

## **Attachment No. 1:**

### **Priorities of the Development Co-operation between the Czech Republic and Bosnia and Herzegovina for the Years 2006–2010**

#### **Sectoral Focus of the Programme**

In its development co-operation, the Czech Republic adheres to the principle that demand from the side of the assistance recipient is of primary importance. Taking into account the existing capacities, comparative advantages, and its past experience, the Czech Republic will support Bosnia and Herzegovina to achieve its objectives, placing priority on the areas of economic and industrial development, agriculture and rural development, and transportation infrastructure. Certain cross-cutting issues will be supported in the framework of those priorities: specifically, Bosnia and Herzegovina's integration into the EU, the transfer of "transformation" experience, building-up public sector capacities, sustainable refugee return, strengthening civil society, and environmental protection (including mine-clearing activities).

Economic and industrial development is one of the top sectoral priorities of the Government of Bosnia and Herzegovina. The Czech Republic has gathered a great deal of relevant experience with the transformation of its own economy and has already implemented several projects of an economic/industrial nature in Bosnia and Herzegovina.

The area of agriculture and rural development is one of the key priorities of the Government of Bosnia and Herzegovina. The Czech Republic has gathered a great deal of relevant experience with the transformation of its own agricultural sector from conditions in a planned economy to market conditions, and has already implemented several projects in the agricultural sector in Bosnia and Herzegovina.

An appropriate and adequate transportation infrastructure is a requirement for economic growth and is one of the development priorities of the Government of Bosnia and Herzegovina. The Czech Republic has already gathered a wealth of experience in co-operation with Bosnia and Herzegovina in this sector.

#### **Geographic Focus of the Programme**

Bearing in mind the scope Bosnia and Herzegovina's need, the limits on available funds, and the requirements of efficiency and visibility, the Czech Republic will concentrate its development interventions geographically to the greatest extent possible.

In connection with the European Community's EURED project activities aimed at regional economic development in Bosnia and Herzegovina, the CR will follow the example of other bilateral donors and concentrate its development co-operation programme funds in one economic region, namely, in the North Eastern economic region centred in Tuzla. The extent of poverty and level of development reported for this region are at average rates for Bosnia and Herzegovina, and the region holds out prospects both for economic growth (particularly in the production, energy and agricultural sectors) and for future co-operation with the CR. There are also other circumstances that argue in favour of the selection of this particular region: the tradition of development co-operation (with funds derived from the Czech IDC programme as well as from the "Kosovo bonds"), including mine-clearing activities paid for on the Czech side with funds routed through the Stability Pact for South Eastern Europe; the presence of Czech units active in the EUFOR/Althea peace mission at the Eagle Military Base near Tuzla; the convenient geographic situation of the region; and others. From a



political perspective, the Czech Republic considers it essential that support of the North Eastern region will route assistance into both ethnic entities, as the region spans the entity border. The North Eastern economic region neighbours Serbia and Montenegro, another CR IDC priority country in the Western Balkans. It is therefore conceivable that cross border activities could be supported in the framework of CR's development intervention in this area. With respect to coordination of the activities of the donor community in Bosnia and Herzegovina, the selection of the North Eastern region has the support of the EC Delegation in Sarajevo – thus far, no bilateral agency from an EU member state is co-operating with the development agency in this region (NERDA) (unlike the case in the other four regions).

In certain justified cases (e.g. in the transportation sector), development co-operation projects on a limited scale will be implemented in other areas as well.

### **Indicative Summary of the Development Co-operation Programme of the Czech Republic and Bosnia and Herzegovina for the 2006–2010 Period**

#### **1. Economic and industrial sector development**

##### **1.1 Support of small and medium sized enterprises through know-how transfer**

The potential for sustainable growth of the BiH economy and increases in the standard of living within its borders is closely bound up with the development of small and medium-sized businesses. It is well-known that small and medium-sized enterprises represent a crucial source of public sector funds in developed countries, due to the tax revenue they generate. The fact that small and medium-sized enterprises may represent a possibility for economic stabilisation of post-war returnees is also significant.

