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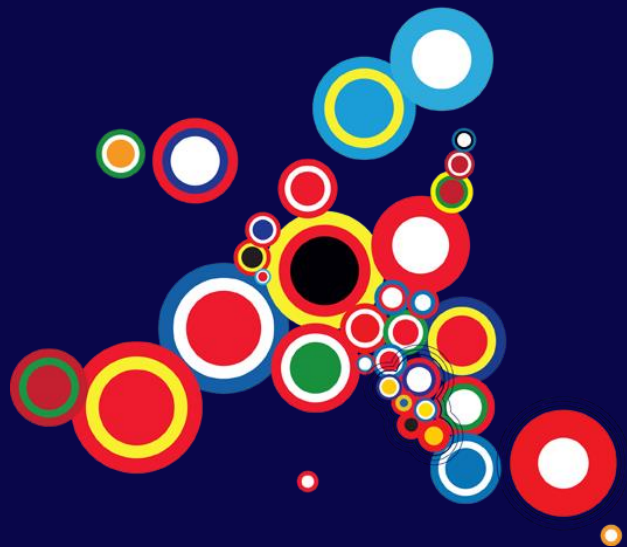
to the

COMMISSION IMPLEMENTING DECISION

**amending Commission Decision C(2014) 9495 of 15.12.2014 adopting the Indicative
Strategy Paper for Bosnia and Herzegovina for the period 2014-2020**



INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



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

ADOPTED ON 03/08/2018

TABLE OF CONTENTS

Instrument for Pre-accession Assistance (IPA II)	1
Part I: Introduction	3
1. Purpose	3
2. Consultation on this Strategy Paper	4
Part II: Analysis of the needs and capacities	4
1. Political and economic context	4
2. Context for the planning of assistance	7
2.1 EU Enlargement strategy	7
2.2 Relevant national/regional strategies	8
2.3 Conditions for managing pre-accession assistance	9
2.4 Donor coordination and complementarity with other EU assistance	10
2.5 Consistency with EU policies	11
Part III: The overall design of pre-accession assistance to the country	11
Democracy and Rule of Law	12
Competitiveness and Growth	14
Part IV: EU assistance during the period 2014-2020	17
1. Democracy and governance	17
1.1 Needs and capacities in the sector	17
1.2 Objectives, results, actions and indicators	20
1.3 Types of financing	22
1.4 Risks	22
2. Rule of law and fundamental rights	23
2.1 Needs and capacities in the sector	23
2.2. Objectives, results, actions and indicators	27
2.3 Types of financing	30
2.4 Risks	30
3. Environment, climate action and energy	30
3.1 Needs and capacities in the sector	30
3.2 Objectives, results, actions and indicators	33
3.3 Types of financing	34
3.4 Risks	35
4. Transport	35

4.1	Needs and capacities in the sector	35
4.2	Objectives, results, actions and indicators	36
4.3	Types of financing.....	38
4.4	Risks	38
5.	Competitiveness, innovation, agriculture and rural development.....	38
5.1	Needs and capacities in the sector.....	38
5.2	Objectives, results, actions and indicators	42
5.3	Types of financing.....	45
5.4	Risks	45
6.	Education, employment and social policies	46
6.1	Needs and capacities in the sector.....	46
6.2	Objectives, results, actions and indicators	49
6.3	Types of financing.....	52
6.4	Risks	52
7.	Regional cooperation and territorial cooperation.....	53
7.1	Needs and capacities in the sector.....	53
7.2	Objectives, results, actions and indicators	53
7.3	Types of financing.....	54
7.4	Risks	54
Annex 1:	Indicative allocations.....	56
Annex 2:	Indicators and targets.....	57

PART I: INTRODUCTION

1. Purpose

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries listed in Annex I of the IPA II regulation in implementing reforms with a view to Union Membership.

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. Priorities are also aligned with the 2030 Agenda and its Sustainable Development Goals (SDGs).

This Strategy Paper – initially adopted by the European Commission with decision C(2014) 9495 final of 15 December 2014, and amended by the decision C(2017) 7513 final on 16.11.2017., has been revised and updated at mid-term in accordance with Article 6(4) of the IPA II Regulation. It may also be revised at any time upon the initiative of the European Commission.

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 to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the EU *acquis*, and (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 Union 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 shall concentrate on areas where reforms or investments are most needed to meet the accession criteria, and tailored to 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 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 is 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.

¹ OJ L 77, 15.03.2014, p. 11.

With a view to delivering on the priorities set for EU financial assistance for Bosnia and Herzegovina for the seven year period, 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 (multi-) annual programming of IPA II funds. The mid-term revision of this Strategy Paper has taken into account the priorities already addressed in the period 2014-2017.

A performance reward exercise has been conducted during 2017 on the basis of an assessment of performance and progress; a second performance reward exercise will be conducted by 2020, as defined in Article 14 of the IPA II Regulation.

2. Consultation on this Strategy Paper

This Strategy Paper was prepared in 2014 and revised at mid-term in 2018 in partnership with the authorities of Bosnia and Herzegovina. The state and entity level governments, line ministries and the Directorate for European Integration (DEI) contributed to the preparation and revision of this Strategy Paper. Specific consultations on the strategic orientation of the Strategy Paper were organised with EU Member States, other donors and international organisations. Strategic dialogue with the European Parliament was conducted when the document was initially drafted in 2014, revised in 2017 and reviewed at mid-term in 2018.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Political and economic context

Bosnia and Herzegovina is a country with a surface area of 51 209 km² and with a population of 3.53 million people.² 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 Bosnia and Herzegovina hosts 36 382 refugees and 317 957 internally displaced persons³. The largest city is the capital Sarajevo, which is home to 275 524 citizens according to the 2013 census.

The constitutional set-up of Bosnia and Herzegovina stems from the Annex IV to the Dayton/Paris Peace Agreement and establishes a complex political structure that provides for governments at state, entity, Brčko District and cantonal levels.⁴ Bosnia and Herzegovina features a highly decentralised structure with multiple levels of governance and facing a lack of functional coordination and policy-making mechanisms and processes. The fragmented planning and budgeting processes, the lack of clear accountability lines and oversight mechanisms, and the lack of a clear division of competences and responsibilities continues to undermine the efficiency and effectiveness of public administration as a whole. In August 2016, the Bosnia and Herzegovina Council of Ministers adopted a decision for setting up a coordination mechanism on EU matters. The mechanism, which aims at improving interaction

² Figures are based on the 2013 census in Bosnia and Herzegovina

³ UNHCR, June 2017: <http://reporting.unhcr.org/population>

⁴ For the purpose of this document, the general reference to "government" does not preclude the constitutional and legal position of executive power in Bosnia and Herzegovina.

with the EU and harmonised alignment with the EU *acquis*, has started to function and was instrumental in Bosnia and Herzegovina authorities delivering a coordinated set of replies to the Commission's Opinion questionnaire in February 2018.

Since December 2010, the citizens of Bosnia and Herzegovina have been allowed to travel visa-free to the EU Member States. At the same time, the Commission has encouraged further implementation of the visa roadmap measures to maintain the integrity of the visa-free travel scheme and has put in place a post-visa liberalisation monitoring mechanism. While the share of Bosnia and Herzegovina asylum-seekers in the EU Member States had risen since visa liberalisation, numbers of unfounded asylum applications have since decreased. The implementation of the Strategy for the Reception and Integration of Bosnia and Herzegovina Nationals who Return Under Readmission Agreements 2015-2018 remains a challenge with the main obstacles being a lasting return and local integration.

The fragmentation of the judicial system and of the law enforcement sector hampers 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.

For a small but only moderately open economy, economic growth in Bosnia and Herzegovina is dependent on developments in the regional and EU markets. Trade integration with the EU is high, with more than 70 % of exports directed towards 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. In particular, manufacturing sectors such as metals, machines, wood products, and textiles provide basic inputs for some industries in the EU. The chemical industry is also an important sector, highly dependent on global developments as well. The energy and transport sector could make significant positive contributions to economic growth; however, this would depend on significantly improved cooperation between the entities on security of energy and transport services supply, integrated energy and transport markets, and full independence of regulatory bodies. The failure of domestic producers to meet quality standards required by EU accession of Croatia, albeit limited to some agricultural products, puts an additional break on export expansion.

In terms of the general socio-economic development, as measured by the Human Development Index (HDI) in 2016, the country figures in the 'high human development' category, positioning it at 81 out of 188 countries and territories. Between 2005 and 2016, Bosnia and Herzegovina's HDI value increased from 0.696 to 0.750 with a slow but steady progress. Since 2013 the economy has remained resilient (+1.9 % on average in 2012-2016, 2.9 % in 2016), government accounts are close to balance and the increase in public debt slowed down. External imbalances have continued to decline, but remain substantial. At the same time, growth is still persistently too low to lead to a noticeable improvement in citizens' living conditions and per capita income, and catch-up has remained among the slowest in the region. Per capita GDP stood at 31 % of the EU-28 average in 2016 and unemployment in 2016 has remained very high at over 25 %, particularly among youth (54.3 %).

The private sector in Bosnia and Herzegovina is only slowly recovering from the economic crisis. The decreased foreign investment rate (1.5 % of GDP in 2016), is among the lowest in the region. This points to a low interest of foreign investors towards a country with already limited access to international capital markets and hence largely dependent on IFI lending. A complex legal and regulatory framework and non-transparent business procedures pose

serious obstacles for private sector investment. The small and medium enterprise (SME) sector 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.

Employment in the public sector continues to account for a large proportion of the overall employment (31.2 % in 2015). The labour market participation of women remains 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 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. Mine-contaminated areas are a severe legacy of the recent war and fatal casualties resulting from mine-related accidents continue to occur. Mine-contaminated areas also remain an impediment to economic and infrastructure development. The target for a mine-free Bosnia and Herzegovina by 2019 will not be achieved but efforts are underway to review the target for 2025.

Traditional norms continue to play an important role in Bosnia and Herzegovina political and economic life, influencing women's prospects for meaningful participation and representation of their interests. Women account for 37.3 % of the employed population, 43.2 % of the unemployed population, and 60.8 % of the inactive, working-age population. The greatest obstacles to broader gender development and empowerment in rural areas faced by women are related to property rights, access to public services, finance, training, advisory services and mentorship, and limited time to engage in outside activities. Provision of and compensation for maternity leave is inconsistent across Bosnia and Herzegovina. Roma women face multiple levels of discrimination, and their situation requires action in the areas of education, employment, access to healthcare, and political participation.

Affirmative measures have contributed to an initial increase in women's political participation, but the qualitative representation of women's issues is still unsatisfactory. The Election Law includes a 40 % quota for the under-represented sex on the parties' election lists, and an obligatory ranking of both sexes in the lists. Bosnia and Herzegovina ratified the Council of Europe Convention against Violence against Women and Domestic Violence in 2013 (Istanbul Convention). In gender-based and conflict-related sexual violence, levels of protection are inadequately applied by judges and prosecutors, in particular in relation to sentencing and compensation. Application of laws is inadequate in relation to trafficking in persons as well.

The country is susceptible to effects of climate change, in particular flooding and drought, as illustrated by the 2014 floods. Although the economic impact on growth was less negative than initially projected, the events did show the increased risk of climatic events and underlined the need for stronger internal as well as regional coordination and cooperation.

Bosnia and Herzegovina has strengthened its commitment to market-oriented reforms, and, in 2015, its authorities adopted and started to implement a Reform Agenda consisting of a package of socio-economic, public administration and rule of law reforms to address deeply rooted structural problems in the country. Since 2015, Bosnia and Herzegovina has adopted the annual medium-term Economic Reform Programme (ERP), which is in line with the Reform Agenda, although the lack of reform coordination between the entities and the state severely hinders its effectiveness. In September 2016, the IMF approved a request for financial support under a 3-year EUR 554 million Extended Fund Facility (EFF). The EFF

aims to assist structural economic reforms in Bosnia and Herzegovina, also in the context of the Reform Agenda priorities.

Bosnia and Herzegovina's economic policy continues to be fragmented between the different levels of competence and characterised by ad hoc decision-making and lack of coordination. This seriously hampers the creation of a single economic space and creates obstacles to meeting the Copenhagen economic criteria. The ERP and the Reform Agenda should both reflect a commitment to implement a coordinated economic development strategy, with a strong focus on key priorities as identified in both strategic documents. Strong inter-ministerial coordination between the entities and state level will be crucial for any sustained development to take place.

2. Context for the planning of assistance

2.1. EU 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 EU Member States. In December 2014, the EU initiated a renewed approach to Bosnia and Herzegovina, which provided 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 SAA between Bosnia and Herzegovina and the EU on 1 June 2015, replacing the Interim Agreement (IA) which had been in force since 2008. Regular political and economic dialogue takes place between the EU and Bosnia and Herzegovina in the framework of the SAA structures. Bosnia and Herzegovina signed in December 2016 a protocol for the technical adaptation of the SAA to take into account the accession of Croatia to the EU. Its provisional application as of 1 February 2017 triggered the reinstatement of the EU Autonomous Trade Measures on fruits and vegetables.

In July 2015, the country adopted and started to implement a Reform Agenda aimed at tackling the difficult socio-economic situation and advancing the rule of law-related and public administration reforms. Bosnia and Herzegovina submitted its application for EU membership on 15 February 2016. On 20 September 2016, the EU Council considered that meaningful progress was achieved towards the implementation of the Reform Agenda and invited the Commission to prepare an Opinion on the EU membership application of Bosnia and Herzegovina. The Commission handed over to the Council of Ministers of Bosnia and Herzegovina a Questionnaire to support the preparation of its Opinion in December 2016. The Bosnia and Herzegovina authorities delivered their consolidated answers in February 2018 a coordinated set of replies to the Commission's questionnaire.

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, as also confirmed in the 2016 Enlargement Strategy, the Commission has taken the approach of addressing fundamental priority reforms in the areas of rule of law and fundamental rights, economic governance and improved economic competitiveness, as well as strengthening of democratic institutions, including public administration reform.

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, which include competitiveness and growth-enhancing as well as structural reform measures in the area of public financial management (PFM).

