

Strategy for development cooperation with

# Bosnia and Herzegovina

January 2006 – December 2010



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## **Strategy for Swedish development cooperation with Bosnia and Herzegovina, 2006-2010**

### **1. INTRODUCTION**

This strategy describes Sweden's aid-financed cooperation with Bosnia and Herzegovina during the five-year period 2006–2010. Should the conditions for development cooperation change significantly, the strategy may be revised after 2-3 years. The strategy is based on a proposal from the Swedish International Development Cooperation Agency (Sida), supplemented by the Ministry for Foreign Affairs' own considerations and by comments from other ministries, government agencies and Swedish actors involved in development cooperation with Bosnia and Herzegovina. Consultations have been held with the partner country.

#### **1.2 SUMMARY**

The goal of Swedish development assistance is to support Bosnia and Herzegovina's development plan, the Mid Term Development Strategy (MTDS), which focuses on accession to the EU and the fight against poverty. In order to achieve this goal, and to promote concentration in the Swedish programme, development assistance is to target two main sectors: the building of a sustainable state, and economic development.

The emphasis during the strategy period will be on long-term programme-based funding in support of the EU's stabilisation and association process and the MTDS. Sweden will seek collaboration with bilateral and multilateral donors to facilitate the programming of major interventions and the coordination and harmonisation of development cooperation work. Bosnia and Herzegovina's ownership will be of crucial importance in the Swedish development cooperation programme. Support will be directed largely at the central and local levels.

The emphasis in the dialogue will be on corruption, which is a major problem in Bosnia and Herzegovina.

Swedish development assistance over the coming three-year period is expected to remain at the same level as at present, i.e. SEK 250 million per annum.

### **2. OTHER POLICY AREAS AND SWEDISH RELATIONS WITH BOSNIA AND HERZEGOVINA**

This strategy relates to development cooperation, but Swedish actions in numerous other policy areas also affect the development situation in Bosnia and Herzegovina (BiH). One of the basic aims of Swedish development cooperation is to make government policy as a whole more development-oriented. To enhance coherence between actors, the strategy also contains a description of other forms of cooperation between Sweden and BiH, including both activities at central government level and activities involving Swedish enterprise, Swedish organisations and other actors in Swedish society.

Sweden has extensive commitments vis-à-vis Bosnia and Herzegovina. In connection with the war of 1991-95, Sweden received almost 60 000 Bosnian refugees. Sweden is also the

country's largest bilateral aid donor. Up until the autumn of 1999, Sweden deployed a battalion in the Nato-led Stabilisation Force (SFOR), which was relieved by the EU-led mission Althea in December 2004. Political dialogue between the two countries is satisfactory and exchange visits, particularly from Sweden, have been fairly lively. Sweden established diplomatic relations with Bosnia and Herzegovina in 1992, and our official presence in the country was strengthened by the opening of a Swedish embassy in 1996.

Today, some 80 000 people living in Sweden have roots in BiH. Of these, 50 000 have received Swedish citizenship. The embassy handles some 6 000 visa applications a year and about 1 000 applications for residence and work permits. The number of asylum seekers is declining, and in 2005 amounted to 387.

The number of Swedish citizens in BiH on short or medium term assignments is relatively large. Sweden contributes peacekeeping personnel both to the EUFOR military mission (approx. 70 people at present) and to the EU police mission, EUPM. Also, Swedish officials work at the Office of the High Representative. In addition, a number of Swedes are working in international aid organisations and in aid programmes run by Swedish NGOs.

Several Swedish NGOs are active in Bosnia and Herzegovina, including Svenska Helsingforskommittén (the Swedish Helsinki Committee), Kvinna till Kvinna (The Kvinna till Kvinna Foundation), and the Olof Palme International Center. A number of municipality partnerships have been established between Sweden and BiH (including Västerås-Banja Luka, Burlöv-Lukavac, Gälve-Gorazde, Luleå-Zenica and Strängnäs-Konjic).

Economic exchange at the commercial level is fairly modest. In 2004, Swedish exports totalled SEK 213 million. These mainly comprised engineering products, machinery and apparatus, telecom equipment and transport vehicles. Imports from BiH in 2004 totalled SEK 66 million and mainly comprised foodstuffs, clothing and bedding/pillows, etc. Around 15 Swedish enterprises are active in BiH, either through their own firms or via representations. The Swedish Trade Council does not have an office in the country, but a Swedish-Bosnian chamber of commerce (linked to the Chamber of Commerce and Industry of South Sweden) was set up in the autumn of 2005.

