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## ANNEX 1

# INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)

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## INDICATIVE STRATEGY PAPER FOR **BOSNIA AND HERZEGOVINA** (2014-2020) – REVISED VERSION

ADOPTED ON xx/xx/2017

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Enlargement

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Neighbourhood and  
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Negotiations

## TABLE OF CONTENTS

<b>PART I: INTRODUCTION .....</b>	<b>2</b>
1. Purpose (Standard text will be provided by NEAR.A4) .....	2
2. Consultation on this Strategy Paper .....	3
<b>PART II: ANALYSIS OF THE NEEDS AND CAPACITIES .....</b>	<b>3</b>
1. Political and economic context .....	3
2. Context for the planning of assistance .....	5
<b>PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY .....</b>	<b>9</b>
1. Democracy and Rule of Law .....	10
2. Competitiveness and Growth .....	11
3. Cross-cutting issues .....	12
4. Final remarks .....	15
<b>PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020 .....</b>	<b>16</b>
1. Democracy and governance .....	16
2. Rule of law and fundamental rights .....	22
3. Competitiveness and innovation: local development strategies .....	28
4. Education, employment and social policies .....	33
5. Transport .....	39
6. Environment and climate change .....	44
7. Agriculture and rural development .....	47
<b>ANNEX 1 – Indicative allocations (million EUR) per policy areas and sectors .....</b>	<b>54</b>
<b>ANNEX 2: Indicators and targets .....</b>	<b>0</b>

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**PART I: INTRODUCTION . 2¶**  
 1.1. . Purpose of the Country Strategy Paper (CSP) . 2¶  
 1.2. . Consultation on this Strategy Paper . 3¶  
**PART II: ANALYSIS OF THE NEEDS AND CAPACITIES . 3¶**  
 2.1. . Political and economic context . 3¶  
 2.2. . Context for the planning of assistance . 5¶  
**PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY . 8¶**  
**PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2017 . 12¶**  
 4.1. . Democracy and governance . 12¶  
 4.2. . Rule of law and fundamental rights . 15¶  
 4.3. . Competitiveness and innovation: local development strategies . 19¶  
 4.4. . Education, employment and social policies . 22¶  
**APPENDIX 1: INDICATIVE ALLOCATIONS PER SECTOR (POLICY AREA) .....**25¶  
**APPENDIX 2: INDICATORS AND TARGETS . 26¶**  
 ¶

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## PART I: INTRODUCTION

### 1. Purpose (Standard text will be provided by NEAR.A4 at a later stage )

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Bosnia and Herzegovina on its path to EU accession. It translates the political priorities set out in the enlargement policy framework into key areas where financial assistance is most useful to meet the accession criteria.

The Instrument for Pre-accession Assistance (IPA II)<sup>2</sup> is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with the implementation and the adoption of the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance for Bosnia and Herzegovina shall concentrate on sectors where agreed strategies and sufficient sector coordination exist and will take into account the capacities of Bosnia and Herzegovina to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meet the needs of citizens, in particular minorities and vulnerable people, the civil society, and the private sector, as well as to best meeting the four specific objectives and address as appropriate the thematic priorities for assistance listed in Annex II of the IPA II Regulation, and the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach where possible, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for Bosnia and Herzegovina for the coming years, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the revision of the (multi-) annual programming of IPA II funds in 2014 to 2020. The indicative financial allocations

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<sup>2</sup> Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II), OJ L 77, 15.03.2014, p. 11.

allow for an appropriate amount of assistance to remain available as a "reward" on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

This Strategy Paper may be revised at any time by initiative of the European Commission.

## 2. Consultation on this Strategy Paper

This strategy paper was prepared in 2014 and revised in 2017 in partnership with the authorities of Bosnia and Herzegovina. The State- and entity-level governments and line ministries, the Directorate for European Integration (DEI), the National IPA Coordinator (NIPAC), EU Member States, international organisations, donors, and representatives of the civil society contributed to the preparation of this strategy.

## PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

### 1. Political and economic context

Bosnia and Herzegovina (BiH) is a country with a surface area of 51,209 km<sup>2</sup> and with a population of 3.79 million people.<sup>3</sup> The population has declined from the 4.4 million registered at the 1991 census due to the 1991-1995 war that devastated the country. Today 145,324 citizens of Bosnia and Herzegovina are still refugees or internally displaced persons<sup>4</sup>. The largest city is the capital, Sarajevo, which is home to 395,133 citizens according to the 2013 census.

The constitutional set-up stems from the Annex IV to the Dayton/Paris Peace Agreement (DPA) and establishes a complex political structure that provides for governments at State, entity, Brčko District and cantonal levels.<sup>7</sup> Governance in Bosnia and Herzegovina is built on a highly decentralised and very costly structure with competences divided at multiple levels and asymmetrically, and facing a lack of functional coordination and policy-making mechanisms and processes. The fragmented planning and budgeting processes, the lack of clear accountability and oversight lines and mechanisms, and the lack of a clear division of competences and responsibilities continues to undermine the efficiency and effectiveness of delivery of public services and public administration as a whole.

The fragmentation of the judicial system and of the law enforcement sector aggravates the fight against endemic corruption and organised crime. Lengthy civil procedures, insufficient enforcement mechanisms and complex administrative laws cause legal uncertainty for citizens and enterprises and are not conducive to economic growth and the attraction of foreign investments.

Legal provisions guaranteeing woman's rights and gender equality are in place, however resources of the institutional mechanisms for ensuring gender equality remain insufficient. Women's political participation and their participation in the labour market remain low. Laws and strategies against family violence are in place, but their countrywide harmonisation is not ensured. The financing of shelters for victims of domestic violence increased, but remains insufficient. Bosnia and Herzegovina continues to be a country of origin, transit and

<sup>3</sup> Figures are based on the 2013 census in Bosnia and Herzegovina

<sup>4</sup> UNHCR, December 2015: <http://reporting.unhcr.org/node/12020>

<sup>7</sup> For the purpose of this document, the general reference to "government" does not preclude the constitutional and legal position of executive power in BiH.

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destination for the trafficking of women, with a majority of trafficking for sexual exploitation, begging and forced marriages.

Economic growth remains resilient, but growth is still too low to lead to a noticeable improvement in the citizens' living conditions. Important drivers of growth were domestic demand, in particular private consumption, as well as external demand. As a small open economy, Bosnia and Herzegovina is highly dependent on developments in foreign markets. Trade integration with the EU is high, with more than 70 % of exports directed towards the EU-28. The main export products are processed commodities and raw materials. The range of export commodities is not very sophisticated, pointing to a limited competitiveness of the economy. Export-oriented sectors continue to play an important role in the country's development, and tend to be key drivers of its economic outcomes. In particular, manufacturing sectors such as metals, machines, footwear and headwear, mineral products, wood products, and textiles are the most important components of export and at the same time basic inputs for industrial production of EU countries. The chemical industry is another important sector, also highly dependent on global developments. The energy sector could make significant positive contributions to Bosnia and Herzegovina economic growth, both directly as well as indirectly as the recovery of major industries increases domestic demand for energy. However, this would depend on significantly improved cooperation between the entities as regards security of supply, effective functioning of the electricity distribution company, integrated energy markets, and full independence of regulatory bodies. The failure of domestic producers to meet the quality standards required by the accession of Croatia to the EU, albeit limited to some agricultural products, puts an additional break on export expansion. External imbalances have continued to decline, but remain substantial. Trade deficits are still primarily financed by inflows of transfers, such as remittances, and by service exports.

Bosnia and Herzegovina has strengthened its commitment to market-oriented reforms, and its authorities have adopted and started to implement in 2015 a Reform Agenda with plans for economic and social reforms. Since 2014 the economy has continued to recover (+3% GDP in 2015), government accounts are close to balance and the increase in public debt slowed down. Yet, growth is still too low to lead to a noticeable improvement in the citizens' living conditions. The speed of catch-up has remained among the slowest in Eastern Europe. Per capita GDP was only 29 % of the EU average in 2015 and unemployment has remained very high, particularly among youth. External imbalances have continued to decline, but remain substantial. The trade deficit was reduced from 29.6 % in 2014 to 26.4 % in 2015, while the current account deficit decreased from 7.5 % of GDP in 2014 to 5.6 % in 2015.

In September 2016, the IMF approved a request for financial support under a 3-year Extended Fund Arrangement (EFF). The EFF will assist economic reforms in Bosnia and Herzegovina by filling the country's balance of payments needs with approximately €554 million. This will support structural reforms and create the conditions for increased employment opportunities.

Despite tentative signs of recovery, labour market conditions are still extremely difficult. Unemployment remains very high and stood at 41.6 % in July 2016. Employment in the public sector continued to account for a large proportion of employment (31.2 % in 2015). Unemployment is particularly high among the young population (62.3 % for people aged between 15 and 24, according to the LFS 2016) and the labour market participation of women is low. The education system does not sufficiently respond to the needs of the labour market and life-long learning concepts are not developed. The economic crisis has increased the social exclusion and social protection risks for vulnerable groups, from which Roma continues to be the most vulnerable. Refugees and internally displaced persons still have

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**Deleted:** As sufficient fiscal space had not been created in the years prior to the crisis and high spending commitments had prevailed, public finances came under severe stress when revenues declined in 2009 because of the economic contraction, and Bosnia and Herzegovina had to resort to the international community for external support. Fiscal adjustment measures agreed with the International Monetary Fund (IMF) and the World Bank contributed to a gradual consolidation of public finances in 2010-2011. However, fiscal imbalances increased again in 2012 linked to the worsened external environment and downturn in economic activity. In 2013 the consolidated budget deficit decreased to 1.0% of GDP compared with 1.9% in 2012. In September 2012, the IMF Board approved a 2-year Stand-By Arrangement (SBA) totalling SDR 338 million (Euro 405.3 million) and aiming to counter the effects of the worsening external environment, strengthening fiscal sustainability and improving the resilience of the financial sector. In January 2014 the Executive Board approved a 9-month extension and augmentation of the SBA by Euro 153.1 million, to meet additional financing needs that arise mainly in late 2014. Following a delay since Febru... [4]

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problems with economic reintegration and access to health care, while the non-portability of social protection rights and pension rights between the entities remains one of the main obstacles to sustainable return.

The private sector in Bosnia and Herzegovina only slowly recovers from the effects of the economic crisis. The low foreign investment rate (1.4% of GDP in 2015), among the lowest in the region, aggravates the situation. A complex legal and regulatory framework and non-transparent business procedures pose serious obstacles for domestic and foreign investment. The small and medium enterprise (SME) sector remains the backbone of Bosnia and Herzegovina's economy, but struggles to develop into a fully competitive and sustainable force, also due to lack of access to credit, and suffers from administrative and regulatory burdens.

## 2. Context for the planning of assistance

### 2.1 Country-specific enlargement strategy

Bosnia and Herzegovina is a potential candidate for EU membership. The Stabilisation and Association Agreement (SAA) between the EU and Bosnia and Herzegovina was signed in June 2008 and is ratified by all Member States. The EU initiated in December 2014 a renewed approach to Bosnia and Herzegovina, which provides for the re-sequencing of the conditionalities in order for the country to progress towards the EU and address the outstanding socio-economic challenges it faced. This led to the entry into force of the Stabilisation and Association Agreement between Bosnia and Herzegovina and the EU on 1 June 2015, replacing the Interim Agreement (IA) which had been in force since 2008. In July 2015, the country adopted and started to implement a Reform Agenda aimed at tackling the difficult socio-economic situation and advancing the judicial and public administration reforms. Its implementation has continued with. In September 2016 the EU Council considered that meaningful progress was achieved towards the implementation of the Reform Agenda and invited the European Commission to submit its opinion on the EU membership application from Bosnia and Herzegovina, submitted in February 2016.

Regular political and economic dialogue takes place between the EU and Bosnia and Herzegovina in the framework of the SAA/IA structures. Bosnia and Herzegovina initialled in July 2016 a protocol for the technical adaptation of the SAA/IA, to take into account its bilateral traditional trade with Croatia. The signing of the protocol is pending. The suspension of the Autonomous Trade Measures will be lifted once the protocol on the adaptation of the SAA will be provisionally applied.

In 2011, the Commission launched the structured dialogue on justice to assist Bosnia and Herzegovina in consolidating an independent, effective, efficient and professional judicial system. The dialogue continues on crucial rule of law matters.

The EU enlargement strategy and main challenges 2014-2015 acknowledges that the accession process today is more rigorous and comprehensive than in the past, not only due to the evolution of EU policies but also due to lessons learned from the previous enlargements. As a result, the Commission has taken the approach of addressing fundamentals first and prioritises reforms related to rule of law and fundamental rights, economic governance and improving economic competitiveness, and strengthening democratic institutions.

The rule of law will remain at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform and the fight against organised crime and corruption early in the accession negotiations. Bosnia and Herzegovina will have to sustain the momentum of reforms over time in the key areas of the rule of law, particularly judicial reform and anti-corruption policy,

**Deleted:** In addition, the severe flooding of May 2014 is estimated to have caused damages and losses at 15% of GDP and the economy is expected to contract in the short run. There will also be a further strain on public finances, raising the fiscal deficit, while the trade deficit is also likely to come under pressure after it had substantially decreased in 2013 to 30.5% of GDP.

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independence of key institutions, freedom of expression, anti-discrimination policy, the protection of minorities, and develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible. The full and timely implementation of the relevant strategies and the action plans in the area of rule of law and fundamental rights will be essential in this regard.

The global economic crisis has underlined the need for all countries to strengthen their economic governance, improve competitiveness, and create a more stable and transparent business environment to attract investments and stimulate growth. The enlargement strategy sets out proposals to support this aim, including enhancement of economic policy and its governance through the introduction of annual Economic Reform Programmes (ERP), which includes competitiveness and growth as well as action plans for public administration reform and public financial management. The ERP process is in place since 2015 and will align with the Country reporting to prepare Bosnia and Herzegovina for the European economic semester. In the 2016 ERP, the country authorities presented an ambitious, back-loaded fiscal consolidation path, substantially lowering both revenue and expenditure. However, this is mainly achieved by reducing spending through the disproportionate use of delaying investment, which raises particular concern. Important ERP policy guidance measures agreed at the Economic and Financial Dialogue on 12 May 2015 have not been implemented.

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There is also a need to more intensively strengthen democratic institutions and make democratic processes more inclusive. Public Administration Reform (PAR) is one of the key pillars of the enlargement process and is addressed through six core dimensions which are closely inter-linked: a professional and depoliticised civil service; a good policy planning system with clear policy and legislative development procedures and processes; well-defined accountability arrangements among institutions and between administration and citizens; efficient service delivery (administrative procedures, e-government) to citizens and businesses; a sound public financial management system; and a comprehensive strategic framework that addresses all other core dimensions. Bosnia and Herzegovina has expressed commitment to address PAR in line with the Principles of Public Administration, which the OECD/SIGMA has developed in close cooperation with the European Commission and which define the core dimensions of PAR in detail.

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Finally, good neighbourly relations and regional cooperation are essential elements of the Stabilisation and Association process.

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## 2.2 Relevant national strategies

The Reform Agenda and its Action Plans, adopted in 2015, serve as the overarching framework identifying main priority areas for tackling the difficult socio-economic situation and advancing the rule of law and public administration reforms. Elaboration of a number of sector strategies is foreseen under the six areas covered by the Reform Agenda: public finance, taxation and fiscal sustainability; business climate and competitiveness; labour market; social welfare and pension reform; rule of law and good governance; and public administration reform.

Strategies exist for most of the sectors mainly at the level of the entities and cantons, and to a lesser extent at the state level. However, most strategies are not harmonised and do not provide for a countrywide implementation of the EU *acquis*. The few exceptions are the Public Administration Reform Strategy (expired at the end of 2014, but continues to be implemented), the 2014–2018 Justice Sector Reform Strategy (whose Action Plan is pending adoption), the National War Crime Strategy (NWCS), the Strategy for the Implementation of the Annex VII of the Dayton Peace Agreement (Refugees and Internally Displaced Persons, including the Sarajevo Process), the Roma Strategy, and the Strategy for Development of

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Statistics of Bosnia and Herzegovina 2020. Some of the strategies have expired and need to be updated. New country-wide strategies have been adopted since 2014, such as the 2016–2030 Framework Transport Strategy and the 2016–2020 Public Procurement Strategy. More strategies are under development such as the Public Administration Reform Strategic Framework the Public Financial Management Strategy and the Employment Strategy. A national programme for the country’s legal approximation with the EU *acquis* – a legal obligation under the SAA – has yet to be adopted. Weaknesses common to most strategies are the following: they are not based on a country-wide national development strategy or European integration strategy, they are not budgeted, no medium term expenditure and performance management frameworks exist, and only limited sector and donor coordination is available.

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Former EU assistance delivered a number of draft strategies (e.g. the country development strategy, the SME development strategy) and strategic documents (e.g. in the area of environment); however there is yet no political agreement to adopt and implement them.

At the regional level, Bosnia and Herzegovina signed up to the South-~~East~~ Europe Transport Observatory (SEETO), which was identified as the indicative extension of the Trans-European Transport Network (TEN-T) into the Western Balkan region, and to the targets of the South East Europe 2020 (SEE 2020) strategy. Bosnia and Herzegovina is a party to the Energy Community Treaty since 2006, though it continues to fall behind in fulfilling its treaty obligations, particularly on alignment with the Third Energy Package in electricity and gas.

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Bosnia and Herzegovina is part of two EU macro-regional strategies, namely the EU Strategy for the Danube Region (EUSDR) and the EU Strategy for the Adriatic and Ionian Region (EUSAIR). These strategies seek to bring together both EU Member States and non-EU countries to address common challenges and potentials in the concerned macro-regions. They are focusing on improved connectivity of transport and energy networks, better environmental protection, sustainable tourism actions, and socio-economic development measures in the geographically specific context, and they aim to improve the cooperation with EU Member States and to facilitate the preparation of candidate and potential candidate countries for EU integration.