On 6 February 2018, the Commission adopted a Communication on ‘A credible enlargement perspective for and enhanced EU engagement with the Western Balkans’. This strategy aims to generate renewed reform momentum in the Western Balkans and provide significantly enhanced EU engagement to better support their preparations on the European path. This Communication underlines that with sustained effort and engagement, Bosnia and Herzegovina could become a candidate for accession. For the period 2018-2020, this Strategy Paper has been revised to ensure coherence with the new strategic orientations, in particular as regards the implementation of the six Flagships. For example, the Digital Agenda for the Western Balkans will induce an added emphasis of digital under the seven main sectors in order to support a digital transformation to maximally reap benefits of a digital economy and society. Good neighbourly relations and regional cooperation, as emphasized by the above Communication, are essential elements of the Stabilisation and Association process. For example, the Digital Agenda for the Western Balkans will induce an added emphasis of digital under the different sectors in order to support a digital transformation to maximally reap benefits of a digital economy and society.

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 through implementation of the new Strategic Framework for Public Administration, and the commitment of the EU to the **Better Regulation agenda**, the key elements of public administration reform will be systematically addressed in all IPA II sector interventions. IPA II assistance will ensure the Better Regulation approach, whereby policies and legislation across all sectors are prepared on the basis of best available evidence (impact assessments) and in an inclusive manner involving both internal and external stakeholders.

2.2 Relevant national/regional 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 in Bosnia and Herzegovina. Preparation 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. While most sector strategies are not harmonised and do not provide for a countrywide implementation of the EU *acquis*, there are areas where countrywide strategies exist, such as the 2006-2014 Public Administration Reform Strategy, the 2014–2018 Justice Sector Reform Strategy, the National War Crime Strategy (NWCS), the Revised 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 Action Plan 2017-2020, the Strategy and Action Plan for the Fight Against Corruption 2015-2019, the Strategy and Action Plan on Migration and Asylum 2016-2020, the Integrated Border Management Strategy and Framework Action Plan 2015-2018, the Action Plan for Fighting Human Trafficking 2016-2019, and the Strategy for

Development of Statistics of Bosnia and Herzegovina 2020. Some of the strategies have expired and need to be updated. In addition, new countrywide strategies have been adopted since 2014, such as the Framework Transport Strategy 2016–2030, the Public Procurement Strategy 2016–2020, the Environmental Approximation Strategy and the Strategic Plan for Rural Development of Bosnia and Herzegovina – Framework document. Other strategies are under development such as the new Public Administration Reform Strategic Framework, the Public Financial Management Strategy, and strategies in the areas of employment and energy. A countrywide programme for the country's legal approximation with the EU *acquis* – a legal obligation under the SAA – is yet to be adopted.

At the regional level, improving connectivity within the Western Balkans and between the Western Balkans and the EU is a key factor for growth and jobs and will bring clear benefits for economies and citizens. This initiative, launched at a Prime Ministers meeting in Berlin in 2014, and followed up by annual Summit meetings of the Western Balkan Six, has made the connectivity agenda one of the countries' highest priorities with a special emphasis on the preparation and financing of regional infrastructure investment projects subject to the implementation of technical standards and connectivity reform measures under the multi-country financing.

The connectivity agenda combines political leadership and local ownership with concrete technical preparation and monitoring of progress through bodies such as the South-East Europe Transport Observatory (SEETO) that will be replaced by the Transport Community Secretariat following the entry into force of the Transport Community Treaty and the Energy Community Secretariat. Bosnia and Herzegovina takes an active part in this process and has signed up to 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. On 18 September 2017 Bosnia and Herzegovina signed the Transport Community Treaty between the EU and the Western Balkan countries, which was adopted at the Western Balkan Six summit in Trieste in July 2017. Bosnia and Herzegovina has also been party to the Energy Community Treaty since 2006, though it continues to fall behind in fulfilling most of its treaty obligations, particularly on alignment with the Third Energy Package in electricity and gas sector. It actively takes part in the activities aiming at establishing a Regional Economic Area.

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). In the EUSAIR, Bosnia and Herzegovina is leading on the Environmental Quality pillar, together with Slovenia. These strategies seek to bring together both EU Member States and non-EU countries to address common challenges and potential 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 pre-accession assistance

The sector approach is an overarching principle of IPA II for which assessment criteria have been established to determine the level at which a beneficiary qualifies for fully-fledged sector support. The ability of beneficiaries to design sector support programmes is an important success factor for IPA II programming and therefore represents also a key element of performance measurement.

Bosnia and Herzegovina is gradually moving towards the sector approach. The main weaknesses in its application are the lack of harmonised countrywide strategies in key sectors with clear budget allocations and a medium term expenditure framework. The highly decentralised structure with multiple levels of governance and lack of functional coordination and policy-making mechanisms between the different levels poses a challenge to ensure strong leadership and effective sector and donor coordination at a countrywide level. The adoption of a coordination mechanism in EU matters in 2016 was a necessary step, whose full functioning is expected to harmonise positions on EU matters in areas where competences are shared between different levels of government. Further assistance in developing a robust performance management framework for each strategy is needed. In addition, the sector approach in Bosnia and Herzegovina should facilitate a countrywide harmonised implementation of the EU *acquis*.

At the time of the mid-term review, seven sectors meet the pre-conditions for implementation of sector approach under IPA II in the period 2018-2020: Democracy and Governance; Rule of Law and Fundamental Rights; Competitiveness and Innovation; Education, Employment and Social Policies; Transport; Environment and climate change; and Agriculture and Rural Development. Although the said sectors are ready for financing under IPA II following the adoption of countrywide sector strategies, further assistance is needed to enhance the capacities of the lead institutions for sector budgeting, sector and donor coordination as well as for monitoring and reporting on implementation of the reforms. The thematic evaluation on the sector approach launched in 2017 by the Commission will be relevant for future orientation on the sector approach in Bosnia and Herzegovina.

IPA II assistance may be delivered through sector reform performance contracts to support key reforms in Bosnia and Herzegovina upon meeting the following eligibility criteria: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU enlargement strategy.

All stakeholders and implementing partners shall ensure the **visibility** of EU financial assistance throughout all phases of the programming cycle and communication about the results of the activities implemented through this assistance. These actions should follow the guidance provided by the Communication and Visibility manual for EU external actions, and shall be complementary to the activities implemented by the Commission. In this regard, any visibility or communication measures linked to IPA assistance shall highlight the impact of EU's assistance and promote transparency and accountability on the use of EU funds. This can be achieved also by concentrating resources on a lower number of (bigger) actions which might have a comparative advantage in terms of EU visibility.

2.4 Donor coordination and complementarity with other EU assistance

In line with the Aid Effectiveness agenda, the Commission ensures close cooperation with EU Member States, the International Financial Institutions, as well as other active donors in order to ensure harmonisation of financial assistance provided to Bosnia and Herzegovina. Coordination and complementarity is ensured with other EU financial instruments such as European Instrument for Democracy and Human Rights (EIDHR), Instrument contributing to Peace and Stability (IcSP) and Instrument for Nuclear Safety Cooperation (INSC).

Apart from the EU, the main donors in Bosnia and Herzegovina are Germany, Sweden, United Kingdom, Czech Republic, the Netherlands, Switzerland, Norway, the Netherlands,

the United States and the United Nations. Many EU Member States provide targeted assistance in specific sectors. The International Financial Institutions (IFIs), such as the European Bank for Reconstruction and Development, the European Investment Bank, the Kreditanstalt für Wiederaufbau, the International Monetary Fund and the World Bank provide loans for the development of Bosnia and Herzegovina's economy, complementing EU financial support.

The responsibility for donor coordination in Bosnia and Herzegovina is split between the Directorate for European Integration for EU donors (including EU Member States and the Commission), and the Ministry of Finance and Treasury (MoFT) for other donors and IFIs. Consultations with donors take place also at lower levels of government. The MoFT regularly organises Donor Coordination Forum meetings and on annual basis publishes donor-mapping reports on sector by sector basis. In addition, in the sectors of rule of law and public administration reform, where the EU is the lead donor, the EU Delegation organises more frequent sector donor coordination meetings, and closely cooperates with the United Nations family organisations and the IFIs on joint projects in Bosnia and Herzegovina. Moreover, the EU Delegation holds regular coordination meetings with EU Member States to exchange policy views and to ensure coherence and complementarity in the EU assistance to Bosnia and Herzegovina.

2.5 Consistency with EU policies

Financial assistance to Bosnia and Herzegovina in the sectors identified in this Strategy Paper will be granted in line with and in support of the EU enlargement strategy. It will be shaped to contribute to alignment to EU policies relevant for the respective sectors. Attention will be paid, among others, to ensure alignment with the European Agenda on Migration, the EU Global Strategy on Foreign and Security Policy, the EU Better Regulation Agenda, the EU Gender Action Plan 2016-2020, Europe 2020, as well as to ensure consistency with the commitments taken under the EUSDR, the EUSAIR and the SEE 2020 strategies as EU flagship initiatives to boost growth and jobs and promote smart, inclusive and sustainable growth initiatives. Bosnia and Herzegovina has signed an agreement on operational and strategic cooperation with Europol. The IPA assistance in the area of rule of law needs to ensure synergies with the operational support provided through the European multidisciplinary platform against criminal threats (EMPACT) policy cycle, to which Bosnia and Herzegovina is associated.

Overall, priorities for IPA II assistance shall contribute to the reaching of 17 goals of the Agenda 2030 for Sustainable Development and to objective of the Paris Agreement on climate change.

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

The EU is determined to strengthen and intensify engagement at all levels to support the region's political, economic and social transformation, including through increased assistance based on tangible progress in the rule of law, as well as in socio-economic reforms, by the Western Balkan partners.

Political commitment and ownership of the reform process is an indispensable precondition for success. Therefore, in accordance with the Paris Declaration on Aid Effectiveness, support

under IPA II will be based on Bosnia and Herzegovina's own sector reform strategies. In the period 2014-2017, the Commission concentrated its assistance on the fundamentals of the EU integration process and covered those sectors where agreed strategies and sufficient coordinating structures existed⁵. In parallel, the Commission continued to support Bosnia and Herzegovina in developing countrywide strategies and setting up the relevant coordination structures in other sectors through policy dialogue, regular IPA funded EU Integration Facilities as well as short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX). Support to Bosnia and Herzegovina's participation in Union programmes continued, enabling participation in Horizon 2020, Creative Europe, Customs 2020, Erasmus+, Fiscalis 2020, COSME, Consumers and Europe for Citizens.

As a result of the mid-term review, the Commission has included new sub-sectors for IPA II support under this Strategy Paper, such as environment, agriculture and rural development and energy with indicative allocations, conditional on adoption of the relevant countrywide strategic documents.

In line with the above considerations, the IPA II assistance for the period 2014-2020 will fall under the following two pillars: democracy and rule of law, and competitiveness and growth.

Democracy and Rule of Law

In line with the Commission's approach on addressing fundamentals first, the IPA II assistance to Bosnia and Herzegovina under the first pillar will support reforms related to strengthening of democratic institutions, rule of law and fundamental rights, as well as economic governance.

There is 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 core dimensions. Bosnia and Herzegovina has expressed commitment to address PAR in line with the Principles of Public Administration⁶ and is preparing countrywide PAR and public financial management strategies.

The democracy and governance sector will be addressed by supporting the implementation of the reform of public administration (PAR) on all levels to prepare the country for the challenges of EU integration and to ensure a more efficient, digital, professional and accountable administration that provides improved delivery of services to citizens and businesses. As part of PAR, the reform of public financial management, including the

⁵ 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 strategies addressing local SME's priorities and relevant for local integrated development have been adopted at municipal, cantonal and entities level.

⁶ The Principles of Public Administration, which have been developed by the OECD/SIGMA in close cooperation with the European Commission, define the core dimensions of PAR in detail; see <http://www.sigmaweb.org/publications/principles-public-administration-eu-enlargement.htm>

alignment of taxation and customs systems to the EU *acquis* and the improvement of the budget transparency process, will also be targeted. As support to good governance land administration will be enhanced.

Special attention will be given to implementation of the **Economic Reform Programme** focusing on medium-term macroeconomic and fiscal policy framework. The ERP and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main instruments for economic policy dialogue with Bosnia and Herzegovina. The ERP contains a thorough diagnostic of key structural obstacles to long-term growth by sector and a list of structural reform measures to address these obstacles. Programming of assistance under IPA II shall take into account the key constraints, the reform priorities identified by the country in the ERP and the jointly adopted policy guidance and shall support their implementation. The ERP process has been in place since 2015 to prepare Bosnia and Herzegovina for the European economic semester.

Democratic institutions, such as the parliaments, will be strengthened with a view to increasing their role and capacity in the EU integration process. Support will be provided to fostering an enabling environment for civil society organisations, including women's organisations, by enhancing their capacity to engage in an effective dialogue with the public authorities. In addition, the statistical system will be considerably reinforced. The EU Integration Facilities will be instrumental in providing short-term capacity building support to the authorities in Bosnia and Herzegovina in view of further legal alignment, in sector approach uptake as well as in preparation of financial assistance programmes.

As part of this sector, IPA II will continue to raise awareness and promote Bosnia and Herzegovina's participation in Union Programmes and Agencies as a way to increase the exchanges with EU Member States on issues of common interest, following the national prioritisation process among all the EU programmes.

Rule of law is at the centre of the enlargement strategy. Since 2011, the Commission has continued the structured dialogue on justice to assist Bosnia and Herzegovina in consolidating an independent, effective, efficient and professional judicial system. This 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, 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.

IPA II assistance will aim at strengthening of law enforcement agencies by increasing their capacity for border management, cybersecurity and crime, fighting corruption and organised crime, in particular by addressing the insufficient cooperation among law enforcement agencies and their cooperation with the prosecution services, as well as international cooperation (e.g. with EUROPOL). Continued assistance will be provided to strengthen the capacities and conditions for efficient investigation and prosecution of war crimes in Bosnia and Herzegovina.

The issue of radicalisation leading to violent extremism is increasingly a part of policy discussions in the Western Balkans. The prominence of the topic has been driven to a large extent by the concerns of ISIL-inspired terrorist acts and the threat of foreign terrorist fighters

(FTFs) returning to their home countries. As stated in the EU Global Strategy on Foreign and Security Policy (of June 2016), the EU will work on preventing and countering violent extremism by broadening partnerships with civil society, social actors, the private sector and the victims of terrorism, as well as through inter-religious and inter-cultural dialogue. In addition, the EU will further develop human rights-compliant anti-terrorism cooperation with the Western Balkans.

Within the scope of the current enlargement policy, which is also a strategic investment in Europe's security and prosperity, the challenges of terrorism and organised crime are shared between the EU and the Western Balkans and should be tackled in cooperation, as highlighted by the Integrative Internal Security Governance adopted by the Justice and Home Affairs Council and endorsed by the Western Balkans. A comprehensive EU response would therefore imply, among others, strengthening partnerships with key countries, supporting capacity building, countering radicalisation and violent extremism, as well as addressing underlying factors and the ongoing crisis.