Tourism to Sweden has hitherto been very limited, but the flow from Sweden to Bosnia and Herzegovina has increased slightly. BiH has become increasingly popular in such spheres as eco-tourism, adventure tourism and leisure travel. Cultural exchange and exchanges in the educational field are other areas of only limited activity, but this should change in time as cooperation develops.

Medevac, a project involving the medical evacuation of refugees to Sweden, has been under way since 1995. This has grown into a highly cost-efficient programme as it has also enabled Swedish teams (incorporating both Swedish specialists and second-hand equipment) to travel to BiH to examine and treat patients on the spot. Knowledge and know-how have been transferred via training input, including on-the-job training, etc. In time, the project is expected to enhance the level of medical care in the country, and also help the conciliation effort as the work involves collaborating across ethnic lines. The project is being undertaken in cooperation with the Swedish Migration Board and the Östergötland County Council.

A project focusing on humanitarian mine-clearing in BiH is currently being discussed in the Swedish Government Offices and with the Swedish Armed Forces. The aim of this project is to transfer know-how concerning mine-clearing, and to restore mined land to the civilian population in the country. Sweden has wide experience of this type of work and is well placed to contribute.

### **3. ANALYSIS OF DEVELOPMENT PROBLEMS: CONCLUSIONS**

#### **3.1 Political and socioeconomic development**

The next few years will decide how Bosnia and Herzegovina develops. General elections are to be held in 2006, and the Office of the High Representative is due to close. The EU and the European Union's Special Representative (EUSR) will assume greater responsibilities.

Bosnia and Herzegovina entered into negotiations on a stabilisation and association agreement with the EU at the end of 2005, which should be viewed as a stepping stone in the country's preparations for accession.

Efforts to enhance the rule of law, including the introduction of legislative measures and security sector reforms, are crucial to the task of creating freedom, security and sustainable development. Also essential is the application of an integrated approach, where conflict management – including conflict prevention, crisis management and peacebuilding – is crucial to development. There is a clear correlation between security and development. Without peace and security, sustainable economic, social and political development in a broader perspective is not possible.

Bosnian membership of Partnership for Peace (PfP) would create new and better conditions for security sector reform.

The Dayton Agreement has resulted in a highly complex and cumbersome government set-up. In a country of just 3.8 million inhabitants there are 14 separate government administrations, as many legislative assemblies and about 200 ministries at various levels. The two entities enjoy considerable autonomy. As a result, the central government administration possesses only just enough functions for Bosnia and Herzegovina to be rightfully called a sovereign state.

BiH lacks reliable statistics, which makes policy decisions more difficult. This problem is directly related to the administrative division of the country. No national census has been performed since 1991.

The macroeconomic picture is mixed. Estimated growth is 5 per cent or less per annum, which is insufficient in view of the fact that GDP has yet to reach the level of the 1990s. The arrangement involving a currency board has worked well, and the Bosnian currency is stable. Both the financial system and the banking system are sound. An integrated economic market embracing the country as a whole is under development, and the microcredit programmes are proving to be a success. Foreign trade is showing a substantial deficit, however, and the national economy is unable to meet domestic demand. Dependence on remittances from family members abroad is on the increase.

The transition to a market economy in Bosnia and Herzegovina is far from complete. Economic growth is largely confined to the informal, unregistered economy. The informal economic sector amounts to an estimated 30–40 per cent of the formal sector.

Inadequate and fragmented legislation, as well as poor compliance with existing provisions, means that the private business sector is insufficiently protected by the law. Starting, conducting and winding up a business are all troublesome and costly procedures, and firms are forced to compete with organised crime and corruption.

Although Bosnia and Herzegovina is free from extreme poverty and hunger, many people are still hungry and at risk. At the core of poverty lies the lack of material assets and power, which deprives people of the right and ability to decide over their own lives. Economic development and growth are vital if material poverty is to be reduced. Lack of paid employment has been identified as the prime cause of material poverty in BiH. Poverty alleviation also means ensuring that the poor themselves can influence decisions at various levels. The building up of a sustainable state with a strong, efficient administration makes it easier for poor people to exercise their democratic rights. It also reduces opportunities for corruption and can help more people to benefit from economic growth. The goal of Swedish support for democracy is to promote and strengthen opportunities for both individuals and groups to exercise power and influence in the community.

