recognition of university diplomas from BiH.***
- 1.5. ***Develop scientific research as a prerequisite to quality education***
- 1.6. ***Create conditions and capacities for easy retraining, as well as continuous modernization and update of knowledge, and adopt a lifetime learning approach***

### 2. Situation

In 2003, there were approximately 606,000 students in Bosnia and Herzegovina. Around 367,000 attended 1,836 primary schools, and around 172,000 students attended 295 secondary schools. There are seven universities with 95 schools and 67,000 full time students.

It is a known fact that the most advanced and wealthiest countries also have the best educational systems. Whether they are rich because they have such strong educational systems, or vice versa, it is very hard to say, but there is no doubt that the two are directly related. This should be complemented with the fact that the more educated people there are, the less likely it is that they will be poor. As a result, it is impossible to define any reform process intended to reduce poverty without an element relating to education reform.

The right to education is a fundamental human right which allows underprivileged children and adults to rise above the poverty level<sup>1</sup>. It is important to note that exercising the right to education lays a strong foundation for the exercise of other civil, cultural, political, economic and social rights. Education benefits the society as a whole, as well as individuals. The right to education is built into the Constitution of Bosnia and Herzegovina, which states that "The rights and freedoms set forth in the European Convention for the Protection of Human Rights and Fundamental Freedoms and its Protocols shall apply directly to Bosnia and Herzegovina. These shall take priority over all other laws. All persons within the territory of Bosnia and Herzegovina shall enjoy human rights and fundamental freedoms, including the right to education."<sup>2</sup>

The White Paper considers education to be one of the most important elements in the process of elimination of discrimination, through mutual recognition of professional qualifications aimed at

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<sup>1</sup> **International treaties on human rights:** International Convention on Economic, Social, and Cultural Rights (ICESCR) (Articles 13 and 14.); General Commentary number 11 adopted by the CESCR (E/C.12/1999/4); General Commentary number 13 adopted by the CESCR (E/C.12/1999/10); Convention on the Rights of Children (CRC) (Articles 28 and 29; General Commentary number 1); Convention on the Elimination of All Forms of Racial Discrimination (CERD) (Article 5 (e) (v)); Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW); Millennium Development Goal 2: Achieve universal primary education  
**World Conventions:** World Declaration on Education for All (Jomtien, 1990); Summit Education for All, Delhi Declaration and the Framework for Action (1993); Education for All: Framework for Action from Dakar (2000).

<sup>2</sup> Constitution of Bosnia and Herzegovina, Article 2: Human Rights and Fundamental Freedoms. See also: FBiH Constitution, Section II, Article 2 (m), and the RS Constitution, Article 38.

achieving free movement of people and services. The Stabilization and Association Agreement (SAA) considers this to be political cooperation. BiH is a signatory to the Bologna Declaration<sup>3</sup>.

### **2.1. Legal and Institutional Framework**

Education in BiH is covered by legislation at various levels in the FBiH and RS. In the RS all education levels are covered by Entity level legislation. There are separate laws for each of the above four levels of education. In the FBiH, education is regulated by legislation at the cantonal level. Each of the ten cantons has its own law on pre-school, primary and secondary education, and the cantons that have universities also have laws on higher education. The Brčko District, as a separate organizational unit in BiH, has its own laws covering each of the four levels of education. Therefore, there are more than thirty laws of different levels regulating this area.

In the RS, the Ministry of Education and Culture is responsible for monitoring, planning and executing policy. In the FBiH this role belongs to the cantonal ministries of education and the Federal Ministry of Education and Science at the entity level. The Federal Ministry of Education and Science acts mainly as a coordinating body for education policy among the cantonal institutions. The Agency for Standards and Evaluation for General Education at the inter-entity level, and the Coordinating Committee for Higher Education, should facilitate the required formulation of a coherent education policy framework.

The rules and regulations for planning the funding of primary and secondary education are similar in the FBiH and RS and are based on the principles of public funding. Neither Entity allocates sufficient funds for education. The funds are spent primarily on salaries and compensations of people employed in the education sector and very little is channeled into current operating costs and maintenance; what is spent under these headings often goes to pay for the cost of public utilities. The shortage of funds has led to the deterioration of school buildings. Capital investments are funded mainly from donations and grants. The sustainability of the present funding system is jeopardized by the rapidly falling budget revenues of the Entities and declining international aid. Problems with educational financing are compounded by the fact that, until last year, the entity budgets, as well as most cantonal budgets, did not allocate funding for science. The funds allocated for science last year were entirely insufficient.

Although the funds that are allocated for educational purposes are inadequate, the total allocations for education as a percentage of GDP in BiH are far greater than the average of other European countries (EU and CEE). The level of budget allocations in both Entities, although high as a proportion of GDP, is insufficient to fund high quality education. Budget allocations for education are not equal at the entity and cantonal levels. Education reform, therefore, calls for *balanced funding* for education in both entities.

The total share of GDP spent on education in BiH is 6.4 percent, which far exceeds the average for other European countries (EU and CEE), so it seems illogical that the financial position of education is so poor that it is often unable to cover the costs of even basic activities. However, GDP in BiH is very low and education is not organized rationally and, further, it is burdened with many problems.

### **3. Problems**

The main characteristics of the present day educational sector in BiH are as follows:

- the large number of laws regulating education,
- the highly politicized nature of education,
- education accounts for a significant portion of the GDP, however there is still insufficient funding for quality education,
- science and research, as a part of the educational process, are entirely neglected: there is no legal framework regulating this important part of the educational process,
- a lack of educational standards,
- curricula that do not confirm to European Community requirements,
- outdated and obsolete equipment,

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<sup>3</sup> In the Bologna Declaration, 29 countries committed themselves to a common tertiary education structure reform. This declaration marks an important turning point in the development of tertiary education in Europe.

- a shortage of teachers with certain educational backgrounds capable of responding to the needs of the labor market quickly and efficiently,
- the role of the pedagogical institutes is not well defined: there is overlapping of competencies between the Ministries of Education and the Pedagogical Institutes,
- the curricula for all levels of education are not sensitive to the need to raise awareness of the protection of the environment,
- the inadequate size of learning institutions,
- the inadequate student-to-teacher ratio, and too few teaching obligations of teaching staff, especially in the universities,
- initial teacher training does not meet the actual needs of teaching practices,
- adult education programs have not been updated in more than a decade, and there is a lack of appropriate infrastructure for adult training, re-training and acquisition of further qualifications.

#### **4. General Priorities**

##### **4.1. Finalize the Legal Framework**

- adopt framework laws on primary, secondary, and tertiary education in BiH, and then harmonize entity and cantonal laws with them,
- adopt a framework law on science on the state level,
- ensure depoliticization of the education system,
- finalize the adoption of other accompanying laws and by-laws,
- ensure timely meeting of the obligations from the Bologna Declaration, and the signing of the Lisbon Convention.

##### **4.2. Improve the System of Managing and Financing Educational Institutions**

- reduce inefficiency in the educational system and use the money saved for educational reform,
- ensure transparent, rational, and sustainable financing of education, in line with Europe
- reallocate funds to include all levels of education,
- introduce new accounting methods (per student) for calculating amounts needed for all levels of education,
- allocate funds on a per end-beneficiary principle,
- find ways to ensure higher participation of off-budget funds in education, and create conditions to implement them,
- set up funds for tertiary education and science and research, and provide funding for this purpose,
- develop and test a new model of financing, in line with overall public expenditure reforms, and utilize internal reserves that are a consequence of irrationalities in the sector,
- set up funds for equalizing standards in financing on entity and lower levels of the government,
- develop mechanisms for multi-year operational planning in schools and universities, as well as midterm strategic planning of budgets on the entity levels,
- develop a plan to stimulate investment in education.

##### **4.3. Facilitate Access and Increase Inclusiveness on All Levels of Education**

- Create preconditions for preschool education to be considered a part of the educational rather than social sector. By 2007, increase the number of children included in preschool education by 30 percent. By 2010, increase the number of children included in preschool education by 50 percent. Special attention should be paid to opening preschools in rural areas.
- Include 100 percent of all children in primary education, with special emphasis on the most vulnerable categories of children (ensure inclusiveness in primary education of the most vulnerable and marginal groups of the society, including girls, children with special needs, refugees and displaced children, minorities and Roma children),
- By 2007, increase the number of children attending secondary schools from the present 72 percent to a minimum of 82 percent. An important goal here is to include a greater number of underprivileged children in secondary education, particularly general secondary education, as it gives them access to the universities. In this regard, it is necessary to increase inclusiveness

of the poorest children from the present day 57, to at least 65 percent by the year 2007. Reduce the rate of holding children back to repeat a year, especially in secondary vocational schools,

- Change the ratio between the number of general and vocational secondary schools. The present ratio between general and vocational secondary schools is 20 to 80 percent. The long-term goal is a 50:50 ratio, and in the implementation of BiH Medium-Term Poverty Reduction Strategy (PRSP), we want to achieve a minimum of a 30:70 ratio. This is crucial for a general approach to the poverty reduction issue, since underprivileged primary school graduates most often enroll in three-year vocational secondary schools, which do not enable them to enroll in the universities. Upon graduation, they get low paying jobs and are unable to get out of poverty. Likewise, their children go through the same self-perpetuating process.
- In the area of vocational secondary schools, define new, more flexible curricula for a single group of vocations (agriculture) and start implementing these curricula in all such schools throughout BiH,
- Ensure better, faster, and more flexible cooperation of the educational sector with the labor market. Create new educational profiles and establish a network of institutions to implement these activities,
- Achieve greater inclusiveness in tertiary education, an increase from 25 to a minimum of 35 percent by 2007, and to a minimum of 60 percent by 2015.

#### **4.4. *Improve the Teacher and Educational Manager Training system***

- establish a system of teacher-training through mentor-training programs and the establishment of teacher-training institutions. Further, create conditions for systematic training of teachers and managers for work in accordance with new curricula and programs, as well as new teaching techniques. By 2007, a minimum of 50 percent of all teachers should be included in these programs,
- train teachers to teach students about the importance of the environment as a part of their curricula. By 2007, a minimum of 50 percent of all teachers should attend this training (which could be a part of another training program),
- all curricula should be adapted to reflect the need to increase knowledge of information technology and realize the importance of IT, networking, sharing of information, and the development of the science as the main driving force of the overall development of the society, increased mobility, reduction of unemployment, and poverty. By 2007, a minimum of 50 percent of all teachers should attend this training (which could be a part of another training program).

EU support, something that BiH already has, is very important for the success of these reforms. In its Feasibility Study, the EU expressed its readiness to offer further assistance, especially in the area of general and tertiary education, and vocational training. It also recognizes the importance of creating an environment that is conducive to science and research, as well as transfer of technology and knowledge, through joint activities in which BiH already takes part. The Feasibility Study emphasizes the importance of enhancing cooperation among youth.<sup>4</sup>

## **5. *Preschool, Primary, Secondary, and Special Education***

### **5.1. *Preschool Education***

#### **5.1.1. *Preschool education***

Preschool education is currently outside the concerns of the cantonal and Entity authorities, and given the way they are funded and supervised; preschool institutions belong more in the social than the education sector. The total number of preschool institutions in BiH is less than 200 which, given the number of children of preschool age, is far below its objective needs.

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<sup>4</sup> "The Report of the Commission to the Council on Preparations of BiH to Start Negotiations with the EU on the Stabilization and Association Agreement"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 34.

### 5.1.2. Problems in Preschool Education

- insufficient inclusion of all children, especially in rural areas,
- insufficient budgetary support,
- this educational level is more social than educational,
- lack of private initiative in preschool education.

## 5.2. Primary Education

### 5.2.1. Current Situation in Primary Education

Primary education in BiH is based on the principle of eight years of compulsory education (divided into two four-year periods within the same institution). Every child between six and seven years of age is guaranteed a place in a primary school. Education is mainly financed from the cantonal budgets, and in the RS from the Entity budget.

Table 1 – Trend of primary school attendance in BiH

		1996	1997	1998	1999	2000	2001	2002	2003
Federation of BiH	students in 1000	252	260	268	277	276	259	245	245.5
RS	schools	898	943	976	1013	1029	1086	1092	1103
	students in 1000	126	131	128	126	n.a.	124	118	114.5
Brčko District	schools	657	734	737	750	n.a.	n.a.	n.a.	726
	students in 1000								7
	schools								15
<b>Total</b>	<b>students in 1000</b>	<b>379</b>	<b>390</b>	<b>396</b>	<b>403</b>	<b>n.a.</b>	<b>383</b>	<b>363</b>	<b>367</b>
	<b>schools</b>	<b>1555</b>	<b>1677</b>	<b>1713</b>	<b>1763</b>	<b>n.a.</b>	<b>n.a.</b>	<b>1289</b>	<b>1836</b>

Source: Institutes of Statistics in the FBiH and the RS, Department of Education of the Brčko District

### 5.2.2. Problems in Primary Education

- incomplete coverage of children with primary education, particularly of vulnerable groups such as Roma children, female children, refugees and displaced children, and children whose education had been interrupted by the war and were not reintegrated into the education system;
- a comparatively small average school and average classroom,
- inadequate education of students-future teachers in the practice of primary schools;
- inadequate teaching methods and curricula (need to update teaching methods);
- inadequate application of standards and norms, and consequently inappropriate and irrational student to teacher ratio, as well as teaching to non teaching staff ratio,
- inappropriate age for enrolment in primary school, and primary education does not last long enough;
- inadequate social and financial status of teachers.<sup>5</sup>
- excessive share of teachers' salaries and administrative staff in total educational costs<sup>6</sup>.

## 5.3. Secondary Education

### 5.3.1. Current Situation in Secondary Education

Secondary education is the most developed level of education; however, it is not mandatory. The length of schooling is normally two to five years, and most often lasts between two and four.

<sup>5</sup> This problem was pointed out in the EC Feasibility Study as well "The Report of the Commission to the Council on Preparations of BiH to Start Negotiations with the EU about the Stabilization and Association Agreement" (Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 35).

<sup>6</sup> EC experts consider this a great impediment to the improvement of the educational sector ("The Report of the Commission to the Council"(Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 34-35).



Table 2 – Trend of secondary school attendance in BiH

		1996	1997	1998	1999	2000	2001	2002	2003
FBiH	students in 1000	81	89	89,6	103	112	113	114	116
	schools	171	183	189	190	204	206	204	204
RS	students in 1000	45	50	51	52	n.a.	58	53	52
	schools	80	96	98	100	93	92	90	87
Brčko District	students in 1000								3.5
	schools								4
<b>Total</b>	<b>students in 1000</b>	<b>127</b>	<b>138</b>	<b>147</b>	<b>155</b>	<b>n.a.</b>	<b>171</b>	<b>167</b>	<b>171.5</b>
	<b>schools</b>	<b>251</b>	<b>279</b>	<b>287</b>	<b>290</b>	<b>297</b>	<b>298</b>	<b>294</b>	<b>295</b>

Source: Institutes of Statistics in the FBiH and the RS, Department of Education of the Brčko District

### 5.3.2. Problems in Secondary Education

- insufficient inclusiveness in secondary education of young people, especially those from underprivileged backgrounds,
- insufficient autonomy in the creation and implementation of curriculum content;
- an inadequate balance between vocational schools and general secondary schools (currently 80:20, compared to 50:50 in the EU);
- education not linked with the labor market;
- obsolete curricula and syllabi; curricula and syllabi are not based on the modular principle that promotes the use of new IT technology in education,
- inadequate way to calculate funding for schools and insufficient funds for teaching aids, materials, and investment,
- inadequate teacher training and further qualification,
- obsolete school infrastructure,
- inadequate social and material status of teachers.

### 5.4. Special Education

The particular reasons for reform in special education are:

- children with special needs are not sufficiently integrated into school programs;
- the inadequate treatment, in particular of gifted children, from early childhood and throughout education.

### 5.5. Priorities: preschool, primary, secondary, and special education

**5.5.1. Depoliticize education and create conditions to ensure equal education opportunities so that all children, particularly returnee children and children from the poorest families, have access to high-quality education in integrated schools, freed from political, religious, cultural and other prejudices<sup>7</sup>.**

- implement the Interim Agreement on Meeting the Specific Needs and Rights of Returnee Children,
- increase the number of returnee/minority teachers employed,
- teach the national group of a subject, if it is requested by parents,
- reduce the number of pupils attending monoethnic schools,
- harmonize composition of school boards with the national structure in the schools,
- eliminate offensive content from the group of national and other subjects and change names of schools and subjects if deemed inappropriate,
- develop a program that will define measures and activities to address specific problems of Roma children.

### 5.5.2. Ensure Equal Opportunities in Education for All in BiH

The following priorities are important in meeting this goal:

- enforce the BiH Framework Law on primary and secondary education at the State level,
- design a common core curriculum and form a curriculum department within the existing Agency for Standards and Assessment,

<sup>7</sup> The EC also points to ethnic discrimination in education ("The Report of the Commission to the Council" (Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 35).

- design appropriate pre-school curriculum and increase enrolment of children in this form of education,
- design a modern curriculum with common core content for primary and secondary education to enable pupils throughout BiH to attend class together,
- conduct a review of initial teacher education and training and ensure that all teachers undergo training in the application of modern teaching methods,
- provide continuity of technical support for the Agency for Standards and Evaluation and establish a department for secondary vocational and technical schools, as well as a department for core curricula,
- establish a network of training centers to include programs for the professional development of educators and teachers in pre-school institutions and primary schools and secondary schools,
- develop training programs for teachers to work with children with special needs,
- alter the present system of setting children with special needs apart,
- develop rules and standards for pre-school institutions and primary schools and ensure that inspections of school buildings and equipment are carried out,
- develop contemporary management models for pre-school institutions and schools and appoint principals and school boards in harmony with this model,
- develop guidelines for the operations of parent council and student councils and form parent councils and pupil councils in each school, as well as parent councils in each pre-school institution,
- conduct a campaign on inclusive education in order to raise awareness in the society.

## 6. Tertiary Education

### 6.1. Current Situation in Tertiary Education

There are seven universities in BiH -- five in the FBiH, and two in the RS. There are 95 legal entities offering services of tertiary education in BiH. During the 2002/2003 academic year, 14,784 students were enrolled in the universities in the RS and 51,771 in the FBiH.

Table 3 – Structure of Universities in BiH

Universities	Schools	Academies	Associate programs	Total
University of Sarajevo	23	3	4	30
University of Tuzla	8	1	0	9
University of Bihać	5	0	2	7
University of Mostar	7	0	1	8
University of Mostar	8	1	1	10
<b>FBiH total</b>	<b>51</b>	<b>5</b>	<b>8</b>	<b>64</b>
University of Banja Luka	12	1	2	15
University of Srpsko Sarajevo	13	3	0	16
<b>RS total RS</b>	<b>25</b>	<b>4</b>	<b>2</b>	<b>31</b>
<b>BiH total</b>	<b>76</b>	<b>9</b>	<b>10</b>	<b>95</b>

Source: Institutes for Statistics in the FBiH and the RS, 2002.

### 6.2. Problems in Tertiary Education

The problems with tertiary education started in the 1980's when allocations for education were cut back. This trend continued and even worsened during the war, a time marked by a significant number of school buildings destroyed and many teachers who left. The conditions for teaching classes are still far behind the western European standards. Other problems include dated curricula, a large number of universities that do not have a sufficient number of qualified faculty members or the appropriate resources; further, universities are lacking a developed in-country network and are not connected to

other universities abroad.<sup>8</sup> Despite the difficult financial situation, tertiary education is still not paid at for at the market rate, which accounts for the fact that an average student in BiH takes seven years to graduate.

### **6.3. Priorities in Tertiary Education**

#### **6.3.1. Institutionally and Financially Strengthen Tertiary Education and Integrate the Universities**

- adopt and implement the Framework Law on Higher Education at the State level,
- reach agreement on the transfer of jurisdiction in higher education from the cantons to the FBiH level,
- redefine the modes of funding of universities (set up tertiary education funds on the entity level, introduce student loans),
- give the universities the status of legal entity and responsibility for budget management;
- professionalize university management and administration,
- ensure institutional participation by students, academic and non-academic staff in the decision-making process.

#### **6.3.2. Reform and Modernize Tertiary Education**

- reform curricula and teaching processes,
- reduce the extremely high rate of repeating years by introducing a tuition system that would be in line with market prices and offer student loans,
- increase teaching obligations of faculty members,
- provide adequate remuneration for professors and reduce multiplication of employment contracts,
- avoid universal salaries (same remuneration for all professors) for faculty members, bring this in line with the labor market,
- avoid duplication of capacities in tertiary education,
- ensure closer cooperation between the universities and the labor market. Promote continuous education and training by enhancing the relevance of curricula to the labor market,
- adapt curricula to include raising awareness for the environment,
- stimulate universities to develop distance learning.

#### **6.3.3. Create Preconditions for the Development of Science and Scientific Research at the Universities<sup>9</sup>**

- enhance academic research work by the adoption of new laws and introduction of tax concessions for individuals and institutions engaged in such work,
- allocate funds in the budget for scientific research in line with the proposed Framework Law on Tertiary Education in BiH,
- create preconditions for stable functioning of an existing academic network, development of IT infrastructure, and inclusion of the universities in the European and international academic community.

#### **6.3.4. Provide Tertiary Education to More People and Ensure the Participation of BiH Universities in European Tertiary Education**

- offer scholarships and student loans, allow greater access to university education to all, including underprivileged categories. Increase the number of young people attending universities from the present day 25 percent to a minimum of 35 by the year 2007, and to a minimum of 60 percent by 2015,
- support university reform, including signing the Bologna Declaration and ratification of the Lisbon Convention;
- set up a system of equivalence for academic careers gained in BiH universities that conform to European practice;
- accelerate the introduction of the European system of credit transfer (ESTC) with the aim of completing the process for the majority of academic curricula (by July 2004).

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<sup>8</sup> The EC Feasibility Study also emphasizes this problems and considers a possibility of extended cooperation with BiH ("The Report of the Commission to the Council"(EC Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 34).

<sup>9</sup> The EU is ready to support strengthening the potential for scientific research in BiH ("The Report of the Commission to the Council"(EC Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 34).

## **7. Vocational Training and Adult Learning**

The overall reform of the educational system is a time consuming process. Within this process, the reform of vocational training could be a key link for the economic development and reduction of unemployment and poverty in BiH, because it creates a presumption for the establishment of schools for those professions that are needed in the market, and which have a greater employment potential, such as business schools, IT training and the like. There are several institutions in BiH offering professional training. But, since this area is regulated in various ways, there is no interest on the part of the private sector to invest. On the other hand, there is a need for professional training. A suitable solution for adult education that allows for prompt response to the changing labor market is one of the key factors in dealing with the unemployment problem.

Research carried out by British governmental agency DFID found that, at present, professional training is most often conducted on the job. Surveyed employers pointed to the shortage of a sufficiently qualified labor force in the labor market. Another finding was that employers are not particularly eager to training the labor force through the existing network of institutions for professional training due to the lack of funding and the inefficiency of professional educational programs being offered.

### **7.2. Problems**

- existing vocational and professional education does not meet the needs of a modern labor market,
- there is no appropriate legal framework,
- there is no significant interest on the part of the private sector to invest in this area.

### **7.3. Priorities in the Area of Vocational Training and Adult Education**

Professional training must be reformed in such a way that students who complete this kind of training, within a broadly defined educational profile, can solve concrete problems in a competent and flexible manner, think analytically, make independent decisions, and work as part of a team.<sup>10</sup>

#### **7.3.1. Decide on a Policy and a Strategy of Coherent and Realistic Vocational Training Reform in Both Entities**

The strategy must include defining mechanisms for inter-entity cooperation, defining new curricula, teaching training programs, and creating conditions for partnership with vocational schools and enterprises in the EU, which are relevant to new labor market requirements. Special attention must be given to defining and implementing measures in education and training for the reintegration of refugees, displaced persons and other special groups. There is an obvious need for adult education and retraining programs, as well as coherent and transparent integration of adult education with youth education as they form a logical system.

#### **7.3.2. Improve the Legal Framework**

The existing legal framework is fragmented. Particular attention must be given to stimulating the private sector to invest in this area and to establishing an agency for professional standards.

#### **7.3.3. Categorize the Vocational Training System into Broad Areas of Expertise in Order to Respond Faster to the Present and Future Needs of the Labor Market**

- develop new, flexible curricula in line with European standards, with far more general courses,
- develop a system of labor market information,
- establish cooperation between vocational training and the economy, ensure the participation of members of the broader community, and re-establish tripartite advisory councils (employers, employment bureaus, and government officials),
- advance and improve specialized training of high school graduates and develop systems in which there is a possibility of horizontal and vertical mobility within educational structures,

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<sup>10</sup> The reform of vocational training is one area that is defined in the EC Feasibility Study as a potential for cooperation with BiH ("The Report of the Commission to the Council"(EC Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 34).

- transfer competencies to schools, give more authority to principals and teachers in matters relating to curricula and school management, and provide mechanisms for offering concrete assistance and advice to teachers,
- create a legal and financial framework which will allow schools to take part in commercial activities.

## 8. Libraries

Particular attention should be paid to the libraries of BiH as a very significant element of the educational system as a whole, and a permanent solution to their legal and financial status must be found, together with updating the appropriate legislation. In addition to this basic task, a survey of the state of the country's libraries should be undertaken and steps taken to renew their holdings to meet contemporary social needs. At the same time, a library information system for BiH (BIS BiH) must be established and the conservation of library holdings must be addressed systematically. The Sarajevo University should be sponsored to introduce interdisciplinary post-graduate studies in library disciplines. Current problems in the operation of the BIHARNET network and COBISS system, which are in use in BiH, should be dealt with as soon as possible

## 9. Educational Reform Indicators

In order to follow educational reforms, indicators for Millennium Development Goals, adapted to the needs and conditions in BiH, are proposed:

Indicator	Source	BiH estimate (2000/2001)	2007 projections
Net rate of primary school enrollment	BiH HDR 2002	97%	95%
	WB BiH Poverty Assessment 2003	95%	
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	92.8%	
	LSMS	98.9%	
The percentage of 5 <sup>th</sup> grade students out of the number of those enrolled in the 1 <sup>st</sup> grade	BH Common Country Study Development Indicators, Final Draft, 2002	99.0% 97.9% <i>m</i> /98.2% <i>f</i>	99%
Literacy rate for the 15-24 age group	BH Common Country Study Development Indicators, Final Draft, 2002	99.6% 99.6% <i>m</i> /99.7% <i>f</i>	99%
Secondary school enrollment rate	BiH HDR 2002	56.8%	75%
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	72.6%	
	LSMS	68.3%	
University enrollment rate	BiH NHDR 2002 estimate	19.8%	25%
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	24.2%	
	LSMS	23.0%	
Percentage of children in preschool education	IHR MRC Report BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	4.3%	12%
Percentage of GDP that goes to education	IHR MRC Report	5.2%	6.0%
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	6.0%	
Literacy rate for population above 15 years of age	BiH NHDR 2002, estimate	85.9%	90%
	LSMS	88.9%	

In addition to the universal indicators, it is also necessary to develop indicators that are characteristic of the situation in BiH, as well as a way to monitor them:

- total number of returnee-teachers and minorities that are back at their jobs, number of “two schools under one roof,” number of student being transported to monoethnic schools,
- male to female ratio of students enrolled in primary and secondary schools,
- the percentage of children suffering developmental difficulties who attend primary and secondary schools,
- student to teacher ratio, and student to classroom ratio,
- the percentage of students who graduate high school,
- the length of time to receive an undergraduate degree,
- the amount of money set aside for scientific research,
- the number of countries that recognize BiH diplomas,
- the level of private funding for each level of education.

### V.3. SECTOR PRIORITIES – HEALTH CARE

#### 1. Reform goals in the sector:

- 1.1. ensure a universally accessible, socially acceptable health care system based on the principles of solidarity and equity, ensuring access for various social groups (especially the poor) to a guaranteed basic package of health care rights and services,**
- 1.2. ensure an efficient and transparent health care system focused on the promotion of health and the prevention of disease,ć**
- 1.3. ensure a quality-oriented system with constant improvement of the quality of health care and clinical supervision,**
- 1.4. ensure a system focused on health care needs, actively involving the interests and opinions of both patients and medical workers.**

#### 2. Introduction

The World Health Organization defines health as “a state of full physical, psychological and social well-being, and not just the absence of illness or infirmity.” Medical workers are often reluctant to accept the statement that the key determinants of health lie beyond the competencies of the health care sector. The concept of health development has a lot in common with economic development. Both processes are a result of activities involving many sectors of the society, as well as the population at large, through individual and collective decisions and actions. It is interesting to note that the contribution of medical services of a well-developed health care system to the improvement of the health of the population is assessed at only 10 per cent, while the rest is a result of the work in other sectors.<sup>1</sup>

The main determinants of health correlate with living conditions, environmental factors, lifestyles and biological factors, such as age, gender and heredity.<sup>2</sup> Thus, for instance, the policies in the area of housing, agriculture, education, working conditions, employment, water and sanitation, transport, fiscal regulations and social welfare, often have a greater impact on the health of the population than the health care sector. It is, therefore, essential to stress the importance of intersectoral cooperation in the protection of a population's health, which, in accordance with the Ottawa Declaration, should be based on five areas of intervention, specifically: the creation of sound public policies, the creation of a sustainable environment, the strengthening of community action, the development of personal skills in public health, and a reorientation of health services.<sup>3</sup>

The relationship between economic development and health can be described using two terms: “the economy of health” and “the health of the economy”. The “economy of health” perspective is focused on the effects of poor health and early death on economic development, and on the loss of productivity. Many countries are concerned about the financial cost of health services and social security schemes rather than about the overall cost of illness and early death for the society and for individuals. “The health of economic strategies” focuses on the health effects of various economic policies. The main criterion for the assessment of health effects of economic policies is their impact on vulnerable groups. Social deprivation, together with economic inequalities and housing conditions, results in a shorter life expectancy, and a higher rate of infant mortality in lower social classes.

Unemployment will pose a major problem in BiH in the future. Serious academic studies have shown that long-term unemployment can be considered as a health hazard *per se*, regardless of whether it

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<sup>1</sup> Dahlgren G. The need for intersectoral action for health. The European Health Policy Conference: Opportunities for the Future, WHO Regional Office for Europe, Copenhagen, 5-9 December 1994, pp. 18.

<sup>2</sup> WHO. Health 21 – Health for All in 21st Century. WHO Regional Office, Copenhagen, 2000.

<sup>3</sup> WHO. European health care reform. Analysis of current strategies. WHO Regional Publication, European Series, No. 72, Copenhagen 1997.

results in poverty-related diseases or, rather, in well-developed social security systems in psychosocial diseases (cardiovascular diseases and mental problems). A sound employment policy implies an initiative of selective job creation for those at highest risk of consequences of unemployment, as well as an adequate financial support system. Together with disturbed social and economic determinants of health, or without them, unemployment often results in the choice of an unhealthy lifestyle by a large number of people, in particular in poorer segments of the population. Hence the evident increase in smoking, consumption of alcohol and narcotics, unhealthy diets and insufficient physical activity, which consequently results in the mass occurrence of chronic non-contagious diseases. Unaffordability of health care services for the poor is a frequent reason for them to postpone requesting health care, until the point where the symptoms of the disease are already well advanced and where the treatment is more expensive.

Within the SAA, this area is addressed under Cooperation Policies, as part of the cooperation in the social policy field, and concerns the health and safety of workers.

### **2.1. Basic statistical data**

The 1991 census found the population of BiH at 4,377,033. At the end of 2000, according to estimates from the statistics institutions, the population of BiH was 3,683,665.<sup>4</sup> In 1991 the age structure of the population of BiH was of the type known as "verging on stationary-regressive", with an insignificantly narrowed demographic pyramid. According to the same source, the current age structure of the BiH population is similar to that of 1991, but in the year 2000 the BiH population was of the regressive biological type. Displaced persons accounted for approximately 13.6% of the population of the FBiH. The urban population is estimated at 80% of the total population, as a result of mass war-time migration from rural to urban areas. There has been an observable rise in the proportion of the people aged over 65 (from 6.4% to almost 11% of total population) and a significant drop in the active working population in the 20-40 age group. Health care public expenditure accounts for 7.6 percent of GDP. However, if one takes into consideration that the private health care sector and the so-called informal sector ("under the table" out-of-pocket payments by the general public for public health care services) together account for a further 4.7 percent of GDP, total health care expenditure in BiH amounts to 12.3 percent of GDP, which is very high for a poor country like BiH. Per capita health care spending in 1999 was about 100 KM in RS and 218 KM in FBiH. More than a third of total resources – 37 percent – goes on primary health care, 35 percent on secondary and 18 percent on tertiary health care.<sup>5</sup>

### **2.2. State of health of the population of BiH**

The state of health of the population of BiH has been deteriorating steadily since the war. The reasons are those already noted: socio-economic circumstances, unemployment, migration, the large number of displaced persons, lack of health insurance, unhealthy lifestyles, etc. As many as 22 percent of the BiH population aged over 17 report intermittent constraints on their daily activities as a result of health problems; 24 percent have chronic ailments and 4 percent suffer from serious ailments. In addition, there has been a marked deterioration in population health as a result of long-term stress – post-traumatic stress disorder (PTSD).<sup>6</sup>

Despite the fact that the war had a direct impact on the state of health of the population, age expectancy in 2000 was between 71 and 75, the same as in 1990.<sup>7</sup> Immunization against TBC, diphtheria, tetanus, whooping cough, polio and measles was fairly high, at 95 percent, somewhat lower than the 1991 level of 98 percent.<sup>8 9</sup> In 1991, BiH was one of the countries with relatively low rates of infant mortality at 14.5 per mille (the average for Central and Eastern Europe was 17.5 per mille, and the European average was 7.5 per mille). Since the war, as a result of different reporting methods, there have been major differences in infant mortality rates between the cantons and

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<sup>4</sup> FBiH Statistical Year-Book, FBiH Statistics Institute, Sarajevo, 2001.

<sup>5</sup> National Health Resource Account, WB

<sup>6</sup> How people subjectively rate their state of health.

<sup>7</sup> BiH: Poverty Assessment (WB).

<sup>8</sup> Study on Women and Children in FBiH (MICS 2000), FBiH Ministry of Health, FBiH Public Health Institute, UNICEF, Sarajevo, 2000.

<sup>9</sup> Progress Study of Meeting the Goals of the World Children's Summit through Multiple Indicator Cluster Survey (RS MICS 2000), RS Ministry of Health and Social Protection, UNICEF, Banja Luka, 2000.



regions, so the 1998 figure of 11.7 per mille should be regarded with caution. As regards stillborn rates, compared with Western Europe the figures here are doubly worrying. The rate of deaths in childbirth is one of the reliable indicators for the effectiveness of health care. The pre-war rate in BiH was 10.7 per mille. Although no data have been published for the post-war period, estimates are that the rate of deaths in childbirth has risen. Almost half the male population over the age of 17 smoke, and the trend is similar among adult women (22%)<sup>10</sup>. On the World Health Scale<sup>11</sup>, which indicates a country's overall achievements in health improvement, BiH occupies 79th place.

The list of leading causes of death in BiH now is almost identical with the pre-war list, and indeed with the leading causes of death in the majority of European countries. In 1991 the leading cause of death and loss of years resulting from disability (DALY)<sup>12</sup> was cardiovascular disorders (50%), such as hypertension and coronary ischemic disease. Malignant neoplasms were in the second place (18%); their number has been rising over recent decades. In the third place came symptoms and other undefined conditions. Injuries and poisoning are also on the rise, and are now the fourth most common specific causes of death. The three most common communicable diseases in BiH are respiratory ailments (influenza), childhood infectious diseases (varicella), and bowel diseases (enterocolitis).

Together with another 46 European countries, BiH joined the Euro TB programme for tuberculosis surveillance in Europe. According to 2000 figures, the incidence of tuberculosis in BiH was 65.6/100,000, compared with the average rate for 46 European countries of 76/100,000. The rate is higher since the war than it was before, and is directly connected with growing poverty. Like other transition countries, BiH is facing the problems of HIV infection and it is estimated that around 350 HIV positive persons currently live in the country. In view of the spread of drug addiction and prostitution in the country, the problem of HIV infection has become a public health issue. The morbidity rate from cardiovascular disorders has also risen over recent years: in 2000, 12,500 cases were recorded, compared with 11,069 in 1991. Older people have particularly grave health care problems, since both their poor financial standing and the shortcomings of the public transport system limit their access to health care. Malignant diseases are also on the rise: the morbidity rate in 2000 was 275/100,000, compared with the 1991 rate of 175/100,000.

Road accidents, physical disability and mental ailments are also a major problem for public health care. Available data indicate that more than 47,000 people have been disabled by the war. The number of people injured in road accidents in 1991 was 243/100,000; estimates are that the incidence of such injuries is rising sharply. The risk of injuries from landmines, and other unexploded ordnance remaining around the country in the aftermath of the war, is another important public health issue. According to the ICRC data, 4,798 persons suffered injuries from landmines and unexploded ordnance since the war.

The population of BiH is faced with significant health problems and behaviour that leads to health problems (smoking, alcohol consumption, drug abuse), anti-social behaviour and violence, depression, suicide and other instances in a wide range of different physical and mental disorders. Risk factors to which the BiH population is exposed, such as smoking, high blood pressure, high blood sugar levels, high levels of blood cholesterol and other fats, physical inactivity, the risk of sexually transmitted diseases (HIV), etc., which have an impact on the health both of individuals and of the society as a whole, are markedly on the rise. Unhealthy eating habits and poor water quality also have an adverse impact on the state of health of the population, and since these features have remained practically unchanged for many years, the crisis continues, with adverse health factors coming to dominate over positive ones.<sup>13</sup>

### **2.3. Basic characteristics of the health care system**

Under the BiH Constitution, the organization and management of the health care system in BiH are decentralized down to the level of the entities and Brčko District. In FBiH, the health care system is subject to a shared responsibility of the health authorities in the Federation and the cantons. In

<sup>10</sup> BiH: Poverty Assessment (World Bank, March 2003).

<sup>11</sup> WHO Report 2000. (Overall health system attainment).

<sup>12</sup> Disability Adjusted Life Years

<sup>13</sup> Study of Risk Factors of Non-Contagious Diseases: FBiH, FBiH Public Health Institute, 2002.

accordance with the FBiH Constitution, we have opted for health care to be organized in the canton but coordinated by the Federation government. This option best suits the actual situation in the Federation and allows the possibility to build a decentralized health system, in line with the experience of developed health systems in the world. This, further, offers the possibility to create an economic and efficient health care sector, where we will, by ceding part of the responsibility for health to individuals, or families, and to local communities, mobilize the resources that have not been tapped so far. At the same time, with this option we avoid the danger of a fragmentation of the system, which would have occurred had we chosen the health responsibility in the cantons to be exercised separately.<sup>14</sup>

Although decentralization is one of the fundamental components of the process of reforming the health care system, decision-making in FBiH must not be decentralized in the following areas: the basic health policy framework; strategic decisions in health resources development; the regulation of public safety with regard to contagious diseases; the monitoring, assessment and analysis of the health of the population and health care provision. For the effective functioning of a decentralized system, it is necessary to ensure a sufficient level of development of health management knowledge and skills at the level of cantons/regions. In building a decentralized health system in BiH, responsibility for the health of the population must be clearly divided between the state, entities, District, cantons and municipalities. The process of decentralization of the health care sector in the RS is particularly pronounced in the area of transfer of responsibility for the operation of health centres to the municipality level.

The political commitment of Bosnia and Herzegovina is to establish "an uncompetitive region-based system of social health insurance". Social health insurance implies a non-profit and public insurance system established by law and functioning under the auspices of the parliament and government. This system is not funded through general taxation, but through health insurance contributions. An uncompetitive system means the absence of competition among different social health insurance funds. Region-based means that several funds exist, i.e. one in each region. Citizens do not have the possibility to freely choose a health insurance fund, or the possibility to opt out of insurance, which is mandatory for all citizens. The systemic health laws proclaim the principle of universal health insurance coverage for the population. The FBiH health insurance law allows the possibility of two or several cantonal funds merging into one, if this is conditioned by the need for broader solidarity or reduced administrative costs.

### 3. Problems

***Inequalities and inequities in the health care sector.*** The concept of health reform as a whole wishes to promote the principle of equality, and equity, in the rights to health and life of citizens in BiH as part of human rights. The principles of equality and equity in health and health care imply the following three components: (1) equality in health, and health indicators, between different social groups in the population; (2) equality/equity in the funding of health care according to the needs, both in regions of a country and within individual social groups and (3) equality in access to health care institutions/services in terms of geography and communications. In the document «Health for All in 21st Century»<sup>15</sup>, the European office of the World Health Organization in particular insists on reducing the above mentioned differences between individual social-economic groups within each member country, which are evident both in the gap between main morbidity indicators and in the gap in life expectancy.

***Insufficient health insurance coverage and monitoring of contribution collection.*** The health care regulations proclaim «universal health insurance coverage for the population», with a view to ensuring equal access to health care. Insured persons and their family members, whose right to health care is derived from the mandatory insurance of the holder of insurance, are referred to by the common name of «insured persons». Despite the various possibilities to join the system of social health insurance, it is assessed that around 26 per cent of the population (17% in FBiH and 35% in RS)<sup>16</sup> are not covered by health insurance. The health insurance coverage of the population

<sup>14</sup> Strategic Plan for Health Reform FBiH in the Mid-Term Period. Federation Ministry of Health, Sarajevo, 1998.

<sup>15</sup> WHO. Health 21 – Health for All in 21st Century. WHO Regional Office, Copenhagen, 2000.

<sup>16</sup> Social Insurance Technical Assistance Project (SITAP), Report No. 25672, World Bank, May 12, 2003, p. 11.

significantly varies across cantons and regions, and these variations are even more drastic across municipalities. The number of «insured persons» should be accepted conditionally, because health insurance contributions are not paid regularly for all categories of insured persons. If a person is not employed, the unemployment bureau or the pension insurance fund is required to pay the contribution for his/her health insurance. Self-employed persons, such as farmers and artisans, are required to insure themselves. The practice of contribution payment is very different in individual regions and does not fully follow the legal requirements. According to rough estimates, the health insurance funds collect only somewhat over 65 per cent of the total amount that could be collected under the law and relevant regulations.

There are also significant inequalities in health insurance coverage across segments of the population within a single insuree category, for example disabled war veterans or insurees receiving financial assistance, when under FBiH regulations the level of disability or the character of social welfare (permanent or temporary) determine whether a person is eligible for health insurance or not. Since these persons tend to be of poor health, they are most often unable to find employment and obtain health insurance on that basis.

***Weaknesses in the functional links between the entity and cantonal systems.*** With a view to ensure free movement of people across the cantonal and entity boundaries, as well as to achieve greater equality and equity in health care provision in the territory of BiH, two agreements have been signed: (1) The Agreement on the Modality and Procedure of Psing Health Care Outside the Territory of the Cantonal Health Insurance Bureau Which is Responsible for the Insuree, and (2) The Agreement on the Modality and Procedure of Using Health Care by Insurees in the Territory of Bosnia and Herzegovina Outside the Territory of the Entity, or Brčko District, to Which the Insurees Belong. However, there are significant problems in the process of implementation of these agreements, which should be removed through additional efforts invested by the health authorities in some regions in the country.

***Inequalities in health rights packages.*** The available health funding is very limited compared to prewar levels, which imposes the need to streamline and explicitly identify priorities, as well as to develop mechanisms to strengthen the principles of solidarity and equality in the health care sector. However, health care institutions and doctors in their everyday work often resort to the method of implicit streamlining, which substantially affects the rights of patients in health care. One of the most telling examples of this kind is the reduction of the positive medication list in some cantons, with a significantly reduced allocations of health insurance funds for medications issued on prescription. A health right package was adopted by the RS National Assembly, while a draft text has been prepared in FBiH. However, the health care rights in FBiH currently vary across cantons (different co-payment levels for some services and different positive medication lists).

***Inadequate allocative efficiency.*** In their health policy documents, the ministries of health in BiH consider the process of allocation of resources within the health care sector as a key area of reform, because it determines how the collected funds will be distributed both by geographic regions and levels of health care. The two key areas for a more effective allocation of resources with a view to ensuring cost control at the macro-level and improving institutional efficiency are: (1) contracting mechanisms and (2) systems of payment of salaries to health care employees. Contracting between health insurance funds and health institutions is considered to be an instrument for the implementation of the health policy goals. Unfortunately, most health insurance funds have not introduced a system of contracting services with health care institutions based on demographic and morbidity indicators, but are still basing fund allocation on the number and professional profile of employees in health care institutions, which implies a monthly salary system.

***Inefficient organization of the system and service provision.*** The old, conventional approach to primary health care, which actually represents primary medical care, focuses on disease and therapy, episodic protection and passive reception of patients, greater reliance on of specialist/consulting and diagnostic services, and on hospitalization. Primary health care will be more efficient if the number of patients unnecessarily referred to the secondary and tertiary level could be reduced. Trained family medicine teams will be able to independently satisfy most requests for health care (up to 80%). The family medicine doctor should take over the role of the «gatekeeper» to the higher levels of the health care system. Detailed mechanisms of motivation for this role are being elaborated through ongoing pilot projects. Unlike the old concept of passive health care, the future concept should imply an active

approach, i.e. work in the community with the focus on the promotion of health and the prevention of disease, continuous and comprehensive protection, team work and development of intersectoral cooperation.

**Corruption in the health care sector.** Corruption in the health care sector significantly reduces the efficiency of the system as a whole, but also represents a significant burden for poorer social groups when they are forced to pay for services «under the table» in the public sector. The leading areas that can be identified as very likely opportunities for corruption are the following: (1) the corruption of persons responsible for procurement in health care institutions and for capital investments (mostly managers of health care institutions), (2) the conflict of interest through favouring private practices during work in a public institution (e.g. inducing patients to turn to private medical practice by creating long waiting lists), (3) the corruption of some health care employees requiring payment «under the table» for services provided in public institutions. On the one hand, it is necessary to spend the public monies from health care funds economically, and on the other, to reduce to the minimum the payments «under the table» for poor population categories in public institutions, as well as their referral to the private sector for services that can be provided in the public sector.

#### **4. Priorities**

In elaborating the problems in the health care sector and health determinants in general, the primary task of this study is to identify the priority activities which over the next four years will mitigate the adverse effects of poverty on health, and result in an improved work capacity of the population of BiH. These priorities also constitute the fundamental thrusts of the development strategies of the health care system, and they have been unequivocally supported by all health ministries in the country. The package of priority activities proposed in this study is a comprehensive set of interrelated measures, which over a relatively short period of four years will prevent the negative effects of poverty on the health of the population. It is understood that this document cannot possibly present all reform measures in the health care sector that are the responsibility of the entity governments, as well as of the Brčko District. The priority activities that the health care sector in the country will undertake in order to fight poverty are the following:

- activities in the area of funding and payments in the health care sector,
- the reform of primary health care through the concept of family medicine,
- the reform of the pharmaceutical sector,
- the strengthening of the role of the public health sector and multisectoral cooperation,
- the development of human resources,
- the assurance of quality of health care services.

##### **4.1. Activities in the area of funding and payments in the health care sector**

The priority activities which primarily concern the area of health insurance and health economy and may yield positive effects in terms of the correlations of poverty and the health of the population are as follows:

- to ensure the universal health insurance coverage for the population,
- to adopt an adequate health rights package, and expand the solidarity system,
- to ensure an unimpeded implementation of the agreements on the modality and procedure of using health care outside the territory of the health insurance bureau where the individual insurees belong,
- to implement new resource allocation mechanisms,
- to streamline the health institutions network,
- to develop strategies to fight corruption in the health care sector.

##### **4.1.1. Ensure universal health insurance coverage for the population:**

- adopt amendments to the laws on health care,
- adopt amendments to the laws on health insurance,
- require the entity governments to secure funds for the health care of population categories not covered by health insurance,
- ensure mechanisms for a more successful collection of health care contributions.

The policy of BiH in the area of health insurance should focus on the implementation of the following priority objectives: ensure the universal health insurance coverage for the population and ensure equal access to health care services for all citizens. A number of documents have proposed strategies that will help the entity and cantonal health authorities ensure the universal health insurance coverage for the population. Strategies have also been developed to monitor the payment of contributions by insurance obligors.

**4.1.2. Adopt an adequate health rights package and expand the solidarity system**

- draft and adopt the basic health rights package in the entity parliaments,
- implement the adopted health rights package,
- establish such health care funding system that can meet the set objectives of equality and solidarity.

The health rights package, funded from mandatory health insurance, represents the scope of rights to meet the basic health needs of citizens, guaranteed under equal conditions for all insured persons within each entity, as well as Brčko District, based on the principles of equality, equity and solidarity, irrespective of where they live and what contribution they are able to pay for health insurance. The principles of equality, equity and solidarity are the basic values constituting the foundations of our health care system. The ethical theories guiding the decision-makers in deciding on the key focuses are objective utilitarianism and egalitarian liberalism.

Confronted with the shortage of funds in the health care sector, the governments have chosen to increase the level of health contributions from the salaries of the employed relative to prewar levels, and to introduce the co-payment of health care costs by patients and design a health rights package. The aim of introducing co-payment by patients is to collect additional funds needed for the normal functioning of the health care sector, but also to contribute to reducing the number of unjustified requests for health care. The broadly based exemptions from co-payment will mitigate the inequities for people with low incomes, as well as inequalities in using health care services for the elderly, children and chronic patients.

An overview of available funds in the cantonal health insurance bureaus in FBiH shows significant discrepancies between the average levels of collected health contributions across cantons, which may be as high as 3:1. Such inequities are impermissible in a health care system funded through a mandatory health insurance that proclaims the principles of equality and solidarity. The political debate will be necessary to define satisfactory arrangements for funding the proposed health rights package in the poorest cantons. Any of the proposed variants of funding sources will necessarily, through mechanisms of federal solidarity, ensure the process of "risk equalization"/subsidiarity in funding the health rights package throughout FBiH.

The launching of activities to implement the health rights package can significantly speed up the resolution of many other issues, such as: the strengthening of the federal solidarity scheme; the monitoring of contribution collection in cantons; a more equitable allocation formula towards individual levels of health care and services within institutions; a more efficient human resources planning in line with new standards and norms; reducing unjustified requests for health care; the creation of premises to establish additional/private health insurance etc.

**4.1.3. Ensure an unimpeded implementation of the agreements on the modality and procedure of using health care outside the territory of the health insurance bureau which is responsible for the insuree**

- reinforce the control of the implementation of the agreement,
- develop mechanisms for the implementation of the agreement.

The health insurance funds will invest maximum efforts to fully implement these agreements, signed as early as 2001.

**4.1.4. Implement new resource allocation mechanisms:**

- adopt the missing by-laws,
- adopt amendments to the health insurance laws, where necessary,

- implement contracting mechanisms between health insurance funds and health care institutions, as well as new, more stimulating mechanisms of paying health care employees,
- ensure an equitable distribution of funds within individual segments of health care and systematically monitor expenditures in the health care sector through transparent National Health Accounts.

The importance of the above mentioned activities for reforming the health care resource allocation system has already been elaborated.

**4.1.5. Streamline the network of health care institutions:**

- adopt by-laws on the network of health care institutions,
- contract health services only with institutions that are part of the network of health care institutions, and thus streamline the spending of monies from mandatory health insurance funds,
- conduct an analysis of employees in the health sector and develop programmes to take care of the redundant.

In addition to the definition of the basic health rights package, the proposals for reform in the area of explicit streamlining also concern the design of the network of health care institutions. It is an ethical duty of the health policy makers to first exhaust the possibilities offered by the streamlining of the number of health care institutions, and then resort to the mechanisms of explicit streamlining of the right to health care, with a view to increase funding available in the mandatory health insurance funds. It is to be expected that the health policy makers will endorse the patient-focused concept of health care, which will first exhaust the possibilities of streamlining the network of health care institutions, unlike the concepts focusing on doctors and the pharmaceutical industry, which tend to explicitly streamline the right to health care. A network of health care institutions has been officially adopted in the RS and Brčko District, and in FBiH a draft text has been prepared. The issue of streamlining the capacities of health care institutions will soon also be addressed within the World Bank-funded SITAC project.

**4.1.6. Reduce the opportunities for corruption in the health care sector:**

- adopt the Anti-Corruption Strategy in the health care sector, adopt accompanying by-laws,
- establish a transparent procurement system,
- establish professionalized capital investment planning and control systems,
- develop and adopt appropriate arrangements for a system of supplementary medical practice.

The health ministries in BiH should urgently create effective strategies to reduce the opportunities for corruption in the health care sector, focusing on the identified areas.

**4.2. The reform of primary health care through the concept of family medicine:**

- adopt by-laws on contracting and payment of family medicine services, the scope of work of family medicine teams etc.
- perform limited construction works in family medicine facilities,
- procure medical equipment,
- train team members for work in family medicine,
- transform health centres in accordance with the directions of reform,
- implement new payment mechanisms through weighted capitation to provide incentives for the work of family medicine team members.

The basic orientation of our future health policy and reform changes is a new concept of primary health care based on the family medicine practice. The tasks of the family medicine team are defined as preventive, promotional, diagnostic/therapeutic and rehabilitation health care activities in individual medical disciplines applicable in the family. The success of primary health care through a family medicine team requires a larger allocation of health care funding for this segment. However, it is necessary to pay attention to the financial sustainability of the proclaimed shift of a larger share of

funds to primary health care, which should in any case be gradual and based on exact analysis. An effort to include local community resources (e.g. municipal and cantonal government budgets) is also necessary, since that could significantly strengthen the primary health care .

The results of scientific research, both abroad and in the country, have already indicated that the application of the concept of family medical practice reduces the overall costs of the health care system, mainly through a reduced use of hospital capacities, reduced number of specialist consultations, and an economical prescription of medication. Likewise, the concept of family medical practice has a positive impact on the health of the population through the promotion of healthy lifestyles, disease prevention, community and family participation, and promotion of intersectoral cooperation. Through an appropriate system of payment for health care services, the family medicine team members should be encouraged to engage in this type of work, which is an important precondition for the proposed concept.

The policy orientation is to accept the «gatekeeper» concept in family medicine in the context of the referral system as a whole. The role of the «gatekeeper» in the referral system in the health care sector can be regulated in two ways: (1) by law and (2) through motivational factors of financial nature. The focus of our health policy is to use both of these mechanisms with a view to improve efficiency at all levels of health care. The motivational factors of financial nature are effectively a set of incentives for cost control, as well as for a sustainable development of the health care sector as a whole.

#### **4.3. Reform of the pharmaceutical sector**

- establish a regulatory drugs body at the level of BiH.

The task of the entity drugs control agencies includes the registration of new drugs in the BiH market, ongoing control of the quality of drugs, development of a drugs policy, drugs cost control, development of a good prescription practice, etc. It would be economic to establish one agency at the level of BiH out of the two entity agencies, with a division of responsibilities.

#### **4.4. Strengthening the role of public health and multisectoral cooperation:**

- adopt the law on the protection of citizens from contagious diseases,
- adopt the law on sanitary inspection,
- adopt the law on health supervision over basic foodstuffs and general consumption items,
- adopt the law on poison trade,
- draft a strategy of the so-called new public health, under which the entire society takes care of the health of individuals and the community and through various intersectoral activities contributes to a change in individual behaviour and health promotion,
- ensure sustainable funding of vaccine procurement and implementation of the objectives of the WHO strategy "Health in 21st Century",
- monitor the system performance indicators,
- prepare the terms of reference for the development of an integrated health information system at the entity level, and the development of an IT protocol for communication between information systems at the level of BiH,
- ensure appropriate conditions to monitor ecological exposures and their impact on health, in cooperation with other sectors,
- take part in activities related to the implementation of the NEHAP (National Environmental Health Action Plan),
- establish a body to coordinate public health activities throughout BiH,
- implement a strategy to combat AIDS.

Public health is a branch of health care that seeks to improve a population's health through promotive and preventive actions to promote health, prevent disease through intersectoral action within the health care system, and refocus traditional public health services. Contagious disease control requires above all that the population's existential needs be met, such as quality water supply, waste disposal, food hygiene, as well as activities aimed at promoting health care education. Non-contagious diseases

also have many adverse consequences: increased morbidity and mortality rates, early disability or infirmity, and absenteeism, all of which increase health care costs. Health promotion and prevention of these diseases are thus significant for public health.

Ahead of us is the drafting of a strategy of the so-called «new public health», which is extra-institutional and focused on the promotion of health and prevention. The state should take over the obligation and role of the preservation of health of the entire society, community and family. We will seek to improve health through various intersectoral activities within the society, including health activities, and through change in individual behaviour. Unfortunately, we still tend to imply and implement «public health» through institutions (institutes).

Public health reform in BiH entails an effort to involve the community and the socio-economic environment in the battle for better health. Health promotion is a task of primary importance, which includes creating effective public policy in various sectors, creating a sustainable environment, promoting community activities, personal skills development and refocusing health care services.<sup>17</sup> Public health deals with health through promotive and preventive action to improve health, the prevention of disease through intersectoral action within the health care system, and refocusing traditional public health services. An evidence based public health strategy must be formulated, and priority programmes developed, to include health promotion, contagious disease control, non-contagious disease control, nutrition, mother and child care and family planning, a healthy environment, etc., through all levels of society.

Health care monitoring, as a major facet of public health, will be developed to the fullest possible extent in the forthcoming period in BiH, which entails measuring the state of health, health care needs and use of health care services using various methods and population surveys; precise definition of the factors that impact on the health of individuals and of the society as a whole; planning, implementing, control and evaluation of preventive and promotional programmes in the community; the precise identification of priority areas for public health and the provision of quality information to the relevant ministries, which will use these inputs to design appropriate health care policy measures and a development strategy for the health care system in BiH.

To achieve this, the public health system will need in the near future to develop very precise health care indicators relevant not only for BiH but for the region, and acceptable to the European Union. This development would be founded on a critical review of existing health care data and of the information used in the health care sector. In addition, there should be a precise definition of the essential data that the public health system in BiH should collect, appropriate data collection methods for implementation of this project should be developed, and finally, the required skills to analyse and interpret the data must be developed for transforming such data into information to be disseminated as reports to all potential users in the health care system.

#### **4.5. Human resources development**

- adopt a rule book on specializations (for FBiH),
- develop and implement a needs-based human resources development strategy.

The constant advance of medicine and intensive use of high technology equipment require on-going training of medical workers. The current structure of the education system does not provide the conditions in which such a system could be introduced. Managing the health care system at the micro and macro level also calls for familiarity with general management skills. All these are reasons for a new way of systematic planning, training and management of personnel in the health care sector. It is essential to focus reforms in this field on establishing strong links between medical faculties and schools on the one hand and the need for health care personnel with specific specialities on the other. To this end, it is important that the work of the newly-founded health care management centres in Sarajevo and Laktaši be encouraged; these centres will offer post-graduate training in various aspects of health care management both for current health care institution managers and for people interested in health care management as a future career.

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<sup>17</sup> Ottawa Charter For Health Promotion, 1986.



#### **4.6. Ensuring the quality of health care services**

- adopt the law on health care services quality control and accreditation,
- establish regulatory bodies to improve the quality of health care provision,
- establish units to monitor and improve the quality of health care in health care institutions.

Medical care is a type of health care for which physicians are directly responsible, either by providing it themselves or by directing others to do so. It can offer major benefits for users, but often at a higher cost.<sup>18</sup> Previously, the quality of health care services had been taken for granted. However, it is something that can be monitored, objectively measured, assessed and, certainly, improved. At the institutional (hospital) level, health care control units should be set up, and clinical guidelines laid down and followed. At the entity level, another priority is to establish accreditation and quality agencies and here the continued support for the newly-formed agencies for accreditation and quality assurance in Sarajevo and Banja Luka is of major importance. Good quality health care is important in itself, but also because it reduces the costs of health care system.

#### **5. Funding the health reform**

Individual activities in the area of health insurance are identified as priorities that can most effectively contribute to reducing inequities in health across social classes in the country over the shortest period of time. The bulk of these activities had already been planned within the framework of the World Bank-funded SITAC project, which will deal with the health and pension insurance reform. Other reform activities are part of the regular duties of health ministries, health insurance funds, parliaments and governments. A cost assessment for these priority activities, therefore, correlates with the actual funds that will exist in the health sector, which are strictly earmarked.

With respect to increasing the efficiency of the system as a whole, through the implementation of the concept of family medicine, we have already opted for a gradual and flexible approach to reform, where the desired change is first tested locally through pilot projects before it is expanded to include the country as a whole. As opposed to quick and radical reforms (the so-called »big bang«), this area of reform of the sector requires a certain period of time, given the need to invest in medical equipment, minor construction works and staff training. The USD 32 million for this purpose represent the largest share of the reform cost, and these funds can be partly provided from local sources and partly from international projects. In addition, these activities can focus on priority regions in the country, in line with the adopted criteria of contribution to reducing inequity in the health care sector and increasing the efficiency of the system.

#### **6. Indicators for monitoring implementation of reform in the health care sector**

According to WHO assessments, the health care sector contributes to a population's health only at a level of around 10 per cent. The rest is a result of the operation of other factors, such as education, housing conditions, water supply and sanitation, agriculture, transport, etc. Although one of the leading objectives of many health reforms in the world is to improve the health of the population, it is necessary to keep in mind that it takes a relatively long period of time to improve these indicators (even up to 10 years). Therefore, many indicators of the state of a population's health cannot be used as indicators for monitoring the implementation of reforms in the health care sector, especially not in the short term. Thus, in the transition period of reforms, the indicators of the process of implementation of health reform, as well as the performance indicators, are much more valid indicators of the effectiveness of changes than the indicators of a population's state of health.

The table below mostly shows the indicators of the state of the population's health, with a special emphasis on the target values in the long-term period (2015).<sup>19</sup> However, in the short-term period of the implementation of reforms, the priority indicators are to be found in the «check list» of implemented activities from the PRSP action plan. The institutions monitoring the health indicators

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<sup>18</sup> Eldar R. Vrsnoća *medicinske skrbi* (Quality of Health Care), Zagreb, Croatia, 2003.

<sup>19</sup> Human Development Report/Millennium Development Goals – BiH 2003. UNDP in Bosnia and Herzegovina, June 2003.

given in the table below are the entity public health institutes, health insurance funds and entity statistics institutes. Some indicators are monitored regularly, and others are subject to occasional research studies in the field, implemented every 2-5 years.

Table 1: An overview of selected indicators of the state of health of the population and functions of the health care system

Indicators	Data sources	Estimates for BiH (2000/2001)	Projections for 2007
Children mortality below the age of 5 (per thousand) Children mortality below the age of 5 (per thousand)	UN Statistics Division, UNICEF, WHO	18 (19m/15f)	9.3
	ZZJZ FBiH <sup>20</sup> , Fund ZZ RS <sup>21</sup> , FBiH ZS <sup>22</sup>	13 (2000), 10.3 (2001)	
	BH Common Country Study Development Indicators, Final Draft, 2002	11.2(2000) 9.61(f)/12.69(m)	
Infant mortality rate below age of 1 (per thousand)	UN Statistics Division, WDI 2002	13-15	7.0
	ZZJZ FBiH, Fund ZZ RS, ZSFBiH	11.2 (2000), 8.5 (2001)	
	ASBiH, Bilten 2/2003.	9.7 (2000), 7.6 (2001) 8.51(f)/10.78(m)	
Percent of children below age of 1 vaccinated against variola	UN Statistics Division, UNICEF, ZZJZ FBiH, Fund ZZ RS, FBiH ZS	83% 80.74%–95.06%	98%
Percentage of new-born children weighing 2.500 grams or less		4%	3%
Percentage of breast-fed infants up to age of 6 months	ZZJZ FBiH, Fund ZZ RS, ZSFBiH	2.1%	5%
Mortality rate of women in childbirth (per 100,000 babies)	UN Statistics Division BH Common Country Study Development Indicators, Final Draft, 2002	5.05 estimate	4 <sup>23</sup>
Percentage of deliveries with expert assistance	UN Statistics Division ZZJZ FBiH, Insitut ZZ RS, ZSFBiH BiH Common Country Study Development Indicators, Final Draft, 2002	100% 99% 99.6%	100%
Fertility rate (total number of babies per woman)	ASBiH <sup>24</sup> , Bulletin 3/2003	1.3 (2000) 1.4(2001)	1.5
Birth rate (per thousand)	ASBiH Bulletin 3/2003	10.5 (2000) 9.9 (2001)	11.5
Mortality rate (per thousand)	ASBiH Bulletin 3/2003	7.8	7.1
Population growth rate (per thousand)	ASBiH Bulletin 3/2003	2.4 (2000) 1.9 (2001)	3.7
Life expectancy	BiH NHDR, 2002 WDI 2002	73.3 (1995-2000) 73 (76(f)/71(m))	73.5
Number of pregnant women, between 15-24 years of age, infected with HIV/AIDS	WHO, ZZJZ FBiH, Fund ZZ RS	N / A <sup>25</sup>	
Percentage using contraception	WHO BH Common Country Study Development Indicators, Final Draft, 2002	49 % (2001) 47.5% (2000)	55%

<sup>20</sup> FBiH Public Health Protection Institute.

