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**NATION BUILDING IN A FRACTURED COUNTRY:
AN EVALUATION OF SWEDISH COOPERATION IN ECONOMIC
DEVELOPMENT WITH BOSNIA AND HERZEGOVINA 1995-2018**

Claes Lindahl, Julie Lindahl, Mikael Söderbäck and Tamara Ivankovic

Nation Building in a Fractured Country: An Evaluation of Swedish Cooperation in Economic Development with Bosnia and Herzegovina 1995-2018

*Claes Lindahl, Julie Lindahl,
Mikael Söderbäck and Tamara Ivankovic*

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Foreword by the EBA

Many people worldwide remember the tragic wars in the Balkans during the 1990s. From a Swedish perspective we recall news reports and refugees who sought shelter in Sweden, as well as the Swedes who participated in peacekeeping forces and former Swedish Prime Minister Carl Bildt's efforts as mediator and high-level representative.

In addition, the Balkan wars and its aftermath meant a relatively large commitment for Sweden in terms of both humanitarian and, later, long-term development cooperation. One important concern was supporting the reconstruction of Bosnia & Herzegovina's economy.

The total Swedish assistance to Bosnia & Herzegovina 1995-2016 was about USD 650 million, or 4,6 % of the total international support. Sweden was the seventh largest donor over the period. Economic and market development has in general been one of three, four focus areas for Sida from the late 1990s and continues to be so.

This report is the result of an evaluation of Sweden's development cooperation with Bosnia & Herzegovina from 1995 to 2018 with a focus on economic development. The authors conclude that about 20 per cent of the finance under the portfolio has gone to projects with good value for money. Forty per cent of the portfolio had poor value for money, a large share of it was agriculture support. About thirty per cent has not been possible to assess, due to contradictory result-reporting. Ten percent is still in too early a stage to judge sustained results.

The evaluation points at different strengths of the Swedish development cooperation to Bosnia & Herzegovina, but also finds country strategies that have reduced in analytical quality over time, path-dependency and limited and short-term focused evaluations.

I hope this report will find its intended audience among policymakers at the Swedish Ministry for Foreign Affairs and Sida, as well as a broad public interested in Swedish development cooperation with Eastern Europe, Western Balkans and Bosnia &

Hercegovina, and also people interested in economic development, business environment reform, agriculture, support to the financial sector as well as small businesses.

The authors' work has been conducted in dialogue with a reference group chaired by Kim Forss, member of the Expert Group for Aid Studies. However, the authors are solely responsible for the content of the report.

Gothenburg, April 2019

A handwritten signature in blue ink, appearing to read "Helena Lindholm". The signature is written in a cursive style with some loops and flourishes.

Helena Lindholm

Sammanfattning

Syfte och utgångspunkt

Den här rapporten avser en utvärdering av Sveriges utvecklingssamarbete med Bosnien & Hercegovina under åren 1995 till 2018. Utvärderingen har genomförts på uppdrag av Expertgruppen för biståndsanalys (EBA) med syftena att 1) bedöma om och i vilken utsträckning det långsiktiga svenska utvecklingsbiståndet till landet har bidragit till uppnåendet av de övergripande målen för det svenska biståndet, och 2) vilka lärdomar som kan dras av detta samarbete.

Utvärderingen är inriktad på stödet till ekonomisk utveckling och bygger på en bedömning av en portfölj bestående av cirka 50 projekt definierade av Sida enligt OECD/DAC:s klassificering inom områdena utveckling av näringsliv och företagsklimat, finans och bankverksamhet, industri samt handel och jordbruk. Dessa teman är också de som ingår i de svenska landstrategierna för Bosnien & Hercegovina under beteckningen ekonomisk- och marknadsutveckling vilket har varit ett av Sveriges prioriterade insatsområden under hela perioden. Portföljens sammanlagda anslag uppgår till ungefär 1 miljard kronor vilket är en fjärdedel av hela det svenska biståndet. Utöver portföljanalysen innehåller utvärderingen också en kontextuell analys som kartlägger Bosnien & Hercegovinas politiska och ekonomiska historia och miljö, konsekvenserna av Balkankrigen 1992–1995, samt fredsavtalet i Dayton vilket tillsammans i stor utsträckning har utgjort ramarna för det svenska och internationella utvecklingssamarbetet sedan krigsslutet. Utvärderingen baseras på resultatrapportering genomförd av Sida eller Sidas partnerorganisationer från enskilda projekt, intervjuer med nyckelpersoner i Sverige och Bosnien & Hercegovina, samt omfattande litteraturstudier.

I utvärderingen används nyckelbegrepp som stödets *relevans* sett till de övergripande politiska målen med biståndet och Bosnien & Hercegovinas utvecklingsutmaningar, stödets varaktiga *bidrag* till uppnåendet av målen och stödets 'värde för pengar' (*value for money*) som är ett bredare mått än kostnadseffektiviteten av biståndet.

Den politiska bakgrunden

När Bosnien & Hercegovina förklarade sig självständigt från det sönderfallande Jugoslavien 1992 hade landet inte varit självständigt sedan 1463. Det historiska arvet som del av det osmanska riket i över 400 år, följt av Österrike-Ungerns annektering och efter andra världskriget som en av de sex republikerna i det socialistiska Jugoslavien, har lämnat betydande avtryck på Bosnien & Hercegovinas ekonomi och regeringsstruktur, befolkning och i synnerhet på hur människor identifierar sig i etniskt-religiösa grupper. Bosnien & Hercegovina drabbades också mycket hårdare av kriget på Balkan än någon annan republik i det sönderfallande Jugoslavien: fler än 100 000 personer dödades och över hälften av befolkningen, som före kriget uppgick till 4,5 miljoner, drevs på flykt. Kriget kännetecknades av starka nationalistiska och etniska motiv med folkmord och etnisk rensning som yttersta konsekvens, men utlöstes också av de kroatiska och serbiska ledarnas ambitioner att dela upp och annektera landet.

Krigsslutet och Daytonavtalet 1995 undanröjde inte orsaken till konflikten eller ambitionerna hos en del av den politiska eliten att splittra landet i etniska delar. Den serbiska entiteten Republika Srpska skapades genom Daytonavtalet och fungerar idag som en de facto självständig stat. Dess ledare ger kontinuerligt uttryck för sin ambition om frigörelse från Bosnien & Hercegovina för att bilda en självständig stat eller ansluta sig till Serbien. Man betonar också den intima relationen till Ryssland.