Keeping in mind the external dimension of EU's migration policy (the policy framework of which is set by the Global Approach to Migration and Mobility and the European Agenda on Migration), IPA II supports: legal migration, mobility, including through maximising the development impacts of migration, the development of functioning asylum systems, the improvement of integrated border management, and reduction of irregular migration through both focused actions and technical assistance. In Bosnia and Herzegovina support aims to develop efficient national systems of migration management.

IPA II assistance in Bosnia and Herzegovina will maintain the focus on the protection of **fundamental rights**, including freedom of expression, non-discrimination, property rights, gender equality, rights of the child, rights of persons with disabilities, minorities including Roma, lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, refugees and internally displaced persons (IDPs) and other members of vulnerable groups. IPA II assistance will aim at the improvement of the legal framework as well as at building capacities for its implementation and enforcement. Further strengthening of the gender institutional mechanism is envisaged. The rights of the refugees and internally displaced persons in terms of access to healthcare, employment, social protection and education will be supported under the relevant sector.

Competitiveness and Growth

The second pillar covers such key sectors and sub-sectors as environment, climate action and energy; transport; competitiveness, innovation, agriculture and rural development; education, employment and social policies; as well as territorial cooperation and regional cooperation.

In the period 2014-2017 the **environment and climate action** sub-sectors could not benefit from IPA II assistance due to lack of countrywide strategies, with the exception of support to Bosnia and Herzegovina following the 2014 floods for flood recovery, flood risk management and support to development of civil protection capacities. Following the adoption of the countrywide Environmental Approximation Strategy in July 2017, environment and climate action has been included in the Strategy Paper as a result of the mid-term review. In Bosnia and Herzegovina, the main needs in the environment and climate action sector are related to the progress in EU *acquis* transposition and compliance, as well as infrastructure investments to support the policy objectives, primarily in the fields of waste and water management. IPA II may also support specific activities in climate change capacity building, diplomacy, awareness raising, and actions related to climate change and energy efficiency at the level of local communities. Bosnia and Herzegovina is susceptible to impacts of climate change, in

particular flooding and drought, therefore IPA II will support building climate-resilience as well as the capacity in the area of civil protection in particular for disaster preparedness and disaster risk management. It will also include support to preparations for Bosnia and Herzegovina's participation in the Union Civil Protection Mechanism.

Mainstreaming of climate related actions within the priorities of IPA II assistance shall be enhanced and ensured by all relevant stakeholders. This will be done keeping in mind the aim to gradually increase the share of DG NEAR climate-related spending with a view to reaching the 20 % target by 2020 for IPA II. Increasing share of these resources shall be invested in all relevant types of projects, including sustainable infrastructures and capacity building.

The programming framework for IPA II also needs to be aligned to the EU policy on the transition to a low carbon, resource efficient and circular economy. Challenges and benefits of circular economy could be further reflected. Specific areas where the macro-economic relevance of the circular economy and improved resource efficiency are significant are green public procurement, investments in waste and water infrastructure, sustainable construction, critical raw materials, biofuels and biochemical. Energy and climate related investments should also reflect the alignment with the relevant *acquis*. Circular economy provides benefits both in economic and sustainability terms for the health of the citizens and the protection of the environment, issues that are becoming relevant on the policy agenda of EU's partner countries.

IPA II assistance for **energy** sub-sector is conditioned on the adoption of a comprehensive countrywide strategy. Assistance would contribute to the fulfilment of the commitments undertaken in the context of the Energy Community Treaty, including energy efficiency and renewable energy, as well as to support the implementation of relevant EU policies and energy targets such as the SEE 2020 Strategy as well as the EU Road Map 2050. Support in this sector shall contribute to the creation of a regional electricity market.

Due to lack of countrywide strategy in transport sector, in the period 2014-2016 this sector was not eligible for assistance under IPA. Following the adoption of a 2016-2030 countrywide framework transport strategy and action plan in July 2016, IPA II assistance to the **transport** sector was included in the Strategy Paper as a result of its revision in 2017 and will cover capacity building, policy development, legislation approximation and investments in transport sector in view of integration of the road and rail networks, aviation as well as inland navigation, maritime and ports within the region and with the EU, in line with relevant EU *acquis* and the agreed connectivity reform measures.

In relation to the **connectivity** agenda, the establishment of the National Investment Committee and the setting-up of the first Single Project Pipeline (SPP) in Bosnia and Herzegovina in 2015 for the transport sector demonstrate an important step forward in establishing a credible medium-term planning exercise for public infrastructure projects together with the preparation of relevant and credible countrywide sector strategies. However, further work is needed to identify investment projects in other relevant sectors such as environment, based on prioritisation criteria, involvement of key external stakeholders and including the technical and financial abilities for implementing these projects within the medium- (and long-) term budget framework, thus creating a single pipeline of infrastructure projects and considering the available fiscal space. A functioning SPP and the indicative extension of the TEN-T core and comprehensive network is now the basis for all IPA II funding of investment projects through the Western Balkans Investment Framework (WBIF). In principle, a functioning SPP should also gradually become the basis for investment projects not only through WBIF but also through the national IPA envelope.

With a view to creating a dynamic for economic and social development in Bosnia and Herzegovina, an integrated approach under IPA II will aim at strengthening **competitiveness and innovation**, including through increased research capacity and further development of the telecommunication sector, private sector and tourism sector, as well as through promoting local economic development by building local partnerships between municipalities, SMEs, education and training institutes, as well as civil society. Investments in further digitalisation of the country are also needed to roll-out for example large-scale broadband infrastructure projects to address low penetration rates, rural-urban divide; but also to prepare the business environment for a digital transformation. Assistance to the trade sector, including state aid, competition and intellectual property rights will follow up to the previous support under IPA. Support to Quality Infrastructure (QI) is conditioned to the existence of a credible and relevant countrywide QI Strategy.

Assistance in the **agriculture and rural development** sub-sector in 2014-2017 was not possible due to lack of countrywide strategy. With the adoption of the countrywide strategy for rural development in 2018, IPA II will support the creation of 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. It will also support projects and sustainable development actions in local communities, SAA adaptation and mitigation measures, as well as system upgrades and EU *acquis* alignment in the sub-sectors directly linked with EU export requirements.

Education, employment and social protection and inclusion policies shall be supported and mainstreamed through IPA II in line with the major EU policies in the area, in particular the Education and Training 2020 and the Bruges - Copenhagen Process for Vocational Education and Training, as well as the Skills Agenda for Europe. In Bosnia and Herzegovina, support will focus on the reform of labour and employment institutions, the development of active labour market measures, the reform of the education system and further development of a coordinated needs based approach for social services.

Complementary to the national IPA assistance the EU will also finance a number of programmes for **territorial cooperation** within the Western Balkan region and with EU Member States promoting good neighbourly relations, local development and reconciliation. In addition, through participation in macro-regional strategies, Bosnia Herzegovina will aim 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. IPA II assistance will also contribute to the achievement of the EUSDR and EUSAIR objectives defined by Bosnia and Herzegovina and the other participating countries.

A number of cross-cutting issues will be addressed in all sectors. IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its 'leave no-one behind' pledge, by applying the **Rights-Based Approach** principles of [(i) legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability and (v) transparency] in each step of the programming, implementation, monitoring and evaluation of its support.

In line with the EU Gender Action Plan 2016-2020, gender mainstreaming shall be ensured by all stakeholders and implementing partners throughout all phases of the programme cycle of IPA II. IPA assistance to Bosnia and Herzegovina will have to be informed by **gender**

analysis, outlining the different situations and needs for women and men, and translating this assessment into relevant indicators, activities and results.

In line with the Guidelines for EU Support to Civil Society in Enlargement Countries 2014-2020, IPA support in Bosnia and Herzegovina will aim to promote the creation of a conducive environment for **civil society** development, as well as strengthen the capacities of civil society organisations to engage in structured dialogue with the public institutions. Civil society involvement shall also be promoted in the identification, planning, implementation and monitoring of IPA II support across all sectors.

The 2018 'Western Balkan Strategy' reiterates the importance of Roma integration as part of the Fundamental Rights enlargement priority. Furthermore, the EU Roma integration Framework (2011-2020) mandates the Commission to improve the delivery of support under IPA towards a strategic and results oriented programming. The Roma integration objective will be supported both by including Roma integration benchmarks in mainstream actions and through targeted projects. IPA II assistance in Bosnia and Herzegovina will support the implementation of the Roma Strategy and the related 2017-2020 action plan, as well as of the conclusions of the Roma social inclusion seminars.

The indicative financial allocations per sector, resulting from the priorities defined in this Strategy Paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and governance

1.1. Needs and capacities in the sector

The country's public sector is in need of reform in order to improve its efficiency and to reduce its costs, but the pace of the **public administration reform** remains slow and shows weaknesses in various areas. As part of the Reform Agenda, Bosnia and Herzegovina authorities have expressed their political support for developing a new strategic framework. In the absence of a new strategic framework, IPA II continued to support the implementation of the 2006-2014 PAR Strategy and the Revised Action Plan 1 (RAP1), both of which expired at the end of 2014, and strengthened the capacity of the PAR Coordinator's Office (PARCO).

The Public Administration Reform Coordinator's Office continued to implement projects financed with the PAR Fund under the 2006-2014 strategy, however, further implementation of the RAP1 is needed until the new PAR Strategic Framework is adopted. The current monitoring framework lacks clear performance indicators to allow determining how far reform objectives have been achieved and 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 of government.

The policy development and co-ordination system is not established uniformly across the whole country and there is need for support in the areas of co-ordination, scrutiny of policy content and monitoring and reporting, including on European integration matters, as well as for addressing the shortcomings with regard to harmonised medium-term planning and monitoring.

The civil service system in Bosnia and Herzegovina remains fragmented and there is need for defining a common policy framework for human resources management across the different

levels of government. The legislative changes introduced by some levels of government and potentially leading to further politicisation should be addressed. Bosnia and Herzegovina requires technical and financial support to achieve the obligations stemming from the 2015-2018 Reform Agenda and the agreements with international financing institutions, such as the preparation and implementation of the strategic plans for the rationalisation and containment of the public sector wage bills which have been adopted at the end of June 2016 by the state and entity governments.

The overall structure of public administration in Bosnia and Herzegovina remains cumbersome and difficult to manage, which is due to an overlapping and unclear legislative framework and accountability lines. The lack of criteria for distinction between various types of administrative bodies and lack of procedures ensuring control over the creation of new institutions needs to be addressed. As regards service delivery, the legal framework at different levels enshrines the key principles of good administrative behaviour; however, harmonisation between laws on administrative procedures and their legislative amendments needs to be ensured. Special administrative procedures still need to be reviewed and either abolished or brought in line with the law on administrative procedure at various administrative levels. Access to information needs to be improved across all levels of government in order to contribute to a more transparent, digital and accountable public administration. Clear provisions on proactive disclosure of information need to be put in place at all levels of government. Consolidated texts of major laws should be prepared and made available centrally. Support to the implementation of the new Strategy for the Agency for Identification Documents, Registers and Data Exchange of Bosnia and Herzegovina 2016-2020 is needed in view of moving towards a user-oriented administration at all levels, through the development of e-services, including e-signature.

In the period 2014-2017, IPA contributed to improving **public financial management (PFM)** system through training and certification of internal auditors and improving public procurement procedures. In order to provide a sustainable basis for economic reforms, Bosnia and Herzegovina needs further support to implement a more comprehensive public financial management reform as part of the public administration reform. Bosnia and Herzegovina still lacks a countrywide 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 PFM countrywide strategy is expected to be adopted, Bosnia and Herzegovina continues to address public finances on a sub-system basis through separate public procurement, debt management or public internal financial control strategies, but gaps and lack of harmonisation remain in 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.

Regarding **customs and taxation**, IPA II in 2014-2017 supported further alignment of the customs and taxation legislation with the EU *acquis* and progress in introduction of e-signature and e-services. Further, the implementation of the business strategy of the Indirect Taxation Authority 2016-2018 as well as the business strategies of tax administrations at Republika Srpska and Federation entity level is needed. Further needs for support exist in the areas of customs policy, namely customs, value added taxes and excise duties together with their practical implementation.

The global economic crisis has underlined the need for Bosnia and Herzegovina to fundamentally review and strengthen its **fiscal and economic governance**, to accelerate structural reform to improve its growth prospects, to address the challenges of meeting the Copenhagen criteria and to improve competitiveness. Bosnia and Herzegovina has strengthened its commitment to market-oriented reforms with the implementation of reform measures agreed in the Reform Agenda. 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, disputes between the various governmental stakeholders resulted in substantial delays and have strongly impeded the effectiveness of economic policy. The 2018 country-specific policy guidance of the Joint Conclusions on **Economic Reform Programme 2018-2020**, similarly to the previous assessments, includes recommendations for creating fiscal space for public investment (by containing spending on public employment and by improving the targeting of social assistance), for improving the business environment and for addressing challenges related to the labour market and education. Bosnia and Herzegovina will need support in implementing the agreed measures to improve the business environment, to reduce the tax wedge, to strengthen the employment services, as well as to adopt measures that will encourage people to enter the labour market and to develop skills needed by local enterprises. Coherence between, as well as within the different strategic documents in the area of economic governance and coordination between various levels of government remains a major issue and needs to be addressed.

In the period 2014-2017, EU provided support to the **statistical system** for increasing the amount of macro-economic, employment, business and other statistical data that comply with EU standards to support evidence-based policy making for socio-economic reforms. The statistical system needs further improvements on the provision of timely and exhaustive statistics, applying European and international standards, in particular in the area of national accounts, government finance and population 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. In view of the importance of reliable data to support the social and economic development of the country, the implementation of the Strategy for the Development of Statistics 2020 is needed, *inter alia*, in macroeconomic and business statistics. More efforts are needed to implement the provisions of the Law on Gender Equality, which requires that statistical data and information collected, recorded and processed by institutions at all levels should be sex-disaggregated and be publicly available.

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.

While IPA has supported Bosnia and Herzegovina Parliaments in increasing their capacity to scrutinize the legal approximation process and to create space for debate with the citizens on the EU integration process, further support to the capacity of **parliaments** in Bosnia and Herzegovina in their strategic guidance and oversight role over the EU accession process is needed. 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 stemming from the SAA.