At the present, enterprises in Bosnia and Herzegovina are not sufficiently developed. One reason for this is the country's recent history: the country plunged directly from the socialist model of a planned economy into several years of war, which significantly disrupted not only the critical infrastructure but also normal economic relations. The period of post-war reconstruction and the associated large-scale international development intervention contributed in no small way to the devastation of the business environment, as did the increasing level of bureaucracy and decreasing transparency (corruption, the "grey economy", etc.). The country now faces the fundamental task of integration into international economic structures, and at the same time, there is currently a strong need to revitalise the business environment, as well as continue directing material support to infrastructure reconstruction.

The Czech Republic has an indisputable comparative advantage in this area – over the last fifteen years it has successfully followed the path of political, economic, and social transformation, and in May of 2004, it acceded to the EU. Therefore, it is in an excellent position to transfer experience and know-how to Bosnia and Herzegovina in the following areas:

- EU integration, including implementation of European standards and norms, utilising preparatory, or EU pre-accession programmes, etc.
- economic transformation in the area of small and medium-sized enterprise, including the principles of marketing, business planning, and the like
- transfer of new technologies



- co-operation in building up efficient institutional structures, e.g. the establishment of interest-based associations, including trade associations and chambers, and professional associations and groups

## **1.2 Support of regional economic development**

Considering the rather complicated institutional structure in Bosnia and Herzegovina brought about by the separation of the two entities, regional co-operation is vital to the sustainable development of economic activities in Bosnia and Herzegovina. This truth is recognised not only by the BiH partners who are directly affected by the complicated nature of the local structures, but also by the international community, which views regional co-operation as one of the tangible instruments for subsidiary development and inter-ethnic co-operation.

In connection with the European Community's EURED project activities, the CR will use its development co-operation programme to strengthen the concept of regional economic development through support for the North Eastern economic region and its development agency NERDA.

## **1.3 Ecological reform of technological manufacturing processes**

The long-term tendency to underestimate the environmental impacts of industrial technology has seriously damaged the environment in Bosnia and Herzegovina.

In its development co-operation, the CR will focus on encouraging the ecological reform of BiH manufacturers, placing emphasis on the most heavily polluting enterprises.

## **1.4 Technology transfer in the area of waste management and decontamination**

Flawed waste management represents a serious risk to the environment and public health, and can even pose a barrier to the smooth progress of EU integration.

The CR will contribute to resolving the situation in the area of waste management through the transfer of appropriate technologies and technical assistance, so long as the objective is the creation of a national integrated system of waste management.

## **1.5 Co-operation in the energy sector**

The losses brought on by the war and the subsequent radical reduction in investment in electrical energy production caused the interruption of construction of modern equipment and facilities and minimal exploitation of innovative technologies. The limited funds available were invested in only minimal maintenance. The power plants in Bosnia and Herzegovina are therefore technically out-dated, resulting in considerable operational problems and unnecessary pollution.

CR intervention will focus specifically on the transfer of new technologies and technical assistance in energy resource management in Bosnia and Herzegovina, with the objective of ensuring the safe operation of power plants in the future. The CR will also support the modernisation of the internal transport system in thermal power plants, placing emphasis on increasing the level of operational safety.

The Czech Republic will support Bosnia and Herzegovina in the process of restructuring its brown coal mining sector, with the objective of achieving higher productivity and technical standards in the mines, thus increasing the efficiency of the energy sector as a whole.



Co-operation in the energy sector will also focus on supporting the construction and launch of small hydroelectric stations and hydroelectric power generation in general.

### **1.6 Support of gas supply sector**

In Bosnia and Herzegovina, the armed conflict and economic decline disrupted the introduction of natural gas as an energy source. It is now a very urgent requirement, due to the negative environmental impacts of other energy sources.

Support of the gas supply sector will strengthen the CR's contribution towards improving the environment in Bosnia and Herzegovina. Those areas that are most in need of environmental improvements and where gas supply is technically feasible will be the prime targets for development intervention.

### **1.7 Technology transfer in agriculture and forestry**

The war and the subsequent period of post-war reconstruction also harmed the sector of agriculture and forestry. Therefore, in its co-operation with Bosnia and Herzegovina, the Czech Republic will focus on the transfer of modern agriculture and forestry technologies (see the section 2, below, for greater detail).