Daytonavtalet fick ett slut på kriget men skapade även vad som kallats världens mest komplicerade regeringsstruktur bestående av två entiteter, ett distrikt och tio kantoner, allt baserat på etnisk separation och med hög grad av självstyre. Detta har skapat en närmast bysantinsk förvaltningsapparat med 3 presidenter, 14 regeringar och närmare 200 ministerier för en befolkning som krympt till omkring 3,8 miljoner människor och som fortsätter att minska genom migration.

Den bosniska ekonomin efter kriget

Efter kommunismens fall och Balkankrigets slut tvingades Bosnien & Hercegovina genomgå en omvandling från att ha varit en del av

den socialistiska republiken Jugoslavien med dess unika ekonomiska modell med arbetarägda industrier till en demokrati av västerländskt snitt med en öppen kapitalistisk marknadsekonomi. Kriget hade dessutom ödelagt den bosniska ekonomin och efterlämnade en stat med en bruttonationalprodukt (BNP) mindre än 20 procent av vad den var före kriget.

Sedan krigsslutet 1995 har Bosnien & Hercegovinas ekonomi genomgått olika faser. Under de första återuppbyggnadsåren skedde en snabb tillväxt tack vare det massiva offentliga utvecklingsbiståndet och remitteringar. Under den perioden återuppbyggdes landets infrastruktur, centrala finansiella institutioner etablerades, grunderna lades för en stabil valuta och bankväsendet privatiserades. Denna period följdes av en fas med långsammare men robust tillväxt där utländska direktinvesteringar spelade en allt större roll fram till 2008 då en period av ekonomisk stagnation följde. Det senare berodde delvis på den globala finanskrisen men lika mycket på landets komplexa styrning, konfliktbetonade politik och en avstannad EU-anslutningsprocess. Också Daytonavtalets *Höge Representant* som hade dominerat beslutsfattandet i landet efter kriget intog en mer tillbakadragen position vilket gav landets politiska ledarskap större utrymme för att driva splittringstendenser. 2015 började ekonomin växa igen med omkring tre procent per år. I dag är Bosnien & Hercegovina ett högre medelinkomstland enligt Världsbankens definition med en BNP per capita på cirka 5,000 US-dollar och en till stor del konsumtionsdriven ekonomi där remitteringar fortsätter spela en viktig roll.

Under hela perioden efter kriget har den bosniska ekonomin lidit av en rad problem, bl.a. en arbetsmarknad med lågt arbetskraftsdeltagande särskilt bland kvinnor, en hög arbetslöshet på 25–30 procent och en ungdomsarbetslöshet på över 50 procent, en krympande befolkning på grund av en betydande utflyttning särskilt av utbildade ungdomar, en omfattande informell ekonomi, betydande korruption samt ett sämre företagsklimat än i något annat land på Balkan. Inflödet av utländska direktinvesteringar utvecklades relativt väl fram till 2007 men har sedan dess i stort sett kollapsat och utgör numera endast 2 procent av BNP. Privatiseringen av de dåligt fungerande eller icke-fungerande

statsägda företag har till stor del avstannat. Det finns en gemensam faktor bakom dessa problem: Bosnien & Hercegovinas dysfunktionella regeringsstruktur och entiteternas antagonistiska politik vilket gör att nödvändiga reformer är svåra att genomföra eller helt uteblir. Det finns ett betydande inslag av nollsummespel i den bosniska politiken.

Det svenska stödet till ekonomisk utveckling

Sverige har stått för ca 5 procent av det sammanlagda offentliga utvecklingsbiståndet efter kriget vilket gör Sverige till den sjunde största givaren under perioden. Sverige var tidigt ute och gav omfattande humanitärt bistånd under kriget. Redan de första återuppbyggnadsinsatserna inbegrep stöd till ekonomisk utveckling framför allt inom ramen för det så kallade integrerade områdesprogrammet (*Integrated Area Program*, IAP). Det centrala målet med IAP var att underlätta för flyktingar att återvända till sina hem i synnerhet i minoritetsområden för att minska verkningarna av krigets etniska rensning. Den centrala insatsen i IAP var återuppbyggnad av bostäder genom hjälp till självhjälp, men programmet inbegrep även jordbruksstöd främst i form av insatsvaror som ett sätt för de återvändande att skapa försörjning i en raserad ekonomi. I början av 2000-talet finansierade Sida ett halvduzin sådana jordbruksprojekt under IAP vilka genomfördes av internationella humanitära frivilligorganisationer som Lutherska världsförbundet och Caritas liksom av svenska enskilda organisationer. Inom IAP utvecklades också en rad mikrofinansprojekt. Dessutom inledde Sida ett samarbete med Världsbanksgruppen kring bankfinansiering och reformer av företagsklimatet, samt finansierade ett stöd för samarbete mellan svenska små och medelstora företag och bosniska entreprenörer under namnet Start Bosnia.

2000 utarbetades den första svenska landstrategin för Bosnien & Hercegovina som har följts av fyra strategier. Den nuvarande regionala strategin inkluderar 13 länder och täcker perioden 2014–2020. De övergripande målen sedan 2000 vad gäller det svenska biståndet generellt har varit fred och stabilitet, demokrati och mänskliga rättigheter samt anslutning till EU. Av särskild betydelse för stödet till ekonomisk utveckling har varit målen om övergång till

en marknadsekonomi, (inkluderande) ekonomisk tillväxt, skapande av arbetstillfällen och främjande av konkurrenskraftiga små och medelstora företag. Jämställdhet har genomsyrat strategierna, medan det övergripande målet för svenskt utvecklingssamarbete – fattigdomsbekämpning – har varit mindre framträdande i landstrategierna.