<sup>21</sup> RS Health Care Fund

<sup>22</sup> FBiH Statistics Bureau.

<sup>23</sup> Data for mortality rate needs to be developed

<sup>24</sup> BiH Statistics Agency.

<sup>25</sup> Data needs to be establish

Indicators	Data sources	Estimates for BiH (2000/2001)	Projections for 2007
Number of children infected with HIV/AIDS Broj djece sa HIV/AIDS	ZZJZ FBiH, Fond ZZ RS, FBiH ZS ZZJZ FBiH, Insitut ZZ RS, ZSFBiH	N / An/a <sup>26</sup>	
Number of adults infected with AIDS, number of new cases	WDI 2002 HDR 2001	51 3	
Case and deaths of tuberculosis (per 100,000)	WHO	4 deaths 50 cases	0 30
TBC cases discovered and treated under DOTS (per 100,000)	WHO	90	N/A
Registered drug addicts	ZZJZ FBiH, Fund ZZ RS	n/a <sup>27</sup>	
Cases of viral hepatitis	WHO, ZZJZ FBiH, Fund ZZ RS	n/a <sup>28</sup>	
Share of health care in GDP	HDR/MDG Report	5.5% (2000) 4.8% (2001)	7%
	BiH from Aid Dependence to Fiscal Sustainability, ECSPE, 2002	7.3% (2000)	
Percentage of population with health insurance	ZZJZ FBiH and Fund ZZ RS	78% (2001)	85%
Number of doctors per 1000 people	ZZJZ FBiH and Fund ZZ RS	1.3 (2000) 1.5 (2001)	1.5
Number of hospital beds per 1000 people	ZZJZ FBiH and fund ZZ RS	3.7 (2000) 3.2 (2001)	3.2

<sup>26</sup> Data needs to be establish

<sup>27</sup> Data needs to be establish

<sup>28</sup> Data needs to be establish

## **V.4. SECTOR PRIORITIES – AGRICULTURE**

### **1. Goals**

***1.1. Activate natural and human potential and increase employment***

***1.2. Increase competitiveness of domestic agriculture,***

***1.3. Reduce agricultural imports***

***1.4. Balance demographics of the regions in the country***

***1.5. Develop rural areas as a crucial factor in poverty reduction***

***1.6. Promote preservation of the environment through the promotion of sustainable agriculture.***

### **2. Situation**

#### ***2.1. Overview***

Agriculture is one of the key activities of the rural area and the main activity of the rural population, as well as a very important factor for preservation of the balance and environmental protection. Agro-environmental conditions in BiH are relatively favorable for agricultural production. However, the agriculture in BiH at the same time is faced with the necessity to repair war damages and the process of transition from centrally-planned to market economy.

The basic characteristics of agriculture are:

- In 2002, the share of primary agricultural production in the GDP was 12,41 percent. The declining trend in agriculture participation is evident (13,3% in 2001. and 13,74% in 2000).
- It has been estimated that the share of cattle raising is around 50 percent of the total agricultural production. This participation level is noticeably lower compared to the pre-war conditions, and especially in comparison with the situation in developed countries
- Agricultural products account for a significant percentage of the total foreign trade deficit. The agricultural product deficit per capita is USD 200 (USD 73 in Croatia, or USD 71 in EU)
- The degree of utilization of natural resources, primarily the land exploitation is the second key indicator of the situation in the sector. The percentage of untilled ploughland in FBiH was 50 percent in 2001 and 33 percent in RS<sup>1</sup>
- The indicators of agricultural productivity rank BiH last on the European scale<sup>2</sup>,
- With the exception of potatoes, BiH has not achieved self-sufficiency in none of the major agricultural products
- The average age of the population working in agriculture has increased
- Few farmers have reached the level of commodity producers
- Foreign markets had been lost.

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<sup>1</sup> Statistical Bulletin 1-BiH 2002.

<sup>2</sup> Statistical Bulletin 1-BiH 2002.

## 2.2. Legal and Institutional Framework

The laws which currently regulate the sector and the years of enactment are presented in the following table:

### I. BiH

Title of the Existing Laws	Year of Enactment
1. Law on Veterinary Medicine	2002
2. General Law on Cooperatives	2003
3. Law on Protection of Plant Health	2003

### II. FBiH

Title of the Existing Laws	Year of Enactment
1. Law on Agricultural Land	1998
2. Law on Drugs in Veterinary Medicine	1998
3. Law on Waters	1998
4. Law on the Measures for Improvement of Cattle Raising	1998
5. Law on Recognition and Protection of Agricultural and Forest Plant Species	2000
6. Law on Veterinary Medicine	2000
7. Law on Seeds and Seedlings of Agricultural Plants	2001
8. Law on Tobacco	2002
9. Law on Financial Support to the Primary Agricultural Production	2003

### III. RS

Title of the Existing Laws	Year of Enactment
1. Law on Brandy and Wine	1997
2. Law on Tobacco	1997
3. Law on Agricultural Inspection	1997
4. Law on Agricultural Land*	1997
5. Law on Plant Protection	1997
6. Law on Seeds and Sowing Material	1997
7. Law on Measures for Improvement of Cattle Raising	1998
8. Law on Farming Cooperatives	1999
9. Law on Provision and Allocation of Funds for Stimulating Agriculture and Rural Development	2002

Apart from these laws, the legislation of former SFR Yugoslavia, regulating the topics not covered by new BiH, RS and FBiH laws and regulations, are also relevant for the sector. The majority of the existing laws lack bylaws (statutes, instructions etc.), and, in practice, can be only partially implemented. Some of the key laws are missing<sup>4</sup> (e.g. the Law on Agriculture, the regulations for registration of agricultural producers as legal entities). On the basis of FBiH Law on Veterinary Medicine, a number of bylaws has been adopted in the field of veterinary medicine. Nevertheless, in general, little has been achieved in adopting of the necessary laws and regulations and on their harmonization with the EU standards, which was also recognized in the European Commission Feasibility Study<sup>5</sup>. Without the appropriate bylaws, the BiH Law on Veterinary Medicine and the BiH Law on Protection of Plant Health can not be enforced, nor can the Veterinary Office and the Plant Protection Office function successfully.

There are two entity and seven cantonal ministries of agriculture in BiH. The department of agriculture in three FBiH cantons (Canton Sarajevo, Bosnia-Podrinje (Goražde) Canton and Western-Herzegovina Canton) is within the respective ministry of economy. In all these ministries there are around 250 employees in the agriculture-related jobs (excluding forestry). Around 200 officers in charge of agriculture are employed at the municipality level. The described governing structure is funded from the budgets (of

\* The new Law on Agricultural Land in RS is in preparation

<sup>3</sup> See Action Plan for agricultural sector

<sup>5</sup> "The Commission Report to the Council on the Readiness of BiH to Start Negotiations with EU on the Stabilization and Association Agreement", Brussels, November 18<sup>th</sup> 2003., page 20.

<sup>4</sup> See Action Plan for agricultural sector

<sup>5</sup> "The Commission Report to the Council on the Readiness of BiH to Start Negotiations with EU on the Stabilization and Association Agreement", Brussels, November 18<sup>th</sup> 2003, page 20.

BiH, entities, cantons, District, municipalities). The existing structure is inefficient and is not adapted to the needs of the sector.

The competences of the entity ministries and the ministries of Brčko District is not identical. In FBiH, the Federal Ministry of Agriculture, Water-Management and Forestry shares its competences with the relevant canton ministries. The reform of the governing structure needs to strengthen the entity agriculture ministries' capacity for execution of their basic tasks: analysis and development of agrarian policy, especially in market-oriented agriculture, gathering and distribution of market information, preparation and implementation of regulations, management of natural resources. The BiH Ministry of Foreign Trade and Economic Relations (MoFTER), and the BiH Council of Ministers (CoM) which set the rules of foreign trade exchange, have important competences over the sector. More than two years ago, the BiH Veterinary Office was established within the BiH MoFTER. This office serves as the administrative link between veterinary sectors and the veterinary inspectorates of the entities (and cantons), but it has yet to become fully operational.

### **3. Problems**

- ineffectiveness and fragmentation of administrative and inspection services, including border inspections,
- unresolved issue of control and certification of goods in production and on the market,
- non-functional governing structures in FBiH,
- insufficient and inadequate subsidy system,
- unresolved issue of ownership of the veterinary clinics in FBiH,
- non-existence of the connected network of diagnostic and referent laboratories,
- lack of experts in key ministries,
- absence of competence and influence of both relevant entity ministries regarding:
  - a) imports regulations,
  - b) certification,
  - c) manufacturing industry (entity ministries of industry),
  - d) development (of credit policy).

The world practices indicate the need for professional and scientific institutions which perform certain professional activities, conduct fundamental and applied research with the aim of implementing the sector development strategy. A huge problem is that neither the status nor the funding of the professional institutions in BiH have been defined, because, for a long time to come, agricultural producers in BiH will lack economic power to contribute to funding of these professional institutions. In underdeveloped countries, these kinds of institutions have the status of public institutions. All of our neighboring countries have one or more professional institutions (e.g. there are five in Croatia, with a few hundred employees).

### **4. Priorities**

The BiH Medium-Term Development Strategy (PRSP) in agriculture places the main emphasis on the economic development of the sector, implying activation of natural and human resources, which opens the possibilities for reduction of poverty in rural areas.<sup>6</sup> The agricultural policy must be based on the strengthening of the competitiveness of the sector, not forgetting at the same time the challenges and difficulties that will arise from the international integration processes.

#### ***4.1. Strengthen the legal and institutional framework***

- adopt the bylaws which will permit the enforcement of the Law on Plant Health Protection in BiH and the Law on Veterinary Medicine in BiH
- develop the capacities of the BiH Veterinary Office to enable it to fulfill its legally mandated functions

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<sup>6</sup> The PRSP Agriculture Working Group believed that the development approach is the most effective way to ensure long-term sustainability of agriculture in BiH.

- strengthen the BiH Administration for Plant Health Protection<sup>7,8</sup> to perform functions regulated by law
- establish BiH Agro-Pedology Institute
- establish a unit for administration and coordination of agricultural policies in the country
- increase the funds for the agricultural development in BiH
- carry out the project of agricultural ministry reorganization
- establish the functional relationship between the federal and canton ministries
- establish consulting and certification institutions for ecological animal production
- establish consulting and certification institutions for ecological plant production.

The existing laws on cattle raising in FBiH in RS do not adequately define the basic issues in the field of animal production, such as selective breeding (institutions, breeding programs, identification of animals, control of the productivity of animals etc.) in RS this was regulated by the law on measures to improve cattle raising, but it has become necessary to adopt a new law on these issues.

#### **4.2. Harmonize the legal and institutional framework with the EU regulations**

In the context of the future activities related to EU integration processes, the cooperation with EC will be especially important on the following topics:

- harmonization of the work of veterinary services in BiH in line with the EU practices
- harmonization of the regulations and standards for development of private companies and distributive channels, harmonization of the methods of storage and sales with the EU regulations
- modernization of rural infrastructure (transport, water supply, telecommunications),
- increase in productivity and quality through the use of specific methods and products,
- training and implementation of anti-pollution methods (related to the inputs) in conformity with the EU regulations
- encouragement of modernization of the processing industries, their sale methods, improvement of industrial cooperation in the field of agriculture, and knowledge exchange,
- strengthening of cooperation in the field of animal and plant health in the form of training and organization of checks which would lead to gradual harmonization with the EU standards.<sup>9</sup>

For the White Paper, agriculture<sup>10</sup> is a particularly important field. This book analyzed the measures which were basic to the free flow of goods in the categories: veterinary medicine, plant health and animal diet, as well as the agricultural markets.

#### **4.3. Define Strategic Productions in the Sector**

The strategic productions that would receive a long-term investment have not yet been defined at BiH level. In view of the limited fiscal capacity, it is important to select strategic productions which can, with investment, and through reliance on available natural resources, produce best effects. In the course of the preparation of the BiH Medium-Term Development Strategy, a number of discussions and analyses were conducted within the Agriculture Working Group, which can serve as the sound basis for definition of the final list of strategic products and productions.

##### **4.3.1. Strategic products in animal production**

Some branches of livestock raising, such as cattle breeding, sheep breeding, pig breeding, fish-farming and bee-keeping have closer organic relation with the natural resources of BiH than others, e.g. poultry breeding, which depend on the imported inputs (and which do not activate the resources of the land). Stronger development of cattle and sheep breeding, pig breeding, fish-farming and bee-keeping would result in greater utilization of domestic natural resources and in the increase of local production of currently scarce products (milk and dairy products, beef). At the same time, there are also great prospects for their exports, particularly of sheep products, fish and honey.

<sup>7</sup> It is expected that the BiH Plant Health Protection Authority will be established in early 2004.

<sup>8</sup> "The Commission Report to the Council on the Readiness of BiH to Start Negotiations with EU on the Stabilization and Association Agreement", Brussels, November 18<sup>th</sup> 2003, page 20.

<sup>9</sup> "The Commission Report to the Council on the Readiness of BiH to Start Negotiations with EU on the Stabilization and Association Agreement", Brussels, November 18<sup>th</sup> 2003, pp. 31-32.

<sup>10</sup> The EU legislation on agriculture represents some 40% of all Community legislation.

- **Milk Production**

It is estimated that three-quarters of BiH needs for milk and products are imported. Some of the key items among these products (fresh and condensed milk, milk powder) are imported under the 10 – 15% customs regime, without levies, which leaves BiH market wide open for highly subsidized foreign goods which enjoys export support. In domestic circumstances, milk production is «the engine» of the overall agricultural development and the condition for employment of a large number of farms. Therefore, this production should be treated as strategic and provided with better protection and stronger encouragement.

- **Meat Production**

Even at the current, very low level of consumption, there is shortage of meat supply, and meat demand will increase even more because of high income elasticity. The estimate is that the meat consumption in 2007 will be approximately 48 kg per capita and that it would continue to rise, unlike some other products which have reached the saturation point or have come close (sugar, oil, potato etc). Because of the damages inflicted in the war, but also due to poorly managed agrarian policy (inadequate tariff protection, non-availability of concessional credits, subsidies etc.), meat production, excepting poultry meat and pork, has stagnated. One reason is that the domestic meat-processing industry found its raw materials in the foreign supply of cheap meat and livestock, and its post-war development is disproportionate to the primary production.

The following branches of meat production are to be considered strategic:

- **Beef Production:** Of all kinds of meat, beef is the most scarce product in BiH. The reasons for this deficit are multiple: lack of stable subsidy measures for fattening of bullcalves, massive slaughtering of calves, non-existence of breeding programs to improve the livestock and create biological capacity for meat production, indifference of the meat-processing industry to the development of its own raw materials base etc. Baby beef production implies phased and territorial division with the so-called final fattening organized in corn production regions (with the possibility for implementation of cheap technology feeds on the basis of nutrients produced on the farms). This approach implies the development of project for improvement of cattle raising at the state or entity levels.
- **Mutton Production:** Development of sheep breeding is not limited by demand, and the quality of imported mutton cannot compete with the quality of domestic meat. Sheep breeding is the most significant form of exploitation of natural resources – pastures, and as such it represents a precondition for ensuring demographic coverage of a significant part of BiH territory. The major shortcoming is that the consumption of mutton considerably lags behind other kinds of meat.
- **Pork Production:** Intensive production can be organized in the lowland parts of BiH, i.e. in corn-producing regions. Owing to cheap concentrated cattle feed, this production has grown in the last couple of years, but it needs better protection from foreign competition. An additional advantage is that pork is a major raw material for processing industry.

- **Fish and honey production**

BiH has good natural preconditions for fish and honey production, which have considerable export potential. The priority in this area is to establish the legislative and institutional framework for certification of production in conformity with the EU standards (particularly in case of the BiH Veterinary Office).

#### **4.3.2. Strategic plant products**

BiH is highly dependant on imports of key plant products. This primarily includes all sorts of grain, early vegetables and fruit. Industrial plants (oil crops and sugar-beet) are practically not produced. The causes of import dependence are numerous, from unfavorable overall agro-economic environment to low level of technical and technological equipment etc.

In view of the natural potential, needs of the domestic market and export potential, the following plant productions should be considered strategic:

- **Production of Seeds and Seedlings**

From the perspective of genetic potential and health, the quality of reproductive material is the basis of sustainability and development of agricultural production. Domestic production of seeds does not even come close to satisfying producers' needs for high-quality certified seeds. The use of own seeds, as well as of unselected and unlabelled variety is widespread. Direct subsidies



should be used to stimulate development of production of of domestic and verified introduced sorts which will be listed in appropriate sort lists. The standardized certification procedure and UPOV Protocol<sup>11</sup> for protection of rights of developers, without mandatory sort lists (recommended sort lists) create a reliable framework for production of high-quality seeds and seedlings. Seedling production should also be subsidized.

- **Grain Production**

In production of bread grains, the presence of certain constraints, such as fragmented property, untended land, foreign competition and unstable price on the world markets, which the domestic milling-baking industry entirely relies on. In the coming five-year period, the orientation is on activation of land resources, raising the production levels and satisfying around 50 percent of own needs. The situation with corn production is similar, with the note that this production is more profitable due to the multiple ways of use, primarily for feeding cattle. Grains make up around 60% of the sowing and corn accounts for three-fourths of the total mass. Objectively, there is no other production which might take over the role of grains in the activation of untilled ploughlands. From the perspective of providing support and protection from foreign competition, insufficient attention has been paid to this production in the post-war period.

- **Vegetable Production**

Vegetables production, both on the open fields and closed areas, stands for one of the more profitable agricultural productions. The global trend of vegetable consumption is rising and BiH has excellent conditions for this type of production. A considerable level of meeting the domestic needs has been achieved. However, a significant demand for these products exists in the export-oriented processing industry.

- **Fruit Growing and Grape-Growing**

Fruit growing production currently represents the most profitable type of agricultural production in BiH, especially on irrigated land. The advantage of fruit growing is that it can be organized on smaller farms, with high income per acreage unit and with significant export potential. For this reason, direct subsidies for planting new orchards would produce suitable results.

The basic grape-growing problem is the unresolved issue of protection from foreign competition. This production should receive subsidies for cultivation of new plantations, subject to certain criteria, particularly regarding minimum size of eligible areas. Grape-growing is profitable for processing, because the demand for table wines is also very considerable.

- **Forage Crops**

Around 10 percent of arable land is used for forage crops production, and clover and lucerne make up 75 percent. To exploit the resources fully, to rationalize the milk and meat of ruminating animals and to reduce dependency on imported concentrate feeds, the areas under forage crops should be increased. For this type of production, new forage sowing should be directly subsidized, provided the areas sown exceed the specified minimum. The measures for quality enhancement and the increase of the biomass on wild meadows and pastures should also be incorporated into the system of subsidies.

- **Industrial crops**

Although the lowland region of northern Bosnia has good conditions for production of the majority of industrial crops, these crops are, practically, no longer produced. For example, in 2001, the area under oil crops was 80% smaller than in 1991. Since 2003, "Bimal", the only BiH edible oil factory in Brčko, has guaranteed farmers the purchase of oil crops from some 50.000 hectares in the next five years, this production should be included in the system of subsidies.

#### ***4.4. Improve the system of subsidies in agriculture***

Budget allocations for subsidies to BiH agricultural production were, for instance, around 20 million KM (around 0.70 % of consolidated budgets) in 2001. On the other hand, , the already small allocated funds, have marketed for years been channelled into certain productions on the basis of ad hoc decisions of the entity governments, because there were neither laws nor programs defining long-term approaches to this

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<sup>11</sup> The International Union for Protection of New Varieties of Plants – UPOV is an international organization headquartered in Geneva (Switzerland).

problem. The system of subsidies was recreated every year, which deprived producers from developing long-term production plans. The practice so far has been that less than 2 percent of GDP in BiH has been allocated for subsidies, which is several times less than in the neighboring countries or the EU. This situation clearly prevents improvements of competitiveness and further development of agriculture. Law on Provision and Allocation of Funds for Stimulating Agriculture and Rural Development was enacted in RS in July 2002, and it envisaged allocation of at least 4 percent of RS budget for these purposes over the long term. Still, even in the 2003 budget, it was possible to allocate only 2.35 percent of funds for this purpose. The new legislation in FBiH stipulates an allocation of a minimum of 3 percent of FBiH budget.

Improvement in this area requires:

- in accordance with the accepted list of strategic productions, they should be subsidized over the long term. In the 2004 – 2007 period, a minimum of 3 percent of the budgets (BiH, entities, cantons, District) must be earmarked for this purpose. The target groups eligible for subsidies should be commodity producers and the organized producers' associations;
- the institutional framework for awarding subsidies must be improved in line with the EU standards. It is of particular importance to establish an adequate monitoring system over the use of subsidies.

#### ***4.5. Improve access to financial services***

At the entity level, there were some attempts to provide the finances for concessional credits to agriculture, but with poor results. In 2003, however, the entities have introduced the interest rate subsidies (6% in RS, 4% in FBiH) for credits to agriculture. Up to now, microcredit organizations have channelled some 13 percent of their loans into agriculture with the repayment rate of around 99 percent, although under non-concessionable conditions.

In general, adequate loans for the development of primary agricultural production are not accessible to farmers, associations and entrepreneurs, which is why the technical – and technological transformation of agriculture into a branch which face foreign competition failed to occur. Supplying credit to agriculture is a high-risk business for the domestic banking sector, partly owing to poor historical repayment rate and the fact that considerable donor funds were channelled into the revitalization and strengthening of the sector, but the results have not met expectations.

In view of the situation described above, the following steps are necessary:

- consider establishment of agriculture funds for providing loans, guarantees and insuring crops,
- in the context of further strengthening of the banking sector, adopt the legal framework for leasing.

#### ***4.6. Ensure adequate foreign-trade regime to encourage domestic agricultural production***

No European agriculture could be efficient without state subsidies, i.e. without agrarian protectionism. However, the fiscal constraints prevent BiH from introducing an adequate level of subsidizing domestic agriculture. Therefore the introduction of adequate tariff protection, in conformity with the WTO rules, is a significant instrument for stimulation of domestic agricultural production.

BiH entered the transition process with a neglected and devastated agriculture. In the conditions of the existing foreign-trade regime, there is a danger of further deterioration, which negatively affects utilization of domestic resources and retention of rural population.

Introduction of adequate tariff protection for the list of strategic products and productions requires special attention. It has been mentioned that BiH imports around three-quarters of its total needs for milk and milk products. The situation with beef is similar. Export countries provide high subsidies to producers and stimulate export. On the other hand, our country lacks funds to significantly subsidize local production to compete with foreign goods. In BiH conditions, the milk production is the «engine» of the entire agricultural development, but the past treatment of this production, including tariff protection, hindered the general development of the sector.

So far, the bilateral free trade agreements (FTAs) have been signed with Croatia, Slovenia, Serbia and Montenegro, Macedonia and Turkey. The agreements cover all agricultural and industrial products without

so-called positive and negative product lists. According to these agreements, BiH was granted immediate abolition of customs duties on its goods and the progressive tariff reduction (over 3 to 5 years) for imports of products from these countries. Mainly because of additional non-tariff barriers constantly imposed by the signatory countries and because of the shortcomings of institutional organization, the export of agricultural products to these countries has not increased. The latter in particular applies to the use of a number of unilateral preferential regimes which BiH obtained with the EU and several developed countries.

In this context, the priorities are as follows:

- adopt the adequate policy of tariff protection and subsidizing of the domestic agricultural production and to provide the instruments for implementation of this policy,
- postpone for two years the implementation of the segment of FTAs with Serbia and Montenegro and Croatia which stipulates introduction of duty-free imports for agricultural goods of strategic significance for the development of the sector,
- reach agreement on mutual recognition of technical standards with the countries signatories to FTAs (to sign appropriate protocols),
- introduce reciprocity in foreign trade practices (to counter the agrarian protectionism practices by other countries through non-tariff protection),
- in negotiations of WTO accession, secure longer transitional period for BiH strategic agricultural production,
- adopt the new BiH Law on Customs Tariff which should improve customs protection for strategic agricultural products in BiH.

#### **4.7. Improve the system of land management**

According to the world standards, BiH approaches the minimum of arable area per capita which is 0.17 hectares. In the Canton Tuzla even this minimum could not be maintained and the average arable area per capita 0.08 – 0.10 hectares. The main problem of the sector are the unploughed ploughfields which, in BiH, total some 400.000 hectares. EC Feasibility Study<sup>12</sup> contains an estimate that 50% of arable land in FBiH and 30% of arable land in RS is not in cultivation. In addition, the trend of further shrinkage of the tilled land is noted.

Various forms of permanent or temporary damage to land and soil occur continuously. The most endangered categories of land are the highest-quality categories (I, II and III category) which comprise only 15 percent of the total land area. Almost all infrastructure is located on the highest-quality land. The estimate is that 3000 – 5000 hectares of land are permanently lost every year, in various ways. The current modes of exploitation gradually degrade the land into a lower category.<sup>13</sup> There is around 10,000 hectares of land damaged by ore mining, and only 1000 hectares, or 10 percent, has been recultivated.

Property fragmentation greatly hinders the profit accomplishment in agricultural production. Available data indicates that the average farm area is 3,5 hectares and that this area is composed, on average of 7-8 separate plots. Ploughland area per capita amounts to 0,17 hectares and this puts BiH at the bottom of the European scale. While the trend of land property enlargement is dominant in Europe, in the past 50 years the trend of fragmentation has been prevalent in BiH. This negative trend is caused by nationalization, agrarian reform and by the results of the enforcement of the Law on Inheritance. The valid Law on Inheritance of Property (from former Yugoslavia) permits owners to select the heir in a will.

Since no agricultural census has been carried out, there is no official data on the number of land owners and the number of agricultural and hybrid farms.<sup>14</sup> The number of landowners constantly increases, and the size of property decreases. Small, divided and scattered property is a constraint for serious production and management schemes in modern agriculture but the ideas on reallocation of holdings and on land consolidation in the next five years are not realistic,<sup>15</sup> The oversight of the process of changing the purpose of agricultural land is inadequate. The restitution, which still remains to be implemented, remains another difficult issue.

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<sup>12</sup> "The Commission Report to the Council on the Readiness of BiH to Start Negotiations with EU on the Stabilization and Association Agreement", Brussels, November 18<sup>th</sup> 2003, p. 32.

<sup>13</sup> In Serbia, the state provides the producers for free with materials for the calcification of land (class I to class IV).

<sup>14</sup> This was also recognized as a problem in the Feasibility Study ("The Commission Report to the Council on the Readiness of BiH to Start Negotiations with EU on the Stabilization and Association Agreement", Brussels, November 18<sup>th</sup> 2003, p. 32.).

<sup>15</sup> In Serbia, the state stimulates property growing for minimum three hectares and it does so by subsidizing 33% of the purchase price of the land from class I to class IV.

The lack of infrastructure for flood protection and irrigation, as well as large landmine-infested areas present additional problems. Before the war, only 0.6% of all arable areas was being irrigated in BiH. Some 200.000 hectares in BiH are infested with landmines and, if the demining proceeds at its current pace, the estimate is that these areas would be demined in 40 years. Some 100.000 hectares of high-quality ploughlands are state-owned. This problem needs such a solution that the high-quality land would go to those interested in modern and profitable agricultural production.

The priorities in this area are:

- to encourage the use of available agricultural land for productive purposes, under the system of sustainable management, with measures such as taxation of unploughed land
- to prepare the program of agricultural-land improvement measures improvement of physical and chemical properties of less fertile and infertile soil, from the funds collected in the special bank accounts of the cantons,
- to establish and develop GIS (land information system),
- to conduct restitution, to permit the use of high-quality land currently in the property of the state,
- to review the existing laws on land inheritance to prevent further fragmentation of properties,
- to speed up the process of mine clearing from priority arable land,
- to improve irrigation systems.

#### ***4.8. Strengthen cooperatives and associations in the sector***

In the conditions of fragmented agricultural properties in BiH, cooperatives may fulfill an important role in increasing the efficiency of agricultural production, as they organize production and distribution at the local level and, without this system, a petty farmer may not survive. These themes are regulated by the BiH Law on Cooperatives. There are some 210 cooperatives in BiH, mainly of the old type, not adapted to the new conditions of doing business. No system exists for encouraging new members, unlike in the European countries. In BiH there are three unions of cooperatives and one union of business cooperatives. Restoration of sequestered property of cooperatives is obstructed, and the existing property of cooperatives is generally inadequately managed. The important role which cooperatives play in the countries with developed market economy is not recognized. All of this results in the lack of trust and the absence of help to BiH Cooperatives. At the moment, majority of cooperatives are not able to organize a system of purchases and sales of their products.

Citizens' associations in the developed world represent an organizing form in the domains which state cannot adequately reach (at the local level). They are also a partner of the government in formulation of development concepts, strategies and policies. Further strengthening or organizations and associations of farmers and agricultural professionals may be the mainspring of qualitative changes in the sector.

The priority measures required are as follows:

- to consistently enforce the BiH Law on Cooperatives,
- to create favourable environment for development and establishment of autonomous, economically sustainable cooperatives,
- to strengthen unions of cooperatives,
- to provide education in the domain of the work of cooperatives,
- to strengthen the dialogue with the farmers' NGOs and their participation in passing strategic decisions and laws..

#### ***4.9. Improve ecological aspects of agricultural development***

##### **• Influence of Conventional Production on Environment and Peoples' Health**

Since this aspect is not monitored, the situation can be only partly analyzed on the basis of estimates. In the main production areas and river valleys, there is a real danger of inappropriate and excessive use of mineral fertilizers, pesticides and, in general, of excessive chemization in agricultural production. Nitrates from fertilizers are soluble, so they wash away and directly contaminate the water courses or underground aquifers. Product testing for these substances is not performed. Education on application of pesticides and other protective agents (quantity, dose, application period etc.) is inadequate and non-systematic, so there is a great danger of unsafe use of such protective agents and from acute poisoning of consumers. In

accordance with the range of international protocols in this sector, BiH is committed to strengthen the monitoring and to reduce the use of toxic substances.

In the developed world, genetically modified organisms (GMO) are increasingly used in agriculture. BiH must decide on its position on the use of GMOs and its priority task is to adopt the Law on GMOs. In this process, it is important to consider the experiences of the neighboring countries and the approach adopted in the EU.

From the standpoint of veterinary activities, the main issue is non-existence of organized treatment of animal waste in rendering plants. The regulation in this field requires the enactment of appropriate bylaws, but also establishment of new capacities, or rehabilitation of the old capacities for reception, collecting, transport and safe destruction of these types of waste.

- **Production of healthy foods: ecological (organic) production**

BiH is making only the first steps in ecological production, although it has considerable potential. The implementation of the project «Starting of the Ecological Production in BiH» is under way, with the task to develop the capacities of a certification body, educate consultants, adapts the standards in this domain, assist in adoption of the required legislation, assist in the promotion of products and conduct free certification of eco-products in the initial phase.

The priorities in this area are as follows:

- establish air, land and water contamination monitoring system,
- establish the system of registration and verification of pesticides and other protective agents at the BiH level,
- adopt the BiH Law on GMO,
- continuously work on protection of the environment, and especially on protection of catchment areas and underground aquifers,

#### ***4.10. Improve scientific research and education in agriculture***

In BiH, practically, there is no organized scientific-research work and no budget funds are earmarked for this purpose. This is another example where BiH is an exception in relation to the neighboring countries. The educational model in the sector originated in the previous system and so far has neither been significantly altered, nor has it been adapted to the development needs of the sector. The main flaws of this model are its didacticism, lack of links with practical applications, shortage of buildings and practical training sites, poor equipment and lack of continuing education of the teaching staff. No fewer than six institutions of higher education for agriculture and hundreds of unemployed agronomists illustrate the gap between the capacities and needs of the society in the sector. It is necessary to allocate funding for research in the sector. The RS offers a positive example in its Law on Scientific Research, which established the legal framework for provision of funds for research work, to be available to the registered scientific institutions – universities and institutes, from 2004. And finally, the system of education in agriculture needs to be modernized

## **V.5. SECTORAL PRIORITIES - FORESTRY**

### **1. Goals of reform in the sector:**

- 1.1. establish sustainable management in BiH forestry, which entails rational forestry management and preservation of biodiversity,**
- 1.2. apply modern scientific achievements in forestry,**
- 1.3. reduce operational costs,**
- 1.4. implement sustainable privatization in forestry,**
- 1.5. increase the share of the forestry sector in the GDP.**

Achieving these goals requires, primarily, designing of an efficient and rational organization of forestry, adoption of corresponding legislation and, subsequently, identification of priorities. The development strategy in the forestry sector is based on the features of the forests and forested lands and aims to increase forestation, improve productivity and promote preservation of biodiversity.

### **2. Situation**

Forests and forestry land occupy the surface area of about 27,100 km<sup>2</sup>, or about 52 percent of the territory of BiH: about 22,000 km<sup>2</sup> (approximately 42%) of which are forests and about 5,000 km<sup>2</sup> (approximately 10%) is bare terrain. The annual increment in the forests is relatively low, because so-called economic forests (forests that can be managed on the economic basis) cover only some 13,000 km<sup>2</sup> (approximately 25% of the BiH territory), and even these have low timber reserves (as low as 216 m<sup>3</sup>/ha with the incremental increase of timber of mere 5.5 m<sup>3</sup>/ha, half the potential of the habitat). There are about 9,000 km<sup>2</sup> (approximately 17%) of low and degraded forests with very low incremental increase (approx. 1 m<sup>3</sup>/ha), with no economic value from the timber production perspective.

Based on this increment, about 7,000,000 m<sup>3</sup> was felled in BiH before the war, and this potential should be the basis for the strategic development of the wood-processing industry. As regards bare forest lands, it should be noted that approximately 1,000 km<sup>2</sup> had been degraded to the extent of being permanently lost to recultivation, while the remaining 4,000 km<sup>2</sup> should be included in the strategy of increasing forested areas through reforestation. It is important to mention that BiH forests mainly regenerate naturally and, as a result, show marked diversity.

Unfortunately, the forested areas have been shrinking (as a result of clear felling, ore mining, construction of reservoirs, forest fires etc.), as confirmed by the latest satellite survey (the CORINE Programme, funded by the EU), which showed that about 40 percent of BiH (approx. 20,000 km<sup>2</sup>) is forested, which is 10% less indicated in the previous figures.<sup>1</sup>

The development strategy for forestry is based on these features of the country's forests and forest lands, and is designed to increase the forestation, boost productivity and preserve biological diversity.

#### **2.1. Legal and institutional framework**

The forestry strategy and its implementation in BiH are defined by the entity laws on forests and forest land, and other accompanying legislation, such as the Law on the Preservation and Exploitation of Cultural, Historical and Natural Heritage, the Law on Regional Planning, the Law on Plant Protection, the Law on Hunting and Fishing, etc.

In BiH, the entity laws on forestry and forest land regulated the organization of forestry. In the FBiH, a reorganization of forestry is ongoing, pursuant to the new Law on Forests. The Federal Forestry Authority and cantonal forestry authorities are being established, with responsibility for the preservation and protection of forests. The exploitation of forests will be performed by commercial companies to be formed at the cantonal level. In the RS, forestry is integrated within the single public enterprise, "Srpske šume".

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<sup>1</sup> Uščuplić M. (1998): *Šume i održivi razvoj u BiH* (Forests and Sustainable Development in BiH).

The preservation of biodiversity is partially established by the Law on Protection of Cultural, Historic and Natural Heritage and the entity laws on forests and forest lands, as well as by laws on hunting and fishing. It should be noted, however, that biodiversity is preserved also by establishment of protected forests (virgin forest reserves and nature parks), as well as by selection of specific (best) sites for seed collection, all which is covered by the accompanying forestry regulations.

In view of the importance of forests as a resource in BiH, achievement of profits in forestry is not the basic goal of forest management. This, however, does not mean that private - and even foreign - investments are not possible in forestry, as they can be profitable with simultaneous reinvestment in forests. This model requires an active public-private sector partnership. In the RS, the privatization has been completed, and in FBiH it has started.

### **3. Problems**

- extensive war damages,
- large number of minefields – 10% of forested lands are mine-infested,
- lack of a forestry development strategy, adjusted to the international standards,
- fragmentation of powers between the levels of government, particularly in FBiH,
- sluggishness of courts in dispute resolution,
- unresolved matter of property restitution,
- usurpations of forest lands,
- low availability of forests,
- illegal felling
- inadequate level of equipment of the forestry institutions,
- lack of detailed analyses and assessments of sustainable forestry, and particularly concerning the institutional framework,
- the need of a precise analysis of already signed and accepted international obligations assumed by BiH,
- lack of specialist support and assistance in the analysis of the effects of the implemented privatization process, as a basis for deciding about further reforms of the current organization of forestry.

### **4. Forestry development priorities**

#### ***4.1. Improve the forestry management system***

- Unified forestry information systems at all levels (state, cantonal, municipal) must be developed to permit the timely retrieval of data on forests as needed by the state, entity and local authorities, as well as for the international community. The system entails monitoring the timber reserves by species and quality, timber increment, the mass and quality of wood available for cutting, type and quality of other forest products (medicinal plants, aromatic and edible plants, mushrooms, game, seed and seedlings production, charcoal etc.); collection of data relevant to the stability of forest ecosystems, long-term forest management and the preservation of biodiversity. It would be used in every stage of forestry operations, from marking trees for felling and exploitation of other forest products through to the financial aspects of management. A unified IT system is the basis for monitoring in forestry.
- Develop forestry monitoring at all levels, to benefit all levels of government in BiH. Forestry monitoring covers the collection of data relevant to the stability of forest ecosystems, such as: forest fires, the spread of harmful insects, rodents and other pests, epidemics, the illegal exploitation of forests and forest products etc.
- Conduct the Second Forest Survey in BiH, (to be compatible with the first), to determine the current state of forests and define the new categorization of the forests in BiH on environmental principles, consistent with the new organization of forest management.

#### ***4.2. Continuously conduct forest rehabilitation***

- Conduct rehabilitation of forest, which entails: clearing mine fields and introduction of preventive measures for protection against harmful agents (insect infestations, epidemics, forest fires etc.). Many BiH forests are inaccessible because of landmines, which is significant not only in the context of exploitation of timber and other forest products but, much more importantly, for the protection of forests from biologically harmful agents. Insect infestations such as are currently

occurring, and which are bound to continue for some time, were caused in part because of the difficulties to control them in mined areas. The international community has so far provided considerable assistance in mitigating these damages.

- Design and implement a long-term programme to reconstruct low-yield forests (degraded low and high forests) and to ensure their upgrade into a higher quality level of forest, which means not merely increase in timber production but also enhancement of the overall public benefit from forests. As already noted, BiH has some 9.000 km<sup>2</sup> of such forests, many of which are on high quality land with the potential for high yields. Pre-war experience in plantation cultivation of some fast-growing varieties of trees (Douglas fir, larch etc.) are a good example of this potential. There is also the potential for growing high-value tree varieties with a short growth period, such as alder (along river valleys), wild cherry, walnut etc. It is important to note that BiH has specialists qualified for these activities.
- Design and implement programmes for the reforestation of bare terrain. These programmes would increase the proportion of forested land in BiH and timber increments (particularly for the paper and pulp industry), and would provide a significant number of jobs helping to alleviate their dire social situation. The conditions would be created for tourism, sports and recreational activities, development of hunting, but significant environmental effects would be achieved, particularly in protection of waters and in prevention of soil erosion. Some 5,000 km<sup>2</sup> of bare terrain in BiH represent an unused land resource that could, in part, have strategic significance for other segments of the economy (cattle-raising, bee-keeping, cultivation of medicinal, aromatic and edible plants etc.)
- Conduct a clear demarcation of the categories of agricultural and forest land from the perspective of the economic feasibility of the respective productions. The classification of large areas of bare terrain is disputed, and withdrawal of agricultural production from additional large low-yield areas is expected; these areas should be bought out or their owners stimulated to reforest such land.
- Foster sustainable exploitation of the basic hunting stocks of indigenous, rare and declining game species in BiH (chamois, bear, black grouse).

#### **4.3. Improve protection of the forests**

- Strengthen protection of protected areas (national parks, forest parks, nature parks, virgin forest reserves). In Bosnia and Herzegovina currently there are two national parks (Sutjeska and Kozara) and six virgin forest reserves (Perućica, which is in the Sutjeska National Park, Janj, Lom, Igman, Kakanj and Plješevica). In addition to these protected sites, seed stands enjoy a high level of protection at the local level (in 1989 BiH had 106 seed stands of our most valuable tree sorts: beech, fir, spruce, white pine, black pine and sessile oak with a total area of 1,735 hectares).
- Reduce adverse effects of global climate changes by establishing an environmental equilibrium between vegetation and environmental pollution.
- Raise awareness of the general public of the importance of forest resources and encourage greater involvement of the public in the protection and use of forests (through non-governmental organizations and environmental movements, the media, and education at all levels).

#### **4.4. Improve capacities for sustainable exploitation of the forests**

- Introduce forest management based on the principles of sustainability and the maintenance of biodiversity. The forests of BiH are mainly naturally regenerated, which is the source of their diversity, and this approach should be maintained. Moreover, natural regeneration should be continuously encouraged, given that it is the basis for intra-species diversity (genetic variability) and the prerequisite for the long-term protection of the land from leaching and erosion. With existing expertise, a greater responsibility on the part of the authorities at all levels, and with NGO support, it will be possible to rationalize forestry production. This calls for a proper organization of forestry, to ensure a balance between timber processing and the yield potential of the forests, and appropriate legislation to protect this natural resource (and a vital segment in the environment) from illegal felling, excessive or inexpert felling, the careless siting of timber processing facilities, the exports of unprocessed timber etc.).



- Increase accessibility of forests. The current forest road network is around 8 km per 1,000 ha, which is evidently unsatisfactory in comparison with the situation in Europe (forest accessibility in some developed countries is up to 40 km per 1,000 hectares). Low accessibility of forest causes management problems: increased costs of transporting timber from the forests, more frequent felling in open areas of forest and reductions of the normal timber reserves in such areas, loss of timber value in inaccessible, over-mature stands due to infestations harmful insects and plant diseases, reduced forest fire-fighting capability etc. But it should also be noted that excessive accessibility of forests also has its shortcomings: the yield of the soil is reduced and thereby the overall useful value of forests. In BiH, the average accessibility to seek is around 15 km/1,000 hectares.
- Complete transformation of the forest ownership system, with the prior identification of the public capital in forests. The changes and amendments to the forest laws need to be adopted (in RS, in conformity with the Company Law and the Law on State Enterprises), forestry work program and required bylaws, as well as to establish new organizational structure. In RS it was introduced in consequence of the implementation of privatization, but forest economic areas need to be merged and enlarged. In FBiH, non-strategic segments of forestry, such as transport, road construction and maintenance, primary wood processing plants etc. need to be privatized as soon as possible.
- Ensure application of international standards in determining the market value of timber and the total public benefit value of forests and forest land, in funding environmentally acceptable and economically justifiable investments in forestry cultivation activities, protection, preservation and sustainable exploitation of forests, in exploitation of timber residue and other biomass, as well as in education and recruitment of qualified staff.
- As the forestry sector in BiH is expected to increase the sales and exports of forest products, an important requirement for the near future is the certification of forests, which would guarantee clients that forest management meets environmental, social and economic standards. This presupposes development of state-level standards applicable throughout the country.
- Ensure implementation of the market categorization and determine matching the regional distribution of privatized and reconstructed capacities for primary, final and chemical wood-processing with available timber reserves.
- Rationalize exploitation of harvested timber, particularly of the juvenile timber from thinning (about 100,000 hectares of already planted coniferous stands are not cultivated), for other purposes than timber, such as: pulp wood, wooden fancy goods, firewood etc. It is estimated that around 750,000 m<sup>3</sup> of wood is wasted in BiH annually. In addition, some forest products are applicable for extracting essential oils for pharmaceutical industry.
- Develop and expand the exploitation of special forest products (medicinal herbs, aromatic and edible plants, fungi, peat, gravel, stone, game etc.), which has been neglected;
- Encourage the development of bee-keeping on highland pastures, which would create jobs for residents of rural areas.

5. **Indicators for monitoring reforms in forestry:**

- 1) percentage of the demarcation line drawn between forest and agricultural land,
- 2) degree of coverage of the data in the information system database,
- 3) percentage of reforestation relative to the plan,
- 4) percentage of constructed forest roads relative to the plan,
- 5) increase of profits in the forestry sector relative to the present,
- 6) percentage of area cleared of land mines relative to the plan.

## **V.6. SECTOR PRIORITIES - WATER MANAGEMENT**

### **1. Goals of the sector reform**

#### **1.1. Improve the legal and institutional framework**

- adopt the legislation in conformity with the Framework Directive on Waters of the European Union (from 2000) and with other applicable international conventions, which also implies harmonization of the laws on water, laws on protection of waters and bylaws;
- establish an adequate institutional structure of the water management sector, in compliance with the Framework Directive on Waters;
- establish a sustainable system of funding in the water management sector.

#### **1.2. Improve the existing infrastructure**

- improve the existing flood protection systems;
- ensure sufficient quantities of potable water for water management;
- improve the protection of water quality;
- improve integral and inter-sectoral planning of exploitation of water resources.

### **2. Situation**

Bosnia and Herzegovina possesses considerable water resources, and in the future water may become one of the foundations of the general economic development in many areas. But the damages inflicted during the war, insufficient maintenance and inadequate regulatory framework have brought water management, just like other sectors of BiH economy, into a difficult situation. The quality of potable water from the water supply system has been deteriorating steadily, the existing infrastructure is in poor condition, and water resources increasingly polluted. Sustainable development in the field of water management is possible only with the implementation of the principles of 'integrated water resources management', by joint problem-solving in the main segments of water management, specifically in exploitation, protection of waters and protection from damaging effects of waters.

The average annual precipitation in BiH is about 1,250 mm which, given that the surface area of BiH is 51,129 km<sup>2</sup>, amounts to 64 x 10<sup>9</sup> m<sup>3</sup> of water, or 2,030 m<sup>3</sup>/s. The outflow from the territory of BiH is 1,155 m<sup>3</sup>/s or 57 percent of the total precipitation. However, these volumes of water are not evenly distributed, either spatially or temporally. For example, the average annual outflow from the Sava River basin, the surface area of which in BiH is 38,719 km<sup>2</sup> (75.7%), amounts to 722 m<sup>3</sup>/s or 62.5%, while the outflow from the Adriatic Sea basin, the surface area of which in BiH is 12,410 km<sup>2</sup> (24.3%), is 433 m<sup>3</sup>/s or 37.5 percent.

The intensive development of water resources management in BiH began in the 1950s, when the system of flood control facilities were built alongside the Sava and Neretva rivers. These consisted of 170 km of dikes along the rivers, 25 pumping stations with a total capacity of 120 m<sup>3</sup>/s, as defence against underground waters, regulation of 76 km of river beds, strengthening the banks in the length of 55 km etc. In this period, 28 reservoirs were constructed in BiH with the total volume of about 3,6 x 10<sup>9</sup> m<sup>3</sup> for power generation purposes, flood control and securing water supply for households, industry and agriculture. Many water supply and sewage systems were also built, as well as several facilities for treatment of urban waste waters.

#### **2.1. Legal and institutional framework**

Pursuant to the provisions of the Dayton Peace Accord, water management is the responsibility of the entities, and in the FBiH some competences are even devolved to the cantons. Under the terms of the 1998 Federal Law on Waters, the following institutions are responsible for water management: the FBiH Ministry of Agriculture, Water Management and Forestry, two public water management corporations for catchment areas, cantonal ministries of agriculture, water management and forestry, and the municipal authorities responsible for water management. The municipal and town councils are responsible for water supply, sewerage and treatment of waste-water.

Under the terms of the 1998 Law on Waters of RS, the Ministry of Agriculture, Forestry and Water Management and the Republic Directorate for Waters are responsible for water management in RS. The municipalities are responsible for water supply and sewerage systems, while public utilities are under the responsibility of the Ministry of Regional Planning, Construction and the Environment.

At the BiH level there is no institution in charge of water management. An Inter-Entity Committee was established in 1998 to coordinate water management issues, on the basis of a Memorandum of Understanding signed by the entity governments.

## **2.2. Funding of the sector**

The FBiH Law on Waters defines the modes of raising funds for funding water management activities. This law stipulated that the funds are collected from special water management charges for exploitation and pollution of waters (PVN<sup>1</sup>). In FBiH, around KM 21 million is collected from PVN annually, with 70% (KM 14.7 million) allocated to the public corporations for catchment area management, 20% (KM 4.2 million) to the cantons and 10% (KM 2.1 million) to the FBiH budget. These funds are used for the management of the water sector, monitoring of waters, maintenance of flood control facilities owned by FBiH, strategic studies for the domain of water, expenses of the public corporation for catchment area management, and for participation in funding of construction of infrastructural buildings for water management, drainage and waste water treatment.

Construction and maintenance of infrastructure is financed by the water utilities and local communities through subsidies, grants, borrowing etc., and partially by participation of the public corporations for catchment areas management.

With the implementation of ongoing reforms, the water management sector should resolve the problems of sustainable, efficient and transparent funding of the water management sector, as well as of construction and maintenance of water management and utilities infrastructure.

The RS laws provide for the following water management charges:

- charge for water delivered – for legal and physical persons
- charge for water used - for legal and physical persons
- charge for water used – agriculture
- charge for water used for commercial purposes - for legal and physical persons,
- charge for polluting waters, paid on registration of motor vehicles and other transportation devices,
- charge for releasing polluted water - for legal and physical persons
- charge for water used for production of electric power and heat energy, and for the alteration of water regimes,
- charge for materials extracted from the water beds.

The total 2003 revenues of the RS Waters Directorate was KM 9.45 million, while its 2003 budget was KM 6.8 million. The financial plan envisaged that KM 0,6 milion, or 9.4%, will be allocated for co-financing of water supply systems, while KM 0.7 million (10.3%) will be used for capital maintenance.

Besides the RS Waters Directorate, local communities and public utilities co-finance construction and maintenance of water supply and sewage facilities.

Future reforms in the water management sector need to resolve the problems of sustainable, efficient and transparent mode of funding for functioning of the water sector, which would resolve the difficulties in water supply and waste water treatment.

## **3. Problems in the sector**

### **3.1. Legal and institutional framework**

The current state of water management in BiH is characterized by an extremely complicated and ill-defined division of competences, and consequently by an inadequate institutional structure. The water utilities (in charge of water supply, collection, draining and treatment of waste waters in municipalities and cities) are too dependent on, and too closely tied to, municipal authorities. The

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<sup>1</sup> PVN- Posebna vodoprivredna naknada.

current system of management over water utilities deters foreign investors, who believe that non-operational risks are too great, particularly from the regulatory aspect.

Such administrative structure and division of responsibilities create significant difficulties in water management. This was why the project 'Institutional Strengthening of the Water Sector' was initiated back in 1998, with EU support, to create an appropriate legal, institutional and financial framework, in order to ensure sustainability of this sector. The first stage of implementation lasted from May 2001 to November 2002, but there was no significant progress. The terms of reference for that stage envisaged drafting of an integral law on waters, including establishment of institutions for water management. The second phase of implementation will take two years.

The matter of competences and institutional dysfunction was made more complicated with the passage of the new entity laws on protection of waters (in 2002 in RS and in 2003 in FBiH), which separately treated the water protection segment and thus created an overlap of competences and the institutional organization. The entity laws on protection of waters are not harmonized, particularly with regard to implementing institutions. The FBiH Law on Protection of Waters envisaged establishment of two directorates (The Sava Catchment Area and the Adriatic Catchment Area), and the RS Law on Protection of Waters defined that the water protection affairs would be managed by the institutions which would emerge through the project of the institutional strengthening of the water sector. Coming into effect for both of these laws has been postponed, until the adoption of the entity laws on waters, i. e. for one year.

The solutions that would emerge from the implementation of the project 'Institutional Strengthening of the Water Sector – Second Phase' would have to be harmonized with the principles of the EU Framework Directive on Waters, as the basic document which defined the scope of activities and policies of the EU in the water management sector.

### **3.2. Infrastructure**

An analysis of available water quantities in relation to population numbers leads to the finding that the situation is worst in the Bosna River basin, which covers 20.4 percent of the territory of BiH but with about 40 percent of the total population and with the outflow of only 14.1 percent of the total volume of water. On the other hand, for more than six months of the year the volume of the flow in the rivers is below 80 percent of the average, meaning that high waters last for a relatively short period.

The minimum daily flow over a ten-year period is 13 to 23 percent of the average annualized flow, and for a 100 year period it is 8 to 13 percent. The high waters over a 100 years-period are about thirteen times higher than the average annual outflow.

Such unfavorable spatial and temporal distribution of water outflows requires construction of water management facilities of considerable scale and complexity, to permit rational exploitation of waters, preservation of water quality and quantity, and protection from damaging effects of waters.

The events of the 1992-1995 war in BiH resulted in many water resource management facilities suffering damage. Due to foreign aid, it is estimated that, since the end of the war, about 90 percent of the damages in the water supply sector have been repaired. Before 1992, about 56 percent of the population had access to public water supply systems, of whom 94 percent were in urban areas and a mere 6 percent in rural areas. Given the lapse of time since the water supply systems were built, most no longer meet consumer needs neither regarding the quantity or the quality of water, particularly during periods of drought. Some parts of the water supply system are to a more or less damaged or dilapidated, particularly the water supply networks in urban areas, so that water losses are very high.

Although the access to water through water supply system in BiH is generally satisfactory, the poor are in an inferior position in this aspect as well. Most of 20% of poor households are not connected to the public water supply systems, which holds true even for the poor in urban areas.

The condition of flood control facilities is very poor as a result of war damage, long years of lack of maintenance, and minefields laid around some facilities. This is particularly true for towns along the Sava River. The consequences of floods resulting from exceptionally high waters in this area, if they were to occur, would be unmeasurable. The situation is not much better in other parts of the country, as evident from the floods in the Tuzla Canton in June 2001. The major damages, estimated at more than KM 60 million, were inflicted on crops, housing and infrastructure, and in

the form of the erosion of arable land and the increased incidence of landslides. The problem of flood control in urban areas is also encountered in the RS: towns of Banja Luka, Čelinac, Prnjavor, Derventa, Modriča, Janja, Zvornik and elsewhere are exposed, which creates major problems, presents a public danger and causes considerable material damage.

The state of affairs is similar regarding protection of waters. The share of the population connected to the sewer systems in urban areas is about 56 percent. Most urban waste-water treatment plants are out of order, except in Gradačac, Srebrenik, Trebinje, Ljubuški, Grude and Neum. More than two-thirds of water courses in BiH are polluted, mostly because waste waters from settlements and the industry are not treated, but are released directly into open rivers and streams. Only four municipalities in FBiH and one in RS have functioning sewage treatment plants.

The quality of services in water supply and waste water disposal areas, even after urgent post-war reconstruction, is deteriorating, and the existing needs can not be met (leading, for instance, to water supply rationing in Tuzla).

The basic reasons for difficulties in functioning of water utilities are the high losses in the system (up to 80%), low collection rates (below 50%) and low tariffs, as well as their organizational fragmentation to the municipal level, which together causes poor financial performance. There is no systematic monitoring of the water quality, nor enforcement of the standards, except in some larger municipal water supply systems.

## **4. Priorities**

### **4.1. Legal and institutional framework**

#### ***4.1.1. Set up the system of sustainable water management on modern European principles***

It is necessary to draft new laws on water at the entity level, which would define the water sector reform. Water management ought to be based on the level of 'river basins', which is one of the basic principles of the EU Framework Directive on Waters. The laws should provide for adequate funding mechanisms, to make it possible to execute numerous tasks facing the water sector on the Bosnia and Herzegovina's path to Europe.

At the state level, mechanisms should also be established to permit BiH to meet its international obligations and establish cooperation with other countries in solving water management-related problems. Mechanisms for resolving inter-entity disputes need to be put in place as well. A state- or entity-level regulatory mechanism needs to be established to monitor the work of municipal councils in setting tariffs and to ensure monitoring of the water quality and of environmental protection. Concerning water utilities, their autonomy, management capacities and recovery of the costs of utility services must be strengthened. The consolidation of smaller municipal water management companies into fewer larger ones would improve the efficiency and management quality.

Neither in the privatization in the water management sector enough has been done. To attract foreign investors, the sector must be reformed in such a way that regulatory functions are retained in the public sector, and that the environment is created for local operating companies in which municipal and private enterprises would enjoy equal rights and in which public interest would be safeguarded, but making profits would also be possible. In addition to an independent regulator, this implies preparation of the water management utilities for entry of private capital, which requires previous corporatization and commercialization of these enterprises. The price setting system for water supply and waste water disposal should reflect the real cost in the given system, which would also encourage private investment.

### **4.2 Infrastructure**

Bosnia and Herzegovina possesses considerable water resources, and there is no doubt that water could be one of the country's crucial development resources in the foreseeable future and thereby provide major contribution to poverty reduction. The action must be taken in the following areas:

#### ***4.2.1. Strengthen existing systems of protection of the damaging effects of waters***

- repair the existing flood control facilities along the Sava and Neretva rivers, to restore pre-war levels of protection for the population and production facilities and lay the foundation for intensive agricultural production, which is the mainstay of development of these areas,
- regulate river beds and torrential water courses in the most vulnerable areas to prevent floods, erosion, the degradation of arable land and major landslides.

**4.2.2. Physically repair and organizationally strengthen water supply systems**

- ensure adequate supply of safe water to towns and cities,
- reduce the losses in water supply systems by 10% (from estimated 55% today to 45%),
- reduce the number of inhabitants not connected to water supply systems by one-third,
- improve the collection systems for water supply and sewage services, and pass regulations to legalize illegal connections and local water supply systems, to contribute to ensuring commercial sustainability of the system,
- protect existing and potential sources of potable water, including those in rural areas,
- improve and monitor quality of water used by rural populations.

**4.2.3. Strengthen the systems for protection of waters from pollution**

- repair and renovate the existing sewage systems, rehabilitate the existing water treatment plants for urban waste water, and initiate systematic construction of new facilities, consistent with the policy of sustainable development and BiH's obligations under the international conventions on waters,
- ensure connection to sewage systems for 250,000 new households.

**4.2.4. Plan water resources exploitation integrally and inter-sectorally**

- provide sufficient water for irrigation of arable land, which would help create conditions for intensive agricultural production,
- encourage exploitation and use of mineral, thermal and thermo-mineral waters, which represent a considerable resource. This activity is the fastest way to exploit these resources, with significant effects on employment, reduction of imports of mineral waters and increase of exports of bottled water,
- increase the degree of utilization of available hydro-power, through construction of multi-purpose water bodies, which would, besides power generation, encourage development of tourism, provide flood protection for downstream areas, secure water for irrigation and create conditions for fish farming,
- in the context of the integral management and use of the waters of the Sava River, and to enhance the conditions for development of the entire region, reopen navigation on the Sava River, in cooperation with Croatia, Slovenia and Serbia and Montenegro.

**5. Indicators**

The list of indicators for the sector of water management that are in use in BiH and monitored by the statistics institutes.

Public water supply	<ul style="list-style-type: none"> <li>• Quantities of water drawn – total and:             <ul style="list-style-type: none"> <li>- by sources</li> <li>- by users</li> </ul> </li> <li>• Water supply network and facilities</li> </ul>
Public sewage systems	<ul style="list-style-type: none"> <li>• origin of waste waters</li> <li>• treated waste waters</li> <li>• released waste waters</li> <li>• sewage network</li> </ul>

List of indicators in use in EU and other countries, which should be considered for application in BiH:

Flood protection	<ul style="list-style-type: none"> <li>• estimate of economic losses due to floods and drought</li> <li>• public investments into flood protection</li> </ul>
Water supply to the population	<ul style="list-style-type: none"> <li>• water supply and water needs</li> <li>• access to potable water</li> <li>• water consumption in households per capita</li> <li>• water production (in m<sup>3</sup> per year)</li> <li>• water charged to customers (in m<sup>3</sup> per year)</li> <li>• collection rate</li> <li>• population changes owing to urbanization</li> </ul>
Protection of water quality	<ul style="list-style-type: none"> <li>• access to sewage systems</li> <li>• number and frequency of combined sewage system in urban areas</li> <li>• quantity of pollutants in waste waters: <ul style="list-style-type: none"> <li>- concentration of ammonia in rivers</li> <li>- concentration of Nitrogen in rivers</li> <li>- concentration of Phosphorus in rivers</li> <li>- biological consumption of Oxygen in rivers,</li> </ul> </li> <li>• use of recycled water</li> <li>• quality of water in water streams (water streams categorization)</li> <li>• quality of fresh potable water (categorization of water intakes) <ul style="list-style-type: none"> <li>- concentration of Nitrogen</li> <li>- concentration of pesticides</li> <li>- level of sedimentation in water streams,</li> </ul> </li> <li>• contaminated sediments,</li> <li>• pollution over acceptable levels – toxic pollutants</li> <li>• pollution over acceptable levels – conventional pollutants</li> </ul>
Uses of water	<ul style="list-style-type: none"> <li>• irrigation for agricultural purposes</li> <li>• hydrological modifications – dams etc.</li> </ul>

## **V.7. SECTORAL PRIORITIES - ENVIRONMENT**

### **1. Goals:**

#### **1.1. Implement Environment Protection Action Plan BiH (NEAP)**

### **2. Situation**

As one of the federal states of former Yugoslavia, the Republic of Bosnia and Herzegovina was defined in that country's strategic development plans as a source of raw materials and energy supply for the country's economic development and also as the area where heavy and military industry was developed. Its relatively high hydro- and thermo-electric power potential and large reserves of coal and mineral ores permitted the production of more than half of Yugoslavia's coal, 70 percent of its iron, aluminium, lead and zinc ores and metals, and almost 50 percent of its electric power. Much of the chemical industry of former Yugoslavia (nitrogen- and chlorine-based) was also located in BiH. The intensive exploitation of natural resources was the policy at the time, while much of the machinery was obsolete and high-polluting, with devastating consequences for the environment. This was accompanied by state-imposed prices of raw materials and energy, all of which made it impossible to establish and maintain a balance between economic development and environmental protection – in other words, the sustainable development of BiH.

In June 1992, while the whole world was preoccupied with the idea of sustainable development and the Rio de Janeiro conference, BiH was already into the third month of the war that was to last for almost four years. Five years later, with the assistance of the international community, BiH began the reconstruction of the war-ravaged country and its infrastructure, and with the establishment of a new state, which is still ongoing. All this meant that BiH had not been sufficiently involved in the development of the concept of sustainable development based on environmental principles.

Despite the difficult situation caused by the war, BiH has succeeded in joining the process of developing the concept of sustainable development on environmental principles, through a number of regional international programmes initiated since 1997. The most important of these are the European Union's PHARE and CARDS programmes, and the World Bank projects – the National Environment Action Plan (NEAP) for BiH and the Strategy for Solid Waste Management in BiH – as well as the Regional Environment Reconstruction Programme for South Eastern Europe (REReP), a Stability Pact programme, as well as other regional programmes, such as the Mediterranean and Danube basin plans under the auspices of the Mediterranean Action Plan (MAP), and the ICPDR (International Commission of Protection of the Danube River) and DABLAS (Danube-Black Sea) programmes under the auspices of the Danube Convention and the Black Sea Convention.