The Commission attaches great importance to the involvement of **civil society** (CSOs) in the pre-accession process, contributing to foster public understanding of the required reforms and ensuring that EU accession is a consensual and well-understood process. In the period 2014-2017, IPA II has supported the involvement of civil society in the EU integration process

through CSO capacity building and improved sector-level coordination among the CSOs. Further support is needed to leverage on the expert knowledge of civil society (including business community, media, social partners) in specific sectors to shape policy and strategy, as well as to enable change. Apart from actions taken by the Directorate for European Integration in the context of IPA programming, consultations with civil society are not systematic. Major improvements are still needed, including the establishment of sector Civil Society Organisations mechanisms, sufficient and transparent public financing for CSOs, and a new law on tax exemption and on the promotion of volunteerism. In order to support the strengthening of the existing legal framework and its implementation, the capacities of government representatives and civil society organisations need to be further developed and political commitment for steering this process needs to be ensured.

1.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina in improving its public sector management, including public financial management, by applying the Principles of Public Administration. A closely linked key objective is to support Bosnia and Herzegovina on its Economic Reform Programme preparation and implementation in order to have a sound basis for socio-economic and structural reforms. Thereto closely related is the support for the statistical system to improve its capacities to produce reliable statistics. Further EU assistance will support the parliamentary assemblies and the civil society to play a key role in the accession process.

The expected **results** are the following:

- Improved capacities of the public administration at all levels of government to ensure a more efficient, effective and accountable delivery of public services to citizens and businesses, including sound administrative procedures and e-government services;
- Countrywide public administration reform strategic framework, including sector coordination and performance-based monitoring systems, in place and implemented;
- Harmonised medium-term planning and monitoring system in place, improved co-ordination, public consultation and scrutiny of policy content, including on European integration matters;
- More transparent and merit-based civil service, including mobility of civil servants, and strategic framework for human resources management in place and implemented;
- Clearer criteria to define the status of various types of administrative bodies procedures ensuring control over the creation of new institutions are developed and applied, as well as consistent and clear legislation on administrative procedures in place;
- Countrywide public financial management strategic framework, including coordination and performance-based monitoring systems, in place and implemented;
- 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;
- Improved quality of the annual Economic Reform Programme and consistent implementation of the reforms contained in the programme and of the Ministerial policy guidance jointly adopted each year;

- Strengthened capacities of Parliaments in Bosnia and Herzegovina to support the EU integration process;
- More reliable macro-economic, business, social and demographic, multi-domain statistics, statistics output, financial and agricultural statistics; regional statistical classification harmonised with the nomenclature of territorial units for statistics (NUTS) regulation;
- Improved land administration process and property market further developed;
- Improved cooperation between civil society organisations and public institutions;
- Strengthened civil society organisations in terms of capacities, autonomy, representativeness and accountability, as well as membership base, fundraising and effectiveness, able to actively contribute to the EU accession process.

To support Bosnia and Herzegovina in achieving these results, IPA II **actions** will include technical assistance for developing and implementing the new countrywide strategic frameworks for **public administration reform** and **public financial management reform**. Further IPA II support will improve the effectiveness of the Agency for Identification Documents, Registers and Data Exchange of Bosnia and Herzegovina to implement the Strategy 2016-2020. Bosnia and Herzegovina will also 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.

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. Support will continue in order to strengthen the statistical system, in particular to produce reliable macro-economic, business, social and demographic, financial and agricultural statistics.

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 Bosnia and Herzegovina. The action plans and cooperation mechanism adopted will need to be put in practice in order to strengthen the capacities of all Parliaments, including cantonal assemblies, to fulfil their obligations as stemming from the SAA.

Further IPA II assistance in **land administration reform** will foster accuracy in land information and the development of the property market. As concerns **civil society**, the Commission will offer a combination of political and financial support to meet these objectives and will advocate for a more conducive legislative framework 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. Assistance for civil society under IPA II shall be developed in close cooperation with relevant Bosnia and Herzegovina institutions at all government levels.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for the democracy and governance sector shall contribute to reaching of the Goal 16 on promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels.

Indicators to measure progress in meeting targets among others are:

- 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 through twinning, technical assistance, sector reform performance contracts, blending, grants supplies of equipment and works.

Complementary to the assistance provided under the national IPA II envelope, Bosnia and Herzegovina will also receive support under the IPA multi-beneficiary programmes. For public administration the main programmes will be Support for Improvement in Governance and Management programme (SIGMA) implemented by the Organisation for Economic Co-operation and Development (OECD) and the Regional School of Public Administration (ReSPA). Civil society will be supported through the IPA multi-beneficiary Civil Society Facility complementary to the support provided under the national Civil Society Facility and European Instrument for Democracy and Human Rights (EIDHR) and Instrument contributing to Stability and Peace (IcSP) financing. In addition, customs and taxation may be considered for support under the multi-beneficiary programme to improve regional cooperation. Eurostat will continue providing support to statistical offices through the IPA II multi-country statistical cooperation programmes.

The EU Integration Facilities, programmed under this sector, will be instrumental in providing short-term capacity building support to the authorities in Bosnia and Herzegovina in view of further legal alignment, in sector approach uptake as well as in preparation of financial assistance programmes.

IPA II will also promote Bosnia and Herzegovina's participation in Union Programmes and Agencies, following the national prioritisation process among all the EU programmes, by partly covering the costs of Bosnia and Herzegovina beneficiary participation in such Union programmes as Hercule III, Pericles 2020, Fiscalis 2020, Customs 2020, Europe for Citizens, Creative Europe and the Asylum and Migration Fund.

Bosnia and Herzegovina may benefit from IPA II support to partly cover the costs for participation in in such Union programmes as Hercule III, Pericles 2020, Fiscalis 2020, Customs 2020, Europe for Citizens, Creative Europe and the Asylum and Migration Fund.

1.4 Risks

The main risk to the reform of the public sector is the lack of political will and agreement among political leaders to pursue the necessary reforms. Another relevant risk is the absence of sufficient domestic budget allocated to the public administration and public financial management reform. The donor driven PAR 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 reforms.

To mitigate the risk the Commission will pursue its regular engagement with the country authorities in policy and political dialogue through the dedicated SAA structures (subcommittees, including the PAR Special Group; SA Committee; SA Council). In addition, more effective donor coordination is needed.

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.

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 a 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'.

2. Rule of law and fundamental rights

2.1 Needs and capacities in the sector

Rule of Law

Justice and home affairs is a crucial area for the European integration process of Bosnia and Herzegovina, and consequently, a significant amount of IPA support is required to address the shortcomings. 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. Further support to the implementation of the 2014-2018 Justice Sector Reform Strategy (JSRS) and its action plan is needed.

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. The existing monitoring mechanism within the High Judicial and Prosecutorial Council (HJPC) on the functioning of the CSM needs to be further reinforced to improve random allocation of cases and to provide more accurate statistical data in line with the European Commission for the Efficiency of Justice methodology. An online judicial document system was established providing access to over 10,000 judicial acts. However, more reforms are needed to increase the **efficiency of the judiciary**. The backlog of civil and criminal cases needs to be further reduced. Effectiveness should be enhanced by a more consistent application of jurisprudence of criminal and civil court practice in all four jurisdictions, as well as application of proper enforcement of court decisions, including commercial cases thus further enhancing 'justice for growth'. Renovation of judicial and prosecutorial buildings needs to continue.

Common shortcomings may be found in the organisational set-up, inter-institutional cooperation, as well as capacities across the rule of law sector in Bosnia and Herzegovina. The personnel of judiciary require better skills and know-how in the investigation, prosecution and adjudication of cases of corruption, organised crime and terrorism. The status and role of employees who are not judicial office holders should be improved. Overall, men and women are equally represented in the Bosnia and Herzegovina judicial system. However, representation of women among judicial officials at entity and state levels is below the 40 percent mandated by the Bosnia and Herzegovina Law on Gender Equality. A state-level law on **free legal aid** was adopted in 2016 and remains to be fully implemented.

The judiciary's capacity to process **war crimes** has been strengthened through support to salaries and material costs of courts and prosecutor's offices around Bosnia and Herzegovina. Further support is required to strengthen the capacities and working conditions for efficient

investigation, prosecution and trial of war crimes in line with the National War Crimes Strategy (NWCS) for which an updating process was initiated in 2017 and is still ongoing, notably in view of the backlog in domestic prosecution of the most complex war crimes cases. A related issue is the unresolved fate of missing persons from the 1990s conflicts, which is vital for reconciliation and stability in the region. IPA II support to the International Commission on Missing Persons continued to address the persisting challenges of **transitional justice**. The fulfilment of the mandate of the Missing Persons Institute of Bosnia and Herzegovina, the establishment of the support fund for families of missing persons, as well as strengthening of the forensic capacity are the main aspects that need to be further addressed.

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 as a result of 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 resources management, police training, investigation and prosecution capacities and relevant cooperation mechanisms, international police cooperation (e.g. with Europol and Interpol), EU *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.

Regarding the **fight against organised crime, money laundering and corruption**, 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.

Bosnia and Herzegovina lacks a comprehensive overall strategic approach to address the issue of **cybercrime**. Existing capacities to combat cybercrime and respond to cyber security threats need to be strengthened, including through specialised trainings. On the level of cyber security, Bosnia and Herzegovina has to develop and implement a countrywide Network and Information Systems Strategy and designate a competent authority. The development of both Computer Security Response Teams (CSRTs) and Computer Emergency Response Teams (CERTs) is required..

The **fight against terrorism** in Bosnia and Herzegovina has been seriously affected by the phenomenon of foreign terrorist fighters and radicalisation. A 2015-2020 strategy on the prevention and fight against terrorism and its action plan have been adopted and remain to be fully implemented. Bosnia and Herzegovina authorities' efforts have contributed to stopping the departure of foreign terrorist fighters. Returnees have been prosecuted and tried, leading so far to 22 convictions, though often with lenient sentences. There is a need to step up efforts on **prevention of violent extremism**.

IPA has also been addressing the **fight against corruption**, through IPA II support to the preparation and the adoption of the 2015-2019 strategy and action plan for the fight against corruption. Support should continue for the establishment and functioning of anti-corruption bodies at all levels (entities, Brčko District, cantons), also in line with the Reform Agenda, and should continue building the capacity of civil society to engage in the fight against

corruption from the grassroots level. As regards preventing corruption in the public sector, integrity in public service is relatively well addressed 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. While risk assessment analyses have been produced for the health and education sectors, more systematic risk assessments should lead to further measures to effectively address corruption in public sector.

In line with the external dimension of EU's **migration** policy, IPA II support should address legal migration, the development of functioning asylum systems, the improvement of integrated border management (IBM), and better management of irregular migration through both focused actions and technical assistance. Until 2017, Bosnia and Herzegovina had not been affected by the migration crisis. There has, however, been a relative increase in the inflow of irregular migrants and asylum seekers since the end of 2017. With the help of EU assistance, Bosnia and Herzegovina has made some steps in improving migration-related capacities by improving its IBM system. 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 and the Action Plan for Fighting Human Trafficking 2016-2019, all of which require further technical assistance and investments. The emergency preparedness improved, but serious doubts remain about Bosnia and Herzegovina ability to successfully handle a sudden crisis situation.

Further strengthening of control authorities at all levels is envisaged, including both equipment and training of relevant border management inspectors and internal supervisors in charge of implementing the integrated border management policy. It is important to increase the presence of trained female officers in border police in order to better detect and prevent human trafficking and reduce possible abuse and exploitation of women and children. Gender-responsive policies, protocols and procedures can facilitate the identification process and contribute to the safety of all citizens. Irregular migration and increasing numbers of asylum seekers may put pressure on the agencies responsible for implementing border management and dealing with asylum seekers and irregular migrants in Bosnia and Herzegovina. The country's preparedness to manage eventual higher influxes should be enhanced, e.g. by upgrading the Migration Information System and further developing biometrics. According to Istanbul Convention Article 60, the country is obliged to take the necessary legislative or other measures to develop gender-sensitive reception procedures and support services for asylum-seekers as well as gender guidelines and gender-sensitive asylum procedures, including refugee status determination and application for international protection.

Fundamental rights

The European Union is founded on common values and principles, including respect for **fundamental rights**. Bosnia and Herzegovina needs to undertake further reforms to ensure that protection of fundamental rights, in particular of the most vulnerable groups, are respected in practice. 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 challenge in this field. As a

key institution in Bosnia and Herzegovina dealing with protection of human rights, the Ombudsman's office needs to be strengthened to effectively fulfil its mandate, including on implementation of the anti-discrimination legislation.

Bosnia and Herzegovina has ratified all major European and international human rights conventions and the legal and policy framework to protect fundamental human rights is broadly in line with the European standards. Strategic documents and action plans have been adopted in different sub-sectors,⁷ although an overarching strategy on the promotion and enforcement of human rights is still missing. The anti-discrimination legislation has been improved, in August 2016, recognizing age, sexual orientation, gender identity and disability as potential grounds for discrimination. Financial resources are limited and access to various educational, health, housing, legal and social services is still lacking. As the key national human rights institution, the Ombudsman's office needs to be endowed with adequate human and financial resources to perform its functions and mandate.

Non-discrimination remains to be enforced, particularly in electoral matters and education. Access to justice and free legal aid should be upheld consistently throughout the country. Juvenile detention should be replaced by alternative measures and child-friendly proceedings, including for child victims and witnesses, should be expanded. Alternative solutions should be found for children with disabilities, which today represent the overall majority of children placed in institutional care. A status-based approach to the rights of persons with disabilities results in significant inequalities among different categories and detracts from financial sustainability. Legislation on the rights of wartime civilian victims of **torture** and gross human rights violations, and a national preventive mechanism against torture and ill treatment, remain to be introduced.

Concerns remain over **freedom of expression** and **media freedom**, in particular on the protection of journalists, media ownership transparency, and the independence of the media regulator. Professional standards are limited and systemic problems discourage investigative journalism. The public broadcasting system is in need of reform, including securing sustainable funding, harmonising entity- and state-level legislation, and guaranteeing political independence. The country failed to implement the digital switchover within the deadline and the process still has to be completed. Legislation on hate speech needs to be harmonised countrywide.