### 2.3 Conditions for managing IPA II funds

In order to benefit from support through a sector approach, the chosen sector should have an existing strategy that is based on a budget and has a medium term expenditure framework, with sufficient capacity of the lead institution and a performance management framework, and it should be linked to sector and donor coordination. In addition, in the particular case of Bosnia and Herzegovina, sector approach should facilitate a countrywide harmonised implementation of the EU *acquis*. None of the sectors envisaged for support by the new instrument appears at present suitable for support through a sector approach. However, the EU will continue to support the preparation and gradual implementation of suitable strategies. In particular, EU assistance aims to create the capacities for strategic planning and the preparation for sector support. Until sectors are mature for support through a sector approach, the assistance will be provided through stand-alone actions, prepared in line with valid strategies.

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IPA funds in Bosnia and Herzegovina will be managed mainly through direct management. Bosnia and Herzegovina has not made the necessary preparations for indirect management of EU assistance.

Bosnia and Herzegovina will be eligible for sector budget support, if the following four pre-conditions are met: a stable macro-economic framework; a credible and relevant programme

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to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies consistent with the EU accession strategy. Once these conditions are in place, sector budget support can be provided in those sectors where there is a good strategic basis for implementation of reforms.

## 2.4 Donor coordination and complementarity with other EU assistance

The main donors in Bosnia and Herzegovina are the European Union, Germany, Sweden, Switzerland, Norway, the United States and the United Nations. Many EU Member States provide targeted assistance in specific sectors. The International Financial Institutions (IFIs) – the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Kreditanstalt für Wiederaufbau (KfW), the International Monetary Fund (IMF) and the World Bank - provide loans for the development of Bosnia and Herzegovina's economy.

The responsibility for donor coordination in Bosnia and Herzegovina is split between the Directorate for European Integration (DEI) for EU donors, and the Ministry of Finance and Treasury (MoFT) for other donors and IFI. Consultations with donors take place also at lower levels of government. The MoFT regularly organises Donor Coordination Forum meetings and publishes annually donor-mapping reports showing the donors active in Bosnia and Herzegovina and setting out their contribution by sector.

Moreover, the EU Delegation holds regular coordination meetings with EU Member States (MS) to exchange policy views and to streamline the EU and MS assistances for Bosnia and Herzegovina to be coherent and complementary.

The EU Delegation cooperates with other donors through its regular participation in the Donor Coordination Forum meetings, which are organised two to three times a year by the MoFT. In addition, in the sectors justice and anti-corruption, where the EU is a lead donor, it organises more frequently donor sector coordination meetings, and it closely cooperates with the United Nations (UN) family organisations and the IFIs on joint projects in Bosnia and Herzegovina.

## 2.5 Consistency with EU policies

Financial assistance in the priority areas identified in this strategy paper will be granted in line with and in support of the enlargement strategy for Bosnia and Herzegovina. It will be shaped to be consistent with EU policies in the same area, in particular with the Europe 2020 strategy and applicable macro-regional strategies EUSDR and EUSAIR, the flagship initiatives of the EU to boost growth and jobs, as well as the climate policy objectives of the EU. The objectives set until 2017 reflect the level of economic development and the stage in the accession process of Bosnia and Herzegovina.

The objectives agreed under the SEE 2020 Strategy are important benchmarks for the reform efforts of Bosnia and Herzegovina and financial assistance under IPA II will be used by Bosnia and Herzegovina to support meeting these benchmarks.

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### PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

Bosnia and Herzegovina is back on its EU accession path and it has started delivering. The adoption of a coordination mechanism in EU matters in 2016 is a necessary step, whose full functioning is expected to support reforms in areas where competences are shared between different levels of Governments.

EU financial assistance in several sectors, including energy, environment and agriculture, remains precluded by the absence of country-wide sector strategies establishing the domestic priorities for funding, as well as by the lack of a country-wide public financial management strategy. The adoption of a framework strategy for the transport sector in 2016 is a first step towards EU support to this sector.

At the same time, the Commission intends to ensure continuity of its support on the fundamentals of the EU integration process (rule of law, democracy, fundamental rights, economic governance, public administration reform and the legacy of the past), as well as to civil society, citizens, notably including vulnerable people, and the private sector.

Before the adoption of a comprehensive EU coordination mechanism in August 2016, the Commission concentrated on those sectors where agreed strategies and sufficient coordinating structures exist<sup>9</sup>. In parallel, work continues to help Bosnia and Herzegovina developing countrywide strategies in other sectors and setting up the relevant coordination structures. These efforts are supported both through the continued policy dialogue between the Commission and Bosnia and Herzegovina and through IPA funds.

A lesson learned from the programming and implementation of previous and on-going EU assistance is that political commitment and ownership of the reform process is an indispensable precondition for success. In view of this lesson, and in accordance with the Paris declaration on aid effectiveness, support will be based on Bosnia and Herzegovina's own sector reform strategies. Where such strategies do not exist, IPA II will support the development, the adoption and the implementation of the strategies. Funds for the development of countrywide strategies will be available in the European Integration Facilities foreseen under each annual IPA programme 2014-2017. Short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX) will also continue in all sectors.

The Commission stands ready to initiate the inclusion of further sectors for IPA support in this Strategy Paper, including where justified with the allocation of additional funds when Bosnia and Herzegovina adopts the relevant countrywide strategic documents.

Governance in Bosnia and Herzegovina is highly decentralised, with competences divided between the State level, entities, cantons and municipalities. IPA assistance respects the constitutional competences and the division of responsibilities among the different levels of government, as well as the specific needs of different actors at various levels involved in programming, managing and implementing pre-accession assistance.

Keeping in mind the importance of public administration reform in the enlargement process, the commitment of Bosnia and Herzegovina to meet the Principles of Public Administration

<sup>9</sup> These are the Justice Sector Reform Strategy (JSRS), the National War Crimes Strategy (NWCS), the Public Administration Reform (PAR) Strategy, the Strategy for the Implementation of the annex VII of the Dayton Peace Agreement (Refugees and Internally Displaced Persons, including the Sarajevo Process), and the Roma Strategy. A number of development strategies addressing local SME's priorities and relevant for local integrated development have been adopted at municipal, cantonal and entities level.

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and the commitment of the EU to the Better Regulation agenda, the key elements of public administration reform shall be systematically addressed in all sectors. IPA II assistance should especially ensure the Better Regulation approach, whereby policies and legislation in all sectors are prepared on the basis of best available evidence (impact assessments) and in an inclusive manner by involving the relevant internal and external stakeholders in the process.

For the period 2014-2020 pre-accession assistance will fall under the following two pillars: democracy and rule of law and competitiveness and growth.

## 1. Democracy and Rule of Law

This first pillar will cover two key sectors: democracy and governance, and rule of law and fundamental rights.

### 1.1 Democracy and governance

Governance and public administration reform are key priorities in the enlargement strategy. Strengthened democratic institutions, an inclusive democratic process, a strong role for the civil society and further progress with electoral, parliamentary and public administration reforms are key for the accession process.

Bosnia and Herzegovina's public administration and public financial management systems have to improve to prepare the country for the adaptation of the challenges of EU integration to ensure a more efficient, effective and accountable administration and improved delivery of services to citizens and businesses. This includes the need for further overall reform of public administration, including among others improved policy planning and coordination, more efficient public service management and a comprehensive public financial management reform. Corruption remains a serious problem in Bosnia and Herzegovina's public sector. Governments have to strengthen their integrity frameworks to create an effective and accountable public sector and to enhance the prevention, detection and repression of corruption via relevant legislation, institutions and civil society partners.

The focus of IPA II assistance will be on the implementation of principles of good governance and improving the public sector management, in particular to strengthen economic governance, public financial management, public service delivery and administration reform, as well as on the fight against corruption. In addition, the statistical system needs to be considerably strengthened.

### 1.2 Rule of law and fundamental rights

The rule of law is at the centre of the enlargement strategy. As a potential candidate, Bosnia and Herzegovina has to ensure that its judiciary is independent, impartial, efficient and accountable, and that its law enforcement agencies have the capacity and support to fight corruption, organised crime and terrorism. While there have been improvements in the judicial efficiency, a large backlog of civil and criminal cases remain. Moreover, non-harmonised criminal and civil court practice and weaknesses in enforcement impair the judiciary. The budgetary organisation of the judiciary is fragmented. Judicial independence, including from political influence, remains to be strengthened. As regards enforcement agencies, there are concerns on the undue political influence on operational policing. The insufficient cooperation among law enforcement agencies and between them and prosecution services impairs their preparedness to fight corruption, economic and organised crime, and terrorism.

The protection of fundamental human rights (e.g. freedom of expression, gender equality, people with disabilities, minorities such as Roma, lesbian, gay, bisexual, transgender and intersex (LGBTI) people, rights of the child and other) needs to be enhanced. Despite the

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legal framework is in place, its implementation and enforcement remains uneven. In particular, political and financial pressure on the media has increased and intimidation and threats against journalists and editors as well as polarisation of media along political and ethnic lines are a matter of concern.

The focus of IPA II assistance will be on enhancing the effectiveness, accountability and the efficiency of the judiciary, enhancing justice for citizens, fighting against organised crime, corruption and terrorism, prosecuting war crimes, and on the enforcement of fundamental rights.

## **2. Competitiveness and Growth**

This second pillar will cover two key sectors, competitiveness and innovation, education, employment and social policies, transport, environment and climate action and agriculture and rural development, energy.

### **2.1 Competitiveness and innovation**

A lesson learned from the implementation of assistance for social and economic development is that the Commission has to change the strategic approach for the delivery of assistance. A continuation of the traditional approach of promoting change via the development of strategies and policies at State and Entity level is unlikely to lead to the desired results. Rather IPA II will focus on providing support to partnerships for economic and social development at the local level, building on the existing local development strategies and the operational structures involved. An integrated approach aimed at strengthening SMEs competitiveness and innovation, including through increased research capacity, employment and job creation, as well as social inclusion, building on partnerships at local level, including municipalities, SME, education and training institutes, as well as civil society, is more likely to create a dynamic for economic and social development in Bosnia and Herzegovina. This approach will also allow providing support for the development of rural areas in the absence of progress regarding the instrument for pre-accession assistance in rural development (IPARD), as well as addressing issues of economic sustainability in focal areas for return and displacements.

### **2.2 Education, employment and social policies**

Unemployment remains very high, in particular amongst youth, and grey economy and informal employment are common. The education systems do not sufficiently respond to the needs of the labour market and labour and employment institutions and services lack capacity to implement active labour market measures. Social services lack capacity to evaluate the needs of vulnerable categories and assess the required financing to provide the appropriate support.

The already complex education system lacks policy coordination. Qualification standards are not systematically applied. There are no comprehensive policies to address social inequality and inclusive education, therefore the access of vulnerable children to education is limited. A reform of the education, employment and social sectors is indispensable for the social and economic recovery of the country. IPA II will focus on the reform of labour and employment institutions, the development of active labour market measures, the reform of the education system and the further development of a coordinated needs based approach for social services.

### **2.3 Transport, environment and climate action and agriculture and rural development, energy**

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IPA assistance to the transport sector is in line with the SAA commitments and the EU Enlargement Strategy and is therefore essential following the adoption of a 2016-2030 country-wide framework transport strategy and action plan in July 2016, based on related entity strategies. This sector covers capacity building, policy development, legislation approximation and investments in transport, incl. regional and EU integration of the road and rail networks, aviation as well as inland navigation and ports.

Concerning environment and climate action, the main needs in the sector are related to the progress in acquis transposition and compliance, including compliance with the so-called 'investment-heavy' EU directives primarily in the fields of water and waste management. In this regard, financial assistance should encompass on one hand capacity building measures at all levels of the administration that have a role to implement obligations in this field, and on other hand infrastructure investments to support the policy objectives, particularly in the waste and water management. IPA I assistance delivered outputs comprising country-wide strategic documents (e.g. draft Environment Approximation Strategy, Directive Specific Implementation Plans, for the four selected heavy investment EU Environment Directives, draft Environmental Policy, etc.) that could facilitate approximation in the area of environment with the EU acquis. It would also contribute to fulfilling the requirements of the SAA to which the Bosnia and Herzegovina is a signatory party. Assistance under the new ISP 2014-2020 is conditioned by the adoption of a comprehensive country-wide strategy in the environment sector.

The low levels of productivity and competitiveness as well as of the living conditions in the rural areas require support within the agriculture and rural development sector. IPA II support is needed for creating an efficient, sustainable and innovative agro-food sector which is competitive in the EU market and offers employment, social inclusion and better living standards for farmers and the rural population. Sound implementation of agricultural support measures strengthening business approaches and access to information and markets; food safety, veterinary and phytosanitary services, and controls functioning in line with EU directives, require IPA II assistance with special attention to potential export markets.

Assistance under ISP 2014-2020 is conditioned by the adoption of a country-wide strategy in the agriculture and rural development sector.

IPA II assistance in the energy sector is essential to ensure fulfilment of the commitments undertaken in the context of the Energy Community Treaty as well as to support the implementation of relevant EU policies and energy targets as mirrored in the accession agenda, such as the 20/20/20 Strategy as well as the EU Road Map 2050. Assistance under the new ISP 2014-2020 is conditioned by the adoption of a comprehensive country-wide strategy in the environment sector.

### 3. Cross-cutting issues

While programming IPA II assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action in many of them parallel. These include, inter alia, the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, anti-discrimination, strengthening of democracy, human rights and civil society participation, as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation. The cross-cutting issues concerning civil society, gender equality and the Roma minority, are detailed as follows.



### **3.1 Civil Society**

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by government institutions. Cooperation with civil society and involvement of citizens in policy dialogue are very important components of the accession process. Due to its fragmented administrative structure, Bosnia and Herzegovina needs to develop at all levels of governance a strategic framework and institutional mechanisms for cooperation with civil society organizations (CSOs) and involvement of citizens in policy dialogue. Progress so far includes the establishment of the eConsultation web platform and the adoption of new agreements with CSOs by BiH Council of Ministers, and Brčko District government.

Consultations with civil society are not systematic. Major improvements are still needed, including the establishment of Sector Civil Society Organisations (SECO) mechanisms, sufficient and transparent public financing for CSOs, and a new law on tax exemption and on the promotion of volunteerism.

Assistance for civil society under IPA II shall be developed in close cooperation with BiH Ministry of Justice and its Department for Civil Society. In order to support the strengthening of the existing legal framework and its implementation, the capacities of government representatives and CSOs need to be further developed and political commitment for steering this process needs to be ensured.

### **3.2 Gender equality**

Legal provisions and institutional mechanisms guaranteeing woman's rights and gender equality are in place, however resources remain insufficient. Women's political and labour market participation remain low. Laws and strategies against family violence are in place, but their countrywide harmonisation is not ensured.

The new EU Gender Action Plan 2016-2020 makes it mandatory for all EU actions to be informed by a robust gender analysis. Therefore, gender mainstreaming through IPA II financial assistance shall be ensured by all stakeholders and implementing partners throughout all programme cycle phases. IPA assistance shall include an assessment of situations and needs for women and men and translate it into indicators, activities and results.

Bosnia and Herzegovina has adopted the 2015–2018 framework strategy for the implementation of the Convention on preventing and combating violence against women and domestic violence; the BiH Gender Agency is responsible for its monitoring.

Although the legislation is in place, institutional capacity to implement it remains one of the most serious challenges. Gender inequalities are not deemed as a major issue in society, and remain in the shadow of ethnic divisions and of critical economic and social protection issues. Gender issues can be addressed more effectively when in combination with other inequalities, thus ensuring the commitment of all relevant institutions. The effects of gender mainstreaming through a systematic, consistent approach and full coverage would achieve the highest impact on society at large.

Some progress has been made with regard to the adoption of the EU Gender Action Plan (GAP) and its implementation. The selection of GAP priorities and indicators to be monitored and reported on is ongoing and will be very relevant in the programming of future IPA II.

Assistance for gender equality under IPA II is recommended and shall be developed in close cooperation with BiH Gender Agency and entity Gender Centres. The assistance could cover issues such as Strengthening institutional mechanisms at all levels of government; Increasing capacities of gender focal points in the relevant ministries and DEI; Enhancing capacities of

local gender commissions; challenging existing stereotypical views on and attitudes towards women's and men's roles in private and public spheres; Increasing political participation of women; Increase employability of women in rural areas; Addressing gender-based violence .

In addition, gender mainstreaming of all EU programmes must be ensured, indicating clearly that projects address problems and needs specific to both men and women. Gender-related issues should be included in a clear and appropriately structured problem analysis. Sex-disaggregated data shall be used throughout the programming cycle.

### **3.3 Roma**

The situation of Roma in Bosnia and Herzegovina is comparable to the situation in other Western Balkan countries, impaired by social exclusion, deep poverty, and limited access to healthcare, education and training, housing and employment. IPA II will support Bosnia and Herzegovina in the implementation of its Roma action strategy and related action plans in the fields of employment, housing and healthcare.

The situation on housing improved thanks to IPA I assistance delivering up to 300 new or reconstructed housing units (including social housing), thus contributing to the implementation of the revised Roma action plan on employment, housing and health care 2013-2016. Other social needs of the Roma community remain to be address in order to ensure the sustainability of the results.

The situation of Roma requires improvement through funding of sustainable solutions for their full integration, including support of employment and access to health and education. IPA II actions, developed in close cooperation with BiH Ministry for Human Rights and Refugees, shall continue supporting sustainable housing, combined with durable social and economic integration measures to improve livelihoods, and access to local services in line with the revised Roma action plan. Bosnia and Herzegovina has the second and the third lowest score in the region in regards to employment and education respectively. The social housing model needs to be revisited and a sustainable model for the poorest must be developed.