CR intervention will also focus on introducing modern technologies for processing liquid pig manure and poultry faeces into organic-mineral fertiliser. The introduction of these technologies will contribute to increasing efficiency in agricultural production, improving environmental quality through the recycling of bio-wastes and increasing BiH export incomes. The CR will contribute to the re-cultivation of deforested, disturbed, and contaminated (including landmines) lands in Bosnia and Herzegovina. The reintroduction of beneficial soil micro-organisms will be among the activities undertaken as part of the effort to regenerate the natural eco-systems.

### **1.8 Renewal and modernisation of industry, construction and infrastructure**

One undeniable phenomenon that accompanied the armed conflict in Bosnia and Herzegovina was the destruction of sections of the industry, transport, and social infrastructure. One issue that the CR will concentrate on in its development programme will be the reconstruction of these facilities, equipment, and networks, the operation of which is vital for the growth prospects of Bosnia and Herzegovina.

With respect to social infrastructure, the CR will focus mainly on reconstruction of health care facilities.

### **1.9 Support in the telecommunications sector**

In view of the need for an expanded telephone network (both wire and mobile networks) in Bosnia and Herzegovina, improvements in the quality of telephone services, modernisation of technology and introduction of structural reforms in this area, the experience of Czech experts in this sector is quite welcome.

The comparative advantage that the Czech Republic has, with respect to having specialists who can transfer relevant experience to their BiH colleagues, extends to the ongoing process of privatisation of telecommunications services and market liberalisation in this sector, for which reform plans are already being created.

## **2. Agriculture and rural development sector**



## **2.1 Stabilisation of returnees through revitalisation and development of agriculture**

A considerable portion of the BiH population left their homes during the war. Even ten years after the conflict and the return of many of the refugees, post-war returnees are still one of the groups most vulnerable to poverty. In the Federation of Bosnia and Herzegovina, up to 45% of the population is classified as poor, while 21% is reported for Republika Srpska. The majority of returnees are people who come from rural areas.

The amount of refugee assistance supplied by international donors is expected to decrease gradually in the coming period. However, there is still a great need for support in many areas, e.g. housing reconstruction, and construction and repair of infrastructure. In the area of agriculture especially, there is still a need for stabilisation, farm development, and job creation.

Through the use of targeted development intervention in this sector, the Czech Republic will attempt to contribute to the normalisation of post-war returnees' lives, involving all three of the BiH ethnic groups in the selected municipalities.

## **2.2 Education, training, and know-how transfer in the agricultural sector**

One key problem in the agricultural sector is the lack of sufficient skills and experience. The war disrupted continuity and interrupted Bosnia and Herzegovina's transformation from planned to market economy. The Czech Republic has a close relationship with Bosnia and Herzegovina and therefore is in a good position, relative to other countries, to pass on a great deal of specific professional skills and experiences acquired during its own development and transition.

The needs most frequently identified include experience with the following: economic transformation, preparation for the EU accession, market activities of individual enterprises and institutions, public sector intervention in the agricultural sector, vertical integration, and setting up associations/cooperative ventures (agricultural cooperatives, associations, etc.)

## **2.3 Support of small farms**

The mainstay of BiH agriculture is the very small farm: 65% of farmers own less than three heads of livestock. The size of farms is clearly a limiting factor in their ability to position themselves effectively on the market. Thus, the task for the immediate future will be to support agricultural enterprises' production capacity and marketing. The sector is facing several problems and shortages, including lack of equipment, high quality seed, commercial animals, and agricultural techniques.

In view of its own prior experience, the CR will focus on supporting the establishment and functioning of small farms in Bosnia and Herzegovina.



#### **2.4 Support for small food-processing enterprises**

A well functioning vertical processing and distribution network is essential to the smooth operation and sustainable development of an agricultural sector. Bosnia and Herzegovina lacks sufficient capacity to process milk, meat, fruit, and vegetables. A similar situation exists with respect to possibilities and capacities for agricultural production storage, which significantly limits the possibility of development in the food industry. At issue are small dairies, cheese manufacturers, slaughterhouses, fruit drying operations, refrigeration and freezing plants, etc.

Appropriate development intervention on the part of the CR will contribute to long-term growth in the BiH food processing industry. Activities in this area will contribute towards achieving other objectives as well, such as the economic stabilisation of post-war returnees.