När IAP avslutades 2007 och jordbruks- och mikrofinansinsatserna inom programmet upphörde började Sida diversifiera portföljen. Jordbruk var fortsatt centralt, men nu med nya partner och en ny inriktning mot värdekedjor, livsmedelssäkerhet och djurhälsa. Samarbete med USAID inleddes dels avseende jordbruk, dels utveckling av små och medelstora företag samt garantier till affärsbanker för utlåning till sådana företag. Sida initierade också en serie projekt under förkortningen CREDO för ekonomisk utveckling på regional nivå med tyngdpunkt på utveckling av små och medelstora företag i samarbete med lokala organ och forskningen. CREDO byggde på en EU-modell med regioner för att komma över entiteternas brist på samarbete. Samarbetet med Världsbanksgruppen kring företagsklimatet fortsatte och intensifierades. Efter 2013 skedde en ytterligare diversifiering av den svenska portföljen för ekonomisk utveckling när Sida startade en rad projekt som var inriktade på nystartade företag och innovation, i synnerhet inom IT-sektorn och med så kallade *challenge funds* och företagsinkubatorer som verktyg.

Resultat av stödet för ekonomisk utveckling

I utvärderingssyfte har portföljen delats in i fem kluster: jordbruk, finans, regional ekonomisk utveckling, förbättring av företagsklimatet, samt annan utveckling av små och medelstora företag.

Jordbruket dominerar portföljen med ett stöd om cirka 600 miljoner kronor, dvs. 60 procent av det totala ekonomiska stödet för åren 1995–2018. Jordbruksprojekten hade till en början ett humanitärt motiv, men fortsatte även när den bosniska ekonomin växte snabbt och återuppbyggnaden i stort var slutförd. I flera studier beställda av Sida under 2004 och 2005 ifrågasattes de pågående jordbruksprojektens effektivitet och relevans. Studierna menade att projekten lade för stort fokus på småjordbruk som drevs

av personer med låga eller inga ambitioner att skapa kommersiella jordbruk och som ibland istället sålde insatsvarorna mot kontanter. Jordbruksstödet som ett sätt att skapa arbetstillfällen ifrågasattes. Som en följd av dessa kritiska studier inledde Sida en utfasning från dessa projekt. Allt som allt gavs omkring 350 miljoner kronor i stöd till det IAP-relaterade jordbruket, men med försumbara uthålliga ekonomiska resultat.

Den andra omgången jordbruksprojekt sträcker sig från 2007 till idag och består av 1) en satsning på livsmedels säkerhet som i stort har varit misslyckad, 2) två storskaliga projekt i samfinansiering med USAID under akronymen FARMA (*Fostering Agricultural Markets*) med värdekedjor kring ett fåtal produkter som fokus, för vilka oberoende granskningar av resultaten har kommit fram till motstridiga slutsatser; och 3) en serie projekt med den bosniska statens veterinärkontor som partner för tillhandahållande av vaccin. De sistnämnda projekten har framgångsrikt bidragit till att hejda ett utbrott av brucellos bland får och getter, en sjukdom som även drabbar människor. Man kan dock ifrågasätta lämpligheten av ett sådant *ad-hoc* budgetstöd i ett land på Bosnien & Hercegovinas inkomstnivå.

Dominansen av jordbruksstöd är mycket tveksamt avseende effektiv användning av biståndsresurser för att skapa en konkurrenskraftig marknadsekonomi och stärka landets ekonomiska utveckling. Jordbrukets andel av landets BNP har sjunkit sedan början av 2000-talet till idag ca 7%. Sektorn har varken förmåga att skapa sysselsättning för arbetslösa eller för ungdomar. Jordbruket i före detta Jugoslavien var ineffektivt och i huvudsak en lågproduktiv verksamhet för husbehov som komplement till lönearbete inom industrin. Jordbruk var heller ingen prioriterad sektor i de svenska landstrategierna.

Sidas insatser inom **finanssektorn**, som uppgick till ungefär 90 miljoner kronor för hela perioden, är mer begränsat än vad landstrategierna indikerar. Stödet till privatiseringen av den bosniska banksektorn i slutet av 1990-talet under ledning av Världsbanken var relevant, effektivt och utfördes på ett professionellt sätt. Privatiseringen bidrog till att skapa ett fungerande enhetligt makroekonomiskt ramverk för landet, vilket generellt var en av det

internationella samfundets viktigaste bedrifter i det tidiga återuppbyggnadsarbetet.

Sidas bistånd inom finanssektorn bidrog också till att bygga upp två framgångsrika mikrofinansinstitut till vad som så småningom blev en av världens ledande mikrofinansbranscher. Det finns dock frågetecken avseende stödets marknadsstörningar eftersom det gavs i form av bidrag långt efter det att de kommersiella mikrofinansinstituten hade blivit lönsamma. Med facit i hand hade det varit bättre om Sida hade anslutit sig till ett tidigt initiativ av Världsbanken kring mikrofinans med fokus på att skapa jämbördiga villkor för de framväxande mikrofinansinstituten och dessutom skapa ett regelverk för den nya branschen.

De garantier som Sida tillsammans med USAID ställde till affärsbanker för deras utlåning till små och medelstora företag var relevant i efterdyningarna av den globala finanskrisen, men insatsen har tappat i relevans i takt med att finansmarknaden har återhämtat sig och genom att de små och medelstora företagen nu har relativt god tillgång till finansiering.

Arbetet med **regionalekonomisk utveckling** med en total svensk insats av ca 120 miljoner kronor och med CREDO projekten som flaggskepp var ursprungligen en högrisksatsning eftersom design och genomförandet delegerades till små lokala organisationer med begränsad erfarenhet, tillika mot bakgrunden av landets korruptionkultur. CREDO kan dock betraktas som kanske det mest intressanta initiativet i den svenska ekonomiportföljen. Inom projekten lyckades man skapa samarbeten mellan små och medelstora företag, den akademiska världen och offentliga institutioner i de två (eller tre) entiteterna trots ett motstånd från Republika Srpskas regering. CREDO modellen övergavs dock av Sida till förmån för en annan regional strategi för ekonomisk utveckling under namnet GOLD (*Growth-Oriented Local Development*) i samarbete med USAID. Projektet misslyckades och avslutades i förtid.

Samarbetet med Världsbanksgruppen om **förbättring av företagsklimatet** med en svensk insats om ca 85 miljoner kronor fungerade väl och genomfördes professionellt inom ramen för vad som var möjligt att uppnå i Bosnien & Hercegovinas fragmenterade

politiska miljö. Sida blev också en viktig partner när Världsbanken fick svårt att fortsätta med så kallade IBRD-lån. Å andra sidan måste en viktig satsning tillsammans med Storbritannien och Nederländerna avseende privatisering av statligt ägda företag avbrytas på grund av politiskt motstånd i landet. Ett intressant projekt som bygger på CREDO metodiken för att skapa en enhetlig småföretagspolicy för Bosnien & Hercegovina i linje med EU:s krav är pågående.