As the action plan for housing, employment and health expires in 2016, the Ministry of Human Rights and Refugees (MHRR) has initiated the preparation of the new action plan. The action plan for education and the Roma strategy will not be revised.

In order to ensure an efficient implementation of the existing legal framework, strategy and action plans, capacities of government representatives and CSOs need to be further developed and political commitment for steering this process needs to be ensured.

Besides improvement of housing conditions, actions could include: Establishing effective monitoring mechanism; Strengthening MHRR technical and human resources' capacities in order to ensure effective coordination with relevant state, entities, cantonal and local stakeholders as well as better cooperation with relevant local and international CSOs and donors; Strengthening the capacities of the Roma board; Improving Roma employability and their actual employment; Programmes for education, additional qualifications-requalification of Roma registered at the Employment Services; improving health care for Roma focusing on women and children.

In addition to the above, Roma issues should be mainstreamed throughout other existing programmes which should ensure implementation of Roma inclusion policy.

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#### **4. Final remarks**

In addition to assisting the above areas, IPA II support may also be mobilised in response to unforeseen priority needs relevant to the accession process, which do not fall under the aforementioned priority sectors. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX) and through Twinning.

Through its participation in macro-regional strategies, Bosnia Herzegovina aims at improving transport and energy networks; encouraging more sustainable energy and better environmental quality, promoting sustainable tourism, supporting capacity building for both private and public sectors, and SMEs development. Moreover, education, skills, and the Knowledge Society development (research, ICT) will also be privileged.

The indicative financial allocations per policy area and sector, resulting from the priorities defined in this strategy paper are set out in Annex 1.

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## PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

### 1. Democracy and governance

#### 1.1. Needs and capacities in the sector

In order to clarify the scope of this sector, it should be noted that the sector covers democratic institutions and overall public sector management, including public administration reform (PAR) coordination, policy-making, civil service reform and service delivery both at central and local level; and public financial management (PFM), including revenue collection and administration, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit. In addition, support will be provided for improving government IT interconnectivity and interoperability, including for customs and tax administrations with EU systems. Furthermore, the sector covers support to statistics and evidence-based policy development and the capacities for progressively adopting relevant EU legislation. Finally, civil society development is a crucial part of this sector. The fight against corruption is an important element of public sector performance and is further covered below by the 'Justice and fundamental rights' sector.

Previous assistance under IPA I in the sector included XXX... Overall, the IPA I support to the sector included close to EUR XX million. Other donors supporting the democracy and governance sector include XXX ....

Considering the existing strategies (some of which in the process of being updated), the achievement of some progress under previous assistance, and the importance of these areas for the EU acquis and the overall EU integration process, further assistance under IPA II in the **democracy and governance** sector is recommended under the conditions that the sector strategies currently under development are adopted and implemented.

Bosnia and Herzegovina submitted its EU membership application in February 2016, and in September 2016 the EU Council invited the European Commission to submit its opinion on the membership application. During the opinion process, all sub-sectors in public administration will be required to undergo significant strengthening and will require substantial assistance.

The country's public sector is in need of reform in order to improve its efficiency by reducing the costs. The current strategy and action plan for public administration reform (PAR) expired in 2014 and a new country-wide strategic framework for public administration reform needs to be developed, closely linked to a new country-wide strategy for public finance management. Bosnia and Herzegovina authorities have displayed political support for developing a new framework by early 2017, in line with the objectives of the Reform Agenda. In the absence of a new strategic framework, the Public Administration Reform Coordinator's Office continued to implement projects financed with the PAR Fund under the 2006-2014 strategy. Its annual report for 2015 declared a 65 % rate of implementation of the PAR Action Plan but the current monitoring framework lacks clear performance indicators to allow determining how far reform objectives have been achieved. The sector coordination mechanism under the previous strategy continues to provide an effective structure for cooperation with entity and Brčko District levels. However, the financial sustainability of the PAR strategy implementation needs to be improved reflecting the cost estimates for human resource needs and other costs of implementation in the annual budgets and the medium-term expenditure frameworks at all levels.

The pace of public administration reform remains slow and shows weaknesses in various areas, including policy planning and coordination, human resources management, budget

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processes, transparency and vertical co-ordination, as well as overall lack of administrative capacity of the country in dealing with coordination of EU matters and responsibilities. As regards service delivery to citizens and businesses, the lack of a harmonised and modernised legal administrative framework negatively affects the quality of public services delivery at all administrative levels. The development and implementation of coherent standards and common administrative practices across the entire public administration body still need to be addressed. Focus should be shifted towards a user-oriented administration at all levels, including through the development of e-services, starting from e-signature.

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**Corruption** remains a serious problem in Bosnia and Herzegovina's public sector. Integrity in public service is relatively well addressed at state level through anti-corruption and integrity plans, codes of conduct for civil servants, rules on incompatibility of office and the work of the Agency for Prevention of Corruption and Coordination of the Fight Against Corruption. However, the Agency has limited power to enforce these plans and the perception of corruption remains high. Risk assessments analyses have been produced for the health and education sectors, areas which remain particularly prone to corruption. More systematic risk assessments should lead to further measures to effectively address corruption.

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Amendments to the law on civil service in the Federation entity raised concerns on the risk of excessive politicisation; implementation has been delayed. Similar trends toward politicisation of the public service can be seen at other administrative levels.

Strategic plans for the rationalisation and containment of the public sector wage bills have been adopted at the end of June 2016 by the State and entity governments. The implementation of such reform measures will require technical and financial support in the coming period to achieve greater fiscal discipline. These are obligations stemming from the 2015-2018 Reform Agenda and important points in the agreements with international financing institutions.

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The global economic crisis, has underlined the need for Bosnia and Herzegovina to fundamentally review and strengthen its **fiscal and economic governance** to return to sustainable growth, to address the challenges of meeting the Copenhagen criteria and to improve competitiveness. Bosnia and Herzegovina has strengthened its commitment to market-oriented reforms. Implementation of reform measures agreed in the Reform Agenda has made progress. In addition, the authorities agreed with the IMF on a 3-year reform programme in support to the Reform Agenda, which is in force since September 2016. However, chronic and time consuming disputes between the various governmental stakeholders resulted in substantial delays and have strongly impeded the effectiveness of economic policy. In the 2016 Economic Reform Programme (ERP), the authorities presented, among others, an ambitious, back-loaded fiscal consolidation path, substantially lowering both revenue and expenditure. However, a particular concern is the disproportionate use of delaying investment in order to achieve spending reductions.

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A new strategy for development of public procurement has been adopted, in line with the 2014 BiH law on public procurement, as well as a strategy for public internal financial control in BiH institutions. In order to provide a sustainable basis for economic reforms, Bosnia and Herzegovina needs to implement a more comprehensive **public financial management (PFM)** reform as part of the public administration reform. Bosnia and Herzegovina still lacks a country-wide PFM reform strategy and action plan, which would set the basis for prioritising and sequencing the necessary reform actions in different parts of the PFM system, including in revenue administration, budget planning, budget execution, public debt management, accounting and reporting, public procurement, public internal financial control and external audit. While the adoption of PFM programmes for the state and the

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entities is expected for end 2016 / early 2017, Bosnia and Herzegovina continues to address public finances on a sub-system basis by adopting separate debt management or internal financial control strategies, but gaps remain in these various public finance sub-systems. There is a need for development of timely, informed and effective fiscal policies, implementation of internal control, the implementation and follow-up of external audits and the implementation of the indirect taxation reform.

The statistical system needs to improve the provision of timely and exhaustive statistics, applying European and international standards, in particular in the area of population statistics, national accounts and government finance statistics. The publication of the results of the 2013 population and housing census, conducted in overall accordance with international standards, was a major development in social statistics. Reliable data remain crucial to support the social and economic development of the country. A strategy for the development of statistics has been adopted. Four independent institutions operate the quality infrastructure (QI) management. There is no country-wide strategy for quality infrastructure and cross-cutting coordination between the relevant institutions at different levels of government is not ensured.

Regarding customs and taxation, the Business strategy of the ITA, covering the 2016-2018 period, has been adopted. A new customs policy law was adopted in 2015, but implementation is still pending.

Inaccurate land information hinders the decision-making process on land usage in public administration institutions at all levels. The shortcomings of the land administration system create unfavourable conditions for social and economic development, as the property market is underdeveloped.

The Commission grants great importance on the involvement of civil society and the media in the pre-accession process, thus also contributing to foster the citizens' understanding of the reforms that Bosnia and Herzegovina needs to complete to qualify for EU membership. This should also help ensuring EU accession is a broad based and well-understood process, which is ultimately crucial to achieving a well-informed decision on EU membership at the end of the pre-accession process. While some progress has been made in establishing institutional mechanisms for cooperation between governments and civil society organisations, a strategic framework for cooperation with civil society at all levels needs to be developed. The legal and regulatory framework on basic legal guarantees of freedom for civil society organizations is generally harmonized and in line with international standards. However, financial viability and sustainability and the available public funding is insufficient for CSOs. There is a need to leverage on the expert knowledge of civil society in specific sectors by bringing unique knowledge and experience to shape policy and strategy, and identifying and building solutions, as well as, play the role of enabler in driving change in collaboration with other stakeholders (e.g. business community, media, social partners).

## 1.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina to implement Principles of Public Administration and to improve its public sector management, in particular to strengthen public service and improve public service delivery and public financial management. A key objective is to support Bosnia and Herzegovina with a comprehensive economic reform programme in order to have a sound basis for socio-economic and structural reforms. Thereto closely related is the planned support for the statistical system to improve its capacities to produce reliable statistics. As concerns the fight against corruption, EU assistance will help to introduce integrity management in the public sector. Further EU assistance will support the parliamentary assemblies and the civil society to take a key role in the accession process.

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The expected results are the following:

- The public administration will have improved capacities to ensure a more efficient, effective and accountable delivery of public services to citizens and businesses, including sound administrative procedures and e-government services.
- Bosnia and Herzegovina will have improved capacities for public financial management, including more efficient revenue administration and collection, budget preparation and execution, public debt management, public procurement, public internal financial control and external audit. Systematic follow-ups to external audits, prepared by independent audit institutions, should be the rule.
- Parliaments in BiH will have the necessary capacities to support the EU integration process of the country.
- The statistical system will have the capacities to produce reliable macro-economic, business, social and demographic, financial and agricultural statistics.
- Regional statistical classification (harmonized with the nomenclature of territorial units for statistics (NUTS) regulation) should become available.
- More accuracy will be achieved in land administration, allowing for better decision making and the development of the property market.
- The external trade index, a harmonised index of consumer prices and business statistics, should improve.
- Prevention, detection and repression of corruption via relevant legislation, institutions and civil society partners will improve.
- The cooperation between civil society organisations and public institutions will improve.
- Capacities of civil society organisations to increase their autonomy, representativeness and accountability, as well as their membership base, fundraising and effectiveness, will be strengthened.
- The capacity of the country (public administration, civil society, statistical system) to be actively involved in macro-regional strategies, and hence to benefit from their implementation, will improve through the adoption of a strategic framework based on the 'Europe 2020' and 'South-East Europe 2020' Strategies.
- The broadcasting and telecommunication sectors will be reinforced.

To support Bosnia and Herzegovina achieving these targets, IPA II actions will provide technical assistance for capacity building, process optimisation and information technology (IT) and will support the integrity management within the public sector to stimulate and enforce integrity and to prevent corruption.

Bosnia and Herzegovina will receive support in preparing the annual Economic Reform Programme in order to accelerate sector reforms in key economic growth areas such as transport, telecoms and energy, all aimed at enhancing Bosnia and Herzegovina's competitiveness, unlocking investments, growth and employment. The Economic Reform Programme process is in place since 2015 and aims to systematically follow the main economic reforms and report on their implementation. The process will align with the Country reporting and prepare Bosnia and Herzegovina for the European economic semester. It will also receive support in developing and implementing the new country-wide strategic frameworks for public administration reform and public financial management reform.

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IPA II will support coordinated fiscal development and enforcement, assist treasuries to introduce commitment controls, and provide capacity building to ministries of finance. Investment support for the quality infrastructure (QI) system will be conditional to the adoption of a joint strategic framework. The support for the strengthening of the statistical system, in particular to produce reliable macro-economic, business, social and demographic, financial and agricultural statistics, will continue.

Financial assistance should continue to target the lack of capacity of parliamentary administration and of strategic guidance and oversight over the EU accession process of the Parliaments in BiH. The action plans and cooperation mechanism adopted will need to be put in practice and strengthen the capacities of all Parliaments, including cantonal assemblies, to allow them to fulfil their obligations as stemming from the SAA.

A new IDDEEA (the Agency for Identification Documents, Registers and Data Exchange of Bosnia and Herzegovina) Strategy 2016-2020 is under preparation. Further IPA II support will improve the effectiveness of IDDEEA, through providing the possibility to review and collect information, making governments more accountable, transparent and effective, and improving the content and delivery of e-services to citizens and businesses, including implementation of the e-signature law.

The broadcasting and telecommunication sectors deserve IPA II support in terms of development, implementation and improvement of the regulatory framework in telecommunications, broadcasting and management of the radio frequency spectrum.

Further IPA II assistance in land administration reform will foster accuracy in land information and the development of the property market.

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As concerns civil society, the Commission will offer a combination of political and financial support to meet these objectives, employing a more strategic, effective and results-focused approach to deliver maximum impact. The approach, including indicators and baselines and targets, are specified in the Guidelines for EU support to civil society in enlargement countries in the period 2014-2020. Results and indicators will be monitored on annual basis.

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In its political contacts, the Commission will encourage enlargement beneficiaries to make legislation more conducive for civil society. It will also promote the involvement of civil society in the pre-accession process, including in the formulation, implementation and monitoring of sector strategies for EU financial assistance. The financial support under the civil society facility will be provided both from the national and multi-beneficiary programmes. An appropriate mix of funding instruments will be used to respond to different types, needs and country contexts in a flexible, transparent, cost-effective and results focused manner across the sectors. This will include: aiming for longer term contracts, recognising that capacity building and advocacy work requires time and resources; moving away from project based support to a more flexible approach that fosters partnership and coalition building; and doing more to reach out to grass-root organisations, in particular through re-granting and flexible support mechanisms to respond to their immediate needs. Civil society will also be supported under different sectors through measures enhancing its role and capacities to participate actively in formulation and implementation of sector strategies for EU financial assistance.

Indicators to measure progress in meeting targets (for details see Annex 2, table 2):

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- Progress made towards meeting accession criteria (EC)

- Composite indicator on Government Effectiveness (WB), Burden on Government Regulation (WB) and Regulatory Quality (WB)
- Statistical compliance (Eurostat)

### 1.3 Types of financing

Assistance will be provided primarily through twinning, technical assistance, sector budget support, blending, grants and supplies of equipment under the national IPA programmes.

The TAIEX instrument provides ad hoc and short-term technical assistance. EU programmes, the Hercule III (promoting activities against fraud, corruption and any other illegal activities affecting the financial interests of the Union), Pericles 2020 (protection of the euro against counterfeiting), Fiscalis 2020 (contributing to the fight against tax fraud and revenue collection) and Customs 2020 are relevant for this sector. Bosnia and Herzegovina can benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

Under the multi-beneficiary IPA programme, complementary support to horizontal public administration reform area will continue to be provided through cooperation with the Support for Improvement in Governance and Management instrument (SIGMA) of the Organisation for Economic Co-operation and Development (OECD) and the Regional School of Public Administration (ReSPA) as well as, in the area of regional trade, with the Secretariat of the Central European Free Trade Agreement (CEFTA). In the area of statistics, Eurostat will continue providing support to statistical offices. In addition, customs and taxation may be considered for additional support under the multi-beneficiary programme to improve regional cooperation.

There is a need for a flexible instrument, a **European Integration Facility**, which can react to short-term developments and provide necessary assistance and capacity building support to the authorities in Bosnia and Herzegovina at various levels. It will assist in the SAA implementation, acquis alignment, projects preparation and implementation, as well as reinforcing the institutional capacity for SAA implementation and absorption and management of IPA funds.

### 1.4 Risks

The main risk to the reform of the public sector is the lack of political will and agreement amongst political leaders to pursue the necessary reforms. To mitigate the risk the Commission and Bosnia and Herzegovina will engage in regular policy and political dialogue through the SAA structures (subcommittees, including the PAR Special Group; SA Committee; SA Council).

Another relevant risk is the absence of sufficient domestic budget allocated to the public administration reform. The donor driven public administration reform fund is currently compensating the lack of domestic budget, but donors are phasing out and Bosnia and Herzegovina's own financial commitment will be essential for the success and the sustainability of the public administration reform.

The macroeconomic situation could pose a further risk to reforms, particularly for what concerns employment and public administration reforms. To mitigate it, the country authorities will need to be reinforced in their capacities to monitor reform progress and take corrective actions. The involvement of IFIs and independent monitoring to recommend eventual corrective actions will also be undertaken.

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Assistance will be provided primarily through twinning, technical assistance, blending, grants and supplies of equipment under the national IPA programmes.¶

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Finally, the authorities' disregard of the civil society's crucial role in the democratisation and accession process might also hinder the reform process. To mitigate such risk, the Commission will provide capacity building for governments and the civil society to pursue a stronger policy dialogue, e.g. through the 'Initiative for Open Government' and regional cooperation projects for civil society such as the Western Balkans Enabling Project for Civil Society Monitoring of Public Administration Reform (WeBER).

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## **2. Rule of law and fundamental rights**

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### **2.1 Needs and capacities in the sector**

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This sector includes the functioning of the justice system, i.e. the relevant activities of the Ministry of Justice, the judiciary (with the High Judicial and Prosecutorial Council playing a key managing role) and penitentiary institutions, as well as law enforcement agencies. It includes broader issues such as the protection of human rights and the prosecution of war crimes, as well as media freedom. It will also address the fight against corruption across the public institutions.