Although the legal provisions and institutional mechanisms guaranteeing **equality between women and men** are broadly in place, their implementation continues to be ineffective. Women are still underrepresented in politics and public life and in the labour market. Laws and strategies against domestic violence are in place, but they are not yet harmonised across the country and with the Istanbul Convention. Gender impact assessments of policy and legislative processes are not implemented. The number of protective measures issued remain low, and the general system of response and support to victims needs to be improved. A harmonised system for monitoring and data collection is still lacking. The selection of the Gender Action Plan priorities and indicators to be monitored is ongoing and will shape the programming of future IPA II actions and gender mainstreaming throughout the programming cycle shall be ensured by all stakeholders and implementing partners.

⁷ The strategic framework in this area includes the 2015-2018 Framework Strategy to combat gender-based violence, the 2014-2017 national action plan for the implementation of the 2014 UN Security Council resolution 1325 on women, peace and security, and the 2017-2020 Roma action plans on housing, employment and healthcare. Strategic documents on human rights and on fighting discrimination are under preparation.

Social exclusion and discrimination of national **minorities** need to be tackled through better policy implementation and better inter-institutional cooperation, including with national minority councils at all levels.

The situation of the **Roma**, the country's most vulnerable and disadvantaged minority, 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. A comprehensive and integrated approach is required for the social inclusion of the Roma, though the lack of reliable data hampers effective policy-making. Adequate resources are needed to ensure the implementation of the 2017-2020 Roma action plan on housing, employment and healthcare, as well as the separate action plan on education. Previous IPA assistance delivered up to 300 new or reconstructed housing units (including social housing). However, the Roma continue to experience major difficulties in accessing education, healthcare and the labour market, with in particular a concerning rate of primary school drop-outs. The civil registration process has yet to be fully completed and made sustainable. The Romani language, culture and history remains to be preserved and promoted.

2.2. Objectives, results, actions and indicators

EU assistance aims to support Bosnia and Herzegovina in enhancing independence, effectiveness, accountability and efficiency in the justice and home affairs sector. The protection of fundamental rights in Bosnia and Herzegovina will be improved through enhanced monitoring and evaluation system for human rights and strengthening the Ombudsman's office, supporting the improvement of legal aid and minorities' access to justice. The respect for freedom of expression will be reinforced by improving professional journalistic standards, ensuring appropriate law enforcement response to cases of threats to journalists and further developing investigative journalism. Due to the cross-sectorial nature of cyber, cybersecurity should be promoted as a transversal issue in bilateral actions through integration of cyber resilience elements in projects dealing with critical infrastructures (e.g. ICT, transport, energy) and digital/e-government initiatives

The expected **results** are the following:

- Improved judicial efficiency, in particular through the elimination of the backlog of utility cases;
- Strengthened independence of the judiciary and improved accountability mechanisms;
- Better access to justice for citizens, in particular for the disadvantaged groups, particularly to women
- Improved capacity and the quality of the execution of criminal sanctions;
- Reinforced competent domestic forensic institutions, notably for the process of identification of missing persons in relation to the remaining war crimes cases processing, but also for other types of crimes;
- Improved transparency, accountability and strengthened proactive intelligence-led policing on organised crime, corruption and terrorism cases and increased recovery of public funds.
- Strengthened fight against money laundering;

- Increased efficiency and co-operation between the Agency for the Prevention of Corruption and the Coordination of the Fight against Corruption (APIK) and anticorruption bodies at all levels of authorities in the Bosnia and Herzegovina;
- Improved prevention, detection and repression of corruption via relevant legislation, institutions and civil society partners. Track record of investigations, prosecutions and final convictions in organised crime, corruption and terrorism cases developed;
- Increased efficiency and co-operation between the law enforcement agencies and prosecution services;
- Improved capacities to fight high-tech crime and cyber-crime;
- Integrated Border Management policy implemented through improved capacities and strengthened cross-border, inter-agency and international cooperation and coordination, as well as through improved risk analysis policy/process, data collection and data exchange systems;
- Efficiently managed migration, especially irregular migration, in line with EU requirements;
- Asylum processing and asylum management improved in line with EU requirements;
- Improved 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, refugees, IDPs and returnees, and of children);
- Strengthened gender institutional mechanisms and supported to perform their mandate efficiently;
- The Ombudsman's office strengthened and better placed to perform its mandate;
- Increased protection and professional standards of journalists and improved technical capacities of media bodies.

To assist Bosnia and Herzegovina achieving the expected results, **actions** under IPA II assistance will support 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 in particular through the reduction of the backlog of cases. Using modern technologies, improving access to justice for vulnerable, enhancing procedural rights, improving the execution of criminal sanctions, advancing the prosecution of criminal cases, in particular organised crime, corruption and terrorism cases, and supporting the prosecution of war crimes will continue. Linked to the war legacy, further efforts will be undertaken to continue the identification of missing persons by strengthening the competent domestic forensic institutions to foster their sustainability and a gradual phase-out of international assistance.

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, such as bankruptcy, 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.

On the level of cybersecurity, support may be provided to strengthen the development of a cybersecurity programme to enhance capacity. This support may be used for the focussing on training of cybersecurity officers or the establishment of a centre of excellence linked to existing institutions.

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 digitalisation of prisons and capacities of juvenile correctional facilities. Continued capacity building of prison staff on human rights and improvement of 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 (integrated) border management system and the implementation of asylum and migration policies through introducing modern technologies, supporting enhanced inter-agency and regional/international coordination and cooperation, capacity building and establishing national referral systems.

For the protection of **fundamental rights**, support will be provided via the national human rights institutions (including the Ombudsman's office) among others for monitoring and evaluation systems for human rights as well as mechanisms to prevent and eliminate torture, ill treatment, hate speech, gender-related 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 non-discrimination, gender equality, diversity, non-violent communication into education curricula, employment environments, health centres/institutions etc. IPA assistance will support the Dayton Peace Agreement Annex VII implementation strategy to improve access to rights of refugees, IDPs and returnees. With respect to freedom of expression and the media, assistance will strengthen technical capacities 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. EU assistance will also include measures to ensure appropriate law enforcement response to cases of threats to journalists.

Assistance for **gender equality** under IPA II is recommended and shall be developed in close cooperation with the Bosnia and Herzegovina Gender Agency and the entities' 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; increasing employability of women in rural areas; and addressing gender-based violence through different programmes. Gender mainstreaming through IPA II shall be ensured by all stakeholders and implementing partners throughout all programme-cycle phases.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for the rule of law and fundamental rights sector shall also

contribute to the reaching of Goal 16 on promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels as well as Goal 5 on achieving gender equality and empowering all women and girls.

Indicators to measure progress in meeting targets:

- 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)

2.3 Types of financing

Assistance will be provided 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, sector reform performance contracts can be an option. The multi-country IPA programme will provide complementary support in areas, where objectives can be better achieved at regional rather than national level, especially for fighting against organised crime (including cooperation between prosecutors), witness protection, border surveillance based on risk analysis, migration management and management of emergencies. The TAIEX instrument will provide ad hoc and short-term technical assistance.

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.

3. Environment, climate action and energy

3.1 Needs and capacities in the sector

This sector covers capacity building, support for the adoption of EU-aligned legislation and infrastructure investments in the sector of environment, notably in water and waste management, civil protection and flood management, and of climate action. It also covers the energy sector, including energy efficiency and renewable energy.

In the period 2014-2017 the **environment and climate action** sub-sectors could not benefit from IPA II assistance due to lack of countrywide strategies, with the exception of support to Bosnia and Herzegovina following the 2014 floods for flood recovery, flood risk management and support to development of civil protection capacities. Under the multi-country Western Balkans Investment Framework (WBIF) Bosnia and Herzegovina has benefited from support in preparation and implementation of key infrastructure projects in such areas as electricity distribution, hydropower generation, flood protection, as well as water and wastewater systems under IPA I. In addition, Bosnia and Herzegovina is participating in regional projects and initiatives such as the Regional Energy Efficiency Programme for the Western Balkans.

Following the adoption of the countrywide Environmental Approximation Strategy in July 2017, environment and climate action has been included in the Strategy Paper as a result of

the mid-term review. This strategy is necessary for harmonised countrywide implementation of the EU *acquis* and for ensuring that the sector is addressed in a comprehensive and consistent manner. This should also facilitate access to funding in this sector under IPA II and could trigger new investments primarily in the environmental infrastructure and energy efficiency, leading to creation of new jobs and improving environmental protection in line with the requirements of the EU *acquis* in the respective areas. Assistance is also considered critical in light of facilitating implementation of the Europe and South East Europe 2020 Strategies.

Bosnia and Herzegovina has also adopted several sub-sector strategies, such as the Climate Change Adaptation and Low-Emission Development Strategy and the 2014–2017 Action Plan for Flood Protection and River Management. The revised 2015–2020 Strategy and Action Plan for Biodiversity and Landscapes Protection is in the process of adoption. The draft River basin management plans for the Sava river were developed with EU assistance and remain to be adopted. The draft River basin management plans for the Adriatic sea and Trebišnjica river were developed and also remain to be adopted.

Bosnia and Herzegovina has demonstrated some progress in **air quality**, industrial pollution control and risk management, fulfilment of the obligations stemming from the Vienna convention for the protection of the ozone layer and its Montreal protocol. It continues to lack further progress in aligning with EU environmental *acquis*, including environmental monitoring and reporting. It demonstrated limited progress in fulfilling its international commitments stemming from the environmental treaties, representing an integral part of the EU *acquis*, which further requires a systematic approach for full establishment of implementing mechanism for ratified conventions, including nomination of National Focal Points.

There is no countrywide strategy on **waste management** in Bosnia and Herzegovina yet. Waste management remains a major challenge, including increasing recycling performance and providing for better services to the public. Illegal dumping and inadequate legal dumping sites pose threats to the environment. The switch to circular economy principles and goals with measures covering the whole cycle from production and consumption to waste management and the market for secondary raw materials will help the country boost its global competitiveness, foster sustainable economic growth and generate new jobs. The aim should be to contribute to 'closing the gap' of product lifecycles through greater recycling and re-use, by bringing benefits for both the environment and the economy.

More support is needed in legislative approximation to the EU *acquis*, strategic planning of investments, setting up of national and regional enforcement authorities and awareness-raising in this sector. While legislative alignment with the EU *acquis* on water quality is well advanced, Bosnia and Herzegovina also lacks a consistent and harmonized countrywide strategy and related investment plans in the **water management** area. These sub-sector strategies will have to be aligned with the adopted EAS.

With regard to **nature protection**, the alignment with the nature directives is not complete with big differences between the entities. In spite of some EU-funded projects related to Natura 2000 in the past, there is little actual progress. Ensuring adequate resources are allocated to nature protection in Bosnia and Herzegovina is essential to improve the situation.

Bosnia and Herzegovina signed the Paris agreement on **climate change** in April 2016 and ratified it in March 2017. More support is needed for implementation of the Climate Change Adaptation and Low-emission Development Strategy, in line with the EU 2030 framework on climate and energy policies. Bosnia and Herzegovina submitted its Indicative National

Determined Contribution to the UN Framework Convention on Climate Change following its adoption in October 2015 and needs support in strengthening the technical and administrative capacity for its implementation and for alignment with the EU climate *acquis*. The Paris Agreement implementation will require mainstreaming of climate action into other sectoral policies, particularly energy and transport, in order to ensure economy-wide emission reductions. Additionally, 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 renewable energy sources, and improve urban planning in order to effectively contribute to climate change mitigation.

In May 2014, the **EU Civil Protection Mechanism** was activated in Bosnia and Herzegovina in response to the devastating floods, the largest EU response operation to date, with assistance offered by 23 participating countries. Following these events, Bosnia and Herzegovina applied for membership in the EU Civil Protection Mechanism, but at the time did not have the necessary capacity. While Bosnia and Herzegovina has made some improvements since 2014, there is still insufficient capacity and coordination of the different involved bodies, difference in applied methodologies, and lack of knowledge and skills for operational staff for radiological, chemical and biological protection. There is a need to establish effective and compatible disaster monitoring systems, to further harmonise the legislation and practice on emergency protection and rescue with the EU *acquis*.

Extraordinary assistance to increase **flood management** capacities was granted on the basis of the adopted Action Plan for Flood Protection and River Management for Bosnia and Herzegovina 2014-2017 and preparation of flood hazard and risk mapping is ongoing. Due to substantial EU assistance already in place in the period 2014-2017, further support in this area should only be considered following stocktaking by the Bosnia and Herzegovina authorities of progress in the implementation of the Action Plan and of the assessment of the remaining needs in light of other donor's funding.

The **energy** sub-sector is of strategic importance for Bosnia and Herzegovina's economic and social development. It forms part of the gradual integration of energy markets in the Western Balkans and with the EU internal market. Therefore, adoption of a credible and relevant countrywide strategic framework in this area is important in the perspective of addressing security of supply, diversification of supply sources and efficient use of country's resources, as well as for improved coordination and cooperation at all levels of government. Adoption of a countrywide strategy in energy sector is a precondition for granting IPA II funds to this sector.

The alignment of the energy sector in Bosnia and Herzegovina with relevant EU *acquis*, including on energy efficiency and renewable energy, remains necessary to ensure that the country makes credible and measurable progress in meeting its commitments stemming from the Energy Community Treaty and the EU *acquis*. Some reforms within the sector have been already implemented, with the adoption of the National Emissions Reduction Plan at the end of 2015, and the National Renewable Energy Action Plan in April 2016. However, Bosnia and Herzegovina has not yet adopted a National Energy Efficiency Action Plan.

The new set of energy reforms introduced at the Western Balkans Six Paris Summit in July 2016, as well as the focus on electricity and gas interconnections introduced in the context of the connectivity agenda require funding to support energy policy commitments and sector reforms, including the agreement on a roadmap for the establishment of a regional market for electricity. Bosnia and Herzegovina 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. Activities with a regional dimension will be supported through regional funds.

Energy (market, interconnections, efficiency) and environment (waste, water, terrestrial and marine environment and habitats), climate change mitigation and adaptation as well as disaster risk management are also priorities for Bosnia and Herzegovina cooperation with fellow EU and non-EU countries in the context of the Danube and the Adriatic-Ionian macro-regional strategies.

3.2 Objectives, results, actions and indicators

IPA II assistance to Bosnia and Herzegovina will aim to support compliance with the EU environmental, climate change and energy *acquis*, including the environmental directives and the commitments under the Energy Community Treaty, including through regional funds. Further objectives are to improve implementation of the existing environmental and climate change policies, including adequate investments for policy implementation, particularly in the waste, water management, industrial emission areas and air quality as well as emissions reduction and energy efficiency. An additional objective is to prepare a pipeline of feasible, mature, and implementable environmental and energy infrastructure investments.