The official GDP figure for 2003, based on a population of 3.8 million, is approx. 1 600 euros. If the poverty line is set at 1 100 euros, some 20 per cent of the Bosnian population live in poverty and a further 30 per cent live just above the line. According to official statistics, unemployment is over 40 per cent, but a more realistic figure is 16–17 per cent. Female representation in the labour market is 34 per cent, which is the lowest figure among the countries of the region. Women are often discriminated at work, their pay is lower and they are exposed to sexual harassment. The few jobs that have been created in recent years have primarily been located in the informal sector. Poverty is particularly evident in rural parts of the Srpska Republic.

Human rights compliance has improved, and the trend is favourable. Problems involving the discrimination of minorities, internally displaced persons and refugees are principally to be found in the judicial system, education and the health service. Reforms are being introduced in the police and judicial systems, but important steps in the implementation process remain. Civil society is still weak and dependent on international financing.

Of the 2.2 million people who were forced to flee as a result of the war, about 1 million have returned. Many have settled in other parts of the country or abroad. The large flows of refugees are one reason why Bosnia and Herzegovina rates poorly in socioeconomic terms compared with its neighbours. Only 200,000 people stated in the return migration register recently brought up to date by the authorities that they were interested in returning without delay.

Corruption is widespread in both political life and public administration. Administrative corruption is routine, and few decisions in the political, social or judicial fields are open and

transparent. Particularly alarming is the extensive web of corruption linking high-level politicians and organised crime.

Human trafficking is a serious problem in Bosnia and Herzegovina, which is both a transit country and a recipient country. The number of reported cases has declined, probably because the 'traders' are using new methods to avoid detection. National laws for combating human trafficking and enhancing gender equality have been adopted, but are not being adequately enforced.

BiH is one of the most widely mined countries in the world. Further mine-clearing is important both for human safety and security, and to economic development.

The lack of national ownership of development in general is serious, and is making sustainable reforms difficult. Corruption and obstructive politicians are jeopardising change processes. The wide-ranging powers of the High Representative, known as the 'Bonn powers', which include the right to remove democratically elected politicians and to pass laws, are adding to the problem by undermining ownership.

The social and economic development gap between BiH and the EU member states must be closed significantly if the country is to succeed in joining the Union. There is no contradiction between the country's policies for socioeconomic development and poverty reduction (emphasised in the MTDS) on the one hand and EU accession (the stabilisation and association agreement) on the other. Rather, they are mutually reinforcing.

### *Conclusions*

The administrative structure that has been created through the Dayton Agreement, characterised by a weak central government administration and a lack of political will to reform the system, is severely hampering development. The country's weak administration not only represents an obstacle to future EU membership but also affects the poverty situation on several different levels and makes social and economic development difficult.

The lack of productive and gainful employment in the formal sector is the principal cause of material poverty in Bosnia and Herzegovina.

The MTDS is the country's plan for social and economic development and for poverty reduction. The framing of the plan involved a wide-ranging process that brought together parties representing different sections of Bosnian society. The MTDS is supported by all political factions and ethnic groups. It deals with the tough issue of how to consolidate a nation in this divided country. It is also important to note that the stabilisation and association agenda for EU convergence is an integral part of the policy.

The greatest challenge facing Bosnia and Herzegovina in the medium term is to strengthen the state and public administration, to create conditions for economic development, and to ensure that the judicial system works efficiently and responsibly.

#### **4. DEVELOPMENT COOPERATION 2003-2005**

Following the peace agreement of December 1995, Sweden focused its development assistance on reconstruction and repatriation projects. The Integrated Area Programmes (IAPs) represent Sida's most ambitious initiative in Bosnia and Herzegovina. Disbursements totalling EUR 135 million have been used to finance the reconstruction of almost 15,000 houses, which has enabled more than 50,000 people to return. The initiative has been extensively followed up by Sida's Evaluation and Internal Audit department, which has confirmed the programme's relevance.

In the area of economic development, Sweden has supported expansion of the financial sector and reforms aimed at improving the business climate for small and medium sized enterprises. Support for microcredits has helped create 2 000–3 000 new jobs.