The significance of the environment protection is also highlighted in the EU Feasibility Study, which foresees that, within the framework of work on the Stabilization and Accession Agreement, the cooperation between BiH and EU can further expand to prevention of the environment degradation, air and water quality monitoring, monitoring of the pollution and promotion of the economical use of energy and the industrial safety. Chemical compounds classification and safe handling, regional planning, waste management, as well as the protection of forests, animals and herbs are also the issues to receive due attention, in the efforts to strengthen the protection of environment<sup>1</sup>.

Environmental policy is an important element of the establishment of an internal market. Environmental issues should be part of process of trade and economic integration as elements of the pre-accession strategy of the country. The EU legislation in this area covers the wide range of sectors and represents the most expensive part of implementation of the Acquis communautaire<sup>2</sup>, because of the need to establish a system for its practical application and implementation, and it is therefore considered in detail in the later stage of the European integration processes.

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<sup>1</sup> „The Report of the Commission to the Council on the Preparations of BiH to Start Negotiations with EU on the Stabilization and Accession Agreement “ (Feasibility Study), Brussels, 18<sup>th</sup> November 2003, page 38.

<sup>2</sup> Ten countries to join EU in May 2004 will have to spend 80-120 billions EUR in order to meet the EU standards in this area.



## **2.1. Legal and institutional framework**

1. Recognizing that the protection of the environment is an intersectoral problem, and interdisciplinary by nature, in the post-war period BiH began to invest more efforts into development of the basic legislation and programmatic documents for the environment, which are consistent with modern global trends. The achievements to date include: A set of environment laws<sup>3</sup> was adopted at the entity level:
  - framework environmental protection law
  - law on the protection of nature
  - law on protection of water,
  - law on protection of air
  - law on waste management
  - law on the fund for environment.
2. The National Environment Action Plan BiH (NEAP BiH)<sup>4</sup> was adopted.
3. The Solid Waste Management Strategy in BiH was adopted.
4. The BiH Report on the State of the Environment was presented (at the Global Summit on the Environment and Sustainable Development, Johannesburg, 28 August to 9 September 2002).

Under the terms of the BiH Constitution, environment is the responsibility of the entity ministries: the FBiH Ministry of Regional Planning and the Environment and the RS Ministry of Regional Planning, Construction and the Environment. In the FBiH, the responsibility for the environment is shared with the cantons, while in the RS it is centralized. In order to coordinate and harmonize entity environment policies on the level of BiH, an inter-entity body, the Coordinating Board for the Environment, was formed in 1998, on the basis of the Memorandum of Understanding.

Last year, the State-level Steering Committee for the Environment and Sustainable Development in BiH (Upravni komitet za okoliš i održivi razvoj – UKOOR) was established, and under the terms of the new BiH Law on the Ministries and Civil Service, the BiH Ministry of Foreign Trade and Economic Relations is responsible (with the entity ministries) for meeting international environmental obligations in the entire country. The EU integration processes in this sector have led to realization of the need for a framework BiH law on environment and for establishment of the BiH-level environment protection agency.

## **3. Priorities**

### **3.1. Define the priority areas for action**

The most important proposals for environmental sector priorities are those contained in the NEAP programme document, which are the result of an analysis of the state of the environment in BiH over the past two years, and have given rise to an operational action plan with eight priority areas for environmental recovery and protection, to highlight those that may contribute to poverty reduction. Priority fields for activities are:

- water resources (waste waters).
- sustainable development of rural areas,
- environmental management (information system, integrated planning, education),
- preservation of the biological and landscape diversity,
- waste management,
- sustainable economic development,
- public health,
- demining.

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<sup>3</sup> Within the framework of the EU/EC PHARE Program

<sup>4</sup> With the assistance of the World Bank, IDF Grant National Environmental Plan for BiH (NEAP), Sarajevo/Banja Luka, March 2003.

### **3.2. Strengthen legal and institutional framework**

Legal and institutional strengthening and preparation of the documentation basis for environment planning and management are recognized as the condition for NEAP implementation. In this regard, it is necessary to:

- adopt the umbrella Environmental Protection Law at the BiH level
- develop the Strategy for Environmental Protection and Sustainable Development in BiH<sup>5</sup>
- draft and adopt the set of supplementary laws on (1) radioactive contamination of food products; (2) radiation safety (in the FBiH); (3) trading in hazardous substances; (4) registering of new hazardous substances; (5) risk management for existing substances; (6) foreign trade in specific hazardous chemicals (ODS – ozone depleting substances); and (7) the environmental impact of the deliberate release of genetically modified organisms (GMOs);
- draft and adopt the law on prevention, monitoring and intervention in the case of natural disasters. The country's resources available for protection against natural disasters are very limited, risks are very high, and international aid is often needed to overcome the consequences of natural disasters. The system of protection should be integrated and linked with the international system (needs to be harmonized with the BiH Civil Defence Law);
- establish the Environmental Protection Agency (or agencies) in BiH;
- prepare a study of the applicability of the international conventions, treaties and protocols, and prepare a programme of publication of unpublished international conventions and treaties (arising from succession of SFRY) on the environmental protection in BiH. There are numerous inter-state treaties that in various ways affect the current situation and changes in human activities in BiH. Some need to be incorporated into local regulations as a matter of urgency, while the application of others could be postponed over the shorter or the longer period. A comparative study should be conducted to analyse, select and rank the various conventions and propose amendments to domestic legislation and to the institutions and political bodies responsible for implementing these conventions.

After adoption and implementation of comprehensive and basic environmental laws, they must be elaborated through bylaws for enforcement

### **3.3. Ensure inter-sectoral approach in implementation of measures in the priority areas of activity**

In terms of already mentioned inter-sectoral character of environment, the problem of environmental protection should be harmonized with sectoral policies – primarily in the domains of water management, industry, electric power, forestry, agriculture, transport, education and health.

### **3.4. Improve the system of funding of the sector**

- establish entity environment funds as foreseen in the package of laws from the field of environment protection,
- increase the level of the international funds participation in the funding of these sectors. Bosnia and Herzegovina, as a contracting party to global conventions, is entitled to the technical assistance, such as the Global Environment Fund (GEF). It is also necessary to gain the right to use for participation in Sixth EU Framework Programme of EU for Research and Technical Development for 2002 – 2006 period.

### **3.5. Improve the statistics of environmental protection**

It is necessary to strengthen and promote statistics in the domain of environment as a permanent activity within the scope of work of the entity and BiH authorities in charge of statistics, including the preparation of a set of indicators for the environment segment, in compliance with international methodologies and in order to develop the information system on sustainable development.

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<sup>5</sup> This is an important recommendation of the EC Feasibility Study („The Report of the Commission to the Council“, Brussels, 18<sup>th</sup> November 2003, page 38.

## **4. Air quality and changes in climate**

### **4.1. Situation**

In the Southeast European region to which BiH belongs, in addition to the forecast long-term temperature increases of 2-3°C above the current average, reductions in precipitation of 5% to 15% are also foreseen, particularly in the hot part of the year, with accompanying reductions in soil moisture of 15% to 25%. Besides these temperature and precipitation changes, significant shifts are also expected in the intensity and frequency of climatic extremes, such as severe storms with hail, electrical discharges, destructive winds, floods, long periods of drought, heat waves and extreme temperature highs and lows. Reductions of snow cover and shifts of climatic zones towards higher altitudes and latitudes are also expected, as well as the conditions conducive to forest fires, landslides etc.

The systematic monitoring and forecasting of the weather and climate and monitoring of air quality parameters and the chemical content of precipitation (including the radioactivity of air and precipitation) are the tasks performed by the RS Hydrometeorological Institute and the Federal Meteorological Institute. The shortage of funding means that the meteorological and hydrological observation, telecommunications and analytical and forecasting systems, extensively damaged during the war, have not yet been restored and brought to full operational status. In addition, there is still no integrated climate database, and an authorized laboratory for national reference standards of physical parameters of the atmosphere and for certification of meteorological instruments has not yet been set up, although required by international standards.

### **4.2. Priority activities in this field of operations**

#### **4.2.1. Reduce the emissions of pollution materials in atmosphere:**

- set up an inventory of air emissions of pollutants using international methodology CORINAIR, with implementation of the PRTR Protocol and software packages COLECTER and SELECTER, including information on the types and quantities of emissions of harmful gases and cross-border transport of harmful substances;
- set up a system to control the efficiency of fossil fuel burning;
- monitoring pollutant emissions and immissions and studying their impact on population health;
- implement the State Programme to Eliminate Ozone Depleting Substances;
- conduct a cost-benefit analysis of pollutant emissions from large polluters;
- develop and apply ISO 14000 standard and other international standards and methodologies concerning the atmosphere (climate changes and air quality);
- develop and implement a pilot-project of low-smoke fuel production;
- legally regulate use and imports of environmentally-friendly motor vehicles.

#### **4.2.2. Increase the efficiency of electric power consumption:**

- improve heating isolation in the existing facilities,
- develop programmes of promoting exploitation of renewable energy sources.

#### **4.2.3. Establish systems for early warning, forecast and protection from the effects of natural disasters and climate extremes:**

- adopt the Law on prevention, monitoring and intervention in the case of natural disasters.
- improve the hydrometeorological information system and include BiH in the operational system and scientific and technical programmes of the World Meteorological Organization (Regional and Global Observing Systems, World Climate Programme, Global Atmosphere Watch, monitoring changes to the chemical content of the atmosphere and ozone levels, radioactivity monitoring, early warnings and forecasts of severe weather and climatic extremes to protect against natural disasters and in the event of technological disasters and industrial accidents);;
- study the sensitivity of particular economic activities to climatic changes;
- develop the National Climate Action Plan to stabilize and gradually reduce the emission of greenhouse gases, along with the drafting and implementation of pilot projects on enhancing

energy efficiency, production of low-smoke fuels, revitalization and improvement of forest ecosystems;

- develop a strategy of adaptation to the changing climatic conditions in BiH;
- introduce the subject of climate changes in the curricula at all educational levels, form a special study education groups on meteorology and climatology at the university level, and promote public awareness-raising programmes.

## **5. Land**

### **5.1. Situation**

Land, and arable land above all, is the key scarce resource for the development of food production, particularly rural development. The draft FBiH Law on Regional Planning does not address the issue of land adequately and there are no proposals for integrated land or regional management

### **5.2. Priority activities**

#### **5.2.1. Complete the legal and institutional framework for land management:**

- adopt the framework BiH land law and the rule book on soil quality,
- establish an agency for land conservation and management and for coordination between the ministries of regional planning and the environment and the ministries of agriculture, water resources management and forestry at the entity or state level;
- organizationally and in personnel terms strengthen the institutions that handle land-related issues (faculties, institutes, ministerial departments at the entity, canton and municipal level);
- revive the state institute (agency) for property relations and land cadastre. Cadastral surveys should be completed in those municipalities where it has not been done, evaluation maps should be prepared, and the system adapted to the administrative and political organization of the country. Land inventory, as well as monitoring of soil contamination and erosion are indispensable elements of a continuous care about the state of the soil, and they should be integral part of the policy in this area;
- develop a network of agricultural and veterinary stations around the country, to serve as instruction, curative and development centers to support the rational utilization of land and livestock in rural conditions;
- implement pilot projects for three geographic/geodetic information centers (GIS, state and two entity ones), which are needed for training in the use of modern methods of decoding satellite images and dissemination of findings. Their use would rationalize the costs of surveying and compiling specific-purpose maps and, with the use of appropriate design methods, would accelerate the process of regional planning;
- educate officials and the general public on the significance of soil for sustainable development
- establish an integrated state-level system of continuous land monitoring, join the Alps-Adriatic Monitoring System, and prepare the uniform legislation and regulations on land quality.

#### **5.2.2. Strengthen protection of land from degradation of all kinds:**

- adopt the law on monitoring, prevention and intervention in case of natural disasters;
- conduct an inventory of degraded lands in BiH,
- estimate the the levels of pollution of agricultural land and water and as support to the strategy of sustainable agricultural development and the strategy to protect and improve health;
- assess the current situation, as well as potential and active zones of water-induced soil (land)erosion in BiH;
- conduct the categorization (assess the value) of land for sustainable management and rational use of land area in the municipalities;
- revitalize degraded and demined land and garbage dumps;
- develop programmes to recultivate abandoned mines (particularly strip mines) and quarries;
- set up a fund for recultivation of abandoned and neglected land areas.

## **6. Waste**

### **6.1. Situation**

Two to three million of tons of solid waste of all kinds are yearly generated in BiH, and mainly deposited at about 1,100 "illegal garbage dumps", due to the insufficient number of proper sanitary waste depots. Such dumping of waste directly threatens the health of the population – both of those living next to such dumps, and inhabitants of broader areas, because of the risk that the poisonous substances might drain into the underground waters. The exclusive competence of municipalities for the utilities represents a huge obstacle for improvement of the conditions in the sector, with the resulting excessive fragmentation of the utilities enterprises. Insufficient capacities for collection of garbage present numerous problems.. No more than 60% of larger urban municipalities provide such services, while the situation is much worse in smaller municipalities. Non-economic prices of the waste management services and a low level of payment represent a special problem.

Solid waste management strategy BiH is prepared within implementation of the World Bank projects and this strategy is now in the implementation stage. The future policy of the solid waste disposal is hereby defined according to the concept of the regional waste management through inter-municipal waste management organizations and its disposal at the regional sanitary waste disposal sites.

### **6.2. Priority activities in this field of operations**

#### **6.2.1. Continue implementation of the BiH Solid Waste Management Strategy.**

The Medium-Term Development Strategy (PRSP) envisages introduction of 16 sanitary solid waste disposal sites: 10 in FBiH and 6 in RS. The proposed regional solid waste disposal sites in the FBiH are for the regions of Bihać, Bugojno, Goražde, Gračanica/Lukavac, Livno, Mostar, Tešanj, Tuzla and Zenica, and those for the RS are Banja Luka, Bijeljina, Doboj/Teslić, Foča/Srbinje, Gacko, Prijedor, and Vlasenica. The suggested are not the final locations for regional solid waste disposal sites, and these will be selected after a technical and economic analysis is conducted as part of the feasibility studies. The feasibility studies have been completed for regional solid waste disposal sites Banja Luka, Bihać, Mostar, Livno Tešanj, Tuzla and Zenica and there are the studies planned for Bijeljina, Goražde, Bugojno and other sites.

In this context, it is required to:

- complete the feasibility studies on regional waste disposal sites,
- start construction of the remaining regional solid waste disposal sites,
- clear illegal garbage dumps and rehabilitate the degraded areas,
- improve the waste collection and transportation system – and open possibilities of involvement of the private operators.

#### **6.2.2. Improve the system of disposal of mining, energy and other types of industrial waste**

The problem of waste disposal should include mining, energy and industrial, and not only (or predominantly) urban waste. In this context, commercial exploitation of these types of waste should be encouraged.

#### **6.2.3. Strengthen the institutional framework and and technical capacities for waste management**

- establish regulatory and monitoring mechanisms to guide municipalities when resolving the problems related to waste disposal,
- adopt and implement the system of basic waste management regulations consistent with EU requirements
- Draft and adopt the framework law and entity laws on the exploitation of mineral ores. The framework law should introduce the principle of the complex exploitation of mineral ores (metal and non-metal) and the minimization of damage to the environment, and set the general framework for granting concessions. The entity laws should stipulate more precisely the responsibility for waste generation in the exploitation process and introduce incentives to minimize damage to the environment,

- adopt the framework law on recycling and processing of secondary raw materials
- Set up databases on a) origins, quantities and types of waste; b) facilities for handling waste; c) actors involved with waste (in compliance with Aarhus Convention and PRPR environmental data system)
- Set up a network of solid waste laboratories with an observatory on the state level.

#### **6.2.4. Develop waste recycling alternatives:**

- conduct a study on the use of electrofilter ash from thermal power plants as recycled raw material. The study should investigate its composition, determine its usability and environmental hazards, propose possible uses and methods of exploitation, as well as ways to dispose of its hazardous components.
- conduct a study on the use of red slurry as recycled raw material,
- conduct a study on the use of recycled raw material from the Zenica Steelworks,
- set up waste exchanges. Separating usable material from waste is traditionally an activity of the poorest strata of the population, even in the most advanced countries. The use of material disposed of in industrial and mine dumps is significant both from the environmental point of view and as contributing to poverty reduction.

## **7. Regional planning**

### **7.1. Situation**

Regional planning is defined by entity and sub-entity regulations. Legal and institutional fragmentation in this domain prevent integral management of land. Nonexistence of regulations at the state level is an additional problem

### **7.2. Priority activities**

#### **7.2.1. Improve the legal and institutional framework for management of land area**

- reach agreement about adoption of the BiH framework law on integral land area management, and on the preparation of the BiH regional plan. Therefore, a new program of regional planning of BiH needs to be prepared and, in addition to the principles reflecting the policy of sustainable regional development, it should incorporate more detailed measures for regional development of the cultural environment. The development of the cultural environment should constitute an integral part of the regional planning policy, as well as of sectoral policies for culture, environmental protection, agriculture and socio-economic relations.
- conduct the environmental impact assessments (EIA) for the construction of planned European roads (e.g. Vc Corridor, Brisel – Adriatic Coast of Greece, with the Sarajevo – Thesalonika section,
- harmonize motorway projects with environmental standards (noise level, line air pollution monitoring, treatment of drainage water from highways etc.)
- conduct the feasibility study on the construction of the Trieste – Sarajevo - Salonika European railway route initiated by the Adriatic Ionian Initiative,
- conduct a pilot study on the urban development of Sarajevo and Banja Luka,
- establish databases on the population, real property, area units, legal persons and legal norms and standards with appropriate GIS tools,
- harmonize environmental and quality standards in BiH with European standards,
- ratify the international conventions and treaties on sustainable development. The ratification should be preceded by comparative feasibility studies of the application, priorities and essential steps to be taken to adjust domestic regulations to the requirement of the conventions being ratified.

#### **7.2.2. Plan development of urban areas**

In order to achieve the polycentric development of urban areas, in addition to the strengthening of the economic potential, the development strategies must be adapted to the local circumstances. This is particularly important for controlling the sprawl of towns and cities by identifying building sites within urban zones and by area-saving construction. This would ensure the protection and meticulous

management of urban ecosystems, creation of new green areas, development of efficient and at the same time environment-friendly public transportation, as well establishment of joint bodies for coordination of town- and regional planning in various cities and municipalities, and the enforcement of laws.

### **7.2.3. Plan development of rural areas**

- initiate two to three pilot projects for urbanisation of rural settlements,
- In the regional development policy specific treatment should be given to the protection and development of mountain and rural regions. Mountain regions in BiH have outstanding environmental, commercial, social, cultural and agricultural potential. The development policy of mountain regions should be an integral part of European Area Development Policy, and it should introduce measures for the protection and management of natural resources, at the same time ensuring respect for local traditions and cultures.

## **8. Biological and geological diversity; cultural and natural heritage**

### **8.1. Situation**

Biological diversity is a fundamental component of the environment, and the most reliable indicator of its current state, changing trends and the state's development potential. Orographically, BiH is a hilly and mountainous country. Its total area comprises 5 percent plains, 24 percent hilly terrain, 42 percent mountains, and 29 percent karst. The average altitude is around 500 m (the highest mountain is Maglić - 2387 m). Its geographical position at the cross-roads of highly diverse biogeographical influences and routes, and the diversity of its many ecologically different habitats, have resulted in high species diversity both of individual regions and of BiH as a whole. A relatively large number of species are endemic. Forest ecosystems occupy about 41 percent of the surface area of the country.

#### **8.1.2. Biological diversity**

BiH is among the areas with the highest level of biological diversity in Europe. It is one of the richest in the diversity of wild plant species and animals (678 plant species and 259 animal species, registered according to IUCN categories).

#### **8.1.3. Geological diversity**

From the standpoint of geological diversity, accounting for its size and in view of the number of geological rarities identified to date, BiH is among the most peculiar regions of Europe. Its changing scenery, the lie of its mountain chains, its hydrographic network, the proximity of the Adriatic Sea and other factors have resulted in a wide range of climate types.

### **8.2. Priority activities**

#### **8.2.1. Improve the legal and institutional framework for management of biological and geological diversity**

- adopt the Strategy and National Action Plan (NAP) of balanced management of biological, geological and landscape diversity,
- design an integrated management programme for BiH's Adriatic coastal zone, and set up an ecology clinics for networking with MAP,
- adopt a strategy and a national programme to preserve the cultural heritage in natural surroundings, and
- adopt the programme to place 15 to 20 percent of the territory of BiH under appropriate protection regime.

#### **8.2.2. Conduct inventory of biological and geological diversity for their protection**

- conduct the ecological categorization of habitats following the CORINE biotope mapping methodology,
- conduct the ecological categorization and inventorying of habitats in the Mediterranean coastal zone following the CORINE and MEDWET methodology and EMERALD regulations,

- conduct the ecological categorization of swampland following the MEDWET methodology,
- conduct the inventory of invasive plant species, animals, fungi and monera following FAO propositions,
- draw up and adopt the red list and the red book of plants, fungi and animals in BiH following IUCN criteria,
- form the National Gene Bank for domesticated plants and animals,
- set up a system of sustainable management of endemic and refuge centres (the Una and Sana River gorges, the Neretva, Vrbas, Drina, Trebižat valley, Pliva and Tinja),
- design a programme for the balanced protection of geo-biodiversity (ecosystems in rock clefts, rock creep, rocky ground).

## **9. Public health**

### **9.1. Situation**

On the basis of research conducted under the auspices of NEAP, a significant improvement of health care and population safety requires:

### **9.2. Priority activities**

#### **9.2.1. Improve the systemic framework for monitoring environmental impact on the public health**

- develop the single health care policy and strategy consistent with the «Health for the 21st Century» document,
- develop an operational plan to implement the NEHAP and set up the national committee for the implementation of environmental policy for health,
- coordinate the implementation of the NEAP and the National Environment and Health Programme (NEHAP).

#### **9.2.2. Study and intervene in specific problems which had not been addressed by the system**

- set up air pollution monitoring in major urban centres,
- eliminate radioactive contamination of the environment following the use depleted uranium weapons in BiH. Pursuant to the UN Environment Program (UNEP) recommendations set out in the Report entitled *Depleted Uranium in BiH – Post-Conflict Environmental Assessment*, published in March 2003, to protect population health it is essential to decontaminate and take other protection measures on all the identified sites in BiH, set up a system for monitoring certain radioactivity parameters of the air, surface and subterranean waters and land, and introduce a long-term programme to study the potential impact of depleted uranium on human health, in association with the UNEP, WHO and other international institutions.
- analyse the impact of soil contamination by parasites on children's health,
- study the effects of the environmental factors (chemical, physical, biological) on the hereditary genetic material of the population.

## **10. Water management and forestry issues**

Water management and forestry issues were elaborated in separate sections of the Strategy (see the sections on sectoral priorities – water management and forestry)



## 11. Indicators for monitoring of reforms in the environment protection field

Indicators - developed on the basis of Millenium Development Goals (MDG)

<b>Indicator</b>	<b>Source</b>	<b>2000/2001</b>	<b>2007</b>
Percentage of the land covered with forests	WDI 2002, WRI	44.6%	52%
	IHR MRC Report	55.6%	
Percentage of the land which is protected for the purpose of biological variety preservation	WDI 2002, WRI	0.55%	1.5%
GDP per unit of energy consumed (economic efficiency indicator)	On the basis of WDI 2002, calculated for IHR MRC Report	47.5	40
Carbon dioxide emission/pc (1,000 kg)	IHR MRC Report	3.2	3.5

## **V.8. SECTOR PRIORITIES - INFRASTRUCTURE**

### **1. Goals**

#### ***1.1. Road infrastructure and transport***

- create a legislative and institutional basis in BiH that is compatible with the European regulations;
- generate broader economic development through the implementation of concrete projects of reconstruction and construction of a modern road infrastructure;
- ensure the cost-effective road transport, reduction in number of traffic accidents, and reduction of negative effects on the environment, in compliance with the national and European norms.

#### ***1.2. Railway infrastructure***

- complete the reconstruction and start the modernization of the railway infrastructure, thus providing for increased safety and improved commercial speeds, as well as regular traffic;
- upgrade the rolling stock and renovate workshop capacities;
- increase the volume of transport;
- restructure the railway sector in BiH in accordance with the EU directives: 2001/12, 2001/13 and 2001/14 (which follow from earlier directives 91/440, 95/18 and 95/19).

#### ***1.3. Air transport and airports***

- meet the requirements of special provisions, in accordance with the CEATS Agreement;
- improve safety levels on the airports, up to the level of ICAO Standards;
- ensure harmonized development of airports in BiH, and provide conditions for normal passenger and cargo transport by air.

#### ***1.4. Water transport and infrastructure***

- ensure better valorization of the available natural and geographic conveniences by developing the river transport in the coming period;
- create conditions to utilize the transport capacities of the Sava River.

#### ***1.5. Telecommunications***

- build a telecommunication and computers infrastructure that would enable the provision of services of adequate quality for the development needs of BiH;
- increase the penetration level of fixed and mobile phone networks and Internet and CaTV users.

#### ***1.6. Postal services***

- create legislative conditions for restructuring the postal service and its successful operation in the market;
- restructure the activities and improve the set of core services.

#### ***1.7. Media***

- expand current capacities to meet the growing needs of new public broadcasters;
- move from the analogue to digital systems and processing the RTV signals, connected with the new enormous investments in renewal of the devastated capacities;
- meet the public demand for more independent and unbiased information;
- ensure financial self-sustainability of the media.

### **2. Transport infrastructure**

#### ***2.1. Road infrastructure and transport***

##### ***2.1.1. Situation***

The geo-communications position of BiH, Serbia and Montenegro is important within the European transportation system. The shortest routes linking Central Europe with the Adriatic run through these countries. However, until mid-2003, when its first 11 km of a modern motorway were built,

BiH had been the only country in South Eastern Europe without a single kilometer of a modern motorway.

The network of main roads in BiH is 3,788 km long in total, of which 2,024 km are in the FBiH and 1,764 in the RS. The coverage of the state with main roads is 7.4 km/100 km<sup>2</sup>. The network of regional roads extends to 4,842 km, of which 2,118 km are in the RS and 2,724 in the FBiH. There are about 14,000 km of local roads, which brings the total length of the road network in BiH to around 22,600 km, of which 14,020 km are paved roads. The length of European (E) roads in BiH is 995 km in total (E-59, E-65, E-73, E-661, E-761 and E-762). The European roads that cross BiH in many sections do not permit the desirable traffic flow speeds. The reasons for this include small-radius bends, frequent and steep gradients, roads running through towns and villages, and inadequate maintenance.

Between 1996 and 2003, extensive rehabilitation works and repairs of the damages sustained during the war were conducted, with repairs to the main roads, bridges and tunnels. The rehabilitation of the war damage to infrastructure had, so far, proceeded with donor assistance. Under the "Emergency Transport Rehabilitation Project" around 2,200 km of roads and 58 bridges have been repaired, at the cost of around EUR 190 million. SFOR also provided significant funds for rehabilitation of road infrastructure. A few repair and rehabilitation projects remain.

Significant donor funds were spent on renewing the city transportation motor pools (in Sarajevo, Mostar, Banja Luka).

Funding the road infrastructure in current circumstances means funding the maintenance of the road infrastructure. The annual cost of maintaining main and regional roads is about 30 million KM in the RS and about 50 million KM in the FBiH.<sup>1</sup>

### **2.1.2. Legal and institutional framework**

At the entity level, there are the entity laws on roads that represent a legal framework for conducting all activities in the domain of road infrastructure. Those laws define the legal position of public roads: management, construction, roads protection, conditions for performing the transport activities, and financing of public roads.

Appropriate legislation at the state level does not exist. The BiH Law on Roads has not been adopted yet. Based on the experiences of other countries, the basic laws can be adopted relatively quickly; however, the harmonization of the regulations with the EU regulations in the area of transport infrastructure could take at least three years.

The legislative framework for operations and the institutional organization at the State level have been strengthened by the establishment of the BiH Ministry of Transport and Communications, entrusted with drafting the state-level legislation for communications and transport and for regulating the necessary bilateral and multilateral relations in the field of transport.

The BiH Ministry of Transport and Communications manages the activities related to international and inter-entity transport and infrastructure, cooperates with the intergovernmental organizations, and prepares strategic and planning documents on international and inter-entity road transport and infrastructure<sup>2</sup>. The entity level is the domain of the line ministries: the FBiH Ministry of Traffic and Communications, and the RS Ministry of Traffic and Communications.

The management of roads is conducted by the entities' road directorates, established by the entity line ministries. In FBiH, the cantonal ministries of transport are responsible for regional roads, which normally have their respective road directorates, while in the RS, the Road Directorate is responsible for both main and regional roads.

The domain of the road directorates is to provide the material and other conditions for maintenance, protection, reconstruction, construction and management of the public roads, as well as to ensure the technical and technological unity of public roads.

In compliance with the Annex IX of the Dayton Agreement, the entities established the Public Corporation for Road Infrastructure in BiH as a part of the transport corporation. The task of this corporation is to establish the institutional cooperation between the entities in the area of road infrastructure and to permit the adoption of all necessary decisions to ensure smooth, safe and regular road transportation. However, this institution is not yet operational.

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<sup>1</sup> Source: the RS Ministry of Traffic and Communications and FBiH Ministry of Traffic and Communications, data for 2002.

<sup>2</sup> Official Gazette of BiH, 5/2000

### **2.1.3. Problems:**

- extremely poor physical condition of the road infrastructure in BiH;
- low safety level in the road traffic;
- non-existence of a clearly defined legislative framework at the level of BiH;
- institutional problems in adequate management of the development of the whole road infrastructure – there is no clear development strategy for motorways and highways, nor are appropriate institutions in place;
- budget funds for funding road infrastructure collected from the fuel price and vehicle registration taxes are not sufficient to ensure adequate maintenance and improvement in the condition of the road network. Limited funds are the critical element in implementing the road infrastructure development projects;
- the state-level transport policy has not been defined yet;
- limited capacities of state-owned – public companies to generate funds for operation, repair and renewal of the transport capacities to offer high-quality transport services.

### **2.1.4. Priorities**

- **Upgrade the legislative and institutional framework:**
  - adopt the BiH Law on Roads;
  - adopt changes and amendments to the FBiH Law on Roads and RS Law on Roads, in accordance with the applicable European regulations;
  - intensify the work of the BiH Public Road Corporation to coordinate the work of the entity road directorates;
  - develop the long term strategy of road sector development in BiH, in accordance with the European Transport Policy and BHTMP (BiH Transport Master Plan).
- **Develop the road management, monitoring and protection system**
  - create a common database for the road network in BiH, as well as the basic system of management and monitoring. This would provide an effective way of monitoring the condition of roads and it would give the data required for planning and programming works on road reconstruction and maintenance.
- **Revitalize and modernize the roads network**
  - increased volumes of traffic on individual sections of the existing road infrastructure indicates the need for modernization of the existing road network, taking into account the already conducted studies financed by the EU and Phare Program;
  - improve safety on regional and local roads, following the established order of priority.
- **Ensure adequate funding for road infrastructure**
  - ensure allocation of a greater share of funds collected from the fuel price and vehicle registration taxes for sustainable financing of the road infrastructure;
  - establish the institutional framework on all levels of government for awarding concessions to permit concession-based investments into the road infrastructure;
  - encourage use of public transportation through appropriate economic (tax policy) measures,
  - continue with activities related to corridor Vc<sup>3</sup>

## **2.2. Railway infrastructure and transport**

### **2.2.1. Situation**

The rail network of BiH consists of 1,031 km of railways, of which 425 km are in the RS and 616 in the FBiH. Of this, 87 km are twin-track railways and 776 km are electrified. There are two main rail directions: one running north-south – Šamac – Sarajevo – Čapljina (Ploče), and another running west-east: Bosanski Novi/Novi Grad – Doboš – Tuzla – Zvornik. The Bosanski Novi/Novi Grad – Bihac – Martin Brod section is part of the north-south railway that links central and northern Croatia and north-western Bosnia with the Port of Split on the Adriatic Coast. The Belgrade – Bar railway crosses through BiH in the eastern part of the RS for a length of 14 km.

Although the density of the railway network in BiH is comparable with in the Western European countries, the volume of transport of goods and passengers per 1 km of railways, is much below the European average.

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<sup>3</sup> Macroeconomic framework presented in PRSP envisages yearly contributions of around 5% of GDP for capital investors. From this amount big portion will be used for corridor Vc. However, taking into account total value of the investment it will be of the key importance to secure additional funding through concessional landings and domestic and foreign investors.

Although the density of rail network in BiH is comparable with that such networks of Western European countries, the volume of goods and passenger transport per 1 km of railway is markedly lower than the European average<sup>4</sup>. The existing railway network cannot be used to its nominal capacity, because the rail tracks have not been overhauled, safety of many level crossings and some stations is inadequate, workshop capacities have not been restored and the rolling stock has not been replaced. The number of passenger cars or trains for medium- and long-distance routes is insufficient. The volume of heavy goods traffic (coal and ore) has declined sharply, which in turn has a major impact on the cost-effectiveness of the railways. Such volume of transport is insufficient to generate enough revenues to cover the costs. The volume of goods and passenger traffic in 2002 was about 15% compared to 1990.

The current state of rail infrastructure, ensures that normal traffic is impossible without major investments. Railway infrastructure and rolling stock suffered major damages, estimated at around USD 1 billion.

The restoration of the railway infrastructure has proceeded in three stages. The first was to restore the rail network for low-speed trains without repairs and renovations of the signal equipment and the telecommunications system. Donor funds of about US\$ 70 million were used for this purpose<sup>5</sup>. The second stage, currently under way, consists of using the EIB and EBRD loans to overhaul the tracks, secure 11 level crossings and 3 stations, replace 170 km of telecommunications cables, procure equipment for railway maintenance, repair the damages in 5 stations and 3 workshops, and to prepare for renovation of the rolling stock (procurement of new cars and the overhaul of some of the existing ones). These projects will be completed by the end of 2004, while the procurement of some of the rolling stock will take place by the end of 2006 and, in part even after that date. The third stage will be to bring the rail infrastructure up to the standards required by international treaties.

### **2.2.2. Existing legislative and institutional framework**

As in the case of road infrastructure, the entity laws on railways form the legislative framework for railway infrastructure. The BiH Law on Railways is under preparation. Since the railways, rather than roads, are a segment of the integrated European rail system, the activities of the ŽFBiH and ŽFRS are also regulated by the international – UIC regulations and standards. EU has clearly, through a set of directives, organized the method of use of railway infrastructure, the minimum technical characteristics the infrastructure should meet, and harmonization of train routes etc.

Strategic planning in the domain of international and inter-entity railway transportation and infrastructure falls under the responsibility of the BiH Ministry of Communications and Transport. The entity line ministries have established their respective railway corporations (ŽFBiH and ŽRS), in accordance with the entity laws on railways, and in keeping with the entity ownership over the infrastructure. Pursuant to the Annex 9 of the Dayton Accord, the entities have formed a Public Railways Corporation of BiH.

### **2.2.3. Problems**

- extremely limited and insufficient potential of railways for independent reconstruction and development;
- insufficient rolling stock and its technical and technological obsolescence;
- surplus workforce and their poor skills set;
- poor condition and undefined status of companies – traditional users of the railway transport of commodities, which are not generating sufficient demand for transport services, or which switched to road transport;
- long nonfunctioning of the railway transport has made users of this mode of transport “unaccustomed” to using this kind of transportation and switch to other types of transport.

### **2.2.4. Priorities**

- **Upgrading the legislative-institutional framework and organizational restructuring of the railway sector in BiH:**
- adopt the BiH Law on Railways;
- define the long-term strategy and policy of railway transport, in line with the European transport policy, to become the framework for development of an efficient and safe railway transport;
- fully implement the EU Directive (91/440) on separating the infrastructure from the operators;

<sup>4</sup> Source of Data: REBIS Interim report, 2002

<sup>5</sup> Source: BH Public Railways Corporation

- BHŽJK should assume the responsibilities envisaged in the Annex IX of the Dayton Agreement and by the Agreement on Establishing of the BHŽJK, thereby ensuring unification of technical standards and railway infrastructure maintenance levels.

- **Rebuild and modernize railway infrastructure and rolling stock:**

- continue activities on bringing the condition and safety of the railway infrastructure to the satisfactory technical level;
- implement two phases (II and III) of the BiH railways rebuilding through credit arrangements with the EIB and EBRD;
- overhaul the railways on specific sections along the Corridor Vc and along the railway parallel to the Corridor X;
- improve the rolling stock by restoring the existing and procuring new trains;
- revitalize the workshops for maintenance of the railway rolling stock;
- modernize management through increased use of information technologies;
- develop the essential documentation for continued reconstruction and modernization of railway infrastructure in BiH. The studies completed over the last five years confirmed the cost-effectiveness of investment into the railway sector revitalization projects in BiH. It has been estimated that approximately KM 513 million<sup>6</sup> is needed by the end of 2020 to restore the railway infrastructure and rolling stock to the level acceptable by the European standards.

- **Improve economic viability of the railway sector:**

- review and harmonize the entity laws on railways. Specifically, it will be necessary to harmonize the conditions of financing the railway infrastructure in the entities to provide for a stable and satisfactory budget financing of the railway infrastructure in BiH. Adoption of the FBiH Law on Funding Railway Infrastructure would be an important step in that direction;
- ensure separate account-keeping of the operator and infrastructure in order to clearly determine the cost makers and provide for transparent financing of railway infrastructure;
- rationalize operational costs of railway corporations, and particularly of the railway infrastructure, and establish appropriate mechanisms for reducing the debts;
- ensure that the tariff policy is more market-oriented to increase the revenues;
- reduce the number of employees to a realistic level, which is comparable to the European parameters, which would bring costs down significantly and increase the productivity of the railway corporations. This problem should be addressed seriously through implementation of the following measures: reallocation of staff, organization of re-training and additional training, one-off severance payments, early retirements (EBRD supported a program of assisting surplus employees in the railway sector through providing credits);
- strengthen the marketing activities in order to promote the role of railways, strengthen their competitiveness in mass transportation over medium to long distances, for which it displays objective economical and exploitative advantages as a significantly cheaper, more energy-efficient and environmentally acceptable carrier than the road transport;

- **Continue privatization of the railway sector:**

- deregulate the railway sector,
- privatize segments of the railway sector by selling assets that do not serve the core function of railways;
- strengthen the role of private sector in railways by abandoning non-railway activities;
- introduce sub-contracting of the support activities to private sector (e.g. production of goods and services used in the railway transportation, which had traditionally been produced by the railway corporation) through management contracts, joint ventures etc.
- ensure participation of the private sector in management and provision of services in the railway sector (through managerial and concession contracts, specialized services, joint ventures).

### **2.3. Air transport and airports**

#### **2.3.1. Situation**

BiH has four airports: Sarajevo, Mostar, Banja Luka and Tuzla. All four are registered for international air traffic. The annual number of passengers is around 300,000 for Sarajevo airport, 40,000 for Banja Luka, and 15,000 for Mostar. The airports of Sarajevo, Mostar, Banja Luka and

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<sup>6</sup> Source of data: BiH Public Railways Corporation

Tuzla were restored during the post-war period. The total donor investment in airport renovation amounted to about €36 million <sup>7</sup>.

Air transport and infrastructure have assumed a more significant role than before the war. The four airports registered for international air traffic are at the stage of being brought up to the level prescribed for their categories under ICAO standards. The same applies to flight control. The cost of these upgrades were estimated at around EUR 40 million.<sup>8</sup> The costs of equipment and its installation that are required by the CEATS Agreement were estimated at EUR 14 million, with significant other investments into the development of all four airports (expansion of the passengers terminal, cargo terminal, equipment and facilities). This safety improvement project is expected to be completed by the end of 2006.

### **2.3.2. Existing legislative and institutional framework**

The air transport sector is regulated at the State level pursuant to the Law on Civil Aviation. Since the air transport in BiH is mainly international, the operations of civil aviation and airports are also subject to ICAO (International Civil Aviation Organization) regulations and standards.

The BiH Directorate for Civil Aviation was established at the national level to serve as an administrative organization of the BiH Ministry for Communications and Transport. The rights and responsibilities of the Directorate were specified under a separate law. At the entity level, there are the civil aviation directorates whose scope of work was set by the entity laws. The airports are the public corporation, or joint stock companies.

### **2.3.3. Problems:**

- mutual closeness of the main airports and relatively small territory of BiH, as well as the relative high price, cause the small volume of the national air transport;
- very strong competition with the airports in the neighboring countries;
- limited funds for increasing the operational capacities of the airports and improving safety.

### **2.3.4. Priorities**

- **Achieve harmonization with international standards, improve cooperation and coordination within the country:**
  - strengthen the role and tasks of the BiH DCA and entity directorates in order to timely meet the conditions for accession to the CEATS concerning special provisions on national devices and services to be made available to the CEATS;
  - gradually harmonize the legislation with the JAR (Joint Aviation Regulation) of the EU,
  - obtain equipment for the BiH DCA in keeping with the special provisions from the CEATS Agreement.
- **Modernize and expand airport capacities:**
  - implement airport projects aimed at improving quality of services and safety to the level prescribed by ICAO;
  - exploit the excessive traffic intensity on some large European airports the convenient geographic position of BiH to develop opportunities and promote the primary airports in BiH.

## **2.4. Water transport and infrastructure**

### **2.4.1. Current status**

In BiH, the Sava River is the main navigable river, and its 333 km length in BiH is also the border between BiH on one side and Croatia and Serbia on the other. Since the Sava is a tributary of the Danube, the water transport along the Sava is linked with the Danube, and the latter is considered as Trans-European Transport Corridor VII. BiH is in this way part of the network of European waterways, and this form of transport is significant for the geo-communications position of BiH. In view of its comparative advantages, the water transport should also be provided with development opportunities comparable to those in the EU.

There were two BiH ports operating on the Sava before the war: Brčko and Bosanski Šamac/Šamac. Bosnia and Herzegovina has no seaport, but uses the Adriatic ports in Croatia. For the Sava River to be used, it is essential to regulate this waterway for it to regain its pre-war category IV. In the post-war period, repairs have been carried out on the facilities in the port of Brčko.

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<sup>7</sup> Source of data: DCA

<sup>8</sup> Source of data: DCA.

Only limited funds were invested in the rehabilitation of the Sava River waterway and Brčko and Bosanski Šamac/Šamac ports. The equipment in the Brčko port has been restored with donor funds.

#### **2.4.2. The existing legal and legislative framework**

Water infrastructure and transport have the laws taken over from the former Yugoslavia as their legal basis.

Within the FBiH Ministry of Transport and Communications there is the Water Transport Department, whose main activity is the organization of nautical and technical inspections, registration of vessels and holding boat mastery examinations. The harbor master's offices have been formed for inland waterways. In the RS, the Water Transport Department is part of the RS Ministry of Transport and Communications and it performs the same functions as the Water Transport Department in FBiH.

The State-level Ministry of Transport and Communications in the Council of Ministers has some jurisdictions over the Sava River and other international waterways.

#### **2.4.3. Problems:**

- marginalization of water transports in BiH in the post-war period and re-directing the goods transport to other means of transportation;
- relative stagnation and underutilization of capacities.

#### **2.4.4. Priorities:**

##### **• Define the legislation and regulations:**

- adopt the BiH Law on Internal and Maritime Navigation;
- sign and ratify all existing multilateral and bilateral conventions and agreements and regulate relations with the countries through on the banks of the Sava River;
- the navigation on the Sava River should be internationalized, and appropriate international agreements with the interested countries should be concluded.

##### **• Renew and revitalize the water infrastructure capacities and create conditions for improved safety:**

- rebuild the ports of Brčko and Bosanski Šamac/Šamac,
- in the coming years, i.e. by end-2006, the navigation channel of the Sava River should be cleaned of mud and deposits;
- improve the safety and navigability on the Sava River;
- modernize the fleet.

### **3. Communication infrastructure**

#### **3.1. Telecommunications**

##### **3.1.1. Situation**

At this point, when compared with developed or even middle-ranking European countries, the telecommunications in BiH are at a low level of development, similar to the overall standard of living. By way of example, the market penetration level for wired telephony in BiH is about 22% (26% in the FBiH and 19% in the RS), for cellular telephony a little over 18%, for Internet some 2%, and for CaTV less than 1%. In the RS, the penetration level (number of lines per 100 inhabitants) for wired telephony is as low as 19%.

Fortunately, in the technological sense our telecommunications do not lag far behind the European and world standards. The transmission system is now virtually 100% digitalized and the switching system is 70% digitalized. The mobile phone networks use digital technology (2G systems). The 2.5G system is being introduced gradually, and introduction of the 3G (third generation) system is under consideration, which will permit the radio data transmission rate of up to 2 Mbps.<sup>9</sup> The mainstay of the transmission network in BiH are fiber-optic cables as the transmission media, which ensures a high quality of data transmission. The access networks are already built using broadband technology in all three basic forms: copper (with xDSL), fiber-optics and radio.

The process of reform in the field of telecommunications has already begun. The activities of the CRA should be continued and intensified to continue regulatory development of the telecommunications sector. The BiH Council of Ministers should develop the telecommunications policy and legislation to establish a stronger link with information technologies and thus create an

<sup>9</sup> ITU Recommendation RM 1035, Basis for radio interface with IMT-2000



environment conducive to more comprehensive application of the IT in general. If the IT are to have full effect, the appropriate infrastructure is essential, first bus infrastructure, and then access infrastructure as well. In a favorable environment, which still remains to be further developed, this would be primarily the responsibility of the telecommunications operators with substantial share of the market.

The process of liberalization of the telecommunications sector continues. The telecommunications policy already led to the liberalization of all voice and non-voice services, except for the international voice services, a task which is planned for the end of 2005, but which entails a prior tariff restructuring. The process of privatization, the preparations for which had already taken a long time, has finally begun: in the FBiH, the public telecommunications corporation has already been 10% privatized ("certificates") and in the RS 20% (vouchers). The privatization process must continue, with fully respect of the interests of the stakeholder groups whose primary interests lie in development (employees, certificate holders, the state and clients).

In addition to using donor funds and loans, the major operators have invested their own resources in development, at the level of more than KM 200 million per year. The loans have been granted to the two major infrastructure systems – the electric power corporation Elektroprivreda BiH and BiH Railways – for building the communications systems, both for their own needs and for third parties as well. The Elektroprivreda BiH has received an EBRD loan of €50 million (for the SCADA system and telecommunications), while the BiH Railways has received €30 million and €20 million from EIB and EBRD respectively for signal and telecommunications equipment.

### **3.1.2. Existing legislative and institutional framework**

The telecommunications sector is regulated at the State level in BiH by:

- Telecommunications Sector Policy adopted by the BiH Council of Ministers,
- Law on Communications promulgated by the High Representative<sup>10</sup> and adopted by the BiH Parliament in late 2002,
- CRA licenses for operators of wired and mobile phone communications, network operators at the local, regional and State level, and service providers,
- CRA decisions and rules, of which the Rule on Interconnection, issued in 2002, is of particular importance, as well as ITU (International Telecommunications Union) international technical recommendations,
- international ETSI, CEN, CENELEC and IEE standards.

The following institutions are active in the area of telecommunications:

- BiH Ministry of Traffic and Communications,
- FBiH Ministry of Traffic and Communications and RS Ministry of Traffic and Communications;
- fixed network operators (3 licensed);
- mobile communication network (2 licensed of 3 active operators in BiH);
- network operators at the local, regional and national levels (a number holding licenses);
- CaTV operators;
- Internet service providers (a number of licensed providers ).

### **3.1.3. Problems**

The main problems at the national level are the following:

- insufficient interconnectedness of the transmission system;
- insufficient coordination in programming and planning;
- universal service still not defined;
- IP phone service still not regulated;
- ICT main bus at the BiH level not built;
- insufficient coordination between the CRA and the line ministries in the Entities.

### **3.1.4. Priorities**

- **The Council of Ministers should adopt policies relating to:**
- harmonization of tariff policy and of pricing of local and international communications in BiH,
- the third operator's license for mobile communications,
- IP telephony,
- universal services and the mechanisms for funding them, and for the CRA to adopt the relevant regulatory provisions, including:
  - licensing of content providers
  - analytical preparations for licensing the UMTS systems operators, etc.

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<sup>10</sup> Official Gazette of BiH, No. 33/02 of 12 November 2002.

- **Adopt rulebooks and agreements on interconnections**

The dominant operators, i.e. those with significant market share, are required to adopt, on the basis of the CRA Regulations:

- Standing Rules on Interconnections (relations with operators of local and regional networks),
- Agreement on Interconnections as an interim document signed by the operators with significant market share and the users who are applying for access to the telecommunications network managed by these operators.

- **Increase penetration and introduce new technologies**

- secure funding to increase the market penetration to 40% in wired telephony, to 50% in mobile telephony and to at least 20% for Internet and CaTV, respectively (at the level of BiH),
- secure funding for the introduction of the third generation (3G) system of mobile telephony/UMTS system<sup>11</sup>,
- develop IT and communications bus arteries at the BiH level
- establish fiber-optic links with the neighboring countries (regional arterial buses)
- build a European IT nodal exchange in BiH,
- at the State level, develop a broadband CaTV network (for video, high-speed Internet and IP telephony services) with master and regional nodes linked by fiber-optic cables with digital transmission
- initiate further digitalization of landline telecommunications systems and increase the penetration of wired and mobile phone users;
- introduce UMTS (Universal Mobile Telephone Services).

- **Implement industrialization projects in the sector**

- start the industrialization projects in the area of fixed networks of telecommunication sector (production of elements of open interfaces etc.) and in the area of mobile communication of the telecommunication sector (production of container-antenna base station etc.). Substantial investments will not be required for implementation of the industrialization projects, given that the existing factory premises and other infrastructure could be used. As regards the sources of financing, these would mainly be own resources of telecom and other operators and service providers, as well as credit financing.

- **Continue liberalization and privatization in the telecom sector**

The initial step in strategic privatization is the adoption by the governments of the decisions to sell the telecommunication companies to strategic investors. Such decisions are bound to draw the attention of both national and international public, and they should contain the following elements:

- authorization for sale: make the sale on the basis of the government decisions or special laws adopted by parliaments;
- mode of sale: sell all companies in one package (BiH), only some (from the Federation of BiH), or all separately;
- organized restructuring: where necessary, separate fixed and mobile phone services (BH telecom, Telekom Srpske);
- responses to key questions, such as: share package size, defining the obligations of the strategic partner etc.

### **3.2. Postal services**

#### **3.2.1. Situation**

Postal services are delivered by means of postal network, which consists of the postal network units (post offices) and their separate organizational components, and of the postal network facilities. There are three public postal operators in BiH: the BH Post Sarajevo, the RS Postal Services Corporation in Banja Luka, and the Croat Post in Mostar.

The **BH Post network** covers an area of 15,167 km<sup>2</sup> with about 1,900,000 inhabitants. At end-2002, the postal services on the territory served by BH Post were provided by 243 postal network post offices. Each post office delivered services to 7,818 inhabitants on average, covering an average area of about 62 km<sup>2</sup>; each counter served 3,100 and each mailbox 1,900 inhabitants on average.<sup>12</sup>

<sup>11</sup> Which will require additional investments in infrastructure and separate payment for the licence for using the UMTS System, which predominantly depends on the telecommunications sector policies. In Germany, the cost of a licence in EUR 50 billion, in Austria it was 10 times less, while in Finland, the state does not charge its operators for the licence, but instead it requires them to provide high-quality services etc.

<sup>12</sup> BH Post 2002 Annual Report.

The mail delivery in the area covered by the BH Pošta Public Corporation is structured in three tiers. There are in total 64 in-country road routes, one inter-entity road route, and 14 international air routes.

The first transportation tier encompasses fifty-three of the total number of routes, of which 14 are local and 39 interurban mail routes. At the second and third tiers, the delivery of domestic mail takes place along 12 interurban routes, while international mail is transported along one road route and 14 air routes. Of the total of 65 road routes, own means of transportation are used on 50, and 16 make use of public passenger transport vehicles.

Within the FBiH, daily exchanges of mail with HPT Mostar take place at the formal exchange level and the transportation level. Postal delivery services between the FBiH and the RS were established on 31 May 1998 and take place three times a week, organized alternately by BH Pošta and the RS Postal Services Corporation between Sarajevo and Banja Luka and vice versa.

As regards the international postal services, which are conducted via the exchange post office 71003 Sarajevo, the direct exchange of mail with the postal authorities of Austria, Australia, Belgium, Italy, Denmark, the UK, France, Canada, Norway, Germany, the USA, Slovenia, Spain, Switzerland, the Netherlands, Sweden and Croatia takes place by air every day of the week except Sundays.

**The RS Postal Services Corporation** in Banja Luka serves an area of 24,983 km<sup>2</sup>, with 1.4 million inhabitants. The postal services are provided by 260 post offices of the postal network, each serving on average 5,435 inhabitants in an area of 96 km<sup>2</sup>; one counter serves 3,161 and one post box 2,975 inhabitants on average. The mail delivery in the RS is organized via 89 domestic and international routes.

The exchange post office in Banja Luka conducts international postal services with every country of the world, with 50% of mail going via the exchange post office in Belgrade, 40% via Sarajevo, and 10% via Mostar.

The **Croat Post Mostar** serves an area of about 9,000 km<sup>2</sup>. It has 108 post offices with 286 counters. The carriage of mail takes place on a total of 24 routes, of which 21 are in the territory of HP Mostar, two are inter-operator routes, and one route is international.

### **3.2.2. Existing legislative and institutional framework**

The legislative framework for postal services in the FBiH consists of the following documents:

- Law on PTT Services<sup>13</sup>
- General terms and conditions for provision of PTT services
- Nomenclature of PTT Services, and
- Company Law<sup>14</sup>

and in the RS:

- Law on the RS Posts<sup>15</sup>
- General terms and conditions for provision of PTT services and Nomenclature of Postal Services
- General plan of the RS postal network.

### **3.2.3. Priorities**

#### **• Define the legislative and institutional framework**

In view of the completion of the process of transformation of the PTT system in BiH and the creation of several postal services operators, it is necessary to pass the appropriate legislation for the field of postal services. This requires the adoption of:

- the FBiH Law on Postal Services
- the framework BiH Law on Postal Services
- the law on establishing and operating financial institution within the BiH Post.

#### **• Strategically develop new activities**

- Since the traditional postal services, based on delivery of letters, are diminishing, the Post Office must focus on the strategic development of the following operations: freight transport, cash transmissions, transmission of documents (e-mail, fax, hybrid services), banking services (financial payments operations services, savings and specific services such as on-line services, Business-to-Business, own sales). In addition to the traditional postal services, which are part of the communications market, the postal services must be expanded to:
  - entering the transport market

<sup>13</sup> Official Gazette of SFRJ, 2/86.

<sup>14</sup> Official Gazette of RBiH, 33/94.

<sup>15</sup> Official Gazette of RS, No. 20/97 and 63/01.

- entering the banking and financial services market. The domestic banking legislation (Article 2 of the Law on Banks) currently rules out the possibility of forming postal savings banks authorized to accept deposits and provide loans to the population, which should be reviewed and changed.
- Prepare long-term development programmes in the light of a future in which the traditional postal services are no longer really needed. People will communicate by digital video files, e-mail and telephone. Companies will rely on logistics and delivery specialists. Payments will be made by smart cards. The Posts can survive in the new circumstances only if they adapt to the environment, but also, and at the same time, **proactively influence the environment** through their external strategies.
- Continue the implementation of projects currently under way: the hybrid mail, a sorting center, the Internet kiosks, treasury operations, credit/debit card operations, catalogue sales and post-shops. It is estimated that, with the adoption of the previously mentioned legislation on the post office and post office savings bank and through implementation of the above projects, the postal operations could be improved and put on a commercial basis by the end of the medium-term period, not only without reducing employment, but – just to the contrary – with recruiting of young and qualified staff.
  - **Financial consolidation and improving the operation**
- Based on the projected volume, structure and value of services and of budget costs, the total revenue and allocations of the postal services registered a slight growth over the previous period. It is to be expected that the postal services, with new operational structures, financial and e-business, along with the conventional services, and with cost-effective operations, will become self-sustaining by the time the subsidies from the telecommunications corporations are ended. In the process, in addition to its own resources, the postal corporations could also rely on the support from the Universal Postal Union (UPU).

### **3.3. Media**

#### **3.3.1. Current status**

There are 183 broadcasters in BiH (42 TV and 141 radio stations), which mainly operate at the local level. Most broadcast and print media are commercial; the public services include the BiH Radio and TV Service, Radio-Television of RS and the FBiH RTV. The cantonal and some municipal media are also public. The media are in a state of constant restructuring, development and regulatory changes.

Three program units will develop in the public broadcasting domain in BiH to cover the entire territory: BHTV1, FBiH RTV and RTRS. The first two have all-day programming and broadcast networks, whereas BHTV1 lacks:

- program production capacity for all-day programming,
- technical infrastructure to cover the entire territory of BiH with the BHTV1 signal, and
- equipment for the production needs.

The media are funded in various ways, depending on their nature and extent of coverage. The commercial media finance themselves by charging for their services. The funding for the public media, or those providing public broadcasting services at the state and entity level, is collected in the form of subscription fees, and for local public broadcasters from the budget. Preparations are under way to construct a terrestrial broadcasting network and introduction of one digital satellite channel for the PBS and BHTV1, to be funded by the EU/EC.

#### **3.3.2. Existing legislative and institutional framework**

The relevant laws in domain of the media are the BiH Law on the Public Broadcasting System and the Law on the Public Broadcasting Service of BiH, the RS Broadcasting Law and the FBiH Broadcasting Law. There are no laws regulating the operations of local electronic media and the press. The competent authorities are expected to supervise the enforcement of the existing laws, and particular support should be given to addressing the problem of the collection of RTV subscription fees, as the basis for funding the entities' public broadcasting services and the BiH Public Broadcasting Service.

Legislatively, the operations of the media are regulated by the BiH Parliamentary Assembly and the entity parliaments. At the state level the regulatory function is performed by the Communication Regulation Agency (CRA). The Agency implements the Telecommunication Sector Policy and the Law on Communications that were adopted by the BiH Council of Ministers in 2002. Operationally, the broadcasting is carried out by numerous broadcasters, from BHTV1, FTV and RTRS public broadcasters to local radio and TV stations.

### 3.3.3. Priorities

- **Implement the media modernization projects:**

- implement the projects for infrastructure development and modernization of the transmission network for radio and TV signals,
- implement the project of digitalization of TV and radio systems.

Funding of around EUR 20 million is required for development of the infrastructure and modernization of the RTV transmission signal network in both entities.

- **Implement the privatization activities in the sector**

Activities related to restructuring the public broadcasters and prohibition of privatization by the OHR have slowed down the privatization activities. At the present stage of development, the public broadcasters (PBS, RTV FBiH, RTV RS) should not be privatized.

- facilitate access of both national and international investors to privatization of other broadcasters (regional and local RTV stations), through the sale of shares or tenders, or purchase of new shares in new capitalization.

### INDICATORS FOR MONITORING THE TRENDS IN IMPLEMENTATION OF THE PRSP GOALS OVER THE MEDIUM TERM (2004 - 2007)

Sector	Indicator	Description	Unit	2002	2005	2007
Roads	Main roads	length	km	3,788		
		density	km/100km <sup>2</sup>	7.4		
	Regional roads	length	km	4,842		
		density	km/100km <sup>2</sup>	9.5		
	Local roads	length	km	14,000		
		density	km/100km <sup>2</sup>	27.3		
	Road network in BiH - total:	length	km	22,630		
	E-roads	length	km	995		
	Motorways	length	km	11.5		
		density	km/100km <sup>2</sup>	0		
Registered vehicles	number	10 <sup>3</sup>	775			
Traffic accidents	number					
Railway	Railway network in BiH	length	km	1,041		
		density	km/100km <sup>2</sup>	2.08		
	Two-track railway	length	km	87		
	Electrified railways	length	km	776		
	Operational results	pkm				
ntkm						
Telecommunications	Landline phone services	penetration	%	22		
	Mobile phone services	penetration	%	18		
	Internetization	penetration	%	2		
	CaTV	penetration	%	1		
	Transmission digitalization	level	%	100		
	Commutation system digitalization	level	%	70		
	System 2,5 G	introduction		gradual		
Post	BH Pošta	coverage	number	243		
		service provision	no. peop. / p.unit	7,818		
	RS Postal Corporation	coverage	number	260		
		service provision	no. peop. / p.unit	5,435		
	HP Mostar	coverage	number	108		
		service provision	no. peop. / p.unit			
Media	Electronic media		number	183		
	Radio stations		number	141		
	TV stations		number	42		

## **V.9. SECTOR PRIORITIES – ENERGY SECTOR**

### **1. Goals of the energy sector reform**

The major goals of the energy sector reform are:

- 1.1. *stimulate national and international investment;***
- 1.2. *ensure a more reliable supply of energy, in accordance with defined quality standards and at lowest prices;***
- 1.3. *join the international market through a single market of electric power and gas in BiH;***
- 1.4. *enhance cost-effectiveness and rational use of energy sources and improve energy efficiency;***
- 1.5. *implement liberalization and introduce competition and transparency;***
- 1.6. *ensure protection of environment in accordance with national and international standards;***
- 1.7. *protect interests of the system users;***
- 1.8. *increase the use of renewable energy sources;***
- 1.9 *meet the conditions of the European Energy Charter Agreement, as well as other international contracts and agreements.***

### **2. Energy sector in general**

The operation of energy market also determines the conditions of the environment in which commercial companies work, and thus this market affects the overall reconstruction of economy. Under the SAA (Stability and Association Agreement), the cooperation in this area will reflect the principles of market economy and the European Energy Charter Agreement, and will develop in the direction of gradual integration of the European energy market. This cooperation will likely focus on formulation of energy policy, improvement of infrastructure and development of energy resources, and energy savings. From the standpoint of the SAA, the matter of the Power III Project is of particular importance.

#### **2.1. Present status**

Energy consumption is a significant indicator of the living standard. In 2000, the average consumption of energy in the world was about 70 GJ per capita. In developed countries it reached 236 GJ/capita, and in Bosnia and Herzegovina was about 45 GJ per capita, which clearly indicates that it was significantly below average. Power consumption per capita in BiH is also lower than the world average and in 2000 it amounted to 1,915 kWh/capita; the world average was 2,343 kWh/capita, and the average for OECD countries amounted to 8,089 kWh/capita. This is another clear indication that some BiH inhabitants live below the general poverty line. The level of energy consumption in BiH before the war (1991) was about 73 GJ per capita, which exceeded the world average (about 69 GJ/capita).

One of the indicators of the efficiency of energy utilization in a country is the energy intensity ratio, which represents the ratio of energy consumed and the GDP. In 2000, on average, 10.14 GJ was consumed to produce 1000\$ of GDP on the world level. In the same year, developing countries used 22.57 GJ for 1000\$, and in BiH 30.1 GJ was consumed for generation of the same level of revenue.<sup>1</sup>

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<sup>1</sup> Data for Bosnia and Herzegovina for both energy consumption and energy intensity should be taken with a degree of caution. Reliable data for BiH are not available, as no institution consolidates energy-related data, and, even where some data is collected, it tends to be incomplete. In comparison, in the USA, with the energy intensity factor of 10,9 GJ/1000 US\$, it is estimated that the consumption in the energy sector represents about 6,1 percent of GDP (i.e. 11,7% if equipment costs are included); in the EU countries, the energy intensity is about 7,55 GJ/1000US\$, and the energy market is estimated at about 4,75 percent of its GDP.

This data points to the conclusion that in BiH, with the existing level of energy intensity, more than 20 percent of GDP is spent in the energy sector. Such a high share of the energy sector in the GDP clearly indicates that the energy sector in BiH requires considerably more attention.