När det gäller **annat stöd till små och medelstora företag** röntte programmet Start Bosnia, en tidig version av Start Öst och som genomfördes 1997–2000, en spektakulär framgång inom tjänster på säkerhetsområdet, men även genom etablering av andra framgångsrika och varaktiga svenska samarbeten med små och medelstora företag. Detta skedde med en begränsad insats av biståndsmedel. I likhet med utvärderingarna av FARMA-projekten visade utvärderingen av FIRMA-projektet (*Fostering Interventions for Rapid Market Advancement*) som genomfördes av Sida och USAID på motstridiga slutsatser även om tillväxt skett inom de produktområden som projektet täckte. Det är också för tidigt att utvärdera varaktiga resultat från de projekt som varit inriktade på nystartade företag, innovation och informationsteknik och som genomförts på senare tid. Det finns dock positiva tecken vad gäller de svenska initiativen för dessa former av företag som främst lockar unga bosnier.

Bidrag till Sveriges utvecklingsmål

Sverige har formulerat ett antal övergripande mål i landstrategierna för Bosnien & Hercegovina vilka direkt eller indirekt är relevanta för stödet till ekonomisk utveckling. Utvärderingen av det svenska biståndets bidrag till dessa mål nedan avser endast den analyserade portföljen för ekonomisk utveckling, således inte det svenska biståndet som helhet.

Sidas stöd i det femtiotalet analyserade projekt har generellt haft stark inriktning på **utveckling av små och medelstora företag**. Biståndet har metodmässigt sträckt sig från insatser på makronivå till insatser på mikronivå, inklusive direkt stöd till marknadsaktörer i olika sektorer. Generellt visar portföljen en beredvillighet av Sida att pröva nya angreppssätt. De bosniska små och medelstora

företagen har utvecklats väl under perioden efter kriget och svarar idag för en stor del av ekonomin, sysselsättningen och den bosniska exporten. Sida har bidragit på ett bra sätt till denna utveckling. Värdet för pengarna har dock reducerats på grund av att en stor del av portföljen inom jordbruk lämnat föga resultat efter sig avseende hållbara små och medelstora företag.

Det svenska biståndet till Bosnien & Hercegovinas **övergång till en konkurrenskraftig marknadsekonomi** har varit i huvudsak relevant. Enligt Världsbanken och EU befinner sig dock Bosnien och Hercegovina fortfarande i ett tidigt skede när det gäller att skapa en fungerande marknadsekonomi, främst på grund av ett undermåligt företagsklimat, en alltför stor informell sektor, svaga institutioner, en svag rättsstat samt en ofullbordad privatisering av de statligt ägda företagen. Resultaten av det svenska stödet har varit tillfredsställande, men likt andra givares verksamheter har det hämmats av Bosnien & Hercegovinas dysfunktionella samhällsstyrning. Det svenska stödet har också haft inslag av marknadssnedvridningar särskilt under den tidiga fasen. Mycket av jordbruksstödet måste också ifrågasättas vilket reducerar värdet för pengarna som bidrag till målet.

Avseende **skapande av arbeten och sysselsättning** har det svenska stödet inte varit välriktat, inte bidragit på ett effektivt sätt och inte gett värde för pengarna. Den främsta orsaken till detta är en portfölj dominerad av jordbruk eftersom ett produktivare bosniskt jordbruk snarare skulle sänka sysselsättningsgraden än att skapa fler arbetstillfällen. Investeringskostnaden (bistånd) per arbetstillfälle i små och medelstora industriföretagsprojekt har också tenderat att vara hög. Arbetslösheten, särskilt bland ungdomar, har fortsatt vara hög under hela efterkrigsperioden och är en viktig faktor bakom den fortsatta migrationen från landet. Oförmåga att skapa arbete med rimlig lön måste ses som en av landets absolut största utmaningar.

Det är svårt att bedöma Sveriges bidrag till en **inkluderande ekonomisk tillväxt** i den meningen att stödet i ekonomiska termer är minimalt i jämförelse med Bosniens BNP. Grundläggande reformer som bankprivatisering och förbättring av företagsklimatet kan dock betraktas ha haft positiva strukturella effekter på

ekonomin. Det kan också hävdas att betoningen på jordbruk har ett mått av 'inkludering' eller 'pro-poor' eftersom den sektorn i högre grad sysselsätter fattiga och kvinnor. Givet den sektorns svaga roll i ekonomin och oförmåga att skapa fler jobb är värdet för pengarna dock ringa. Det sammanlagda svenska bidraget till landets ekonomiska tillväxt är i bästa fall begränsat.

Bosnien och Hercegovinas integrering i EU halkar efter övriga länder på Balkan (förutom Kosovo) och landet är ännu inte ett kandidatland. Regeringsstrukturen och den antagonistiska politiken med etniska förtecken i entiteterna ligger till stor del bakom detta. Även om Sverige inte har samarbetat direkt med EU på projektnivå vad gäller biståndet så har det förekommit olika former av indirekt samarbete. Sammantaget har Sverige verkat för EU-anslutning även om resultaten hittills varit magra i integrationsprocessen och därmed värdet för pengarna lågt. Med tanke på att EU-integration måste betraktas som det svenska biståndets enskilt viktigaste mål kunde mer ha gjorts och mer bör också göras, men med ett annat angreppssätt. Detta är utvärderingens huvudrekommendation för framtiden.

Jämställdhet är ett mål som generellt genomsyrar svenskt utvecklingssamarbete, så även vad gäller Bosnien & Hercegovina. De flesta projekten i portföljen innehåller ett mål om jämställdhet, men resultaten synes enligt utvärderingar ha varit magra. Det svenska biståndet till ekonomisk utveckling har sannolikt inte gett någon märkbar effekt på jämställdhet mellan könen, inte minst då det finns svåröverkomliga kulturella och historiska begränsningar för kvinnor i ekonomin. Kvinnor har dock deltagit i en betydande del av portföljen genom stödet till jordbruk och mikrofinansiering och det kan ha haft en viss positiv inverkan på att underlätta kvinnors ekonomiska position. Givet jordbrukets begränsade förmåga att skapa nya arbeten är dock värdet för pengarna lågt i främjande av jämställdhet.