Income-generating agriculturally based activities in the IAP have been separated out from the reconstruction activities and made more commercial in character.

Administrative funding has been focused on areas of strategic importance such as national auditing, judicial reform, property registration, police training and the fight against corruption and organised crime. At national policy level, Sweden has joined the UK and the EU Delegation to Bosnia and Herzegovina in developing a joint plan of support for the government's administrative reform strategy. At local level, Sweden is cooperating with the US on a major programme aimed at improving both the level of municipal services and the business climate. Swedish support in the administrative field has generally been much appreciated by the recipients. This is a difficult area to operate in, due to limited ownership and the country's complicated administrative structure.

Support for human rights and democracy has mainly been channelled via three Swedish organisations: Kvinna till Kvinna (The Kvinna till Kvinna Foundation), focusing on strengthening women's rights; Svenska Helsingforskommittén (the Swedish Helsinki Committee), which supports independent media; and the Olof Palme International Center, which has supported youth projects and pro-democracy initiatives. These Swedish organisations work in their turn with local NGOs and institutions. Sustainable results in this sector have primarily been achieved in areas where expectations have been kept at a reasonable level and where those directly affected have been involved. The chances of these organisations obtaining funds from sources other than foreign donors are still remote.

On the whole, Swedish development cooperation could be said to have helped enhance democracy and respect for human rights via the various initiatives taken. The support provided via the three framework organisations has strengthened civil society and helped bring legislation into line with human rights principles. This is particularly true in the case of Kvinna till Kvinna, where Swedish support has contributed to the development of an equal opportunity law. Besides these efforts, Sweden has contributed to the establishment of a press ombudsman at national level and to the establishment of human rights ombudsman offices at local level, which has made it easier for people in rural areas to ensure that their rights are respected. In the run-up to the 2002 election, Sweden provided support to the electoral commission, which helped create the conditions for a larger voter turnout.

Swedish assistance to traumatised war victims developed into support for a mental health reform focusing in particular on municipally based psychiatry. This project contributed to the establishment both of 38 public mental health centres and of staff training programmes, and included funding for the establishment of modern social services. The first 35 students training as social workers will obtain their degrees in early 2005. Support relating to HIV/Aids has focused in particular on prevention and consciousness-raising.

The reconstruction of traditional cultural buildings has been undertaken by Cultural Heritage without Borders (CHWB) and has involved both raising awareness of the importance of cultural values and providing training to local managers and staff. The programme has been much appreciated and valued by the recipients.

Sweden's involvement in the environment sector has been very limited during this strategy period. Needs are considerable, but the area is difficult to work with due to the low priority that Bosnia and Herzegovina attaches to this type of programme. If poverty is to be reduced in a long-term, sustainable way, natural resources must be used in a sustainable manner and the environment must be protected. BiH has particular problems with air and water pollution and with inferior waste management.

Sweden provides a limited amount of assistance to demining via a UNDP programme that addresses both mine-clearing and institution-building. This has helped to focus the spotlight on the problem, which in turn has caused BiH to step up its budget allocation for demining.

The results of direct aid to people returning to the country from abroad have not been encouraging. Interest in returning declined dramatically after a couple of years. Emphasis on building up Bosnian society and creating new jobs will hopefully pave the way for a sustainable return both of refugees from other countries and of internal refugees.

#### *Summary of results and experience*

Swedish development cooperation during the strategy period 2003-2005 was relevant to the needs of Bosnia and Herzegovina. Sida's accounts of experience and the discussions held with the Bosnian partners both show that the projects and programmes undertaken were considered relevant and that judging by field reports the individual activities had achieved their purpose. In some projects, however, sustainability proved weak. This may be due to a number of different factors, but the most important reasons are the country's fragmented and unsustainable administrative structures, corruption within the government, and also in all likelihood a certain dependence on foreign aid. Another aim of Swedish support is to give recipients a general idea of how democratic institutions and civil society work. Here, interventions have had an impact at the individual level, which in turn improves the prospects for interventions at other levels.

Donor coordination has been a problem during the strategy period, as Bosnia and Herzegovina has lacked mechanisms for coordination at central government level. Such mechanisms have been established but are not yet working properly. In response, Sida has discontinued its funding of minor projects and sought to achieve better planning and coordination with other donors.