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

- Environment, climate change and energy policies and legislation are further aligned with the EU *acquis* and Energy Community Treaty and support the 2015 Paris Agreement on Climate Change, also through increasing the EU expenditure dedicated to climate action;
- Improved sustainability of investments in the environment sector through better coordination of relevant stakeholders and support to operation, monitoring and maintenance of investments;
- Enhanced institutional capacities of relevant ministries, regulators, and other actors in the environment and energy sectors;
- Improved water management and municipal wastewater collection (sewage) and wastewater treatment, including physical infrastructure, in line with the EU Directives;
- A well-functioning mechanism (Single Project Pipeline) for identifying priority investments in water, waste management, industrial emissions, air quality, nature protection, climate change as well as energy sector (considered for blending IPA II grants with IFI loans) in place;
- Climate change mitigation and adaptation strategies and action plans at local, regional and national level developed and implemented, including through investments in innovative technologies, renewable energy sources and energy efficiency in line with the Paris Climate Agreement;
- System for monitoring quality of environment-related parameters, including inspection and surveillance, established and secured;
- Bosnia and Herzegovina prepared to join the EU Civil Protection Mechanism as a result of improved disaster risk management systems and emergency preparedness.

The **actions** will differentiate between development of policies, legislation, planning and preparation of investments, and the support to implementation of policies and actual

investments, incl. ensuring their operation and maintenance. In addition, the role of civil society organisations in the area of policy dialogue will need to be increased.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for the environment, climate action and energy sector shall also contribute to the reaching of Goal 7 to ensure access to affordable, reliable, sustainable and modern energy for all; Goal 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; Goal 11 to make cities and human settlements inclusive, safe, resilient and sustainable as well as Goal 13 to take urgent action to combat climate change and its impacts.

The main **indicator** which will be used to measure the accomplishment of the expected results will be:

- Quality of electricity supply (WEF).
- Extent to which climate change strategies are developed and/or implemented with EU support

3.3 Types of financing

The development and implementation of the environment, climate action and 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, TAIEX and international specialised agencies. 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 and climate action into other cross-cutting policy areas such as energy, transport, agriculture. Access to funds in the energy sector is conditional on adoption of a relevant and credible countrywide strategy.

IPA II funds, in line with 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. It is envisaged that all EU and other donor funding will be included in one single prioritisation and selection process.

Blending of grants with loans from IFIs including through the Western Balkan Investment Framework are the preferred types of financing for investments in the environment and energy sector, depending on the maturity of the submitted proposals. The participation in relevant Union Programmes will also be supported.

3.4 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, including in delays in adoption of the relevant countrywide strategies. 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 Bosnia and Herzegovina mechanism of coordination in EU matters.

4. Transport

4.1 Needs and capacities in the sector

Due to the lack of a countrywide transport strategy, in the period 2014-2016 this sector was not eligible for assistance under IPA. Following the adoption of a 2016-2030 countrywide framework transport strategy and action plan in July 2016, IPA II assistance to the **transport** sector was included in the Strategy Paper in 2017.

The country still has insufficient **financial and institutional capacity** to follow the requirements for timely approximation of the EU *acquis* and effectively addressing the issues in the sector. Institutional capacity building is particularly required regarding inland navigation and intermodal transport, but also in the areas of road and rail transport and civil aviation. Additionally, IPA II will be even more critical to facilitate the implementation of the Europe and South East Europe (SEE) 2020 Strategies.

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 networks affects the choice of any possible future new investment. Furthermore, Bosnia and Herzegovina has considerable needs for additional **investments** in line with the Framework Transport Strategy, the SEETO work plans⁸ and 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. In 2015, Bosnia and Herzegovina established the National Investment Committee (NIC) framework, adopted a methodology for the selection and prioritisation of infrastructure projects, and developed a first Single Project Pipeline (SPP). Although limited to the transport sector, the SPP demonstrated a step forward in infrastructure investments planning. Furthermore, there are specific challenges in further developing transport policies in line with the EU requirements, for instance, the implementation of the Framework Transport Strategy, in-depth reform of the rail sector, the development of maritime transport and multimodality, security and safety standards for all modes of transport, urban mobility, the aviation market, and others, in particular climate action policies.

Bosnia and Herzegovina adopted a joint statement⁹ 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. In Bosnia and Herzegovina, the road core network to be connected with EU TEN-T corridors includes a road link referred to as the Mediterranean Corridor, as well as the South East Europe Transport Observatory (SEETO) Route 2. Regarding railways, the section in the Corridor Vc in Bosnia and Herzegovina is now part of the rail core network that will be serving as extension to the EU rail network. The Brčko river port and Sarajevo Airport are also part of the regional core network. The

⁸ With the signature and provisional application of the Transport Community Treat, SEETO will be replaced by the Transport Community Treaty Secretariat.

⁹ As a follow up to the Conference on the Western Balkans held in Berlin on 28 August 2014, the Ministers of Foreign Affairs and the Ministers of Transport of the Western Balkans gathered in Pristina on 25 March 2015. In the presence of the European Commissioner for European Neighbourhood Policy & Enlargement Negotiations and the Secretary General of the Regional Cooperation Council (RCC) and following consultations with the Commissioner for Transport, they adopted a Joint Statement in order to reaffirm their commitment to connectivity, good neighbourly relations, regional cooperation and European integration.

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 the EU/SEETO corridors – remain key to the effective and sustainable functioning of Corridor Vc. These infrastructures will therefore also be the focus of future IPA II assistance.

The core network extension requires implementation of a number of technical standards and **connectivity reform measures** identified in the Vienna summit meeting of the WB6. Bosnia and Herzegovina is expected to identify and address without delay all relevant measures such as regulatory issues, streamlining of border crossing procedures etc., which could bring about immediate connectivity benefits for the WB6 participants at reasonable cost.

4.2 Objectives, results, actions and indicators

IPA II objectives in the transport sector will support further alignment with the EU *acquis* and development of the transport policies in rail, road, air and maritime as well as support the improvement and maintenance of the transport infrastructure network. In addition, the objective is to build the capacity of the relevant institutions to manage the reform process and to create a pipeline of feasible, mature and implementable infrastructure projects. To unblock the sector and re-start the process of further alignment with the EU *acquis* and to provide the pre-conditions for improvement of the infrastructure, continuation of the support both to institutional and infrastructure development is essential and urgent.

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

- Transport policies and legislation further aligned with the EU legislation and best practice, including to support the implementation of the 2015 Paris Agreement on Climate Change and the country's nationally determined contribution (NDC) to that Agreement;
- Improved institutional capacity for the implementation of transport policies at all levels of government;
- Continued implementation of the transport sector reforms, with a focus on the rail sector.
- Improved sustainability of investment projects through support to realistic maintenance programmes and to the coordination of relevant stakeholders for funding operating expenditures;
- Improved transport safety in all modes of transport;
- Further investments in transport infrastructure in line with the indicative extension of the TEN-T Comprehensive/Core Network to the Western Balkans development plan priorities and the connectivity agenda;
- Progress made in the implementation of the technical standards and connectivity reform measures;
- Improved medium-term planning of investments in the transport sector based on a well-functioning single selection mechanism for identifying priority investments;
- Increased climate-resilience of the transport infrastructure.

Actions will include further support to legislative alignment for implementation of the European Common Aviation Area (ECAA) Agreement in civil aviation and towards full completion of alignment with the EU aviation rules, notably safety and security ones. In the

rail transport, the transposition of the 1st, 2nd, 3rd and 4th railway packages needs to be re-accelerated, in particular in terms of strengthening the regulatory authorities in Bosnia and Herzegovina and opening the railway market. Railway safety needs urgent attention and support through further improvement of the legislative and regulatory framework and its implementation. In maritime navigation, further progress in the adoption of maritime conventions and progress in provision of the legislative and regulatory framework is required, but should not be treated as a priority, considering the geographical position and capacities of the country in this sub-sector. In inland waterways navigation, the legislation requires further review and improvements, and navigation regulations are to be brought in line with the relevant EU *acquis*. The intermodal/combined/multimodal transport is institutionally still at an early stage, requiring the development of the legislative and regulatory framework, as well as through provision of preliminary and main design.

As regards infrastructure maintenance and investments in civil aviation, priority for the forthcoming period may include the provision of equipment for air traffic management. Provision of permanent accommodation for the air transport regulator may also be envisaged. In rail transport, the provision of designs for track rehabilitation, or construction where deemed necessary, up to the level of finalised main designs and tenders should be continued, in particular for those sections for which the EU has already provided conceptual designs and preliminary studies. In inland waterways, the rehabilitation of the Sava River navigation route is a priority. Having in mind the financial scale of the intervention, rehabilitation could be assisted through a national envelope of IPA II, but demining of the riverbank remains an inevitable precondition for any further progress on this project.

If requested, IPA II may support actions related to Connectivity Reform Measures, in a complementary way to the regional instruments.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for the transport sector shall also contribute to the reaching of Goal 8 of promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all as well as Goal 13 for taking urgent action to combat climate change and its impacts and Goal 11 for making cities and human settlements inclusive, safe, resilient and sustainable.

The **indicators** to measure the achievement of the objectives will include:

- Logistics performance indicator – score (WB);

4.3 Types of financing

Sector reform performance contracts, blending of grants with loans from the International Financial Institutions (IFIs) through the Western Balkan Investment Framework (WBIF) and technical assistance are the preferred types of financing in the transport sector, if conditions are met. Before eligibility is established, service contracts, twinning and other support (for instance from multi-beneficiary assistance or TAIEX) will be used to deliver assistance. The participation in relevant Union Programmes may also be supported.

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, design studies or other related services in order to prepare bankable investments which meet the eligibility criteria for loan funding from IFIs or other donors.

IPA II funds will also contribute to the setting-up of programmes for the sustainable, efficient and effective **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 IPA II co-funding over time.

4.4 Risks

There is a risk that the beneficiary resources available both in terms of funds and human resources may not be sufficient. Therefore, the mitigating strategy will be to focus on the affordability and added value of new investments and making 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. Close cooperation with the IFIs is necessary in order to maximise efficiencies. Due-diligence assessments will be applied thoroughly in project preparation activities.

An additional risk is the fragmentation of competences at multiple levels which may create problems of coordination, compounded by potential diverging priorities and political blockages. To mitigate this, the EU will continue political dialogue (including through SAA subcommittees) and rely on the newly-established structure of the Bosnia and Herzegovina mechanism of coordination in EU matters.

5. Competitiveness, innovation, agriculture and rural development

5.1 Needs and capacities in the sector

This sector, which addresses the competitiveness of the economy with a particular focus on private sector development, trade as well as agriculture and rural development, is an important element of the EU support to improved economic governance. In its Reform Agenda as well as in the Economic Reform Programmes, the country has committed to addressing the structural economic challenges to boost competitiveness, move up the value chain and connect with regional and global markets. Amongst other, the reform priorities include reducing the fiscal and administrative burden on the economy, improving the business environment, reducing the informal economy, and facilitating trade and investment.

The level of **competitiveness** of Bosnia and Herzegovina's economy remains low in comparison to EU Member States and most enlargement countries. Bosnia and Herzegovina is still at an early stage in developing a functioning market economy. Strong and continued political support for the swift implementation of much-needed structural reforms, in line with the Economic Reform Programme and the jointly adopted policy guidance based on the Economic Reform Programme will be key. Ensuring competitiveness and inclusive growth is the overall objective of the structural reforms included in the ERP. Despite an increased economic activity and mild rise in employment, the competitiveness of Bosnia and Herzegovina's economy remains hampered by a complex business environment and market fragmentation, resulting with various administrative obstacles at different levels of government and lack of free movement of goods and services within the country. This is substantially increasing the cost of doing business, and, in addition to a high level of corruption and informal economy, is perceived as the main reason for the decline in foreign investment after its peak in 2008. Access to the new markets, as a result of trade agreements, has substantially enhanced exports of main manufacturing sectors. However, the export profile is dominated by low value added products and low-skilled services.

In the period 2014-2017, the assistance under IPA II in the sector has already targeted the improvement of SMEs competitiveness by facilitating access to longer term finance through the provision of technical assistance and investment incentives for sub-borrowers, as well as supporting Bosnia and Herzegovina's private sector development with a focus on export oriented, agro-rural and tourism sectors. It is also stimulating economic activity and employment and promoting social inclusion through integrated local development focusing on municipalities/cities affected by the 2014 floods, and other most vulnerable municipalities. Bosnia and Herzegovina should further accelerate the market reforms in order to become closer to fulfilling the Copenhagen criteria on internal market and single economic space. In this context, special attention needs to be paid to the process of legislative harmonisation with the EU *acquis*.

Bosnia and Herzegovina is highly dependent on **trade**, in particular with EU and CEFTA countries. An important step was reached 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. However, 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. Cooperation between CEFTA parties should be strengthened with the aim of reducing the barriers and gaps that currently exist in almost all trade policy areas (sanitary and phytosanitary measures, technical barriers to trade, customs) due to differences in approaching EU and WTO rules. 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. In a broader sense the proper implementation of the current obligations under SAA, CEFTA and of the future commitments under WTO is strongly required.

Bosnia and Herzegovina together with all Western Balkans leaders agreed in July 2017 on an action plan to develop a Regional Economic Area to consolidate a market of some 20 million people, and to attract investment and generate growth and jobs. For this to materialize, the Western Balkans Six are committed to foster, based on the CEFTA legal framework and individual SAAs, a gradual and progressive rule-based economic integration in the areas of trade, investment, mobility and digital that would ultimately enable unobstructed flow of goods, services, investment and highly skilled labour throughout the region, thus developing a Western Balkans Regional Economic Area. Assistance will support Bosnia and Herzegovina in fulfilling its commitment to the establishment of the Regional Economic Area.

Assistance to the trade sector, including intellectual property rights should concentrate on the enforcement of the current legislation and strengthening cooperation among all institutions involved. Further support is needed to improve the capacity of Bosnia and Herzegovina institutions for enforcement of an effective competition and state aid policy and legislation. Bosnia and Herzegovina should create an efficient quality infrastructure system to ensure the quality and competitiveness of Bosnia and Herzegovina products in the European market, and at the same time provide for the safety and quality of all products placed on the Bosnia and Herzegovina market. Support to Quality Infrastructure (QI) is conditioned to the existence of a countrywide QI Strategy.

