

BOSNIA – HERZEGOVINA



Bosnia and Herzegovina A democratic, economically sound, and secure Bosnia and Herzegovina (BiH) is critical to stability in the Balkans. However, BiH continues to face the challenges of a fractious political environment that undermines reforms and state-level institutions; strained relations between ethnic groups; complex and overlapping layers of government with fragile structures at the state level; endemic corruption; and porous borders. While BiH has made strides since the signing of the Dayton Peace Agreement, its long-term sustainability is still in question. It is vital to U.S. interests that Bosnia's ethnic divisions are not again exploited by politicians with ethno-nationalist agendas, creating the potential for violent conflict. The United States seeks to ensure BiH's stability and security by embedding it in Euro-Atlantic structures. To this end, U.S. assistance focuses on helping BiH develop fully functioning, state-level institutions capable of managing its national security, economy, and governance. Priorities for U.S. foreign assistance are strengthening national capacity for defense, counter-terrorism, and the rule of law, including law enforcement. Continued progress in the economic and governance spheres, including improving BiH's democratic culture through grassroots efforts, is also essential to ensure that BiH remains on the path toward European and Euro-Atlantic integration and toward becoming a fully democratic, multi-ethnic state.

FOREIGN RELATIONS: The implementation of the Dayton Accords of 1995 has focused the efforts of policymakers in Bosnia and Herzegovina, as well as the international community, on regional stabilization in the former Yugoslavia. However, donor resources for Bosnia and Herzegovina have diminished due to competing assistance priorities elsewhere in the region and globally. Bosnia and Herzegovina's relations with its neighbors Croatia, Montenegro, and Serbia have been fairly stable since the signing of Dayton in 1995. The U.S. role in the Dayton Accords and their implementation has been key to successes in Bosnia and Herzegovina. Since the Dayton Accords were signed, over \$15 billion in foreign aid has moved into Bosnia and Herzegovina, approximately \$1.38 billion of it coming from Support for East European Democracy (SEED) funds. U.S. Government assistance, managed by the U.S. Agency for International Development (USAID), as well as the Departments of State, Justice, Defense, Treasury, and Commerce, have been crucial to the redevelopment of Bosnia and Herzegovina. The U.S. Government currently has programming in the following areas: economic policy reform and restructuring; private sector development; fostering democratic reforms in local government, civic education, and civil society; rule of law, including support to law enforcement, judicial, and prosecutorial institutions; and security sector assistance.

Bosnia and Herzegovina is a member of the United Nations (1992); International Monetary Fund (IMF) (1992), World Bank (1995), Organization for Security and Cooperation in Europe (OSCE) (1992); and the Council of Europe (2002). It also participates in regional cooperation through the Regional Cooperation Council (RCC), Central-European Initiative (CEI), Southeast Europe Co-operation Initiative (SECI), Southeast Europe Co-operation Process (SEECOP), Adriatic-Ionic Initiative (AII) and others.

U.S.-BOSNIAN RELATIONS: The 1992-95 war in Bosnia and Herzegovina was ended with the crucial participation of the United States in brokering the 1995 Dayton Accords. After leading the diplomatic and military effort to secure the Dayton agreement, the United States has continued to lead the effort to ensure its implementation. The United States maintains command of the NATO headquarters in Sarajevo. The United States has donated hundreds of millions of dollars to help with reconstruction, humanitarian assistance, economic development, and military reconstruction in Bosnia and Herzegovina. The U.S.

Agency for International Development (**USAID**) has played a large role in post-war Bosnia and Herzegovina, including programs in economic development and reform, democratic reform (media, elections), infrastructure development, and training programs for Bosnian professionals, among others. Additionally, there are many non-governmental organizations (NGOs) that have likewise played significant roles in the reconstruction.

Peace and Security: U.S. security assistance will help BiH align, equip, and train multi-ethnic state-level security forces capable of contributing to global security and work toward NATO accession as a member of the Partnership for Peace. Funding for defense and military restructuring, reform, and operations will support the unified national-level defense structure under a national ministry and operational command, with common training and personnel systems. This will eventually transform the armed forces of BiH into a professional and NATO-interoperable force. U.S. assistance will also provide technical assistance and equipment to BiH law enforcement institutions, particularly new state-level agencies, to professionalize domestic law enforcement and build their capacity to fight organized crime and terrorism. Building expertise in countering illicit trafficking in conventional weapons and weapons of mass destruction (WMD)-related materials is also vital to reducing the availability of small arms and light weapons, preventing the proliferation of WMD, and enhancing border security, in a country where transnational movement of terrorists threatens U.S. national security. The increase in the assistance request from FY 2009 levels is principally due to the inclusion of support for the U.S. contribution to the Office of the High Representative (OHR) in the BiH bilateral assistance budget (rather than the Europe Regional assistance budget) for the first time and an expansion of border-security assistance programming. Programs under this objective will be conducted principally by the Department of State and Department of Defense.