#### **4.1 Other donors**

Donor coordination has worked better in recent years. The donors jointly discuss development problems, develop programme concepts, agree on who should be involved and then conduct a dialogue with relevant recipients in Bosnia and Herzegovina. This approach results in more harmonised and coordinated interventions, and more extensive programmes. The aim is to strengthen ownership on the part of the Bosnian authorities.

The largest donors in Bosnia and Herzegovina today are the EU, the US, Sweden, Germany, the Netherlands and the UK. The World Bank is the largest international organisation, closely followed by the European Development Bank (EBRD). BiH recently became a member of the Council of Europe Development Bank (CEB), with Swedish assistance, and the bank is planning to launch activities in the country in 2005.

The EU Delegation to Bosnia and Herzegovina has a key role in the implementation of foreign aid programmes. During the spring, the EU compiled progress reports on public administration in the country as a basis for future efforts. As these studies yield results that differ in terms of what administrative changes the country needs, implementation of the conclusions in the reports may prove problematic, especially as there are insufficient financial resources to maintain the present structures. As of January 2007, the EU's new Instrument for Pre-Accession (IPA) will become partially available to Bosnia and Herzegovina. The IPA may lead to changes in the scale and scope of Swedish development assistance. The Swedish programme will be adapted to the IPA, but it is still unclear what effect the instrument will have.

The World Bank is supporting the priorities outlined in the country's MTDS by focusing on three pillars that are mutually supportive: a) improving public finances and strengthening institutions, b) encouraging sustainable private business development, and c) investing in important social and economic infrastructure.

The US is working in three sectors: economic reconstruction/development and cooperation, democracy and human rights, and repatriation. USAID has provided large-scale funding to the country's financial systems (via credits), to business development, to repatriation and to local democracy. The US has drastically reduced its financial contribution, but the input remains very substantial.

#### *Conclusions*

As one of the leading donors in Bosnia and Herzegovina, Sweden has a duty to take an active role in harmonising efforts with other multilateral and bilateral donors, in order to support EU integration via the stabilisation and association process and the MTDS. Donors are clearly keen to improve coordination, to harmonise work approaches and to comply with the country's own priorities. Intensified donor coordination has resulted in larger multilateral programmes with Swedish participation, including the Governance Accountability Project (GAP), which is a decentralisation initiative, and the Public Administration Reform programme.

The establishment of two coordinating functions at central level, the Directorate for European Integration (DEI) and the Economic Policy and Planning Unit (EPPU), are a promising beginning.

## **5. GENERAL CONSIDERATIONS**

Bosnia and Herzegovina is currently in transition between a post-war period and the long-term development of a democratic society and a sustainable economy. The degree of national ownership will determine whether this process succeeds. The various mechanisms and instruments of European integration will be of crucial importance in driving development forward through the requirements they impose and the support they provide with regard to economic development, institution building and the rule of law.

The goals, scale and scope of the Swedish programme are based on the EU convergence process and the MTDS development plan, other donor programmes and Swedish comparative advantages.

The possibility of providing general budget support to Bosnia and Herzegovina has been analysed. Sweden's conclusion is that such support might make the Bosnian state less inclined to remedy allocation problems between different government levels and thus preserve the present administrative structure. Budget support, therefore, should not be considered.

New procurement legislation has been developed with the aid of EU financing, and has been adopted by the Bosnian parliament. This legislation is of international standard and can be used when the Bosnian recipient engages in procurement activities. Hitherto, however, no institution has been established to assume responsibility in this field. Capacity and competence for the enforcement of legislation has therefore not been analysed.

Besides providing development assistance, Sweden has allocated more than EUR 400 million to UNPROFOR/IFOR/SFOR troops and to support via the UN. In 2005, Sweden is contributing personnel to both the European Police Mission (EUPM) and the European Force (EUFOR) to strengthen peace and stability.

When implementing the strategy, Sida is to exploit opportunities for creating synergies and developing joint initiatives with other policy areas, and with the Swedish business community.

## **6 GOALS AND GUIDELINES**

The aim of Sweden's development cooperation with Bosnia and Herzegovina is to create conditions that enable poor people to improve their lives. The Swedish programme is to proceed from both a poverty reduction perspective and a rights perspective.