När det gäller ***upprätthållande av fred och stabilitet*** har Bosnien och Hercegovina inte återgått till öppna stridigheter och politiskt våld sedan Daytonavtalet. Under de senaste två årtiondena har landet åtminstone på ytan varit stabilt. Det går samtidigt inte att helt avfärda risken för nya väpnade konflikter på grund av de

uttryckliga självständighetshoten från ledande politiker i Republika Srpska, särskilt mot bakgrund av trenden av global populism med etniska undertoner och det faktum att Bosnien befinner sig i skärningslinjen i en kamp mellan internationella krafter med Ryssland som viktig aktör. I utvärderingen dras slutsatsen att Sida åtminstone inte har bidragit till en ökad risk för konflikt. En övergripande fråga är om den långtgående fragmentering av bistånd till Bosnien & Hercegovina som kännetecknar landet, och även det svenska biståndet, bidrar till fred eller om det snarare riskerar cementera de politisk/etniska konflikterna i ett status quo scenario, en fråga som har styrt utvärderingens förslag för potentiellt svenskt bistånd i framtiden.

Sidas bistånd för ekonomisk utveckling har varit strukturerat på ett sätt som gör att det går att hävda att det har varit inriktad på **fattigdomsbekämpning** i den meningen att 60 procent av anslagen varit avsedda för jordbruket, en sektor som i Bosnien & Hercegovina ses som en säkerhetsbuffert för den fattigare delen av befolkningen. Sidas mikrofinansinsatser har spelat en liknande roll. Utvärderingen har dock inte tillräckligt mycket information om den relativa fattigdomen i landet för att bedöma i vilken grad eller om biståndet överhuvud har bidragit till att minska fattigdomen. Det bör noteras att absolut fattigdom förekommer i ytterst begränsad omfattning i landet och frågan är hur relevant målsättningen är för biståndet efter att återuppbyggnaden hade avslutats. Landstrategierna har heller inte betonat fattigdomsmålsättningen.

Slutsatser

Sammanfattningsvis bedömer vi att ungefär 20 procent av det svenska biståndet för ekonomisk utveckling har gått till projekt som har gett bra värde för pengarna vad gäller bidrag till flertalet av Sveriges övergripande mål och Bosnien & Hercegovinas utvecklingsutmaningar. Detta inbegriper förbättring av företagsklimatet i samarbete med Världsbanksgruppen, privatisering av bankerna, CREDO projekten och Start Bosnia. Å andra sidan har 40 procent av biståndet gett dåligt värde för pengarna och i denna grupp ingår stor del av jordbruksstödet. Omkring 30 procent av biståndet ligger i skiktet emellan bra och dåligt värde för pengarna eller har inte gått att bedöma i det avseendet på grund av motstridiga

utvärderingsresultat. Resterande 10 procent av allokeringen är ännu i ett för tidigt stadium av genomförande för att kunna avgöra bestående resultat.

Biståndets svaga resultat har sin grund i följande faktorer.

- Övervikten av jordbrukssektorn, en sektor med begränsad ekonomisk potential, svag komparativ fördel i ett EU sammanhang, minskande andel av BNP och föga kapacitet att skapa arbetstillfällen.
- Problem med övergången från ett humanitärt motiverat stöd direkt efter kriget till bistånd för marknadsbaserad ekonomisk utveckling när landets återuppbyggnad i princip var genomförd i början på 2000-talet.
- Bosnien & Hercegovinas dysfunktionella regeringsstruktur och etniskt antagonistiska politik mellan entiteterna som kraftigt har försenat eller förhindrat framsteg och reformer.
- Svårigheter med utfasning av bistånd till specifika projekt och potentiellt även att lämna landet helt.

Även samarbetet med USAID kan i viss mån anses ha bidragit till tveksamma resultat inte minst beroende på olika biståndskulturer i de två länderna och USAIDs implementeringsmodell med stora projekt designade och implementerade av amerikanska konsultföretag.

Följande faktorer har bidragit till bra värde för pengarna.

- Samarbetet med Världsbanksgruppen om privatisering av banker och förbättring av företagsklimatet, två av Världsbankens främsta kompetensområden där banken också har betydande auktoritet.
- En beredvillighet att testa nya metoder med hjälp av lokal kapacitet och ta risker som i CREDO projekten.
- Främjandet av konkreta samarbeten mellan svenska små och medelstora företag och bosniska entreprenörer som i Start Bosnia projektet.

En övergripande slutsats i utvärderingen är en avtagande marginalnytta av det svenska biståndet efter det första decenniets återuppbyggnadsarbeten och övergången till en marknadsekonomi.

Den första fasen underlättades dels av det generellt stora inflödet av bistånd till landet, dels av den dominans över landets styrning som Daytonavtalets *Höge Representant* stod för i syfte att skapa en sammanhållen nation. Efter denna fas minskade behovet av finansiellt biståndsinflyde och teknisk expertis, samtidigt som den obstruerande inhemska politiken mot ett enat land ökade i styrka.

En annan slutsats i utvärderingen av det långsiktiga utvecklingsarbetet med Bosnien & Hercegovina är att utvecklingsbistånd med tiden kan riskera att tappa sitt ursprungliga syfte och i stället blir ett självändamål, ett slags *business as usual*. Att falla in i ett läge där allt fortgår i gamla hjulspår riskerar att göra biståndet ineffektivt och potentiellt kontraproduktivt i förhållande till de bredare (politiska) mål som ursprungligen motiverade en insats. I fallet Bosnien & Herzegovina förefaller 'spårundenhet' (*path dependence*) vara en viktig förklaring till utvecklingen av Sidas biståndsportfölj och även till strategiformuleringen. Särskilt det fortgående stödet och dominansen av jordbruk i den svenska portföljen är svår att förklara på annat vis givet de mediokra resultaten över tid.

Lärdomar

Utvärderingen pekar på ett antal styrkor i den svenska biståndshandlingen men också ett antal svagheter som bör åtgärdas. Bland styrkorna är att Sida är en icke-byråkratisk, flexibel organisation. Det svenska biståndet är också redo att ta risker och pröva nya metoder och partnerskap, samt har förmåga att pragmatiskt samarbeta med olika typer av biståndsgivare och banker.