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Previous assistance under IPA I in the sector included XXX... Overall, the IPA I support to the sector included close to EUR XX million. Other donors supporting the rule of law and fundamental rights sector include XXX, ....

On the basis of the sectoral strategies, further assistance under IPA II is recommended for (a) justice and fundamental rights; (b) police cooperation, as well as cooperation between law enforcement agencies and prosecution services; (c) Integrated Border Management (IBM), asylum, and migration; and (d) the fight against corruption as a cross-cutting sector.

#### **Justice and home affairs**

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Further assistance to the justice and home affairs sub-sector is recommended under IPA II as this is a crucial area for BiH European integration process. Consequently, a significant amount of IPA support will continue to be required to address the breadth and width of shortfalls of BiH in the justice sector. Further assistance to police cooperation, Integrated Border Management (IBM), asylum, and migration, is also recommended under IPA II within the home affairs sub-sector.

IPA II assistance for the justice sector has focused on increasing the efficiency, effectiveness, accountability and professionalism of the judiciary. IPA II is also supporting the process of searching for missing persons as a result of the conflicts of the 1990s, as well as the improvement of material capacity for the execution of criminal sanctions.

The EU support for the judiciary has deepened and broadened over the past years, gradually moving from criminal law, particularly war crimes case processing, to encompass aspects of civil law, not least on judicial efficiency and the reduction of the case backlog. With significant EU support, courts and prosecutor offices throughout Bosnia and Herzegovina benefitted from information technology investments, as well as a Case Management System (CMS) available to over 5000 judicial users. An online judicial document system was established providing access to over 10,000 judicial acts.

However, more reforms are needed to increase judiciary efficiency. The backlog of civil and criminal cases needs to be further reduced to increase judicial efficiency. Effectiveness should be enhanced by a more harmonised criminal and civil court practice in all four jurisdictions, as well as application of proper enforcement. Renovation of judicial institutions buildings needs to continue.

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Common shortcomings may be found in the organisational set-up, inter-institutional cooperation as well as capacities across the rule of law sector in BiH.

With regard to the **judicial system**, weaknesses are apparent in the management, strategic and budgetary planning capacities. Staffs require better skills and know-how in the investigation, prosecution and adjudication of relevant cases, which should be enhanced through an improved training infrastructure. The status and role of employees who are not judicial office holders should be improved. Furthermore, structural and procedural weaknesses undermine the judicial system's accountability and its ability to sustain its independence. A state-level law on free legal aid was adopted in 2016.

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Similarly, there are concerns about the efficiency and independence of the **law enforcement** sector itself due to undue political influence on operational policing. Progress has been achieved in the area of police cooperation, notably thanks to significant amount of EU funding for data management and data protection. Further strengthening of the electronic data exchange system for prosecutor and police registries, and ICT equipment to all relevant law enforcement institutions, will be required. Law enforcement actors still require further strengthening in terms of professional standards in the police services, modern Human Resource Management (HRM), police training, investigation and prosecution capacities and relevant cooperation mechanisms, international police cooperation, acquis harmonisation process in the area of law enforcement, strategic planning capacities within law enforcement agencies, and special investigation technique, notably related to the financing of terrorist activities, money laundering or other financial offences.

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Regarding the **fight against organised crime and corruption, and the fight against terrorism** insufficient cooperation and coordination between law enforcement agencies and the prosecutions services significantly undermine the process. Similarly, cooperation and coordination on the exchange of criminal information and intelligence within the country are insufficient. In addition, the infrastructure and staff capacities in the execution of criminal sanctions are unsatisfactory. Forensic capacity, as well as the role of police educational institutions, requires strengthening. IPA has also been addressing the fight against corruption as a cross-cutting sector, through financial support to the BiH anti-corruption agency (APIK), which has directly contributed to the adoption of the 2015-2019 strategy and action plan for the fight against corruption. IPA II should continue to support the establishment and functioning of anti-corruption bodies at all levels (entities, Brcko District, cantons), also in line with the 2015-2018 Reform Agenda, and should continue building the capacity of civil society to engage in the fight against corruption from the grassroots level.

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With the help of EU assistance, Bosnia and Herzegovina has made some steps in improving its integrated border management system (IBM). Legislative and strategic developments in the area include the amendments to the law on border control (2014), the new law on foreigners (2015), the new law on asylum (2016), the strategy and action plan on migrations and asylum 2016-2020, the IBM strategy and framework action plan 2015-2018. Support to comprehensive asylum, migration and border management policies is still needed, notably taking into consideration Croatia's accession to the EU in 2013 and the resulting new external borders of the EU. Irregular migration and increasing numbers of asylum seekers will continue to put pressure on the agencies responsible for implementing border management and dealing with asylum seekers and irregular migrants in BiH. The migration crisis has so far not directly affected Bosnia and Herzegovina, but the country's preparedness to manage eventual sudden influxes should be enhanced, e.g. by upgrading the Migration Information System and further developing biometrics. The strengthening of control authorities at all

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levels is envisaged, including both equipment and training of border inspectors and internal supervisors. **Civil protection and rescue services require strengthening too.**

**The 2014-2018 justice sector reform strategy (JSRS) was adopted in September 2015; the adoption of an action plan is still pending.** Regarding criminal justice, the most significant strategy is the **National War Crimes Strategy (NWCS)**. Law enforcement strategies cover the fight against corruption and organised crime, the fight and prevention of money laundering, the suppression of human trafficking and abuse of illicit drugs as well as the integrated border management and asylum and migration strategies. A common policy framework is missing. The international community frequently coordinates its activities through coordination fora dedicated to justice sector dialogue and anti-corruption activities. The main donors in the rule of law area include Sweden, Norway, the United States, UN, OSCE, Council of Europe, Switzerland and the United Kingdom.

### Fundamental rights

The European Union is founded on common values and principles, including respect for fundamental rights. As well as the other enlargement countries, Bosnia and Herzegovina needs to undertake further reforms to ensure that the protection of the freedom of speech, **gender equality**, and the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) people **and of persons belonging to minorities, including Roma**, are respected in practice, not just enshrined in law. Despite the legal framework for the protection of fundamental rights being in place, implementation and enforcement remain uneven. The complexity of the country's political and institutional structures **is the biggest policy challenges in this field.** **New strategic documents adopted include the framework strategy to combat gender-based violence and the national action plan for the implementation of UN Security Council resolution 1325 on women, peace and security. The strategy on human rights and the strategy for combating discrimination are under preparation.** **Amendments to the anti-discrimination law in August 2016 have introduced age, sexual orientation, gender identity and disability as grounds for discrimination.**

### 2.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina enhancing **effectiveness, accountability and efficiency** in the justice and home affairs sector through supporting the improvement of strategic planning, through the creation of integrity frameworks and through better management of human resources.

Further support aims to enhance **justice for citizens** through the provision of modern technology, the improved access to justice for vulnerable, through enhancing procedural rights, through improving the execution of criminal sanctions and advancing the prosecution of criminal cases, in particular war crimes, organised crime and corruption cases. Another objective is enhancing **justice for growth** through the implementation of alternative dispute methods, improvements of administrative law, through facilitating the business registration process, and through reviewing the legal, procedural and implementation procedures to improve the enforcement of commercial laws and claims.

Further EU assistance aims to support the **fight against organised crime and corruption and the fight against terrorism** through a better preparation of law-enforcement institutions, through enhancing police-prosecutor cooperation, and through developing a comprehensive recovery system to discourage corruption, financial crime and money laundering. Another objective is to support **border management** and the implementation of **asylum and migration** policies through introducing modern technologies, enhancing institutional cooperation, capacity building and establishing national referral systems.

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Further support will be provided for the protection of **fundamental rights** through providing a monitoring and evaluation system for **human rights**, supporting the improvement of legal aid and minorities' access to justice. To support respect to **freedom of expression**, IPA II will provide capacity building, training and expertise to the relevant media bodies to develop investigative journalism and to improve professional journalistic standards.

The expected **results** are the following:

- The judicial efficiency will noticeably improve, in particular through the elimination of the backlog of civil and criminal cases.
- The independence of the judiciary will be assured and accountability will improve.
- Every citizen will have access to justice, and, in particular for the vulnerable, the access will be free.
- The capacity and the quality of the execution of criminal sanctions will improve.
- The process of identification of missing persons will progress and the competent domestic forensic institutions will be reinforced.
- Transparency, accountability and proactive intelligence-led policing on organised crime, corruption and terrorism cases will be strengthened and the recovery of public funds will improve.
- The efficiency and co-operation between the law enforcement agencies and prosecution services will increase.
- The track record of investigations, prosecutions and final convictions in organised crime, corruption and terrorism cases will be developed.
- The capacities to fight high-tech crime and cyber-crime will improve.
- The Integrated Border Management approach is implemented with improved capacities and strengthened cross-border and inter-agency coordination and improved risk assessment, data collection and data exchange systems.
- Migration, especially irregular migration, is efficiently managed, in line with EU requirements.
- Asylum processing and asylum management is improved in line with the EU requirements.
- Civil protection and rescue services are strengthened and their preparedness to face catastrophic events is enhanced.
- The protection of fundamental human rights (e.g. freedom of expression, gender equality, the rights of persons with disabilities, of LGBTI persons, of minorities such as Roma, and of children) will improve.

To assist Bosnia and Herzegovina achieving the expected results, IPA II assistance will support actions for the improvement of strategic planning, the creation of integrity frameworks and better management of human resources, thus enhancing effectiveness, accountability and efficiency in the justice and home affairs sector.

Assistance will contribute to enhancing justice for citizens through the shortening of civil procedures and the reduction of the backlog of cases by using modern technologies, improving the access to justice for vulnerable, enhancing procedural rights, improving the execution of criminal sanctions, and advancing the prosecution of criminal cases, in particular

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organised crime, corruption and terrorism cases, and to support the prosecution of war crimes. Linked to the war's legacy, further efforts will be undertaken to continue the identification of missing persons by strengthening the competent domestic institutions in order to foster their sustainability and a gradual phase-out of assistance.

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Support will be provided for enhancing justice for growth through the implementation of alternative dispute methods, improvements of administrative law, its implementation and application, facilitating the business registration process, and reviewing the legal, procedural and implementation procedures to improve the enforcement of commercial claims and laws.

IPA II will support strengthening the fight against organised crime and corruption and the fight against terrorism through a better preparation of law-enforcement institutions to address economic and financial crime and new forms of crime, such as high-tech and cybercrime, through enhancing police-prosecutor cooperation and through developing a comprehensive and harmonised asset recovery systems to discourage corruption, financial crime and money laundering.

Regarding the execution of criminal sanctions, IPA II will assist strengthening the capacity and quality of criminal sanctions mechanisms, including through legal harmonisation and the introduction of alternative criminal sanctions (probation, conditional release) and informatisation of prisons and capacities of juvenile correctional facilities. Continued capacity building of prison staff on human rights and improving material infrastructure conditions of penitentiary institutions will also be required. More attention needs to be dedicated to the interface between the courts, court police, law enforcement agents, prison and social services.

Further assistance will address the border management system and the implementation of asylum and migration policies through introducing modern technologies, supporting enhanced institutional cooperation, capacity building and establishing national referral systems.

For the protection of fundamental rights, support will be provided, among others, for monitoring and evaluation systems for human rights; mechanisms to prevent and eliminate torture, ill treatment, hate speech, gender and all other types of violence and pain-infliction in prisons. A further focus will be on improving legal aid and minorities' access to justice, including Roma and other vulnerable groups; and on supporting of non-discrimination, gender equality, diversity, non-violent communication into education curricula, employment environments, health centres/institutions etc. With respect to freedom of expression and the media, assistance will support building up technical capacity, and provide training and expertise to the relevant media bodies in order to develop investigative journalism and to improve professional journalistic standards. Support in this respect will be based on the Guidelines for EU support to media freedom and media integrity in enlargement countries, 2014-2020.

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**Indicators** to measure progress in meeting targets (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (EC)
- Composite indicator Access to Justice (WJP) and Judicial independence (WEF)
- Composite indicator Global Corruption (TI) and Control of Corruption (WB)
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB)

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### 2.3 Types of financing

Assistance will be provided primarily through twinning, technical assistance, grants, blending, work contracts and supplies of equipment under the national IPA programmes. In light of the sector's relative preparedness, budget support can be an option. The multi-country IPA programme provides complementary support in areas, where objectives can be better achieved

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at regional rather than national level, especially for fighting against organised crime (including cooperation between prosecutors), witness protection, border surveillance, migration management and management of emergencies. The TAIEX instrument provides ad hoc and short-term technical assistance.

EU programmes, the Justice programme (judicial cooperation in civil and criminal matters), the Rights and Citizenship (promoting fundamental rights and non-discrimination), and the Asylum and Migration Fund, are relevant for this sector and in line with the IPA II priorities for Bosnia and Herzegovina. Bosnia and Herzegovina may benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

## 2.4 Risks

There is a risk for delays in the implementation of the key strategies on judicial reform and anti-corruption. The organisational and administrative capacities are weak and affect especially inter-institutional coordination and cooperation in this area. To mitigate these risks, the Commission constantly engages with authorities in Bosnia and Herzegovina through policy dialogue instruments (SAA subcommittees, structured dialogue on justice). Capacity building will support inter-agency cooperation to improve coordination and information sharing.

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### 3. Competitiveness and innovation: local development strategies

#### 3.1 Needs and capacities in the sector

The scope of this sector includes the competitiveness of the economy with a particular focus on SME development and the promotion of tourism, which have a particular potential for growth. This sector is an important element of the EU support to strengthening Bosnia and Herzegovina's **economic governance**, in addition to public administration reform and public financial management mentioned above.

BiH is at an early stage in developing a **functioning market economy** and in achieving the capacity to cope with competitive pressure and market forces within the Union. Moreover, BiH is at an early stage regarding its overall approximation with the EU *acquis*.

Previous assistance under IPA I in the sector included... Overall, the IPA I support to the sector included close to EUR XX million. Other donors supporting the democracy and governance sector include the World Bank, UN agencies, Germany, ....

Assistance to the **trade** sector including State Aid, Competition and IPR is recommended as a follow up of the IPA I assistance, which was supporting the country to adhere to its obligations under the SAA by fostering the institutional and legal framework.

Support to **Quality Infrastructure** (QI) is conditioned to the existence of a country-wide QI Strategy. The immediate steps required include the development of both a needs assessment and a strategy for investments in quality infrastructure.

**SME competitiveness support** in the context of local development strategies should continue in a more systematic manner; support to business incubators and start-ups should follow legislative improvements. The support should also take into account the absorption capacity limits in light of ongoing 2014 and planned 2016 support worth in total 24 million EUR.

Capacity building for support to **industrial, SME policy and tourism** as well as prospective more significant investments in business and tourism infrastructure are also relevant, however they are conditioned to the existence of country-wide sectoral strategies, preferably including the export promotion to reinstate BiH's most competitive sectors for investment. Innovation, research and development, entrepreneurial learning and digital economy should be strongly embedded in all sector related priorities.

IPA II assistance shall be geared towards the evaluation findings once available (ongoing PSD evaluation of ENI and IPA programmes run by DG NEAR and evaluation of Local Economic Development in BiH envisaged for 2017).

Financial assistance in the sector under IPA II will focus on (a) integrated local development to foster competitiveness, growth and employment, and (b) support to trade to ensure the proper implementation of Bosnia and Herzegovina's international trade obligations (SAA, WTO, CEFTA).

Supporting economic and social development is one of the main objectives of the European integration process. The economic and social crisis indicates that support for integrated measures to enhance competitiveness and growth at local level is much needed to create opportunities for economic recovery. IPA II will focus on the economic and social development at the local level, building on the ownership and partnership of local and regional stakeholders, including municipalities, private enterprises, in particular SMEs, and education, training and research institutions, cooperatives, development agencies, non-governmental organisations and civil society. Local stakeholders have the potential to

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overcome obstacles to growth and development through cooperation and partnership focused on job creation, employment and social inclusion.

The assistance under this sector targets specific action relating to the socio-economic development, in cooperation with stakeholders, at local level. It thus differs from (and complements) the support for policy development, institution and capacity building to different levels of government provided under the sector Education, Employment and Social Policies.

The focus on **integrated local development** will address several challenges faced by Bosnia and Herzegovina. In particular, the level of competitiveness of the economy and agriculture remains low in comparison to EU Member States and most enlargement countries. Unemployment is very high, in particular among youth, and a skill gap of the labour force is palpable, as education institutions do not sufficiently meet the needs of the labour market. The SME sector still has only limited access to green products, innovative technology, business support services and finance for local entrepreneurship, access to broadband and digital skills, particularly for production and export-oriented SMEs. The lack of jobs and employment in their communities threatens the sustainability of the support for refugee and internally displaced persons (IDP) return. The fragmented social inclusion and protection system exposes to the risk of social exclusion the most vulnerable, among them refugees, internally displaced persons and Roma. The lack of cross-community contact, dialogue and facilities is strongly felt, in particular in areas where the population lives in close proximity but in ostensibly ethnically divided spaces. There is a need for encouraging cross-community interaction and development of common spaces.

Bosnia and Herzegovina continues to lack a country-wide strategy for industrial policy and SME development. The adoption of a strategy and of institutional cooperation mechanisms remains a valid conditionality for investment support in business and tourism infrastructure. However, a variety of strategies exist which are relevant for the development at the local level. This includes SME strategies at the level of the Federation and of the Republika Srpska (RS) entities, agricultural development strategy and rural development strategic plan at the level of Republika Srpska, as well as local development strategies of municipalities both in the Republika Srpska and the Federation entities and regional development strategies of Federation cantons. In the field of SMEs, the main institutional development present the appointment of a country-wide network of the EU Small Business Act Coordinators, which together with already existing working groups in tourism and agri-rural sectors provide an incremental country-wide multi-sectoral structure for addressing SME competitiveness within a broader context of an integrated local socio-economic development.