Bosnia and Herzegovina is moving from a post-war period to a period during which the aim is to develop towards a more long-term, sustainable society and during which the EU integration process will act as a catalyst and as a guiding force. The focus is shifting from post-war reconstruction and peacebuilding to sustainable social, economic and political development and future EU accession. Bosnia and Herzegovina has produced a wide-ranging development plan, the MTDS, that embraces both EU convergence and poverty reduction. Sweden should urge the country to adopt a comprehensive, all-round approach when setting priorities in these two fields, and also urge that the priorities be clearly defined.

The need for long-term development support imposes new requirements, and donors have adapted to them by increasing coordination and by thinking more in terms of programmes. The

greatest challenges facing Bosnia and Herzegovina are nation-building at both central and local level, institution building in public administration, the strengthening of the rule of law, the strengthening of civil society, and economic development as a means of achieving EU integration.

Swedish input is to be closely coordinated with the European Commission's support to Bosnia and Herzegovina and with the present CARDS programmes and future IPA programmes. Sweden is following both the general line of approach in the stabilisation and association process and the recommendations and guidelines based on the progress reports. In cooperation with the European Commission's Delegation to Bosnia and Herzegovina, Sweden will support the country in its endeavour to establish closer ties with the EU. Negotiations on a stabilisation and association agreement have been initiated. Sweden can supplement EU assistance focusing on the central government level with programmes that address the municipal level.

**The overall objective** of Sweden's development cooperation is to create conditions that enable poor people to improve their lives. Therefore, Sweden will support the MTDS, the twin aims of which are EU accession and poverty reduction. Swedish support is to focus on two main sectors:

1) The building of a sustainable state

Objective: Swedish support is to help build up a sustainable Bosnian state, particularly at the central and local level, that will facilitate integration into European structures, by means of efforts to:

- Establish an efficient, transparent and democratic public administration and judicial system.
- Reduce corruption.
- Strengthen institutional, implementary and administrative capacity, mainly at the central and local levels.
- Strengthen the judicial system at central government level through efforts to fight corruption and organised crime. Support for reforms in the police system may be considered.
- Generate broader popular participation and greater influence for all groups in the community.
- Raise awareness of and respect for human rights.

2) Economic development

Objective: Swedish support is to help Bosnia and Herzegovina, via economic development, to transform itself into a market economy and establish closer ties with the EU, by means of efforts to

- Create jobs.
- Develop the private sector.
- Introduce measures aimed at developing the financial sector.
- Support institutional frameworks for regional and local economic development.
- Integrate the informal economy into the Bosnian economy.
- Possibly facilitate co-financed investments in the environment field.

The emphasis in the Swedish programme will be on Bosnian ownership. Sweden's input will be coordinated with that of other major donors, including international investors, in order to achieve greater efficiency, sustainability and ownership.

The concentration of Swedish assistance will continue. This means focusing on fewer areas in each sector and harmonising with other donors. Also, the number of projects will be reduced.

Support to NGOs should be channelled through the Swedish framework organisations with which Sida cooperates. In this connection, innovative models may be tested, e.g. ones using local framework organisations in Bosnia and Herzegovina.

Disbursements to BiH in 2004-2005 totalled SEK 250 million per annum. During the first part of the strategy period, this level is expected to be maintained. The introduction of the EU's new IPA instrument, and the phasing out of the Sida-funded Integrated Areas Programmes may affect the future level of Swedish support to Bosnia and Herzegovina.

## **7. AREAS OF ACTIVITY**

### **7.1 Building up a sustainable state**

The primary task of the administration created by the Dayton Agreement of 1995 was to end a war. Today, this administration is weak at all levels. There are only a limited number of ministries and agencies at central government level, and the ministries that are in place lack resources as the national budget is dependent on contributions from the two entities. The judicial system is fragmented and weak, as is civil society.

**The overall objective** of Swedish support is to contribute to the development of a sustainable state, particularly at the central and local levels, the aim being to facilitate both the integration of the two entities and EU integration.

#### *Public administration*

Public administration must be strengthened and made more efficient if Bosnia and Herzegovina is to successfully implement the MTDS and establish closer ties with the EU. Sweden will continue to harmonise its assistance with that of other donors and with the government's action plan for reforming public administration. The European Commission, Sida and the DFID have begun preparations for a harmonised programme in the public administration field. This support is long-term in character to encourage the development of an efficient, responsible and democratic state.