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. The **private sector**, which is the backbone of the economy is still operating in a complex business environment featured by the low level of investments and

value added products, 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. Unemployment is very high, in particular among youth, and a skills gap of the labour force is palpable, as education institutions do not sufficiently meet the needs of the labour market.

Bosnia and Herzegovina continues to lack a countrywide strategy for industry and SME development. The adoption of a strategy and of institutional cooperation mechanisms remains a condition for investment support in business and tourism infrastructure. However, a variety of strategies exist which are relevant for **local economic development**. In the field of SMEs, the main institutional development is the appointment of a countrywide network of the EU Small Business Act Coordinators, which together with already existing working groups in tourism and agri-rural sectors provide a countrywide multi-sectoral structure for addressing SME competitiveness within a broader context of an integrated local socio-economic development.

IPA II will support 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. The development of a Smart Specialisation Strategy is a prerequisite for research and innovation strategies and policies. Local stakeholders have the potential to 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 actions relating to socio-economic development, in cooperation with stakeholders, at local level. It therefore 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 continued **SME competitiveness support** in the context of local development strategies should follow more closely the administrative and legislative business climate improvements for ensuring a better sustainability of business support facilities and services, such as incubators and start-ups.

Capacity building for support to **industrial, SME policy and tourism** as well as prospective more significant investments in business and tourism **infrastructure** remain relevant, however they are conditioned to the existence of countrywide sectoral strategies, preferably including the export promotion to reinstate the most competitive sectors for investment. Innovation, research and development, entrepreneurial learning and digital economy should be strongly embedded in all sector related priorities. 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 countrywide scale through a bottom up policy development and improved inter-sectoral cooperation.

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. Furthermore, broadband infrastructure investments need to happen - both fixed and mobile/wireless, particularly in more rural regions, to reduce the digital divide within the country and the digital gap with the EU.

The **agriculture and rural development sector**, including food safety, veterinary and phytosanitary, continues to be one of the key strategic sectors in Bosnia and Herzegovina. It is

important for implementation of the SAA Article 95 which aims at modernising and restructuring the agriculture and agro-industrial sector in Bosnia and Herzegovina, in particular to reach veterinary and phytosanitary Community requirements and at supporting the progressive approximation of the legislation and practices of Bosnia and Herzegovina to the EU rules and standards. This in turn is very important for the country's viable economic and social development in terms of economic growth, export potential and job creation, as well as for the gradual economic integration of Bosnia and Herzegovina into the EU common agricultural policy and market. IPA II assistance to this sub-sector in 2014-2017 was not possible due to lack of countrywide strategy. With the adoption of the countrywide strategy in rural development in 2018, IPA II will support the creation of 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.

There have been no substantial reforms within the agriculture and rural development sector. Institutional and administrative capacities are still insufficient at all levels, including for food safety, veterinary and phyto-sanitary sectors. More efforts are necessary to coordinate and harmonise policies and implementation plans at a countrywide level. The agricultural statistics and the information system are particularly in need of improvements. Legal frameworks have been upgraded, largely at the level of the implementing legislation. However, state level laws on food safety and on veterinary still need to be adopted and be fully aligned with the EU *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 such as animal health, and on phytosanitary issues. Inspection and control services, as well as laboratories, are in need of being further upgraded in terms of standardised 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 and quality product-oriented agricultural production. Consequently further sector restructuring should target in particular the primary income level and those population and labour force categories which have a potential for competitive businesses like youth and women.

With previous EU support, the country has carried out sectoral reviews for a number of competitive sectors: dairy and meat, fruits and vegetables, cereals, wines and economic diversification as well as aquaculture and forestry, which have provided inputs for improving the country's policies' and may serve for preparations of the country wide rural development programme once feasible.

The alignment of the Bosnia and Herzegovina's 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 the EU market as provided for in the SAA, Autonomous Trade Measures (ATMs) and other EU unilateral trade measures. In addition to the needs described above, the insufficient knowledge of the public and of interest groups when it comes to the implications, processes and opportunities related to EU accession has proved to be a major obstacle to the successful development of the agricultural sector of Bosnia and Herzegovina.

5.2 Objectives, results, actions and indicators

Objectives of the IPA II assistance are to strengthen the SMEs competitiveness, innovation and local economic development in view of developing export-oriented sectors and tourism sector. In the trade sector, IPA II will aim at ensuring that Bosnia and Herzegovina economy maximizes the benefits from economic integration processes and should support Bosnia and Herzegovina to adhere to its obligations under the international trade agreements (SAA, WTO, CEFTA) and other trade-related legal instruments. A further objective is to improve the functionality and cooperation among all institutions involved in implementation and enforcement of the state aid, competition and intellectual property legislation. Regarding the quality infrastructure, EU assistance aims to achieve the conformity with European technical directives, standardisation, metrology, accreditation and conformity assessment procedures, as conditions contained in the SAA. In the agriculture and rural development sector, EU assistance will support the SAA implementation through the development of 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. It will also aim at preparing Bosnia and Herzegovina for future access to IPA Rural Development funds.

The expected **results** are the following:

- Improved business environment including access to finance and job creation through local SMEs and better planning capacities at local level;
- 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);
- Enhanced availability of business infrastructure and innovation centres for product development and technology transfer;
- Bosnia and Herzegovina applies a coherent foreign trade policy that is in line with its international obligations (SAA, CEFTA, WTO);
- Improved implementation of the Reform Agenda which is in conformity with the Economic Reform Programme as a fundamental element to encourage comprehensive structural reforms to maintain macroeconomic stability and to boost growth and competitiveness.
- Improved implementation of the multiannual Action Plan for a Regional Economic Area in the Western Balkans Six.
- Strengthened capacity of enforcement authorities to ensure better protection of intellectual property rights for economic entities;
- Increased institutional capacities in the area of competition and state aid and the laws implemented and enforced;
- Enhanced capacities for sustainable development of the tourism sector;
- Reinforced broadcasting and telecommunication sectors in terms of development, implementation and improvement of the regulatory framework;

- Improved transposition and implementation of relevant EU *acquis* in the areas of agriculture and rural development, food safety (including feed and GMO), veterinary and phyto-sanitary, including fisheries;
- Improved competitiveness of the Bosnia and Herzegovina agriculture and related economic sectors (agri-food and fisheries) as well as of quality of life in rural areas, thereby ensuring a value added impact of the SAA implementation;
- Further approximation to the EU-compliant capacities in agriculture and rural development for accessing future IPA sector support.

In terms of **actions**, in the area of SMEs and local economic development, IPA II will support the development of functional institutional structures, legislative and strategic framework for EU *acquis* harmonisation, coordination and implementation of the policies in the fields of investments, enterprise and industry, in particular considering SMEs access to EU programmes and investments in EU *acquis* related infrastructure.

In particular, IPA II will assist private sector development with a focus on the policy and institutional framework for innovation and research and development capacities, such as preparations of related strategies (including a Smart Specialisation Strategy), grants for scientific programmes and other more direct R&D and innovation measures. IPA will also support the internationalisation of SMEs with regards to developing clusters in competitive sectors, including the agro-rural and tourism sectors where these represent the best potential in specific areas. This will be accompanied by assistance for the identification and preparation of investment projects and for obtaining access to local or international loan funding. Further support will improve SMEs access to advisory services and investment financing and the use of innovative financing instruments such as WBIF, EDIF and COSME.

IPA II will support 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 productive investment in business infrastructure, services, research and innovation, digital economy and tourism, when relevant, 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.

In the **trade area**, IPA II will support the development of functional institutional structures, legislative and strategic framework for EU *acquis* harmonisation, coordination and implementation of the policies in the fields of foreign trade and trade related policies, in line with the current trade liberalisation and facilitation processes within CEFTA and the EU, as well as 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.

In the **agriculture and rural development** area, support will be provided to guide the preparation for gradual alignment and implementation of the EU *acquis*, extension and advisory services and information systems. That includes support to the country's responsible bodies in charge of food safety and quality, veterinary and phyto-sanitary systems and services, fishery sector included, as well as sustainable production and processing of food and feed as well as of fish.

To prepare for more advanced stages of accession, IPA II assistance may be provided to farmers and other agri-food operators as potential end-beneficiaries to establish viable business and the basis for successfully participate in the future EU support programmes.

IPA II assistance may support the build-up of effective and feasible EU *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 (e.g. agro-incubators) 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, organic production and farming 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 animal health, animal welfare and animal by-products, official controls, risk management, risk assessment and communication, GMO, accreditation, animal disease control and eradication, plant health, seeds and seedlings as well as plant protection products.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for the agriculture and rural development sector shall also contribute to the reaching of Goal 2 – End hunger, achieve food security and improved nutrition, and promote sustainable agriculture, as well as Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, Goal 10 – Reduce inequality within and among countries, and Goal 12 – Sustainable consumption and production.

The **indicators** to measure the achievement of the objectives will include:

- Doing Business, Distance to frontier, score (WB)

- Total investment generated via IPA II in the agri-food sector and rural development (DG AGRI)

5.3 Types of financing

The reform and administrative capacity building as well as transfer of knowledge and transposition of the EU *acquis* will be supported through technical assistance, twinning, grants, delegation agreements and supplies. Complementarity with the relevant IPA II country programmes will be ensured. The TAIEX instrument will provide ad hoc and short-term technical assistance, as well as the Better Training for Safer Food (BTSF) that enables efficient transfer of knowledge and skills improvements in food safety, veterinary and phytosanitary. EU programmes such as, Horizon 2020 (research and innovation), COSME (Competitiveness of enterprises and SMEs) and Consumer Programme (consumer protection) are relevant for this sector and 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. If conditions are met, sector reform performance contracts may also be considered.

5.4 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.

The risks related to political sensitivities, pending country's agreements over top sector priorities, namely, the country wide sector strategy and IPARD set-up, absorption capacities 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 in the area of the land management 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 Bosnia and Herzegovina mechanism of coordination in EU matters.

6. Education, employment and social policies

6.1 Needs and capacities in the sector

Bosnia and Herzegovina is facing a series of barriers in the labour market. High unemployment rate (20.5 %) in 2017, long-term unemployment, low employment rate (33.9 %) and activity rate (42.6 %) are some of the characteristics of the Bosnia and Herzegovina labour market, according to the Labour Force Survey 2017. Grey economy and **informal employment** dominate, while the chronic lack of jobs, combined with 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, in particular to vulnerable youth, women and long-term unemployed. At the state level, there is no formal institutional mechanism of social dialogue, although there is an initiative for the establishment of the Economic and Social Council. Following adoption of the Reform Agenda the sector became a priority for domestic authorities and donors.

The 2010-2014 Bosnia and Herzegovina Employment Strategy expired and a new countrywide strategy is still 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 in September 2016 the 2016-2020 employment strategy and an Employment Action Plan in March 2017. Both strategies were drafted in line with international labour standards, the European Employment Strategy 2020, the South East Europe 2020 Strategy, and other requirements related to European integration process. In line with the Economic Reform Programme policy guidance, further improvements to co-operation between the education system and labour market institutions are needed.

The absence of harmonised **social protection** policies at countrywide level affects the efficiency of the social services, which lack the institutional capacity to evaluate the needs of the vulnerable. The implementation of the 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.¹⁰ 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 revised Dayton/Paris Peace Agreement Annex VII return strategy provides the framework for provision of additional support to returnees' needs, including housing, access to health, education, legal services, infrastructure connections (electricity and water supply), taking into account their vulnerability.

¹⁰ 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"

The assistance under IPA II so far has been earmarked for increasing employability in Bosnia and Herzegovina by improving the quality and effectiveness of labour market institutions, and enhancing education systems responsiveness to the labour market demands. It also supports the process of transformation of institutions for social protection by strengthening models of alternative, community-based social care.

The situation in the **education** sector is characterised by insufficient institutional capacity and limited policy coordination as a result of the complex constitutional set-up and multiple levels of government. The authorities are not using already established bodies for coordination such as the General Education Council to discuss harmonisation of learning standards in general and the Rectors Conference to discuss learning outcome and qualifications in higher education. The Conference of Ministers of Education of Western Balkan countries provides a good platform for discussion and raising the awareness among all Ministers of Education and other key stakeholders in the education area. However, such coordination should be strengthened in order to ensure a better ownership and a perspective of sustainability. An additional effort is also required to establish an effective coordination mechanism in the Federation entity.

Standards for quality are not systematically applied in the country and 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 it is not equally developed throughout the country. Adequate access to education of vulnerable children (e.g. children in rural areas, socio-economically disadvantaged children, female children, children with disability, and children of ethnic, linguistic and religious minorities including Roma) is limited. Inadequate and deteriorated school infrastructure and lack of equipment aggravates the situation. More generally, there is a need to align with EU standards on education at all levels, notably for higher education.

Conditions for future assistance are: adoption of a countrywide sector strategic document, establishment of the Inter-sectorial Commission for the elaboration of the Qualifications Framework

Bosnia and Herzegovina has adopted in December 2017 the Platform for development of pre-school education. The Platform paves the way for harmonizing policies of pre-school development by developing strategies and plans actuating the development of pre-school education..

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 2005/36/EC and 2013/55/EU in the field of regulated professions. The Republika Srpska entity adopted the 2016-2021 education development strategy. The legislative framework on education improved through the adoption of principles and standards for adult education at the state level followed by the adoption of laws on adult education in seven cantons 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 Brčko 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 (corresponding to 6-9 grade of primary education) and 3 (corresponding to secondary education) was developed and piloted.

The Agency for Pre-school, Primary and Secondary Education, with other relevant education authorities, participated in the Programme for International Student Assessment (PISA) in 2018 and will participate in Trends in Mathematics and Science Study (TIMSS) in 2019. The Agency and other relevant authorities are progressing in developing Common Core Curricula for primary education. Bosnia and Herzegovina participates actively in the Western Balkans Platform on Education and Training and in the Erasmus+ (including the Western Balkans Youth Window). The national ownership for these actions needs to be strengthened.

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.

In 2017, two Quality Assurance agencies¹¹ underwent external reviews to become members in European Association for Quality Assurance in Higher Education and be listed in European Quality Assurance Register for Higher Education, but were not admitted:

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, but further more systematic approach to possible investments in education system infrastructure is needed.

Roma population remains Bosnia and Herzegovina's most vulnerable and disadvantaged minority, therefore a more comprehensive and integrated approach needs to be adopted for their social inclusion. The number of school drop-outs and unemployed Roma stays very high and access to the labour market remains hampered. As a result, 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. In addition to the implementation of the action plans, to be coordinated with and by the Ministry for Human Rights and Refugees, support is also envisaged for the implementation of the operational conclusions from the Roma Inclusion seminars of 2015 and 2017.