Furthermore, local partnerships and business support structures created with ongoing IPA II assistance provide a solid foundation for expanding the pilot best practice on a country-wide scale through a bottom up policy development and improved inter-sectoral cooperation.

Bosnia and Herzegovina is highly dependent on trade, in particular with EU and CEFTA countries - by far its main trade partners. An important step was reached however on 1 June 2015 with the entry into force of the Stabilisation and Association Agreement (SAA) that was pending since 2008 and which focuses, to a large extent, on internal market and trade-related areas. The implementation of obligations under the SAA presents a real challenge for Bosnia and Herzegovina's institutions. Another important challenge is the implementation of CEFTA, which is likely to significantly increase the benefits of further integration into the region. The country's ongoing efforts to comply with the requirements for accession to the World Trade Organisation (WTO) and with the EU *acquis* are significant steps on the road to integration into the world economy and towards the goal of becoming a full member of the EU. There is

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Bosnia and Herzegovina does not have an overall development strategy

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a need for the continuation of the assistance to the Trade sector, both by strengthening capacity and coordination between the relevant institutions as well as by supporting specific areas such as quality infrastructure, state aid, competition and IPR.

### **3.2. Objectives, results, actions and indicators**

Objectives of IPA II assistance in the area of SMEs and local economic development include capacity building and support implementation of EU-harmonised enterprise and industrial policy measures including investments in SMEs and tourism development. EU assistance aims to support Bosnia and Herzegovina's private sector development with a focus on the development of export-oriented sectors and the agro-rural and tourism sector. It aims to assist in the identification and preparation of investment projects and in obtaining local and international loan funding. A further objective is to improve SME's access to advisory services and financing. Regarding the agro-rural sector, EU assistance aims to implement pilot projects, in particular to improve farmers' business standards and management. A further aim of EU assistance is to support local development through the improved cooperation between the private sector and education, training and research institutions in order to identify and close skill gaps in the labour market and support the transformation to a knowledge-based society.

Objectives of IPA II assistance in the trade sector include to support capacity building and harmonisation of trade legislation and to ensure that Bosnia and Herzegovina is able to implement relevant policy reforms in the area of Foreign Trade in order to enable its economy to maximize the benefits from economic integration processes. It should support Bosnia and Herzegovina to adhere to its obligations under the international trade agreements (SAA, WTO, CEFTA) and other trade-related legal instruments resulting from the obligations from these international trade agreements, by fostering the modernisation of the institutional and legal framework.

The expected **results** are the following:

- Improved economic governance and increased competitiveness and job creation through local SMEs through better planning capacities at local level.
- Better investment climate and eased access to loan funding.
- Increased employability of local population and improved social inclusion situation in local communities through coordinated skill needs assessment.
- Improved policy and operational framework for SMEs (reflecting the interest of business community) and enhanced networking with academia and industry to foster knowledge transfer and application of innovations and digital economy.
- Enhanced competitiveness of SMEs in strategic export oriented sectors (i.e. wood, agri-food, metal) and BiH capacities for sustainable development of tourism sector.
- Application by Bosnia and Herzegovina of a coherent foreign trade policy that is in line with its international obligations (SAA, WTO, CEFTA);
- Overall improved economic environment enabling durable solutions for the most vulnerable.

There is interest in the donor community to cooperate in local development. The Swedish International Development Agency (SIDA), the Swiss Aid, the KfW, the United States Agency for International Development (USAID), the International Finance Cooperation (IFC), the United Nations Development Programme (UNDP), the UN Refugee Agency (UNHCR), the United Nations Children's Rights, the Emergency Relief Organisation

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(UNICEF) and the International Organisation for Migration (IOM) expressed their interest to support integrated local development.

Local Development Coordination Group meetings (convened by UNDP) involving relevant donors are held on a regular basis to exchange information on on-going and future programmes. Regular donor's coordination at sector and programme level will ensure synergies and complementarities of donors' interventions in this area. In addition, the EU Delegation organises donor coordination meetings as appropriate.

In terms of actions, in the area of SMEs and local economic development, IPA II will support the establishment and implementation of an integrated local development programme through the development of functional institutional structures, legislative and strategic framework for acquis harmonisation, coordination and implementation of the policies in the fields of investments, enterprise and industry, in particular considering SMEs access to EU pre-structural funds and investments in acquis related infrastructure;

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In particular, IPA II will assist private sector development with a focus on innovation and research capacity, the development of export oriented sectors, and the agro-rural and tourism sectors. This will be accompanied by assistance for the identification and preparation of investment projects and for obtaining access to local or international loan funding (EU pre-structural funds). Further support will improve SMEs access to advisory services and investment financing and the use of innovative financing instruments such as the WBIF and EDIF. Pilots will be implemented for IPARD related measures like the Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) approach and advisory and extension services, in particular direct support to farmers in improving their business standards and management.

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IPA II will support the cooperation between the private sector and education, training and research institutions to address skill gaps in the labour market, and to increase the competitiveness of the local economy. EU assistance will foster effective public-private business support networks including academia and industry to foster knowledge absorption, business investment in research and development and enhance application of innovations by the business sector.

Support to local development targeting tourism and productive investment in SMEs, business infrastructure, services, research and innovation and the digital economy will include the development or implementation of policies and measures to increase private sector investments, enterprise creation and access to international markets; support to SMEs' better access to resource efficient and innovative technologies, qualified and demand-driven workforce and modern business infrastructure; and the development or implementation of local development policies which stimulate public private partnership, better business climate and employment opportunities.

Active employment measures and the creation of job opportunities with a particular focus on vulnerable groups and support to the development of lesser developed areas, including rural areas or areas with a high proportion of vulnerable (including refugees and IDPs), will round off the support for the social development of local communities.

Concrete support will be provided to build better community relations and promote reconciliation in areas where populations from different groups continue to live in close proximity, but without the common spaces that are necessary for social cohesion. Education will also play an important role in this regard. In implementing such programmes/projects, the EU will apply and adapt lessons from the large body of research and evidence that has been accumulated from Northern Ireland (PEACE Programme). Besides supporting cross-

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community initiatives and the implementation of collaboration between the public, private and community sectors, EU considers supporting the regeneration of urban, rural and border areas that appear derelict, segregated, underused, threatening and/or unwelcoming.

In the trade area, IPA II will support the development of functional institutional structures, legislative and strategic framework for acquis harmonisation, coordination and implementation of the policies in the fields of foreign trade and trade related policies, state aid, competition, quality infrastructure, intellectual property rights.

The design of actions in this sector shall take into account the actions in the context of the macro-regional strategies EUSDR and EUSAIR.

*Indicators to measure progress in meeting targets (for details see Annex 2, table 2):*

- Progress made towards meeting accession criteria
- Doing Business, Distance to frontier, score (WB)
- Travel and Tourism Competitiveness Index (WEF)

### **3.3 Types of financing**

Support can be provided primarily in the form of technical assistance, blending, delegation agreements, supplies and grants. The priority of the multi-country IPA programme is to increase regional competitiveness through better access to finance for SMEs in close cooperation with IFIs through the Western Balkan Enterprise Development and Innovation Facility (EDIF). The TAIEX instrument provides ad hoc and short-term technical assistance. EU programmes, Horizon 2020 (research and innovation), COSME (Competitiveness of enterprises and SMEs) and Consumer Programme (consumer protection) are relevant for this sector and in line with the IPA II priorities for Bosnia and Herzegovina. Bosnia and Herzegovina may benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

Bosnia and Herzegovina is in the early phase of setting the coordination structure for the monitoring and evaluation of grant assistance to SMEs, tourism and agro-food sector which will be reinforced from the upcoming IPA 2016 assistance.

Ownership by Bosnia and Herzegovina of a “two-fold assistance” comprised of Grant Fund Facility and capacity building of its management structure, although desirable, is not an immediate perspective. Based on the IPA 2016 indicative schedule (2018-2022), it is not likely that Bosnia and Herzegovina would be capable of taking over a more prominent Grant and Investment Facility under indirect management over the second phase of IPA II programme.

### **3.4 Risks**

The weakness and complexity of governance and the lack of political support at higher government levels as well as the shortage of financial and human resources at municipal level may hamper the development of a programmatic framework for integrated local development and the effective support for the implementation of integrated local development actions.

Risks linked to the complexity of governance shall be mitigated through the establishment of bodies facilitating decision making such as Steering Committees and, in particular, Advisory Boards, where the relevant levels of Government will be represented. The shortage of financial and human resources at municipal level will be mitigated through the provision of technical assistance/capacity building as appropriate.

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#### 4. Education, employment and social policies

##### 4.1 Needs and capacities in the sector

The scope of this sector includes education and employment systems which improve the skill base of the labour force, better social inclusion of the vulnerable population and the development of human resources that are necessary to support growth and development.

Previous assistance under IPA I in the sector included support to improvement of the quality of all levels of education, development of qualifications framework, active labour market measures, support to public health and social protection services. Overall, the IPA I support to the sector included close to EUR 38 million. Other donors supporting the education, employment and social policies sector include Switzerland, Austria and the World Bank. The International Labour Organisation is an implementing partner of EU-funded projects. Donor coordination remains very weak.

Unemployment in Bosnia and Herzegovina remains very high (41.65 % in July 2016) and hits young people disproportionately (54.3% for people aged 15 to 24, according to the LFS 2016). Grey economy and informal employment dominate. An education system not sufficiently meeting the needs of the labour market and a limited dialogue between education and employment institutions aggravates the perspectives of the unemployed. Labour and employment institutions need to strengthen their efficiency and to develop capacities to implement active labour market measures. Following adoption of the Reform Agenda the sector became a priority for domestic authorities and donors.

The 2010-2014 BiH Employment Strategy expired and a new strategy is currently under preparation. Entities have adopted labour laws in 2016, in accordance with the Reform Agenda. The Federation entity government adopted the 2020 strategy of strengthening the function of mediation in public employment services; the Republika Srpska entity adopted the 2016-2020 employment strategy.

The competences in the area of social protection are at entity level. The absence of harmonised social protection policies affects the efficiency of the social services, which lack the institutional capacity to evaluate the needs of the vulnerable. The implementation of legislative framework in the area of social protection remains weak. The financing of social services is uneven because the revenue of social service providers depends on the economic situation of local authorities, leading to disparities in social support. Due to financial constraints at all levels of government, certain social protection rights provided by the social protection legislation are not implemented in practice, i.e. certain payments are not made, or else reduced amounts are paid depending on available funds.

Bosnia and Herzegovina adopted a state-level disability policy document, as well as entity-level strategies.<sup>11</sup> The Republika Srpska entity adopted a 2015-2020 strategy of improvement of social protection of children without parental care, envisaging measures of support to young people who are leaving institutions. The development strategy and social inclusion strategy at the State-level and in Republika Srpska have not been adopted.

The revised DPA Annex VII return strategy provides the framework for provision of additional support to returnees' needs, including housing, access to health, education, legal

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<sup>11</sup> 2010-2015 Republika Srpska strategy for improving the social status of persons with disabilities and 2011-2015 Federation strategy for the equalisation of opportunities for persons with disabilities – both based on the Action Plan of the Council of Europe aimed at promoting full participation of persons with disabilities in society, titled "Improving the Quality of Life of People with Disabilities in Europe 2006-2015"



services, infrastructure connections (electricity and water supply), taking into account their vulnerability.

The situation in the **education** sector is characterised by insufficient capacity and governance structures with little policy coordination as defined by the complex constitutional set-up and multiple layers of government. Standards for quality are not systematically applied in the country. General education – pre-primary, primary, secondary and higher education – need further reforms. Efforts are needed in mainstreaming the on-going vocational education and training reform and to modernise the adult education and training. School management, teachers and trainers need significant professional developments and better standards. Comprehensive educational policies and practices which would address social inequality and education for all (inclusive education) do not exist. Efforts are made to facilitate the access of children with special needs to education, but access is not equally developed throughout the country. Adequate access of vulnerable children (e.g. Roma children, children in rural areas, socio-economic disadvantaged, gender, disability, minority ethnic groups, linguistic and religious minorities) to education is limited. Inadequate and deteriorated school infrastructure aggravates the situation.

The legislative framework in education improved through the adoption of principles and standards for adult education at the state level followed by adoption of laws on adult education in 6 Federation cantons. Bosnia and Herzegovina adopted the state-level 2016-2026 priorities for development of higher education, the 2014-2020 strategic platform for adult education, and a roadmap for the implementation of EU Directives 2005/36EC and 2013/55EU in the field of regulated professions. The Republika Srpska entity adopted the 2016-2021 education development strategy.

The Conference of Ministers of Education provides a good platform for discussion among all Ministers of Education and other key stakeholders in the education area. However such coordination should be strengthened in order to give better perspective of sustainability. An additional effort is also required to establish an effective coordination mechanism in the Federation entity.

Policy partnerships for entrepreneurial learning, aimed at establishing a strategic approach in both formal and non-formal education, were created at the level of the Federation entity, in Brcko District and in five cantons, including 2015-2018 Partnerships Action plans for development of lifelong entrepreneurial learning. A model of entrepreneurial competence for International Standard Classification of Education (ISCED) levels 2 and 3 was developed and piloted.

The Agency for Pre-school, Primary and Secondary Education will participate in the Programme for International Student Assessment (PISA) in 2018. The Agency is progressing in developing Common Core Curricula for primary education. Bosnia and Herzegovina participates actively in the Western Balkans Platform on Education and Training and participates in Erasmus+ and the Western Balkans Youth Window.

The Baseline Qualifications Framework and implementation of the 2014-2020 Action Plan for drafting and implementation of the qualifications framework is progressing slowly with support through IPA funds. Sustainability of actions in this area is under question due to delays with the establishment of the state-level inter-sectorial commission for the elaboration of the Qualifications Framework, responsible for the implementation of the action plan.

Progress was achieved in human resources development through the drafting of the policy document Vision for Skills 2020. The adoption of this document is a pre-condition for use of

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IPA II allocation for 2017 or 2018 under sector budget support in the field of employment (including education and social inclusion).

In inclusive education the use of the Index for Inclusion has expanded, though it is not yet systematic. Pre-planned assistance for inclusive education and school infrastructure under IPA 2013 was reallocated to the flood recovery programme. However, inadequate and deteriorated school infrastructures were tackled through investment in rehabilitation and reconstruction of schools in the areas affected by floods in May and August 2014.

The situation of Roma in Bosnia and Herzegovina is comparable to the situation in other Western Balkan countries, impaired by social exclusion, deep poverty, and limited access to healthcare, education and training, housing and employment. IPA II will support Bosnia and Herzegovina in the implementation of its Roma strategy and related action plans in the fields of education, employment, housing and healthcare.

Today 145,324 citizens of Bosnia and Herzegovina are still refugees or internally displaced persons<sup>12</sup>. Their situation has still to be improved, notably through funding of sustainable housing solutions and appropriate support measures. IPA II will continue supporting sustainable housing, combined with durable social and economic integration measures in line with the principles and goals of the Sarajevo process.

Mine-contaminated areas are a severe legacy of the war and until today, there are fatal casualties resulting from mines. Vulnerable groups and children run a particular risk. Demining continues to be important for refugee return and economic and rural development. EU assistance will continue providing support to Bosnia and Herzegovina in fulfilling its commitments as a signatory of the Ottawa Convention and in the implementation of BiH Mine Action Strategy.

Major developments in the youth sector deserve stronger support from IPA II. Indeed, the Regional Youth Cooperation Office (RYCO) was established in Tirana following the Paris Conference on Youth. Also, BiH Ministry of Civil Affairs introduced a new section for Mobility and Youth within the Department for Education, enabling better management and planning of the youth policies in Bosnia and Herzegovina

#### **4.2 Objectives, results, actions and indicators**

EU assistance aims to support capacity building in the education sector to improve governance structures and policy coordination between the different governance levels. Further assistance will support the development of qualification frameworks at all levels of education and will assist the development of curricula in primary and secondary education. Another objective of EU assistance is the support inclusive education and the modernisation of school infrastructure.

In the employment sector, EU assistance aims to strengthen institutional capacities and to develop and implement active labour market measures. Further support aims to facilitate school to work transition and to promote entrepreneurship as an entry point to the labour market.

In the social sector, EU assistance aims to support a countrywide harmonised and standardised needs-based approach for the social protection system and to reform the financing of social services. A further objective for EU assistance is the development of care

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<sup>12</sup> Source: UNHCR, December 2015: <http://reporting.unhcr.org/node/12020>

services to support the social inclusion of persons at risk, including the transition from institutional to family based care.

Further objectives of EU assistance are the provision of sustainable housing and supporting measures for IDP and refugee return as well as support for the Roma population. Another objective is the support for demining of mine-contaminated areas.

The expected **results** are the following:

- A decreased number of unemployed, in particular youth unemployed, through institutional reform, active labour market measures and special measures to facilitate school to work transition.
- The education sector will be better adapted to the needs of the labour market.
- The number of early school leavers and school dropouts will be reduced.
- Teacher professional development will improve.
- Inclusive education will prevail.
- The access of vulnerable and disadvantaged people to education will improve.
- A coordinated needs based approach and a reformed financing of social services will increase the sustainability of the social protection system and ensure a harmonised support for vulnerable people.
- IDP and refugee return will benefit from sustainable housing and supporting measures.
- The Roma action plan will be implemented.
- Progress will be achieved in fulfilling BiH commitments under Ottawa Convention.

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Addressing the high unemployment, in particular youth unemployment will come along with support for the recovery of the local economy. IPA II will assist labour and employment institutes to strengthen their capacities and to develop and implement active labour market measures and will support reforming labour legislation with the objective to increase labour mobility. The increase of the employment rate should in turn lead to a decrease of the share of the parallel labour market and the increased number of contributors should improve the income situation of the social services in general.