Några av de svagheter som bör åtgärdas är:

Risk för 'aid as usual'. En lärdom är att det är viktigt att med jämna mellanrum kritiskt ifrågasätta biståndets utformning, särskilt på en strategisk nivå. För att skapa en tydligare process borde Sida och/eller regeringen överväga att regelbundet låta göra externa strategiska granskningar för att bedöma övergripande relevans. Det finns en inbyggd risk i en stor, välfinansierad biståndsbyråkrati att fortsätta verksamheter av organisatoriska och ekonomiska skäl

snarare än att göra radikala omtag eller avsluta biståndet trots att förutsättningarna har förändrats eller att resultaten är mediokra.

Svaga landstrategier. Utvärderingen har visat att landstrategierna för Bosnien & Hercegovina tappade i analytisk kvalitet över tid. Den innevarande regionala landstrategin är ett exempel på biståndsutmattning vad gäller Bosnien & Hercegovina. Landstrategierna behöver vara mer analytiska, i högre grad baserade på djupgående analyser av begränsningar och möjligheter, och tydligare vad gäller kopplingar mellan övergripande mål och åtgärder, till exempel i explicita förändringsteorier. Bistånd är i grunden ett politiskt projekt men i genomförandet tenderar detta att urvattnas och bli ett tekniskt-byråkratiskt projekt. Den politiska dimensionen av biståndet bör stärkas.

Begränsade och kortsiktiga utvärderingar. Utvärderingsinstrumentet bör användas mer systematiskt än vad som var fallet i Bosnien & Hercegovina där en stor del av portföljen inte varit föremål för någon oberoende, extern resultatbedömning. Det är viktigt att utvärderingar söker bedöma resultaten gentemot de övergripande svenska målsättningarna och inte endast mot kvantifierbara mål lägre ned i mållhierarkin, samt söker sätta in projekt i ett större sammanhang snarare än att behandla dem som isolerade verksamheter.

Sidas svaga institutionella minne. Utvärderingen visar att Sidas arkiv är alltför svårhanterligt för att tillhandahålla relevanta dokument och att det faktiska institutionella minnet i huvudsak finns hos nuvarande och före detta biståndshandläggare och inte minst lokalanställda. Det gör minnet sårbart. Sidas institutionella minne kan stärkas genom att till exempel utveckla Open Aid vilket är ett utomordentligt vertyg för transparens och som en historisk databank, men Open Aid saknar grundläggande dokument för många insatser samtidigt som mycket irrelevant material läggs in.

Obalans mellan uppgift och personella resurser. Bistånd är en komplex verksamhet som handläggs av ett fåtal personer. Begränsade personella resurser i Sida och på ambassad innebär risken att analyser av utvecklingens utmaningar och resultat begränsas eller blir ytliga, frestelser uppstår att välja storskaliga projekt och tveksamma partnerskap av rent administrativa skäl; små,

innovativa projekt undviks eftersom de i relativa termer kräver större administrativa resurser och att budgetar för projekt görs större än vad som är nödvändigt. Kapaciteten kan samtidigt stärkas till låg relativ kostnad genom professionell lokal personal.

Det fortsatta arbetet

Det finns få argument för att Bosnien & Hercegovina är i behov av utvecklingsbistånd i form av tekniskt kunnande eller finansiella resurser, än mindre för fattigdomsbekämpning av den art som är Sidas övergripande mål i världens fattiga länder. Det finns i praktiken endast två skäl till fortsatt bistånd till landet: 1) att påskynda och säkerställa en EU-anslutning och 2) att upprätthålla fred och stabilitet mot bakgrund av Bosnien & Hercegovinas traumatiska förflutna, det splittrade nationsbygget och dess historia av att vara en arena för internationella maktkamper. Vi menar att det främsta medlet för det senare syftet också är att landet blir en del av EU. Om Sverige fortsätter sitt stöd efter den innevarande strategiperiodens slut 2020 bör man bryta med formen för tidigare utvecklingssamarbete och helt låta EU:s prioriteringar styra i syfte att minska fragmentering av biståndet och ge EU möjlighet att stärka den politiska pressen på landets ledare. Vi föreslår att Utrikesdepartementet tillsammans med ambassaden i Sarajevo utformar en strategi inriktad på *politisk förändring* för en snabb EU-anslutning. En sådan strategi kan förutom ett nära samarbete med EU som ett komplement också inkludera initiativ riktade mot ungdomar för att skapa politisk förändring nedifrån och upp. Rapportens slutkapitel innehåller några specifika idéer.

Summary

The purpose and point of departure

This report is the result of an evaluation of Sweden's development cooperation with Bosnia & Herzegovina from 1995 to 2018. The evaluation was undertaken on behalf of the Expert Group for Aid Studies (EBA) with the purposes of 1) assessing how and to what extent long-term Swedish development assistance has contributed to the overall objectives of the Swedish assistance; and 2) drawing the lessons that can be learnt from this cooperation.

The evaluation, which has focused on the theme of economic development, is based on an assessment of a portfolio of about 50 projects classified by Sida as business and business environment development, finance and banking, industry, and trade and agriculture, using OECD/DAC's classification. These are the themes which have been included in Sweden's country strategies for Bosnia & Herzegovina under economic and market development, one of Sweden's priority areas throughout the period. In total, the allocation for the portfolio is about SEK 1 billion which is a quarter of the total Swedish support. In addition to the portfolio analysis, the evaluation has undertaken a 'contextual analysis' mapping the political and economic background, the consequences of the Balkan wars 1992-1995 as well as the Dayton peace accord which formed the parameters for development cooperation.

The evaluation is based on the results-reporting undertaken by Sida and Sida's partner organizations from specific projects, interviews by key persons in Sweden and Bosnia & Herzegovina as well as extensive literature studies. Key concepts used in the evaluation are the *relevance* of the support to political objectives and Bosnia & Herzegovina's development challenges; the sustained *contribution* of the support to the objectives; and the *value for money* of the support taking the Swedish aid allocation into account.