The basic identified sources of primary energy in BiH are coal and hydro-power. In 2001, annual production of energy from those sources in BiH amounted to about 62 percent of the total consumption of primary energy, which indicates that BiH is dependent on the imports of energy, as certain energy sources, for now, can not be replaced with domestic energy sources. The overall coal reserves in BiH is estimated at 3,856 million tons (excluding the reserves in Ugljevik, Gacko and Livno), of which 1,330 tons are brown coal reserves and 2.526 tons are lignite deposits. Off-balance sheet reserves are estimated at 905 million tons (224 million tons of brown coal and 678 million tons of lignite). The total hydro-power potential is estimated at 22,050 GWh annually, i.e. at 6,126 MW of installed capacity

Preliminary research surveys of oil and gas, which were interrupted by the war, had indicated the presence of promising deposits on a number of sites in certain areas of BiH. Information about this research is not publicly available (although the off-balance sheet reserves are estimated at about 50 million tons of oil, and less than 10 percent of potential deposits has been surveyed) and it is not known what the future plans are regarding exploration of oil deposits. Depending on the results of the preliminary research, these should continue, but, for now, liquid fuels and natural gas need to be imported.

Potential for exploitation of geo-thermal energy, wind energy, solar energy and bio-mass energy have not been sufficiently explored, but the share of these energy sources in the overall consumption will certainly remain modest, as is the case in the world, where it is projected that in 2020 the share of all renewable sources (including hydro-power, which holds the most significant share) will amount to about 7,7 percent. However, the increased use of renewable sources of energy in the world is significant and the their potential and feasibility of their use should be analyzed.

The bulk of coal (about 70% in 1990, more than 90% in 1997 and about 78% in 2001) is used for power production. Taking into account the economy of coal exploitation, as well as the existing efficiency of the transformation of coal energy into other forms of energy, a part of coal used in the production of electricity could be reduced in comparison with the existing situation. The present level of consumption of oil and gas is significantly lower than the pre-war consumption. The consumption of oil and gas should rise once the economy revives. It will remain necessary to import oil in the coming years. The imports of petroleum products and the processing of oil will depend on the resolution of political issues in BiH, as the processing capacities in the country are sufficient for virtually the total of consumption of petroleum products in the country.

Current gas consumption is significantly lower than in 1990, again due to the poor conditions in the industrial sector. Due to the unfavorable natural gas consumption mix (relatively high share of heating and household consumption), the dynamics of consumption are also unfavorable (winter consumption is considerably higher), resulting in increased prices of natural gas. In addition, gas is procured over only one pipeline and from one supplier only, which makes supply stability an issue.

The problem of storing oil and, possibly, natural gas, has not been resolved, although some solutions for gas storage facilities exist. In the EU countries, the preparations for the increase of oil supplies above the mandatory 90-days supplies are underway. In addition to securing the flow of oil in case of supply disruptions, these supplies would be used in case of unpredicted oil price market fluctuations. The problem of storing oil and petroleum products needs to be addressed urgently naftnih derivata.

Although the level of meeting basic energy needs is rather high in BiH, the poor still have a significantly more limited access. Most households in BiH are connected to the electric power supply, but that is much less frequent when it comes to natural gas or district heating. The people in lower income categories spend significantly more to satisfy their basic energy needs. In addition, the use of firewood is very widespread in BiH, particularly in poor households.

## **2.2. Problems**

The main consumers of the final forms of energy are households and the commercial sector (often considered as one consumer category), the industry and the transport sector. The share of individual consumer groups varies depending on a number of factors, climate being one of the most important. In the EU countries, with similar climate conditions, the corresponding distribution is as follows: households and commercial sector account for 40.7 percent, the transport sector for 31 percent and the industry for 28.3 percent.

According to the estimates for 2000, the households and the commercial sector in BiH accounted for 50 percent, the industry for 25 percent and the transport for 25 percent of the total energy

consumption. Therefore, the share of households and the commercial sector in the consumption of energy is the highest. The energy consumed by the households and the commercial sector is used (predominantly) for heating (water heating and treatment, cooking, illumination and electrical appliances and equipment).

The reduced energy consumption in this segment can be partly achieved by introduction of district heating. Most of the current systems do not achieve the satisfactory effects, partly due to inadequate maintenance, and partly because there are no instruments for measuring individual heat consumption of consumers. The possibilities of combined production of heat and electric power, an option that is convenient for larger buildings or groups of buildings, are also underutilized. Because of its efficiency, the district heating saves fuel, and also contributes to reduced emission of CO<sub>2</sub>. The district heating systems can be used in hospitals, hotels, recreational and trade centers, and other larger public facilities, particularly those where the natural gas can be used as a fuel.

In addition, taking into account that the largest share of energy is used for heating, and that the relative consumption of energy for heating in BiH is much higher than in the EU countries (according to the assessments made in the EU countries, at least one fifth of the energy consumed in households and commercial sectors is "easily savable"), and, obviously, there is a lot of room to reduce the energy consumption in this area. The methodology for designing energy performance indicators in buildings, used in Bosnia and Herzegovina, is mostly outdated and the revision of methodology would assist in both achieving energy savings in the buildings and reducing the investments for energy infrastructure in newly constructed buildings. This could also have an important role in the reconstruction, i.e. restoration of buildings.

In the transport sector, significant changes need to be made with respect to energy demand, especially taking into account that the primary source of energy used is imported oil, i.e. petroleum products. For this reason, ways to increase the share of rail transport relative to road transport, which would allow for a greater use of domestic energy sources, should be considered.

The possibilities for energy savings in the industry sector are also considerable. Most industries treat energy as tangible cost and include the energy cost in the final price of the product, which does not promote energy savings. The cost of energy should be registered separately, compared with the energy costs in the same activities in the developed economies, and measures should be taken to rationalize the consumption. Subsidies could present an effective solution for such measures. Generally, the awareness about the savings that could be achieved with the increased energy consumption efficiency should be raised. Energy savings require investments, but these investments pay off quickly.

Energy efficiency in Bosnia and Herzegovina, both on the production and transformation side, and on the consumption side, is low, relative to the developed economies. The energy production in BiH is based on technologies developed some thirty years ago, from the period of the construction of a number of blocks in the thermal power plants. In the case of construction of new plants and in major reconstructions of the existing facilities, new technologies should be introduced whenever possible.

Renewable energy sources (except hydro-power), at the current level of development and at the current share in the overall energy consumption, could serve only as a complement, rather than a replacement for the major plants. However, due to their low environmental impact, these technologies are developing rapidly and their use is increasing<sup>2</sup>.

Energy prices are still set by administrative decisions and there is no internal energy market<sup>3</sup>. In BiH, as in other former command economies, energy prices were systemically lower than in other parts of the world. Even now, the fuel prices in the FBiH differ from the prices in the developed countries, especially in terms of price ratios<sup>4</sup>. Industrial price of natural gas in the FBiH is among the highest in Europe. The ratio of electricity and natural gas prices per energy unit (1,5:1) varies considerably (from 2 to 4 : 1) from the ratios in most European countries.

"Energy tariffs must be fair and must promote savings". This means that the tariffs need to be set at cost return levels and must include the environmental protection costs, given the negative environmental impact of the energy sector. In specific circumstances, certain temporary consumer subsidy measures may be justified; subsidizing energy sector producers and service providers has

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<sup>2</sup> In the European Union countries, a campaign is launched for the extended use of renewable energy sources.

<sup>3</sup> «The Report of the Commission to the Council on Readiness of BiH to Start Negotiations with the EU on the Stabilization and Accession Agreement» (Feasibility Study). Brussels, November 18, 2003, page 38.

<sup>4</sup> In developed economies, industrial fuel prices are lower than commercial prices (in some countries the price ratio is 1:2 and more – and in others it is as high as 1:4).



negative effects.

The government has an important role in the energy policy and in the development of the regulations, especially in case of market reforms leading towards regional or even global solutions. Efforts should be made to harmonize the national energy regulations with the European regulations. The EU countries are intensifying their integration, harmonizing their activities and adopting joint plans which include non-EU members, too. Bosnia and Herzegovina should take a more active part in the development of such plans. Nonexistence of a coherent strategy of the BiH energy sector development, which would define the approaches to the problems such as the diversification, economy in energy consumption, securing the offer, environment protection and other international regulations, has been recognized as a problem also in the Feasibility study of the EC.<sup>5</sup>

Energy facilities have a significant impact on the environment. The aspects of the environmental impact are considered in a different section of the PRSP Strategy (Sectoral Priorities - Environment). To mitigate the environmental impact, efficiency improvements, application of new technologies and by expanded use of renewable energy sources could achieve significant effects.

The ministries of energy should prepare public education programs. The level of general awareness about the importance and the cost of energy, efficiency, potential savings and environmental impact should be raised. These purposes might be achieved by preparation of popularizing content and its dissemination through the media and the Internet. The competent energy ministries, in cooperation with the ministries of education, should influence education and training for the energy sector, by proposing study subjects and their contents for incorporation into the educational system.

The energy statistics is crucial to monitor development of the energy sector and take adequate measures, in view of intensive changes in this sector in the BiH environment. Therefore a solid energy statistics base should be established at the state level, which ought to allow reliable data on energy sources (domestic and imported), energy consumption by types and structure, as well as energy-related costs.

### **2.3. Priorities**

#### **2.3.1. Establish, develop and implement clear, well designed energy policy and appropriate action plans**

- adopt the BiH Energy Development Strategy, in coordination of the BiH Ministry of Foreign Trade and Economic Relations and the competent FBiH and RS ministries, and with cooperation of domestic and international experts,
- establish the Energy Department in the BiH Ministry of Foreign Trade and Economic Relations,
- develop the methodology for collection of energy statistics.

#### **2.3.2. Encourage energy saving in households and industry**

- to reduce energy consumption, use existing and available technologies such as heat isolation, air recycling, more efficient electric appliances etc.
- as a priority, encourage greater use of public transportation and rationalize use of cars in cities
- increase awareness on savings possible through increased energy efficiency.

#### **2.3.3. Reform the energy pricing system**

- Prices must be based on economic criteria and include costs of environmental protection.

#### **2.3.4. Encourage application of renewable and alternative energy sources, research and application of new energy technologies and other technologies increasing energy efficiency**

- intensify construction of planned hydro-power plants through a concessionary model, and build small hydro-power plants,
- install pilot facilities for utilization of wind, solar, geothermal and biomass energy.

## **3. Electric power**

### **3.1. Situation**

The electricity sector is one of the mainstays in the development of Bosnia and Herzegovina. Considering the export potential of the sector, and in view of considerable electricity shortages in the

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<sup>5</sup> «The Report of the Commission to the Council on Readiness of BiH to Start Negotiations with the EU on the Stabilization and Accession Agreement» (Feasibility Study). Brussels, November 18, 2003, page 38.

Southeast Europe, and significant untapped natural resources, Bosnia and Herzegovina's orientation towards the reconstruction and restructuring of the sector is clearly justified

The reforms of the electric power sector which will ensure sustainability, efficiency and competitiveness of the electric power production in BiH, are implemented within the framework of the Power III Project, which envisages investment of around USD 250 million into the reconstruction of existing power production plants over the coming years.

In BiH, electricity is produced in hydro- and thermal power plants. Currently, the production capacities exceed the domestic demand, and the electricity is exported to Croatia, Slovenia and Serbia and Montenegro. With respect to natural resources, BiH has considerable reserves of brown coal and lignite used as a fuel in thermal power plants, and great and untapped hydro-power potential.

In BiH, there are at present three vertically integrated electricity monopolies in charge of the generation, transmission and distribution:

- Elektroprivreda BiH (Electric Power Enterprise) of Bosnia and Herzegovina (EPBiH);
- Elektroprivreda (Electric Power Enterprise) of the Croatian Community Herzeg-Bosnia (EPHZHB); and
- Elektroprivreda (Electric Power Enterprise) of the Republika Srpska (EPRS).

EPBiH has 1,839 MW of installed production capacity, of which thermal power plants account for 73% and hydro power plants for 26%. The 762 MW of EPHZHB production capacities come from hydro power plants only. Distribution-level consumption was 1,075 GWh. The Electricity Company of the Republika Srpska's production capacities total 1,375 MW.

Total power production in BiH in 2002 was 10.8 TWh. Sixty percent of production comes from thermal, and 40% from hydro-power plants. The gross consumption realized (distributive, direct and losses) of 9.7 TWh, which left the net surplus of 1.1 TWh. The total losses in the transmission and distribution network were 1.6 TWh, which is more than 15% of power produced. In 1999, the collection rate of elektroprivredas was between 75% and 99%, while losses in the low- and high-voltage grids were 9.8% (in EPBiH).

Each elektroprivreda is responsible for the allocation and dispatching of its power plants, and for the control of frequency and voltage on its territory. However, the Common Electricity Coordination Center (Zajednički elektroenergetski koordinacioni centar - ZEKC), jointly owned managed by the three elektroprivredas, was established in November 1998, to coordinate dispatching and ensure the integrity of the system within . The main function of ZEKC is to coordinate the management of the power supply system in a safe, effective and efficient manner and to ensure the transmission of electric power to domestic and foreign consumers.

If calculated on the cashflow basis, the electric power sector is profitable, but when depreciation is included, the large resulting losses become evident. In effect, the revenues cover only 30% of the depreciation amount per year, which results in enormous delays in the systems maintenance and causes major losses: in excess of 20% at the BiH level, in comparison with 12% in EU countries.

The privatization process in the power sector has begun, by privatization of 10% of the Elektroprivreda of BiH and the Elektroprivreda of HB – Mostar (excluding the transmission segment) through the public share offering in FBiH, as well as 20% of the RS Elektroprivreda Holding Company, through the voucher offering

### **3.1.1. Legal and institutional framework**

The foundations for the reform of the power sector in BiH include the references to the following international documents and national acts

- The Constitution of Bosnia and Herzegovina;
- The Dayton Peace Accord;
- The EU White Paper;
- The European Energy Charter Treaty (ECT);
- EU Directive 92/96;
  - The Government of the FBiH and RS Electricity Policy Statement;
  - The Amendments to the FBiH and RS Electricity Policy Statement;
  - The BiH Law on Electricity Transmission, System Regulator and Operator;
  - The laws on electricity of the FBiH and RS;
  - The Study "Bosnia and Herzegovina: Electricity Sector Restructuring and Privatization Analysis and Action Plan" – PA Consultant

The Law on Electric Power Transmission, System Regulator and Operator in Bosnia and Herzegovina came into effect on April 18, 2002 and it is the initial step in the implementation of the reform objectives in the energy sector. This law was envisaged to create the conditions for unlimited and free trade and continued electricity supply in line with the specified quality standards. The Law is based on the typical international experiences and relevant EU directives. The intention of this law was to facilitate and accelerate the establishment of the electric power market in BiH, the integration into the regional market, introduction of competitiveness and strengthening of customer protection.

The Law on Electric Power Transmission, System Regulator and Operator specifies the institutions of Bosnia and Herzegovina in charge of electricity transmission:

- **State Electricity Regulatory Commission (Državna regulatorna komisija za električnu energiju - DERK)**, has jurisdiction over and is responsible for power transmission, transmission system operations and international trading in electric power. DERK is to be an independent and non-profit institution, which will operate on the basis of principles of objectivity, transparency and equality.
- **Independent System Operator (Neovisni operator sistema - NOS)**, is responsible for the management of the transmission network operating and dispatching in Bosnia and Herzegovina and for the governing, maintenance planning and coordination, network construction and expansion in cooperation with the elektroprivredas. **NOS** will be a non-profit agency, independent from any individual the market participant and from electricity production, distribution and supply activities. ISO shall not venture into trading with electricity, keeping its independence and authority, and the owners of the Electricity Transmission Company will devolve all relevant responsibilities for the management of the system to ISO. ISO will operate in line with objectivity, transparency and equality principles and will have full authority to coordinate the electric power transmission system.
- **Single Power Transmission Company** is responsible for the transmission, maintenance, construction, expansions and the management of the electricity transmission network. The Single BiH Power Transmission Company will take over the facilities of the existing elektroprivredas. Neither of the elektroprivredas will have jurisdiction or powers in such cases.
- **Ministry of Foreign Trade and Economic Relations** is responsible for policy formulation and for the international policy of Bosnia and Herzegovina in the power sector.

With the entry into force of the BiH Law on Transmission, Regulator and Operator of the Electric Power System, the electric power sector reform in BiH began, and it will mean establishment of a transparent regulatory framework, liberalization and opening of markets. Transmission and distribution activities will be regulated, in order to ensure equal access to grids, and thereby competition in power production and supply. Entity electric power laws regulate power production and distribution, power supply, trade, representation and brokering on the domestic market.

Attracting investors is one of the most important preconditions for the successful development of the electricity market in Bosnia and Herzegovina. Transparent processes, politically neutral decision making based on economic principles and an independent regulatory authority are the elements that should be attractive for foreign investors and international financial institutions. The entity regulatory commissions will be established by entity laws as independent and non-profit institutions with the capacity of legal person, with main competences to oversee and regulate relations between producers, distributors and buyers of electric power.

The main objective of the new institutional framework is creating competition in production. A precondition for attracting foreign and domestic investments is for the production companies to operate in a competitive environment, based on explicit rules. Electric power sector will enable the producers to sell power under free bilateral contracts to qualified consumers and independent electric power traders. Distribution companies will be responsible for construction, expansion, development, management and maintenance of the distribution grids.

For the market to become functional gradually and for the competition to be introduced, electric power suppliers' freedom of choice will be limited to qualified consumers and independent electric power traders, who will be able to purchase power directly from production or trading companies. There will be three categories of qualified consumers:

- **Qualified Consumers (QC)**: In the beginning, this category will include major industrial consumers, who will have a right to a free selection of their power supplier. While the qualified consumers purchase power directly from the producers, the role of transmission and distribution will include only the delivery of the purchased power;
- **Regional Electricity Traders (RET)**: RETs are fully separate trading operations of the distribution companies, empowered to purchase power from anyone. A RET will be able to purchase power from the production company or to contract a delivery from another RET or from independent traders.

- **Independent Retail Traders** will be companies with the exclusive function of buying and selling electric power to the qualified consumers and other power traders.

In view of the fact that the situation on the international capital markets has significantly deteriorated since 2002 and that the interest of investors for emerging market opportunities has been reduced, it is unlikely that considerable investments into the energy sector would occur in the coming medium-term period. Nevertheless, the forthcoming integration of the power grid into a single transmission company will make this sector more attractive. In addition, solid and stable revenues of the elektroprivredas will make it easier for these companies to access commercial loans.

### **3.2. Problemi**

Functioning of the electric power system, and of transmission capacities in particular, is insufficiently efficient throughout the country, nor is the entire system fully interconnected, and there are still bottlenecks in transmission grids. The electric power system has been rebuilt to a great extent, but the reconstruction has not been completed. In addition, the present structures and organization in the sector are inefficient and non-transparent.

The basic problems in the power sector are: unsatisfactory commercial discipline, inadequate work of supervisory boards in the elektroprivredas, high losses in the system, poor investment coordination owing to the fragmentation of the system, and excessively close links with coal production.

### **3.3. Priorities**

The central issue in the reconstruction and privatization program is the separation of three vertically integrated elektroprivredas in BiH into transmission, production and distribution. The transmission system will remain under the authority of BiH (the transmission company will be jointly owned by the two entities), while the production and the distribution will be privatized, to attract investments to BiH, ensure better governance and create efficient competition. The study entitled "BiH: Power Sector Restructuring and Privatization Analysis and Action Plan"<sup>6</sup> worked out the sequence, scope and the dynamics of restructuring and privatization of the three elektroprivredas by early 2004, formulated a set of recommendations for the restructuring of the energy sector in BiH and defined the privatization strategy, designed to attract major strategic investors. On the basis of this study, the entities prepared and harmonized action plans which include the following phases:

#### **3.3.1. Reallocation of assets (Phase I)**

In this phase, the elektroprivredas will separate assets and liabilities of the different sectors – production, distribution, transmission and system management and allocate personnel to new organizations. The transmission company will be formed, and it will receive assets and staff from the elektroprivredas. The Joint Electric Power Coordination Center (ZEKC) will be transformed into the NOS, and the assets and staff will be allocated to NOS by the elektroprivredas. The planned tasks are as follows:

- establish four distinct thermal power plant public corporations;
- restructure coal mines, in parallel with the restructuring of the generating corporations, in order to improve efficiency of the mines make their privatization possible, either with the thermal power plants or separately;
- establish three to four separate hydro-power public corporations, organized around a given river system;
- establish the Independent System Operator (NOS) responsible for system planning and dispatching;
- establish the single state transmission company, which will own all high voltage transmission facilities and be responsible for systems maintenance and operation in accordance with the instructions of the NOS ;
- restructure distribution areas to establish distribution regions to facilitate privatization;
- establish new shareholders companies for power generation and distribution;
- establish a wholesale power market, through contracts between suppliers and traders and, in addition to this contractual market, a balance market to be created by the NOS;
- establish a market operator for the balance market;
- commercialize newly established production and distribution companies, in order to attract potential strategic investors;
- take part in establishment of the regional electric power market.

#### **3.3.2. Corporatization (Phase II)**

- In this phase, production and distribution companies act as separate organizations. New statutes must be written for all new organizations. Accounting and financial standards will

<sup>6</sup> American consulting firm "PA Consulting Group", December 2001.

be introduced into the new companies. All companies will have identical IT systems for accounting, collection and communications.

- Regulatory commissions will issue temporary licences for new organizations.
- New tariff methodologies for transmission, NOS (State Regulatory Commission) and distribution and generation tariffs (entity regulatory commissions) will be introduced.
- NOS will draft initial contracts for auxiliary services with production companies, to define quantities and conditions under which every producer will provide specific auxiliary services.
- During this period Market Rules will enter into force, and the market operator will be established within the NOS.

### **3.3.3. Commercialization (Phase III)**

New production and distribution companies will act as commercial companies, in order to produce positive business reports for presentation to potential strategic investors. They will prepare their plans of cost reduction for the coming years, including reduction of losses and increase of collection rate, prepare financial reports and forms for their investors, check and update investment needs and plans. Commercialization will continue until privatization. Until the time when the companies will be privatized, the elektroprivredas will disappear.

### **3.3.4. Complete the «Power III» reconstruction project**

The main objective of the Electricity System Reconstruction Project Power III is to follow-up after the BiH Energy Sector Post-Conflict Reconstruction Program, facilitating continued electricity supply at lower prices, along with the mitigation of environmental impacts, as well as a complete reform of the electric power sector. The Project is supported by the international financial institutions and bilateral creditors: the World Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the governments of the US, Switzerland, Germany, Norway and Spain, and includes the following sub-projects:

- Reconstruction of high-voltage long-distance power lines;
- Reconstruction of high-voltage transformer stations;
- SCADA/EMS Telecommunications Project;
- Thermal power plants environmental projects;
- Reconstruction of hydro power plants;
- Reconstruction of the distribution network.

The reconstruction of the 400 kV and 220 kV transmission network, including the 110kV system facilities, and particularly the reconstruction of the damaged transformer stations, will enable the reconnection and reintegration of the BiH power grid, as well as the reconnection with the UCTE, the Balkans and Southeastern Europe systems.

The Supervision, Control and Data Acquisition Project (SCADA) will ensure the functioning of the electricity system of BiH, on an integrated basis. The implementation of the SCADA Project and the reconstruction of high-voltage transmission network will permit the electric power system of BiH to operate as integrated control area in accordance with the UCTE rules, with the UCTE control block encompassing Slovenia, Croatia and BiH. The implementation of these projects should be completed by early 2005.

The reform of the electric power sector will have considerable effect on the social conditions in the country. The sector reconstruction process itself should yield considerable positive effects, considering that most project implementation activities will be entrusted to local firms. On the other hand, the construction of the distribution network, especially in the refugee and IDP return areas, will greatly improve their economic situation, i.e. create most important preconditions for starting small businesses, which is one of the economic policy priorities of BiH.

During the process of company restructuring, which implies separation into the transmission, distribution and production sectors, surplus labor force will be identified. Various modalities for providing for redundant workers should be considered in the early stage of the preparation of these activities. The first solution under consideration is starting small factories for production of electro industry equipment, with own seed capital, and with the support of the international community and the entity funds.

## 4. Coal sector

### 4.1. Situation

On the basis of the currently identified coal reserves in Bosnia and Herzegovina, coal accounts for 93 percent of the total energy potential of BiH. At present, only lignite coal and brown coal are extracted. Over 80 percent of coal in BiH is produced in the Tuzla Basin (Kreka, Banovići and Đurđevik), Central Bosnia Basin (Kakanj, Zenica and Breza), Ugljevik and Gatački Basin, and powerful thermal power systems were built on this basis. Various analyses have confirmed that the energy and market prospects of coal in BiH is stable for the next fifteen years (and most likely even longer).

The current production level, at 40 percent of the pre-war production, is meeting the current demand of all consumers. At present, there is no need for any significant increases of coal production, but rather for maintaining the current level of production, with the implementation of the modernization and rationalization programs of the mines. The special focus should be given to the social implications of this process, given the estimate that a half of the current workers are redundant.

The authors of various studies offered different projections of the potential demand for coal in BiH by 2015. These projections range from 5 to 8.6 million tons for the FBiH, and from 3.2 to 4 million tons for the RS, i.e. from 8.2 to 12.6 million tons for BiH. In the structure of production, the electric power generation accounts for 70 percent, and the remainder is used between industry and households.

In BiH there are two types of mines:

- mines supplying coal for thermal power plants
- mines working for the general market (market competition).

In 1990, the production in the mines in FBiH totalled approximately 12 million tons of coal, with approximately 27,000 workers. Two-thirds of the coal was produced in strip mines and one-third in subsurface mines. In the mines on the territory of the RS, the production in the same year was approximately 4 million tons of coal, with approximately 3,000 employees and with over 95 percent of the coal produced in strip mines. In the post-war period (2001), the annual production of coal in FBiH was 5.5 million tons, and 3.3 million tons in RS. The mines in FBiH employ approximately 14,000 workers, and in RS some 2,000.

The coal sector comprises 15 separate organizational units, many of which manage several separate mines. There are no forms of either horizontal or vertical integration between the mines, nor are there any shared infrastructure, market or any other links.

In the FBiH, the coal is sold on the basis of the electric power sector decisions, at the price of KM 3.612 per GJ (price valid for the last 4 years). The mines in the RS are parts of a single company, together with the thermal power plants, and the price of coal is included in the price of electricity, as the expense determined in the energy balance for each year (approximate calculation price is KM 4.5 per GJ).

The coal demand of four thermal power plants is satisfied from the mines in their immediate vicinity. The thermal plants Kakanj and Tuzla are supplied by railway, trucks and transporters from several mines, and the thermal plants Gacko and Ugljevik are supplied by continuous conveyor, so that, besides economic links, there are also physical links between the mines and the thermal power plants. In all other mines, the production plan is based on the coal demand of the traditional long-term consumers, with individual market offer and creation of competition in the market.

#### 4.1.1. Legal and institutional framework

The starting point for the analysis of the prospects of the coal sector in BiH is in the following international and internal documents:

- FBiH Law on Mining
- RS Law on Mining
- BiH Law on Concessions
- RS Law on Concessions
- BiH Law on Geological Research
- Law on Privatization of State Equity
- RS Law on Bankruptcy
- F/S (Feasibility Study) Marston&Marston USA, for Central Bosnia and Tuzla basin mines
- F/S DMT-Montan Consulting GmbH Germany, for the FBiH mines
- F/S Fichtner Germany, for the Bosnia and Herzegovina's electricity sector
- F/S Kennedy&Donkin Ltd. USA, for the mine and smelter in Gacko
- F/S JCI Japan, for the lignite mine in Stanari and the mine and smelter in Ugljevik
- Japanese Government YEN Credit Agreement for BiH mines

- Other credit and grant agreements.

In both entities, the competences for the mines lie with the line ministries – the FBiH Ministry of Energy, Mining and Industry and RS Ministry of Economy, Energy and Development.

#### **4.2. Problems**

The current situation in the coalmines in BiH is characterized by the general decline of the production rates and the stagnation of economic growth, as well as the retrograde trends in all technical and technological phases of the exploitation and processing. The basic characteristic parameters of surface and subsurface coal extraction are as follows:

- deep levels of subsurface excavation,
- existing subsurface production system models are exhausted, and require new opening, reconstruction and investment methods,
- severe lagging in removal of overlay in surface extraction,
- return to the traditional semi-automated subsurface excavation methods,
- decline of production rates and productivity,
- lack of investments,
- inadequate qualification structure of the employees.

#### **4.3. Priorities**

BiH has coal reserves of  $10 \times 10^9$  tons, which implies that coal will continue to be the most important primary energy source. Even the necessary restructuring and capital increase in the coalmines will not mean a significant increase of production.

To overcome the current unfavorable situation, the strategic program goals in the sector must be reconsidered and updated, at all levels of professional, research, social, economic, and state institutions. The solutions for strategic issues in the coal sector should start with the integral approach to coal basins and coal beds and proceed to selection of specific adequate technological processes, taking into account the following elements:

- demand outlook for energy from coal for the period up to 2015,
- status and potential total balance and exploitation reserves and possibilities for introduction of new technologies (subsurface gasification, IGCC coal gasification technology and refined processing).

The coal sector reform is indispensable for implementation of the strategic goals:

- lowering coal production costs, increase productivity, reduce employment, improve working conditions, raise the living standard of employees and protect environment,
- restructure coal mines, which requires a differentiation between the profitable and unprofitable mines, as part of the privatization preparations,
- introduce new production technologies which will improve profitability and ensure better protection of environment.

The existing studies and adopted international and national documents contain guidelines for a comprehensive transformation of coalmines into independent for-profit companies. In that context, the action plans have been prepared, with a particular focus on the electric power sector (elektroprivredas) and specifying the required resources. The privatization of the coal sector, following its restructuring, is proposed in principle. In principle, after restructuring, privatization of the coal sector through tenders is envisaged.

In the adopted documents, the costs of capital increases of the mines in FBiH are estimated at KM 188 million, and KM 122 million for the mines in RS. Closing of unprofitable mines will require additional funds, which in the studies to date was not estimated, nor were the sources identified. The primary conclusion of the restructuring analyses is that over the next five years, the workforce in the mines must be cut from around 14,600 to some 3,500, to enable the coalmines to deliver coal at the price of KM 4 per GJ. It is estimated that alleviation of the unemployment problem would require KM 86 million. This problem may not be resolved solely through social programs and re-training of the unemployed miners.

## 5. Natural gas sector

### 5.1. Situation

Of the primary energy sources, natural gas is undoubtedly the most desirable fuel, because of its environmental and technological advantages:

- use of primary energy without additional transformation;
- possibility of achieving high efficiency even at low intensity;
- availability at the point of production;
- possibility of easy regulation and adjustment of intensity to current needs;
- possibility of combination with other energy sources;
- reduced losses in the energy production and transmission cycle;
- in specific technological processes, direct impact on the product quality, as well as on reduction of air pollution and CO<sub>2</sub> emissions.

Even under the assumption that the most favorable price level is reached, which is not the case at present, the fact that the gas is imported fuel is crucial for this analysis and in the planning of the energy sector development from the aspect of poverty reduction. This fuel, notwithstanding its considerable advantages, presents a major challenge for the national policy makers, from the standpoint of protection of the domestic economy. On the other hand, the conditions are in place for wider use of natural gas, as the present level of use is below one-quarter of the capacity of the existing gas pipelines, and this would offer a clean alternate fuel for the needs of the population.

From the aspect of the economic development, and primarily development of small and medium industrial and agricultural businesses, the gas is the best energy choice. Therefore, the development of the gas sector in BiH is unquestionable in terms of strategy, but the issue remains about the pace of the gas sector development and whether the sector would developed in a planned manner, i.e. in conformity with the national interests and strategic goals. This concern is founded on the extremely negative experiences with the establishment of the integrated energy policy at the level of BiH.

The options of substituting the imported natural gas with the gas produced by coal gasification have been under consideration for a long time. Even though this technology had been rejected in all previous expert analyses, based on low utilization ratios, the most recent technological innovations, as well as positive experiences of other countries, give cause for a more serious consideration of this option. It is estimated that, with application of modern gasification processes, one million tons of coal, which is a realistic increase for the mining sector, could fully substitute the present imports of natural gas.

The development of the gas sector will still mostly depend on the developments in the region. Specifically,, the planned construction of the "South European Gas Ring" will determine the future of both the gas sector and the entire energy sector in BiH. However, this project is still uncertain, and at this point it cannot be awarded greater importance in the program of emergency poverty reduction interventions.

Just like the entire energy complex in the post-war BiH, the gas sector is also in the competence of the entities and this structure is at the root of all problems in the sector. It could be said that, out of the three predominant segments of the energy sector (electric power, liquid fuels and gas), the gas sector is the least developed. The existing gas sector of BiH comprises four companies, two in each entity:

In RS:

- **Gaspromet Pale** (manages the transmission line Karakaj - Zvornik - approximately 20 km)
- **Sarajevogas Lukavica** (transmission line Zvornik - Kladanj and distribution in the municipality of Srpsko Sarajevo)

In FBiH:

- **BH Gas - Sarajevo** (transmission lines Kladanj - Sarajevo - Zenica, the biggest post-conflict supplier and gas wholesaler in Bosnia and Herzegovina)
- **Sarajevogas - Sarajevo** (gas distribution in Sarajevo)



Although it no longer formally conducts the transport and distribution of gas, the **Energoinvest Sarajevo**<sup>7</sup> needs to be added to the above list of entities (until the outbreak of the war, Energoinvest Sarajevo managed the entire gas system in BiH and was the exclusive gas supplier for the territory of BiH). Because of outstanding debts from the period before and during the war, and the obligations under long-term contracts with Russian suppliers, this company continues to be a major player on the complicated BiH gas market..

All natural gas is imported from the Russian Federation and is transported to BiH via the gas transport systems in Ukraine, Hungary and Yugoslavia. Due to the above mentioned post-war dissolution of the energy system, BiH is facing an absurd situation – in the entire gas transport (over 5000 km) from the gas wells in Siberia to Sarajevo (which is the main consumer in BiH) the intermediaries involved in the internal transport of gas in BiH outnumber the transport intermediaries up to the BiH border.

The main features of the gas system in BiH are: length of 191 km and the projected annual capacities of 1 billion m<sup>3</sup>. The existing leased transport capacities to BiH are 750 million m<sup>3</sup>/year. In the post-war years, the consumption ranged from 150-200 million m<sup>3</sup>, mostly because of the failure of the war-ravaged industry to recover. The pre-war consumption in BiH was approximately 610 million m<sup>3</sup> and was on the rise.

With respect to the long-term projected gas needs, previous studies<sup>8</sup> analysed three different scenarios (high, low and basic) by comparing economic indicators with other countries and conducting separate analysis across all consumption sectors. The demand projections for all three scenarios are similar for both methods, and amount to 3 billion m<sup>3</sup> for the high scenario, 2 billion m<sup>3</sup> for the basic scenario and around 1.5 billion m<sup>3</sup> for the low scenario, until 2020. In the case of low growth scenario, the energy policy would be based on the use of national energy sources, with partial use of gas where the domestic energy sources are thought non-competitive or technologically inappropriate. From the aspect of this study, this is what makes this particular scenario realistic and conceptually acceptable.

#### **5.1.1. Legal and institutional framework**

The legal and institutional framework in this sector is still non-existent, which prevents any foreign investment and any development of gas sector.

In 2001, after the preparation of studies on the reform and development of the BiH gas sector, the World Bank offered to both entity governments a draft **Statement of BiH Gas Policy**, which was supposed to serve as the fundamental, common concept of the reform of the gas sector, and, at the same time, the foundation for development of the legislation in the gas sector, following the model previously applied in the electric power sector. Until the adoption of the BiH Medium-Term Development Strategy, the compromise about this Statement has not been reached.

To organize the gas sector on principles of the single and liberalized market and on the principle of separation of production, transport, distribution and consumption functions, it is indispensable to introduce a minimum legal framework at the state level, in accordance with the applicable European energy sector legislation. This implies passing of a general state-level energy law, and of the law on transport, regulatory agency and operator of the gas system, to be accompanied by appropriate entity energy laws.

#### **5.2. Problems**

The major problems in the gas sector are:

- non-harmonized entity energy policies – non-existence of the gas legislation and regulations;
- organizational fragmentation between the entities makes the coordination in development of the gas network difficult, increases the consumer price of the gas and is considered one of the factor that deters potential investors;
- one source of supply – one transport route – unreliable supply;
- excessively high wholesale gas price (USD 200 per m<sup>3</sup>);
- unbalanced tariff structure that is detrimental to district heating;
- low load factor in gas transport system in BiH, leading to high transport costs;
- high import dependence makes taking the counter-measures more difficult in the case of price increases and thus inhibits the economic development;

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<sup>7</sup> Energoinvest Sarajevo and BHGas import natural gas to BiH from the Gazprom company from Russia, via Ukraine, Hungary and Serbia and Montenegro.

<sup>8</sup> As early as 1999, the World Bank financed the preparation of two studies on the reform and the development of the gas sector in BiH: Study on Natural Gas Sector Reconstruction (NERA) and Study on Natural Gas Sector Development (RAMBOLL).

- unfavorable consumption structure, i.e. lower consumption in industrial, and higher in the residential sector has created strong seasonal disparity. The seasonal variations need to be smoothed out, because at present they impose the obligation to cover the costs for underused capacities in summer, or to purchase additional quantities in winter.

The gas sector needs to be set up in harmony with the national energy resources, which would minimize the transport and distribution costs and achieve the best price of gas for the end consumer. Instead of having a well-elaborated strategy of the gas sector development, which would rank BiH as an equal among European natural gas consumers, BiH consumers buy the most expensive gas in Europe, and have completely unreliable supply.

### **5.3. Priorities**

Regardless of which scenario for its development comes true, the gas sector must undergo a process of reform and restructuring. The reform of the gas sector will be implemented in accordance with the BiH Strategy of Energy Sector Development, which is expected to be adopted by January 2005, according to the agreement between the BiH Ministry of Foreign Trade and Economic Relations and the line ministries in FBiH and RS.

The key reform steps in the gas sector are:

#### **5.3.1. Transform legislative and institutional framework**

- adopt the Gas Sector Development Strategy within the BiH Strategy of Energy Sector Development..
- adopt appropriate legislation and regulations, establish an independent system operator and resolve the regulatory functions by establishing one common regulator for oil and gas,
- create an internal gas market,
- introduce a tariff system.

#### **5.3.2. Strengthen capacities and improve efficiency of the gas sector**

- build an alternative supply route,<sup>9</sup>
- build underground storages and improve the load factors in the existing gas system,
- diversify the sources of gas supply,
- expand the gas distribution network to include several cities to which gas can be cost-effectively supplied through the extensions of the existing system,
- make preparations for attracting strategic partners – prepare the privatization documentation<sup>10</sup>

Ultimately, this means implementation of the EU Gas Directive and liberalization of the market, which is a precondition for integration into the European market.

#### **5.3.3. Actively represent BiH interests on the international scene**

- Protect BiH interests in planning the regional energy networks;
- Take part in the establishment of the regional gas market;
- Strive to have one of the legs of the South-European Gas Ring pass through BiH.

## **6. Oil sector**

### **6.1. Situation**

In the existing BiH economic structure, the oil industry sector encompasses imports and refining of imported crude oil and production of petroleum products. In view of the importance and the scope of its role, this sector may become one of the important factors for the successful implementation of the Development Strategy and for the economic growth of BiH. There is a marked demand for the oil sector products in the BiH market, especially the demand for motor fuels, motor oils and industrial lubricants, and there are significant production capacities, presently not fully employed, due to import orientation, especially for motor fuels, oils and lubricants, as a consequence of inadequate coordination in the post-war development of BiH.

The BiH oil sector developed production and transport capacities.

<sup>9</sup> When it comes to alternative supply and distribution network development, in addition to the undisputed "northern connection", it will be necessary to determine the "external preconditions" in order for BiH network to develop further - meaning here the final route of the future South-European Gas Rng, as well as the routes of other gas interconnections in the immediate surroundings.

<sup>10</sup> The restructuring of the sector does not prejudice the method of its actual privatization.

**The production segment** comprises production organized in two refineries within the "NIRS" (Naftna industrija RS – RS Oil Industry) Company. The first, basic capacity is the oil refinery<sup>11</sup> in Bosanski - Srpski Brod, where imported crude oil is refined into various products - motor fuels, liquid petroleum gas and a range of others, especially those for the needs of construction and road construction.

The second of these capacities is the Refinery of Motor Oils and Lubricants in Modriča, which is essentially the next technological stage in the processing and refining of the Brod refinery products. This refinery produces high-quality motor oils, as well as various special purpose technical oils for the industry and for other industrial and commercial purposes, paraffin and various motor and other lubricants for industry, and especially transport, as well as for households. The installed production capacities are used at the level of around 25 percent of the pre-war production.

**The commercial sphere** in Bosnia and Herzegovina comprises the oil products distribution capacities, especially for motor fuels, oils and lubricants. In both entities, there are two major state-owned distributors, but the greatest share of the market is covered by small private distributors. The demand for motor fuels on the domestic market in the present conditions is approximately 1.5 million tons annually. The oil refinery delivers around 500,000 tons to the market, and the rest is imported. Considering that the number of private petrol stations is on the increase and has reached approximately 300 stations, objective estimates suggest that the commercial capacities in BiH market are already oversized.

The present state on the BiH oil products market suggests not only inadequate usage of own production capacities, and large imports of such products, but also the problems of the frequent imports of cheap low-quality products, especially motor fuels. This situation needs to be urgently addressed and the relations on the market improved.

#### **6.1.1 Legal and institutional framework**

After the war, the oil sector legislation was not passed neither at entity nor at BiH levels. The Yugoslav regulations dating back to the 1980s on transport and management of fuels, gas and inflammable substances, as well as the applicable rule books on storage and transfer of highly inflammable substances are still in force. In regulating the rights of the production in the oil industry and in performing other related activities, the entity ministries of energy and their inspectorates have the main role.

#### **6.2. Problems**

The present situation in the energy sector is characterized by the lack (or non-existence) of harmonization of the legal and regulatory framework, absence of inter-entity cooperation and coordination, and the excessive liberalization of the oil products market – which is almost chaotic. Such conditions had negatively impacted the utilization and the operation of the refinery capacities, and, in turn, the refinery utilization rates were rather low and the performance indicators were unfavorable. The problem of financing of the oil sector, both of the ongoing production and of the capacity building, is fairly remarkable and complex, considering that the period of rehabilitation ended without major investments taking place. As a result, the issue of liquidity, i.e. financing of the ongoing production and the necessary investments is very acute in the Bosnia and Herzegovina oil market today. A realistic solution for this situation may be sought only in attracting foreign investments

#### **6.3. Priorities**

##### **6.3.1. Establish a unified legislative and regulatory network**

The oil sector can and should be a significant factor for the development of the economy of BiH and both entities. This is why it is considered that the concept of the development of the oil sector in BiH should become an integral part of the Medium-Term Development Strategy for BiH. The initial improvements were already made by the adoption of the Decision on the Quality of Liquid Oil Fuels by the BiH Council of Ministers of in September 2002, stipulating the obligation and the need of importing only the liquid fuels that correspond to the regulations and meet the EU quality standards.

It is necessary to harmonize the issues of the payment of taxes and other budget obligations at the entity level, and to ensure equal treatment of the companies from both entities on the oil market. This would qualitatively improve the BiH oil market and the principles of free market and healthy

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<sup>11</sup> The production capacities for refining crude oil in Bosnia and Herzegovina are sized to 5 million tons of refined oil per year, and are based on the most up-to-date world technology. The past period of conflict and the present condition of economy in BiH have significantly reduced production capacities of the oil refinery in Brod – the capacities for refining are now realistically around 2 million tons a year, and the realized production in the past several years had not exceed 600,000 tons.

economic competition would come to the fore, along with the demand for quality of oil products in the market, and the economic principles and strength of overall operations of the companies.

In accordance with the EU practices, already implemented in several sectors of BiH economy, a number of activities in relation to adequate restructuring and regulating must be initiated in the oil sector as well. The regulation of the oil sector should imply acceptance of the contemporary European Union practice, according to which the operating rules and the conduct of companies in this sector are regulated at the state level, while an independent regulatory body is responsible for direct approvals, i.e. licensing of companies. The key tasks in this sector are:

- adopt the BiH oil industry development policy (under the BiH Strategy of Energy Sector Development);
- adopt appropriate legislation and regulations on the basic principles of separation of functions of production, transport, storing, distribution and trade, for the purpose of establishing an open market and secure supply with this fuel;
- set up a single agency to perform the regulatory function in this sector for all energy activities.

### **6.3.2. Revitalize and modernize the oil industry capacities**

In view of the difficulties in operation of the oil industry over the recent years and the low level of investment in maintenance, full revitalization of the sector will only be possible if foreign investments arrive. To attract investors, it is necessary to improve effectiveness and transparency of operations of oil industry companies. One of the most significant improvements in terms of transparency is the decision of the BiH Council of Ministers on exclusive imports of oil and petroleum products by rail, which will permit better control of collection of import duties and taxes.

The privatization of the oil sector is an important goal and task of the entity governments. In both entities, oil companies are defined as strategic companies of entity interest, and their privatization will be implemented through special privatization programs, as well as by international public tenders.

In the oil sector, there is a marked potential for development of numerous smaller production capacities, which will further refine petroleum products and offer a range of new, specialized products in demand in the market. This is a specific area of the so-called low-tonnage chemistry, well suited for the development and growth of small and medium enterprises. In this domain, it will be necessary to:

- develop the program of improving operational effectiveness of oil companies;
- complete the privatization in oil industry;
- implement the decision made by the BiH Council of Ministers on exclusive imports of oil by railway;
- encourage development of small and medium size companies in oil industry.

Just by an increase in the utilization rate of the existing production capacities, i.e. an increase in production in the oil sector, would achieve some positive economic effects, and with needed, relatively modest investments in modernization of higher-stage capacities in this sector would result with even more favorable economic effects. These effects would be reflected, first of all, in the increased employment, significant growth of profits of companies, and in the real increase in budget revenues from taxes, contributions, fees, and other budget dues. In addition, higher utilization rate of the domestic production capacities and an increase in production would ensure a better, more regular and convenient supply of domestic markets with these commodities. The improved results in foreign trade of BiH should be taken into account, because the imports of more expensive final oil products would be substituted by imports of cheaper crude oil.

## **7. District heating**

### **7.1. Present status**

Of over twenty district heating systems in BiH, only the Sarajevo district heating system has been to a certain extent renovated and repaired. In other larger cities, in the best case, only temporary interventions were carried out on the district heating systems. Except in Sarajevo, all other district heating systems generate large energy losses – frequently above 60 percents. This levels of losses significantly reduce the quality of services and prevent the sustainability of the system. Firewood is widely used, which is a very expensive alternative. In addition, in the long term, it threatens the quality of air in the cities.

## **7.2. Problems**

The district heating systems are in the most part worn out, due to very little investment in maintenance, which explains why their costs are so high, as well as the energy losses in the system. In Though the district heating is an important municipal function in larger cities, neither the municipalities, nor the entity ministries of energy pay the necessary attention to the district heating sector. There is no regulatory supervision in the sector, and the municipal competence over the public district heating companies, because of short-term political calculations, has caused the prices of heating to remain unrealistically low. The tariff levels and collection rates have not sufficed to cover the system maintenance, which makes this sector economically unsustainable. There is no data base on the district heating sector (except in Sarajevo and Banja Luka).

## **7.3. Priorities**

### **7.3.1. Establish the legislative and regulatory framework in the district heating sector**

- adopt a strategy for resolving problems in the district heating sector;
- establish a system of regulating the district heating prices at the level of BiH within the framework of a general energy price regulation system.

### **7.3.2. Improve efficiency and accessibility of district heating**

- improve technical efficiency of the district heating systems – complete the rehabilitation projects and introduce the necessary oversight mechanisms;
- expand the district heating coverage in cities and towns where the district heating systems have been reconditioned;
- modernize existing district heating systems and make possible conversions to the heat from thermal power plants where this is possible, or to natural gas in the cities that will be connected to the gas network.

The above considerations clearly indicate that the preparation of the BiH Energy Sector Development Strategy is a precondition for implementing all activities in this area, without which there will be no reduction of poverty, nor any significant economic development. At long last, it should become clear that the strategy must cover the entire BiH, because without the single energy policy, there can be no hope of accession to the EU.

## **8. Indicators for monitoring the energy sector reforms**

<b>Indicator</b>	<b>Source</b>	<b>Estimate for BiH (2000/2001)</b>	<b>2007</b>
Consumption of electric energy/per capita (kwh/pc)	WDI 2002	540.0	1050
GDP per unit of consumed energy (economic efficiency indicator)	On the basis of WDI 2002, calculated for IHR MRC Report	47.5	40
Emission of carbon dioxide/per capita (u 1.000 kg)	IHR MRC Report	3.2	3.5



## V.10. SECTOR PRIORITIES – INDUSTRY

In defining the strategic course of sector priorities for industries, the following sources were used: Study of Performance and Conditions for Improvements from Privatization and Restructuring of Industrial Enterprises in BiH, World Bank BiH, Study on the Development of Industrial Sectors in Bosnia and Herzegovina by GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit), Economic Potentials of Bosnia and Herzegovina as a Factor of Future Economic Development of Bosnia and Herzegovina (Foreign Trade Chamber of BiH), BiH Timber and Wood Industry Export Strategy (Foreign Trade Chamber of BiH), Strategic Course for the Development of Metal and Electrical Industries in BiH, (Chamber of Commerce of FBiH), «Tourism 2020 Vision, Global Forecasts and Profiles of Market Segments» (World Tourism Organization), Competitiveness Report on Bosnia and Herzegovina for 2002 (BiH Academy of Arts and Sciences).

### 1. Objectives

- 1.1. *define industrial policy in order to identify strategic industrial branches and the method for supporting their development,***
- 1.2. *strengthen competitiveness and export potential by accelerating privatization, attracting foreign investment, stimulating scientific research, establishing an appropriate framework for entrepreneurship through improved corporate governance and enhancement of market transparency,***

### 2. Situation

In 1997, the share of industrial production in the GDP stood at about 30 percent, and it is estimated to have risen to 37 to 38 percent in 2003. Providing consistent implementation of reform, it is expected that the share of industry might rise close to 40 percent over the period of the implementation of the BiH Medium-term Development Strategy.

The BiH industrial sector is currently characterized by low productivity and poor competitiveness. According to the analysis made by the MIT Center of the Faculty of Economics in Sarajevo, prepared applying the methodology of the World Economic Forum, the BiH competitiveness is satisfactory under only 18 out of the total of 116 criteria relevant for BiH. According to the remaining 98 criteria, our industry is insufficiently competitive to participate in the world markets. Major problems lie in the domain of infrastructure, but financial markets are also underdeveloped and inadequately efficient. There are a number of deficiencies in the functioning of the fiscal system, from inconsistent implementation of regulations to low collection rates, which make it one of the weakest points in the entire business environment. The low level of technological development and lagging behind in the areas of business strategy and management quality contribute to the low level of productivity.

The low productivity and competitiveness trend is reflected in the high national current account deficit due to the situation with exports which cover only around 30 percent of imports. The trends of growth of industrial output are encouraging (5% in both entities). It is the poor competitiveness and insufficient productivity that deter the financial sector from providing greater support to the development of industry. In 2003, however, the domestic banking sector increased lending to businesses. As a result, the share of loans to businesses in the GDP approached the share of loans to households.

The present difficult situation of BiH industry is certainly caused by the war devastation<sup>1</sup> and the loss of pre-war markets, but the consequences of the earlier model of development should not be overlooked. The command character of the development of domestic industry in the pre-war period was an important cause for the collapse of most industrial capacities. The industrial development in BiH in the 1970s brought about a short-lived prosperity, but the BiH industry was massively dependent on large investments into the military industry during quite a long period after the end of the World War II. Before the dissolution of the SFRY, more than 55 percent of the military industry had been located in BiH. This industry had a secure market in the Yugoslav People's Army (JNA), and also successfully exported to many non-aligned countries. During the war, many of these facilities were destroyed, while the remaining ones lost most of their skilled personnel and, without sub-contractors from other republics of the former Yugoslavia, could not revive major production activities. In addition, the level of domestic military purchases plummeted with the collapse of the JNA.

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<sup>1</sup> Almost half of the total supply of capital was destroyed during the war (BiH, Country Study for GDN Project).

Although many enterprises had diversified beyond military industry, the collapse of the military industry system of the former Yugoslavia caused or precipitated the failure of these civilian programs. Eight years after the war ended, the major pre-war industrial enterprises have not recovered.

Only relatively little final-stage wood processing is done in BiH, while the wood-processing industry is mainly reduced to exporting timber and logs. The chemical industry has collapsed, while the food-processing industry is facing difficulties because of obsolete plants and the shortage of domestic agricultural products. Metal-working industry is in a crisis because of its dependence on the military industry, while leather and textile production cannot achieve adequate competitiveness because of the salary levels in BiH.

Despite the major international aid effort, the pace of the post-war economic recovery has been much slower than expected. As early as in the year 2000, GDP growth fell down to 5.7%, in 2001 to 4.9%, while in 2002 it grew to 5.8% mainly due to increased lending to households by the banking sector, which jeopardized macroeconomic stability owing to the growth of the current account. In 2003, real GDP growth remained somewhat below 4%. A vast and growing load of enterprise debt is a special problem, particularly in state-owned enterprises and companies privatized through vouchers or certificates. For example, there were 30 KM in debt against each 100 KM paid as salary. In the RS, outstanding debts per employee were twice higher than the average annual salary.<sup>2</sup> This quite explains very weak investor interest in the privatization in BiH. The slow privatization caused further expansion of technology lag, since new technologies can be offered only by strong strategic partners – foreign investors, all the more so since there are currently no public funds in BiH to provide support for scientific and applied research. Since the war ended BiH has attracted only around KM 2.1 billion in foreign investment.<sup>3</sup>

The situation of the domestic industry indicates that BiH cannot base its development on the same foundations as in the previous period, but that radical change of the development concept is essential. Any further retention of focus on large enterprises is unrealistic and unjustified since it is impossible to secure the necessary investments.

### **3. General priorities for development of the industry sector**

The general measures of support to the economy are addressed elsewhere in the Strategy. The most important activities aimed at enhancing the competitiveness of BiH industry are as follows:

- improvement of business and investment environment<sup>4</sup>,
- acceleration of privatization,
- strengthening of the financial sector
- accelerated reform of labour market<sup>5</sup>,
- fiscal system reform (introduction of VAT),<sup>6</sup>
- energy sector reform,<sup>7</sup>
- infrastructure sector reform.<sup>8</sup>

### **4. Strategic industries**

Through the work of the PRSP it was recognized that the following branches of industry should be considered as strategic, and their development should consequently be stimulated:

- wood-processing,
- food-processing,
- textile,
- leather goods and footwear,
- metalworking,
- tourism,
- energy,
- information and communication technologies (ICT).

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<sup>2</sup> USAID, Economic Update, 25 February 2000, p. 4.

<sup>3</sup> Information on FDI in BiH; BiH Ministry of Foreign Trade and Economic Relations, January 2004.

<sup>4</sup> Refer to chapter «Promotion of Business Climate», particularly the sections referring to the establishment of a single economic space

<sup>5</sup> Refer to chapter «Labour Market Reform»

<sup>6</sup> Refer to chapter «Fiscal System Reform»

<sup>7</sup> Refer to chapter «Sector Priorities – Energy»

<sup>8</sup> Refer to chapter «Sector Priorities – Infrastructure»



#### **4.1. Incentives for stimulation of development of the strategic branches of industry**

- abolish customs duties on raw materials, semi-finished products and equipment, and simplify customs procedures,
- simplify customs clearance procedure and customs system,
- ensure lower electricity prices,
- improve access to loans by establishing a development fund in the RS (in accordance with available financial potential), and ensure the existing FBiH Investment Bank (IBF) and the Investment Guarantee Agency (IGA), give priority to the selected strategic sectors in their activities,
- set up guarantee funds at the entity level to support SMEs<sup>9</sup>,
- promote foreign investment in these industrial sectors,
- set up the entity funds to support scientific research<sup>10</sup>,
- support and assist companies in their efforts to obtain international certificates for standards of quality from the ISO 9000 series and to implement conformity assessment procedures required for the CE mark.

### **5. Wood-Processing Industry**

#### **5.1. Reasons:**

- a comparative advantage – a good-quality raw materials base in BiH,
- the exports account for approximately 20 percent of the total BiH exports<sup>11</sup>,
- a long tradition and skilled labour force,
- own energy sources.

#### **5.2. Problems:**

- unorganized market approach,
- inadequate managerial staff and disrupted personnel structure,
- impossibility to finance exports or investment from own accumulated capital, and the high cost of capital,
- heavy tax burden,
- existence of a grey market in raw materials,
- heavy dependence on imported raw materials and semi-finished goods, and
- outstanding debts of wood-processing sector companies to the forestry sector.

#### **5.3. Priority Activities:**

- regulate the domestic market with respect to supplying the processing facilities with raw materials (implementation of the entity laws on forests),
- attract investment in the modernization of production facilities by creating a business-friendly environment which is stimulating for wood-processing exporters and for the development of products of a higher level of processing,
- define an internationally recognizable domestic product(s),
- encourage cooperation among wood-processing industry companies at the regional level.

### **6. Food-Processing Industry**

#### **6.1. Reasons for strategic status:**

- great potential to substitute imports on the domestic market (around KM 1 billion worth of food products are imported every year),
- a good raw materials base,
- own energy sources,
- great potential for production and exports of environmentally safe and healthy food.<sup>12</sup>

#### **6.2. Problems:**

- lack of working capital, as well as of long-term credit,

<sup>9</sup> The role and functioning of these funds are described in chapter on the support to private sector development

<sup>10</sup> Competitiveness of Enterprises and State - prof. Božidar Matić, Ph.D., Sarajevo, 2002.

<sup>11</sup> BiH Wood Industry Export Strategy, Foreign Trade Chamber of BiH, Sarajevo, April 2003.

<sup>12</sup> Potentials of BiH Economy as a Factor of Future Economic Development – Mr. Duljko Hasić, Foreign Trade Chamber BiH, Sarajevo, September 2003.

- poor image and insufficiently developed marketing of local products,
- insufficiently developed system of quality management and quality control of food products on all levels of food chain (non-compliance with EU directives),
- low level of production and high costs,
- inadequate support to domestic agricultural production (due to limited fiscal potential).

### **6.3. Priority Activities:**

- harmonize laws and regulations in the field of quality assurance and safety of foodstuffs with international standards (HACCP, ISO 9000), in order to protect the lives, health, environment and interests of domestic consumers. Enact a framework law on food safety, adopt a series of horizontal and vertical Directives relating to foodstuffs and set up a Food Safety Agency (risk assessment and risk management),
- proceed with the restructuring of the entire foodstuffs industry system with an emphasis on the change of ownership and management structures and the establishment of market criteria on all decision-making levels,
- encourage introduction of modern production and marketing technologies, which will progressively lower costs through high productivity, low unit costs, and the reduction of fixed costs (e.g. labour force, energy, losses, storage),
- promote the distinctive identity of products, national cuisine and values on domestic and international markets,
- ban the imports of small quantities of components (emulsions, bases) for use in beverage production.

## **7. Textile Industry Sector**

### **7.1. Reasons:**

- significant share in the country's gross domestic product,
- employs a great number of workers,
- an exporting industry<sup>13</sup>,
- the development of textile sector stimulates the development of other sectors and regional development,
- conditions would be created to move from lohn jobs, which currently represent the greatest share of exports, to the development of own product range
- own energy sources.

### **7.2. Problems:**

- obsolete equipment and technological gap,
- surplus and aging labor force,
- shortage of working capital,
- engagement on lohn jobs only,
- lack of adaptation of customs regulations and procedures to the lohn arrangements,
- inability to develop own products,
- lack of skilled labour force.

### **7.3. Priority Activities:**

- restart and develop the basic textile industry (wool, cotton and fabrics),
- stimulate the introduction and dissemination of production, design and management technologies – through information and consultancy centers, Internet-portals, specific demonstration centers, aimed at modernizing textile industry,
- encourage research and development, and creative potential within companies in order to develop own product assortments and move gradually from lohn jobs to regular exports,
- encourage introduction and strengthening of sector-relevant education at universities by way of specialization (textile, leather-working, design engineers etc.),
- strengthen the existing institutions, notably those engaged in product quality control,
- develop specialized research institutions in permanent contact with enterprises.

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<sup>14</sup> Study of Performance and Conditions for Improvements from Privatization and Restructuring of Industrial Enterprises in BiH, World Bank BiH, Sarajevo, October 2002

## **8. Leather and Footwear Sector**

### **8.1. Reasons:**

- skilled labour force,
- preserved production plants,
- important exporter of raw leather to and importer of finished products from EU countries,
- own energy sources,
- no additional investment into the production of raw materials and semi-finished products required.

### **8.2. Problems:**

- obsolete equipment and technology gap,
- shortage of working capital,
- engagement on outward processing traffic arrangements only,
- inability to develop own products,
- shortage of skilled labour force,
- the size of the grey economy.

### **8.3. Priorities:**

- stimulate the introduction and dissemination of modern management, design and production technologies to modernize the sector,
- encourage the development of own product assortments in order to move gradually from Lohn jobs to production of own products,
- improve work organization within the sector,
- resume participation in fairs and exhibitions with a view to restoring the previous and making new contacts with buyers,
- introduce education system based on German model, specific for this sector, and
- provide greater support (subsidies) to livestock raising to increase the number of heads of cattle to make BiH independent of raw leather imports.

## **9. Metal-working Industry Sector**

### **9.1. Reasons:**

- a significant share in the total industry (28%),
- a highly profitable branch,
- well-trained labour force,
- comparatively good development potential for cooperation with foreign machine construction companies,<sup>14</sup>
- the possibility of using different forms of energy.

### **9.2. Problems:**

- interruption of long-standing business relations with foreign partners, caused by the war,
- slow revitalization of railroad transport ,
- lack of know-how and resources needed for the establishment of business relations, and expansion and maintenance of adequate business contacts network,
- high prices of electricity, natural gas and telecommunication services.

### **9.3. Priorities:**

- implement modern management and marketing methods in metal-working sector enterprises,
- adopt international standards and regulations (EU directives, ISO standards, harmonized European standards) concerning product quality and safety,
- support the introduction of quality control techniques, including the issuance of the required certificates and licences,
- establish industrial zones for SMEs and industrial clusters,
- link metal-working enterprises in reproduction networks in order to develop the domestic market potential,

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<sup>14</sup> Strategic Directions for the Development of Metal-Working and Electrical Industries in BiH, Chamber of Economy of FBiH, Sarajevo, June 2003.

- support the establishment of conformity assessment infrastructure (standards, metrology, accreditation, testing and certification, quality control) along with the conditions required by the relevant New Approach Directives and harmonized European standards in order to meet the requirements for using the CE mark,
- engage and integrate the country's development and scientific research resources in the implementation of the metal-working sector development strategy.

**9.3.1. The priority branches which are already competitive or may regain their competitiveness:**

- production of metal, steel and non-ferrous metals, primarily aluminium,
- production of processing equipment and the installation of capital projects,
- measuring equipment, small electrical pumps, pumps and compressors, equipment for chemical and processing industry, building machinery, metal-working machines, mining machinery, equipment for foodstuffs industry, equipment for metallurgy, agricultural machines, wood-processing machines,
- production of (road and railroad) vehicles, production of software, equipment for automation and control units, equipments and parts for telecommunications, components and parts for automobile industry, household appliances,
- mechanical parts, bolts, metal structures, wire-ware, and the like.

## **10. Tourism Sector**

### **10.1. Reasons for strategic status:**

- preserved natural heritage and environment (national parks, nature parks and protected areas),
- cultural and historical heritage,
- climate and geographic position,
- proximity to the European market and the Adriatic coast,
- potential reconstruction of Olympic mountain facilities and the attractiveness of internationally famous shrines (Međugorje)<sup>15</sup>.