Support for special measures to facilitate school to work transitions, e.g. traineeships, career information and counselling services, work-based learning programmes for young people, including second chance opportunities, will address the high youth unemployment, together with legal and financial incentives for SMEs to deliver trainings for their employees and traineeships for young people. IPA II support will address specific programmes at all level of government to promote entrepreneurship as an entry point to the labour market, and will include training and mentoring measures to foster entrepreneurship in schools and universities to promote entrepreneurial thinking among youth.

Further support to the employment sector will be needed in the area of Public Administration Reform because the system is inefficient, it is not able to deliver the expected results and it involves a huge administration.

In the education sector, IPA II will provide capacity building to improve governance structures and policy coordination between the different governance levels. Support will further develop basic qualifications frameworks at all levels of education and will assist the

development of curricula in primary and secondary education. The number of early school leavers and school dropouts should reduce through better coordinating the support at national and local levels, ensuring that traineeships and apprenticeships offer productive careers with opportunities for progression. Faculties will receive assistance to develop modules/programmes at university/master degree level for teacher professional development.

New tools and methodologies will improve the training of school principals and school teams in whole-school approaches, for inclusive education approaches and for adopting indices for inclusion. Support will be provided for the modernisation of school infrastructure. Pilot projects, including investment support will benefit schools who actively participate in programmes to end discrimination and segregation, to foster inclusive education and to promote access of vulnerable to education. Data collection and processing will be improved.

Support to education policies will be provided in line with the major EU policies in the area, in particular the Education and training 2020, the Bruges-Copenhagen Process for Vocational Education and Training Specific dedicated programmes, and the Skills Agenda for Europe.

The education sector still needs further support to be better adapted to the needs of the labour market. This implies further development of qualification framework, development of qualifications and occupational standards primarily in the areas of VET, TVET, adult and higher education and recognition of all forms of education and entrepreneurial learning.

Comprehensive educational policies and practices addressing social inequality, education for all (inclusive education), and the problem of segregation and discrimination in education remain a priority, as well as further investment in school infrastructure.

Pre-school education should be supported since the country lags behind EU countries and other countries in the region with a very low enrolment rate.

Conditions for future assistance are: adoption of “Vision for Skills 2020”, establishment of the Inter-sectorial Commission for the elaboration of the Qualifications Framework, adoption of the drafted Strategy for pre-school education at the state level.

Future IPA II support should take into account the new developments within Youth Sector. Projects and activities shall be planned both within the scope of RYCO mandate as well as on the level of the newly established section of Ministry of Civil Affairs at state level.

IPA II will provide support for the further development of a coordinated needs-based approach in the social protection system and for the reform of the financing of social services. The targets are a countrywide harmonised and standardised needs-based approach to social services and social benefits, notwithstanding the place of residence, study or work and an integrated budgeting and financing system for social services. Further support will target the development of care services to support the social inclusion of persons at risk, with a focus on the needs of the target groups (e.g. children, Roma, disabled, unemployed), including transition from institutional to family-based care for children deprived of parental care and children and adults with disabilities.

Financial assistance could be provided to address issues such as: improve and standardise social services, address significant territorial differences and discrepancies in benefits and ensure that social protection rights defined by the social protection legislation are implemented in practice, Performance of service providers at the Municipal levels, for provision of social protection and inclusion, should be improved in terms of human, financial and technical capacities. Services, particularly for marginalised and vulnerable groups, lack resources and adequate approach that affects the quality and accessibility of services for all.

There is a set of EU Directives dealing with Health and Safety at Work, whose requirements have never been addressed systematically. In addition, the ILO has adopted more than forty conventions and recommendations specifically dealing with occupational safety and health, as well as over forty codes of practice. Based on further analysis of needs, financial support might be appropriate in order to address the key gaps in compliance with EU acquis in this field.

IPA II will accompany IDP and refugee return by providing sustainable housing solutions and supporting measures. Bosnia and Herzegovina authorities will receive support for the implementation of the Roma action plans.

Continued support should be provided to BiH in fulfilling its commitments as signatory to the Ottawa Convention and in the implementation of BiH mine action strategy.

The EU is the main donor in the education sector and coordinates its activities with other donors, in particular Austria, Germany, the Council of Europe, UNICEF, Norway, and Japan. Besides the EU, the World Bank, USAID, SIDA, the Council of Europe Development Bank (CEB) and KfW are the key actors in the employment sector. The World Bank and the UN family support social policies development and the strengthening of human rights.

Indicators to measure progress in meeting targets (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria
- Employment rate % total, 15-64 years (Eurostat)

#### 4.3 Types of financing

Support can be provided primarily through twinning, technical assistance, blending, grants, and supplies of equipment. Investments under the national programme concern mainly school infrastructure and support for the Regional Housing Programme (RHP), and Annex VII projects, aiming providing sustainable housing solutions for refugees and internally displaced persons as part of the Sarajevo process, and for the Roma facility. The IPA multi-country programme provides additional support. The TAIEX instrument provides ad hoc and short-term technical assistance.

EU programmes, the Erasmus+ programme (education, training, youth and sport), the Programme for Employment and Social Innovation (EaSI), which supports efforts in designing and implementing employment and social reforms, and the Health for Growth programme are relevant for this sector and are in line with the IPA II priorities for Bosnia and Herzegovina. Bosnia and Herzegovina may benefit from IPA II support to cover partly costs for participation in these programmes, following the national prioritisation process among all the EU programmes.

The EU is currently considering the possibility of preparing a Sector Budget Support for employment including also education and social inclusion. The adoption of a strategic document such as "Vision for Skills 2020" is a precondition for sector budget support.

#### 4.4 Risks

Regional disparities are increasing, especially as Bosnia and Herzegovina has unfavourable demographic trends with low birth rate, ageing population, and an outward migration (brain drain). The funding available to this sectors both from Bosnia and Herzegovina's own resources and through IPA II and other donor funding is not sufficient to cover all the needs of the sector. Furthermore, the areas covered in this sector are closely inter-linked and cannot be developed or implemented in isolation. There is a need to have an effective cooperation and coordination among involved ministries and agencies at all levels, including ministries

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responsible for economic development and the socio-economic development of rural areas. However, there is no social development strategy, existing strategies are uncoordinated and overlapping, data collection is insufficient and exchange and cooperation between the relevant bodies is poor, not at least because of political resistance to agree on common standards and strategies.

## **5. Transport**

### **5.1 Needs and capacities in the sector**

This sector covers capacity building, policy development, legislation approximation and investments in transport, incl. regional and EU integration of the road and rail networks, aviation as well as inland navigation and ports.

Substantial IPA I funds have been mobilised for this sector, with investments on ... amounting to over EUR XX million. Other donors in the sector include... Under IPA I, a substantial support to the sector in 2012 was cut to a half in 2013 in total. The sector was not recommended for financial assistance and received no support in 2014, 2015 and 2016 under IPA II due to the lack of a country-wide strategy for the sector, despite being mentioned under Article 106 of the SAA.<sup>14</sup> In the meantime, the progress in the sector has turned from slow, but steadily progressing trend to a critical standstill, both in institutional and infrastructural terms, also providing a negative impact on the attempts to boost the economic development in Bosnia and Herzegovina. Renewed IPA assistance to this sector, in line with the SAA commitments and the EU Enlargement Strategy, is therefore essential following the adoption of a 2016-2030 country-wide framework transport strategy and action plan in July 2016, based on related entity strategies.<sup>15</sup>

The country has no sufficient financial and institutional capacity to follow the requirements and timely and effectively address the issues in the sector. Institutional capacity building is particularly required regarding inland navigation and intermodal transport, but also in the areas of railway and civil aviation. Additionally, IPA II will be even more critical to facilitate implementation of the Europe and South East Europe (SEE) 2020 Strategies.

To that end, IPA II will continue to hinge on a twofold programmatic action line, focussing on the one hand on supporting relevant legislation alignment with the *acquis* on all mode of transport; and on the other hand, on rehabilitation and improvement of infrastructures and networks, particularly multi-modal networks that are part and/or connected to the main Trans-European and Core Regional Transport networks. Additionally, IPA II assistance to the transport sector in Bosnia and Herzegovina will be programmed and implemented with

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<sup>14</sup> "Cooperation between the Parties shall focus on priority areas related to the Community *acquis* in the field of transport. Cooperation may notably aim at restructuring and modernising the transport modes in Bosnia and Herzegovina, improving the free movement of passengers and goods, enhancing the access to the transport market and facilities, including ports and airports, supporting the development of multi-modal infrastructures in connection with the main Trans-European networks, notably to reinforce regional links in the South East Europe in line with the Memorandum of Understanding on the development of the Core Regional Transport Network, achieving operating standards comparable to those in the Community, developing a transport system in Bosnia and Herzegovina compatible and aligned with the Community system and improving the protection of environment in transport."

<sup>15</sup> In July 2016, following adoption of a framework transport policy document in the Parliament of BiH in 2015, the framework transport strategy document has been adopted by the Council of Ministers of BiH.



careful consideration of the close interconnection between transport and environment, inclusive of climate change and related policies and the international obligations of Bosnia and Herzegovina.

In terms of **donor coordination**, funds for transport infrastructure development are provided primarily in the form of loans from IFI such as **the World Bank, the EIB, the EBRD** and also from the bilateral cooperation with **Germany and ....** Some transport projects are funded by **[OTHER DONORS]**.

In terms of the **connectivity agenda**, Bosnia and Herzegovina's authorities have played an active role in the region and committed to advance the preparation and financing of mature regional transport projects. Bosnia and Herzegovina adopted a joint statement with other Western Balkan countries, agreeing on the core transport network for the Western Balkans that will extend the EU Trans-European Transport (TEN-T) corridors, accompanied by the implementation of a number of technical standards and connectivity reform measures. In Bosnia and Herzegovina, the **road core network** to be connected with EU TEN-T corridors includes **a road from Šamac through Sarajevo and Mostar to the Croatian border in Bijača (part of Corridor Vc), as well as Route 2 starting in Gradiška and going to Banja Luka and Lašva-Travnik. Regarding railways, the section from Šamac to Sarajevo is now part of the rail core network that will be serving as extension of EU rail network. The Brčko riverport and the Sarajevo Airport** are also part of the regional core network.

The construction and reconstruction of transport infrastructure lying on trans-European and regional core networks – as well as of relevant infrastructure projects that although not included in trans-European regional core networks are major feeders to EU/SEETO corridors – remains a key to effective and sustainable functioning of Corridor Vc. The latter is nowadays referred to also as part of the extended TEN-T Mediterranean Corridor, and envisaged development of intermodal transport. Its development is also essential for diverting slower freight traffic from faster regional rail and road routes, such as Corridor X. These infrastructures will thus be also the focus of future IPA assistance, in order to reduce the investment with an equal or even higher effect, and increase efficiency of the investment in infrastructure.

The **challenges** in the transport sector include the inadequate allocation of resources for infrastructure **maintenance**. The capacity of Bosnia and Herzegovina to maintain its road and railway network affects the choice of any possible future new investment. Bosnia and Herzegovina has considerable needs for additional investments in line with the national Framework Transport Strategy, the SEETO work plans and the Connectivity Agenda. However the investment projects should be identified based on prioritisation criteria including the technical and financial abilities for implementing these projects within their medium- (and long-) term budget framework, thus creating a single pipeline of projects and considering the available fiscal space. Furthermore, there are specific challenges to further develop transport policies, for instance regarding the implementation of the 2016 Framework Transport Strategy, in-depth reform of rail sector, opportunities and resources for the development of maritime transport and multimodality, security and safety standards for all modes of transport, urban mobility, the aviation market, and others in line with EU, in particular climate action policies.

Bosnia and Herzegovina must give the required attention to the **so called "connectivity reform measures"** identified in the Vienna meeting within the Berlin process. Bosnia and Herzegovina should identify and address without delay all relevant measures such as regulatory issues, streamlining of border crossing procedures, which could bring about

immediate connectivity benefits for the Western Balkan 6 participants and at a reasonable cost.

## **5.2 Objectives, results, actions and indicators**

IPA II will support Bosnia and Herzegovina with the primary objective to further develop transport policies and to maintain and operate existing public infrastructure investments in sustainable and efficient way. In addition, the objective is to create a pipeline of feasible, mature, and implementable infrastructure projects.

To unblock the sector and re-start the process of further alignment with *acquis* and providing the pre-conditions for improvement of the infrastructure, continuation of the support both to institutional and infrastructure development is essential and urgent. **Objectives** include, first, the alignment with the *acquis*: of relevant rail, road and maritime transport legislation, as well as development and finalization of strategic documents pertaining to transport; and, second, the improvement of transport infrastructure network.

The **results** which are expected to be achieved with EU support include:

- Transport policies and legislation further aligned with EU legislation and best practice, including to support the 2015 Paris Agreement on Climate Change, to increase global expenditure dedicated to climate action;
- Administrative capacity for managing transport policies improved;
- Sustainability of investment projects improved through support to realistic maintenance programmes and to the coordination of relevant stakeholders for funding operating expenditures;
- Transport safety is significantly improved, especially regarding roads, maritime transport and aviation;
- Investments in transport infrastructure advanced in line with SEETO network development plan priorities and the connectivity agenda;
- A single selection mechanism functioning for identifying priority investments considered for blending IPA II grants with IFI loans in line with the existing transport strategies and plans.
- In depth reform of the rail sector, starting with the alignment of the legislation and setting up the required institutions.

For what concerns legislative alignment, **actions** to be supported include, in civil aviation, the further support in implementation of the ECAA and towards full completion of alignment with the *acquis* of the regulations. In rail transport, the transposition of the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> railway package needs to be re-accelerated, in particular in terms of strengthening of the regulator and opening of the railway market. Railway safety needs to be substantially improved. In road transport, the law on transport of dangerous goods has still not been adopted. Safety legislative and its implementation needs urgent attention and support. In maritime navigation, further progress in adoption of maritime conventions and progress in provision of the legislative and regulatory framework is required, but should not be expected as a priority, considering geographical position and capacities of the country in the sub-sector. In inland waterways navigation, the navigation legislation requires further review and improvements, and relevant navigation regulations are to be brought in line with the *acquis*. Institutional setup of the sector is in the embryo stage. The intermodal/combined/multimodal transport is institutionally still at a very start, requiring the development of the legislative and regulatory framework.

In civil aviation priority infrastructure interventions for the forthcoming period include in particular the provision of equipment for air traffic management, or minor infrastructure interventions at airports. Provision of permanent accommodation for air traffic regulator may also be envisaged. In rail transport, the provision of designs for track overhaul should be continued, in particular for those for which the EU is already providing conceptual designs and preliminary studies becomes urgent. This concerns the remaining sections on the Mediterranean Corridor and Dobož–Tuzla–Brčko section on SEETO network. Since the SEETO MAP 2016 has included the railway sections Zvornik–Tuzla and Banja Luk–Novi Grad, conceptual designs and preliminary studies for those sections can also be considered. A radical improvement of the railway corridor needs to be elaborated and designed, to follow after overhaul is completed. In relation to Adriatic – Ionian Strategy prepared by the EU, the railway link to connect the region as a backbone of such strategy should also be explored. In road transport, the SEETO routes 2a, 2b and 3, for which the EU is developing conceptual designs and preliminary studies would require continuation of efforts in terms of provision of preliminary and main designs. Around 80 km of motorway on the Mediterranean Corridor is lacking main and executive designs, possibly to require assistance of the EU. In maritime navigation no major interventions are foreseen. In inland navigation, the designs for rehabilitation of the Sava river navigation route on the section Brčko–Rača needs to be prepared. Having in mind the financial scale of intervention, rehabilitation could be assisted through a national envelope of IPA II. On Intermodal/Combined/Multimodal transport, the issue of bottleneck at Ivan–Bradina needs to be further addressed through provision of preliminary and main design.

The **indicators** to measure the achievement of the objectives will include (see table 2 in annex 2):

- **Progress made towards meeting accession criteria (EC);**
- **Logistics performance indicator – score (WB);**
- **Climate-related expenditures moving towards the target of 20% by 2020 (EC).**

### **5.3 Types of financing**

Sector budget support, blending of grants with loans from IFIs and Technical Assistance is the preferred type of financing in the transport sector, or respective sub-sectors such as rail or road transport, if the conditions are met. Before the eligibility is established, service contracts, twinnings and other (for instance from multi-beneficiary assistance or TAIEX) will be used to deliver the assistance. Regarding investments, a coordinated approach to blending of IFI loans with IPA II grants is foreseen through the Western Balkan Investment Framework (WBIF). Road maintenance might be supported through cooperation with other donors, e.g. the World Bank. The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

The development and implementation of the **transport policy**, as well as the approximation of the **regulatory** framework with the EU legislation, will be supported through technical assistance. Technical expertise will also help prepare mature and implementable infrastructure investment projects. It is envisaged that all EU and other donor funding will be included in **one single prioritisation and selection process** for investment projects. IPA II funds will primarily be used for feasibility studies, impact assessments or design studies or other related services in order to prepare bankable investments which meet eligibility criteria for loan funding from IFIs or other donors. Further support will be needed for the rail sector in terms of the alignment of the legislation and building up the capacities for the new institutions that

will be established. The development of maritime transport within a multimodal integrated transport system will also be supported.

IPA II funds will as well contribute to the setup of programmes for the **maintenance** of investments. However, IPA II funds cannot substitute the obligation of the beneficiary to provide the resources for operating and maintaining the investments. EU assistance might be used to set up the mechanisms and provide co-funding for a limited time with a reduction of the part co-funded by IPA II over time.

In order to ensure that loans are able to address the priority development needs and in order to speed up investments considering the limited public resources available, the provision of IPA II funds will be coordinated in line with the WBIF in order to co-fund certain investments and combine the IFI loans with a limited amount of grant funding. In these cases, the preferred modality for delivering the assistance is the management of EU funds by the same donor that delivers the loans, in order to maximise the efficiency of the implementation regarding timing and the use of economies of scale.