On **refugees and internally displaced person**, implementation of the Annex VII of the Dayton Peace Agreement strategy continues, in particular in the areas of repossession of property and occupancy rights, reconstruction of houses and infrastructure for returnees and IDPs. However, significant attention is still required on damage compensation, access to healthcare and to employment, health and social protection, safety and demining, and education. Some 7 500 people are still accommodated in difficult conditions in 45 collective centres. As a result, refugees and internally displaced persons¹² will continue benefiting from housing support combined with social and economic integration measures. EU assistance will

¹¹ The BiH Agency for Development of Higher Education and Quality Assurance and the Higher Education Accreditation Agency of Republika Srpska.

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

continue providing support to Bosnia and Herzegovina in fulfilling its commitments as a signatory of the Ottawa Convention and in the implementation of the revised Bosnia and Herzegovina Mine Action Strategy.

The **youth** sector could benefit from support from IPA II. The Regional Youth Cooperation Office (RYCO) was established in Tirana following the Paris Conference on Youth in 2017 followed by establishment of its local branch in Sarajevo. The Bosnia and Herzegovina Ministry of Civil Affairs also established 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, together with other relevant ministries at entity and cantonal level.

6.2 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. It will support the development of qualification framework 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 to inclusive education and the modernisation of school infrastructure and equipment. A further aim of EU assistance is to identify and close skill gaps in the labour market and support the transformation to a knowledge-based society.

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 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 IDPs and returnees, as well as support for the Roma population. Another objective is support for demining of mine-contaminated areas.

The expected **results** are the following:

- Decreased unemployment, in particular among youth, women, long-term unemployed and people with disabilities, through institutional reform, active labour market measures and special measures to facilitate school to work transition;
- Strengthened capacities of employment services and institutions;
- Education sector better adapted to the needs of the labour market;
- Improved quality of the education system leading to a reduced number of early school leavers and school dropouts;
- Improved access of vulnerable and disadvantaged people to education;
- Increased sustainability of the social protection system thanks to a coordinated needs-based approach, reformed financing of social services and harmonised support for vulnerable people;

- Improved situation of IDPs and returnees as well as other vulnerable categories as a result of sustainable housing and supporting measures;
- Improved implementation of the Roma action plan;
- Progress achieved in fulfilling Bosnia and Herzegovina commitments under the Ottawa Convention.

In terms of actions for addressing the high **unemployment**, in particular youth unemployment will require 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. It will also support reforming labour legislation with the objective to increase labour mobility and employability. The increase of the employment rate should in turn lead to a decrease of the share of the informal 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 targeted 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, as well as to support social entrepreneurship. Further support to the employment sector will be needed to improve efficiency, reduce redundancies, and ensure service delivery for citizens that should lead to an increased employability.

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 framework at all levels of education and will assist the development of curricula in primary and secondary education. The actions will target also the early school leavers and school dropouts should reduce through better coordinating the support at national and local levels, and 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 and equipment. Pilot projects including investment support will be granted to schools that 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. Activities related to the organisation and tracking of alumni should also be envisaged as a valuable source of information which can be converted into policy recommendations.

Also, actions will improve how the education is adapted to respond to the needs of the labour market. This implies further development of the 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, qualitative education for all (inclusive education), and the problem of segregation and discrimination in education will be addressed by specific actions under IPA II. Investment in school infrastructure will be one of the main actions under IPA II implementation.

IPA II will support specific activities to increase the enrolment rate in pre-school education, since the country lags behind most of the EU Member States and other countries in the region and is far from the EU 2020 target of 95%.

Future IPA II support should take into account the new developments within the **youth** sector. Projects and activities shall be planned both within the scope of RYCO mandate and jointly with the newly established section of the Ministry of Civil Affairs at state level and other relevant authorities.

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, elderly, 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 certain 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 Bosnia and Herzegovina in fulfilling its commitments as signatory to the Ottawa Convention and in the implementation of the Bosnia and Herzegovina **mine action** strategy.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for the education, employment and social policies sector shall also contribute to the reaching of Goal 4 – Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, Goal 5 – Achieve gender equality and empower all women and girls, Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, Goal 10 – Reduce

inequality within and among countries, as well as Goal 12 – Sustainable consumption and production.

The **indicators** to measure the achievement of the objectives will include:

- Employment rate % total, 15-64 years (Eurostat)

6.3 Types of financing

Support will be provided primarily through twinning, technical assistance, blending, grants, supplies of equipment and sector reform performance contracts, if preconditions are met. 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. Complementarity with additional support to this sector provided by the IPA multi-country programme will need to be ensured. The TAIEX instrument will provides ad hoc and short-term technical assistance.

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 these sub-sectors and are in line with the IPA II priorities for Bosnia and Herzegovina. The country 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.

6.4 Risks

The main risk for the social sector is linked to lack of effective cooperation and coordination among involved ministries and agencies at all levels, including ministries responsible for economic development and the socio-economic development of rural areas. This is translated into missing or uncoordinated strategies, insufficient data collection, political resistance to agree on common standards and strategies.

Another risk is the increasing regional disparities, 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.

7. Regional cooperation and territorial cooperation

7.1 Needs and capacities in the sector

In 2014-2020, IPA II assistance continues to support Bosnia Herzegovina's already established cross-border cooperation (CBC) with EU Member States and with IPA II beneficiary countries, aiming at promoting good neighbourly relations, fostering EU integration and promoting socio-economic development by addressing common challenges in the border areas.

Additionally, IPA II is also financing the participation of Bosnia and Herzegovina in Interreg transnational cooperation programmes.

The cross-border and transnational cooperation programmes represent an opportunity for future EU Member States to familiarise with rules and procedures governing the European Territorial Cooperation under EU Structural Funds.

7.2 Objectives, results, actions and indicators

Each CBC programme focuses on a maximum of four thematic priorities as listed in Annex III to the IPA II Regulation that were jointly selected by the countries involved in the programme according to the specific situation of the border regions. The specific objectives of each CBC programme are laid down in a dedicated seven-year multi-annual programming document, which was drafted on the basis of extensive consultation of local stakeholders. The multi-annual programming document foresees indicative budget allocations per thematic priority, defines a set of indicators to measure the impact of the programme, identifies the specific bordering areas, which are eligible for funding, and gives information on the implementation modalities (e.g. calls for proposals).

In 2014-2020, Bosnia and Herzegovina participates in two bilateral IPA CBC programmes with its immediate neighbours Montenegro and Serbia, a trilateral Interreg CBC programme with an EU Member State, Croatia, involving also Montenegro, and three Interreg transnational cooperation programmes: the Interreg V-B Adriatic-Ionian (Adriatic) transnational cooperation programme, the Interreg V-B Danube transnational cooperation programme and the Interreg V-B Mediterranean (MED) transnational cooperation programme.

The IPA CBC programme **Bosnia and Herzegovina – Montenegro** has three priorities: (1) promoting employment, labour mobility and social and cultural inclusion across the border; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management and (3) encouraging tourism and cultural and natural heritage.

Similarly, the IPA CBC programme **Serbia - Bosnia and Herzegovina** focuses on (1) promoting employment, labour mobility and social and cultural inclusion across the border; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management and (3) encouraging tourism and cultural and natural heritage.

The Interreg IPA CBC programme between **Bosnia-Herzegovina, Croatia and Montenegro** aims at strengthening the social, economic and territorial development of the cross-border area through the implementation of joint projects and activities to be supported within four priority axes: (1) Improving the quality of the services in public health and social care sector; (2) Protecting the environment and biodiversity, improving risk prevention and promoting sustainable energy and energy efficiency; (3) Contributing to the development of tourism and preserving cultural and natural heritage; (4) Enhancing competitiveness and developing business environment in the programme area.

The **Interreg V-B Danube** transnational cooperation programme enables cooperation of selected local authorities with several EU Member States (Austria, Bulgaria, Croatia, Czech Republic, Hungary, Germany – Baden-Württemberg and Bayern, Romania, Slovakia and Slovenia) and other countries (Moldova, Montenegro, Serbia and Ukraine – 4 provinces) on four priorities: (1) Innovative and socially responsible Danube region; (2) Environment and culture responsible Danube region; (3) Better connected and energy responsible Danube region and (4) Well governed Danube region.

The **Interreg V-B Mediterranean (MED)** transnational cooperation programme covers the coastal regions of all EU countries on the Mediterranean shores as well as Bosnia and

Herzegovina, Montenegro and Albania. It focuses on (1) innovation, (2) low carbon economy, (3) natural and cultural resources as well as (4) enhancing Mediterranean governance.

The **Interreg V-B Adriatic-Ionian (Adrion)** transnational cooperation programme covers the same countries and territories of the EU macro-regional strategy for the Adriatic and Ionian Region (EUSAIR): Croatia, Greece, Italy (12 regions and 2 autonomous provinces), Slovenia as well as Albania, Bosnia and Herzegovina, Montenegro and Serbia. The programme's priority axis (1) innovation, (2) natural and cultural assets, and (3) transport - are also pretty aligned with the (broader) pillars of the Strategy. The programme's priority axis (4) is dedicated to support the governance system of the EUSAIR.

In the framework of the **2030 Agenda for Sustainable Development**, the priorities for IPA II assistance as outlined above for territorial cooperation shall also contribute to the reaching of Goal 10 – Reduce inequality within and among countries.

The **indicator** to be used to measure the accomplishment of the expected results of EU assistance in this area will include:

- Number of involved municipalities (MIS)

7.3 Types of financing

Support will be provided primary through grants (mainly via call for proposals). Investments can also be depending on the objectives of the programme. Technical assistance is provided in order to improve the capacities of the institutions involved in the implementation of territorial cooperation programmes.

7.4 Risks

The main risk consists in the lack of capacity in the beneficiary institutions to manage the joint programming procedures foreseen notably for the CBC programmes with IPA beneficiaries. This will be addressed through targeted technical assistance to the joint operating structures in the countries.

ANNEX 1: INDICATIVE ALLOCATIONS

Bosnia and Herzegovina	2014	2015	2016	2017	Total 2014-2017	2018	2019	2020	Total 2018-2020	Total 2014-2020	Of which climate change relevant (%)
DEMOCRACY AND RULE OF LAW	9.7	39.7	21.9	44.8	116.1	22.4	39.3	45.4	107.1	223.2	
Democracy and governance ¹	7.9	17.2	18.9	15.3	59.3	47.3				106.6	
Rule of law and fundamental rights	1.8	22.5	3.0	29.5	56.8	59.8				116.6	
COMPETITIVENESS AND GROWTH	66	0	25.1	30	121.1	80.1	65.5	62.2	207.8	328.9	
Environment, climate action and energy	51 ²	0	0	0	51.0	63.2				114.2	40%
Transport	0	0	0	20	20.0	21.7				41.7	40%
Competitiveness, innovation, agriculture and rural development	14	0	20	0	34.0	65.4				99.4	
Education, employment and social policies ³	1	0	5.1	10	16.1	57.7				73.8	
TOTAL	75.7	39.7	47	74.8	237.2	102.5	104.8	107.6	314.9	552.1	

¹ This includes national allocations to the Civil Society Facility: EUR 2.1. million in 2014, EUR 2.5. in 2015, EUR 4.5 million in 2017, EUR 2 million in 2018, EUR 6 million in 2019 and EUR 2 million in 2020

² This includes special measures following 2014 floods – EUR 41 million from national envelope and EUR 10 million from the multi-country envelope

³ This includes allocations for the Regional Housing Programme – EUR 10 million in 2017 and EUR 14 million in 2018

ANNEX 2: INDICATORS AND TARGETS

Context indicators

Indicators	Baseline (2010)	Last value (year)
General government gross debt debt/GDP (%) (Eurostat)	30.2	40.5 (2016)
GDP at market prices (million euro) (Eurostat)	12 969	15 287 (2016)
Unemployment rate (%) (Eurostat), sex disaggregated	27.3 Male 25.6 Female 29.9	25.5 (2016) Male 22.6 Female 30.2
GDP per capita at current prices (PPS euro) (Eurostat)	7 700	9 300 (2016)
Inward FDI flows to the country per capita (euro) (Eurostat)	86	70 (2016)
CO2 emissions (metric tons per capita) (World Bank)	5.7	6.2 (2014)

Outcome and impact indicator

Indicator	Baseline (2010)	Last value (year)	Milestone (2017)	Target (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	49.47	47.15	51.28	52.37

Common sector indicators*

Sectors	Sub-Sectors	Indicators	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Democracy & governance	<i>Governance and PAR</i>	Composite indicator (Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB))	38.68	41.23	44.3	45.93
	<i>Statistics</i>	Statistical compliance - % - Eurostat	7-13	24-30	24-34	42-52
Rule of law & fundamental rights	<i>Judicial reform</i>	Composite indicator (Access to Justice (WJP) and Judicial Independence (WEF))	50.07	47.71	45.3	49.1
	<i>Fight against corruption and organised crime</i>	Composite indicators Global Corruption (TI) and Control of Corruption (WB)	38.38	38.01	47	49
	<i>Fundamental rights</i>	Composite indicator Freedom of Press (FH) and Press Freedom (RWB)	30.75	39.23	38	37

Climate action	<i>Climate Action</i>	Extent to which climate change strategies are (a) developed and/or (b) implemented with EU support (if relevant)	No strategy in place	Strategy adopted but consistency with the EU 2030 climate and energy policy framework need to be ensured (2013)	Action Plan for the Strategy not developed yet, but strategy being revised to increase climate ambition	Revised Strategy and Action Plan adopted
	<i>Energy</i>	Quality of electricity supply (score) - WEF	5.4	4.8	4.8	NA
Transport	<i>Transport</i>	Logistics performance indicator (score) - WB	2.66	2.6	2.6	2.7
Competitiveness and innovation, agriculture and rural development	<i>Competitiveness & innovation</i>	Distance to frontier, Doing Business (score) – WB	55.7	63.87	61-63	72
	<i>Agriculture & rural development</i>	Total investment generated via IPA in agri-food sector and rural development – DG AGRI	0	0	0	NA
Education, employment and social policies	<i>Employment</i>	Employment rate (15-64 years) (%) - Eurostat	42.8	44.2	40.32	40.52
Regional & territorial cooperation	<i>Regional & territorial cooperation</i>	N. of involved municipalities - MIS	Not provided		20	30

* Note: only common strategic indicators are included in this template