### **10.2. Problems:**

- absence of a long-term strategy of the development of tourism in BiH,
- inadequate legal and institutional regulation of tourism,
- absence of long-term vision at all levels concerning potential investment in the tourism sector,
- inadequate and inappropriate accommodation capacities and incomplete tourist offer,
- dysfunctional and cost-inefficient utilization of the existing resources,
- permanent shortage of domestic capital for a significant revitalization of tourist industry,
- strict visa arrangements (this particularly concerns the countries in the region: Hungary, Poland, the Czech Republic, Slovakia, etc.),
- incomplete hotel privatization process and low quality of accommodation facilities,
- insolvency and overindebtedness of many tourist enterprises,
- shortage of professional management,
- seasonal mode of operations.

### **10.3. Priorities:**

- in partnership with private and NGO sectors, develop a long-term strategy for the development of tourism,
- harmonize legislation with the EU standards and improve the oversight of its enforcement,<sup>16</sup>
- ensure permanent funding for the tourism sector from legally mandated sources (tourist membership fees, tourist tax etc.),
- accelerate the privatization process and establish transparent mechanisms for awarding concessions to encourage investment, and notably foreign investment, into the tourism sector,
- support and ensure the development of SMEs, which are a key for the development of tourism,
- designate the tourist destinations which will be the leaders of the development of tourism and raise the level of attractiveness of tourist sites,
- support local and foreign enterprises and investors in the development of tourist products,
- raise the awareness of the importance of natural resources of BiH and opportunities presented by the development of tourism,
- ensure the protection of natural and cultural heritage which represent tourist attractions,

<sup>15</sup> "Tourism 2020 Vision Volume 7: Global Forecasts and Profiles of Market Segments", World Tourism Organization, 2001.

<sup>16</sup> EC Feasibility Study acknowledges the potential for the growth of tourism in BiH and anticipates cooperation, particularly with respect to the transfer of know-how in this field.

- in cooperation with private and NGO sectors, provide training for work in the tourism sector.

### **11. Energy**

This sector is treated in the chapter «Sector Priorities – Energy».

### **12. Information and Communication Technologies (ICT)**

This sector is treated in the chapter «Sector Priorities – ICT»

## **V.11. SECTORAL PRIORITIES – MINE ACTION**

### **1. Reform goals in sector:**

- 1.1. ensure stable and efficient implementation of demining activities in compliance with the goals of the Mine Action Strategy<sup>1</sup> in BiH by 2010, with a special emphasis on the humanitarian demining, mine risk education and social welfare for landmine victims;**
- 1.2. create, promote and maintain the institutional and human capacity in accordance with the BiH Mine Action Strategy requirements by 2010;**
- 1.3. secure funding necessary for the efficient conduct of demining actions through inter-sectoral, regional and international cooperation.**

### **2. Situation**

With the greatest density of minefields in the world, Bosnia and Herzegovina is in the group of the countries with the major social and economic impact of landmines on the local community as well as on the overall development of the country. Available data indicate that more than 4% of the country's territory might be covered by minefields and more than 1400 settlements in BiH are affected. The strategic goal is to save BiH from the negative impact of landmines on the population and social and economic life in BiH. The basic responsibility and competence for conducting of mine actions in BiH lies with the Council of Ministers, i.e. the Ministry of Civil Affairs, which directs the operations of humanitarian demining and other mine actions through its bodies: the Demining Commission and the Mine Action Center (BH MAC) in BiH. The Council of Ministers adopted the BiH Mine Action Strategy until 2010, which precisely defined the activities for countering the problems caused by landmines.

The tasks and competence of the Demining Commission, The Donors Committee in BiH and Mine Action Center are stipulated and defined in the Law on Demining in BiH. More than 40 organizations in BiH conduct anti-mine activities. BHMAC has a headquarters in Sarajevo, offices in Sarajevo and Banja Luka and eight regional offices charged for the operational activities. Other factors of the humanitarian demining activities are local and foreign commercial companies, non-governmental and governmental organizations, entity organizations and bodies (civil defence, entity armies), the International Committee of Red Cross and local red cross committees, as well as other organizations which in their activities come in contact with the demining affairs (e.g. rehabilitation of landmine victims). Available capacities for humanitarian demining allow the accomplishment of the set goals.

### **3. Problems in sector**

#### **3.1. Gap between real needs of BiH and limited resources**

Experiences in strategic planning at the BiH level to date indicate the existence of a large gap between the real needs for mine actions in BiH and the capacity of the country to maintain the necessary pace and the process of mine actions.

#### **3.2. Weak cooperation with other sectors in vertical and horizontal line**

The landmine problem, by its nature, greatly affects all other sectors and represents a considerable restrictive factor. Other sectors of the economy and society have not demonstrated sufficient and systematic interest in this problem and most frequently only present instant requests for urgent demining to implement reconstruction projects of affected sectoral capacities.

#### **3.3. Weak response of authorities at all levels of administration**

The support, which is necessary for the efficient implementation of the mission of BHMAC, is not satisfactory. It is both the wide range of non-material assistance, but also financial assistance, that the BH MAC needs to function smoothly. Under the law, the governments assumed the responsibility for providing their share of support to BHMAC, but this support is only partially forthcoming.

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<sup>1</sup> The existing strategy, which was adopted by the Council of Ministers, is entitled "Demining Strategy in BiH". There is an ongoing process of strategy revision on the basis of new elements obtained from the systematic survey, research of the landmine impact and other data, obtained in the data collection and analysis process. This new revised strategy will be entitled "Mine Action Strategy in BiH".

### **3.4. Financial problems**

The tight financial position of BiH is well-known. Regardless, it is crucial to secure the resources for organization and implementation of the humanitarian demining and other mine actions. Solving the landmine problem is a pre-requisite for the implementation of the return process, reconstruction and development. The International Community has, in its plans, foreseen the transfer of the complete funding responsibility to the local authorities and sources. This is a gradual process, but the BiH authorities have not yet responded appropriately.

## **4. Priorities**

### **4.1. Promote all the aspects of demining process**

In compliance with the International Standards of Humanitarian Demining, the Standards of Humanitarian Demining in BiH and the Law on Demining in BiH, it is essential to constantly develop all segments of mine actions in BiH. BH MAC will have a leading role in this process. The main measures are as follows:

- constantly improve standard operational procedures of BH MAC and Standards for Demining and Removal of Unexploded Ordnance in BiH;
- implement ISO and international standards for mine actions,
- cooperate with international and local research institutions that may have a positive impact on demining.

### **4.2. Complete the demining of the first category of priorities, according to the BH MAC's list of priorities, by 2010**

- Activate the existing funding in order to achieve the projected level of mine actions.

### **4.3. Complete the systematic survey and research of the landmine impact in BiH**

- through joint activities of BH MAC and the NGO "Handicap International", obtain a clear picture of the overall size of the landmine problem and of their impact on all aspects of life in BiH.

### **4.4. Revise the Demining strategy 2010**

- according to the Strategic Plan of Demining in BiH, it should be revised by 2004, due to the constant introduction of new technologies. The revised demining strategy in BiH will, on the basis of the results of the systematic survey and the research of the landmine impact, guide the demining efforts more efficiently and permit better utilization of the limited funding available.

### **4.5. Continue Mine Risk Education, as the permanent priority task**

- apply modern educational methods (interactive education, Internet, self-education) as part of Mine Risk Education in high schools and train the organizations and individuals to implement these programs and projects.

### **4.6. Partially reduce and mark the second priority areas for the period until 2010**

- On the basis of the development of the demining process and the Demining Strategy in BiH, the mined areas belonging to the second and third priority category are to be permanently marked.

## **5. Funding required for demining in BiH in the 2004 – 2007 period**

Mine actions in BiH are funded from the budgets of all levels of BiH governments and from grants received directly from the donors or through donor's agents. The Donor Committee is monitoring this process in compliance with the Law on Demining. BH MAC is funded from the budget at level of the Council of Ministers. For the time being, UNDP is funding the operational costs of BH MAC, but only in a limited amount.

According to the estimates from the Demining Strategy of BiH, the funding needs of the demining process for this period are presented in the following table:

**In KM million.**

<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
Funding of the programmes of Mine Risk Education	0.100	0.100	0.100	0.100	0.4
Funding of BH MAC structure	6.500	6.700	6.700	6.700	26.8
Technical survey	18.622	1.917	18.917	19.118	75.5
Demining operations	61.630	64.712	64.712	66.252	257.3
Permanent marking	1.465	1.884	1.884	1.926	7.1
<b>Total</b>	<b>88.217</b>	<b>92.213</b>	<b>92.213</b>	<b>94.096</b>	<b>366.7</b>

**Funding sources, in KM million**

<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
Budgets in BiH	13.2	18.4	23.1	28.2	82.9
Donors	75.0	73.8	69.1	65.8	283.8
<b>Total</b>	<b>88.2</b>	<b>92.2</b>	<b>92.3</b>	<b>94</b>	<b>366.7</b>

Total funding needs for the humanitarian demining in BiH for this period are KM 366,700,000. However, the grant funds were not forthcoming in 2002 and 2003, as the financial indicators in the Demining Strategy of BiH have shown, which means that the planned tempo of reduction of areas under landmines has not been achieved. This will require the additional funding by 2010 to permit meeting of the adopted strategic goals.



## **V.12. SECTOR PRIORITIES– INFORMATION AND COMMUNICATIONS TECHNOLOGY<sup>1</sup>**

### **1. Goals of the ICT sector reform**

- Improve regulatory environment for ICT sector as a whole, although one should mention here that the regulations, i.e. the establishment of an independent regulatory agency, represent only a part of the solution;
- Ensure implementation of the adopted laws and regulations, i.e. set principles, through institutional reforms and ensure the financing.

#### **1.1. Goals of ICT in education**

The present system of education does not fulfill the current needs of the society to a satisfactory extent, and will face even greater pressures in the years to come. The educational requirements of the society as a whole are changing, along with the profile of the student population. The key to confronting these critical challenges lies in the transformation of the education system, with the following goals:

- the transition of the basic function of education from the transmission of knowledge to development of ability for independent learning,
- extensive use of distance learning,
- connecting with other institutions, in the country or abroad (inter-institutional courses, supported by distance learning methods and technologies),
- establishing a joint data base for library contents in BiH.

In addition, one should emphasize that the ICT opens a whole series of opportunities for improving and facilitating the education process, particularly in rural environments, where the modern teaching contents and technologies are not available, and they would to a certain extent be able to prevent many dilemmas of the currently ongoing education system reform process in BiH.

#### **1.2. ICT goals in administration institutions**

The basic aims of computerizing public government at all levels are as follows:

- improve the quality of services provided to citizens by the administration institutions by introducing the IT platform for provision of basic services, and in connection with this, significantly rationalize the number of employees in the administrative agencies, particularly at the medium level of authority.
- improve the efficiency of 'horizontal' data exchange, between departments and services of local government, and improve the efficiency of 'vertical' data exchange, between local, entity and the state government, in both directions,
- improve transparency and control of public revenues and public spending,
- improve the dialogue with citizens and encourage their involvement in the democratic processes,
- improve the transparency of the procurement of equipment and public tenders, and the functioning of public institutions in general.

#### **1.3. Goals in the area of ICT infrastructure**

There are three main principles that may be identified as the goals of the ICT reform in BiH, which can be considered the mid-term goals. Those are the following:

- improving the sector efficiency and provision of services of better quality;
- establishing a liberalized telecommunication services market;
- completion of privatization.

### **2. Present status**

Only in late 2000 Bosnia and Herzegovina as a country had really started to consider aspects and ramifications of information and communication technologies (henceforth referred to as ICT), a field

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<sup>1</sup> This document has been made on the basis of a research study by the United Nations Development Program in BiH, IKT Forum project, «e-Readiness Assessment» report, OHR documents, and comments to the sector study of ICT made for PRSP.

where it still lags behind, not only in comparison with the developed countries of Europe and the rest of the world, but also with most transition countries. At this time there are no strategic guidelines nor policies aimed at strengthening the awareness of the Bosnian society with regards to the necessity of the broadest application of ICT and their possibilities. The existing legislation is not up to date with the job market, nor does it address the new challenges created by it.

The sector of telecommunication infrastructure has been reduced to the telecom operators and their technical and technological development. Liberalization of this market has become a very politicized issue, although liberalization is already present in many segments, for instance, in provision of mobile telephone services. On the other hand, due to significant omissions and lack of regulation in the communication sector, the behavior of telecom operators in some segments of the business has been unprecedented.

Although the Feasibility Study has identified significant progress that was made by BiH in terms of the telecommunication sector reform, the EC still sees a need for a more intensive cooperation, primarily in the area of continued harmonization with the "Acquis Communautaire". One area of special importance is the continued improvement of legislative, regulative and institutional solutions in the area of ICT and postal services, gradual liberalization, development of an investment friendly environment, and implementation of European standards. The cooperation in the domain of strengthening the ICT infrastructure would assist the development of informatic society in BiH.<sup>2</sup>

The Stability and Association Agreement (SAA) is only the starting point in resolving some specific problems and it may serve as a channel for expansion of cooperation in the ICT field.

### **2.1. The structure of the ICT sector**

Obtaining a complete picture of the ICT sector in BiH is difficult; since, aside from the fact that this is an entirely new sector in BiH, it also happens to be multidisciplinary, and no serious studies of the potential of this sector have been conducted to date. The fact that 95 % of households in BiH own a TV set appears incredible<sup>3</sup>. Contrary to the general opinion that BiH has up to 50,000 Internet users (the result of a straightforward summation of data available from the Internet service providers (ISP)), the research conducted so far proved that around 4.7% households in BiH has a computer, or 9.6% in urban areas.<sup>4</sup>

These estimates indicate that BiH has a potential, but it is educationally underutilized and suppressed by the monopolistic policy of the existing telecom operators and by the inadequate policies and strategies of the BiH administration in the ICT sector.

Providing access to the Internet may help to overcome at least some of the problems faced in the development of rural areas. ICT offer the possibility of a very inexpensive access to government information, a simple tool for marketing of agricultural produce, exchange of the market information, better financial support of the agricultural sector, distance education etc. In addition, a better quality of life and improved living standards for the poorest sections of the society would in part result from the expected lowering of the costs of administrative services (fees, access to information, the dissemination of and the increase in the number of services accessible to this social strata, through universally accessible service).

#### **2.1.1. ICT in education**

The system of education based on the concept of vocational training secondary schools differs significantly from the modern educational processes, such as computer- and web-based learning, distance learning, knowledge-oriented learning. Pilot projects are underway in almost all sectors. However, the determination is lacking to train teachers who could support the education process based on the application of ICT, and who would be able to support the students' initiatives concerning the use of ICT. The ongoing education reform places the focus on the administrative aspect of education and on unification of different contents. Though these aspects of education are important, ICT are completely neglected, and they have not been given an appropriate priority in the reform process.

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<sup>2</sup> „The Report by the European Commission to the Council on the Preparations of BiH to Start the Negotiations with EU on the Stabilization and Accession Agreement, (Feasibility Study), Brussels, November 18, 2003, p. 36.

<sup>3</sup> "Living Standard Measurement Study – LSMS", conducted by the World Bank, the UN Development Program (UNDP) and DiFD

<sup>4</sup> Calculations made by PRSP team on the basis of LSMS data.

So far there have been few in-depth analyses of the education sector and the application of ICT therein. The first serious study was provided in the UNDP's e-Readiness Report. A survey conducted for the purposes of this report, covering a total of 269 educational institutions ranging from primary and secondary schools to universities, found the following state of affairs:<sup>5</sup>

**Computer literacy of staff:** 45% of employees know how to use a computer, while only 5% of professional IT staff are employed in the information departments or equivalent services.

**The number of computers:** There is a large difference in the number of computers owned by educational institutions, with universities possessing double the number owned by high schools and triple that at primary schools.

**No. of computers in BiH educational institutions**

	Number of schools	Number of computers	% of total number of institutions	% of total number of computers	Average
<b>TOTAL</b>	269	4795	100	100	17.83
PRIMARY SCHOOLS	133	1289	49.44	26.88	9.69
HIGH SCHOOLS	77	1258	28.62	26.24	16.34
UNIVERSITIES	59	2248	21.93	46.88	38.10

**The quality and serviceability of the equipment and software:** Computers equipped with Pentium II processors comprise approximately one-third of all computers in educational institutions. Half of the computers found in primary schools fall in the category of computers with PI or PII type processors. High schools possess the largest proportion within the PI category – which is below than the overall average, while universities on the other hand are best equipped and have most computers (66%) with PII, PIII and PIV processors. Altogether only one-fourth of educational institutions possesses a server. Computer networks exist in all types of educational institutions. The percentage of networked computers in universities is 61%, in high schools 20% and scarcely 10% in primary schools. MS Windows applications represent the major part (66%) of all software used on computers in educational institutions. Of the 513 registered applications MS Office accounts for almost one-third.

**Internet connections:** Of the 61% of institutions with Internet connections, only 4% have cable Internet service (2 –11 MB). Schools that have Internet access (164 schools in total) use as many as 15 different ISP companies. Two major Internet operators, BiHNET and HPT serve 66.4% of all educational institutions. The pricing of telecom services, ISPs and equipment are of great importance, as well as customer service and qualified staff.

**Academic network:** A physical and logical alliance of educational and research institutions focused on supporting the main activities of these institutions, in other words a BiH-level academic network, na nivou BiH at this point in time is *de facto* non-existent.

**ICT systems** for educational management in institutions of higher learning have yet to comply with most organisational and benchmark quality control requirements for the teaching process. Universities possess sporadically developed parts of information systems, and the bulk of all that has been implemented thus far comes down to mostly inadequate support for the student services departments and, in some rare cases, a relatively good support for financial management functions. Although there are intermittent efforts to integrate some subsystems at university level, there are no integrated university ICT systems in existence.

The application of ICTs in education and teaching is usually determined by the content of the interaction between the student and the computer, which, generally speaking, may consist of learning about the computer, learning with the computer or learning from the computer. In BiH the learning about the computer is still the predominant mode, which means that efforts to improve teaching and education focus on using the computer for word-processing, for working with spreadsheets, databases and for Internet access. The remaining two modes: learning with and learning from the computer, are still insufficiently explored and applied in the BiH education system.

<sup>5</sup> UNDP eReadiness Assessment Report

With regard to the application of ICTs in the support of learning and distance education, no clear data about the real situation is available. There are a few of isolated examples in Sarajevo (the Faculty of Economics, Loyola University in Chicago program, E-net center – GDLN), Mostar (ICT studies) and Tuzla.

In relation to the total number of teaching staff, the percentage of instructors who use ICTs as part of the teaching process is very low. Examples are extremely rare of the use of the Internet as an infrastructure for the delivery of the teaching material, or the use of local networks, intranet or web portals in teaching. There are no specially designed courses for teacher training or preparation for the use of ICT in a classroom environment. Given the rapid dynamics of change in ICT, our educational system is unable to follow world trends because of the constant experiments and revisions of curricula.

There is no organized approach or overall strategy that enjoy consensual and systemic support. As a result, there is also no financial plan, which would practically support the development and introduction of ICTs into education at either entity or state level, even though it would be inaccurate to suggest that there is, nor that there was, sources of funding that could be used to support these activities.

The conclusion is that educational institutions are left to their own devices when making strategic decisions and that there is neither any organized association of stakeholders, nor an adequate institutional environment.<sup>6</sup>

### **2.1.2. ICT in administrative institutions**

BiH regulations currently do not recognise new job descriptions such as: 'system administrator', web journalist, web administrator, e-notary etc. New types of jobs are connected with the new types of enterprises (ISPs, Application Service provider etc.).

There are no official sources of accurate and researched information on companies, government administration, key personalities or other data such as credit information, indebtedness, solvency, competences, expertise, history etc. Public institutions do not use ICT to provide transparent information about procurement (e-procurement), which would give equal opportunities for everyone to offer their goods or services. Starting businesses is complicated by the sluggishness of the administration, which has a needlessly significant role in this process, as well as by the too numerous different offices where the various applications (licenses, permits, forms and guarantees) must be submitted. There is no support for the development of the civil sector – for establishment of non-governmental organisations, professional societies and associations of companies in the ICT field.

With regards to the promotion of the concept of e-government, BiH has only met the basic UN standards, but even those only marginally. Our country has established formal, but limited presence on the Internet, through several government Internet pages, which basically serve as public sources of information. These pages offer users static data about the government and its ministries, agencies, officials etc. Also provided is contact information, such as addresses, telephone numbers, working hours, schedule of events etc. There are no specific details such as Frequently Asked Questions (FAQ), current initiatives section, legal and public documents etc.

Nevertheless, BiH is one of the rare countries in the region that is close to the introduction of the concept of e-government, since several infrastructural projects, funded by the international community, created parts of the 'eGOV' system. The BiH administration has an obligation to define strategies for the development of the ICT sector in BiH, and to develop a separate strategy, or sub-strategy/focused strategy for the development of the 'eGOV' project. Such a strategy for the development of the eGOV sector should aim to link together all existing projects into a unified whole. BiH would thus have a system more integrated than even in highly developed countries.

### **2.1.3. ICT industry**

The ICT industry as a whole has been largely neglected, and along with it all the advantages that ICT offer to developing countries. There are no legislative preconditions nor institutional support for the application of ICT for the creation of new jobs through private initiative – e.g. the education of

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<sup>6</sup> The analysis of the ICT sector in BiH primarily made use of materials supplied by the UNDP ICT Forum – an expert study prepared for public discussion, July 25, 2002.

software programmers who would work for local or international companies via the Internet (owing to the application of ICT, India has employed 12.5 million people in various industry sectors.) The conclusion is that the administration does not promote job creation through training in the use of ICT.

As a result of these differences, the development of the Internet industry has been significantly delayed, if not rendered virtually impossible. The position of the ISPs in Bosnia is extremely difficult, as the telecom operators are abusing their monopolies in some segments of the provision of their services.

This sector requires significant investment, but it is not only the development of ICTs and other industrial sectors, but the development of BiH as a whole, that depends on it.

#### **2.1.4. ICT Infrastructure**

In the last few years significant progress has been made concerning regulations within the domain of the telecommunications, and consequently the ICT infrastructure in BiH. The formerly imposed telecommunications sector policies have undergone significant changes. The updated version of the telecommunications sector policies<sup>7</sup> envisaged a series of solutions for the regulation of the telecommunications market, starting with a gradual liberalisation of services to the privatization of telecom operators and a third GSM license. The BiH Law on Communications was adopted recently, and it represents the basis for the introduction of a series of regulatory documents with the aim of creating a telecommunications market with a uniform framework, which will guarantee equal treatment and provide encouragement to all concerned.

In parallel with developing the legislation the Communication Regulation Agency (CRA) passed a set of rules and regulations to order the relations within the telecommunications market. Licenses have been issued for landline, mobile and network operators. Although extremely rare in world practice, a large number of ISPs were licensed at the insistence of the CRA. In addition, the matter of issuing licenses for cable TV operators has been raised, while the CRA has issued licenses to radio and TV stations since its foundation.

The BiH Institute for Standardisation, Metrology and the Intellectual Property is working on bringing the domain of ICTs in line with the rules and standards applicable to ICT infrastructure. To this end, the existing relevant standards in this field, such as ETSI, ITU-T, IEC, IEEE and others, need to be adopted, and their application throughout BiH enforced.

The goal of the market liberalisation process is to create equal opportunities for all, and orient the telecom sector to focus on market forces and cost-effectiveness. This process would require significant reforms from the dominant operators, mainly in customer relations, and the development of a separate system of customer service. These changes would be partly organisational, technological, commercial and certainly personnel-related. The liberalisation of the telecommunications market implies a commitment to secure funding for of universal services, in the manner which would result in make their cost minimal, if not completely free, which would make them accessible to all segments of the society, regardless of their economic situation.

A partial privatization of telecom operators in BiH has already taken place. Within the Federation of BiH a 10% share has been privatized through certificate registration.

It is in the interest of the governments to secure maximum profit from the privatization process. Customers expect broader and better-quality services at lower prices. Employees of telecom operators want to keep their jobs. These real interests must not be overlooked during the privatization process. To ensure this, it is necessary to re-examine the current process of privatization and determine the repercussions for the state, the entities, as well as for the customers and the society in general, since less funds flowing into the government coffers as a result of privatization translates into lower investments in non-profit segments of society, such as education, health and social security.

#### **2.1.5. Technical aspects of ICT - infrastructure**

In a technical and technological sense, BiH telecommunications are not far behind other countries. All three BiH telecom operators have largely completed the digitalisation of landline transmission systems. The technological development of all mobile networks has also been very intensive, and both

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<sup>7</sup> The Telecommunications Sector Policy, adopted at the 60th Session of the BiH Council of Ministers, on 28 March 2002.

post-paid, prepaid, as well as SMS services have been introduced, in parallel with the operators in neighbouring and other countries. The introduction of GPRS services, along with WAP application and MMS messaging is in the final stages of implementation. All data transmission networks are using X.25 protocol technologies as well as Frame Relay, while the BH Telecom network also makes use of ATM technology. Transmission network systems with MPLS technologies for the requirements of government services (CIPS and others) are also in the final stages of implementation. Many ISPs offer Internet access throughout the territory of BiH.

The basic measure of fixed network penetration is somewhat more than 30 GTP for every 100 residents in the country as a whole, with the reminder that in urban areas this percentage is larger than in rural areas. However, research conducted by international organisations, such as the LSMS study for example, show that the number of telephone lines in urban households is 85% of the total, compared with 62% in rural areas (the situation is significantly better in the FBiH than in the RS). The disparity in comparison with other countries in the region and in the EU is explained by the fact that only a handful of companies possess the significant share of the lines, as well as by the fact that only a negligible number of households have more than one line.

Mobile network penetration is at the 30% level, with a sizeable discrepancy between the number of 'post-paid' and 'prepaid' users. The important thing is that mobile services are offered across the entire territory of the country, with the specific characteristic that this coverage is enabled through temporary roaming, until the level of coverage is increased to 80% of territory and 70% of the population. The Internet is in terms of the number of users at a very low level, with penetration ranging between 3-5%, although the number of users is estimated at 8 to 10%

In spite of a series of obstacles, there are around 45 ISPs currently operating in BiH (about 20 of them are licensed by the CRA), and as a result the spread of Internet culture has produced its first symptoms. Most universities in BiH have some form of computer labs, and several higher education institutions have included computer literacy and Internet use as an integral part of the curriculum. The largest ISP in the country is BIHNET, as might have been expected, it being the ISP of the largest telecom operator, which dominates the local market with nearly 50% of the total number of Internet users in BiH.

Within the broadcast media sector, the CRA has achieved significant progress and has to a large extent managed to regulate this market. In the second half of 2002, there was a significant increase in availability of cable TV services in some of the larger cities, mainly as a result of private initiative.

### ***2.1.6. Regional activities***

As a part of the Working Table II of the Stability Pact, an Initiative of the Stability Pact for Southeastern Europe was formed under the name "eSEEurope", with the goal of coordinating the ICT related activities, projects and initiatives in South Eastern European Countries, and moving towards bridging the differences in the levels of Internet expansion and digitalizing the whole societies to harmonize them with the EU countries. To implement these initiatives, a Regional Working Group was established for coordination of the joint efforts on defining and adopting the regional ICT development strategy, the regional action plan, and ongoing benchmarking progress in narrowing the digital gap, both between individual Central and Eastern European Countries themselves, and between them and the EU countries. The Working Group is divided in three sub-groups: ICT and national administration (e-government), ICT and education (e-education), and ICT and economy (e-business). The regional secretariat of this initiative is headquartered in Sarajevo, and currently operates with the assistance of the United Nations Development Program (UNDP).

The Working Group of the «eSEEurope» initiative adopted a proposal of the project "Deregulation and Liberalization of the Communication Market in the South Eastern European Countries" at its Bucharest meeting.

## ***2.2. Legislative and institutional framework***

The legislative framework in BiH was formed in three main ways: by taking over the former SFRY legislation, by legislative activities of the entities, and by adoption of regulations of the State of BiH. The legislation that has been taken over does not suit the ICT needs simply because of the time when

it had been made. The new entity, cantonal and BiH regulations in different areas require the use of ICT. The following list includes the most important of these acts<sup>8</sup>:

- BiH Law on Freedom of Access to Information (Official Gazette of BiH 28/00)
- BiH Law on the Central Database and Exchange of Information (Official Gazette of BiH 32/01) requiring eight interconnected databases with information on citizens.
- FBiH Internal Payment Transfer Law (Official Gazette of FBiH 15/00)
- FBiH Payment Transactions Law (Official Gazette of FBiH 32/00)
- FBiH Securities Law (Official Gazette of FBiH 39/98) requiring an electronic record of securities affected by this act.
- FBiH Securities Register Law (Official Gazette of FBiH 39/98), along with Acts brought about by the Register.
- BiH Law on Establishment of the Institute for Standards, Metrology and Intellectual Property Act (Official Gazette of BiH 51/00)
- Industrial Property Law (Official Gazette of BiH 3/02)
- BiH Copyright and related rights Law (Official Gazette of BiH 7/02)
- FBiH Decree on the establishment, functioning and maintenance of a uniform information system of reconstruction and development in FBiH (Official Gazette of FBiH 45/00).

In contrast to the neighbouring countries, BiH still lacks the legislation that would determine the scope of rights implied in, for example, an electronic signature. The BiH Central Bank adopted two regulations regarding the certification and the authorization of signatures:

- BiH Central Bank Regulation on the Minimum Conditions that Must Be Fulfilled by a Qualified Body Entitled to Issue Qualifying Certificates for Electronic Signatures.<sup>9</sup>
- BiH Central Bank Regulation on the Rules for Determination of the Elements Required for the Establishment of the Authenticity of Electronic Signatures.<sup>10</sup>

The legal basis for the authority of the Central Bank to pass rulings of this kind is questionable, since such issues should be regulated by law.

The major problem for the sector is non-existence of a central ministry (department or agency) at the state, and if feasible also on the entity level, with the primary mission to prepare, adopt and enforce needed regulations in the ICT domain, both for application and in business, i. e. in ICT industry. Many institutions in BiH deal with ICTs, but very few of them in a systematic manner. The following national and international institutions and bodies work on ICTs in the domains of legislation and practice:

BiH Council of Ministers	OHR
FBiH Government	Stability Pact
RS Government	SEED
BiH Central Bank	USAID
BiH Institute for Standardisation, Metrology and Intellectual Property	Deutsche Stiftung fur Internationale Rechtliche Zusammenarbeit
Communications Regulatory Agency (CRA)	ABA CEELI
Entity securities registers	

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<sup>8</sup> In the analysis of the Legislative Framework of ICT sector in BiH, mostly used were the materials provide by the UNDP ICT Forum – Legislation, Expert Study prepared for public discussion, July 25, 2002.

<sup>9</sup> This regulation was passed on March 27, 2002 and prescribes the minimum conditions to be met by a qualified certification body that intends to issue certificates for qualified electronic signatures, used to sign payment instructions issued in the electronic format in the process of payment transactions conducted in Convertible Marks, as well as on the elements that a qualified electronic certificate must contain. While this regulation regulates issues regarding a qualified certification body for payment transactions, the same question in relation to commercial transactions remains unresolved, which in practice creates an extremely complicated situation. Finally, the Central Bank maintains a register of qualified certification bodies authorized to issue qualified certificates on the territory of BiH, as well as information about the appropriateness of such bodies. The register itself is available on the web pages of the Central Bank.

<sup>10</sup> BiH Central Bank Regulation on the Rules for Determination of the Elements Required for the Establishment of the Authenticity of Electronic Signatures (Official Gazette BiH 10/02), which ensures security in the process of the completion of payment transactions within the internal electronic payment system. Aside from the fact that this traffic takes place within the framework of closed systems, based on agreements between a certain number of participating parties, there are conditions which regulate the authenticity of electronic signatures on payment orders. The most important result of this regulation is that it grants to the electronic signature the equal validity normally extended to a seal-certified written signature. A qualified electronic signature, authorized by a certificate, is equivalent to an autograph, with equal legal standing and admissibility as evidence.

The state-level Law on Telecommunications<sup>11</sup> addresses two important dimensions: the sector regulations and regulatory agency that is in charge of implementation of that legislation. The Law describes the necessary segments of ICT sector in BiH, and to a significant extent it relies on the Telecommunication Sector Policy, which was adopted by the Council of Ministers<sup>12</sup>, and which clearly defined the issues of regulation, liberalization and privatization in the BiH telecommunication sector. However, as it is often the case in BiH, the implementation remains controversial. The law treats the operators with significant market share differently and requires from them the non-discriminatory attitude towards smaller operators. However, in the enforcement of this principle, the regulatory agency CRA has had serious difficulties, first to verify the existence of irregularities (even the operators themselves, for instance the private ISPs, are not willing to openly complain to the CRA about violations of the Law), then to determine the scope of irregularities, and in the end, the penalties, that must represent a "reason to obey the rules", are not clearly defined. This shortcoming in the enforcement of the Law frequently causes absurd situations in the field, where the users are exposed to brutal discrimination, and the CRA has no basis/framework to act.

The CRA itself has not yet been established fully in accordance with the law. Lack of expertise on the part of the CRA's Board, which has not been established by law nor in keeping with the common international practice, very much complicates the already complex position of the CRA.

### **2.2.1. Liberalization and privatization**

The only pre-condition for achieving the ideal market conditions for end-users is the total liberalization of the telecommunications sector. However, with regard to liberalization, it is essential to take into account the existing degree of market regulation. The new BiH Telecommunications Law regulates many aspects of the telecommunications sector in BiH, but its enforcement has proceeded with difficulties. The previous section shed some light on the evident shortcomings in the work of the CRA, but it is important to stress that the structuring and strengthening of the regulatory agency is not the key to the problem. One of the most important aspects in the development of the telecommunications sector is the regulation of all related/complementary sectors, i.e. those with direct influence on the unimpeded development of the overall system of telecommunications in BiH.<sup>13</sup>

The process of liberalization was competently treated in the Telecommunications Sector Policy and in the accompanying Telecommunications Law, and that this process has already achieved progress in many segments. There are already two licensed GSM operators in BiH, which is the usual case in the region, and the BiH Council of Ministers, as the competent institution, is planning to issue the third GSM license. This will render the GSM sector in BiH the most competitive in the region, in view of the fact that BiH will be one of the few CEE countries with three GSM operators and the obligation for each operator to cover 80 percent of the country's territory with its signal.

On the other hand, the fixed telephony is a specific issue, considering that the liberalization of that segment is fairly complicated and demands significant investments on the part of investors. Considering that the level of differentiation in consumer demands among BiH users is relatively low, this sector can achieve development and total liberalization in the next five years only with great difficulty.

As far as the Internet is concerned, the situation is very different, and CRA might do a great deal in this regard, particularly in the segment of global connections and relations between large telecom operators. Its inability to exert effective pressure on large telecom operators brings Internet-based businesses into serious difficulties, not only when it comes to the provision of Internet services, but also from the standpoint of the overall development of the sector.

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<sup>11</sup> Law on Telecommunications, proclaimed by the High Representative in October 2002.

<sup>12</sup> Telecommunication Sector Policy adopted on the 60<sup>th</sup> session of the BiH Council of Ministers, on March 28, 2002.

<sup>13</sup> One example is the travel sector, or the electric energy sector, which in the EU is regulated in such a way that the installation of public or private fiber-optic cables is mandated in all new or renovated major connections. Also, the structuring of local regulatory plans represents a subsequent necessity, but it is unacceptable that this segment should become one of the biggest obstacles to the development of the telecommunications sector and that the establishment of GSM base-stations, or the set-up of local communications be dependent on, and very often even blocked by outdated regulatory plans or misuses on the part of local authorities.



### **3. Priorities and measures**

#### **3.1. Continue the process of standardization in the sector**

- take over the relevant ICT standards, primarily ETSI and ITU-T recommendations, IEC, IEEE and others, and ensure their implementation in all of BiH<sup>14</sup>

#### **3.2. Continue with the process of liberalization in the sector**

The privatizing of telecom carriers is an issue that will, in every way, characterize the next few years in BiH. The telecom operators, next to the power grid operators, represent the only remaining profitable sector of the BiH industry, so it is only logical that local authorities see in their privatization a possibility for resolving many of the acute problems plaguing the country. To select the most beneficial method of privatization is inevitable, all their advantages and disadvantages must be considered, and regional experiences taken into account. It is also crucial to bear in mind that the BiH Council of Ministers is a seller in the privatization process and that the selected model must be most advantageous, both from the financial angle, and from the standpoint of medium- and long-term needs of BiH citizens, particularly with regard to investment into non-profitable aspects of telecommunications systems (rural communities, digitalization, public phone networks). The concrete priority activities are:

- establish the CRA Council;
- transform and modernize the telecom operators, particularly in terms of their attitude towards their users;
- continue the preparations for privatization, with careful selection of the privatization method.

#### **3.3. Adopt the framework for electronic business ("e-commerce")**

The now irreplaceable role that e-commerce took on in the global trade toward the end of the last century, and that it found its market particularly among small- and medium-sized businesses, has brought the attention to a whole host of obstacles to the development of this sector. In order to eliminate these numerous obstacles and accelerate the development of electronic commerce, many international organizations started to support regulatory activities in this field. The most important segments in the development of the BiH economy and society as a whole demand the establishment of norms and regulations in accordance with contemporary European standards. The issues that demand the attention of legislators are: the structure and format of the commercial documents, e-signatures, e-accounts, e-banking, e-payments and consumer protection in e-business.

In the traditional way of conducting business between firms, what was at stake most often were business relations established on the local level, which meant that there was no question as to what regulations were applicable, since, in principle, local regulations would apply to all commerce. However, when it comes to Internet sales, considering that there are no effective borders in the moment when contact is made and when a given piece of merchandise or a service is ordered, there remains the open question of what regulations should be applied in a given situation. The choice in this matter can be made all the more difficult by the possibility that a party in a given contract, based in one country, may take orders through a website hosted from a second country, while the merchandise is shipped from a third country, and payment received in a fourth country. Our regulations do not foresee this type of situation. At the same time, we must take into account the historical context in which most of these regulations were passed, since there are many regulations in force, which had been adopted before the war, when social property was the foundation of all commerce and thereby under a special protection regime.

The issues pointed out above must become part of the positive law in BiH as soon as possible, as the importance of the ICT sector in commerce and the society is growing by the day. Ignoring this necessity can have unforeseeable consequences. The establishment of the Data Protection Agency at the national level is underway, and the aforementioned guidelines should become part of the law on establishment of this agency. The main measures in this domain are as follows:

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<sup>14</sup> In accordance with the recommendations of the Feasibility Study of EC ("Report of the European Commission to the Council on readiness of BiH to enter the negotiations on the Stabilization and Accession Agreement » (Feasibility study), Brussels, November 18, page 36.)

- change the laws on commercial documents, electronic signature and consumer protection in electronic business;
- adopt the laws on electronic accounts, electronic contracts, electronic banking and electronic payments;<sup>15</sup>
- establish the BiH Agency for ICT.

#### **3.4. Strengthen and develop the capacities for implementation of ICT in education**

It is necessary to initiate a national, all-inclusive drive for teachers to achieve IT literacy. We hold it to be equally important to provide additional training for IT and non-IT teachers alike. This will benefit students at all levels of education, enrich the teaching process, and eliminate all competency-related as well as psychological obstacles to the introduction of multimedia content into the curriculum, and into traditional classrooms.. The following measures need to be undertaken:

- introduce and ensure broad acceptance of information technologies and informatics aids as normal tools in daily work of the teaching staff and students;
- improve communication between the teaching staff and students (electronic mail and communication via Internet service will become a simple and effective method of communication with students), improve communication within the educational institutions (simplified and partly automated exchange of data and documents);
- improve communication with other institutions in the country and abroad;
- ensure effective integral support to operative jobs (administrative data of different categories will become easily available and, what is of particular importance, integrated);
- develop and offer quality courses, supported by distance learning methods and technologies;
- educate teachers to use the ICT and distance learning.

#### **3.5. Upgrade and develop the ICT systems and network for joining the international network of academic institutions**

Arnet and EDUNet should lead the development and effective management of academic and education network structures. Those networks are expected to provide for establishment of global communication channels that will be available to the academic community. Arnet and EDUNet should join the relevant international organizations and associations. Their financing must be provided by the domestic sources. The main objectives are:

- form-restructure the academic and research network of BiH (Arnet);
- form the EDUNet of BiH – education network of primary and secondary schools;
- develop and introduce a single ICT system for libraries;
- develop and introduce the education and management information system (EMIS);
- establish the Internet portal for high education institutions.

#### **3.6. Strengthen the governments' capacities to use ICT and introduce the "e-government" into the public administration system<sup>16</sup>**

When it comes to the application of ICT in the administration, it is very difficult to find professionals willing to work within IT teams attached to local and state governments in BiH, since there is still a high demand for skilled IT personnel on the job market. One of the possibilities for overcoming this problem would be establishment of the ICT Agency of BiH, i. e. an IT organization attached to the BiH Council of Ministers, with the task to develop, implement, and maintain all IT systems that are necessary at the various levels of government in BiH. This Agency would concentrate the available knowledge and expertise, and offer services to all segments of state and entity administrations. The Agency would have five departments:

- the Department for Management of State Information Systems (CIPS, DGS etc.)
- the Department for Development of Information Systems

<sup>15</sup> This was identified as a priority in the EC Feasibility Study («Report of the European Commission to the Council», p. 36)

<sup>16</sup> Successful implementation of this goal will bring the following benefits to citizens:

- possibility of Internet access to updated and accurate information on programs and services of the administrative bodies;
- ability to communicate with the administrative bodies via appropriate Web pages. The Web pages will be organized in accordance with the needs of the citizens and topics for which there is interest, with provision of legal and technical protection of security and privacy of BiH citizens engaged in electronic communication with the administrative bodies;
- easier access to reports on work of the administrative bodies;

- the Department for e-Government (charged with developing the e-Gov system)
- the Department for e-authorizations (for example, e-signatures, cryptography, e-banking, etc.)
- the Department for Coordination/Cooperation (with the Agency for Data Protection, with regional initiatives, with the CRA, etc.)

As an interdepartmental coordinating body, a special Committee for the IT Development should be set up. The members of this committee would be representatives from the relevant line ministries, agencies, as well as representatives from the entity governments and the NGOs. The task of this committee is to make decisions that affect all interested parties, and to resolve issues of general concern in the development of the IT community in BiH. Its task would also be to ensure the implementation of adopted resolutions, and to remove obstacles that may arise in the course of implementation. The Chairman of the Council of Ministers would be the chair this committee.

It is necessary to emphasize at this point that, when dealing with government records and data (on the state and entity levels), there are two basic types of information: data intended for the public and considered official information; and information of different (classified, working) character, which are subject to special regulations (providing for their deposition in the government archives, with the option of becoming declassified in the near or distant future). An evident global trend is to restrict the scope of classified government information as much as possible, and define it by law in advance.. Access to government information should be defined by law. The White Paper on Growth, Competitiveness, and Employment issued by the European Commission stated that our growth models need to be transformed. The active commitment of the state to transmitting information about its activities to the public is invaluable to this process.

A project team to develop and implement a program of training public administrators in the use of ICT in their everyday work should be established. The training should be prepared on the basis of the results of a survey (the **UNDP's e-readiness report** for public facilities might be used), and implemented through local tenders for personnel training. The training should include the essential aspects of computer literacy, as well as the use of application software and communication methods. The project should also include training for managers of IT-enabled institutions.

At this time, there is no specialized organization, institute, bureau, or other type of institution, on the state level, for the IT-enabling of government agencies –(there is one in the RS). E-Government is the term for the strategic and systemic use of the ICT by government institutions, with the following goals:

- achieve a higher quality of service to citizens and business entities
- enable efficient use of public information sources.

It is impossible to construct this type of system, equipped to provide the crucial information services, without a positive attitude of the government and its ministries. The building of such an IT system is not the sole responsibility of specialists and experts in the ICT field. The roles of users and state officials are equally important. E-Government is a seminal organizational and strategic turnaround in the work of public institutions. Its realization will require the forming of a working group attached to the BiH Council of Ministers, consisting of individuals from the relevant areas of expertise. The actions that bear the most importance for expansion of the ICT use in the work of the administrative bodies are the following:

- legislate the accessibility to information of the national/entity governments by e-mail;
- establish the ICT BiH Agency;
- implement an integrated program of informatics training in public administration, introduce the informatics system of administration at all levels (improve the communication and data exchange in and between the joint institutions of BiH, establish and maintain strong communication links with the Council of Europe in order to enable the staff to promote initiatives related to joining the European integrations, establish and maintain strong links and communication channels between the locations where the state agencies are located, ensure links to the BiH embassies in the world, foreign diplomatic representing offices in BiH, international organizations in BiH, their seats and their regional centers, ensure links with the entity governments and institutions, establish a functional part of the data archiving network, implement quality Internet initiatives ("government online").
- establish an integrated network infrastructure: provide Internet ("government online"), multimedia (organization and participation in multimedia video conferences) and provision of

services on the basis of computer-telephone integration, open Internet portals for public administration institutions, establish the systems for implementation of the "e-government" model of communication between the government and the citizens and business community, make sure that the core programs and services provided by the administrative bodies – those that mean the most to the citizens, are easily available on the Internet, ensure protection of data and transactions between the citizens and the administrative agencies;

- within the framework of regional ICT development activities, formulated under the Action Plan of the "eSEEurope" Initiative, all countries in this region have to develop their individual action plans, under which they will give special place to development of a national Information Society Strategy.

### **3.7. Accelerate the development of ICT infrastructure**

- introduce 2.5G GPRS and EDGE network services in mobile communications, along with WAP and Bluetooth interfaces and protocols in mobile telephony, and prepare for introduction of a 3G network,
- expand mobile signal coverage by all operators currently present on the market to the entire territory of BiH, to ensure full competition,
- continue the process of digitalization in fixed telephony, and strengthening of the connections between carriers, will dramatically improve the functioning of the telecommunications sector in BiH;
- liberalise the global Internet link, since the strengthening of this sub-sector should on the whole be one of the priorities in the upcoming phase;
- efficiently enforce the rules of behaviour for large operators, with the special attention to penalties, which are not clearly defined and must be significantly stricter for cases of grave abuse;
- ensure that noncompliance with the law is sanctioned, especially in the VoIP<sup>17</sup> market, not only because the ISPs in this way violate the rules expressed in their license, the Telecommunications Policy and Law, but also provide the telecoms operators a pretext for other severe abuses of the rules of behaviour in the telecommunications sector;
- create non-profit organizations, tasked to secure the global Internet link, and ensure equal market conditions for all participants. These non-profit organizations would operate on the principle of operating costs plus reinvestment, and thereby ensuring that the cost of using the Internet link remains minimal for large users.

## **4. Monitoring – ICT indicators**

One important segment of the ICT development in BiH is the monitoring of the given set of indicators. Monitoring of these indicators is one of the prerequisites for efficient implementation and improvement of the planned reform program. The indicators listed below are only examples, to serve as a basis for development of a comprehensive set of indicators in the above mentioned reform areas. When establishing the ICT Agency in BiH, one should incorporate the mechanisms for monitoring and evaluating those indicators to serve as a basis for continued development of ICT.

<b>Indicator</b>	<b>Definition</b>
Macroeconomic effect	% share of ICT in GDP
Employment	number of new ICT related professions
Private sector development	% of private companies with access to ICT
Administration	<ul style="list-style-type: none"> <li>• % of administrative bodies at all level that are "online"</li> <li>• % of ICT based services offered by administrative bodies</li> </ul>
Education	<ul style="list-style-type: none"> <li>• number of schools having computer laboratories;</li> <li>• number of schools with computer based courses;</li> <li>• number of schools with Internet connections</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• number of CV posted on the Web</li> <li>• number of companies who advertise their vacancies on the Web</li> </ul>

<sup>17</sup> Voice-over Internet Protocol.

	<ul style="list-style-type: none"> <li>• % of people who have found their current employment on the Web</li> </ul>
Accessibility	<ul style="list-style-type: none"> <li>• number and % of households having access to telephone, PC, fax, TV, Internet</li> <li>• number and % of households and type of services available in rural environments and among the poor</li> </ul>
Quality of services	<ul style="list-style-type: none"> <li>• % successful calls</li> <li>• % households satisfied with the present telecom service</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• regulation; regulatory body and its role;</li> <li>• liberalization;</li> <li>• privatization.</li> </ul>
Efficiency in service provision	<ul style="list-style-type: none"> <li>• Waiting time for fixed line (for households and legal persons)</li> <li>• number of employees in telecommunications per 1000 lines</li> </ul>
Investment in telecom sector	<ul style="list-style-type: none"> <li>• KM/% GDP invested in ICT infrastructure</li> <li>• structure of investment</li> <li>• investment profitability rate in ICT sector</li> </ul>
Training/"Human Capacity Building"	<ul style="list-style-type: none"> <li>• KM invested in training</li> <li>• KM invested in research</li> <li>• number of new ICT specialists a year</li> </ul>

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**VII. ANNEX: GENERAL ACTION PLAN  
ACTION PLAN – MACROECONOMIC POLICY**

No.	Activity	Responsible Institution	Deadline	Comments
<b>LAWS AND REGULATIONS</b>				
1	Adopt and implement the legislative framework of BiH for public procurement	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To fulfill a major condition from the EU Feasibility Study. According to analyses done by the World Bank, the current system of public procurement system in BiH is inadequate and fragmented. The setup establishment of a new system could result in savings of up to 20 percent.
2	Adopt the legal framework for reduction of the internal debt	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	To regulate obligations arising from the internal public debt identified in the public debt reduction plans.
3	Adopt the budget laws on all levels in conformity with the Medium-Term Expenditure Frameworks (MTEFs), and introduce single accounts for each governments <sup>1</sup>	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	In line with the recommendations of the EU Feasibility Study
4	Adopt the Law on the Value-Added Tax (VAT)	BiH Indirect Tax Authority	Second half of 2004	To put VAT in place
<b>INSTITUTIONS</b>				
5	Establish the BiH Indirect Taxation Authority, and within it the single BiH Customs Administration <sup>2</sup>	BiH Council of Ministers	First half of 2004	Implementation of the Law on Indirect Taxation, rationalization of public spending.
6	On the state level, establish a technical mechanism for coordination of activities related to fiscal policy and for preparation of the consolidated fiscal balance for BiH	BiH Ministry of Finance and Treasury, BiH Indirect Tax Authority, BiH Central Bank, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To prepare the consolidated fiscal balance of BiH
7	Strengthen the institution of public auditors	BiH Council of Ministers, FBiH Government, RS Government	Continuously	To strengthen control in collection and spending of public revenues
8	Strengthen the capacities of the BiH Central Bank for assessment of risk in its operations	BiH Central Bank	Continuously	To improve operations of the BiH Central Bank
9	Strengthen the departments for macroeconomic analysis, fiscal analysis, budgetary policy analysis and consolidation and analysis of sectoral policies	FBiH Ministry of Finance, RS Ministry of Finance	Continuously	Strengthening the system of budget planning and management

<sup>1</sup> The Report of the EC to the Council on preparedness of BiH to start negotiations on the SAA with the EU (Feasibility Study), Brussels, 18 November 2003.

<sup>2</sup> The Report of the EC to the Council on preparedness of BiH to start negotiations on the SAA with the EU (Feasibility Study), Brussels, 18 November 2003.

No.	Activity	Responsible Institution	Deadline	Comments
10	Strengthen the departments for macroeconomic analysis, fiscal analysis, budgetary policy analysis and consolidation and analysis of sectoral policies	FBIH Government, RS Government	Continuously through 2006	To improve the public investment planning
11	Strengthen entity finance ministries for monitoring of extra-budgetary funds	FBIH Ministry of Finance, RS Ministry of Finance	Continuously	To improve transparency of the monitoring of extra-budgetary funds
12	Strengthen the mechanism for monitoring foreign debt	BiH Ministry of Finance and Treasury, FBIH Ministry of Finance, RS Ministry of Finance	Continuously	To create a comprehensive system of reporting on borrowing by all levels of government and public funds, and to create clear oversight mechanisms for borrowing, particularly for sub-entity levels of government.
13	Establish the Public Procurement Agency	BiH Ministry of Finance and Treasury	First half of 2004	To increase transparency in public procurement
14	Establish a body for auditing public procurement	BiH Ministry of Finance and Treasury	First half of 2004	To increase transparency in public procurement
	<b>MEASURES</b>			
15	Preserve the existing Currency Board Arrangement in the operations of the BiH Central Bank	BiH Central Bank	Continuously	To maintain macroeconomic stability
16	Enable the BiH Central Bank to issue short-term bonds within the rules of the Currency Board	BiH Parliamentary Assembly	Second half of 2004	To stimulate further development of capital markets
17	Award the BiH Central Bank a limited mandate of 'the lender of last resort', within the rules of the Currency Board	BiH Parliamentary Assembly	Second half of 2006	To strengthen the stability of the banking sector
18	Introduce the Value Added Tax (VAT)	BiH Indirect Tax Authority	2006	To improve the efficiency in collection of public revenues and harmonization of the tax system with the EU.
19	Eliminate all forms of double taxation on a national level	BiH Indirect Tax Authority, FBIH Ministry of Finance, RS Ministry of Finance	By end-2004	To strengthen the single economic space in BiH
20	Implement the reform of direct taxes, particularly of income and profit taxes	FBIH Ministry of Finance, RS Ministry of Finance	First half of 2005	To modernize the tax system and harmonize it with the EU practices, abolishment of the practice of double taxation.
21	With regard to implementation of the new budget laws and of introduction of government accounts at all levels, steps should be taken to register transfers to public bodies at all levels of government, including transfers of grants and other forms of international aid <sup>3</sup>	BiH Ministry of Finance and Treasury, FBIH Ministry of Finance, RS Ministry of Finance	First half of 2004	To fulfill recommendations from the EU Feasibility Study
22	Increase transparency and financial management in the operations of public enterprises	FBIH Government, RS Government, public enterprises	Continuously	Strengthening of control in collection and spending of public revenues
23	Consider the possibility for increasing the excise taxes on cigarettes and oil	FBIH Ministry of Finance, RS Ministry of Finance	First half of 2004	To increase public revenues
24	Implement Enforce measures which will to channel transport of oil and oil-based products exclusively by rail or by ship (through Brčko)	FBIH Government, RS Government, Government of Brčko District	First half of 2004	To increase efficiency of collecting public revenues from oil and oil-based products and to reduce the informal economy.

<sup>3</sup> The Report of the EC to the Council on preparedness of BiH to start negotiations on the SAA with the EU (Feasibility Study), Brussels, 18 November 2003.

No.	Activity	Responsible Institution	Deadline	Comments
25	Establish a closer coordination of entity governments with sub-entity levels in adoption of targets in the area of fiscal policy and implementation of measures with implication to the expenditure and revenue policies	FBIH Ministry of Finance, RS Ministry of Finance	First half of 004	To coordinate adoption and implementation of fiscal policies. Particularly applies to FBIH
26	Perform monitoring of cantonal and municipal budgets	FBIH Ministry of Finance, RS Ministry of Finance	Continuously	To prevent uncontrolled borrowing by lower levels and prevent introduction of administrative fees (quasi-taxes) that have no legal basis.
27	Reduce the number of customs houses, customs offices and border crossings for commercial traffic	BiH Indirect Tax Authority	Continuously	To enhance efficiency in collection of customs revenues
28	Introduce uniform customs evaluation methodologies at all customs stations	BiH Indirect Tax Authority	First half of 2004	To enhance efficiency in collection of customs revenues
29	Strengthen post-customs clearing control	BiH Indirect Tax Authority	Continuously	To enhance efficiency in collection of customs revenues
30	Conduct regular revisions of the entity Medium-Term Expenditure Frameworks (MTEFs)	FBIH Ministry of Finance, RS Ministry of Finance	Continuously	To enhance efficiency in collection of customs revenues
31	Restrict the wage levels in allocations for the public sector	All levels of government	Continuously through end-2006	To reduce public spending, and in conformity with MTEFs adopted by the entity governments
32	Increase the share of domestic revenues in the financing of current expenditures of the public administration	All levels of government	Continuously through end-2006	To increase quality in provision of public services in conditions of declining donor assistance, and in conformity with
33	Increase the share of domestic funds in financing the public investment program	All levels of government	Continuously through 2006	To ensure adequate funding of the public investment program in conformity with PRSP priorities and with MTEFs adopted by the entities.
34	Continue the reductions of defense spending	FBIH Government, RS Government	Continuously through 2006	To reduce public expenditure, and in conformity with MTEFs adopted by the entity governments
35	Prepare and implement thea plan of rationalization plans in the internal affairs sector	FBIH Ministry of Internal Affairs, RS Ministry of Internal Affairs	First half of 2004	To reduce public expenditure for law enforcement, and in conformity with MTEFs adopted by the entity governments
36	Reduce sectoral expenditure (education, health care, social assistance) to a sustainable level	FBIH Government, RS Government	Continuously through end-2006	To reduce public expenditure, and in conformity with MTEFs adopted by the entity governments
37	Introduce treasury system at all levels, including extra-budgetary funds	All levels of government	By end-2004	To improve budget execution, increased transparency and control in use of public revenues
38	Incorporate extra-budgetary funds into budgets	FBIH Ministry of Finance, RS Ministry of Finance	Second half of 2004	To enhance the oversight in collection and spending of public revenues
39	Include Incorporate the RS Roads Directorate into the RS Budget, and in FBIH ensure full transparency regarding of the spending of funds of by the Federation Roads Directorate, including cantonal directorates	FBIH Ministry of Finance, RS Ministry of Finance	2004	To strengthen transparency and oversight of use of public revenues

No.	Activity	Responsible Institution	Deadline	Comments
40	Adopt the strategy of foreign borrowing	BiH Council of Ministers, BiH Ministry of Finance and Treasury, BiH Parliamentary Assembly	Second half of 2004	To ensure that most foreign borrowing is under concessional terms, particularly in the first part of the medium-term period, that the limited commercial borrowing is employed exclusively in those sectors capable of independent repayment (such as telecommunications and energy sectors), and only in the second half of the medium-term period, that borrowing for budget support is reduced and borrowing for faster private-sector development is increased, that borrowing for technical assistance is avoided, and that technical assistance should be funded by grant funds.
41	Continue negotiations for recovery of claims arising from work business projects performed by BiH companies before the war (in Iraq and Libya)	BiH Ministry of Finance and Treasury, BiH Foreign Ministry, FBIH Ministry of Finance, RS Ministry of Finance	Continuously	To assist BiH companies to in collecting their claims.
42	Start realization of SWAP arrangement	BiH Ministry of Finance and Treasury	Continuously	

#### ACTION PLAN – PRIVATE SECTOR GROWTH (STRUCTURAL REFORMS)

##### Action Plan – Business environment enhancement for domestic and foreign investment and support to entrepreneurship

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Adopt the bylaws and establish the institutional framework for implementation of the BiH Law on Consumer Protection <sup>4</sup>	BiH Council of Ministers, FBIH Government, RS Government	First half of 2004	To strengthen the single economic space in BiH, in conformity with the recommendations of the EU Feasibility Study.
2	Adopt the BiH Framework Law on Business Registration	BiH Council of Ministers	First half of 2004	To establish a single business register in conformity with the recommendations of the EU Feasibility Study. <sup>5</sup>
3	Adopt entity laws on business registration	FBIH Government, RS Government	First half of 2004	To simplify the process of business registration.
4	Adopt the BiH Framework Law on Inspections	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To harmonize entity laws on inspections and enhance business climate.

<sup>4</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, pp 22-23.

<sup>5</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003..

No.	Activity	Responsible Institution	Deadline	Goals/Comments
5	Adopt entity laws on inspections	BiH Government, RS Government	First half of 2004	To reform inspectorates.
6	Adopt the RS Law on Notaries	RS Government	First half of 2004	To establish a more adequate creditor protection.
7	Adopt the BiH Framework Law on Registered Pledges for Movable Property	BiH Parliamentary Assembly	First half of 2004	To establish a more adequate creditor protection. Adopted at the BiH Council of Ministers.
8	Adopt entity laws on registered pledges for movable property	BiH Government, RS Government	First half of 2004	To establish a more adequate creditor protection.
9	Adopt the FBiH Property Law	BiH Ministry of Justice	First half of 2004	To codify ownership rights that are at present covered by different regulations and ensure greater protection of creditors and investors.
10	Adopt the Property law of RS	RS Ministry of Justice	First half of 2004	To codify ownership rights that are at present covered by different regulations and ensure greater protection of creditors and investors.
11	Adopt the FBiH Law on Obligations	BiH Ministry of Justice	First half of 2004	To ensure more adequate protection of creditors.
12	Adopt the RS Law on Obligations	RS Justice Ministry	First half of 2004	To ensure more adequate protection of creditors.
13	Adopt the new FBiH Cadaster law	BiH Ministry of Justice,	First half of 2005	To integrate land registers and cadasters.
14	Adopt the new RS Cadaster Law	RS Ministry of Justice	First half of 2005	To integrate land registers and cadasters.
15	Adopt the BiH Law on Restitution	BiH Ministry of Justice	Second half of 2006	Resolution of disputes connected with the restitution.
16	Adopt the legal framework for out-of-court resolution commercial disputes	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To reduce the case burden of the courts.
17	Regulate by law the status of FIPA	BiH Council of Ministers	First half of 2004	FIPA currently is not included in the BiH Law on the Council of Ministers.
18	Harmonize the consumer protection laws with the EU laws	BiH Council of Ministers, FBiHFBiH Government, RS Government	Continuously	To meet the recommendations of the EU Feasibility Study.
19	Adopt the harmonized legal framework for development of small and medium enterprises (SMEs)	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	Second half of 2004	The RS adopted this law, while such law does not exist in FBiH and the Brčko District.
20	Implement the recommendations of the European Small Business Charter	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	Second half of 2005	To stimulate development of SMEs.



No.	Activity	Responsible Institution	Deadline	Goals/Comments
21	Adopt the BiH Law on Market Surveillance	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Trade, RS Ministry of Trade and Tourism	First half of 2004	To improve the business climate.
22	Adopt the BiH Framework Law on Freedom of Movement of Goods	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Trade, RS Ministry of Trade and Tourism	First half of 2004	to remove barriers to inter-entity trade.
	<b>INSTITUTIONS</b>			
23	Establish the single business register at the BiH level <sup>6</sup>	BiH Ministry of Finance and Treasury	Second half of 2004	To simplify the business registration procedures.
24	Establish the single pledge register at the BiH level	BiH Ministry of Finance and Treasury	Second half of 2004	To ensure more adequate protection of creditors.
25	Establish the BiH Competition Council and ensure adequate budgetary funding for its work	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To protect consumers and strengthen the single economic space.
26	Establish entity bureaus for competition and consumer protection <sup>7</sup>	FBIH Government, RS Government	First half of 2004	To protect consumers and strengthen the single economic space.
27	Create preconditions for operations of 16 commercial departments established with first-instance courts.	First-instance courts in BiH	First half of 2004.	To accelerate resolution of commercial disputes.
28	Establish an independent appeals body for decisions of tax authorities at all levels	FBIH Ministry of Finance, RS Ministry of Finance	First half of 2004	To resolve complaints on decisions of tax administrations.
29	Establish the FBIH Inspectorate	FBIH Government	Second half of 2004	To reform the inspection services.
30	Establish the RS Inspectorate	RS Government	Second half of 2004	To reform the inspection services.
31	Strengthen the capacity of FIPA	BiH Council of Ministers	Continuously	For more efficient promotion of foreign direct investments in BiH. It is particularly important to start operations of FIPA offices in the entities. To promote foreign investment.
32	Establish the State Commission for Concessions and adequate lower level commissions	BiH Council of Ministers, FBIH Government, RS Government	First half of 2004	
33	Strengthen the institutional framework for implementation of policies in the area of entrepreneurship and SME development, as well as coordination of the work of the State Bureau for Implementation of Recommendations of the European Small Business Charter with competent entity institutions.	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	Continuously	To implement recommendations of the European Small Business Charter.

<sup>6</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 44.