A framework transport strategy, based on the Transport Strategies of the two entities and the Brčko District, was adopted by the state-level Council of Ministers in July 2016, providing a good strategic basis for future choices. IPA II will support the various Ministries to develop the basic elements of a sector approach such as policy and strategy development, budget planning, institutional and organisational development and coordination, amongst others. Once the basic conditions are met, assistance may continue with more clearly defined sector approaches which might include sector reform contracts (sector budget support).

#### **5.4 Risks**

There is a risk that the resources available both in terms of funds and human resources may not be sufficient. Therefore the mitigating strategy is to focus on the affordability of new investments and make sure that existing investments as well as new ones are operated and maintained adequately. New investments will only be supported once the basic requirements for adequate management are in place. A close cooperation with IFIs is necessary in order to maximise efficiencies. Due-diligence assessments will be applied thoroughly in project preparation activities.

There is a risk that the fragmentation of competences at multiple levels may create problems of coordination, compounded by potential diverging priorities and political blockages. To mitigate this, the EU will make use of instruments of political dialogue (including SAAs subcommittees) and rely on the newly-established structure of the BiH mechanism of coordination in EU matters.

## **6. Environment and climate change**

### **6.1 Needs and capacities in the sector**

This sector covers capacity building, support for the adoption of EU-aligned legislation and infrastructure investments, notably in water, floods and waste management as well as climate change actions

Environment and climate action is a key element in the EU's cooperation with the neighbouring countries to promote sustainable economic growth. Candidate and potential candidate countries are called to align themselves with EU legislation in the fields of environment and climate in the interest of sustainable economic development and growth, and enhanced environmental and health protection and security. Continued IPA support to BiH in this sector in line with SAA commitments was indicated as essential in the EU enlargement strategy. This assistance is also considered critical in light of facilitating implementation of the Europe and South East Europe (SEE) 2020 Strategies.

Bosnia and Herzegovina continues to lack progress in aligning with EU environmental acquis, including environmental monitoring and reporting as well as fulfilling its international commitments stemming from the environmental treaties, representing an integral part of the EU acquis. The main needs in the sector concern the required progress in acquis transposition and compliance, including compliance with the so-called 'investment-heavy' EU directives primarily in the fields of water and waste management. In this regard, financial assistance should encompass on one hand capacity building measures at all levels of the administration that have a role to implement obligations in this field, and on other hand infrastructure investments to support the policy objectives, particularly in the waste and water management.

Bosnia and Herzegovina recently adopted the climate change adaptation and low emission development strategy (in October 2013, in force), the 2014–2017 action plan for flood protection and river management, and the revised 2015–2020 strategy and action plan for biodiversity and landscapes protection. The draft river basin management plans for the Sava river were developed with EU assistance and remain to be adopted. Bosnia and Herzegovina also submitted its Indicative National Determined Contribution (INDC) to the UNFCCC following its adoption in October 2015.

Bosnia and Herzegovina signed the Paris agreement on climate change in April 2016. Ratification by relevant authorities is a priority. The country should immediately put in place the policies identified in its Nationally Determined Contribution (NDC). Domestic stakeholders will need to closely cooperate and possibly adjust different activities and plans in order to meet requirements outlined in the country's NDC. More efforts need to be invested in undertaking local initiatives (such as action plans to reduce air pollution in cities, improve energy efficiency measures, enhance usage of RES, improve urban planning) to contribute to climate change mitigation.

Substantial IPA I funds have been mobilised for this sector, with investments on ..., amounting to over EUR XX million. Other donors in the sector include... The last assistance allocated in the environment sector was under IPA 2011. The ongoing EU-funded infrastructural projects (complementing the IFT's loan funding in place) addressing the burning issues of water supply, urban waste water treatment, landfill of waste, floods (in line with provisions of respective EU directives) are to be completed within the next 12-15 months.

IPA I assistance delivered outputs comprising country-wide strategic documents (e.g. draft Environment Approximation Strategy, Directive Specific Implementation Plans, for the four selected heavy investment EU Environment Directives, draft Environmental Policy, etc.) that

could facilitate access to funding under IPA II and approximation in the area of environment with the EU acquis. It would also contribute to fulfilling the requirements of the SAA to which the Bosnia and Herzegovina is a signatory party. The outputs were developed applying the agreed “modular” approach. Nevertheless further processing of the delivered outputs was blocked and there has been no tangible progress so far. Recommended reengagement of the working groups established under the project (comprising project beneficiaries) and participated in outputs preparation did not yet take place.

Assistance under IPA II was conditioned to the adoption of a country-wide strategy in the environment sector and therefore not included in the Indicative Country Strategy Paper 2014-2017 and not covered under IPA II so far. The country still lacks a comprehensive and concrete country-wide environment strategy, necessary to provide for harmonised country-wide implementation of the EU acquis and ensure that the sector is addressed in a comprehensive and a consistent manner, duly treating the set priorities. This can also trigger new investments primarily in the environmental infrastructure, leading to creation of new jobs, providing for environmental protection as fulfilling the requirements of the EU acquis in the respective areas. The urgency for existence of such a strategy is even bigger as the environment sector represents **around one third of the EU acquis**.

Assistance under IPA II is recommended under the condition that tangible progress towards adoption of a comprehensive country-wide strategy in the environment sector is demonstrated by the end of 2016. At minimum this would include working groups re-established for processing the strategic documents for adoption by the relevant levels of BiH government based on outputs delivered under the EU funded IPA 2008 assistance, and realistic prospects that the adoption of priority strategic documents (i.e. at minimum the Environment Approximation Strategy) can follow during the first half of 2017.

## **6.2 Objectives, results, actions and indicators**

IPA II assistance to Bosnia and Herzegovina should aim to support implementation of existing environmental policies and support adaptation to climate change, including adequate investments to implement the policies. To that end, support should continue to hinge on a twofold line of programming action, focusing on the one hand on supporting relevant legislation alignment with the EU acquis in area of environment and climate change, and on the other hand on investments to support compliance with the heavy-investments EU environmental directives, particularly in the waste and water management areas. An additional objective is to prepare a pipeline of feasible, mature, and implementable environmental infrastructure investments.

The **results** to be achieved with EU support include the following:

- Environment and climate change policies and legislation are further aligned with EU legislation and best practice and effectively implemented, including to support the 2015 Paris Agreement on Climate Change, to increase global expenditure dedicated to climate action;
- Sustainability of investments through better coordination of relevant stakeholders is improved;
- Sound funding for operating and maintenance expenditures is ensured, along with the support to operation, monitoring and maintenance capacities;
- SEA and EIA are systematically carried out and mitigations measures implemented;
- Pipeline of investment projects in line with the existing master plans established;



- Waste water collection and treatment has increased; in line with the EU legislation the largest agglomerations and environmentally sensitive areas are prioritised;
- A master plan for waste management investments, especially recycling, and a project pipeline for the implementation is available
- Number of functioning waste management, especially recycling, facilities have increased;
- The selection mechanism for identifying priority investments (connectivity single project pipeline) in water, flood protection, waste management and climate change, considered for blending IPA II grants with IFI loans, is functioning;
- Climate change mitigation and adaptation strategies and action plans at local, regional and national level developed and implemented.

In terms of the **action** to be supported, a differentiation is needed between: (a) development of policies, legislation, planning and preparation of investments and (b) the support to implementation of policies and actual investments, incl. ensuring their operation and maintenance.(c) increased role of civil society organizations in the area of policy dialogue.

#### **[MORE DETAILS ON FORESEEN ACTIONS?]**

Extraordinary assistance to increase **flood management** capacities was granted via IPA 2014 Special Measures National and Regional programmes, WBIF assistance and with planned assistance under IPA 2016 on the basis of the adopted Action Plan for Flood Protection and River Management for BiH 2014-2017 (adopted in January 2015). The Action Plan was developed by the working group led by the BiH MoFTER and comprising all institutions responsible for water management. Due to substantial EU assistance already in place further support in this area should only be considered following a stocktaking by the BiH authorities of progress in the implementation of the Action Plan. This would be necessary to take into consideration lessons learned from implementation of the assistance in place, including through other donors' funding, assess state of play in regard to results and based on this assess further needs.

### **6.3 Types of financing**

The development and implementation of the environment and climate action policies, as well as the approximation of the regulatory framework with the EU legislation, will be supported through technical assistance, provided via twinning, service contracts, TAIEX and international specialised agencies. The technical expertise will also strengthen the capacities of the central and local institutions to enforce the relevant regulatory measures for the protection of the environment. If needed, the support will also include specific equipment to monitor sector policy benchmarks. Support will also be provided for public awareness raising and meaningful integration of environment into other policy areas such as energy, transport, agriculture.

The preparation of feasible, mature and implementable infrastructure investment projects will be supported through technical assistance for feasibility, appraisal, impact assessment, designs and other studies. It is envisaged that all EU and other donor funding will be included in one single prioritisation and selection process. IPA II funds within the connectivity agenda in the Western Balkans will primarily be invested for feasibility studies, impact assessments or design studies in order to prepare bankable investments which meet eligibility criteria for funding from IFI or other donors.

Sector budget support is the preferred type of financing in the environment sector, or respective sub-sectors such as water or waste management, if the conditions are met. Before the eligibility is established, service contracts, twinnings and other (for instance from multi-beneficiary assistance or TAIEX) will be used to deliver the assistance. Regarding investments, a coordinated approach to blending of IFI loans with IPA grants is foreseen through the Western Balkan Investment Framework. The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

In terms of the conditions for **sector support**, it has to be noted that competence in the environment sector is at entity level (shared with the cantonal level in the Federation entity) and different ministries, strategies and budgets are involved.

#### **6.4 Risks**

There is a **risk** that the resources available both in terms of funds and human resources are not sufficient. Therefore the mitigating strategy is to focus on the affordability of new investments and make sure that existing investments as well as new ones are operated and maintained adequately. New investments will only be supported once the basic requirements for adequate management are in place. A close cooperation with IFIs is necessary in order to maximise efficiencies.

There is a risk that the fragmentation of competences at multiple levels may create problems of coordination, compounded by potential diverging priorities and political blockages. To mitigate this, the EU will make use of instruments of political dialogue (including SAA subcommittees) and rely on the newly-established structure of the BiH mechanism of coordination in EU matters.

### **7. Agriculture and rural development**

#### **7.1 Needs and capacities in the sector**

The scope of this sector includes (a) the ability of the agri-food sector to cope with competitive pressure and market forces and to progressively align with the EU rules and standards, (b) increase resilience to adverse effects of climate change, and (c) food safety, veterinary and phytosanitary policies.

Previous assistance under IPA I included support for the definition of the sector policy, with particular reference to capacity building activities to set up the administrative structures for the future management of the IPA II rural development (IPARD) programmes. IPA I support also focused on capacity building in the area of food safety and veterinary services, incl. improving national and local laboratory infrastructure. Overall, the IPA I support to the sector included close to EUR XX million. Other donors supporting agriculture and rural development include the World Bank, UN agencies, Sweden (SIDA), Czech Republic and others.

Assistance under IPA II was conditioned by the adoption of a country-wide strategy in the agriculture and rural development sector and therefore not included in the Indicative Country Strategy Paper 2014-2017 (there are only limited sector aspects as cross-cutting in the Competitiveness and innovation sector).

The agriculture and rural development sector, including food safety, veterinary and phytosanitary, continues to be one the key strategic sectors in BiH, often referred to as the backbone for the country's viable economic and social development in terms of economic growth, export potential and job creation. Its importance cannot be understated for the the

perspective of gradual economic integration of Bosnia and Herzegovina into the EU common agricultural policy and the EU market of more than 500 million consumers. Agriculture and rural development thus remain a priority for IPA II support in the period 2014-2020 to ensure alignment with the acquis and to support the implementation of relevant EU policies. The new set of agriculture and rural development reforms as well as the focus on greener policies, stronger supply chain and area-based approach as of 2014 in the context of the common agricultural policy, make IPA II funding essential to support policy commitments and reform processes in the sector. The sector strategic priorities until 2020 are therefore considered relevant for targeting the overall sector objective: *support for harmonising the agricultural policy and institutional framework and developing rural areas, will therefore contribute to sustainable strengthening of BiH economy by providing employment and trade opportunities as well as improving sanitary, phyto-sanitary and environmental standards.*

There have been no substantial reforms within the *agriculture and rural development* sector. Some improvements were made at operational level, in procedural and information system upgrades though at different pace across the country. The state level remains insufficient in its efforts to coordinate and harmonise policies and implement plans. Institutional and administrative capacities are still in need for further improvements. *Food safety, veterinary and phyto-sanitary* sectors need to further develop their institutional and administrative capacities. Legal frameworks have continuously been upgraded, mostly at the level of the implementation of legislation. However, state level laws on food safety and on veterinary matters still need to be adopted as fully aligned with the acquis. Some major steps forward were taken when exports to the EU were granted in 2015 in the dairy and milk sector as well as for potatoes. Some improvements were made of registers and data bases in the food safety area, including GMO, in the veterinary area regarding animal health and welfare, and on phytosanitary issues. Inspection and control services, including for laboratories and institutes for testing and analyses, are in the process of being upgraded in terms of standardised and uniform procedures as well as accreditation of methods.

Sector investments from national budgets are still largely based on social needs and less oriented towards an increase of competitiveness and innovation, though the entities have recently been attempting to reform their priorities from more general services towards production. In spite of the fact that there is plenty of land available (a large percentage of the country is classified as utilisable agricultural land), there is a need for more intensive agricultural production and consequently for further sector restructuring, targeting in particular the primary income level and those population and labour force categories which have a potential for competitive businesses like youth and women.

The country still lacks a **comprehensive country-wide agriculture and rural development strategy**. There was no progress in the development of such a document in the past period. The entities adopted new strategies, including the 2015-2019 Federation agriculture strategy, 2015-2019 Federation rural development programme framework, and 2016-2020 *Republika Srpska* agricultural and rural development strategic plan. In the upcoming period, the Brčko District may also have its sector strategy designed with the support of the FAO. However, the level of harmonisation and comprehensiveness between these strategic plans remain unclear. With EU support, the country has carried out sectoral reviews for a number of competitive sectors: dairy, fruits and vegetables, cereals, wines and economic diversification as well as aquaculture and forestry, which have provided input into the effort to improve the country's policies', as well as input into a country-wide rural development programme design once feasible.

Assistance under IPA II is recommended on the condition that tangible progress is demonstrated towards the development of a comprehensive **country-wide strategy** in the agriculture and rural development sector **by the end of 2016** (i.e. the country's working group started working on the document and/or availability of some draft) or in case there is any other strategic document that could be assessed as sufficient policy framework basis (e.g. World Bank's study on assessment of effects of the SAA adaptation from both the costs and opportunities level with complementing sector policy and implementation analysis and recommendations) and that adoption of such a strategy and/or a document can realistically follow during the **first half of 2017**.

The alignment of BiH agriculture and rural development sector, including the food safety, veterinary and phytosanitary areas, with relevant EU acquis remains necessary to ensure that the country makes verifiable and tangible sector progress and eventually fully benefits from the access to EU market as provided for in the SAA, Autonomous Trade Measures (ATMs) and other EU unilateral trade measures. The absence of a country-wide agriculture and rural development strategy, the lack of progress in the country's acquis alignment and the insufficient knowledge of the public and of interest groups when it comes to the implications, processes and opportunities related to EU accession have proved to be major obstacles to the successful development of the agricultural sector of Bosnia and Herzegovina.

Due to the above sector challenges, other donors' programmes also had limited scopes and opportunities during the past years. Some projects undertaken by e.g. SIDA, Czech Republic, Slovenia, World Bank, USAID, UNDP and FAO remained tailored to specific areas like support to inspectorates and laboratories, or direct support measures to the private sector, farmers and the rural population. Only a limited number of donors' programmes are currently ongoing (e.g. FARMA II, SIDA/USAID/Czech Republic,) or planned. The EU's demand-driven TAIEX instrument continues to be applied on the basis of the country's proposals in a number of policy and implementation fields.

## **7.2 Objectives, results, actions and indicators**

EU assistance will support Bosnia and Herzegovina in developing an efficient, sustainable and innovative agro-food sector which is competitive on the EU market and offers employment, social inclusion and quality of life for the rural population.

Given the unfinished processes of aligning with food safety, sanitary and phyto-sanitary requirements in the sector with a view to fully implementing the SAA, i.e. through enabling exports of products of animal origin to the EU, and indirectly, implementing the reform agenda effectively, the **specific objectives** of IPA II financial assistance in the sector until 2020 include:

- (1) adoption and further implementation of a country-wide agriculture and rural development strategy including multiannual Action Plan(s), investment framework(s) and other elements to the extent appropriate;
- (2) transposition and implementation of relevant EU acquis in the areas of agriculture and rural development, food safety, veterinary and phyto-sanitary issues;
- (3) Improvement of competitiveness of the BiH agriculture and related economic sectors (agri-food and fisheries) by (a) an increase of export potential in competitive sectors like dairy and milk, meat, fruits and vegetables, in line with EU sanitary and phyto-sanitary requirements and trading standards, and (b) improved agri-food chain capacities and effectiveness at both productivity rate and market demand level, in line with current EU Common Agriculture Policy 2014-2020 objective to "encourage farmers to base their production decisions on market signals";

- (4) Improvements in the quality of life in rural areas and diversification of rural economic activities by providing increased resources to establish farms (niche employment), innovation and transfer of knowledge and by investing in private and public infrastructure;
- (5) approximation to the EU IPA Rural Development (IPA RD) funds via building up of an EU-compliant management and control system.