#### **2.5 Water management**

Water management is a problem sector. While Bosnia and Herzegovina does have sufficient sources of drinking water, the existing technical infrastructure is in a very poor condition. There are not enough water treatment facilities, the drinking water supply is inadequate, and the lack of sanitation and wastewater treatment plants is causing serious environmental contamination.

The development programme of the CR can help resolve these issues by adopting the appropriate approach.

#### **2.6 Forest management**

Approximately 53% of the territory in Bosnia and Herzegovina is covered by forest, and approximately 85% of forestland is publicly owned. Almost 70% of the forests are coniferous. Many forests are still infested with landmines.

There are many problems facing the forestry sector, particularly in the area of forest management, environmental stability, sustainable forest development, inventory of forest resources, reforestation, pest control, etc. One particular problem for BiH forestry is the absence of a Geographic Information System (GIS).

The CR will contribute to resolving these problems by drawing on its previous experience in Bosnia and Herzegovina (namely the development project aimed at protection of BiH forests from forest pests) and specifically through the transfer of skills and solutions acquired in the area of forest management in the CR.

#### **2.7 Veterinary Supervision**

At present, the only institution in the agricultural sector working at the central level is the BiH State Veterinary Office. This office has identified several problem areas in the field of veterinary supervision and animal husbandry. Although Bosnia and Herzegovina is attempting to combat domesticated animal disease, these efforts are seriously complicated by the lack of certified laboratories and necessary equipment, as well as inadequacies in the animal disease and vaccination monitoring system.

The State Veterinary Office has already drawn up a list of its needs with respect to exchange of experts and experience with preparation for EU entry, and similar issues. The focus of CR development interventions will be based on this material.

#### **2.8 Commercial animal breeding and animal husbandry**



Animal husbandry is the mainstay of agriculture in Bosnia and Herzegovina. The principal problems facing commercial animal breeding are low yield capacity and lack of sufficient high-quality breeding animals.

In this area, the CR will build on the activities it carried out in Bosnia and Herzegovina during the period of post-war reconstruction (via funds from the "Kosovo bonds" and from IDC funding). One advantage of co-operation with the CR in this area is that the two countries have very similar natural environments, which affords the possibility of very concrete breeding activities.

### **3. Transport sector**

#### **3.1 Co-operation in the area of rail transport**

Reconstruction and development of the rail infrastructure, which was severely damaged during the war, is a priority shared by the BiH Government and international institutions. The construction of a new network of railway corridors is essential if the country is to be linked to trans-European corridors. Renewal of the existing rail network is necessary to increase the network's passenger and freight capacity. Up to now, a shortage of investment funds and the unsuitable condition of the railway infrastructure has made it impossible to increase the volume of transported commodities. This is limiting and interferes with the potential for economic growth in the country. Modernisation and reconstruction of the railway network is a priority of the individual regional governments, with the highest priority being placed on reconstruction or construction of rail lines for freight transport into Central Europe.

The Czech Republic supports the intention to modernise the railway infrastructure, particularly in those sections, which, though approved by international institutions as priority sections (the TER lines), are not being financially supported by other donors (such as EC, or EBRD and EIB).

In the area of railway transport, the Czech Republic will mainly support the following:

- feasibility studies conducted into reconstruction and development of the BiH railway infrastructure and co-operation in subsequent implementation phases, including the possibility of technical supervision
- projects aimed at increasing rail transportation safety (installation of signalling equipment, protected railway crossings, etc.)
- projects aimed at increasing the level of knowledge and (institutional) capacity building in rail transport

#### **3.2 Co-operation in the area of road infrastructure**

Reconstruction, modernisation, and expansion of the roadway infrastructure are among the BiH Government's priorities. The CR will support efforts to develop the roadway network, primarily through activities involving conducting feasibility studies and subsequent construction. In its selection of priority projects, the CR will take into account the recipient's requirements, the geographic priorities of CR IDC in Bosnia and Herzegovina, and its own experience with past co-operation activities and projects.