<sup>7</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 22-23.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
34	Establish SME development centers in local communities	FBiH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	First half of 2005	To enhance the competitiveness (ensure increased productivity) and strengthen technical and technological capacities of SMEs through establishment of business incubators and clusters, creation of industry zones, technological parks and networks, cooperatives etc.
35	Establish human resources development agencies	FBiH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	First half of 2005	To ensure training of personnel with skills in short supply.
36	Establish a guarantee fund for the support to SMEs	FBiH Government, RS Government	First half of 2005	To stimulate SME development.
	<b>Measures</b>			
37	Train judges who will work in specialized commercial departments in first-instance courts.	FBiH Justice Ministry, RS Justice Ministry	Second half of 2004	To improve efficiency of resolution of commercial disputes.
38	Further simplify business registration procedures and, following the model for registration of foreign companies, minimize the number of public and other institutions involved in the registration process. <sup>8</sup>	BiH Council of Ministers, FBiH Government, RS Government	Continuously	To reduce duration of the business registration procedure to 10 to 15 days and to reduce the cost of business registration.
39	Design the active consumer protection policies in conformity with the EU laws	BiH Council of Ministers, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	Continuously	To satisfy the preconditions of the EU Feasibility Study.
40	Form independent and efficient administrative structures which will ensure that basic conditions with regard to health and safety protection are met	BiH Council of Ministers, FBiH Government, RS Government	Continuously	To satisfy the recommendations of the EU Feasibility Study.
41	Introduce a harmonized system of registration of real estate	Courts in BiH	First half of 2005	To satisfy the recommendations of the EU Feasibility Study with regard to increase confidence in the ownership.
42	Ensure more effective protection of intellectual property	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	First half of 2004	One of the preconditions for concluding the SAA is a more effective protection of intellectual, industrial and commercial property, including protection from forgery and pirating. BiH will also need to accede to multilateral conventions regulating this field, which has already been signed by EU countries. <sup>9</sup>
43	Ensure full transparency in the area of governmentn subsidies through annual publication of an inventory of subsidies. <sup>10</sup>	FBiH Government, RS Government	First half of 2005	In the future SAA, BiH will have to abstain from measures that will have an adverse effect on competition. <sup>11</sup>

<sup>8</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 44

<sup>9</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003. .

<sup>10</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003. .

<sup>11</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
44	Further liberalize the labor market, the regime for current transfers and movement of capital	BiH Council of Ministers, FBiH Government, RS Government	First half of 2005	Within the framework of the SAA, BiH will be required to assume the obligation of abolishment of all discriminatory measures in giving primacy to domestic labor force in comparison with the EU labor force, as well as to progressive liberalization of the internal and external movement of capital, particularly with regard to foreign direct investments (FDI).
45	Introduce provisions on joint product approvals into the BiH legal system and remove all requirements for double issuance of licences and approvals <sup>12</sup>	BiH Ministry of Foreign Trade and Economic Relations, FBiH Government, RS Government	First half of 2004	A recommendation from the EU Feasibility Study to allow BiH businesses to operate on the entire BiH market, regulated by a single set of administrative procedures.
46	Adopt the Code of Conduct for tax officials at all levels	BiH Indirect Tax Authority, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To enhance responsibility in their work.
47	Strengthen the system of urban planning and coordination on all levels	Municipalities	Continuously	To simplify procedures of obtaining building permits and to determine ownership over real estate.
48	Merge the procedures for issuing zoning and building permits.	Municipalities	Second half of 2004	To simplify and lower the cost of obtaining building permits.
49	Promote the image of BiH abroad	BiH Foreign Ministry, FIPA	Continuously	To attract foreign investors.
50	Prepare the Foreign Investment Strategy for BiH	BiH Ministry of Foreign Trade and Economic Relations, FIPA	Second half of 2004	To plan promotion of investing in BiH.
51	Continuously work on increasing the number of countries with which BiH signed agreements on avoidance of double taxation and on investment promotion and protection.	BiH Ministry of Finance and Treasury, BiH Ministry of Foreign Trade and Economic Relations	Continuously	To improve the business climate for foreign investment.
52	Eliminate cash fines from the practices of inspectorates	FBiH Government, RS Government	Second half of 2004	To reduce fraud.
53	Implement the Action Plan for Combating Corruption	BiH Council of Ministers, FBiH Government, RS Government, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	Second half of 2005	To improve the business climate (see the separate section on this topic).
54	Simplify the FDI registration procedure in FBiH and harmonize procedures at the BiH level	BiH Ministry of Foreign Trade and Economic Relations, FBiH Government, RS Government	First half of 2004	To improve the business climate for FDI.

<sup>12</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU, (EC Feasibility Study), Brussels, 18 November 2003, p. 44.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
55	Strengthen corporate governance	FBIH Government, RS Government, Capital Markets Council with the BIH Central Bank	Continuously	To improve the business climate, improve efficiency and competitiveness of domestic companies.
56	Adopt SME development strategy <sup>13</sup> in BIH	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	Second half of 2004	To simulate SME development.
57	Within the framework of the education reform, include entrepreneurship training into secondary-school curricula, and stimulate establishment of special programs for training managers in institutions for higher education	FBIH Ministry of Education and Science, RS Ministry of Education and Culture	First half of 2005.	To implement the recommendations of the European Small Business Charter.
58	Support development of specialized consulting institutions capable of assisting SMEs in acquiring new skills and technologies, particularly in the field of international standards and certificates.	FBIH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	Continuously	To implement the recommendations of the European Small Business Charter.
59	Establish a regular coordination of competent entity ministries with the Office of the State Coordination for Promotion of Entrepreneurship and with other ministries and institutions to implement SME development projects.	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Development, Entrepreneurship and Trades, RS Ministry of Economy, Energy and Development, Government of the Brčko District	First half of 2004	Stimulate development of entrepreneurship.

#### Action plan - privatization

No.	Activity	Responsible Institution	Deadline	Goal/Comment
	<b>LAWS AND REGULATIONS</b>			
1	Adopt the FBIH Law on Evaluation of Execution of Obligations Arising from Privatization Purchase Contracts.	FBIH Ministry of Energy, Mining and Industry, FBIH Parliament	First half of 2004	Necessary to set up a mechanism to assess the degree of execution of obligations from the privatization purchase contract assumed by the purchaser, including mechanisms for annulment of the contract.
2	Adopt the Law on Changes and Amendments of the Law on Privatization in FBIH	Federation Ministry of Energy, Mining and Industry, FBIH Parliament	First half of 2004	Necessary for a more active participation of the Agency in privatization preparations, i. e. for possible restructuring of enterprises before privatization, to increase flexibility in the determining of the sequence of privatization method and to manage state shares in privatized companies.
3	Adopt the FBIH Law on Changes of the Law on the Initial Balance Sheet of Companies and Banks	FBIH Ministry of Finance, FBIH Parliament	First half of 2004	Required for determination of the initial value of the enterprise, and on the basis of estimated value, in order to define the method of transfer of assets and rights from the passive sub-balance of the enterprises to the agencies.

<sup>13</sup> SME – Small and Medium Enterprises.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
4	Adopt the FBiH Law on Acquisitions of Companies	FBiH Government, FBiH Parliament, FBiH Securities Commission	First half of 2004	Requires adoption of a new regulation, since the existing legal framework is not harmonized and is founded on different principles in the field of small shareholders' protection.
5	Adopt the bylaws to introduce mechanisms for reduction of indebtedness of so-called 'strategic' enterprises and of the total corporate debt.	FBiH Agency for Privatization, RS Directorate for Privatization, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Government, RS Government	First half of 2004	To accelerate the privatization process.
6	Adopt changes to the Decree on the Methodology for Preparation of Programs and Compilation of the Initial Balance Sheet of Privatizing Enterprises in FBiH	FBiH Government	First half of 2004	To authorize the agencies in FBiH to accept registration of privatization through public offering of shares even without a complete proof of ownership over real estate.
7	Adopt the Decree on Annulment of the Decree on the Methods of Disposition of Disputed Property When Two or More Enterprises List Same Rights, Things, Liabilities and Capital in Their Initial Balance Sheets and on the Mode and Procedure of Reviewing Such Enterprises	FBiH Government	First half of 2004	The original decree is inapplicable, as not a single case has been resolved on the basis of it.
8	Adopt the Decision on Amendment of the Decision on the Mode of Disposition of Funds Realized in Privatization of Enterprises and Banks in the FBiH Territory	FBiH Government	First half of 2004	This decision represents a mechanism of resolving disputed property through division of the resources between cantons (and the FBiH) where the disputed enterprises are located.
	<b>INSTITUTIONS</b>			
9	In FBiH concentrate the powers for privatization of enterprises intended for strategic investors within a single agency which will operate in an accepted political and organizational arrangement with cantonal authorities.	FBiH Government	First half of 2004	To accelerate the privatization process and ensure greater transparency.
10	Strengthen entity privatization institutions (FBiH Agency for Privatization, RS Directorate for Privatization): <ul style="list-style-type: none"> <li>• grant required powers to allow a selective approach in the privatization process;</li> <li>• grant powers to permit greater flexibility and discretion with regard to the selection of the most favorable privatization strategy;</li> <li>• extend expert assistance in establishment of joint ventures where the government is a minority shareholder (and if the joint venture does not involve additional financing from public sources) and to privatized enterprises in the establishment of corporate governance</li> </ul>	FBiH Government, RS Government	First half of 2004	To accelerate the privatization process.
11	Establish units for management of debts of the so-called 'strategic' enterprises in FBiH and RS within entity finance ministries	FBiH Government, RS Government	First half of 2004	The units would regulate debts of the so-called 'strategic' enterprises arising from non-payment of taxes, health-care and pension contributions, and unemployment insurance
12	Within the FBiH Agency for Privatization, RS Directorate for Privatization establish dedicated departments for intermediation in reduction and reprogramming of debts of the so-called 'strategic' enterprises to commercial banks and suppliers	FBiH Agency for Privatization, RS Directorate for Privatization	First half of 2004	This would mean acquiring the responsibility for restructuring of the next category of debt.
13	Strengthen the existing unemployment insurance and social assistance systems	FBiH Government, RS Government	First half of 2004	Implementation of the social programs for persons losing jobs without their responsibility in the privatization process.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
14	Establish bankruptcy funds	FBiH Government, RS Government	Second half of 2004	
	<b>MEASURES</b>			
15	Adopt the document on categorization of so-called 'strategic' enterprises in the privatization process	FBiH Government, RS Government	First half of 2004	Covers enterprises privatized in their present condition, enterprises in need of (financial and industrial) restructuring and enterprises to be dissolved.
16	Prepare the Operational Plan of Privatization of the So-Called 'Strategic' Enterprises to include the plan for restructuring enterprises	FBiH Agency for Privatization, RS Directorate for Privatization, FBiH Government, RS Government	First half of 2004	To accelerate the privatization process
17	Offer for sale all so-called 'strategic' enterprises requiring no additional preparations	FBiH Agency for Privatization, RS Directorate for Privatization	First half of 2004	To accelerate the privatization process
18	Conduct pre-privatization restructuring of enterprises, i. e. selectively disassemble existing enterprises in order to dissolve the unprofitable segments	FBiH Agency for Privatization, RS Directorate for Privatization,	First half of 2004	To accelerate the privatization process (This form of preparation of enterprises requires a separate project-oriented for each enterprise and the alterations for entity privatization institutions).
19	In conformity with the relevant laws, initiate and accelerate the bankruptcy proceedings far all bankruptcy decisions reached	Competent entity ministries, FBiH Government, RS Government, competent courts	First half of 2004	To prevent debt accumulation.
20	Strengthen competences of the FBiH Agency for Privatization with regards to the so-called 'strategic' enterprises and establish institutions for coordination of activities with cantonal agencies	FBiH Government	First half of 2004	To accelerate the privatization process
21	Define a strategy for reduction of the enterprise debt of the so-called 'strategic' enterprises	FBiH Government, RS Government	First half of 2004	To accelerate the privatization process.
22	Alter the regulations on the increase of unemployment contribution in RS from 1% to 2% within three years	RS Government	First half of 2004	Necessary to ensure funds from increase of the unemployed owing to privatization.
23	Elect members of the boards of directors of public enterprises through advertising an open competition	All levels of government	Continuously	Required to increase the responsibility of these bodies and to ensure preference for the qualified in the selection process.
24	Complete the bank privatization	FBiH Ministry of finance, RS Agency for Bank Privatization	First half of 2004	To complete the privatization in the banking sector.
25	As a high priority, resolve ownership disputes blocking privatization of some of the most profitable and largest enterprises with great market value	Competent courts	First half of 2004	Concerns court cases involving Eronet, Mostar, Tobacco Factory Sarajevo and Hidrogradnja Sarajevo.
26	Improve the monitoring of the implementation of enterprise sale contracts	FBiH Agency for Privatization, RS Directorate for Privatization,	Continuously	To monitor implementation of contract obligations.
27	Define the strategy for privatization of the part of energy sector	FBiH Government, RS Government	First half of 2004	To speed up reform in this sector.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
28	Define the telecommunication sector privatization strategy in FBiH and adopt the Action Plan for Privatization of Telecommunications Companies	FBiH Ministry of Transport and Communications, FBiH Government	Second half of 2004	To implement the reforms in the sector.
29	Define the railway sector restructuring and privatization strategy and adopt the Action Plan of Privatization of Railway Companies in BiH	FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications, FBiH Government, RS Government	Second half of 2004	To implement the reforms in the sector.
30	Define the water management sector strategy of restructuring and privatization and adopt the Action Plan of Privatization of companies in BiH	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, FBiH Government, RS Government	First half of 2005	To implement the reforms in the sector.
31	Define the utilities' sector restructuring and privatization strategy and adopt the Action Plan for Privatization of these companies in BiH	Cantonal government and municipalities, in coordination with FBiH Government and RS Government	Second half of 2004	To implement the reforms in the sector.
32	Define the forestry sector preparation and privatization strategy and adopt the Action Plan for Privatization of Forest Enterprises in BiH	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, FBiH Government, RS Government	First half of 2005	To implement the reforms in the sector.
33	Define the broadcast media strategy and prepare the Action Plan of Privatization of Media Companies	Founders, competent agencies or the directorate, FBiH Government, RS Government	First half of 2005	To implement the reforms in the sector.
34	Complete the arbitrations in the Aluminium Mostar and Agrokomerc – Velika Kladuša	FBiH Government, RS Government	Second half of 2004	To remove obstacles to privatization of these enterprises.
35	Encourage the development of capital markets and stock exchange operations	FBiH Government, RS Government	Continuously	To accelerate the privatization process.
36	Establish the rules for listing state capital on the stock exchange in FBiH	FBiH Government	First half of 2004	To accelerate privatization.
37	Revise the regulations on the management of privatization investment funds (PIFs)	FBiH Government, RS Government	First half of 2004	To condition the level of fees PIFs collect for fund (enterprise) management with results achieved in the management of these enterprises.
38	Conduct a public campaign about privatization	FBiH Agency for Privatization, RS Directorate for Privatization,	Continuously	To secure public support for an accelerated privatization process.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
39	Design and implement a continuous campaign for promotion of privatization investment possibilities	FIPA, International group for privatization, FBiH Agency for Privatization, RS Directorate for Privatization Agency for privatization of the FBiH and Directorate for privatization of the RS	Continuously	to accelerate the privatization process and attract foreign investors.

#### Action Plan – Financial Sector

No.	Activity	Responsible Institution	Deadline	Goal/Comment
	<b>LAWS AND REGULATIONS</b>			
1	Adopt the BiH Framework Law on Foreign Currency Operations	BiH Ministry of Finance and Treasury, BiH Central Bank, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	To regulate the area of credit operations abroad in a single manner. The RS Law on Foreign Currency Operations is in the parliamentary procedure.
2	Adopt the legal framework to permit work of mortgage banks and savings % credit institutions	FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	Additional stimulation of domestic savings.
3	Adopt the BiH Framework Law on Bills of Exchange	BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To create preconditions for the single money market and unhindered operations of banks throughout BiH.
4	Adopt the BiH Framework Law on Checks	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	To create preconditions for the single money market and unhindered operations of banks throughout BiH.
5	Adopt bylaws for implementation of the laws on payment transactions and the laws on financial operations	FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To increase protection of creditors.
6	Impose a legal obligation on all companies with high ownership dispersion (and over a specified amount of capital) to be listed on stock exchanges. In addition, the laws on public enterprises should be harmonized with other legislation on businesses, and impose a legal obligation for public enterprises also to be listed on stock exchanges.	FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	In addition to strengthening the capital markets, this measure would ensure greater transparency in the operations of these enterprises, since their listing on stock exchanges would entail the obligation of regular public reporting.
7	Adopt the harmonized FBiH Insurance Law	FBiH Ministry of Finance,	First half of 2004	To stimulate development of the domestic insurance sector.
8	Adopt the harmonized RS Insurance Law	RS Ministry of Finance	First half of 2004	To stimulate development of the domestic insurance sector.
9	Adopt the appropriate legislative and regulatory framework for leasing in FBiH	FBiH Ministry of Finance,	First half of 2004	With the assistance of SEED (Southeastern Europe Enterprise Development), a draft of this law was prepared. The goal of the law is to permit leasing operations in BiH.
10	Adopt the appropriate legislative and regulatory framework for leasing in RS	RS Ministry of Finance	First half of 2004	With the assistance of SEED (Southeastern Europe Enterprise Development), a draft of this law was prepared. The goal of the law is to permit leasing operations in BiH.



No.	Activity	Responsible Institution	Deadline	Goal/Comment
11	Change entity banking laws which would require banks to hold, at any time, the minimum reserve of 10% of the total assets	FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	To stimulate increases in banking capital and bank mergers.
12	Harmonize existing laws entity laws on micro-credit institutions	FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To allow expansion of micro-credit institutions throughout BiH.
13	Amend the laws on micro-credit institutions with clearer provisions on investments in basic capital, prevention of money laundering and reporting requirements	FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To strengthen oversight of micro-credit institutions.
14	Improve the legal framework to permit the micro-credit industry to expand to other financial services	FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	Expansion of micro-credit institutions to savings, leasing, insurance, housing cooperatives.
15	Adopt regulations to resolve ownership disputes in newly privatized companies	FBiH Government, RS Government	First half of 2004	To improve the operational efficiency of PIFs.
	<b>INSTITUTIONS</b>			
16	Establish a single registry of bank accounts at the level of BiH	BiH Central Bank	First half of 2004	To strengthen the efficiency of the banking sector, and increase efficiency of creditor protection and combat money laundering activities.
17	Encourage coordination of entity banking agencies, and in the second half of the medium term period, consider the possibility of establishment of the single banking agency on the level of BiH	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2005	To strengthen the single economic space.
18	Establish State Insurance Agency	BiH Ministry of Finance and Treasury	Second half of 2004	To regulate the insurance sector at BiH level and ensure representation in relevant international organizations.
19	Improve oversight of the micro-credit sector in FBiH and entrust this task to the FBiH Ministry of Finance and, in the later stage, to the banking agencies	FBiH Government	Second half of 2004	The oversight function currently resides with the FBiH Ministry for Social Assistance, which lacks the capacity for oversight in the financial sector.
20	Organize oversight of the micro-credit sector to secure equal conditions for operations throughout the country	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2005	To strengthen the micro-credit sector.
21	Allow transformation of micro-finance institutions into commercial forms of financial services	FBiH Government, RS Government, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2005	To strengthen sustainability of micro-credit institutions.
22	Create independent bodies for oversight of the insurance sector at the entity level	FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	After adoption of the entity insurance laws. At this point, the oversight task in RS lies with the RS Ministry of Finance, which also passes the regulations in this area, which is non in conformity with international standards. The new RS Insurance Law envisages establishment of an independent RS Insurance Agency.
23	Strengthen the capacities in banks for managing all forms of risk (credit, market, currency, country risk etc.)	FBiH Banking Agency, RS Banking Agency, commercial banks	Continuously	To strengthen the stability of the banking sector.
	<b>MEASURES</b>			
24	All commercial banks should lose their banking licence if their action plans do not meet the criteria of the BiH Deposit Insurance Agency	BiH Deposit Insurance Agency, FBiH Banking Agency, RS Banking Agency	During 2004	To strengthen the banking sector in the country.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
25	Banks which are in violation of the regulations on foreign exchange risk exposure, on minimum required capital and on liquidity need, together with the entity banking agencies, to prepare and implement action plans to ensure implementation of these regulations	FBiH Banking Agency, RS Banking Agency	First half of 2004	To strengthen the stability of the banking sector in the country.
26	Tighten the penal provisions for violation of minimum liquidity requirements in both entities	FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To strengthen the punitive mechanisms for those banks which are in violation of liquidity regulations and to strengthen the stability of the banking sector in the country.
27	Complete the activities on determination of the international rating of the country	BiH Ministry of Finance and Treasury, BiH Central Bank	First half of 2004	To secure more favorable capital for domestic banking sector and stimulate foreign investment.
28	Introduce tighter operational and efficiency standards for banks (in line with the EU standards), and encourage use of credit cards	FBiH Banking Agency, RS Banking Agency	Second half of 2004	To strengthen the efficiency of the banking sector, reduce costs and banking fees, reduce the informal economy.
29	Pass appropriate decisions to require banks to strengthen their basic capital, particularly those which have the capital adequacy rate below 15%.	FBiH Banking Agency, RS Banking Agency	First half of 2004	To strengthen the stability of the banking sector.
30	Continue harmonization of banking regulations with the Basle Principles and EU guidelines	FBiH Ministry of Finance, RS Ministry of Finance	Continuously	To strengthen the stability of the banking sector.
31	Reach agreement with Slovenia and Serbia and Montenegro on recovery of old foreign currency savings deposited respectively with the Ljubljanska Banka and Investiciona Banka	BiH Council of Ministers, BiH Ministry of Finance and Treasury	First half of 2004	To reduce the internal public debt.
32	Strengthen the supervision of the banking sector for monitoring the market risk in banks, the non-banking activity risk, strengthen internal control, prevention of money laundering, and consolidate supervision with non-traditional banking activities	FBiH Banking Agency, RS Banking Agency	Second half of 2004	To strengthen the stability of the banking sector.
33	Strengthen the supervision of foreign banks through conclusion of the agreement on supervision on the consolidated basis with the countries where the headquarters offices of banks which have branches in BiH are located.	BiH Council of Ministers, BiH Central Bank, FBiH Banking Agency, RS Banking Agency	Second half of 2004	To strengthen the stability of the banking sector.
34	Introduce savings certificates as a form of savings permitting liquidity of deposits	Deposit Insurance Agency, commercial banks	Second half of 2004	A fund should be established for this purpose to protect the users from problematic banks.
35	In consultation with the IMF, identify appropriate changes to the regulations regarding market risks and the consolidated oversight of all parts of the bank for harmonization with the international standards	BiH Central Bank, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2004	To strengthen the stability of the banking sector.
36	Promote corporate governance and transparency in the stock exchange operations	FBiH Securities Commission, RS Securities Commission	Continuously	To strengthen the stability of the capital markets.
37	Introduce more efficient sanctions for illegal life insurance contracts with foreign insurance companies	FBiH Government, RS Government	Continuously	To eliminate unfair competition.
38	Improve the cooperation of micro-credit institutions with the local authorities in order to exchange information, encourage clients, identify projects and target groups	FBiH Foundation for Sustainable Development, RS Development and Employment Fund, micro-credit institutions	Continuously	To strengthen the efficiency of the micro-credit sector.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
39	Strengthen the supervision of the operations of micro-credit institutions	FBiH Ministry of Finance, RS Ministry of Finance	Continuously	To reduce the informal economy.
40	Improve mutual coordination between entity banking agencies, BiH Deposit Insurance Agency and BiH Central Bank, as well as with government agencies, primarily those in charge of the implementation of the laws on money laundering (tax and customs administrations, employment bureaus etc.)	FBiH Government, RS Government	Continuously	Further reduction of the administration within banks and reduction of their operational costs.
41	Conduct continuous supervision of transactions of banks with connected persons	FBiH Banking Agency, RS Banking Agency	Continuously	To strengthen the stability of the banking sector. and prevent money laundering.
42	Entity banking agencies should require banks to prepare capital management programs	FBiH Banking Agency, RS Banking Agency	First half of 2004	To strengthen the stability of the banking sector. through increasing the capital adequacy of the banks.

#### Action Plan – Labor Market Reform

No.	Activity	Responsible Institution	Deadline	Goal/Comment
	<b>LAWS AND REGULATIONS</b>			
1	Change entity contribution laws	FBiH Government, RS Government	First half of 2004	To harmonize employment insurance rates and unemployment assistance cash benefits, equalize rights and increase the mobility of labor force (the unemployment rates in both entities are nearly identical, so should be the contribution rates).
2	Change the FBiH Law on Employment Brokerage and Social Security of the Unemployed and RS Law on Employment	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To establish harmonized criteria for acquiring and losing the status of an unemployed person, to ease the conditions for acquiring right to the unemployment cash benefit, to tighten the criteria for acquiring the right to health insurance, to equalize the level of the cash benefit for BiH and to stimulate an increase in mobility of the labor force.
3	Adopt the legislation that will permit out-of-school education	FBiH Government, RS Government	First half of 2004	To allow for subsequent acquisition of new and improving on existing qualifications.
4	Adopt the new legal framework on labor inspectorates	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To increase the efficiency of combating informal economy.
5	Adopt the laws or ordinances to strengthen the existing unemployment protection system to provide a more adequate protection for workers who, owing to accelerated reforms (privatization, bankruptcy, liquidation etc.) lose their jobs, without their responsibility	FBiH Government, RS Government	First half of 2004	To accelerate the reform process.
6	Adopt the Law on Employment in the Brčko District	Government of the Brčko District	Second half of 2004	To unify employment bureaus in the Brčko District and introduce an unemployment protection system.
7	Change the legislation to permit the scope of the right to unemployment benefits depends on the duration of past labor and the period during which the wage contributions were paid.	FBiH Government, RS Government	Second half of 2004	Justice in use of unemployment benefits.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
8	Adopt the legislative framework which will ensure employment of 3 to 5% of the disabled in the civil service	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To improve the system of social protection.
	<b>INSTITUTIONS</b>			
9	Strengthen the economic and Social Councils	FBiH Government, RS Government, trade unions, employers' associations	Continuously	To involve employers into the tripartite dialogue and introduce greater flexibility into the wage system.
10	Establish the BiH Economic and Social Council	BiH Council of Ministers	First half of 2005	To strengthen the tripartite dialogue at the level of BiH.
11	Reorganize employment bureaus	FBiH Government, RS Government	Second half of 2004	To increase their efficiency.
	<b>MEASURES</b>			
12	Consistently implement constitutional changes which require all levels of government to ensure that the composition of public employees is in line with the ethnic composition of the inhabitants from the 1991 Census	BiH Council of Ministers, FBiH Government, RS Government	Continuously in the course of 2004	To ensure equal rights and facilitate returns.
13	Review existing collective contracts	Economic and Social Council of FBiH, Economic and Social Council of RS	Second half of 2004	To reduce the informal economy and increase employment.
14	Implement the reform of the wage system: review the existing level of the minimum wage, regulations on redundancy pay and on calculations of past labor	Economic and Social Council of FBiH, Economic and Social Council of RS	Second half of 2004	To reduce the informal economy and increase employment, to link the wage system exclusively to labor productivity.
15	Equalize benefits and rights arising from unemployment and from health insurance	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To ensure equal rights of citizens, strengthen the single economic space, increase the mobility of labor force and sustainability of returns.
16	Precisely define and tighten the criteria for acquiring and losing the status of an unemployed person, as well as for right to unemployment benefits, and particularly for health insurance	FBiH Government, RS Government	First half of 2004	To reduce the informal economy
17	Equalize the level of allocations for health insurance of the unemployed for all cantons in the FBiH	FBiH Government, RS Government	First half of 2004	It is unsustainable that the monthly payment varies from 4 to 10 KM across the cantons for the same set of rights.
18	Encourage employers to cross from the informal into the formal sector, through exemptions or reductions of wage contributions	FBiH Government, RS Government	Continuously in the course of 2004	To increase the number of employees, reduce the informal economy, financially strengthen budgets and funds and open possibilities for employers to create new jobs.
19	Establish IT connections between local employment agencies throughout BiH and establish a single and compatible system; reinforce the employment agencies' role in identifying needs in local labor markets and in employment brokerage	FBiH Employment Bureau, RS Employment Bureau	In the course of 2004	To exchange available information on labor demand and increase mobility of the labor in BiH; to assist the unemployed in finding jobs.
20	For the groups among the young who are in a particularly difficult situation, such as orphans or school drop-outs, special employment programs must be developed, e. g. through subsidies to companies which employ them.	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Protection	Continuously	To increase employment among the special categories of the young.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
21	Within the ongoing education reform, perform a detailed analysis of the demand in the labor market	FBIH Employment Bureau, RS Employment Bureau, FBIH Ministry of Education and Science, RS Ministry of Education and Culture	Second half of 2004	To direct the structure of the education in relation to the domestic and international labor demand.
22	Restrict administrative costs of employment agencies as a share of their total resources	FBIH Government, RS Government	First half of 2004	To rationalize expenses and increase the share of resources channelled into the core tasks of the employment agencies.
23	Establish tripartite management of employment agencies (governments, unions, employers)	FBIH Government, RS Government	Second half of 2004	To ensure involvement of all interested parties and implementation of obligations arising from the ILO conventions.

#### Action Plan –Anti-Corruption Strategy

No.	Activity	Responsible Institution	Deadline	Goal/Comment
<b>LAWS AND REGULATIONS</b>				
1	Adopt the FBIH Law on Anti-Fraud Administration	FBIH Ministry of Justice	First half of 2004	Transformation of the Financial Police into an independent directorate within the FBIH Ministry of Justice.
2	Adopt the anti money laundering laws on BiH and FBIH levels	BiH Parliament, FBIH Ministry of Justice	First half of 2004	To increase efficiency of anti-corruption activities
3	Adopt the laws on budgets of courts and prosecution authorities at all levels	BiH Ministry of Justice, FBIH Ministry of Justice, RS Ministry of Justice	First half of 2004	To establish independent judiciary and prosecution authorities.
4	Adopt entity laws on the protection of individuals with regard to automatic processing of personal data	FBIH Ministry of Justice, RS Ministry of Justice	First half of 2004	Protection of privacy in conformity with the European Human Rights Convention.
5	Adopt entity laws on administrative proceedings and changes to the laws on administrative disputes, on litigation proceedings, and the witness protection laws	FBIH Ministry of Justice, RS Ministry of Justice	First half of 2004	To enhance the efficiency of the administrative proceedings.
6	Harmonize entity laws on offense procedure	FBIH Ministry of Justice, RS Ministry of Justice	First half of 2004	To reform the offense and commercial procedure.
7	Adopt the law which will regulate execution of court decisions in criminal cases between the entities and the Brčko District	BiH Ministry of Justice, Government of the Brčko District	First half of 2004	To harmonize regulations throughout BiH.
8	Adopt the BiH and entity laws regulating the status of lawyers in conformity of the highest European standards.	BiH Ministry of Justice, FBIH Ministry of Justice, RS Ministry of Justice	Second half of 2004	Harmonization of regulations in BiH with the European standards
9	Consistently implement the Law on Conflict of interest and strengthen the election commissions for its implementation	All levels of government	Continuously	To increase efficiency of anti-corruption activities
10	Accelerate the implementation of the new criminal legislation and reform of regulations concerning misdemeanors and commercial crimes	All levels of government	Continuously	To introduce the European standards and strengthen the protection of human rights.
11	Tighten up the penal provisions for persons offering bribes or seek to corrupt the public sectors in any fashion	BiH Ministry of Justice, FBIH Ministry of Justice, RS Ministry of Justice	First half of 2005	Strengthening efficiency in anti-corruption activities.

No.	Activity	Responsible Institution	Deadline	Goal/ Comment
12	Implement international treaties and conventions: International Convention on Civil and Political Rights (ICCPR); Convention on the Rights of Children (CRC); Convention on Elimination of All Forms of Discrimination against Women (CEDAW); Convention on Elimination of all Forms of Racial Discrimination (CERD)	All levels of government	Continuously	Protection of human rights is guaranteed by the BiH and entity constitutions.
13	Sign and ratify international conventions in the area of fighting crime and corruption <sup>14</sup> as follows:			
14	Council of Europe, Convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (1990)	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
15	European Convention on Mutual Assistance in Criminal Matters (1959) with the First Additional Protocol (1978.) and Second Additional Protocol (2001)	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
16	Convention on the Protection of Individuals with Regard to Automated Processing of Personal Data (1981)	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
17	Additional Protocol to the Convention for the Protection of Individuals with regard to Automated Processing of Personal Data regarding supervisory authorities and transborder data flows (1981)	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
18	Convention on Mutual Assistance and Cooperation Between Tax Administrations (1988)	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
19	OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
20	Council of Europe Convention on Cybercrime.	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
21	European Convention on Extradition (1957) with two additional Protocols (1975) and (1978)	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
22	European Convention on the Suppression of Terrorism	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
23	European Convention on the International Validity of Criminal Judgments	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
24	European Convention on Criminal Acts Related to Information Technology	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
25	European Convention on the Transfer of Proceedings in Criminal Matters	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
26	European Convention on the Right to Information on Foreign Legislation	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
27	Convention on Protection of the Environment Through Criminal Law	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
28	United Nations Convention against Illegal Sea Traffic	BiH Ministry of Justice	Second half of 2004	Harmonization of the European legal systems to combat corruption and other crime
	<b>INSTITUTIONS</b>			

<sup>14</sup> The listed obligations are in essence linked to the acceptance of BiH membership in the Council of Europe, and the obligation on the part of BiH is to sign and ratify all such documents no later than two years from the initial date of membership (April 24, 2002). The workload in the realization of these obligations falls to the relevant ministries, the Council of Ministers BiH, and the BiH Parliament.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
29	Establish sub-committees for combating crime and corruption in the state and entity parliaments	BiH Parliamentary Assembly, FBiH Parliament, RS National Assembly	First half of 2004	Strengthen the system of management and oversight of public finances.
30	Restructure entity and cantonal courts and ensure adequate work conditions (office space)	FBiH Government, RS Government	Second half of 2004	Judiciary reform
31	Undertake restructuring and unification of misdemeanor courts, and synchronize misdemeanor laws between entities	FBiH Government, RS Government	Second half of 2004	Judiciary reform
32	Reorganize entity level ministries of justice to improve their efficiency	FBiH Ministry of Justice, RS Ministry of Justice	Second half of 2004	Civil service reform
33	Reform Federal Financial Police in upon adoption of the Anti-Fraud Administration Law	FBiH Ministry of Justice, RS Ministry of Justice	Second half of 2004	Reduction of crime and other negative acts along with rationalization of institutions.
34	Establish special departments in the BiH Court and BiH Prosecutors' Office to prosecute cases of corruption and commercial crime	BiH Court and BiH Prosecutors' Office	Second half of 2004	Judiciary reform
35	Establish entity witness protection agencies, prepare the program and mechanism for witness protection	FBiH Ministry of Justice, RS Ministry of Justice, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	Second half of 2004	More efficient combat against crime and corruption.
36	Establish a financial intelligence unit.	FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	Second half of 2004	Reduction of crime and other negative acts along with rationalization of institutions.
37	Establish entity anti-fraud administrations, with the authority to investigate cases of money laundering, corruption, and other financial crimes	FBiH Ministry of Justice, RS Ministry of Justice, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	Second half of 2004	Reduction of crime and other negative acts along with rationalization of institutions.
38	Strengthen the State Border Service (DGS)	BiH Council of Ministers	Continuously	To combat smuggling.
39	Establish appropriate bodies in BiH and entity ministries of justice to coordinate anti-corruption activities	BiH Ministry of Justice, FBiH Ministry of Justice, RS Ministry of Justice, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	Second half of 2004	To strengthen efficiency in anti-corruption activities, in line with the recommendations of the EU Feasibility Study.
40	Establish a competent body to process the series of state laws regarding commercial crimes, passed by the BiH Parliament	All levels of Government	Continuously	Introduction of the European standards and principles of protection of human rights.
41	In all public administration bodies, including ministries, establish a system of internal control of collection and spending of public revenues	All levels of government	Continuously	Transparent operations of the public administration.
42	Ensure full operational status of the Agency for Protection of Information and of the BiH Ministry of Security	BiH Ministry of Security, BiH Civil Service Agency	First half of 2004	In line with the recommendations of the EU Feasibility Study.

No.	Activity	Responsible Institution	Deadline	Goal/ Comment
43	Ensure establishment and operation of bodies responsible for asylum and migration issues	BiH Ministry of Security, FBiH Ministry of Justice, RS Ministry of Justice, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	First half of 2004	In line with the recommendations from the EU Feasibility Study.
44	Strengthen the coordination among the bodies responsible for money-laundering issues.	BiH Council of Ministers, FBiH Government, RS Government, cantonal governments, BiH Ministry of Justice, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs, State Border Service (DGS), FBiH Banking Agency, RS Banking Agency, tax police, FBiH Tax Authority and the Money-laundering Department of the RS Ministry of Finance	Continuously	In line with the recommendations from the EU Feasibility Study.
45	Secure adequate staffing and resources for operations of the judiciary and prosecutors, including the BiH Court and the BiH Prosecutors' Office	BiH Ministry of Justice, BiH Ministry of Finance and Treasury	First half of 2004	In line with the recommendations from the EU Feasibility Study.
46	Prepare the plans of staffing of reconstructed entity and cantonal courts and prosecution offices, including the BiH Court and BiH Prosecutors' Office. Resources saved from the reduction of the number of courts and judges should reinvest into the modernization of the judiciary	RS Ministry of Justice, entity courts	First half of 2004	Implementation of the judiciary reform
47	Secure funds and conditions for functioning of the judiciary training centers	FBiH Government, RS Government	First half of 2004	Implementation of the judiciary reform
48	Secure adequate funding for functioning of the BiH Court Police	BiH Council of Ministers	First half of 2004	Judiciary Reform.
	<b>MEASURES</b>			
49	Ensure adequate implementation of the BiH Criminal Code, which treats money laundering as a crime	All levels of government	Continuously	In line with the recommendations from the EU Feasibility Study.
50	Implement the Action Plan for Combating of Money Laundering	All levels of government	Continuously	In line with the recommendations from the EU Feasibility Study.
51	Introduce tighter standards of immunity in holding public office	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To increase efficiency of anti-corruption activities.
52	Implement the elements of the EU SAP related to rule of law	FBiH Ministry of Justice, RS Ministry of Justice	First half of 2004	To accelerate the EU integration process.
53	Introduce the code of conduct of civil servants	BiH Civil Service Agency, FBiH Civil Service Agency, RS Civil Service Agency	First half of 2004	To counter crimes and misdemeanors more efficiently.



No.	Activity	Responsible Institution	Deadline	Goal/Comment
54	Reform the penal system	BiH Council of Ministers, FBiH Government, RS Government	Second half of 2004	Judiciary reform
55	Train bank personnel with the goal of preventing money laundering schemes	FBiH Ministry of Finance, RS Ministry of Finance	Continuously	To combat money laundering
56	Ensure strict adherence to the code of conduct of the police	FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs	Continuously	To prevent abuse of authority.
57	Efficiently coordinate the activities of the BiH Ministry of Security and relevant entity and sub-entity ministries of internal affairs, especially in the combat against organized crime and human trafficking	BiH Council of Ministers, FBiH Government, RS Government, FBiH Ministry of Internal Affairs, RS Ministry of Internal Affairs, cantonal governments	First half of 2004	For efficient suppression of crimes and misdemeanors.
58	Adapt the tax laws to exempt from taxation donations of physical and legal persons to NGOs	BiH Council of Ministers, FBiH Government, RS Government	Second half of 2004	To help create conditions for sustainable work of NGOs.
59	Strengthen transparency in the work of public institutions	BiH Council of Ministers, FBiH Government, RS Government	Continuously	Strengthening transparency
60	Ensure transparency in collection and spending of public revenues through publication of budgets at all levels	All levels of government	Continuously	Strengthening transparency
61	Accelerate the legislative reform concerning offenses, including provisions concerning disturbances to the public order, and harmonize them in order to strengthen the combat against human trafficking	BiH Ministry of Justice, FBiH Ministry of Justice, RS Ministry of Justice	Continuously	Continued activities in combating human trafficking.
62	In accordance with the proposed BiH Law on Movement and Stay of Foreigners and on Asylum, rework the temporary Instruction and transform it into the Rule Book on Protection of Victims of Human Trafficking	BiH Ministry for Human Rights and Refugees	First half of 2004	Continued activities in combating human trafficking.
63	As a priority, resolve the issue of funding the implementation of the BiH Action Plan for Combating Human Trafficking, from either international and domestic sources and harmonize the financial and operational plan of activities for 2004.	Office of the State Coordinator for Combating Human Trafficking and Illegal Immigration	First half of 2004	Continued activities in combating human trafficking.
64	Take intensive steps to unify the data systems and establish electronic links between institutions in charge of preventing human trafficking	Office of the State Coordinator for Combating Human Trafficking and Illegal Immigration	Continuously	Continued activities in combating human trafficking.
65	Regularly inform the public on anti-human trafficking activities and provide relevant information to all interested international organizations conducting the assessment of the situation with regard to human trafficking and/or human rights	Office of the State Coordinator for Combating Human Trafficking and Illegal Immigration	Continuously	Continued activities in combating human trafficking.

No.	Activity	Responsible Institution	Deadline	Goal/Comment
66	Adopt the guidelines on special protection of minors which should be integrated as a part of the Action Plan for Combat against Human Trafficking, and support the ministries in charge of social protection in assuming the leading role in their protection	Office of the State Coordinator for Combating Human Trafficking and Illegal Immigration, RS Ministry of Health and Social Protection, FBiH Ministry of Labor and Social Policy	First half of 2004	Continued activities in combating human trafficking.
67	Adopt the plan of education of the members of the State Border Service (DGS), particularly to ensure effective implementation of the BiH Criminal Law, the Law on the Criminal Proceedings and the Law on Movement and Stay of Foreigners and on Asylum	BiH Ministry of Justice, FBiH Ministry of Justice, RS Ministry of Justice, DGS	First half of 2004	Continued activities in combating human trafficking.
68	Review the internal organization of the DGS to assess the need for creation of a department of investigators for human trafficking and for employment of more women in the DGS	BiH Council of Ministers, Office of the State Coordinator for Combating Human Trafficking and Illegal Immigration, DGS	First half of 2004	Continued activities in combating human trafficking.
69	Redefine the responsibilities between the governments and NGO sector regarding establishment of shelters for human trafficking	BiH Ministry of Human Rights and Refugees, Office of the State Coordinator for Combating Human Trafficking and Illegal Immigration	First half of 2004	Continued activities in combating human trafficking.
70	Continue the dialogue with the civil society regarding anti-corruption activities	All levels of government	Continuously	Strengthen the role of the media and of the civil society in the combat against corruption.
71	In the context of the forthcoming reform of the income tax, consider the possibility to earmark a share of these revenues for funding NGO activities	FBiH Government, RS Government	First half of 2004	Strengthen the role of the media and of the civil society in the combat against corruption.

#### Action Plan – Foreign Trade and Export Support

No.	Activity	Responsible Institution	Deadline	Goal/Comments
<b>LAW AND REGULATIONS</b>				
1	Adopt necessary bylaws on foreign trade, customs, and direct foreign investment policy in BiH;	BiH Council of Ministers and BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	Solutions must be found to avoid different interpretations and blockade of implementation of the state laws in this area. In this regard, differences in terminology between the Law on Foreign Trade Operations and the Law on Customs Policy need to be harmonized. These measures need to be taken in the transition period until the Indirect Tax Authority is brought into full operational status.
2	Harmonize the entity laws and bylaws relevant to foreign trade with the BiH-level laws	FBiH, Government, RS Government	First half of 2004	Solutions must be found to avoid different interpretations and blockade of implementation of the state laws in this area. In this regard, differences in terminology between the Law on Foreign Trade Operations and the Law on Customs Policy need to be

No.	Activity	Responsible Institution	Deadline	Goal/Comments
3	Adopt the Law on Financing and Subsidizing Costs of Lost Disputes Arising in BiH economic relations with other countries;	BiH Council of Ministers, FBiH Government, RS Government	2007	harmonized. These measures need to be taken in the transition period until the Indirect Tax Authority is brought into full operational status. To support export-oriented industries.
4	Adopt the accompanying Rule Book for the operations of the Standardization Institute <sup>15</sup>	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To bring the Standardization Institute to operational status.
5	Adopt the the accompanying Rule Book for the operations of the Institute of Metrology <sup>16</sup>	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To bring the Institute of Metrology to operational status.
6	Adopt the accompanying Rule Book for operations of the Institute for Intellectual Property <sup>17</sup>	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To bring the Institute for Intellectual Property to operational status.
7	Adopt the bylaws for the BiH Law on Quality Control of Goods for Imports and Exports	BiH Council of Ministers, competent entity ministries of agriculture and trade	First half of 2004	Consumer protection.
8	Adopt the BiH Law on General Product Safety	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	Consumer protection in line with the EU standards.
9	Adopt the BiH Law on the Security of Food Products;	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To stimulate exports and protect public health and safety.
10	Adopt the BiH Law on Supervision of Food Products Intended for Human and Animal Consumption;	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To stimulate exports and protect public health and safety.
11	Adopt the BiH Law on Hygiene;	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To stimulate exports and protect public health and safety.
12	Adopt the new BiH Law on Customs Tariff	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To establish a new tariff system.
13	Harmonize entity regulations on the work of entity institutes with the state laws on standardization, metrology and intellectual property	FBiH Government, RS Government	Second half of 2004	Harmonization of the regulations at BiH level.
14	Adopt regulations to restrict imports of used equipment and machinery	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations, FBiH Government, RS Government	First half of 2004	To improve the technological level of BiH companies and strengthen safety standards.
15	Adopt and implement EU standards comprising the so-	BiH Council of Ministers, BiH	Second half of	To support exports and harmonize with the EU regulations, and

In line with the recommendations of the EC Feasibility Study 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

<sup>14</sup> In line with the recommendations of the EC Feasibility Study 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

<sup>17</sup> In line with the recommendations of the EC Feasibility Study 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

No.	Activity	Responsible Institution	Deadline	Goal/Comments
	called "New Approach" to industrial and agricultural products, to permit exports of suitable products from BiH i and safeguard public health and safety, and adopt a series of technical regulations	Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	2004	promote safety standards.
16	Adopt bylaws and implementing regulations necessary for implementation of the BiH Competition Law	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To implement the BiH Competition Law.
17	Accelerate the preparation of laws on conformity assessment and of technical requirements for products under the 'New Approach'	BiH Council of Ministers	First half of 2004	Accelerate these activities, because, even if all activities were conducted according to the plan, it will take four years for domestic companies to implement the conformity assessment procedure and start acquiring CE marking for their products. Adoption of these laws will create preconditions for more dynamic exports and for benefiting from trade privileges with the EU and other developed countries.
18	Adopt the Law on Production in Military Industries	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	Efficient civilian control of production, exports and imports in line with the UN standards will allow the return of this industry into the world markets.
19	Change the Law on Exports and Imports in Military Industries and simplify the export procedure	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	Efficient civilian control of production, exports and imports in line with the UN standards will allow the return of this industry into the world markets.
20	Adopt the BiH Law on Export Credit Agency	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To support exports.
21	Legally exempt from customs duties imports of new machinery and equipment not mostly produced in BiH	BiH Council of Ministers, BiH Ministry of Finance and Treasury	First half of 2004	To support production.
22	Sign Veterinary Protocols with countries that BiH signed free trade agreements	Ministry of Foreign Trade and Economic Relations BiH Veterinary Office	First half of 2004	To support export and protect consumer
23	Adopt implementing regulations for customs procedures to facilitate the customs clearance process	BiH Council of Ministers, FBiH Government, RS Government	Second half of 2004	This measure is required owing to problems arising in so-called 'lohn jobs' where the customs procedure hampers the operations of textile firms.
24	Legally mandate the division of authority for meeting obligations assumed in connection with the WTO membership preparations	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	Accession to WTO.
25	Adopt the BiH Law on Factoring for Export Claims	BiH Ministry of Finance and Treasury	Second half of 2004	To provide working capital for exporters.
	<b>INSTITUTIONS</b>			
26	Continue to strengthen border inspections to establish an effective border control	BiH Council of Ministers, FBiH Government, RS Government	Continuously	This goal will be more easily attained if the foreign trade flows are channelled to a limited number of modernized border crossings.

No.	Activity	Responsible Institution	Deadline	Goal/Comments
27	Establish the Standardization Institute <sup>18</sup> and appoint the Manager	BiH Council of Ministers	First half of 2004	Publicly advertise the competition for the Manager and Deputy manager, add necessary staff
28	Establish the Institute for Metrology <sup>19</sup> and appoint the Manager	BiH Council of Ministers	First half of 2004	Publicly advertise the competition for the Manager and Deputy manager, add necessary staff
29	Establish the Institute for Intellectual Property and ensure that it becomes fully operational, <sup>20</sup> and appoint the Manager	BiH Council of Ministers	First half of 2004	Publicly advertise the competition for the Manager and Deputy manager, add necessary staff
30	Transform IGA into an official BiH Export Credit Agency	BiH Council of Ministers	First half of 2004	To support exports.
31	Establish commercial representative offices within BiH diplomatic missions and consular posts in most important export markets for BiH	BiH Ministry of Foreign Trade and Economic Relations, BiH Foreign Trade Chamber	During 2004	To promote BiH exports.
32	Strengthen the Department for Export Promotion in the BiH Ministry of Foreign Trade and Economic Relations	BiH Ministry of Foreign Trade and Economic Relations	Continuously	To promote exports.
33	Strengthen the capacity of the BiH Central Bank to monitor sectoral and entity capital flows in and out of BiH, to collect information for planning measures for balancing the national balance of payments.	BiH Central Bank	First half of 2004	To analyze the country's balance of payments.
34	Establish the Fund for Support to Export-Oriented Companies in Acquiring CE Marking and ISO Certificates	Investment Guarantee Agency (IGA)	Second half of 2004	To support exports.
35	Establish an appropriate BiH-level body for preparation of the technical legislation relevant for the free flow of goods within the EU market.	BiH Council of Ministers	First half of 2004	Harmonization with the EU rules.
36	Establish the Food Safety Directorate	BiH Council of Ministers	First half of 2004	Harmonization with the EU rules.

<sup>18</sup> In line with the recommendations of the EC Feasibility Study 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

<sup>19</sup> In line with the recommendations of the EC Feasibility Study 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

<sup>20</sup> In line with the recommendations of the EC Feasibility Study 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 23.

No.	Activity	Responsible Institution	Deadline	Goal/Comments
	<b>MEASURES</b>			
37	Maintain the liberal regime in foreign trade policy and continue to conclude new foreign trade agreements (FTAs), with priority to the countries of the region, and maintaining the asymmetric approach	BiH Ministry of Foreign Trade and Economic Relations	Continuously	Integration of BiH into the global economy, support to exports and attracting foreign investors.
38	Complete bilateral talks with Serbia and Montenegro and Croatia on extension of asymmetric approach in the application of the FTAs in the area of agriculture for the next two years and on changes to sections of the agreements concerning technical standards.	BiH Council of Ministers	First half of 2004	To provide adequate protection to domestic agriculture.
39	Encourage development of infrastructure in the area of standards, certification and quality, in line with the EU rules.	BiH Council of Ministers	Continuously	To meet the recommendations of the EC Feasibility Study.
40	Encourage application of technical regulations and conformity assessment procedures compatible with the regulations and procedures in the EU.	BiH Council of Ministers	Continuously	To meet the recommendations of the EC Feasibility Study.
41	As needed, conclude agreements with the EC and the European Economic Area (EEA) on conformity assessment and product acceptance <sup>21</sup> .	BiH Ministry of Foreign Trade and Economic Relations	Continuously	To meet the recommendations of the EC Feasibility Study.
42	Acceded to the Pan-European Agreement on Cumulation	BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To simplify the application of the rules of origin and recognition of the so-called diagonal cumulation.
43	Prepare a comprehensive strategy for increasing exports, which would define: industries in which BiH has competitive advantages, most suitable markets for goods and services from BiH, the institutional framework for the promotion of exports from BiH and the sources for support to exports	BiH Ministry of Foreign Trade and Economic Relations, BiH Foreign Trade Chamber	Second half of 2004	Preparation of an agricultural products export strategy is particularly needed.
44	Establish a unified foreign trade system, actively oversee implementation of foreign trade laws and introduce penalties for non-implementation of these laws	BiH Ministry of Foreign Trade and Economic Relations, BiH Foreign Trade Chamber, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	During 2004	Because of different interpretations of the existing state laws in the entities, this measure is to be applied until the BiH Indirect Taxation Commission is established.
45	Harmonize terminological difference in the Law on Foreign Trade Operations and the Law on Customs Policy	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	During 2004	Because of different interpretations of the existing state laws in the entities, this measure is to be applied until the BiH Indirect Taxation Commission is established.
46	Conduct a continuous campaign 'Buy Local'	BiH Council of Ministers, BiH Foreign Trade Chamber, FBiH Government, RS Government	Continuously	to simulate domestic production and reduce trade deficit.
47	Introduce a new method of calculation of excise taxes by quality categories for cigarettes	RS Government	First half of 2004	In order to increase fiscal revenues.
48	Consistently apply a standardized system of controlling imported goods, particularly those in competition with domestic products, as well as of goods subject to safety and sanitary inspections etc.	BiH Council of Ministers	First half of 2004	Nb. Until BiH reaches the level of European standards, conclude agreements on mutual recognition of veterinary and phyto-sanitary conditions, particularly with the countries signatories of FTAs with BiH.
49	Harmonize export procedures with partner countries through appropriate bilateral and multilateral agreements	BiH Ministry of Foreign Trade and Economic Relations, BiH	First half of 2004	Conclude agreements on mutual recognition of testing reports, certificates of conformity, particularly with the countries

<sup>21</sup> 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003.

No.	Activity	Responsible Institution	Deadline	Goal/Comments
50	on economic cooperation, thus ensuring reciprocity of position of businesspeople and exporters from BiH. Procure TIR and ATA carnets	Foreign Trade Chamber		signatories of FTAs with BiH.
51	Establish the mechanism for use of ATA carnets	BiH Foreign Trade Chamber	During 2004	To simplify the cross-border customs procedures for carriers.
52	Achieve the membership of BiH Association of Carriers (with the BiH Foreign Trade Chamber) in the IRU (International Road Transport Union)	BiH Foreign Trade Chamber	Second half of 2004	To allow domestic carriers to benefit from this facility.
53	Intercede for simplification of the visa procedures for all businessmen from BiH and for professional drivers.	BiH Foreign Trade Chamber	First half of 2004	To secure privileges for carriers from BiH.
54	Financially strengthen IGA as the BiH Export Credit Agency	BiH Foreign Ministry	Continuously	To support the exporters and the business community.
55	Define strategic branches of agriculture in order to seek possibilities of preserving the current level, or increasing their protection in the negotiations with the WTO and EU, as well as with bilateral partners with which the FTAs were signed.	BiH Council of Ministers	During 2005	To support exports.
56	Consider the feasibility of introduction of the so-called seasonal customs rates	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To protect domestic agricultural production.
57	Establish a database on foreign trade representative offices in the BiH Ministry of Foreign Trade and Economic Relations, and link this single register with the relevant entity bodies	BiH Ministry of Foreign Trade and Economic Relations, FBiH Government, RS Government	First half of 2004	To protect domestic agricultural production.
58	Reach agreement of reciprocal abolishment of transport permits for trucks and of charging road fees with the countries with which BiH concluded FTAs	BiH Ministry of Foreign Trade and Economic Relations, FBiH Government, RS Government	First half of 2004	To protect domestic agricultural production.
59	Conclude a guarantee agreement between BiH Foreign Trade Chamber and in the BiH Indirect Taxation Administration	BiH Ministry of Foreign Trade and Economic Relations, FBiH Government, RS Government	First half of 2004	To protect domestic agricultural production.
60	At BiH level, regulate the requirements for acquiring the right to operate international carrier business, in line with the EU standards, simplify the customs procedure to exempt carriers from procuring guarantees for goods transport up to 48 hours	BiH Foreign Trade Chamber, BiH Indirect Taxation Administration	First half of 2004	To protect domestic agricultural production.
61	Provide indirect forms of export incentives permitted by the GATT and included in the so-called 'Green Book', such as: refunds of costs of veterinary, phyto-sanitary and quality inspections, compensations for transport, warehousing and processing costs, financing of consulting activities	BiH Foreign Trade Chamber, BiH Indirect Taxation Administration	First half of 2004	To protect domestic agricultural production.
62	Organize and harmonize the operations of the phyto-sanitary, veterinary and customs services at border crossings in line with the EU standards, and particularly regarding working hours, locations etc.	BiH Foreign Trade Chamber, BiH Indirect Taxation Administration	First half of 2004	To protect domestic agricultural production.
63	Conduct the activities of the BiH Working Group for Accession of BiH to WTO: • prepare initial lists of concessions for goods following individual tariff lines and lists of obligations regarding	BiH Foreign Trade Chamber, BiH Indirect Taxation Administration	Second half of 2004	To protect domestic agricultural production.
64	Conduct the activities of the BiH Working Group for Accession of BiH to WTO: • prepare initial lists of concessions for goods following individual tariff lines and lists of obligations regarding	BiH Foreign Trade Chamber, BiH Indirect Taxation Administration	During 2004	To protect domestic agricultural production.

No.	Activity	Responsible Institution	Deadline	Goal/Comments
	<p>services;</p> <ul style="list-style-type: none"> <li>• prepare and hold multi-lateral negotiations at the WTO Secretariat at the meetings of the WTO Working Group for BiH;</li> <li>• prepare and conduct bilateral negotiations with WTO members;</li> <li>• prepare the Final Report of the BiH Working Group (listing all obligations assumed);</li> <li>• continue activities on establishment of 'enquiry points' in the state institutions, as per particular WTO agreements;</li> <li>• continue with education and development of knowledge of the members of the BiH team for WTO at domestic and international seminars; inform public officials and businesspeople on implementation of the WTO agreements;</li> <li>• improve cooperation with BiH and entity institutions involved in the WTO accession activities;</li> <li>• continue activities on harmonization of the existing and adoption of new legislation based on the principles of individual WTO agreements;</li> <li>• permanently inform the BiH public, and particularly companies and their associations, parliament members, educate state officials to monitor the negotiations process and implement assumed obligations.</li> </ul>			
64	Achieve accession of BiH to full WTO membership	BiH Ministry of Foreign Trade and Economic Relations BiH Indirect Tax Authority	During 2005	WTO membership.
65	Tighten the procedures for control of the origin of products, in order to block imports to BiH of those products which are not included in the FTAs		Continuously	To prevent violations of the rules of origin from the FTAs.

#### Action plan – public administration reform<sup>22</sup>

No.	Activity	Responsible institution	Deadline	Goal/Comment
<b>LAWS AND REGULATIONS</b>				
1	Ensure consistent implementation of the BiH Law on the Council of Ministers	BiH Council of Ministers	First half of 2004	To complete the hiring of qualified staff. A recommendation from the EC Feasibility Study <sup>23</sup> .
2	Adopt the BiH law on the status of workers not included in the Law on Civil Service	BiH Council of Ministers, BiH Parliament	Second half of 2004	To regulate the status of employees not covered by the laws on civil service.
3	Adopt the RS Law on Local Government	RS Government, RS National Assembly	Second half of 2004	To reform public administration.

<sup>22</sup> The list of priority short-term reform initiatives is included here, while the adoption of a comprehensive BiH Public Administration Reform Strategy is planned for the Fall of 2004.

<sup>23</sup> 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, p. 8.



No.	Activity	Responsible institution	Deadline	Goal/Comment
4	Harmonize the laws on all levels with the Local Governance Charter of the Council of Europe	BiH Parliament, FBiH Parliament, RS National Assembly, cantonal parliaments	During 2004	For harmonization with the EU practices.
5	Ratify Madrid Convention of the Council of Europe and develop legal instruments for promotion of cross-border cooperation	BiH Parliament, BiH Ministry of Justice	During 2004	For harmonization with the EU practices.
<b>INSTITUTIONS</b>				
6	Strengthen the capacity of the BiH Directorate for European Integrations <sup>24</sup>	BiH Council of Ministers, BiH Civil Service Agency, BiH Directorate for European Integrations	First half of 2004	For more efficient preparation of the EU integration process.
7	Improve the operation of administrative inspectorates at all levels	BiH Ministry of Justice, FBiH Ministry of Justice, RS Ministry of Justice	Continuously	To enhance the efficiency of the system.
8	Ensure full operability of the FBiH Civil Service Agency <sup>25</sup> including the appointment of the Manager	FBiH Ministry of Justice	First half of 2004	To accelerate the public administration reform in FBiH.
9	Strengthen cooperation between the civil service agencies at the state and entity level <sup>26</sup>	BiH Directorate for European Integrations, civil service agencies	Continuously	To coordinate the activities of the public administration reform.
10	Establish civil service agencies on sub-entity levels	Cantons and municipalities in FBiH and RS	During 2004	To implement the civil service reform.
11	Establish the Appeals Committee of the FBiH Civil Service Agency	FBiH Ministry of Justice, FBiH Parliament	Second half of 2004	To prevent abuse of authority.
12	Resolve the status of administrative bodies included under the authority of the BiH Ministry of Civil Affairs: adopt the Decision on the method of incorporation of independent administrative structures and agencies into the ministries	BiH Council of Ministers, BiH Ministry of Civil Affairs	Second half of 2004	To strengthen state administration.
13	Establish the BiH Office for Development of IT Strategy	BiH Council of Ministers	First half of 2004	To modernize public administration.
<b>MEASURES</b>				
14	Conduct functional reviews of the administrative system at all levels	Administrative bodies at all levels, Coordinator for Public Administration Reform	First half of 2004	To assess the existing situation and define areas and types of needed reforms.
15	Conduct a public discussion during the preparation of the Public Administration Reform Strategy (to include scholars, civil servants, civil society, unions etc.)	BiH Coordinator for Public Administration Reform	First half of 2004	To secure a consensus regarding the program of public administration reform.

<sup>24</sup> 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study). Brussels, 18 November 2003, p. 8.

<sup>25</sup> 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study). Brussels, 18 November 2003, p. 8.

<sup>26</sup> 'Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study). Brussels, 18 November 2003, p. 8.

No.	Activity	Responsible institution	Deadline	Goal/Comment
16	Adopt the Public Administration Reform Strategy	BiH Council of Ministers, FBiH Government, RS Government, Inter-Ministerial Working Group for Public Administration Reform, BiH Coordinator for Public Administration Reform	Second half of 2004	To implement public administration reform.
17	Prepare and adopt a comprehensive action plan for public administration reform with the assessment of the costs <sup>27</sup>	BiH Council of Ministers, FBiH Government, RS Government, BiH Civil Service Agency	Second half of 2004	To develop a consistent and transparent system at all levels of government, which will ensure an adequate representation of all constitutional and other peoples in BiH, as well as appropriate gender representation and the mobility of civil servants, along with consistent training.
18	Establish a system for consolidation of all government accounts, including extra-budget funds	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	During 2004	To strengthen transparency in collection and spending of public revenues.
19	Establish a database of civil servants	Civil service agencies at all levels	Second half of 2004	To implement public administration reform.
20	Complete the process of evaluation of all civil servants	Civil service agencies at all levels	First half of 2004	To implement public administration reform.
21	Coordinate the training of civil servants – agree on the framework for BiH training standards, identify the shortcomings in the existing programs and capacities, develop an accreditation mechanism for trainers.	Civil service agencies at all levels, BiH Working Group for Coordination of Training of Civil Servants	Second half of 2004	To implement public administration reform.

#### Action Plan – Strategic Directions in the Development of the System of Statistics<sup>28</sup>

No.	Activity	Responsible institution	Deadline	Goal/Comment
	<b>LAWS AND REGULATIONS</b>			
1	Implement fully the BiH Law on Statistics <sup>29</sup>	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	First half of 2004	To create a functioning system of statistics with a clear distribution of authority and cooperation mechanisms.
2	Harmonize the laws of the Brčko District with the BiH Law on Statistics	BiH Statistics Agency, Brčko District Statistics Department	First half of 2004	Harmonization with the state law.
	<b>MJERE MEASURES</b>			
3	Appoint the Manager and Deputy Manager of the BiH Statistics Agency	BiH Council of Ministers	First half of 2004	Strengthen BiH Statistics Agency

<sup>27</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, pp. 7-8.