Governing Justly and Democratically: A high priority for U.S. assistance to BiH is to help foster more accountable and functional government. This includes helping BiH to strengthen the capacity of state level institutions, including the State Parliament, and enhance citizen interaction with these institutions; foster local government reform and decentralization to the municipal level; and capitalize on opportunities to reform its constitution, laws, and legal institutions. The U.S. Agency for International Development (USAID), Department of Justice, and Department of State programs will help reduce corruption and strengthen justice sector capabilities and judicial independence through training of investigators, prosecutors, and judges and through other forms of technical assistance to the justice sector primarily at the state level. The United States will assist BiH to strengthen its civil society and increase participation of vulnerable and minority groups. Increased funding is requested to intensify engagement with the justice sector, civil society, and local government and to fund programs that build trust among BiH ethnic communities and improve support for diversity in the country.

Focus on Performance: The increase in FY 2010 funding in this program area will support increased training and technical assistance in policy and procedures for state level law enforcement agencies. In addition, \$1.2 million of the increase over FY 2009 funding in this program area will support the second, equipment intensive year of a five year project to improve border security. With FY10 funds, the U.S. will assist the BiH Foreigner Affairs Service with software development, creation of a biometrics data repository and refurbishment of a server room . The \$4,000 in FY2010 funds requested is the estimated U.S. contribution to the annual budget of the Office of High Representative and therefore does not represent specific program assistance. With the \$1,944 in FY2009 funds allocated in this program area, the U.S. expects to fund targeted programming that would work to improve relations between the three main ethnic groups in BiH. As these programs have yet to be designed, Post is not yet able to identify a target for FY2009. Possible interventions could focus on formal and non-formal education working to help youth understand their rights, analyze ethnic differences, and transform their attitudes so that they can build cooperative relationships with individuals from different ethnic backgrounds. Ethnic and religious differences in BiH persist and combine with deep-seated, wars pawned grievances that impede

the country's progress. Failure to bridge ethnic divides and quash messages of prejudice and hate will increase the potential for future inter-ethnic conflict and lessen the chances for a sustainable Bosnia. The increase in the FY 2010 request for the program area over the FY2009 allocation reflects a reserve of \$1,245 to fund potential assistance to facilitate the process of constitutional reform, should this process be reinitiated. Political factors have kept such reform off the agenda since 2006, but the U.S. mission will be ready should it be resurrected in 2010. In addition, the increase requested will also support a second Resident Legal Advisor (RLA) position through the State Department/ Department of Justice's Overseas Prosecutorial Development, Assistance and Training (OPDAT) program. This second RLA is projected to train an additional 200 justice sector professionals over and above the 770 professionals that OPDAT and USAID plan to train in FY2009. The increase in funding requested in FY 2010 over the FY 2009 allocation for this program area reflects no change in performance targets. The FY 2009 allocation for USAID's local government program, Governance Accountability Project II, will be supplemented by \$1,426 in FY 2008 funds so that USAID's support can be maintained in all 71 municipalities participating in the GAP II project. Recent macroeconomic data, as well as forecasts for 2009 and 2010, stress that BiH is facing a strong decline in industrial production and GDP growth with substantial job losses. With an increase of \$1 million in this program area over FY2009, Post will support a new Development Credit Authority (DCA) program to mitigate the impacts of the financial and economic crisis in BiH by directly increasing access to credit for the SME sector. This DCA will provide a guarantee of up to 50 percent for individual loans to SMEs. In doing so, SMEs will use new capital for improvements to product lines, hire new employees, and/or build new facilities. Preserving jobs and markets for SMEs is critical given the (expected) economic crisis in 2009 and 2010. It is anticipated that with a \$1 million contribution, the U.S. could leverage approximately \$20 million in new loans will be generated for the SME sector. A DCA is a U.S. guarantee provided to commercial banks to facilitate the development of new loan portfolios that lenders may be reluctant to engage. This DCA will directly impact both FIRMA and FARMA (new SME programs currently in procurement) as access to credit creates private sector expansion. Past DCAs, to which the U.S. has committed \$2 million, have resulted in lending of over \$47 million and are directly responsible for the creation of over 550 new jobs and indirectly for several thousand.

Economic Growth: Significant progress has already been made in helping BiH modernize its economy. Ongoing U.S. support for tax reform and the banking sector as well as past support for the privatization of state owned enterprises are notable successes. BiH has also accelerated efforts to remove impediments to small and medium enterprises (SMEs). However, indicators for ease of business formation in BiH remain quite low, and the country remains one of the poorest in the region. Follow-on assistance will focus on strengthening the business and financial sector enabling environments for SMEs, including through support for improved access to credit, with the goal of facilitating accession to the European Union and improving long-term employment and the policy environment. In addition, the United States will provide direct assistance to SMEs to improve market linkages, increase productivity, and expand job creation. To help BiH attract foreign direct investment and improve its access to other markets, USAID and the Departments of Treasury and Commerce will provide technical assistance to develop capacity and the enabling environment for trade and investment. In FY 2010, significant reflows from a business development lending program that have supplemented U.S. economic assistance to BiH will decline; as a result, increased funding is requested to continue robust economic assistance activities.