The Czech Republic will primarily support the following in the area of roadway infrastructure:



- conducting feasibility studies and development of the BiH roadway infrastructure and co-operation in subsequent implementation phases, including the possibility of technical supervision
- projects aiming at increasing the safety of road transportation (installation of signalling equipment, traffic signs, roundabouts, etc.)
- projects aiming at increasing the level of knowledge and capacity building (institutional) in roadway transport

### **3.3 Co-operation in the area of air transport**

The infrastructure for air transport was also considerably damaged by the war and the subsequent reduction of investment in reconstruction. Inadequacies in the air transport sector are not only due to material needs (specifically, for reconstruction and reopening of airports), but also to a human resources shortage, particularly with regard to air traffic control and flight safety. Bosnia and Herzegovina does not yet control its own airspace – under an agreement with Croatia and Serbia and Montenegro, the air space over Bosnia and Herzegovina is controlled from Zagreb and Belgrade; a solution which can only be temporary.

Taking into account the international conditions that have been set for co-operation in the air transport sector and experiences with projects that have been implemented in this sector in the past, the CR will support chiefly the following in Bosnia and Herzegovina:

- projects aiming at reconstruction of airports
- projects aiming at increasing the level of knowledge and building (institutional) capacity in air transport.

### **3.4 Co-operation in the area of public transport**

A lack of sufficient capacity in municipal public transport; underdeveloped municipal transport networks; old, obsolete rolling stock; and the predominant use of fossil fuels pose some of the most serious problems for development of city centres in Bosnia and Herzegovina.

The Czech Republic will therefore continue to use its international development co-operation to encourage environmentally acceptable options for municipal public transport: for example, the use of trams, trolley busses, suburban rail transportation, etc. It will do so through the supply of vehicles, refurbishment of older vehicles, feasibility studies, and through the provision of training and educational activities.

## **Cross-Cutting Issues**

### **1. Support for the integration of Bosnia and Herzegovina into the EU**

EU integration is one of Bosnia and Herzegovina's highest priorities. Future EU membership is the subject of the *Stabilisation and Association Process*. Bearing in mind its own recent experiences with the pre-accession process, the CR will assist Bosnia and Herzegovina with



its integration efforts. This support will unfold in the area of harmonisation of national legislation with the *acquis communautaire*, preparation for implementation of the European pre-accession projects, and assistance and training in the issues associated with the EU and the integration process. The support of integration efforts will, as far as possible, be a component of the CR's development interventions in Bosnia and Herzegovina.

## **2. Transfer of transformation experience**

Bosnia and Herzegovina is undergoing a process of transformation: transitioning from a centrally planned economy into a market economy. In view of the fact that the CR has gone through a similar process in the recent past, it is in a unique position to transfer skills and experiences with this process. This type of transfer will be included in the CR development intervention in Bosnia and Herzegovina to the maximum extent possible.

## **3. Reform, modernisation and capacity strengthening in the public sector**

An efficient and effective public sector is an absolute requirement for the implementation of reforms, economic growth, and poverty reduction in Bosnia and Herzegovina. Currently, the quality of the public sector is suffering from inadequacies in funding and staff. The CR will do its utmost to contribute to strengthening the capacities of the BiH public sector within the scope of its development interventions.

## **4. Sustainable return of war refugees**

The return of war refugees (particularly to ethnically differentiated regions) and their economic and social stabilisation are key priorities of the Government of Bosnia and Herzegovina. Therefore, the Czech Republic will strive both to respect fully this intention and to contribute towards fulfilling it in its sectoral programmes.

## **5. Strengthening civil society**

A dynamic civil society is a guarantee of democratic development; hence the CR will do its utmost to contribute to strengthening civil society in Bosnia and Herzegovina within the framework of its development interventions.

## **6. Environmental protection**

The principles of protecting the quality of the environment and sustainable development will be observed in all CR development interventions.

## **7. Mine-clearing activities**

In view of the high level of infestation of the territory of Bosnia and Herzegovina with unexploded ordinance and landmines dating to the 1992-1995 period, the local population must still be considered to be under constant threat, even ten years after the war's end. It is also the case, and a cause of serious concern, that such ordinance is frequently located at the sites originally inhabited by war refugees, thus preventing their safe return. The high concentration of mines in the forestlands and agriculturally exploitable soils is interfering with the efficient use of the natural wealth of Bosnia and Herzegovina. For these reasons, the CR will attempt to support the continuation of mine-clearing activities within the framework of its sectoral priorities.

## **8. Gender Equality**



Within the framework of its development interventions, the Czech Republic will contribute towards promoting the achievement of gender equality in Bosnia and Herzegovina.