The political context

When Bosnia & Herzegovina declared independence from the collapsing Yugoslavia in 1992, the country had not been independent since 1463. Being a part of the Ottoman empire for

over 400 years, followed by absorption into the Austro-Hungarian empire and integration into socialist Yugoslavia after World War II as one of its six republics, left considerable imprints on the Bosnian population, its economy, governance and especially how people identified themselves in ethnic-religious groups. The Balkan wars affected Bosnia & Herzegovina far more than any of the other republics in the collapsing Yugoslavia, leaving more than 100,000 persons dead and over half of the pre-war population of 4.5 million as refugees. The war was aggressively nationalist-ethnic in character with so-called ethnic cleansing leading to genocide but was also triggered by aspirations of the Croatian and Serbian leaderships to divide and annex the country.

The end of the war and the Dayton peace accord in 1995 did not eliminate the cause of the conflict and the aspirations of members of the political elite to split the country ethnically. The threat of disintegration has been looming over the country since the war. The Serb entity Republika Srpska (RS), established by the Dayton agreement, behaves like a *de facto* independent country and its leadership continuously expresses the aspiration to break out of Bosnia & Herzegovina to form an independent country or join Serbia. The leadership also emphasizes its intimate relationship with Russia.

The Dayton agreement, while successful in putting an end to the war, also left what has been called the most complicated governance structure in the world with three entities and ten cantons, all based on ethnic separation. This has resulted in a Byzantine form of administration with 3 presidents, 14 governments and nearly 200 ministries for a population which, at the time, had shrunk to about 3.8 million, and which continues to contract through outmigration.

The Bosnian post-war economy

After the war Bosnia & Herzegovina has gone through a transformation from being a part of the Socialist Republic of Yugoslavia with its unique economic model of workers-owned industries, to a Western style democracy and an open capitalist market economy. The war had devastated the Bosnian economy leaving it with a post-war Gross Domestic Product (GDP) level of less than 20% of the pre-war status.

Bosnia & Herzegovina's economy has passed through different phases since 1995. Initially it experienced rapid growth fueled by official development assistance (ODA) and remittances in the reconstruction years in the late 1990s, a period when physical reconstruction took place, basic financial institutions and a stable currency were established, and the banking system was privatized. This period was followed by slower but still robust growth in which foreign direct investments played an increasing role until 2008, a year which marked the beginning of a period of economic stagnation. The global financial crisis contributed, but the complex and conflict-oriented governance structure of the country, the withdrawal of the dominant role by the Dayton accord's High Representative, and a stalled EU accession process exacerbated the situation. By 2015, the economy started to grow again at a rate of about 3 percent per annum. Today, Bosnia & Herzegovina is an upper-middle income economy in World Bank terminology with a GDP per capita of about USD 5,000, and an economy largely fueled by consumption, where remittances play a major role.

Throughout the post-war period the Bosnian economy has been plagued by a series of problems and constraints including: a low participation rate in the labor force, especially by women; high unemployment of 25-30 percent with youth unemployment over 50 percent; a shrinking population due to significant outmigration, especially of educated youth; a high degree of informality in the economy; corruption and a poorer business environment than any of the other Balkan states. Foreign direct investments, which developed reasonably well until 2007, have largely stopped flowing in and currently constitute a mere 2% of GDP. The privatization of poorly functioning or non-functioning state-owned enterprises (SOE) has largely stalled. All of these problems are caused by one common factor: Bosnia & Herzegovina's dysfunctional governance system and the antagonistic policies of the entities, in which zero-sum thinking often predominates.

The Swedish support in economic development

Sweden has provided about 5% of the total ODA since the war, making Sweden the 7th largest donor during the post-war period. Sweden was one of the pioneers that provided considerable

humanitarian aid during the war. Afterwards, support for economic development was already integrated into the first reconstruction efforts under the umbrella of the the Integrated Area Program (IAP). The key objective of IAP was to facilitate the return of refugees to their homes, especially in minority areas to counteract ethnic cleansing. Its core was self-help for home reconstruction, but also included the provision of agricultural inputs as a means for the returnees to sustain life in a destroyed economy. During the first post-war decade IAP was the source of a substantial part of Sida's support to economic development with a dominance of agriculture. By the early 2000s, Sida was funding half a dozen such projects implemented by international humanitarian NGOs such as the Lutheran World Federation and Caritas, as well as Swedish NGOs. Also, a series of microfinance projects evolved out of IAP. During the early post-war period Sida began co-operating with the World Bank group in financial development through bank privatization and reform of the business environment, as well as financed cooperation between Swedish SMEs and Bosnian entrepreneurs under a Start Bosnia program.

In 2000 Sweden issued the first country strategy for Bosnia & Herzegovina, which has been followed by four strategies. The current one is a regional strategy for 13 countries covering the period 2014-2020. The overriding objectives for the Swedish support since 2000 have been peace & stability, democracy & human rights and EU accession. Of particular relevance for economic development are the objectives of transition to a competitive market economy, (inclusive) economic growth, job-creation and the promotion of competitive small and medium enterprises (SMEs). Gender equality has permeated the strategies, while Sweden's overarching objective in development cooperation, poverty reduction, has been less emphasized in the country strategies.

When the IAP was terminated in 2007, and its agriculture and micro finance interventions were being ended, Sida began diversifying its portfolio in economic development. Agriculture continued to be a focal point, but now with new partners and a different orientation based on value chains, food safety and animal health. The new portfolio included large projects in cooperation

with USAID in agriculture and SME development, as well as guarantees to commercial banks for their SME lending. Regional economic development with SME development as the core under the acronym CREDO was initiated building upon an EU model with regions to foster inter-entity cooperation. The collaboration with the World Bank Group continued and intensified. A further diversification of Sweden's economic development portfolio took place after 2013 when Sida began a series of projects focusing on startups and innovation, especially in the IT sector using challenge funds and incubators as tools.

Results of the portfolio in economic development

For the purpose of the evaluation, the projects in the portfolio were arranged in five clusters: agriculture, finance, regional economic development, business environment reform, and other SME development.

Agriculture dominates the portfolio with an allocation of about SEK 600 million, i.e. 60% of the total economic support 1995-2018. This is not reflected in the Swedish country strategies where agriculture is given a low priority.