Programmes in support of local democracy are to continue and be harmonised with the efforts of other donors, as in the case of the GAP project, for instance. Interventions are to focus on institutional capacity building at the local level to prepare it for the assumption of greater responsibilities in the future.

#### *The judicial system*

There is an urgent need to build up and strengthen the judicial system at national level. Sweden should encourage Bosnia and Herzegovina to adopt a holistic approach to the judicial system,

including strengthening the judicial chain. Swedish support is to contribute to the fight against corruption and organised crime. Interventions aimed at reforming the police system may be considered, as may support to other parts of the security system.

#### *Civil society and human rights*

An important step in building a sustainable state is to strengthen civil society. Bosnian citizens must be able to exercise their rights and must be given a greater say in public life if Bosnia and Herzegovina is to develop democratically. Swedish support is to target activities that enhance respect for human rights. Assistance in this sector will continue to be channelled through framework organisations. Cooperation between civil society and government agencies needs to be strengthened. Greater attention must be given to the strengthening of local ownership and to phaseout strategies. The bulk of Swedish support is to target gender equality promotion, children and adolescents, minorities, the media, and activities in the fight against human trafficking.

Support for institution building and public administration reform is expected to increase during the forthcoming strategy period, along with support for the strengthening of the judicial system. Swedish support to civil society and human rights is expected to stay at the same level as during the previous strategy period.

## **7.2 Economic development**

The Bosnian economy has been confronted with a double transition – from wartime to post-war era and from planned economy to market economy. GDP per capita is USD 1 530 in Bosnia and Herzegovina, which may be compared with the level in Colombia (USD 1 810).

**The overall objective** of Swedish support is to help Bosnia and Herzegovina, via economic development, to transform itself into a market economy and establish closer ties with the EU. Aid planning is to proceed from a rights perspective and a poverty reduction perspective. It is to focus on the sustainable creation of jobs through the growth of micro, small and medium sized enterprises. Support to the private sector and assistance aimed at developing the financial sector are primarily to be provided via large-scale programmes together with international and local financial institutions.

The job creation activities currently in progress under the Integrated Areas Programmes are to be separated from the IAPs and redesigned so that measures to boost employment can continue towards full commercialisation without any dependence on subsidies. This applies particularly to the agricultural sector, where one of the aims is to encourage the emergence of sustainable units able to offer jobs on commercial grounds.

Institutional frameworks for regional and local economic development may be supported. Greater support for the newly established regional economic development offices may be considered if this is politically viable.

When Sida looks into opportunities for creating employment, a basic principle is that the activity must be market-oriented and commercially sustainable. Sweden will also be looking into measures that would help the microfinancing industry become an integral part of the financial sector and less donor-dependent.

Swedish support to Bosnia and Herzegovina for the purpose of achieving full transition to a market economy will continue in the shape of funding that enables the authorities to create and pursue policies aimed at integrating the informal economy. Sweden is considering support for a joint project with the World Bank targeting policy reform, institutional capacity building and reforms of the labour market and the social insurance systems.

Besides supporting the two main sectors described above, Sweden is undertaking a limited number of small-scale interventions. Support for programmes addressing the problem of HIV/Aids in Bosnia and Herzegovina is continuing. In the MTDS, mine-clearing is identified as an important sector. Decisions as to whether Sweden's current support is to continue are contingent on the evaluation scheduled for early 2006. Co-financed investments in the environment field, e.g. in cooperation with the EBRD, may be considered.

The phaseout of bilateral refugee repatriation programmes is to be completed in 2007. Parallel to this development, Sweden will continue to support Bosnian central government efforts to take over responsibility for repatriation. Cultural assistance is to be phased out during the strategy period.

## **8. DIALOGUE ISSUES**

In connection with the preparation of the strategy, a study was undertaken that reveals the severity of the corruption problem in Bosnia and Herzegovina. Special attention will be given to the corruption issue during the assessment and follow-up of projects and in the dialogue between partners, and corruption will be the most important dialogue issue in the Swedish development cooperation programme.

## **9. FOLLOW-UP AND RESOURCES**

This development cooperation strategy is to run for a five-year period. Sida draws up annual country plans that break the strategy down into programme activities. Implementation will be reported by Sida in annual and semiannual reports. Swedish support in relation to the EU's pre-accession funding is an important aspect in this connection. Sida also formulates annual evaluation plans to ensure regular scrutiny of development cooperation activities.



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