<sup>28</sup> The 'system of statistics' means the systems at the level of BiH, FBiH and RS.

<sup>29</sup> Report of the EC to the Council on Preparedness of BiH to Start Negotiations on the Stability and Association Agreement with the EU', (EC Feasibility Study), Brussels, 18 November 2003, pp. 31 i 44.

No.	Activity	Responsible institution	Deadline	Goal/Comment
4	Appoint the Council of the BiH Statistics Agency	BiH Council of Ministers	First half of 2004	To strengthen the system of statistics in BiH.
5	Develop the BiH Statistics Program	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	First half of 2004	Harmonized at all levels (BiH, FBiH and RS).
6	Strengthen the statistics of national accounts	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	Continuously	To harmonize the methodologies with modern world practices.
7	To develop the survey research on the basis of samples	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	Continuously	To harmonize the methodologies with modern world practices.
8	Conduct the Household Budget Survey	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	2004 – 2005	To collect new data on the household standard of living.
9	Conduct the Labor Market Survey	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	2005 - 2006	To collect data on the labor market in BiH
10	Harmonize the producer price indeks with the EU methodology	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	During 2004	To harmonize the methodology with modern practices
11	Replace the retail price indeks with the consumer price indeks. prepare annual indices of investment goods prices, import and export prices.	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	2005 and beyond	For the level of BiH and entities.
12	Progressively strengthen the statistics in agriculture, through introduction of new statistical activities on the basis of sampling	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	By 2007	Establishment of the registry of farms is indispensable.
13	Introduce a new employment indeks and a new labor force indicator, for the level of BiH and entities.	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	By 2006	In line with the EU definitions, on the basis of the Labor Market Survey.
14	Develop an aggregated indeks of industrial production at the BiH level and harmonize the indexes of industrial production of FBiH, RS and Brčko District	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	First half of 2004	To harmonize methodologies with modern practices.
15	Make the political decision about the timing of the census	BiH Council of Ministers	Second half of 2004	In consultation with the BiH Council on Statistics.
16	Define a harmonized structure of the data set that will be submitted to the BiH Statistics Agency, FBiH Statistics Bureau and RS Statistics Bureau by the customs administration.	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	In the course of 2004	Strengthening the statistics in foreign trade.
17	Continue harmonization of the structure and format of BiH foreign trade statistics	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	During 2004	According to the EUROSTAT recommendations.
18	Establish the following statistics registers: business registers, residence (household) register and farm register	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	By end-2006	These registers must be in conformity with the EU Decree on Registers for Statistical Purposes and with the EUROSTAT Methodology. Implementation of appropriate regulations is required.
19	Harmonize statistical classifications with the international models.	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	Continuously	To harmonize methodologies with modern practices.

No.	Activity	Responsible institution	Deadline	Goal/Comment
20	Define the form and determine the competences for dissemination of the statistical data.	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	During 2004	To harmonize methodologies with modern practices.
21	Conduct regular trainings of statisticians	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	Continuously	With the emphasis on the practical elements in the implementation of methodologies and samples, standards and IT.
22	Include other institutions (BiH Central Bank, finance ministries, tax administrations, State Border Service (DGS) etc.) into the system of statistics.	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	Continuously	At present, these institutions are not parts of the system, although they conduct statistical activities.
23	Prepare a detailed plan on the staff and material needs for statistical activities	BiH Statistics Agency, FBiH Statistics Bureau, RS Statistics Bureau	During 2004	To secure technical and material resources for the development of the statistics system.
24	To secure additional finances to amend the questionnaire of the 'Living in BiH' Survey or to conduct a supplementary survey on the poverty rate in BiH	Office for Coordination of Economic Research and Monitoring of the Implementation of the Medium-Term Development Strategy of BiH (PRSP)	First half of 2004	To ensure development of indicators of the poverty rate in BiH and monitor the PRSP implementation <sup>30</sup>

## ACTION PLAN – SECTORAL PRIORITIES

### Action Plan – Social Policy and Pension System

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>PENSION SYSTEM</b>				
<b>INSTITUTIONS</b>				
1	Consider the possibility for establishment of a single Pension and Disability Insurance Fund in BiH	BiH Ministry of Civil Affairs, FBiH Pension Fund, RS Pension Fund	First half of 2004	To harmonize the pension system.
2	Carry out a rationalization, i.e. decrease the level of administration in the pension and disability insurance funds, in order to decrease administrative costs	PIO FBiH, Penzioni fond RS, FBiH Pension Fund, RS Pension Fund	Gradually through 2007	To reduce the administrative costs.
<b>MEASURES</b>				
3	Enforce regular and full payment of wage contributions	FBiH Government, RS Government, FBiH Pension Fund, RS Pension Fund	Continuously	To strengthen pension funds.
4	Enforce regular payment of contributions levied on actual incomes for BiH citizens employed with foreign or international organizations and institutions, as well as in diplomatic missions and consular posts	BiH Council of Ministers, FBiH Government, RS Government, FBiH Pension Fund, RS Pension Fund	Continuously	To strengthen pension funds.
5	Conduct analysis of the basic functions and key shortcomings and problems in the operations of the pension funds.	FBiH Ministry of Labor and Social Policy, RS Ministry of Labor and Protection of Veterans and Disabled	Second half of 2004	With the World Bank technical assistance (Social Insurance Technical Assistance Project - SITAP).

<sup>30</sup> See the section 'PRSP Implementation, Monitoring and Evaluation Mechanism' in the BiH Medium-Term Strategy.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
6	Define the directions of reform of the existing pension system	FBiH Ministry of Labor and Social Policy, RS Ministry of Labor and Protection of Veterans and Disabled, FBiH Pension Fund, RS Pension Fund	First half of 2004	With technical assistance (SITAP)
7	Strengthen the capacity of management and staff for performing key functions in the existing pension funds	FBiH Ministry of Labor and Social Policy, RS Ministry of Labor and Protection of Veterans and Disabled, FBiH Pension Fund, RS Pension Fund	First half of 2006	With technical assistance (SITAP). To include training on good management practices, information technology, as well as specific areas, such as: actuarial analysis, modelling, IT data protection. To assist in development of future pension policy.
8	Resolve property related issues – in connection with the real estate belonging to the pension funds	FBiH Government, RS Government, FBiH Pension Fund, RS Pension Fund	Second half of 2005	To improve the material position of the pension and disability insurance system.
9	Resolve issues between entity pension funds in connection with the payment of pensions earned in one entity to beneficiaries now residing elsewhere. The possible options are: <ul style="list-style-type: none"> <li>• Signing a new agreement between the entity funds, or</li> <li>• Adopting a state law to regulate this area, which would</li> <li>- Define the responsibilities of BiH for implementation of international agreements in the area of pension and disability insurance,</li> <li>- Ensure the minimum of social security for pensioners in BiH, and</li> <li>- Ensure the harmonization of regulations in this area</li> </ul>	BiH Ministry of Civil Affairs, FBiH Ministry of Labor and Social Policy, RS Ministry of Labor and Protection of Veterans and Disabled	Second half of 2004	To enhance the functioning of the pension system and to avoid overlaps in competence.
10	Separate the costs related to pensions based on the payment of contributions from the costs based on various privileges and benefits, and all disbursements not preceded by insurance	FBiH Pension Fund, RS Pension Fund, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	For reasons of rationalization and to adjust pensions to actual revenues.
11	Collect contribution arrears from previous years	FBiH Pension Fund, RS Pension Fund, inspectorates	Progressively through 2007	To improve the financial position of the pension system.
12	Determine the level of pensions on the basis of the average wage over the entire working life	FBiH Government, RS Government, FBiH Pension fund, RS Pension Fund	First half of 2007	For reasons of rationalization and to adjust pensions to actual revenues.
13	Offer additional or supplemental models of pension insurance, as part of the pension system reform and within the existing institutions, which would include the option of insured persons retaining the right to manage those resources	FBiH Government, RS Government, FBiH Pension fund, RS Pension fund, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2007	Depends on fulfillment of a series of other conditions, primarily on the development of capital markets.
<b>PROTECTION OF DISABLED VETERANS AND FAMILIES OF FALLEN SOLDIERS</b>				
<b>LAWS AND REGULATIONS</b>				
14	Adopt a single Law on Veterans' Rights (FBiH),	FBiH Ministry for Veterans' Issues	First half of 2004	To establish a single system of protection of the rights of the disabled, veterans and families of the fallen soldiers in FBiH, in view of the actually available resources.
15	Adopt a new RS Law on Veterans' Rights	RS Ministry of Labor and Protection of Veterans and Disabled	First half of 2004	To define rights in conformity with the MTEF adopted by the RS Government.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>INSTITUTIONS</b>				
16	Establish a functional information system for protection of disabled veterans in the RS (ongoing) and in the FBiH	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled	Second half of 2004	To improve the effectiveness of beneficiary database management and of fund allocation.
<b>MEASURES</b>				
17	Conduct a revision of rights in the system of protection of veterans and the disabled	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled	Continuously	To prevent abuse, rationalize the number of beneficiaries and strengthen the sustainability of the system.
18	Rationalize the number and types of benefits	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled	Second half of 2004	Required within the framework of the new laws to strengthen the sustainability of the system.
19	Monetary benefits for military disabled family members of killed and missing soldiers should be linked with the assessment of work capacity	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled	Continuously	To improve material condition of beneficiaries, enhance the system of protection and achieve savings.
20	Introduce measures and incentives for employment of demobilized soldiers, disabled war veterans and family members of fallen or missing soldier	FBiH Government, RS Government	Second half of 2004	To improve material condition of beneficiaries.
21	Provide training for demobilized soldiers, disabled war veterans and family members of fallen and missing soldiers in special organizations for rehabilitation	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled, FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Continuously	Rehabilitation and enhancement of work capacity.
22	Develop and implement training programs for disabled veterans and family members of fallen and missing soldiers to obtain qualifications for easier employment	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled, FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Continuously	Employment of beneficiaries.
23	Improve functioning and effectiveness of the social security network of the veterans' population, to ensure that these funds are channelled to the most vulnerable categories	FBiH Ministry for Veterans' Issues, RS Ministry of Labor and Protection of Veterans and Disabled	Second half of 2004	A fairer system of fund allocation.
24	Secure funds for co-financing adaptation of premises and technical equipment for employment of the more severely disabled	FBiH Government, RS Government	Continuously	In line with the EU experiences.
25	Assist in providing housing for members of the veterans' population	FBiH Government, RS Government	Continuously	Alleviating housing problems.
<b>SOCIAL PROTECTION SYSTEM</b>				
<b>LAWS AND REGULATIONS</b>				
26	Adopt the new laws on social protection with the definition of the minimum of social rights in BiH	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2005	To set a minimum of social rights and to align social assistance benefits with available resources. Funding to come from the FBiH Budget or from the solidarity funds which will be established from 2006. Also

No.	Activity	Responsible Institution	Deadline	Goals/Comments
27	Pass the Ordinance on the minimum single amount of financial assistance in FBiH with eligibility criteria	FBiH Ministry of Labor and Social Policy	First half of 2005	important for increasing labor force mobility. This is in line with the EC recommendations. <sup>31</sup>
28	Adopt legislation which will promote volunteer work in the social protection system	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Second half of 2004	To improve equality and effectiveness of the social security networks for the poorest and most vulnerable categories.
29	To establish a mixed system of social protection in the FBiH and the RS, it is also necessary to adopt pass amendments to legislation: - in the area of health protection care, - in the area of education, - for reform of the existing destimulating fiscal system	FBiH Ministry of Education and Science, FBiH Ministry of Health, FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Protection	Second half of 2005	To reduce costs of the protection system. To involve the local communities in providing social assistance, in line with positive international experience.
30	Adopt the Law on Establishment of Founders' Rights over Institutions for Social Protection	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Second half of 2004	With the following goals: - to delineate competences and obligations between sectors - to permit valorization of volunteer work. - to permit tax benefits for humanitarian donations.
31	Develop the legal and regulatory framework for activities of the public and NGO institutions in the social protection system, with defined funding, to encourage the development of the NGO sector as an equal partner in this field	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance and NGOs	Second half of 2004	To define ownership over these institutions.
32	Adopt the Rule Book on Standards, Norms and Procedures for centers for social work	FBiH Ministry of Labor and Social Policy	Second half of 2004	To allow further development of a mixed system of social protection.
33	Adopt a rule book on the contents, obligations and the method of keeping single registry records of social assistance beneficiaries in FBiH and RS	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2004	To enhance efficiency and improve client services, to empower managers for decision-making, allow payment of benefits through the mail etc.
34	<b>INSTITUTIONS</b> Establish the solidarity funds	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2005	To strengthen the statistics in this field.
35	Strengthen the centers for social work – increase investments into the development of local services, and training of staff, adopt norms and standards of operations, conduct constant revisions of beneficiaries in cooperation with local communities and NGOs etc.	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2006	Within the framework of comprehensive social policy, and to overcome inequalities in access to social assistance benefits in FBiH and RS.
36	Reform the organization of social protection institutions on the basis of the principles of market economy, develop alternative forms of social care <b>MEASURES</b>	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance and NGOs	First half of 2005	To strengthen local communities in the social protection system.
37	Establishment of a new database for monitoring beneficiaries of social protection, to ascertain the actual vulnerability of the population and to establish new social and economic statistics, in the entities and the state of BiH.	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance and statistics bureaus	First half of 2005	More effective and active functioning of social protection institutions.
				To rationalize and improve effectiveness of the social protection system by making beneficiary data available in one place, which permits maintenance of statistics and creation of appropriate policies..

<sup>31</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 34 .

No.	Activity	Responsible Institution	Deadline	Goals/Comments
338	Define a minimum of social rights in BiH	BiH Ministry of Civil Affairs, FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Second half of 2004	In conformity with the obligations contained in the Social Charter of the Council of Europe.
39	Continuously conduct revisions of current social assistance beneficiaries.	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance, local social assistance institutions	Continuously	To increase efficiency and rationalize system.
40	Invest in development of local social protection services and into the education of staff and management	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance, local social assistance institutions	Continuously	To increase the efficiency of the system.
41	Encourage the transition of the centers for social work to project financing based on the market model, in competition with alternative providers of these services (NGO sector)	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Continuously	To cut costs, improve efficiency and develop a more proactive system of social assistance.
42	Actively promote involvement of the private sector through introduction of incentives for donations and exemptions from tax benefits on assistance channelled to socially vulnerable groups	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance, FBiH Ministry of Finance, RS Ministry of Finance	Continuously	To improve the funding of the system of social assistance.
43	Develop new, alternate models of caring for beneficiaries, through promotion of care within the local community	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	Continuously	To develop the mixed system of social protection.
44	Establish closer intersectoral cooperation with: health care, education and judiciary systems, local police forces and the financial sector.	FBiH Government, RS Government	Continuously	To delineate responsibilities of each sector in order to achieve rationalization and greater effectiveness.
45	Through regular household budget surveys and living standards measurements, collect reliable data for creation and planning of the social policy in FBiH and RS and by harmonization of social policy at BiH level	Statistical institutions in BiH	Continuously	Better statistics permits better planning
46	Improve the material situation of the beneficiaries of the social and child protection.	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2006	Within the framework of the comprehensive reform of the fiscal, social and economic sectors.
47	Ensure regular financing of social assistance benefits in a single minimal amount for the territories of FBiH and RS	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance, FBiH Ministry of Finance, RS Ministry of Finance	First half of 2005	Within the framework of the comprehensive reform of the fiscal, social and economic sectors.
<b>ZAŠTITA OSOBA S INVALIDITETOM</b>				
<b>LAWS AND REGULATIONS</b>				
48	Adopt harmonized laws on protection of the disabled persons	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2005	To harmonize the rights, in conformity with the obligations from the Social Charter of the Council of Europe.
49	Adoption of the laws on incentives for employment of persons with disabilities and professional rehabilitation of disabled persons	FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance	First half of 2005	To increase the possibilities for employment of persons with disabilities, in conformity with the obligations from the Social Charter of the Council of Europe.
<b>INSTITUTIONS</b>				
50	Establish agencies for care of the disabled persons at	FBiH Government, RS Government	Second half of 2005	To increase the level of care for the disabled.



No.	Activity	Responsible Institution	Deadline	Goals/Comments
	entity government level			
	<b>MEASURES</b>			
51	Establish a system for determination of the level of disability according to unified criteria regardless of the origin of disability, by a single commission and by a single rule book for assessment of remaining work capacity	FBIH Ministry of Labor and Social Policy	Second half of 2005	To harmonize the existing practices and increase the efficiency of the system in FBiH.
<b>PROTECTION OF THE CIVIL VICTIMS OF WAR</b>				
<b>LAWS AND REGULATIONS</b>				
52	Adopt the changes and amendments to the Law on the Basis of Social Protection, Protection of civil victims of war (CVW) and of families with children	FBIH Ministry of Labor and Social Assistance	Second half of 2004	To transfer the basic benefits for CVW to the entity level (in FBiH), or to improve their position (in RS).
53	Adopt a separate law on CVW	FBIH Ministry of Labor and Social Policy	Second half of 2004	To improve the protection of CVWs.
<b>INSTITUTIONS</b>				
54	Determine an optimum and rational administrative-functional framework for caring about CVWs within the responsible sector in the ministry	FBIH Ministry of Labor and Social Policy	Second half of 2004	To define the type and scope of work, number of staff, wage bill and equipment cost, special expenses etc, and for transfers of benefits from the FBiH budget to beneficiaries.
<b>MEASURES</b>				
55	Determine the level of criteria for transfers to CVW, number of beneficiaries, sources of funding etc in line with the FBIH Medium-Term Expenditure Framework (MTEF) for 2004-2006	FBIH Ministry of Labor and Social Policy	Second half of 2004	To ensure fairness in provision of social assistance to all categories in need.
56	Establish a system for determination the disability category according to a single set of criteria, by a single commission and in accordance with a single rule book for assessment of capacity for work, without regard for the origin of disability; form a single commission for disability assessment and categorization.	FBIH Ministry of Labor and Social Assistance	Second half of 2005	In conformity with the obligations arising from the Social Charter of the Council of Europe.
<b>PROTECTION OF FAMILIES AND CHILDREN</b>				
<b>LAWS AND REGULATIONS</b>				
57	Adopt the changes and amendments to the Law on the Basis of Social Protection, Protection of CVW and of families with children, to transfer basic benefits for child allowance to the entity level in FBiH	FBIH Ministry of Labor and Social Policy	Second half of 2004	To establish a system of adequate social protection for children.
58	In FBiH, in regard to the improvement of child protection, it is necessary to adopt or amend the following laws:	FBIH Ministry of Labor and Social Assistance, FBIH Ministry of Justice, FBIH Ministry of Finance, FBIH Ministry of Interior		
	Family Law		Second half of 2005	To define the status of child protection in different sectors, ensure funding of the system and establish a
	Law on Amendments to the Criminal Code of FBiH		Second half of 2004	

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<p>Law on Criminal Procedure</p> <p>Amendments to the Law on Distribution of Public Revenues and Financing of the FBiH,</p> <p>Amendments to the Law on Lottery and Gambling</p> <p>Amendments to FBiH and cantonal laws on internal affairs</p> <p>Eliminate existing legislative and legal obstacles for the enjoyment of children's rights, especially for children with disabilities, in the sectors of education, health, regional planning and urbanism, finance.</p> <p>adopt legislation which will support stricter legislative penalties for breaching the rights of children</p> <p>Pass the decree on the level of the minimal compensation for children's benefits in the Federation of BiH and in the RS, with clearly established eligibility criteria for the execution of that benefit</p>		<p>Second half of 2005</p> <p>First half of 2005</p> <p>First half of 2005</p> <p>Second half of 2005</p> <p>Second half of 2004</p> <p>Second half of 200.</p>	<p>system of penalties for violation of the rights of a child and a family. To ensure access to education and health care for disabled children</p>
59	<p>Pass the decree on the level of the minimal compensation for children's benefits in the Federation of BiH and in the RS, with clearly established eligibility criteria for the execution of that benefit</p>	<p>FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance</p>	<p>Second half of 2004</p>	<p>To harmonize rights and ensure funding for their payments.</p>
	<p><b>INSTITUTIONS</b></p>			
60	<p>Establish the Child Protection Fund in FBiH</p>	<p>FBiH Ministry of Labor and Social Policy</p>	<p>Second half of 2004</p>	<p>In reliance on positive experiences with the RS Child Protection Fund.</p>
61	<p>Establish a database for monitoring the beneficiaries of child protection in FBiH, in line with the European standards, with constant monitoring of vulnerability of families and children</p>	<p>FBiH Ministry of Labor and Social Policy</p>	<p>Second half of 2004</p>	<p>To rationalize and improve effectiveness of the child protection system. To ensure that beneficiary data are available in one place, which strengthens statistics and capacity for defining of appropriate policies.</p>
	<p><b>MEASURES</b></p>			
62	<p>Define family-oriented policies in both entities in order to improve the quality of life in families, as basic units of society, is improved; the most important measures include the child allowance, tax benefits, paid maternity and paternity leaves and family services</p>	<p>FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance, cantonal ministries</p>	<p>First half of 2006</p>	<p>To promote the family as the primary provider of child care.</p>
63	<p>Develop alternative forms of care, primarily accommodation in foster families, day care centers and half-day care centers</p>	<p>FBiH Ministry of Labor and Social Policy, RS Ministry of Health and Social Assistance</p>	<p>Continuously</p>	<p>In line with the goal to develop a mixed system of social protection.</p>
	<p><b>REFUGEES, DISPLACED PERSONS AND RETURNEES</b></p>			
	<p><b>LAWS AND REGULATIONS</b></p>			
64	<p>Adopt the bylaws with the Law on Changes and Amendments of the Law on Refugees from BiH and Displaced Persons in BiH</p>	<p>BiH Ministry of Human Rights and Refugees</p>	<p>Second half of 2004.</p>	<p>To strengthen the legal framework for implementation of previously adopted laws.</p>
65	<p>Harmonize entity laws with the Law on Refugees from BiH and Displaced Persons in BiH</p>	<p>FBiH Ministry for Refugees and Displaced Persons RS Ministry for Refugees and Displaced Persons</p>	<p>Second half of 2004</p>	<p>To harmonize regulations</p>
66	<p>Adopt or harmonize bylaws in the following areas:</p> <ul style="list-style-type: none"> <li>• Education</li> <li>• Health care</li> <li>• Employment</li> <li>• Pension and disability insurance</li> </ul>	<p>Competent line ministries of FBiH and RS</p>	<p>First half of 2005</p>	<p>To support returns through providing education for returnee children, access to health care, employment of returnees, access to pension insurance, allocation of land for construction of housing. Implementation of the property regulations.</p>

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<ul style="list-style-type: none"> <li>Distribution of public land</li> <li>Property-related regulations and their implementation</li> </ul>			
	<b>INSTITUTIONS</b>			
67	Reorganize and rationalize all administration involved in the implementation of the Annex 7	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To rationalize and enhance efficiency of the administration.
68	Establish a clear vertical link with the BiH Ministry of Human Rights and Refugees acting as an umbrella institution, setting policies in the area of returns and coordinating the implementation, which would be carried out by the line structures in the entities and in the District of Brčko	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	To coordinate returns, harmonize regulations, avoid overlaps and double beneficiaries.
69	Appoint members of the Commission for Refugees and Displaced Persons	BiH Presidency	First quarter of 2004	Strengthen the institutional framework for returns.
70	Strengthen the role of the Commission for Refugees and Displaced Persons.	BiH Ministry for Human Rights and Refugees	Continuously	Strengthen the institutional framework for returns.
71	Establish regional centers of the BiH Ministry for Human Rights and Refugees	BiH Ministry for Human Rights and Refugees	First half of 2004	In Banja Luka, Tuzla, Mostar and Sarajevo, in line with the Law on Changes and Amendments of the Law on Refugees from BiH and Displaced Persons in BiH.
72	Establish the Fund for Returns in conformity with the Law on Refugees from BiH and Displaced Persons in BiH	BiH Council of Ministers, BiH Ministry of Human Rights and Refugees, BiH Civil Service Agency	First half of 2004	To accelerate the process of returns.
73	Maintain and constantly update the database of beneficiaries of donations as aid for reconstruction and return	BiH Ministry of Human Rights and Refugees	Continuously	To prevent abuse and enhance the efficiency of the system.
74	Update the existing central database of the displaced persons and returnees	BiH Ministry of Human Rights and Refugees, FBiH Ministry for Displaced Persons and Refugees, RS Ministry for Refugees and Displaced Persons	2004 and continuously	To prevent abuse and enhance the efficiency of the system.
	<b>MEASURES</b>			
75	Ensure protection of human rights guaranteed by the BiH Constitution in all of BiH and implement the BiH Constitutional Court's Decision on the Constitutive Peoples on all levels, in accordance with the 1991 census	BiH Council of Ministers, FBiH Government, RS Government	First half of 2005	To remove obstacles to return.
76	Conduct a revision of the allocation of construction sites	FBiH Government, RS Government, line ministries of FBiH and RS	First half of 2005	To prevent misappropriation of private land.
77	Reconstruct/build 30,000 housing units in 2003-2004, and 20,000 housing units in 2005-2007 period	FBiH Government, RS Government, line ministries, international donors	2004-2007	With local and donor funding.
78	Complete the property return process by end-2003	FBiH Government, RS Government, line ministries	First half of 2004	To encourage return of refugees.
79	Within the limits of available resources, provide alternative accommodation to legally eligible persons	FBiH Ministry of Displaced Persons and Refugees, FBiH Ministry of Regional Planning and Environment, RS Ministry of Refugees and Displaced Persons	Continuously	In order to vacate occupied housing units.
80	Establish mechanisms to provide care for elderly returnees who have no one to care for them	BiH Ministry for Human Rights and Refugees	Second half of 2004	Through coordination with entity institutions of social protection and in cooperation with returnee associations.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
81	Take measures to finally close collective centers for refugee accommodation	BiH Ministry for Human Rights and Refugees; FBiH Ministry for Displaced Persons and Refugees, RS Ministry for Refugees and Displaced Persons	Second half of 2004	To finally resolve the accommodation problems of refugees and the displaced persons in this category.

**Action plan - Education**

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Adopt laws on primary, secondary and higher education at the State level	BiH Parliamentary Assembly, BiH Council of Ministers, BiH Ministry of Civil Affairs, in cooperation with the FBiH Ministry of Education and Science and RS Ministry of Education and Culture	First half of 2004	Create preconditions for education reform and for harmonization of education at the state level, as well as for participation in the regional integrative processes. In line with the EC recommendations. <sup>32</sup>
2	Adopt the Framework Law on Science at the state level and the new laws on the entity level	BiH Parliamentary Assembly, BiH Council of Ministers, BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science, RS Ministry of Science and Technology	Second half of 2004.	«Bring» science back into the educational process, strengthen scientific research, participate in European scientific, integrative and developmental processes. In line with the EC recommendations. <sup>33</sup>
3	Harmonize lower-level laws with the state-level laws	FBiH Government, RS Government, FBiH Parliament and RS National Assembly, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2005	Adoption of state-level framework laws will not invalidate lower-level laws and this measure should ensure harmonized education and mobility at the level of the state and beyond the BiH borders.
4	Analyze and improve existing legislation and composition of expenditure, and create a sustainable development structure for preschool education	RS Ministry of Education and Culture, FBiH Ministry of Education and Science	Second half of 2004	Increase the quality of planning in this segment of education.
5	Adopt and implement modern legislation for vocational and technical education	FBiH Government, RS Government, FBiH Parliament and RS National Assembly, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2004	Modernize this segment of education and ensure change in interrelationship between the vocational and general secondary education to the advantage of the general education. Increase the number of students attending general-education schools. In line with the EC recommendations. <sup>34</sup>

<sup>32</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 34.

<sup>33</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 34-35.

<sup>34</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 34.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
6	Harmonize legislation on adult education, as well as appropriate legislation and instruments for 'lifelong learning'	FBiH Government, RS Government, FBiH Parliament and RS National Assembly, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	Modernize this segment of legislation, raise consciousness on the need for continuing education and create preconditions for application of the 'lifelong learning' approach under market economy conditions.
7	Clarify laws and regulations which govern allocation of public revenues and responsibility for expenditures, at different levels of government, in order to attain more rational and equal provision of educational services. <b>VOCATIONAL EDUCATION</b>	BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	Increase the responsibility for determining and implementing the allocation of public revenues, rationalize education spending and equalize educational financing throughout the territory of the country.
8	Create a legal and financial framework to encourage employers to create practical training possibilities for students. Adopt appropriate education laws for this area and harmonize the laws in the economic area with the solutions to be included into the legislation on vocational education	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	First half of 2006	To stimulate retraining in the fastest and most effective way, increase employment and reduce poverty. In line with the EC recommendations. <sup>35</sup>
9	Create the legal and financial framework to allow schools to participate in commercial activities. This option should be included into the laws on education, which do not stipulate that schools may conduct commercial activities, as well as the modes of monitoring revenues and expenditures. <b>HIGHER EDUCATION</b>	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2006	to improve the funding system and establish a link with the labor market.
10	Integrate universities by extending the status of legal person only to universities as a whole and entrust the overall responsibility for budget management of a university to that university's central governing body <b>INSTITUTIONS</b>	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education, universities	Second half of 2004	To reintegrate universities in line with the European models, establish better oversight of the resource allocation at universities and increase the quality of higher education.
11	At entity or state level, establish a sustainable financing mechanism, based on student numbers. Existing legislation, as well as the laws in preparation, should be harmonized with these needs	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	Second half of 2004	Rationalize education and encourage transformations to lead to achievement of potential savings in the education system.

<sup>35</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 34-35.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
12	Establish entity-level higher education funds	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, FBiH Ministry of Finance, RS Ministry of Finance, cantonal ministries of finance and education	Second half of 2004	Rationalize costs, secure sufficient and transparent funding of the higher education system..
13	Establish funds to equalize financing standards at entity and lower levels	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	Second half of 2004	Harmonize funding and the quality of education throughout BiH.
14	Establish scientific research funds	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture	Second half of 2005	To support scientific research
<b>PRE-SCHOOL, ELEMENTARY AND GENERAL SECONDARY EDUCATION</b>				
15	Finalize and implement the common core curriculum and establish a department for vocational secondary education and technical schools, as well as a department for teaching core syllabuses and curricula within the existing Standards and Evaluation Agency	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science, RS Ministry of Education and Culture,	Second half of 2004	De-politicize the educational process.
16	Draw up guidelines for the operations of parent council and pupil councils and form parent councils and pupil councils in each school, and parent councils in each pre-school institution	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	Involve all direct and indirect participants into decision-making on education.
17	Within the existing Standards and Evaluation Agency, establish a department for vocational secondary education and technical schools, as well as a department for teaching core syllabuses and curricula. Support the operations of the Agency by providing financial and technical assistance	BiH Ministry of Civil Affairs	Second half of 2004	Ensure equality in the quality of education and harmonize it with the education in the EU countries.
18	In conformity with the valid legislation, establish a network of training centers and implement a system of advanced training, to include adopted programs for professional development of teachers and kindergarten teachers in preschool institutions and elementary and secondary schools	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2005	Increase the quality of training of teachers and provide for continuous updating of their skills.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>MEASURES</b>			
19	Enforce implementation of common core curriculum, in conformity with the BiH laws on elementary and on secondary schools	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	To provide equal rights and possibilities for all students. Implement the new adopted common core curriculum. In line with the EC recommendations. <sup>36</sup>
20	Ensure continuity of activities on preparation of the common core curriculum	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	To provide equal rights and possibilities for all students.
21	Reduce wastefulness in the educational system	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	Continuously	To ensure financial sustainability at all levels of the educational process. Adopt the new method of allocation of budget resources for education, reallocate available funding for education, harmonize teaching norms with European standards, improve the teacher/student ratios, increase average size of schools, reduce non-promotions, improve the balance of vocational and general educational units in the educational process.
22	Develop a model of the new funding system, harmonized with the public expenditure reform program, which should ensure sound and financially sustainable education. Test the prepared model	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	First half of 2005	To balance the needs and capacities in the educational funding process by reallocation of available funds, by securing additional sources of educational funding (private and earmarked funds from business sector, funding from the international community).
23	Develop instruments for multi-year operational planning at the level of educational institutions, as well as for strategic budgetary planning at the central level	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	First half of 2005	To improve planning in education.
24	Develop a plan to encourage private investment in education.	FBiH Ministry of Education and Science, RS Ministry of Education and Culture, statistical bureaus	Second half of 2004	To increase the share of private funding in education. The plan should define the basic elements and options for private investment in education, modes of encouragement for these kinds of investment, ways of monitoring the flow of funds, institutions responsible for implementation, as well as the legal changes necessary for the implementation of the plan.

<sup>36</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 35.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
25	Reinvest into the education sector, increase spending for teaching, maintenance and training manuals, and simultaneously introduce incentives for teachers, through advanced professional training and salary increases, as the number of jobs in the education sector reduces over time	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	2005-2007 (and on until 2010)	To increase the quality of education, enhance motivation and creativity of the teaching staff and improve working conditions. To realize this goal, it was necessary to reallocate funds that will be released by the reduction of inefficiencies in the educational process at all levels.
26	Improve public accountability for spending through ensuring transparency of budgetary allocation to academic institutions and schools, as well as in collection of revenues.	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	Second half of 2004	Increase responsibility and transparency of financing of education.
27	Establish transparent programs for providing student loans and scholarships	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance	First half of 2005	To improve the quality of studying, reduce average duration of studies, and improve the student standard.
28	Ensure implementation of the Bologna Declaration and Lisbon Convention	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science, RS Ministry of Education and Culture, universities	Second half of 2004	Participation in the EU educational processes and ensuring mobility in the educational process. Signing of these documents will also allow access to some EU project funds.
29	The gender component should be included within the framework of the the educational system reform and the curriculum reform, in conformity with the BiH Law on Gender Equality	Education ministries at all levels	Continuously	To eliminate gender discrimination.
30	Improve budget execution in the education sector consistent with the entire program of public expenditure reform and balance budget items and actual expenditure	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture	First half of 2006	To provide lasting and stable sources of funding for education, and ensure increase in quality of education at all levels.
31	Develop modern management models and structures and establish system of training for executive staff and members of school boards	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	Increase the quality of management in education by providing management, strategic planning and transparency trainings to managers.



No.	Activity	Responsible Institution	Deadline	Goals/Comments
32	Revise and develop harmonized rules and standards for preschool institutions and elementary schools, ensure monitoring of school buildings and equipment, and define achievable targets for improvement of preschool institutions, elementary and secondary schools	RS Ministry of Education and Culture, FBiH Ministry of Education and Science	First half of 2005	Provide high-quality preschool, elementary and secondary education and harmonize it with the needs and capacities of BiH.
33	Ensure transparent, competitive, rational and financially sustainable funding of the public sector education, which is harmonized with the EU examples and which envisages a certain share of education in the GDP	FBiH Ministry of Education and Science, RS Ministry of Education and Culture, BiH Ministry of Civil Affairs, statistical bureaus	Continuously	To increase accountability for funding education and secure preconditions for integration into the European academic community, through granting new powers to the ministries, redefinition of the role of managers in education, through strategic planning, definition of organizations responsible for control, linkages with the business sector and a new role for the parent councils.
34	<p><b>PRESCHOOL, ELEMENTARY AND GENERAL SECONDARY EDUCATION</b></p> <p>Implement the Interim Agreement on Meeting the Specific Needs and Rights of Returnee Children, which entails:</p> <ul style="list-style-type: none"> <li>- Increasing the number of returnee/minority teachers employed,</li> <li>- Teaching the national group of subject if parents so request,</li> <li>- Reducing the number of pupils transported to monoethnic schools,</li> <li>- Remove all offensive content from textbooks for the national group of subjects</li> <li>- Harmonize complement of school boards with national structure in the school,</li> <li>- Eliminate subjects and name of school if inappropriate</li> </ul>	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science, RS Ministry of Education and Culture,	First half of 2006	Eliminate discrimination from the educational process, extend equal opportunities to all students, ensure respect for fundamental human rights and freedoms, rationalize the educational process. In line with the EU recommendations. <sup>37</sup>
35	Conduct a campaign on inclusive education, as the new approach requiring active participation of all actors (teachers, students, parents, society) in the educational process, in order to raise the public awareness	FBiH Ministry of Education and Science, RS Ministry of Education and Culture	Second half of 2004.	To create preconditions for introduction of inclusive education.
36	Develop and appropriate pre-school curriculum, with respect for modern educational principles and curriculum design	FBiH Ministry of Education and Science, RS Ministry of Education and Culture	Second half of 2004	Alter the status of preschool education from social to educational role, increase the numbers of children attending preschool education and adapt it to nine-year elementary education.
37	Progressively increase the number of pre-school children that acquire adequate education	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	2007 and beyond	Through larger investment of social and private resources into preschool education, adequately prepare as many children as possible for elementary education.
38	Develop and introduce a standardized system of evaluation and certification of students' results throughout the country	BiH Ministry of Civil Affairs, education ministries at all levels	Second half of 2004	The implementation of activities of the Agency for Evaluation will ensure equalization and standardization of the evaluation of students' knowledge at the country level.

<sup>37</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 35.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
39	In consultation with educational institutions and with adequate expertise in modern principles of curricula design, prepare curricula for all study subjects and pedagogical standards (norms, number of students, number of classes)	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2005	To eliminate discrimination from the educational process and modernize curricula. In the initial stage, this will concern preparation of the common core curricula. This will also allow balancing the teaching norms and working conditions, which will permit students in BiH to attend classes together.
40	Conduct a review of initial education and training of teachers and ensure that all teachers are trained to impoement modern teaching methods	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	2007	Modernize initial training of teachers and redefine required knowledge and skills, which should be continuously updated.
41	Conduct a review of study subjects and teacher training system for elementary and secondary schools.	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2007	To modernize the teacher training process and teaching content. The teaching content should be adjusted to the needs of awareness raising on environmental protection, importance of information technologies and information literacy, health education and other current topics.
42	Develop standards and procedures for obtaining licences and certificates of kindergarten teachers and teachers for preschool institutions and elementary and secondary schools, respectively	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2005	To eliminate discrimination from this process and standardize values which determine the conditions for earning a certificate.
43	Develop and introduce a program of training of teachers for work with children with special needs, at all levels of education	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2005	To modernize the teacher training process in this segment of education and increase the number of teachers qualified to work with children with special needs.
44	Change the current system of categorisation of children with special needs, in order to ensure consistent application of the modern approach of inclusive education	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	To redefine the system of categorisation of children with special needs and to harmonize it with the existing European system.
45	Appoint and select principals and school boards on the basis of EU standards and models	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Continuously	To improve quality and modernize the process of management of educational institutions and to increase transparency of the management process in education.
46	Transfer responsibility to schools and provide teachers and principals greater freedom in innovating curricula and school management	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	To modernize teaching and school management, and increase creativity and accountability of the teaching staff.
47	Revive tripartite advisor councils (employers/employment bureaus/government officials) in order to strengthen links between schools and the labor market	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal chambers of commerce and employment bureaus at all levels	Second half of 2004	To facilitate rationalization of education and increase the influence of business representatives on the educational process.
	<b>VOCATIONAL EDUCATION</b>			
48	Develop and test a pilot model of rationalization and modernization of one field of the economy (agriculture). Introduce this into all schools in BiH training students in this field	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2005	To modernize vocational education and alter the composition of curricula.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
49	Identify priority areas for rationalization of the number of occupations	BIH Council of Ministers, FBiH Government, RS Government, chambers of commerce and employment bureaus at all levels, statistics bureaus	First half of 2004	Market needs should be analyzed and education for obsolete and unneeded occupations should be eliminated, which will lead to reduction of unemployment and poverty.
50	Rationalize the vocational education and training system into broader occupational categories	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2005	To reduce the cost of vocational education and make it more flexible to respond to the needs of the labor market.
51	Develop modern, high quality and flexible curricula consistent with the changes in the labor market and with European standards	BIH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2005	To modernize vocational education and adapt it to the needs of the modern labor market to reduce unemployment and poverty.
52	Develop a labor market information system	Statistics bureaus, chambers of commerce and employment bureaus at all levels	Second half of 2004	To provide correct and updated information and increase workers' mobility. The database should be developed by the statistical institutions. The database should be accessible to all chambers of commerce, employment bureaus and ministries of education and economy.
53	Improve and specialize training of secondary school graduates, oriented to the needs of the labor market; include adults, particularly unemployed and displaced persons	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2005	These activities also concern the acquisition of skills during the regular course of education, but also re-training and further training of adults. Only such a comprehensive approach can lead to reduction of unemployment and of poverty.
54	Develop a system that would facilitate horizontal and vertical mobility of students and teachers within and between educational institutions	BIH Council of Ministers, FBiH Ministry of Education and Science, RS Ministry of Education and Culture, chambers of commerce and employment bureaus at all levels	First half of 2006	Introduction of curricula with a greater balance of general, compared to specialized teaching units should enable more workers to respond successfully to the needs of the labor market and lead to increased mobility of workers throughout the country.
55	Establish mentor groups to provide concrete assistance and advice to teachers	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Second half of 2004	To ensure continuous updating of teachers' skills.
	<b>HIGHER EDUCATION</b>			
56	Reach agreement on the transfer of jurisdiction over higher education from the cantons to the FBiH	FBiH Government and cantons, universities	Second half of 2004	To permit a more transparent and regular funding of students from all cantons.
57	Establish public and transparent mechanisms of quality assurance, including the procedures for periodic external assessment of universities	BIH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education, universities	Second half of 2005	Introduction of the methods of monitoring and evaluation of the quality of higher education (agencies, tests, evaluation forms, surveys) will improve the quality of higher education.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
58	Introduce a system of equivalence for academic titles, acquired in BiH universities, which are in conformity with the European practice	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education, universities	First half of 2007	To improve mobility of students in the country and abroad.
59	Introduce explanatory texts as attachment to diplomas (so-called 'Diploma Supplement') at all universities	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education, universities	Second half of 2004	To improve mobility of experts in the country and abroad.
60	Admission to universities should be conditioned by earning a diploma at the completion of secondary school (by sitting through a school-leaving examination etc.), which should be recognized by the Lisbon Convention	BiH Ministry of Civil Affairs, universities, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2006	To increase the quality of selection of students for entry to universities and to improve the quality of higher education.
61	Reform curricula and teaching process to promote a more active participation of students in the teaching process, critical thinking and analysis, creativity and adaptability, with broader application of the distance learning methods	BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science, RS Ministry of Education and Culture, universities	Second half of 2005	To modernize the educational process and methodology of working with students and fulfill the preconditions for the development of the country and EU accession.
62	Professionalize university administration and enhance professional skills of their management	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education, universities	First half of 2005	To improve the methods of work and management of universities and to reduce cost of university administration.
63	To ensure institutional participation of students, academic and non-academic staff in the internal decision-making processes	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education, universities, student associations	Second half of 2004	To increase accountability of all participants in the educational process at universities, and particularly of teaching and management staff.
64	Accelerate introduction of the European System of Transfer of Credits (ESTC) to complete the process for all academic programs	Universities, BiH Ministry of Civil Affairs, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	First half of 2005	To shorten the duration of university studies, facilitate external mobility of students and reduce the cost of higher education.
65	Support universities in development of strategic plans, in conformity with the new laws on higher education	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education	Continuously	To enhance the quality of studies and improve the methodology of work at universities.
66	Introduce procedures of student entry, evaluation and graduation that will be open, transparent and reliable	Universities	Second half of 2004	To increase accountability of the teaching staff, to eliminate discrimination from the educational process.
67	Through open access to available sources of financing, improve the quality of teaching at universities and increase their contribution to cultural, economic and social development, by supporting research by students and teaching staff	Universities	First half of 2005	To increase the share of other – private – sources of funding in higher education.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
68	Encourage more senior-level students to participate in the process of lifelong learning and to promote continuous studying, increase relevance of curricula for the labour market, supplement or redirect professional qualifications, with the emphasis on practical applications, develop shorter-term studies and offer a range of opportunities for external studies	Universities, chambers of commerce at all levels	Second half of 2004	To shorten the average duration of higher-education studies, modernize curricula and adapt them to the needs of the labor market, to 'bring' the science back to universities and increase the flexibility of higher education.
69	Increase the share of students graduating on time	FBiH Ministry of Education and Science and RS Ministry of Education and Culture, universities	2004 and beyond	To reduce costs of higher education and the duration of studies. Average duration of studies in BiH is 7.5 years.
70	Strengthen the infrastructure in universities, particularly accommodation and services for students from other parts of the country	Universities, FBiH Ministry of Education and Science, RS Ministry of Education and Culture	Continuously	To improve the situation of students, reduce discrimination at universities and establish funds for higher education and providing scholarships.
71	Develop education information system, reactivate and improve the existing academic research network	BiH Council of Ministers, BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance, RS Ministry of Science and Technology, universities	Second half of 2004	To establish adequate network of universities and other educational institutions, access to libraries, e-learning, exchange of information with the world, membership in international associations and participation in the international academic network.
72	Create preconditions for development of scientific research at universities	BiH Ministry of Finance and Treasury, BiH Ministry of Civil Affairs, FBiH Ministry of Finance, RS Ministry of Finance, FBiH Ministry of Education and Science and RS Ministry of Education and Culture, cantonal ministries of education and finance, RS Ministry of Science and Technology, universities	Continuously	To enhance the teaching and research processes, promote development of new programs, integration into the European academic area and other European and international institutions, to increase participation of Bosnian researchers in EU scientific projects, which would in the long term lead to continuous reduction of poverty.

#### Action Plan – Health Care

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Change and amend the laws on health care in both entities	FBiH Ministry of Health, RS Ministry of Health and Social Assistance	Second half of 2005	To strengthen the efficiency of the system.
2	Change and amend the laws on health insurance in both entities	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds	Second half of 2005	To introduce the principle of solidarity and fairness in the provision of health care.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
3	Change the FBiH Law on Protection of the Population from Infectious Diseases	FBiH Ministry of Health, FBiH Public Health Institute	Second half of 2004	To improve the efficiency of the system for protection against infectious diseases.
4	Change the FBiH Law on Sanitation Inspection	FBiH Ministry of Health	Second half of 2004	To improve the efficiency of the system for protection against infectious diseases.
5	Change the Law on Sanitation Monitoring of Foodstuffs and Items in General Use in both entities	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, in cooperation with other ministries	First half of 2005	To improve the efficiency of the system for protection against infectious diseases.
6	Adopt the Law on the BiH Agency for Medicines	BiH Ministry of Civil Affairs	First half of 2004	To strengthen the single market in the trade of medicines.
7	Adopt the Law on Transport of Poisons in both entities	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, in cooperation with other ministries	First half of 2005	To improve the protection system.
8	Adopt the Rule Book on Residencies	FBiH Ministry of Health	First half of 2005	To strengthen equality in access to health care services.
9	Adopt the Law on Obligatory Statistical Research in Health Care in both entities	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, public health institutes of FBiH and RS	First half of 2005	To strengthen the monitoring and analytical capacity of competent institutions.
10	Adopt the FBiH Law on Accreditation and Quality Enhancement in Health Care	FBiH Ministry of Health,	Second half of 2004	To enhance the quality of services and the efficiency of the system.
11	Develop and adopt the laws on the basic packages of health care rights in entity parliaments	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, entity health insurance funds	First half of 2005	To promote the principle of equality and solidarity.
12	Develop and adopt the regulations on the institutional network in health care in the entity parliaments (Master Plan)	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, entity health insurance funds	First half of 2006	To increase the efficiency of the health care system.
13	Develop and adopt the legal framework for offering supplementary and private health insurance schemes	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds	Početak prva polovina 2006. (završetak 2008.)	To increase the efficiency of the system.
<b>INSTITUTIONS</b>				
14	Establish the body for coordination of public health activities at BiH level	BiH Ministry of Civil Affairs, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, entity health insurance funds	First half of 2006	To strengthen the institutional framework.
15	Establish the BiH Agency for Medicines	BiH Ministry of Civil Affairs, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, FBiH Agency for	First half of 2005	To strengthen the single economic space.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
		Control of Medicines, RS Agency for Medicines		
16	Establish regulatory bodies to promote increasing quality in health care provision.	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, entity accreditation and quality assurance agencies	First half of 2005	To increase quality of services.
17	Establish the BiH Radiation Directorate	BiH Ministry of Civil Affairs, FBiH Ministry of Health, RS Ministry of Health and Social Assistance	Second half of 2004	To increase the public health safety.
18	Transform health care centers as envisaged by strategic plans and laws	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, health care centers	Continuously (through 2015)	To increase the efficiency of the system.
19	Establish units for monitoring and enhancement of the quality of health care in health care institutions	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, agencies for quality control, medical associations, health care institutions, public health institutes, health insurance funds	Beginning first half of 2005 (end 2009)	To improve quality of services.
	<b>MEASURES</b>			
20	- Prepare and adopt entity strategic plans for health care system development for the 10-year period - Prepare and adopt operational plans for implementation of strategic plans	FBiH Ministry of Health, RS Ministry of Health and Social Assistance	Second half of 2004 First half of 2005	Correlates with implementation of the goals of the PRSP Strategy.
21	Adopt the FBiH quality policies in health care	FBiH Ministry of Health	Second half of 2004	To enhance the quality of services and the efficiency of the system.
22	Reorient the primary health care to family medicine	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, health care centers	Continuously (through 2015)	To increase the efficiency of the system.
23	Implement the programs of residencies and advanced training in family medicine	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal departments of health, university medical associations	Continuously (through 2015)	To enhance efficiency and quality of services.
24	Develop and establish the system of funding of health care systems to meet the goals of equality, accessibility and solidarity	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, health insurance funds	First half of 2006	To promote the principle of equality and solidarity in access to health care.
25	Require entity governments to provide funding for health care for not covered categories of the population	FBiH Government, RS Government, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, FBiH Finance Ministry, RS Finance Ministry	Continuously	To promote the principle of equality and solidarity in access to health care.
26	Develop mechanisms to permit a more effective control of the collection of health insurance contributions	FBiH Government, RS Government, health insurance funds, finance ministries – tax administrations	Continuously	To improve the health care funding system.
27	Reduce the share of 'out-of-pocket' costs for patients through implementation of the package of health care rights	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds	Continuously	To promote the principle of equality and solidarity in access to health care.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
28	Improve effectiveness of allocation of funds within individual segments of the health care systems	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds	Continuously	To improve allocative efficiency.
29	Develop, test and implement the mechanism of contracting and payments in the health care system, based on the per capita principle, to ensure equal access to the health care for all citizens	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds, health care centers, family medicine outpatient clinics	Progressively (through 2015)	To increase efficiency and fairness in provision of health care.
30	Develop, test and implement the mechanisms of contracting and payment of health care services in the hospital sector	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds, hospital management	Starting in the first half of 2004 (to end in 2008)	To improve the efficiency of the system.
31	Systematically monitor health care sector expenditures through transparent health care budgets (National Health Accounts) to ensure more effective health care planning and decision-making	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds	Continuously	To increase efficiency and promote fairness in provision of health care.
32	Develop the 'New Public Health' Strategy	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, / public health institutes in cooperation with other ministries and local communities	First half of 2007	To improve the efficiency of the system.
33	Conduct an analysis of the employed in health sector, and develop and implement a program of assistance to the redundant employees	FBiH Government, RS Government, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, public health institutes	Beginning first half of 2004 (end by 2009)	To rationalize and increase the efficiency of the system.
34	Develop and implement the human resources development strategy, based on needs and in cooperation with the education sector	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, public health institutes, ministries of education	First half of 2006	To rationalize and increase the efficiency of the system.
35	Ensure sustainable funding for procurement of vaccines	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, health insurance funds, public health institutes	Continuously	To improve allocative efficiency and promote fairness.
36	Meet international obligations related to the 'Health in the 21st Century' Strategy, respecting the timelines set by WHO	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, health insurance funds, public health institutes	Continuously	To strengthen the health care system.
37	Develop, adopt and implement the programs of disease prevention and health promotion (mass non-contagious diseases, AIDS, tobacco use, drug addiction)	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, cantonal ministries of health, health insurance funds, public health institutes	Continuously	To strengthen the health care system.
38	Monitor health indicators as the indicators of the functioning of the system, in accordance to WHO recommendations, and use them to create policy and set priorities.	Public health institutes of FBiH and RS	Continuously	To increase the efficiency of the system.
39	Start preparation of the terms of reference for development of the integrated health-information system at the level of entities and develop IT protocols for communication of information systems at the level of BiH	FBiH Government, RS Government, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, health insurance funds, public health institutes	Beginning first half of 2006 (end by 2009)	To increase the efficiency of the system.



No.	Activity	Responsible Institution	Deadline	Goals/Comments
40	Provide adequate conditions for monitoring of ecological exposures and their effects on health, in cooperation with other sectors	FBiH Ministry of Regional Planning, Construction and Environment, RS Ministry of Regional Planning, Construction and Environment, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, public health institutes	Continuously	Link with the Environmental Protection Sector.
41	Participate in health care-related activities relevant for the implementation of NEHAP	FBiH Government, RS Government, with FBiH Ministry of Health, RS Ministry of Health and Social Assistance, agencies, public health institutes	Continuously	Link with the Environmental Protection Sector.
42	Create conditions for health care-related scientific research	FBiH Ministry of Health, RS Ministry of Health and Social Assistance, ministries of education, health insurance funds, research institutions specialized in the health care sector	Continuously	To support development of scientific research in the area of health care.
43	Adjust funding for health care relative to the GDP growth rate	FBiH Government, RS Government, FBiH Ministry of Health, RS Ministry of Health and Social Assistance, FBiH Ministry of Finance, RS Ministry of Finance	Continuously	To ensure adequate funding for efficient system of health care based on the principles of solidarity and efficiency.

#### Action Plan - Agriculture

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Harmonize existing entity laws with the laws adopted at BiH level	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	First half of 2005	To harmonize regulations.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
2	Prepare bylaws for existing laws	BiH Council of Ministers, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	First half of 2005	To complete the institutional framework.
3	<p>Prepare bylaws accompanying the BiH Law on Plant Health Protection. The priority is to accept the following directives into the national legislation):</p> <ul style="list-style-type: none"> <li>• Council Directive 2000/29/EC Plant health</li> <li>• Council Directive 69/464/EEC - Potato cancer (<i>Synchytrium endobioticum</i>)</li> <li>• Council Directive 69/465/EEC - Potato cyst (<i>Heterodera rostochiensis</i>)</li> <li>• Council Directive 93/85/EEC - Potato ring rot (<i>Clavibacter michiganensis</i> ssp. <i>sepedonicus</i>)</li> <li>• Council Directive 98/57/EC - Potato brown rot (<i>Ralstonia solanacearum</i>)</li> <li>• EC Directive 98/22/EC - Border inspection point - minimum conditions</li> </ul> <p>as well as other laws and bylaws concerning:</p> <ul style="list-style-type: none"> <li>• Registration of producers and importers (92/90/EEC)</li> <li>• Standardization of plant passports (92/105/EEC)</li> <li>• Protected areas (93/51/EEC, 92/70/EEC, 2000/35/EC)</li> <li>• Monitoring of pesticide content in food and agriculture products (94/30/EC, 94/29/EEC, 93/258/EEC)</li> <li>• Technical and organizational conditions that must be met by laboratories</li> </ul> <p>conduction diagnostic analysis of plant health</p>	BiH Council of Ministers, FBiH Plant Health Protection Administration, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Gradually through 2007	In line with EC recommendations. <sup>38</sup>
4	Adopt the BiH Law on Seed and Seedlings	BiH Council of Ministers, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>39</sup>
5	Adopt the BiH Law on Recognizing of Sorts of Agricultural Plants and the regulations on costs of testing of new plant sorts and on safekeeping of specimens of seeds of protected sorts in authorized institutions.	BiH Council of Ministers, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>40</sup>
6	Adopt the BiH Law on Protection of the Rights of Sort Developers	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>41</sup>
7	Adopt the BiH Law on Genetically Modified Organisms	BiH Council of Ministers, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>42</sup>
8	Adopt the BiH Law on Mineral Fertilizers	BiH Council of Ministers, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>43</sup>

<sup>38</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

<sup>39</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

<sup>40</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

<sup>41</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

<sup>42</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

<sup>43</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
9	<p>Adopt the BiH Law on Phyto-Pharmaceutical Agents; accept Council Directive 91/41/EEC on marketing of plant protection products, with its 10 amendments, as well as regulations concerning:</p> <ul style="list-style-type: none"> <li>• ban and restrictions of sale and/or use of plant protection products containing certain active substances (79/117/EEC, 91/188/EEC);</li> <li>• professional qualifications and other requirements for personnel performing assessments of plant protection products;</li> <li>• user accountability for proper application of plant protection products;</li> <li>• application for extension of use of registered plant protection products.</li> </ul>	BiH Council of Ministers, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>44</sup>
10	Adopt the Law on Ecological Agriculture at all levels	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, experts from relevant fields	Second half of 2004	To stimulate production of healthy foods.
11	Adopt the new entity laws on agriculture	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	First half of 2004 (FBiH) Second half of 2004 (RS)	To include regulation of registration of farmers.
12	Adopt the FBiH Law on Subsidies	FBiH Ministry of Agriculture, Water Management and Forestry	First quarter of 2004	To strengthen the subsidy system in FBiH
13	Draft the new FBiH and RS laws on cattle raising	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	Second half of 2004 (FBiH) First half of 2004 (RS)	Existing laws are obsolete.
14	Change customs duty rates for agricultural products by amending the existing BiH Law on Customs Tariff	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	First half of 2004	For better protection of domestic production.
15	Review and amend the FBiH Law on Agricultural Land	FBiH Ministry of Agriculture, Water Management and Forestry, cantons, agroecology research institutions and other line ministries	Second half of 2004	<p>In FBiH:</p> <ol style="list-style-type: none"> <li>1. Tighten up inspections.</li> <li>2. Changes and amendments to the Article 60 of the Law on Agricultural Land.</li> <li>3. Specify provisions related to research in the fields of contamination and fertility, soil recultivation etc.</li> </ol>

<sup>44</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 20.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
16	Adopt the RS Law on Agricultural Land	RS Ministry of Agriculture, Water Management and Forestry, agropedology research institutions and other line ministries	Second half of 2004	In RS: The existing law, passed in 1997, is obsolete, a new law is in procedure.
17	Adopt the BiH Law on Cattle Feed and bylaws such as: <ul style="list-style-type: none"> <li>• Cattle Feed Quality Regulations (74/63/EEC)</li> <li>• Regulations on Sampling Methodology and on Physical, Chemical and Microbiological Analysis of Cattle Feed (70/373/EEC, 2002/70/EC)</li> <li>• Regulations on Identification of Cattle Feed in Stores.</li> <li>• Regulations on Additives in Cattle Food (70/524/EEC, EC Regulation No. 2188/2002, EC Regulation No. 1756/2002)</li> </ul>	BiH Ministry of Foreign Trade and Economic Relations, BiH Veterinary Office, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations <sup>45</sup>

<sup>45</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 20.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
18	<p>Adopt the following bylaws in the field of veterinary medicine:</p> <ul style="list-style-type: none"> <li>• ban on certain medical products to prevent harmful effects in food products owing to shortcomings of such medical products (2001/82/EC, EC Regulation 1937/2002 and EEC Regulation 2377/90)</li> <li>• regulations on exceptional application of medical products for treating animals and regulations on records of treatment of animals,</li> <li>• regulations on veterinary-sanitary inspection and control of food-producing firms, on veterinary-sanitary conditions of suitability of food products for consumption in human diet, and on conditions of suitability of raw materials of animal origin,</li> <li>• regulations on veterinary-sanitary conditions for imports of food products, raw materials, animal waste and animal feed (90/667/EEC)</li> <li>• regulations on veterinary-sanitary inspection and control of consignments in imports, exports and transit, regulations on hygienic conditions, as well as on technical and working conditions at the points of border inspection for the veterinary inspection service, as well as conditions on selection of personnel</li> <li>• regulations on measures for protection from zoonoses and zoonotic agents in animals, food products of animal origin and livestock products (89/608/EEC, 92/117/EEC)</li> <li>• regulations on handling animal-origin waste, on minimum hygienic and technical conditions for facilities and equipment in post-slaughter processes, as well as for collection, transport and processing of animal-origin wastes (90/667/EEC)</li> <li>• regulations on veterinary conditions for exports and transit of live animals, setting eggs, animal seed (male), eggs (female), embryos and other potentially disease-carrying items (2000/20/EC, 2001/10/EC, 88/407/EEC, 90/429/EEC)</li> <li>• regulations on veterinary-sanitary conditions for other products not covered by veterinary regulations, and which may be carriers of contagious diseases or represent a public health risk ('Balai' products) (92/65/EEC)</li> </ul>	BiH Veterinary Office, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Gradually through 2007	In line with EC recommendations. <sup>46</sup>

<sup>46</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, p. 20.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<ul style="list-style-type: none"> <li>• regulations on classification of contagious diseases in animals, on methods of information dissemination, reporting and registering of contagious animal diseases, on ordering laboratory testing and on methods, on sampling and on procurement of equipment for diagnostic investigations (82/894/EEC, 85/11/EEC, 80/217/EEC, 92/119/EEC, 83/53/EEC),</li> <li>• regulations on veterinary-sanitary conditions for production and marketing of animal-origin products, intended for human consumption, which may carry contagious diseases,</li> <li>• regulations that define conditions that must be met by collection centers, shippers and traders of animals, and regulations on defining and conducting any movements of animals</li> <li>• regulations on measures to prevent contagious diseases in animals in the trade of fresh meat and in products from the meat of hoofed animals, fowls and game (72/461/EEC, 80/215/EEC, 91/494/EEC, 91/494/EEC, 92/46/EEC).</li> </ul>			
	<b>INSTITUTIONS</b>			
19	Develop the capacities of the BiH Veterinary Office for discharging its legally mandated functions	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To improve the possibility of exports of animal-origin product. In line with EC recommendations. <sup>47</sup>
20	Strengthen the BiH Plant Health Protection Administration to preform functions regulated by law	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To improve the possibility of exports of plant-origin products. In line with EC recommendations. <sup>48</sup>
21	Establish the FBiH Agriculture Development Resources Management and Coordination Unit	FBiH Ministry of Agriculture, Water Management and Forestry, cantons, municipalities	First half of 2004	To strengthen the institutional framework.
22	Implement the project of reorganization of the ministries of agriculture	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	First half of 2004	To strengthen the institutional framework.
23	Establish a functioning link between the FBiH Ministry of Agriculture, Water Management and Forestry and cantonal ministries of agriculture	FBiH Government, cantons	Second half of 2004	For coordination of activities on support to agricultural production.
24	Establish the BiH Agriculture Council	FBiH Government, RS Government, BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To strengthen the institutional framework.
25	Establish FBiH Agriculture Council	FBiH Government	First half of 2004	To strengthen the institutional framework
26	Establish RS Agriculture Council	RS Government	Second half of 2004	To strengthen the institutional framework

<sup>47</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, pp. 20 and 44.