The **results** expected to be achieved with EU assistance include:

- Strengthening the country's institutional and administrative capacities and capabilities so as to enforce and implement harmonised and EU acquis-aligned agricultural policy and rural development measures as well as animal and plant health protection, food quality and safety standards, as well as a number of reforms aimed at upgrading the legal and operational frameworks.
- Ensuring that a number of investment support measures, aligned with comparable EU Common Market Organisations (CMOs) and Rural Development (RD) measures to improve competitiveness, are profitability harmonised, aligned with the EU acquis and implemented on a country-wide basis.
- Ensuring that the local economy in rural communities across the country is socially revitalised and the countryside preserved and further developed by providing increased resources to help in particular young people to establish farms (niche employment), strengthen research and innovation, and improve the transfer of knowledge and skills (product development and market positioning; local partnerships enforced and operationalised).

In terms of **actions**, EU support has included technical assistance to continue capacity building of relevant bodies related to agricultural and rural development incl. fisheries. This includes assisting the country in preparing for gradual alignment and implementation of the acquis, extension and advisory services, information systems, IPARD set up etc. That also includes support to the country's responsible technical bodies in charge of food safety and quality, veterinary and phyto-sanitary systems and services, agricultural policy formulation, agricultural statistics, information management systems and improving food safety standards, as well as sustainable production and processing of fish and fishery sector management.

In reference to the above, the relevance of EU support may also be to build up the administrative capacity to implement rural development programmes in line with EU policies incl. sound management and control system and to receive entrustment of budget implementation tasks of its management and operating structures, depending upon the country's authorities' agreement over its set up. Before this entrustment has been received, IPA II assistance may be provided to farmers and other agri-business operators as potential end-beneficiaries in order both to establish viable farming systems and successfully participate in the future IPA II rural development programme. The choice of further specific actions will be defined at the time of programming and procurement.

IPA II assistance will support the build-up of effective and feasible acquis implementation modalities, also by upgrading sector policy implementation mechanisms such as agricultural information systems (e.g. LPIS, AMIS).

Stronger links between the sector policies and education (more of a "market driven" and "quality standards" based approach) will also be supported by IPA II. This requires a complementary bottom-up approach through the provision of further advisory services to farmers and the rural population, and a transfer of knowledge and skills improvements via education and training.

IPA II will also foster the modernisation of the agri-food industry via investment in physical infrastructure (agro-incubators included) and assets. This investment needs to be complemented by improvements in production in the sub-sectors with potential for export and growth like dairy and meat and other fast growing sectors (e.g. fruits and vegetables, medical and aromatic plants etc.) which need not only more value chain support but also active employment measures. These sectors also include niche farming (primary holdings as well as viable production units) and the development and preserving of the rural quality of life, primary animal husbandry etc. Also, support to varietal growth and preserving of the native plant and livestock breeding is required.

IPA II will utilise functional (best practice) local partnerships between governmental bodies and non-state and business development actors in reinforce assistance actions to farmers and the rural population at the local level (e.g. agro-incubators etc.);

Finally, IPA II will further strengthen the capacities of food safety, veterinary and phyto-sanitary services, like laboratories and inspectorates as well as administrative structures in both capacity building and policy implementation in a number of priority fields like official controls, risk management and assessment, accreditation, animal disease control and eradication, plant health, seeds and seedlings as well as plant protection products.

The **indicators** which will be used to measure the accomplishment of the expected results will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Total investment generated via IPA II in the agri-food sector and rural development (DG AGRI).

### **7.3 Types of financing**

The reform and administrative capacity building process will be supported through TA services and possibly supplies. Grant contracts can be used to support other services. Support might also be delivered via indirect management by other organisations.

To avoid the bottlenecks in programming and implementation which were experienced in the past particularly at the capacity building level, interventions should be targeted via a tailor made implementation approach e.g. bottom up – system upgrades (capacity building) combined with the knowledge transfer & standards transposition (activities to directly support farmers and rural population), via twinnings and/or adapted models of EU IPA success practice like so-called MIDAS programme in Montenegro etc.

### **7.4 Risks**

The risks related to political sensitivities and available resources, as well as the need for mitigating measures through improved monitoring and reporting, also apply to this sector. In addition, there are risks that delays in the reforms of property rights will affect the development of land markets which in turn will limit the access to credit and ultimately the development of agriculture and rural areas.

Furthermore, the continued low awareness in society at large and among economic operators of agro-food related environmental and food safety standards jeopardises the understanding and acceptance of reforms. Raising awareness among beneficiaries, whilst being sensitive to the cultural and economic context, is necessary to address this risk.

There is a risk that the fragmentation of competences at multiple levels may create problems of coordination, compounded by potential diverging priorities and political blockages. To mitigate this, the EU will make use of instruments of political dialogue (including SA



subcommittees) and rely on the newly-established structure of the BiH mechanism of coordination in EU matters.

## **8. Energy**

### **8.1 Needs and capacities in the sector**

The energy sector continues to be identified as one of the strategic sectors for its vital role for BiH sustainable economic and social development, as well as its importance from the perspective of gradual integration of energy markets, in the Western Balkans and with the EU internal market. As of 2014, the new set of energy reforms as well as the focus on energy interconnections introduced in the context of the Connectivity Agenda makes IPA II funding essential to support energy policy commitments and sector reform.

The alignment of BiH energy sector with relevant EU acquis remains necessary to ensure that the country makes credible and measurable progress in this sector. Some reforms within the sector have been implemented in the past period. At the end of 2015, BiH adopted its National Emissions Reduction Plan (NERP) and in April 2016 a National Renewable Energy Action Plan (NREAP) but has not finalised yet a National Energy Efficiency Action Plan (NEEAP).

A new set of energy reforms have been introduced at WB6 Paris Summit in July 2016, including the agreement on a roadmap for the establishment of a regional market for electricity. BiH also committed to the "Western Balkans Sustainable Charter", agreeing to tap into the high potential for energy savings and renewable generation in line with the 2015 Paris Agreement on Climate Change.

Assistance under IPA II is recommended under the condition that tangible progress towards the development of a comprehensive and concrete country-wide strategy in the energy sector is demonstrated by the end of 2016 (i.e. working group operational and/or availability of some draft) and that adoption of such a strategy can realistically follow during the first half of 2017.

### **8.2 Objectives, results, actions and indicators**

Assistance under IPA II will have as an objective to support BiH in the fulfilment of the commitments undertaken under the Energy Community Treaty, as well to facilitate investments preparation and implementation, focusing primarily on the following sector priorities:

- (1) Transposition and implementation of relevant EU acquis in line with the Energy Community Treaty in the electricity, gas, oil, energy efficiency and renewable energy sectors;
- (2) Development of regional gas market (Energy Community Gas Ring);
- (3) Measures supporting achievement of RES of 40% and EE targets;
- (4) Advance preparation of energy investments including from regional ones;
- (5) Incorporating climate related measures in energy sector development;
- (6) Tackling nuclear safety and radiation protection issues.

### **8.3 Types of financing**

The development and implementation of energy policies, as well as the approximation of the regulatory framework with the EU legislation, will be supported through technical assistance, provided via twinning, service contracts, TAfEX and international specialised agencies.

The preparation of feasible, mature and implementable infrastructure investment projects will be supported through technical assistance for feasibility, appraisal, impact assessment,

designs and other studies. It is envisaged that all EU and other donor funding will be included in one single prioritisation and selection process. IPA II funds will primarily be invested for feasibility studies, impact assessments or design studies in order to prepare bankable investments which meet eligibility criteria for funding from IFI or other donors.

#### **8.4 Risks**

There is a **risk** that the resources available both in terms of funds and human resources are not sufficient. Therefore the mitigating strategy is to focus on the affordability of new investments and make sure that existing investments as well as new ones are operated and maintained adequately. New investments will only be supported once the basic requirements for adequate management are in place. A close cooperation with IFIs is necessary in order to maximise efficiencies.

There is a risk that the fragmentation of competences at multiple levels may create problems of coordination, compounded by potential diverging priorities and political blockages. To mitigate this, the EU will make use of instruments of political dialogue (including SAA subcommittees) and rely on the newly-established structure of the BiH mechanism of coordination in EU matters.

## ANNEX 1 – INDICATIVE ALLOCATIONS (MILLION EUR) PER POLICY AREAS AND SECTORS

Bosnia and Herzegovina	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020	Of which climate change relevant (%)
<b>a. Reforms in preparation for Union membership</b>	11	17	18	18				64	0
Democracy and governance	31							31	
Rule of law and fundamental rights	33							33	
<b>b. Socio-economic and Regional development</b>	24.7 <sup>1</sup>	11.7	13.7	13.7				63.8	0
Competitiveness and innovation: local development strategies	63.8							63.8	
<b>c. Employment, social policies, education, research and innovation, promotion of gender equality, and human resources development</b>	4	11 <sup>2</sup>	11 <sup>2</sup>	12 <sup>2</sup>				38	0
Education, employment and social policies	38							38	
<b>TOTAL</b>	39.7	39.7	42.7	43.7				165.8	0

<sup>1</sup> For 2014, subject to needs assessments, indicatively EUR 15 million will be dedicated to floods recovery and reconstruction

<sup>2</sup> In addition, EUR 18 million for both 2015 and 2016, and EUR 12 million for 2017 are indicatively allocated to the Regional Housing Programme, which is implemented within the framework of the IPA multi-country programme.

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APPENDIX 2: INDICATORS AND TARGETS¶

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ANNEX 2: INDICATORS AND TARGETS

Table 1a: Context indicators

| Indicator                                                        |  | Baseline | Last value |       |
|------------------------------------------------------------------|--|----------|------------|-------|
|                                                                  |  | 2010     | year       | value |
| Public debt (% of GDP) <sup>1</sup>                              |  | 25.39    | 2015       | 41.9  |
| Real GDP growth rate (average last three years - %) <sup>2</sup> |  | 0.72     | 2012-2014  | 0.8   |
| Unemployment Rate (%) <sup>3</sup>                               |  | 27.2     | 2014       | 27.6  |
| GDP per capita at current prices (PPS €) <sup>4</sup>            |  | 3,296    | 2015       | 3,641 |
| FDI per capita <sup>5</sup>                                      |  | 70.8     | 2015       | 71.2  |

<sup>1</sup> Source: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc\\_ecgov&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_ecgov&lang=en)  
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a) Table 1b: Outcome and impact indicators \*

| Sector                                                                                                                                                                                                                                      | Baseline    | Last value |       | Milestone | Target |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|------------|-------|-----------|--------|
|                                                                                                                                                                                                                                             | 2010        | year       | value | 2017      | 2020   |
| Composite indicator (average ranking provided by eight external sources: Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability) | ▼           |            |       |           |        |
| Indicator: ELARG                                                                                                                                                                                                                            |             |            |       |           |        |
| Progress made in reaching the political criteria provided                                                                                                                                                                                   | ▼           |            |       |           |        |
| Progress made on implementation of acquis                                                                                                                                                                                                   | ▼           |            |       |           |        |
| Progress made in meeting economic criteria                                                                                                                                                                                                  | ▼           |            |       |           |        |
| Employment rate (15 to 64 years) total % <sup>6</sup>                                                                                                                                                                                       | 44.2 (2009) | 2014       | 43.2  | ▼         |        |

\*: targets will be provided at a later stage

<sup>6</sup> Source: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc\\_siemp&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_siemp&lang=en)

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b) Table 2: Sector Indicators \*

| Sectors                                      | Indicator                                                                                                             | Baseline | Last value |       | Milestone | Target |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|----------|------------|-------|-----------|--------|
|                                              |                                                                                                                       | 2010     | year       | value | 2017      | 2020   |
| Democracy and governance                     |                                                                                                                       |          |            |       |           |        |
| Governance and PAR                           | Composite indicator: Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB) | 39.39    | 2012       | 45.25 |           |        |
| Statistics                                   | Statistical compliance                                                                                                |          |            |       |           |        |
| Rule of law and fundamental rights           |                                                                                                                       |          |            |       |           |        |
| Judicial reform                              | Composite indicator (Access to Justice (WJP) and Judicial Independence (WEF))                                         |          |            |       |           |        |
| Fight against corruption and organised crime | Composite indicators Global Corruption (TI) and Control of Corruption (WB)                                            |          |            |       |           |        |
| Fundamental Rights                           | Composite indicator Freedom of Press (FH) and Press Freedom (RWB)                                                     |          |            |       |           |        |

<sup>7</sup> Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>

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| Sectors                                   | Indicator                                                                                                                                      | Baseline                      | Last value |                 | Milestone | Target |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------|-----------------|-----------|--------|
|                                           |                                                                                                                                                | 2010                          | year       | value           | 2017      | 2020   |
| Environment                               | No common indicator                                                                                                                            |                               |            |                 |           |        |
| Transport                                 | Logistics performance indicator (score) - WB <sup>8</sup>                                                                                      | 2.66<br>(87/165)              | 2016       | 2.6<br>(97/160) |           |        |
| Energy                                    | Quality of electricity supply (score) - WEF <sup>9</sup>                                                                                       | 5.4<br>(51/142) <sup>10</sup> | 2014       | 4.3<br>(85/140) |           |        |
| Competitiveness and innovation            | Distance to frontier, Doing Business (score) - WB <sup>11</sup>                                                                                | 51.96                         | 2016       | 63.07           | 63.87     |        |
| Education, employment and social policies | Employment rate (EU 2020 targets) - overall/females/minorities/vulnerable groups - Employment rate (20 to 64 years), females (%) <sup>12</sup> | 28.6                          | 2014       | 31.9            |           |        |
| Agriculture and rural development         | Total investment generated via IPA in agri-food sector and rural development – DG AGRI                                                         |                               |            |                 |           |        |

<sup>8</sup> Source: <http://lpi.worldbank.org/international/global>

<sup>9</sup> Source: <http://www3.weforum.org/docs/gcr/2015-2016/BOS.pdf>

<sup>10</sup> Source: <http://www3.weforum.org/docs/GCR2011-12/CountryProfiles/BosniaandHerzegovina.pdf>

<sup>11</sup> Source: <http://www.doingbusiness.org/data/distance-to-frontier>

<sup>12</sup> Source: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc\\_siemp&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_siemp&lang=en)

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| <del>Sectors</del>                   | Indicator                           | Baseline | Last value |       | <del>Milestone</del> | Target          |
|--------------------------------------|-------------------------------------|----------|------------|-------|----------------------|-----------------|
|                                      |                                     | 2010     | year       | value | 2017                 | <del>2020</del> |
| Regional and territorial cooperation | N. of involved municipalities - MIS |          |            |       |                      |                 |

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| <b>PART I: INTRODUCTION .....</b>                                                   | <b>2</b>  |
| 1.1. Purpose of the Country Strategy Paper (CSP).....                               | 2         |
| 1.2. Consultation on this Strategy Paper .....                                      | 3         |
| <b>PART II: ANALYSIS OF THE NEEDS AND CAPACITIES .....</b>                          | <b>3</b>  |
| 2.1. Political and economic context.....                                            | 3         |
| 2.2. Context for the planning of assistance .....                                   | 5         |
| <b>PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY.....</b> | <b>8</b>  |
| <b>PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2017 .....</b>                     | <b>12</b> |
| 4.1. Democracy and governance .....                                                 | 12        |
| 4.2. Rule of law and fundamental rights .....                                       | 15        |
| 4.3. Competitiveness and innovation: local development strategies .....             | 19        |
| 4.4. Education, employment and social policies .....                                | 22        |
| <b>APPENDIX 1: INDICATIVE ALLOCATIONS PER SECTOR (POLICY AREA) .....</b>            | <b>25</b> |
| <b>APPENDIX 2: INDICATORS AND TARGETS .....</b>                                     | <b>26</b> |

As sufficient fiscal space had not been created in the years prior to the crisis and high spending commitments had prevailed, public finances came under severe stress when revenues declined in 2009 because of the economic contraction, and Bosnia and Herzegovina had to resort to the international community for external support. Fiscal adjustment measures agreed with the International Monetary Fund (IMF) and the World Bank contributed to a gradual consolidation of public finances in 2010-2011. However, fiscal imbalances increased again in 2012 linked to the worsened external environment and downturn in economic activity. In 2013 the consolidated budget deficit decreased to 1.0% of GDP compared with 1.9% in 2012. In September 2012, the IMF Board approved a 2-year Stand-By Arrangement (SBA) totalling SDR 338 million (Euro 405.3 million) and aiming to counter the effects of the worsening external environment, strengthening fiscal sustainability and improving the resilience of the financial sector. In January 2014 the Executive Board approved a 9-month extension and augmentation of the SBA by Euro 153.1 million, to meet additional financing needs that arise mainly in late 2014. Following a delay since February, the combined sixth and seventh reviews under the IMF SBA were successfully completed in June 2014. An augmentation of the IMF SBA by EUR 95.7 was also approved by the IMF Executive Board to meet the country's urgent balance of payments need caused by severe floods in May 2014. This enabled a further disbursement of Euro 191.4 million, which brought the total disbursements under the arrangement to Euro 478.5 million.

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The Interim Agreement (IA), which focuses on trade and other Community related competences entered into force in July 2008. The SAA has not yet entered into force because Bosnia and Herzegovina does not meet the remaining requirements, notably a credible effort in implementing the European Court of Human Rights judgement in the Sejdić-Finci case. Therefore, the EU relations with Bosnia and Herzegovina remain governed by the IA, whose implementation is however uneven. Although in some areas implementation is progressing smoothly, the country is in breach of the IA/SAA due to non-compliance with the European Convention on Human Rights (Article 1 of the IA) and with the rules on State Aid (Article 36 of the IA). Bosnia and Herzegovina therefore needs to step-up its efforts to address these obligations under the IA/SAA

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In 2011, the Commission launched a High Level Dialogue on the Accession Process (HLDAP) with representatives of the authorities and

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. The purpose of the HLDAP is to start a process of explaining what EU accession requires both

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