<sup>48</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, pp. 20 and 44.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
27	<p>Resolve the status of professional institutions in the system of public administration</p> <ul style="list-style-type: none"> <li>• Agricultural Institute in Sarajevo</li> <li>• Agronomical Institute in Mostar</li> <li>• Agricultural Institute in Banjaluka</li> <li>• Veterinary Institute "Dr. Vaso Butozan"</li> <li>• Institute for Agropedology of the FBiH</li> <li>• Veterinary and Livestock Raising Center in Banjaluka</li> <li>• Agricultural Advisory Service of the FBiH</li> <li>• Agricultural Advisory Service of the RS</li> </ul>	<p>FBiH Government, RS Government, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, cantons and Forestry, specialized institutions, cantons</p>	<p>Second half of 2004</p>	<p>Should be included into the laws on agriculture.</p>
28	<p>Establish the FBiH Institute for Protection of Plants in Agriculture</p>	<p>FBiH Government, FBiH Ministry of Agriculture, Water Management and Forestry, cantonal governments</p>	<p>Second half of 2005</p>	<p>In accordance with the FBiH Law on Federal Ministries.</p>
29	<p>Establish the FBiH Veterinary Institute</p>	<p>FBiH Government, RS Government, FBiH Ministry of Agriculture, Water Management and Forestry, cantonal governments</p>	<p>Second half of 2005</p>	<p>In accordance with the FBiH Law on Veterinary Medicine</p>
30	<p>Organize the service to implement selective breeding techniques in livestock raising</p>	<p>FBiH Ministry of Agriculture, Water Management and Forestry</p>	<p>First half of 2004</p>	<p>To enhance biological potential of cattle.</p>
31	<p>Establish the institutional framework for quality control of imported and exported goods</p>	<p>BiH Council of Ministers, FBiH Government, RS Government</p>	<p>First half of 2004</p>	<p>For consumer protection.</p>
32	<p>Establish and licence laboratories for quality control, diagnostic and reference laboratories</p>	<p>FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, BiH Institute for Standardization, BiH Institute for Metrology and BiH Institute for Intellectual Property</p>	<p>First half of 2005</p>	<p>Strengthen the system of quality control of imported and domestic goods. For the purpose of establishing a certification system and other procedures required to allow exports of agricultural products. In line with EC recommendations.<sup>49</sup></p>
<b>MEASURES</b>				
33	<p>Implement the system of cattle identification (at BiH level)</p>	<p>FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry</p>	<p>Second half of 2007</p>	<p>Owing to the high cost of this project, introduction of the identification system for other animals in not realistic before 2007.</p>
34	<p>Adopt entity strategies of agricultural development</p>	<p>FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions</p>	<p>Second half of 2004</p>	<p>For further development of PRSP priorities.</p>
35	<p>Select strategic productions (products) within the framework of implementation of the laws on subsidies</p>	<p>FBiH Government, RS Government, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry</p>	<p>First half of 2004 (and reviewed annually)</p>	<p>To ensure more efficient use of agricultural subsidies.</p>

<sup>49</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement', Brussels, 18 November 2003, pp. 32 and 44

No.	Activity	Responsible Institution	Deadline	Goals/Comments
36	Adopt the National Program of Contagious Diseases Control and procure funding for its implementations	BiH Veterinary Office, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	For consumer protection
37	Secure funding for implementation of the National Plan of Monitoring and Control of TSE/BSE	BiH Veterinary Office, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	For consumer protection.
38	Adopt the Plan of Emergency Measures in veterinary medicine	BiH Veterinary Office	Second half of 2004	For consumer protection
39	Conclude veterinary agreements with the countries signatories to free trade agreements	BiH Ministry of Foreign Trade and Economic Relations, BiH Veterinary Office	First half of 2004	Removing barriers to exports.
40	Adopt a program of safe disposal of animal-origin waste	BiH Veterinary Office	Second half of 2004	To enhance environmental protection.
41	Initiate activities on the privatization of veterinary stations in FBiH	FBiH Ministry of Agriculture, Water Management and Forestry	First half of 2005	To improve the effectiveness of the services.
42	Establish the information system in agriculture	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	In line with EC recommendations. <sup>50</sup> *
43	Introduce tax relief and develop other forms of support for investment in this sector	BiH Council of Ministers, FBiH Government, RS Government, Brčko District	First half of 2006	To create conditions for greater involvement of the banking capital and attract investment to the sector.
44	Introduce and enforce measures of non-tariff protection of agricultural production	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	Second half of 2004 and continuously	Such reciprocal measures as other countries apply to BiH exports should be applied on imports to BiH.
45	Prepare a balance of needs and design the foreign-trade regime on the basis of the established balance of needs for animal and plant production	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	First half of 2004 and subsequently in regular intervals	Important for defining foreign trade regulations, and particularly for the BiH Customs Tariff Law.
46	Introduce continuing education for farmers and strengthen the system of education of specialists for agriculture and veterinary medicine <sup>51</sup>	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, institutes, advisory services	First half of 2005	Farmer training.

<sup>50</sup> EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement, Brussels, 18 November 2003, p. 32.

<sup>51</sup> Also relevant for the education sector.



No.	Activity	Responsible Institution	Deadline	Goals / Comments
47	Introduce monitoring for soil, air and water <sup>52</sup>	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, cantons, FBiH Ministry of Regional Planning and Environment, RS Ministry of Environment, FBiH Ministry of Health, RS Ministry of Health and Social Policy, specialized institutions (such as the hydrometeorological institute)	First half of 2006	In line with EC recommendations. <sup>53</sup>
48	Determine the priorities for demining of agricultural land	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, cantons, MAC BiH	First half of 2004	In line with the Public Investment Program.
49	Select priority projects in agriculture on the annual basis.	FBiH Government, RS Government, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, BiH Council of Ministers	Continuously	In line with the Public Investment Program.
50	Reorganize inspectorates	FBiH Government, RS Government	Second half of 2004	Within the framework of the public administration reform.
51	Increase irrigated areas from 0.6% to 1.6% of arable land	Water management corporations of FBiH and RS, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions	2004 – 2007	To increase yields and the number of harvests. Should be coordinated with water management projects.
52	Harmonize policies and procedures for development of regional plans and issuance of zoning permits for agricultural land	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, specialized institutions, FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, cantons	Second half of 2004	Vertical and horizontal coordination at the level of ministries of agriculture and regional planning in FBiH and the cantons, with the goal to develop regional plans and specify steps for issuance of zoning permits related to agricultural land.
53	Prepare a program to improve the situation of women in rural areas	FBiH Government, RS Government, cantonal governments, gender centers	Second half of 2005	Support to women through education, employment, access to credit and representation in rural institutions and associations; implementation of the principles of gender equality in rural areas.

<sup>52</sup> Also relevant for the sector of environmental protection.

<sup>53</sup> EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement, Brussels, 18 November 2003, pp. 32 and 44

No.	Activity	Responsible Institution	Deadline	Goals/Comments
54	Intensify enforcement of prescribed measures for protection and rescue operations in natural catastrophies and other emergencies	Resoma ministarstva Vijeća ministara BiH, FBiH Government, RS Government, cantonal governments	Continuously	Increase the level of readiness for prevention and protection from all types of emergencies (floods, storms, frosts, hailstorms, draughts, fires, earthquakes, unexploded ordnance, mass epidemics of plant and animal diseases).
55	Secure greater support of the FBiH Investment Bank to the development of agriculture	FBiH Government, FBiH Investment Bank	Second half of 2004	By restructuring of the FBiH Investment Bank, funds for lending to agriculture will be secured. In RS, a 'Partner Fund' exists within the RS Ministry of Agriculture, Water Management and Forestry.

#### Action Plan - Forestry

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>LAWS AND REGULATIONS</b>			
1	Adopt the laws on changes and amendments to the laws on forests in both entities	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	The proposal is in procedure. The goal of the activity is to ensure easier implementation of the FBiH Law on Forests. In RS, the Law on Forests was passed in 1994 and has undergone six changes and amendments, and proposed changes and amendments to the Law on Forests are for harmonization with the Law on Companies and the Law on State Enterprises.
2	Adopt and implement of associated accompanying forestry bylaws	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004 in FBiH, 2007 in RS	FBiH and RS need to pass 47 and 20 bylaws, respectively.
	<b>INSTITUTIONS</b>			
3	Establish the Federal and cantonal forestry authorities	FBiH Ministry of Agriculture, Water Management and Forestry	Second half of 2004	To strengthen the institutional framework.
4	Establish cantonal forestry management companies	Cantonal parliaments	Second half of 2004	To strengthen the institutional framework.
5	Establish the RS Forestry Institute	RS Government, Faculty of Forestry in Banja Luka	Second half of 2006	To follow scientific and specialist research to improve the RS forestry sector
6	Strengthen forestry inspectorates	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Continuously	In FBiH, the number of federal and cantonal inspectors should be increased, hunting should be covered by hunting inspectorates. In RS, the number of republic-level inspectors should be increased, since the municipal forestry inspectorates were abolished.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>MEASURES</b>			
7	Select the method for the forest survey	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	Select the best survey method, to obtain desired data with acceptable degree of precision.
8	Delineate boundaries between agricultural and forest land	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, forestry management companies	Second half of 2005	To determine actual surface area of forest economic districts, check economic and environmental justification of agricultural vs. forest use of land. Develop a property database.
9	Prepare and implement training of forestry staff for new tasks	Forest management companies	Continuously through 2007	To strengthen staff base for creation of precondition for sustainable management in forestry. Implies constant training of staff in new developments and techniques in forestry, application of the GIS system and use of digitalized maps.
10	Develop the information system	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	First half of 2005	To permit timely access to data for all levels of government and other interested parties.
11	Develop a monitoring system	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	First half of 2006	To collect and monitor data relevant to environmental stability, which is of interest to all levels of government.
12	Rehabilitate low-yield forests	FBiH Government, RS Government	Continuously	Increase wood production and strengthen the forest functions that are of general use. To cover 1,000 hectares annually.
13	Conduct reforestation of barren grounds	FBiH Government, RS Government	Continuously	To increase forestation of BiH, protect environment, prevent soil erosion and protect waters. To cover 5,000 hectares annually.
14	Develop the network of forest roads	Competent cantonal forestry directorates, forest management companies	Continuously	To facilitate management, as well as protection of forests, strengthen the forest functions in general use, hunting, fishing, sports, tourism. To build 50 km annually.
15	Support organized exploitation on non-wood forest products	FBiH Ministry of Agriculture, Water Management and Forestry, forest management companies, scientific institutions	Continuously	To increase profit in forestry through exploitation of resources other than wood.
16	Conduct demining	Forest management companies, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Continuously	In addition to increasing the volume of wood available for exploitation, this is also significant for protection of forests and strengthening of their generally useful functions

**Action Plan – Water Management**

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Adopt the legislative framework harmonized with the Framework Directive on Water and with other relevant international conventions, including harmonization of the Law on Waters and the Law on Protection of Waters and the bylaws, and preparation of the new laws on water (in the entities), which will embody the results of the reforms in the water sector	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2005	To establish a transparent, efficient and economically sustainable integral water management, to be implemented at the level of the natural catchment area.
<b>INSTITUTIONS</b>				
2	Establish an adequate institutional structure of the water sector in line with the EU Framework Directive on Waters	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2005	To establish mechanisms (institutions) that will enable BiH to meet its international obligations, as well as to establish bi- or multi-lateral cooperation. Creation of mechanisms for resolution of inter-entity disputes.
<b>MEASURES</b>				
3	Establish a sustainable method of financing the sector	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2007	To establish a transparent, efficient and economically sustainable integral water management, to be implemented at the level of the natural catchment area.
4	<p>Improve existing flood protection systems:</p> <ul style="list-style-type: none"> <li>• Restore existing flood control facilities along the Sava and Neretva rivers, and in certain urban communities, to achieve pre-war level of protection of the population and the economy and create preconditions for intensification of agriculture, which is the development mainstay in those areas</li> <li>• Regulate riverbeds and flood-streams (either by restoring old and neglected facilities or construction of new ones), to provide protection from floods and erosion of valuable agricultural land, and prevent occurrences of major landslides, to facilitate development in the vulnerable areas</li> <li>• Demining of protection facilities and adjacent areas, to permit their restoration<sup>54</sup></li> </ul>	FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, competent cantonal ministries, RS Water Management Directorate, municipalities	Continuously	To strengthen flood protection.

<sup>54</sup> In line with the Action Plan of the PRSP Section on Demining for areas in question

No.	Activity	Responsible Institution	Deadline	Goals/Comments
5	<p>Secure sufficient supply of potable water<sup>55</sup></p> <ul style="list-style-type: none"> <li>• Source and transport sufficient safe water to settlements</li> <li>• Reduce losses in water supply systems by 10% (from estimated 55% today down to 45%)</li> <li>• Reduce by one-third the population without connections to public water supply systems</li> <li>• Improve mechanisms for collection of watersupply and sewerage services and regulate illegal connections and local (rural) water supply systems to ensure commercial viability of the system.</li> <li>• Protect existing and potential sources of potable water, including those in rural areas</li> <li>• Improve and monitor the quality of water used by rural population</li> </ul>	<p>FBIH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, cantons, municipalities, competent public water utilities, RS Water Management Directorate</p>	<p>Progressively through 2007</p>	<p>To improve the water supply systems.</p>
6	<p>Improve the protection of water quality<sup>56</sup></p> <ul style="list-style-type: none"> <li>• Restore existing sewerage systems and existing waste water treatment plans in cities, and initiate planned construction of new sites, in conformity with the sustainable development policy and obligations of BiH arising from international conventions on waters</li> <li>• Provide access to sewerage systems for about 250,000 new households that currently lack such access</li> </ul>	<p>FBIH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, cantons, municipalities, competent public water utilities, RS Water Directorate</p>	<p>Continuously</p>	<p>To improve protection of waters.</p>
7	<p>Integrally and inter-sectorally plan exploitation of water resources</p> <ul style="list-style-type: none"> <li>• Secure sufficient water for irrigation of arable land, to create conditions for intensive agriculture</li> <li>• Promote exploitation and utilization of mineral, thermal and thermomineral waters, which represent a significant resource of BiH. This is a rapid way of resource utilization with significant effects on employment, reduction of imports of mineral waters and potential exports of bottled water</li> <li>• Increase level of utilization of available hydroenergy through construction of multi-purpose water management facilities, which would, in addition to electric power generation, create conditions for development of tourism and water recreation, protect downstream areas from flooding, secure water for irrigation and create conditions for cage fish farming.</li> <li>• Within the framework of integral regulation and exploitation of the Sava River waters, and to create conditions for development of the wider region, create conditions for resumption of navigation on the Sava, in cooperation with Croatia, Slovenia and Serbia and Montenegro.</li> </ul>	<p>FBIH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, competent public corporations, RS Waters Directorate, electric power utilities, cantons and municipalities</p>	<p>Continuously</p>	<p>Through planned reforms create conditions for sustainable exploitation of water resources through concessions, concessional lending and financing through the BOT model.</p>

<sup>55</sup> For specific projects, see the BiH Public Investment Program

<sup>56</sup> For specific projects, see the BiH Public Investment Program

**Action Plan – Environmental Protection**

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Adopt the BiH Framework Environmental Protection Law	Council of Ministers of BiH	Second half of 2004	To strengthen the legal framework for environmental protection
2	Prepare comprehensive implementing regulations and establish institutions within the framework of the set of new entity environmental laws: 1. Law on Environmental Protection; 2. Law on Protection of Nature; 3. Law on Air Protection; 4. Law on Protection; 5. Law on Waste Management; 6. Law on Environment Fund	FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment	First half of 2006	To strengthen the legal framework for environmental protection
3	Adopt the BiH Directive on Ozone-Depleting Substances	BiH Council of Ministers, FBiH Government, RS Government, BiH Ministry of Foreign Trade and Economic Relations – BiH Ozone Unit, FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, BiH Committee for Climate Change and the Steering Committee for Environment and Sustainable Development (UKOOR)	Second half of 2004	To strengthen the legal framework for environmental protection
<b>INSTITUTIONS</b>				
4	Consider the feasibility of establishment of an environment protection agency in BiH	BiH Council of Ministers, FBiH Government, RS Government	Second half of 2004	To strengthen the institutional framework for environmental protection
5	Strengthen the role and capacity of the Steering Committee for Environment and Sustainable Development (UKOOR)	BiH Council of Ministers, BiH Ministry of Foreign Trade and Economic Relations	Continuously	To strengthen the institutional framework for environmental protection
6	Strengthen the role of the Environmental Coordination Committee	Inter-entity environment body	Continuously	To strengthen the institutional framework for environmental protection
7	Strengthen the capacities of the BiH Ozone Unit	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment	Continuously	To strengthen the institutional framework for environmental protection
8	Strengthen the role and capacity of the National Committee for Implementation of Environment Protection Policies for Health Protection Purposes	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment	Second half of 2004	To strengthen the institutional framework for environmental protection.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
9	Establish the body for implementation of BiH NEAP	BiH Council of Ministers, FBiH Government, RS Government	Second half of 2004	To strengthen the institutional framework for environmental protection.
10	Establish the National Committee for Implementation of Environment Protection Policy for Health Protection	BiH Ministry of Foreign Trade and Economic Relations	Second half of 2004	To strengthen the institutional framework for environmental protection.
	<b>MEASURES</b>			
11	<p>The following activities should be conducted to promote development of rural areas</p> <ul style="list-style-type: none"> <li>• Adopt the strategy of sustainable development of rural areas</li> <li>• Adopt a program of food production along biological principles</li> <li>• Categorize land to ensure its rational exploitation</li> </ul>	<p>FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry, competent cantonal ministries</p>	<p>Through 2007 and in medium term Second half of 2004</p> <p>Second half of 2004 Prva polovina 2006.</p>	<p>To strengthen the environmental protection aspects in the agriculture sector.</p>
12	<p>Biodiversity:</p> <ul style="list-style-type: none"> <li>• Develop the strategy and the national action plan for the balanced management of biological, geological and landscape diversity,</li> <li>• Develop the strategy and the national programmes for the preservation of the cultural heritage in the natural environment based on ecological co-existence</li> </ul>	<p>FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry. entity institutes for protection of cultural and natural heritage,</p>	<p>Second half of 2004</p> <p>Second half of 2004</p>	<p>For safeguarding the biodiversity.</p>
13	<p>Information system:</p> <ul style="list-style-type: none"> <li>• Introduce information systems (GIS, air, water, soil and waste monitoring, databases for drawing up geodetic and other bases, climate change. Procure measurement and control equipment for the stations. Develop and apply ISO 14000 and other international standards and methods relating to the atmosphere (climate change and air quality)</li> </ul> <p>Improve the statistical information system (databases on environmental protection statistics for drawing up cadastre of emissions, environmental indicators for assessment of sustainable development)</p>	<p>FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, institutes for meteorology, institutes for geodetics, statistical bureaus</p>	<p>Through 2007</p>	<p>To strengthen the capacity for analysis and definition of strategic policies in the environmental sector.</p>
14	<p>Otpad</p> <ul style="list-style-type: none"> <li>• Adopt the solid waste management strategy with the operational programme for its implementation based on the concept of regional sanitary depots</li> <li>• Remove illegal dumps and rehabilitate the degraded sites</li> <li>• Improve the existing dump sites</li> </ul>	<p>FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, in cooperation with other line ministries at all levels</p>	<p>Through 2007 and beyond</p>	<p>To improve the solid waste management system.</p>

No.	Activity	Responsible Institution	Deadline	Goals/Comments
15	<p>Economy:</p> <ul style="list-style-type: none"> <li>Develop the Strategy of Sustainable Development of the BiH Economy</li> <li>Encourage application of clean technologies</li> <li>Develop the Strategy of Eco-Tourism Development</li> <li>Develop the programs and projects for use of geothermal waters for heating, food production in water, medical treatments and tourism</li> <li>Prepare the energy balance and the strategy of energy sector development</li> <li>Reduce air pollution with SO<sub>2</sub> and NO<sub>x</sub> by selection of de-sulphurisation plants</li> <li>Develop the National Climate Action Plan for stabilization and gradual reduction of emission causing the greenhouse effect and prepare and implement pilot projects in the areas related to strengthening of energy efficiency, production of low-emission fuels, increased exploitation of renewable sources of energy (hydro, wind and sun energy, geothermal energy, bio mass, biogas)</li> </ul> <p>Education:</p> <ul style="list-style-type: none"> <li>Introduce education about environment (into pre-school and at all education levels)</li> </ul>	<p>FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development</p>	<p>Second half of 2004, 2007 and beyond</p> <p>Second half of 2004 and in medium term</p> <p>Second half of 2004 Second half of 2006 Second half of 2004</p>	<p>To strengthen the environmental standards in economic activities.</p>
16	<p>Education:</p> <ul style="list-style-type: none"> <li>Introduce education about environment (into pre-school and at all education levels)</li> </ul>	<p>FBiH Ministry of Education and Science, RS Ministry of Education and Culture</p>	<p>Continuously through 2007 and in the medium term</p>	<p>To increase awareness about environmental protection.</p>
17	<p>Health Care</p> <ul style="list-style-type: none"> <li>Introduce uniform health policies and strategies consistent with the «Health Care for the 21st Century» document</li> <li>Investigate and eliminate radioactive contamination of the environment following the use of depleted uranium in BiH (develop programmes of monitoring and researching effects of depleted uranium and for radiological protection)</li> <li>Coordinate implementation of National Action Plan for Environmental Protection (NEAP) and the National Environmental Action Plan for Health Protection (NEHAP)</li> <li>Prepare the Operational Plan for Implementation of NEHAP</li> </ul>	<p>- FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment, - competent ministries of health, entity directorates of civil defence, - competent cantonal ministries</p>	<p>Second half of 2004 Second half of 2004</p> <p>Through 2007, and in medium term Second half of 2004</p>	<p>Intersectoral approach</p>
18	<p>Mine action</p> <ul style="list-style-type: none"> <li>Cooperate and coordinate with the BiH MAC within the framework of this national program of mine action activities.</li> </ul>	<p>BiH Council of Ministers, FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment and other competent line ministries</p>	<p>Continuously</p>	<p>Removal of mines would enhance environmental protection in several sectors (particularly in agriculture and forestry).</p>
19	<p>Regional planning</p> <ul style="list-style-type: none"> <li>Complete the regional plans for RS and FBiH</li> <li>Review existing regional plans in the light of modern principles and adopted entity regional plans</li> <li>Adopt strategies on regional planning and environmental protection</li> <li>Adopt action plans for implementation of these strategies</li> </ul>	<p>FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment</p>	<p>First half of 2005</p>	<p>Enhancement of regional planning as the crucial precondition for preservation of the environment.</p>



**Action Plan - Infrastructure**

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>TRANSPORT INFRASTRUCTURE</b>				
<b>LAWS AND REGULATIONS</b>				
1	Adopt the BiH Law on Roads	BiH Ministry of Communications and Transport	Second half of 2004	This Law should clearly define the framework for public roads, management, maintenance and financing, with reference to EU practices.
2	Adopt the changes and amendments to the FBiH Law on Roads	FBiH Ministry of Transport and Communications	Second half of 2004	To harmonize the legal framework in BiH and bring it in line with EU regulations.
3	Adopt changes and amendments the the RS Law on Roads	RS Ministry of Transport and Communications	Second half of 2004	To harmonize the legal framework in BiH and bring it in line with EU regulations.
4	Adopt the BiH Law on Railways	FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications, and railways corporations	Second half of 2004	This Law should be in line with the EU practices.
5	Review and harmonize entity laws on railways	FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications and railway corporations	Second half of 2004	To harmonize the conditions of financing railway infrastructure in FBiH and RS.
6	Gradually harmonize the legislation with the Joint Aviation Regulations of the EU	BiH Ministry of Communications and Transport	First half of 2006	For harmonization with international standards.
7	Adopt the BiH Law on Inland and Maritime Navigation	BiH Ministry of Communications and Transport	Second half of 2004	Clear and coherent regulations are a crucial for development of future river and sea traffic.
8	Adopt the European norms of environmental protection in transportation infrastructure	BiH Ministry of Communications and Transport, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	Second half of 2004	To reduce negative effects of transport on environment.
<b>INSTITUTIONS</b>				
9	Develop the work of the Public Roads Corporation in BiH	BiH Ministry of Communications and Transport	First half of 2006	Intensify the activities of this institutions, in order to ensure a transparent system of management of the road infrastructure.
10	Improve the institutional framework for awarding concessions at all levels	BiH Council of Ministers, FBiH Government, RS Government	First half of 2004	For attracting foreign investment.
<b>MEASURES</b>				
11	Ensure gradual increase of the share of revenues from taxes on fuel and vehicle registration fees allocated to construction and maintenance of public roads and highways to the level of 50% of the EU average	BiH Council of Ministers, FBiH Government, RS Government	Progressively through 2007	Current budgets allocations are insufficient for adequate improvements of the road network in BiH.
12	Continuously reconstruct existing roads	FBiH Roads Directorate, RS Roads Directorate	Continuously	To increase the level of safety and the quality of services on existing roads.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
13	Accelerate construction of modern highways and fast roads	BiH Ministry of Communications and Transport, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications, FBiH Roads Directorate, RS Roads Directorate	Continuously	With concessions and foreign investments. Construction of highways and fast roads would employ construction companies and large numbers of workers, which would contribute to poverty reduction. Special priority needs to be given to corridor Vc
14	Restructure railway sector in BiH	BiH Ministry of Communications and Transport, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications, railway companies	–Progressively through 2007	For inclusion into the European railway market, restructuring along the lines of the Directive 91/440 is necessary.
15	Ensure adequate funding of railway infrastructure	FBiH Government, RS Government	2007	Owing to insufficient funding of the railway infrastructure, it is impossible to achieve even normal operation levels.
16	Restore and rationalize railway infrastructure and rolling stock	FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications, railway companies	2007	To strengthen the position of railways.
17	Rationalize operations of railway corporations	Railway companies	2007	To cut costs and create conditions for profitable operations.
	<b>COMMUNICATIONS INFRASTRUCTURE</b>			
	<b>LAWS AND REGULATIONS</b>			
18	Adopt the Law on the Public RTV System and the BiH Public Broadcasting Service <sup>57</sup>	BiH Ministry of Communications and Transport	First half of 2004	To establish the network of public broadcasters in line with the EU standards.
19	Adopt a Framework Law on BiH Post	BiH Parliament	Second half of 2004	To regulate postal traffic at the level of BiH.
20	Adopt the FBiH Law on Postal Services	FBiH Parliamentary Assembly	Second half of 2004	This Law was adopted in RS. These entity laws should be harmonized.
21	Ratify the Convention of the Council of Europe on Cross-Border Television	BiH Parliamentary Assembly	Second half of 2004	In conformity with EC recommendations. <sup>58</sup>
	<b>INSTITUTIONS</b>			
22	Establish communications institutes	BiH Council of Ministers, FBiH Government, RS Government	First half of 2005.	To strengthen the institutional framework.
23	Establish entity communications agencies	FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	Second half of 2005	In conformity with EC recommendations. <sup>59</sup>
24	Establish BiH Postal Corporation	BiH Council of Ministers	Second half of 2004	As envisaged by the Annex IX of the Dayton Peace Accords.
25	Urgently restructure BiH Public Broadcasting Service	BiH Council of Ministers	First half of 2005	In conformity with EC recommendations. <sup>60</sup>

<sup>57</sup> Recommendation from the 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 44.

<sup>58</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 35.

<sup>59</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 35.

<sup>60</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 36.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>MEASURES</b>			
26	Adopt the decision on universal telecommunications service and on modes of its financing	BiH Council of Ministers	Second half of 2004	To improve the system of telecommunications in BiH.
27	Introduce licencing for content providers	CRA, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	Second half of 2004	To improve the system of telecommunications in BiH.
28	Introduce licencing for CatV operators	CRA, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	Second half of 2004	To improve the system of telecommunications in BiH.
29	Adopt the decision on the UMTS system licence	BiH Council of Ministers	First half of 2005	Requires an analysis of the cost of UMTS licence, to be done in 2004.

#### Action Plan – Energy

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>INSTITUTIONS</b>			
1	Strengthen the Energy Department in the BiH Ministry of Foreign Trade and Economic Relations	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To improve coordination in the energy sector.
	<b>MEASURES</b>			
2	Prepare the Development Strategy of the BiH Energy Sector by agreement of the competent line ministry of BiH (BiH Ministry of Foreign Trade and Economic Relations) and competent line ministries of FBiH and RS	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2005	To plan the development of the energy sector.
3	Design the methodology of collection of energy sector statistics	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, and statistical institutions	Second half of 2004	To strengthen the statistical system.
4	Analyze the prices of electric power	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, independent institutions	First half of 2004	To adjust the balance of prices within the sector in line with EU standards.
5	Analyze EU directives related to energy and develop appropriate BiH regulations	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, independent institutions	First half of 2004	To adjust to EU standards.
6	Prepare programs and measures for improving energy efficiency	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, independent institutions	Second half of 2004	To reduce the present level of wastage in consumption of electric power.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
7	Determine available renewable resources and prepare appropriate pilot projects	FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, independent institutions	Second half of 2004	Initiate introduction of alternative energy sources into BiH.
	<b>Power Sector</b>			
	<b>LAWS AND REGULATIONS</b>			
8	Adopt the Law on the Independent System Operator	BiH Parliamentary Assembly	First half of 2004	To establish the legal framework for operation of the electric power supply system at the BiH level.
9	Adopt the Law on the Transmission Corporation	BiH Parliamentary Assembly	First half of 2004	To establish the legal framework for electric power transmission in BiH.
	<b>INSTITUTIONS</b>			
10	Establish the State Electric Power Regulatory Commission (DERK)	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To institutionalize the electric power sector, in conformity with EC recommendations. <sup>61</sup>
11	Establish entity regulatory commissions	FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	To institutionalize the electric power sector, in conformity with EC recommendations.
12	Establish the Independent System Operator	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	To strengthen the institutional framework.
13	Establish the operators of the distribution system	FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To strengthen the institutional framework.
14	Establish the single transmission corporation	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To institutionalize authority for regulation of electric power transmission in BiH.
	<b>MEASURES</b>			
15	Implement the restructuring of the electric power sector	FBIH Government, RS Government, public electric power utilities	First half of 2005	To create preconditions for liberalization of the electric power market.
16	Establish the internal electric power market	FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To liberalize electric power trading in BiH, in conformity with EC recommendations. <sup>62</sup>
17	Participate in the establishment of the regional electric power market	BiH Ministry of Foreign Trade and Economic Relations, FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2005	To liberalize electric power trading in the region.

<sup>61</sup> EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement, Brussels, 18 November 2003, pp. 37-38.

<sup>62</sup> EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement, Brussels, 18 November 2003, pp. 37-38.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
18	Complete the implementation of the 'Power III' Project	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2006	To complete the reconstruction in this sector.
19	Adopt the power sector privatization strategy with action plans	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To continue reforms in the sector (PRSP strategy holds that the power sector should remain majority public owned)..
	<b>Coal Sector</b>			
	<b>LAWS AND REGULATIONS</b>			
20	Adopt the Law on Geological Research	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	Establish the legal framework for researching of available energy resources.
	<b>MEASURES</b>			
21	Adopt the action plans for restructuring of coal mines	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	To enable reforms in the power sector.
22	Implement the restructuring of coal mines	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2007	To enable reforms in the power sector.
	<b>Gas Sector</b>			
	<b>LAWS AND REGULATIONS</b>			
23	Adopt the state strategy of development of the gas sector by agreement of the BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry and RS Ministry of Economy, Energy and Development	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To ensure a unified approach to the development in this sector.
24	Adopt the Law on Transport, Regulator and Operator of the Gas System in conformity with EU directives	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To establish the legal framework for operations under market conditions.
	<b>INSTITUTIONS</b>			
25	Consider establishment of the State Regulatory Agency for Oil and Gas	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2005	To strengthen the regulatory framework in the gas sector.
	<b>MEASURES</b>			
26	Adopt the action plans for the restructuring of the gas sector	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To define operational steps for the reform in the sector.
27	Implement the restructuring of the gas sector	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2005	To reform the sector.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
28	Establish the internal market in the gas sector	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2005	To improve stability in the supply of gas.
29	Participate in establishment of the regional gas market	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2005	Related consultations are ongoing within the Stability Pact framework.
30	Build underground gas storage facilities	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Continuously	To ensure a more stable supply of gas.
31	Diversify the gas distribution network	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Continuously	To permit transport of gas to other parts of the country.
	<b>Oil Sector</b>			
	<b>LAWS AND REGULATIONS</b>			
32	Adopt the appropriate laws and regulations based on the principles of separation of production, transportation, storage, distribution and trading, in conformity with the EU directives	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	In order to establish an open market and a secure oil supply system.
33	Develop accompanying regulations in line with the EU directives	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	To harmonize EU regulations.
	<b>MEASURES</b>			
34	Develop the program and measures to improve business efficiency of the companies in the oil sector	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	Reorganization at both micro and mezzo levels (companies and the sector as a whole).

#### Action Plan - Industry

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>Industry Sectors – General</b>			
	<b>INSTITUTIONS</b>			
1	Establish RS Development Fund	RS Government	Second half of 2005	To ensure credit funds for support to strategic industry sectors
2	Establish funds for supporting scientific research	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, FBiH Ministry of Education and Science, RS Ministry of Science and Technology	Second half of 2005	To support applied research in order to strengthen competitiveness of the domestic industry.
	<b>MEASURES</b>			

No.	Activity	Responsible Institution	Deadline	Goals/Comments
3	Abolish customs duties on intermediate goods and equipment for strategic industries <sup>63</sup>	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	Reduction of financial burden to enhance competitiveness of companies.
4	Simplify the customs procedure and customs system for strategic industries	Indirect Tax Authority	First half of 2004	To simplify customs procedures.
5	Provide concessional credit guarantees for strategic industries (establish entity-level guarantee funds to reduce costs of borrowing)	FBiH Government, RS Government	Second half of 2005	To improve conditions for working capital borrowing.
6	Provide favorable bank loans for development programs in strategic industries	FBiH Investment Bank, future RS Development Fund	Second half of 2004 (in RS, 2006)	To ensure faster development and increase of competitive capacity of companies in the strategic branches of industry.
7	Provide assistance to companies in obtaining ISO 9000 quality standards and in implementation of conformity assessment procedures for obtaining the CE marking (New Approach and Modular Approach)	BiH Standardization Institute	Continuously	To create preconditions for exports.
	<b>Wood Industry</b>			
	<b>LAWS AND REGULATIONS</b>			
8	Adopt regulations to discourage export of timber	BiH Ministry of Foreign Trade and Economic Relations	First half of 2004	To stimulate wood processing domestically.
9	Accept the following EU directives: <ul style="list-style-type: none"> <li>• Directive 89/106/EEC - Construction products for windows, doors and construction elements, and harmonized standards</li> <li>• Directive 2001/95/EC on general product safety for furniture</li> <li>• Directive on defective product liability</li> </ul>	BiH Council of Ministers	Second half of 2004	In order to achieve harmonization with EU regulations.
10	Adopt regulations on equipment and staff requirements for opening primary and final-stage capacities	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	Second half of 2004	To increase the quality of production and eliminate unfair competition on the domestic market.
	<b>INSTITUTIONS</b>			
11	Establish a working body (institute) for research, development, standards and quality control in wood industry	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development In cooperation with the Foreign Trade Chamber	Second half of 2004	To monitor vital segments for wood industry.
12	Strengthen and stimulate university institutions training experts for wood industry	RS Ministry of Education and Culture, FBiH Ministry of Education and Science	Continuously	To train well-educated experts in the field.
	<b>MEASURES</b>			
13	Define strategic products of the wood industry.	FBiH Ministry of Energy, Mining and Industry, RS	Second half of	To plan the development of the sector.

<sup>63</sup> Strategic industries are: wood processing, food processing, textiles, leather and footwear, metal industry, tourism, energy, information and communication technologies .

No.	Activity	Responsible Institution	Deadline	Goals/Comments
14	Increase monitoring and control of the trade in wood assortments, strengthen the fines for violations, and accelerate procedure in the misdemeanor courts	Ministry of Economy, Energy and Development, BiH Foreign Trade Chamber FBiH Ministry of Trade, RS Ministry of Trade and Tourism, FBiH Ministry of Justice, RS Ministry of Justice	2004 Second half of 2004	To eliminate the grey market in raw materials.
	<b>Food Industry</b>			
	<b>LAWS AND REGULATIONS</b>			
15	<p>Prepare and adopt the laws harmonized with the EU standards and quality norms:</p> <ul style="list-style-type: none"> <li>• General Food Safety Law</li> <li>In line with the valid EU legislation, adopt appropriate regulations on: <ul style="list-style-type: none"> <li>• food products sanitation and hygiene (Directive 93/43/EEC),</li> <li>• food products marking (Directives 2000/13/EC, 89/396/EEC, 94/54/EC,96/21/EC)</li> <li>• additives (Directives 89/107/EEC, 94/34/EC,94/35/EC, 95/2/EC)</li> <li>• purity of additives (Directives 95/31/EC, 95/45/EC,96/77/EC)</li> <li>• official food control (Directives 89/397/EEC, 93/99/EEC)</li> <li>• pesticide traces in food products(Directive 2002/79/EC)</li> <li>• products and substances intended for contact with food products(Directives 89/109/EEC, 84/500/EEC 93/11/EEC, 93/10/EEC,2002/72/EC, 78/142/EEC)</li> <li>• marking of genetically-engineered food products (EC regulations 1139/98, 49/2000, 50/2000)</li> <li>• food products for specific medical purposes (Directive 1999/21/EC)</li> <li>• food products for special nutrition purposes (Directive) 89/398/EEC</li> <li>• food product contaminants (Directives 2002/26/EC 2001/22/EC 88/344/EEC, EC propisi 563/2002, 466/2001, 315/93),</li> <li>• spring and mineral waters(Directives 80/777/EEC, 96/70/EEC, 80/778/EC)</li> <li>• recipes for infant foods and subsequent stages (Directive 91/321/EEC)</li> <li>• cereal-based foodstuffs and baby, infant and young children products (Directive 96/5/EC)</li> <li>• spices (Directive 88/388/EEC)</li> <li>• quality of fruit juices and related products (Directive 2001/112/EC)</li> <li>• sampling and testing methods for control of food products (Directive 85/591/EEC)</li> <li>• quality of jams and related products (Directive 2001/113/EC)</li> </ul> </li> <li>Adopt the BiH Law on Nonalcoholic Drinks</li> </ul>	Food industry associations, FBiH Ministry of Agriculture, Water Management and Forestry, RS Ministry of Agriculture, Water Management and Forestry	Second half of 2004	To harmonize regulations with the EU regulations, to strengthen the quality control and product safety.
16	<b>INSTITUTIONS</b>	BiH Council of Ministers, associations of food industry	Second half of 2004	Elimination of illegal production.
17	Establish the BiH Food Safety Agency	BiH Council of Ministers	First half of 2004	For consumer protection
18	Establish an operational agency for certification of products of animal origin	BiH Council of Ministers, associations of food industries,	First half of 2004	For consumer protection in line with the EU standards.



No.	Activity	Responsible Institution	Deadline	Goals/Comments
		farmers' associations, BiH Veterinary Office		
	<b>MEASURES</b>			
19	Modernize equipment and laboratories/institutes for food products control	Public health institutes (at all levels), veterinary and agricultural institutes	First half of 2004	To improve control of food products
20	Koordinate the support to investments into food industry and trade with agriculture support measures (organized production, contract planting)	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, FBiH Ministry of Agriculture, Water management and Forestry, RS Ministry of Agriculture, Water management and Forestry	Continuously	For a more efficient support to the sector.
21	Develop and control the national seal of quality, including promotional activities and support to construction of privately developed quality seals (e. g. by food industry associations)	FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, FBiH Ministry of Agriculture, Water management and Forestry, RS Ministry of Agriculture, Water management and Forestry, chambers of commerce	Second half of 2004	Visual marking of BiH products recognizable by quality.
22	At BiH level ban imports of smaller quantities of components (emulsions, bottlers bases) for production of nonalcoholic drinks	BiH Council of Ministers	Mid-2004	To prevent development of grey economy.
	<b>Action Plan – Leather and Footwear Industry</b>			
	<b>LAWS AND REGULATIONS</b>			
23	Include pollution regulation and control measures from this and other industries into the system of environmental legislation and regulation in BiH	BiH Council of Ministers, FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment	Second half of 2004	This legislation comprises the treatment of waste materials, regulations of limits of air pollution emissions and regulations for protection of water. It is Particularly significant for pollution caused by the tanning process.
24	Adopt the European regulations and accept harmonized EU standards and technical specifications, and other legislation in this field	BiH Institute for Standards and appropriate institutes of FBiH and RS	Second half of 2004	For harmonization with the EU.
	<b>INSTITUTIONS</b>			
25	Strengthen organizational and institutional capacities of the Agency for Monitoring Sizes and Quality in the leather and footwear industry	BiH Institute for Standards and appropriate institutes of	Second half of 2005	To set the quality standards.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
		FBIH and RS		
	<b>MEASURES</b>			
26	Alter customs tariffs on all imports of basic and auxiliary equipment, as well as of footwear production equipment	BiH Ministry of Foreign Trade and Economic Relations, in cooperation with competent line ministries of FBIH and RS	First half of 2004	To reduce the cost of finished products and increase competitiveness on the foreign markets.
27	Revive specialized fairs for presentation of domestic leather and footwear	BiH Foreign Trade Chamber in cooperation with the entity chambers of commerce	First half of 2005	To revive fairs that had been traditional before the war.
28	Improve the work of inspectorates and veterinary services on the occasion of importation and exportation of raw leather	BiH Institute for Standards and appropriate institutes of FBIH and RS	Continuously	To strengthen control in order to reduce the informal market.
	<b>Action Plan – Textiles</b>			
	<b>LAWS AND REGULATIONS</b>			
29	Adopt the laws and regulations corresponding to the following EU regulations: <ul style="list-style-type: none"> <li>• Composition specification and textile designations (Directive 96/74/EC)</li> <li>• Methods of analysis of binary and ternary mixtures of textile (Directive 96/73/EC i 73/44/EEC)</li> <li>• Directive on personal protection equipment (89/686/EEC)</li> <li>• Directive on medical good (93/42/EC)</li> </ul>	FBIH Government, RS Government, producer associations	First half of 2004	To create preconditions for entry of domestic products into EU markets.
	<b>INSTITUTIONS</b>			
30	Strengthen organizational and institutional capacities of the Agency for Monitoring Sizes and Quality in the textiles sector (by setting the quality standards)	BiH Institute for Standards and appropriate institutes of FBIH and RS	Second half of 2004	To set the standards of quality
	<b>MEASURES</b>			
31	Support initiation and development of the basic textiles industry: wool and fabrics	FBIH Investment Bank, future RS Development Funds, future entity guarantee funds	2005 (in RS, 2006)	Creation of the basic industries would reduce imports, increase exports and employment.
32	Ban the imports of used (second-hand) goods, or raise the duties and taxes on such goods to the maximum	BiH Ministry of Foreign Trade and Economic Relations in cooperation with FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	To protect domestic production from unfair competition.
33	Revive specialized fairs for presentation of domestic textile products	FBIH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development, chambers	Continuously	Reactivate the fairs that had been traditional before the war.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>Action Plan – Metal Industries</b>	of commerce		
	<b>LAWS AND REGULATIONS</b>			
34	<p>Adopt a series of laws on conformity assessment and technical requirements for products covered by the 'New Approach' (accept into national legislation the following directives):</p> <ul style="list-style-type: none"> <li>• Machinery Safety Directive (98/37/EC)</li> <li>• Simple Pressurized Vessels (87/404/EEC)</li> <li>• Electromagnetic Compatibility Directive (89/336/EEC)</li> <li>• Directive on Electrical Equipment for use within Specified Voltage Limits (73/23/EEC)</li> <li>• Directive on Pressurized Equipment (97/23/EC)</li> <li>• Directive on Gasified Fuel Devices (90/396/EEC)</li> <li>• ATEX Directive (194/9/EC)</li> </ul>	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Energy, Mining and Industry, RS Ministry of Economy, Energy and Development	First half of 2004	Adoption of these laws will create preconditions for exports to EU and other countries. For implementation of these directives, it is necessary to build appropriate infrastructure for conformity assessment (metrology, accreditation, certification and testing etc.), as well as an adequate market surveillance system.
35	<p>Adopt the bylaws on environmental protection from pollution from the metal industry<sup>64</sup></p>	FBiH Ministry of Regional Planning and Environment, RS Ministry of Regional Planning, Construction and Environment	First half of 2004	To harmonize the legislation for preservation of the environment.
	<b>INSTITUTIONS</b>			
36	<p>Establish a regulatory body for the 'New Approach' and subunits for specific product groups:</p> <ul style="list-style-type: none"> <li>• Technical industrial products covered by the 'New approach' - electric popper safety- električna sigurnost</li> <li>• Technical industrial products covered by the 'New approach' - personal protection equipment</li> <li>• Technical industrial products covered by the 'New approach' - gasified fuel devices</li> <li>• Technical industrial products covered by the 'New approach' - machines, elevators and cable cars for passenger transport</li> </ul>	BiH Ministry of Foreign Trade and Economic Relations, competent line ministries of industry in RS and FBiH	Second half of 2004	Indispensable to permit exports of industrial products.
	<b>MEASURES</b>			
37	Abolish the customs duties on raw materials, intermediate goods and equipment not produced in BiH	BiH Ministry of Foreign Trade and Economic Relations, BiH Indirect Taxation Authority	Second half of 2004	To enhance the customs system and improve the domestic production.
38	Support efforts of companies to introduce ISO 9000 standards, and implement certification and conformity assessment for introduction of CE marking and VDA 6.1 norms, and to develop the capacities of domestic consultancy firms (specialized agencies) to provide services for introduction of standards and certification	BiH Ministry of Foreign Trade and Economic Relations, BiH Foreign Trade Chamber and entity chambers of commerce	Continuously	To harmonize the regulations with the EU regulations, increase the quality control and product safety.
39	Establish a system of environmental management, to meet the conditions prescribed by ISO 14000 standards	Specialized institutions and chambers of commerce at all	First half of 2004	A more efficient system of environmental management and harmonization with the EU

<sup>64</sup> See the section 'Sector Priorities – Environment'

No.	Activity	Responsible Institution	Deadline	Goals/Comments
		levels		legislation.
	<b>Action Plan – Tourism Sector</b>			
	<b>LAWS AND REGULATIONS</b>			
40	Adopt the BiH Law on Tourism and the bylaws, harmonized with the EU standards	BiH Council of Ministers	First half of 2005	To determine a common policy on tourism.
41	Adopt the BiH Law on Tourist Industry	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Trade, RS Ministry of Trade and Tourism, BiH Foreign Trade Chamber	Second half of 2004	To harmonize legislation between FBiH and RS.
42	Adopt the requisite bylaws, including the Rule Book on Classification and Categorization of Tourist Facilities and the Rule Book on Minimum Technical Conditions for Operations of Catering and Tourist Facilities, and harmonize such regulations at the BiH level, in line with the EU standards	BiH Ministry of Foreign Trade and Economic Relations, FBiH Ministry of Trade, RS Ministry of Trade and Tourism, BiH Foreign Trade Chamber	Second half of 2004	To harmonize legislation between FBiH and RS.
43	Adopt the Law on National Parks	FBiH Government, RS Government, FBiH Ministry of Trade, RS Ministry of Trade and Tourism	First half of 2004	To include other forms of protection of natural sites (nature parks, reservations, protected areas etc.).
	<b>INSTITUTIONS</b>			
44	Consider the need for establishment of the Tourism Department within the BiH Ministry of Foreign Trade and Economic Relations, to be headed by an Assistant Minister	BiH Council of Ministers,	First half of 2004	To strengthen the institutional framework.
	<b>MEASURES</b>			
45	Develop a long-term tourism strategy at the BiH level	BiH Council of Ministers, FBiH Ministry of Trade, RS Ministry of Trade and Tourism, tourism associations	Second half of 2004	To develop the PRSP strategy guidelines. Requires previous inventarisation of the conditions in tourism.
46	Strengthen the powers and capacities of inspection services, particularly in ensuring the level of services, registration of service providers and tax collection	FBiH Ministry of Trade, RS Ministry of Trade and Tourism	Second half of 2004	To ensure the quality of tourist services and to ensure tax collection.
46	Complete the privatization in the sector (hotels, camps, spas etc.)	FBiH Government, RS Government (FBiH Privatization Agency and RS Privatization Directorate)	Second half of 2005	To attract investment.
47	Promote the image of BiH and promote tourism	BiH Foreign Affairs Ministry and BiH diplomatic missions and consular offices abroad	Continuously	Organize promotional campaigns, fairs etc.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
		FBIH Ministry of Trade, RS Ministry of Trade and Tourism, tourism associations,		
48	Educate staff in tourism – ensure that scholarship for training necessary staff will be provided	FBIH Ministry of Trade, RS Ministry of Trade and Tourism	Continuously	Particularly for management training.
49	To educate the public on the importance of the protective attitude toward the natural and cultural heritage that represents tourist attractions	FBIH Ministry of Trade, RS Ministry of Trade and Tourism, tourism associations, NGOs	Continuously	To protect scenic spots and natural attractions.
50	Systematically attract investment into sustainable tourism	FBIH Ministry of Trade, RS Ministry of Trade and Tourism, FIIPA, tourism organizations and associations	Continuously	For further development of the sector.
51	Expand the list of protected monuments, strengthen their protection and enhance the system of funding restoration and maintenance.	FBIH Ministry of Trade, RS Ministry of Trade and Tourism, entity institutes for protection of monuments	Continuously	To promote development of tourism.

#### Action Plan – Mine Action

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>LAWS AND REGULATIONS</b>			
1	Adopt the changes and amendments to the Standards for Mines and Unexploded Ordnance	BiH MAC	Second half of 2004	The Standards of Humanitarian Demining are a document which is permanently being perfected, in accordance with the most recent achievements in demining affairs, which is why they are liable to change periodically (annually).
2	Adopt changes and amendments to the BiH MAC's Standard Operating Procedures	BiH MAC	Second half of 2004	The Standard Operating Procedures (SOP) are also being perfected in accordance with the demining standards and a new revised SOP appears annually.
3	Design and adopt the Standards for Mine Risk Education	BiH MAC	Second half of 2004	Creation of the standards which will regulate mine risk warning, information and education of all vulnerable groups and the population in general, in accordance with the Standards of Humanitarian Demining in BiH, as well as in accordance with the international standards of mine risk education.
	<b>INSTITUTIONS</b>			
4	Continue the strengthening and development of the capacities of the BiH MAC	BiH Council of Ministers	Continuously	Continuous strengthening and development of the BiH MAC is indispensable is an obligation provided for in the BiH Law on Demining. It concerns the increase of capacities for general reconnaissance and of specialist oversight of humanitarian demining operations.
5	Establish the Coordination Board for Assistance to the Victims of Mines	BiH MAC	Second half of 2004	To coordinate activities on assisting the victims of unexploded ordnance.

No.	Activity	Responsible Institution	Deadline	Goals / Comments
6	Establish a working group for strategic planning	Demining Commission	Second half of 2004	For more effective planning of the mine action activities.
7	Gradually increase the capacity of reconnaissance teams of the BiH MAC <b>MEASURES</b>	BiH MAC	Second half of 2005	Through expansion of staff and procurement of equipment.
8	Ensure continuous and effective conduct of humanitarian demining operations, in accordance with the needs of the country and available material and human resources, with a high level of quality assurance	BiH MAC, Demining Commission, BiH Council of Ministers, FBiH Government, RS Government	Requires at least two ten-year periods. The first strategic plan for mine action has been adopted and its implementation started from 2003.	The obstacles are of financial nature, because of the weak response of the BiH authorities, which should fund the BiH MAC structures and the mine action activities according to the plan, and because of the weak response of donors funding mine action operations, which is caused by weak involvement of the BiH authorities on funding its obligations to the BiH MAC and to demining operations.
9	Reduce and (by 2010), fully eliminate suspected areas of the I priority	BiH MAC, Demining Commission, BiH Council of Ministers, FBiH Government, RS Government	2007 and beyond	2003 - 25 km <sup>2</sup> ; 2004 - 35 km <sup>2</sup> ; 2005 - 45 km <sup>2</sup> ; 2006 - 45 km <sup>2</sup> ; 2007 - 46 km <sup>2</sup> ; These are the levels of planned surface areas for handover to subsequent users for the years through 2007.
10	Take indispensable intervention operations of demining on suspected areas of the II and III category priority	BiH MAC, Demining Commission	Following the priorities, through 2007.	The total suspected surface area of the II category priority in BiH is 590 km <sup>2</sup> , and of the III category is 1311,8 km <sup>2</sup> . These totals will change after the strategic mine action plan in BiH is reviewed owing to the completion of the systematic reconnaissance in the RS.
11	Significantly include the share of technical reconnaissance in the total operations	BiH MAC, Demining Commission, BiH Council of Ministers, FBiH Government, RS Government	Second half of 2004	The level of application of technical reconnaissance is very low, because its implementation has only started, but the planned share of technical reconnaissance in the reduction of the suspected surface areas is 18,1% annually, from 2003 through 2007.
12	Continue permanent marking of suspected locations of the II category priority and of routes classified as the III category priorities	FBiH Government, RS Government	Continuously	This activity is in the initial stage, and the planned areas are: 2004 - 3% of the suspected areas of the I category, 30% of the II category and 2% of the III category of the suspected areas. 2005 i 2006 - 3% of the I category, 40% of the II category, and 2% of the III category of the suspected areas. 2007 - 1% I% of the first category, 40% of the II category and 5% of the III category
13	Conduct systematic reconnaissance at the level of BiH	BiH MAC	Second half of 2004	This activity is ongoing; it was scheduled for completion in 2003. However, these activities would need to continue in 2004.
14	Conduct the Landmine Impact Survey	BiH MAC, Handicap International	Second half of 2004	The results of the Landmine Impact Survey and the confirmation by the UN Certification Committee are expected in early 2004.
15	Through coordination of the operations of all organizations involved in Mine Risk Education, improve efficiency of communication with vulnerable target groups, by coordinating Mine Risk Education on the regional, entity and state levels.	BiH MAC	Continuously	This can not be broken down by years. This is a continuing process dependent on annual operational plans. Measurement of these activities will become possible with completion of the Standard Operating Procedures concerning the Mine Risk Education (MRE) process.

No.	Activity	Responsible Institution	Deadline	Goals / Comments
16	Focus of NGO and citizens associations activities on Mine Risk Education to adult population target groups	BiH MAC	Continuously	Further continuation of activities in line with the Strategic Plan. After creation and adoption of the MRE Standards, these organizations will be in position to conduct these activities within the framework of the annual operational plans.
17	Retain the existing level of activities on acquainting children with the mine problems, through the teaching program in elementary schools	BiH MAC, RS Ministry of Education and Culture, FBiH Ministry of Education and Science	Continuously	This can not be broken down by year. Depends on the annual operational plans because this is a continuous process.
18	Provide specialist training for organizations and individuals on implementation of Mine Risk Education programs and projects through courses and seminars	BiH MAC	Continuously	This is a permanent process that involves BiH MAC, as the specialized organization, ITF, Cranfield University, UNICEF and relevant research institutions.
19	Create a network of educated journalists and editors who will keep the mine awareness in the focus of the domestic public	BiH MAC	Second half of 2004	Establishment of a public relations section in BiH MAC and prevention of sensationalist approach to informing the public on issues related to humanitarian demining.
20	Achieve IMAS Compatibility	BiH MAC	Second half of 2004	On the basis of international standards of humanitarian demining and the Law on Demining, full compatibility with IMAS standards should be achieved by end-2004.
21	Develop the system of prioritization and quality assurance in realization of Mine Risk Education	BiH MAC, Demining Commission	Second half of 2004	Develop the new mechanism for setting priorities based on the results of the Landmine Impact Survey, risk identification and in conformity with the risk management standards.
22	Develop capacities for supporting the planned scale of mine action	BiH MAC, Demining Commission, BiH Council of Ministers, FBiH Government, RS Government	Continuously	Capacities are developed on the basis of the Strategic Plan and its accompanying budget, as well as with respect to financial inflows.
23	Continuously improve the existing structure, following the development of mine actions in BiH and new technological development globally	BiH MAC, Demining Commission, BiH Council of Ministers, FBiH Government, RS Government	Continuously	To organize regular seminars and trainings abroad.
24	Create conditions for development of new technologies, which would accelerate the demining process and cut the costs	BiH MAC	Continuously through 2007	SEEMACC as the regional initiative, establishment of the dog training school.
25	Develop the cooperation on the international, regional and bilateral level, in order to develop demining capacity, and promote exchange of knowledge, experience and personnel	BiH MAC	Continuously	Cooperation with similar institutions in the neighboring countries that have the significant mine problem (MACs in Croatia, Serbia and Montenegro, Albania, Macedonia).
26	Complete all tasks required to establish the regional center for training dogs to locate explosives	Demining Commission	First half of 2004	The establishment of the center is under way and it will be fully operational in 2004.
27	By an active and transparent approach, restore donors interest in demining, in line with the mandate	BiH MAC, Demining Commission, BiH Council of Ministers, FBiH Government, RS Government	BiH Council of Ministers	Adopt a new approach in relations with donors within the current BiH MAC structure and institutions active in demining.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
28	Monitor the implementation of commitments assumed with the Ottawa Convention and review the BiH Mine Action Strategy	BiH MAC	Continuously	To review the goals in line with the results achieved over the preceding period.

#### Action Plan – Information and Communication Technologies (ICT)

No.	Activity	Responsible Institution	Deadline	Goals/Comments
<b>LAWS AND REGULATIONS</b>				
1	Change the existing regulations in the areas of: <ul style="list-style-type: none"> <li>commercial documents</li> <li>electronic signature</li> <li>consumer protection in electronic commerce</li> </ul>	BiH Council of Ministers, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	Second half of 2004	In line with EC recommendations. <sup>65</sup>
2	Develop and adopt necessary regulation in the areas of <sup>66</sup> : <ul style="list-style-type: none"> <li>electronic accounts</li> <li>electronic contracts</li> <li>electronic banking</li> <li>electronic payments</li> </ul>	BiH Council of Ministers, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	Second half of 2004	In line with the EC recommendations.
3	Adopt the regulations to ensure access to information about the activities of the state and entity institutions.	BiH Council of Ministers, ICT Agency, Agency for Protection of Personal Data	Continuously	To develop the sector and strengthen transparency in the work of public institutions.
<b>INSTITUTIONS</b>				
4	Establish an ICT agency at the state level and ICT agencies in the entities	BiH Council of Ministers, FBiH Ministry of Education and Science, RS Ministry of Science and Technology	Second half of 2004	To strengthen the institutional framework.
5	Adopt the Decision on establishment of the (or reactivation of the existing) BiH Academic and Research Network (ARNet)	BiH Council of Ministers, FBiH Ministry of Education and Science, RS Ministry of Science and Technology	Second half of 2004	To strengthen coordination in the work of universities and research institutions mutually and with international partners.
6	Adopt the Decision on creation of the BiH EDUNet (Educational Network of Elementary and Secondary Schools)	BiH Council of Ministers, FBiH Ministry of Education and Science, RS Ministry of Science and Technology	Second half of 2004	To strengthen coordination in the work of secondary schools and facilitate their inclusion in international networks.

<sup>65</sup> 'EC Report to the Council on Preparation of BiH to Start Negotiations with the EU on the Stability and Association Agreement,' Brussels, 18 November 2003, p. 36.

<sup>66</sup> A comprehensive UNDP project in this field is underway.



No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>MEASURES</b>			
7	Reduce tax rates and customs duties on imports of the ICT equipment, particularly computers, and in this context especially for ICT equipment and services donated to educational institutions	BiH Ministry of Foreign Trade and Economic Relations, BiH Indirect Taxation Authority, FBiH Ministry of Finance, RS Ministry of Finance	Second half of 2004	To stimulate development of the ICT industry and modernization of the educational system.
8	Provide tax benefits to stimulate development of ICT industry	BiH Indirect Taxation Authority, FBiH Ministry of Finance, RS Ministry of Finance	Continuously	To stimulate development of the ICT industry.
10	Train teachers for use of ICT, with the particular emphasis on distance learning	RS Ministry of Education and Culture, FBiH Ministry of Education and Science, RS Ministry of Science and Technology	Continuously	To modernize the education sector and promote distance learning.
11	Plan a line item in the state budget for funding the operations of the BiH Academic and Research Network	BiH Ministry of Finance and Treasury	Continuously	To stimulate development of the ICT industry.
12	Plan a line item in the state budget for funding establishment and operations of the BiH EDUNet	BiH Ministry of Finance and Treasury	Continuously	To stimulate development of the ICT industry.
13	Formulate an integral and comprehensive program of information training of the public administration	ICT Agency	Continuously	To improve the efficiency of the public administration.
14	Establish an integral system of e-government: <ul style="list-style-type: none"> <li>establish network infrastructure connections</li> <li>create the administrative information system at all levels</li> </ul>	BiH Council of Ministers, ICT Agency, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	<ul style="list-style-type: none"> <li>Second half of 2004</li> <li>Second half of 2005</li> </ul>	To improve the efficiency of the public administration.
15	Establish Internet and Web portals for public administration institutions	BiH Council of Ministers, ICT Agency, FBiH Ministry of Transport and Communications, RS Ministry of Transport and Communications	First half of 2005	To improve the access to information on the work of public agencies.

#### Action Plan – Specific Poverty-Related Issues

No.	Activity	Responsible Institution	Deadline	Goals/Comments
	<b>Gender Equality</b>			
	<b>MEASURES</b>			
1	Implement the Law on Gender Equality in BiH	Governments on all levels	Continuously	To promote achievement of full gender equality.

No.	Activity	Responsible Institution	Deadline	Goals/Comments
2	Promote knowledge about gender equality and integration of this knowledge in other fields	BiH Ministry of Human Rights and Refugees, BiH Agency for Gender Equality in cooperation with competent ministries for education at all levels and entity gender centers	Intensively in 2004-2005, and continues subsequently	To promote achievement of full gender equality.
3	Integrate gender equality issues into all strategic government documents on all levels	BiH Ministry of Human Rights and Refugees, BiH Agency for Gender Equality in cooperation with competent ministries for education at all levels and entity gender centers	Intensively in 2004-2005, and continues subsequently	In conformity with obligations arising from the BiH Law on Gender Equality.
4	Integrate gender into the curricula within the framework of the education reform	BiH Ministry of Human Rights and Refugees, Agency for Gender Equality in cooperation with competent ministries for education at all levels and entity gender centers	Continuously	In conformity with obligations arising from the BiH Law on Gender Equality.
5	Support development of post-graduate studies in the area of gender	Universities in cooperation with competent ministries of education at all levels	Continuously	
6	Design and implement measures to prevent gender-based discrimination in the areas of labor, employment and participation of women in public life	BiH Ministry of Human Rights and Refugees, FBiH Ministry of Labor and Social Policy, RS Ministry of Labor and Protection of Veterans and Disabled economic and social councils at all levels	Intensively in 2004-2005, and continues subsequently	In conformity with obligations arising from the BiH Law on Gender Equality.
	<b>Human Rights</b>			
	<b>LAWS AND REGULATIONS</b>			
7	Adopt the Law on the BiH Ombudsman	BiH Ministry of Human Rights and Refugees, BiH Ministry of Justice	First half of 2004	In accordance with the recommendations of the EU Feasibility Study.
	<b>INSTITUTIONS</b>			
8	Achieve progress in merging the state and entity ombudsmen	BiH Ministry of Human Rights and Refugees, BiH Ministry of Justice	First half of 2004	In accordance with the recommendations of the EU Feasibility Study.
	<b>MEASURES</b>			
9	Take steps to ensure fulfillment of post-accession criteria of the Council of Europe, particularly in the field of democracy and human rights	BiH Foreign Affairs Ministry, BiH Ministry of Civil Affairs, BiH Ministry of Human Rights and Refugees, BiH Parliamentary Assembly	Continuously	In accordance with the recommendations of the EU Feasibility Study.
10	Implement the decisions of the Human Rights Chamber, transfer the Chamber's jurisdiction to the BiH Constitutional Court and ensure the funding of the Constitutional Court	BiH Constitutional Court, BiH Ministry of Justice	First half of 2004	In accordance with the recommendations of the EU Feasibility Study.
11	Ensure financial sustainability of the State Ombudsman	BiH Ministry of Human Rights and Refugees, BiH Ministry of Justice	First half of 2004	In accordance with the recommendations of the EU Feasibility Study.
12	Implement the project of preparation of a BiH-level database on the violations of human rights and open this database for broad public use and encouragement of social dialogue	BiH Ministry of Human Rights and Refugees in cooperation with the BiH Statistics Agency, entity agencies and other ministries	Second half of 2005	To prevent human rights violations.