The first batch of IAP related projects was initially driven and justified for humanitarian reasons but carried on even when growth in the Bosnian economy had accelerated and reconstruction was complete. In 2004-05 several studies commissioned by Sida questioned the relevance of the ongoing agriculture projects, arguing that there was too much focus on micro-farms operated by persons who had limited or no ambitions to become commercial farmers and sometimes sold the inputs for cash. The studies claimed that agriculture under IAP had become ineffective, supporting farming by mostly non-farmers with generally too small parcels of land to be commercial. Overall, the studies questioned the relevance of support to agriculture as a means of creating jobs. As a result of these studies, Sida initiated an exit phase from these projects. All-in-all the IAP supported agriculture with about SEK 350 million ended in negligible sustained economic results.

The second batch from 2007 to the present is comprised of 1) a failed food safety approach; 2) two large-scale projects with USAID

under the acronym FARMA, for which reviews on performance and results have given contradictory conclusions; and 3) a series of projects with the Bosnian State Veterinary Office providing vaccine. The latter have contributed to stemming an outbreak of brucellosis which affects goats and sheep, but also humans. However, the relevance of providing *ad hoc* budget support in an upper-middle income country is questionable.

The dominance of support to agriculture in Sweden's economic development efforts must be questioned in terms of effective use of aid resources. Agriculture has had a declining share of the Bosnian GDP since the early 2000s to about 7% today, and does not absorb the unemployed or youth. Agriculture had a poor record in the former Yugoslavia, and was mainly a subsistence, low productivity side-activity to industrial employment.

The Sida intervention of about SEK 90 million in the ***financial sector*** is smaller than the country strategies would imply. Engagement in Bosnia's bank privatization in the late 1990s under the leadership of the World Bank was well targeted, effective and executed professionally. This contributed to building a functional, united macroeconomic framework for Bosnia & Herzegovina, one of the international community's main achievements.

Sida's financial support contributed to building two of the leading microfinance institutions (MFIs) in what eventually became one of the world's leading microfinance industries. However, there are question-marks about this support in terms of market distortions as the aid was provided in the form of grants long after the MFIs were profitable. In hindsight, it would have been better for Sida to have joined a large World Bank MFI initiative with focus on creating an even playing field among the emerging MFIs and a regulatory framework for the new industry.

Guarantees provided jointly with USAID to commercial banks for SME lending were initially well timed in the aftermath of the global financial crisis, but the intervention has had declining relevance as the financial market has recovered and SMEs are reasonably well served in terms of access to finance.

Regional economic development with a total Swedish contribution of SEK 120 million and with CREDO as a flagship was initially a high-risk venture, as implementation was delegated to local agencies without much experience and in a country with a culture of corruption. Yet, it may be the most interesting initiative in the Swedish economic portfolio. The projects were able to create cooperation between SMEs, academia and public institutions across the two (or three) entities despite opposition from the RS government. The CREDO model was abandoned by Sida in favor of a different regional approach for economic development in cooperation with USAID called GOLD. This project failed and was closed prematurely.

Cooperation with the World Bank group ***in business environment reform*** with a total Swedish contribution of about SEK 85 million has functioned well and has been implemented professionally within the parameters of what was possible to achieve in Bosnia & Herzegovina's fragmented policy environment. Sida became an important partner to the World Bank when IBRD loans were difficult for the Bank to pursue. On the other hand, a much-needed effort for privatization of the state-owned enterprises (SOEs) together with the UK and the Netherlands failed due to Bosnian political opposition. An interesting new project based on the CREDO approach is formation of a unified Small Business Act requested by the EU.

In ***other SME support***, an early version of the Sida program Start East, called Start Bosnia and implemented between 1997-2000, generated a spectacular success through a joint venture in security services as well as some other successful and sustained Swedish SME collaborations, all with low inputs from Sida. The Sida-USAID FIRMA project experienced similarly contradictory evaluations as FARMA. Hence the results are difficult to judge, although substantial growth has taken place in the sub-sectors supported. It is too soon to evaluate the results of the more recent projects focusing on start-ups, innovation and information technology, but the Swedish initiatives for addressing these forms of enterprises, which mainly attract young Bosnians, is positive.

Contributions to Sweden's development objectives

In the country strategies Sweden has formulated a series of overriding objectives for Bosnia & Herzegovina which directly or indirectly are relevant for support to economic development. The evaluation of the contribution of the Swedish development assistance to these objectives covers only the assessed portfolio, not the Swedish support overall.

The portfolio has focused on **SME development** with a variety of approaches from policy level to micro interventions in different sectors, using a number of tools, most of which were relevant to the objective pursued. Bosnian SMEs have developed well during the postwar period and make up a large share of the economy, employment and Bosnian exports. Sida has contributed well to this SME development. The drawback is that a large share of the portfolio focused on agriculture, rather than on sectors in which Bosnia & Herzegovina has a competitive advantage and more dynamic growth of SMEs.

In terms of contributing to Bosnia's **transition to a competitive market economy** Swedish development assistance has been relevant and well targeted with a variety of approaches addressing policy, regulations and institutions, and has provided support to the market actors. Nevertheless, according to the World Bank and the EU, Bosnia & Herzegovina is still at an early stage of establishing a functioning market economy, mainly due to a persistent poor business environment, an over-sized informal sector, weak institutions and rule of law, and the unfinished privatization of state-owned enterprises. Similar to other donors, the achievements of Swedish support have been hampered by Bosnia's dysfunctional governance structure and inability to address the SOE privatization. Swedish support also resulted in market distortions which were built into the project designs in the early stage of the development cooperation. Overall, Sida has made a positive contribution, although the value for money has been reduced by the agriculture support.

In terms of contributions to **employment and job creation** the Swedish support has neither been well targeted, nor effective in its contribution, nor provided value for money. The main reason for

this is the dominance of agriculture in the portfolio. Increased productivity in Bosnian agriculture would mean reduction of employment rather than adding jobs. The (aid) investment cost per job in industrial SME projects has also been high. Unemployment, especially among youth, has continuously been high through the post-war period, which is the main reason for out-migration. The inability to create jobs with reasonable salaries must be considered one of Bosnia's greatest challenges.

The Swedish contribution to *inclusive economic growth* is difficult to judge in the sense that assistance in financial terms is miniscule compared to the Bosnian GDP. However, basic reforms such as bank privatization and business environment reform must be considered as having had structural impact on the economy. The focus on agriculture had a degree of inclusion or a pro-poor dimension, as the sector engages women and the poor. At the same time, the sector is weak, generating few jobs, and thus reduces the value for money spent. Therefore, the overall contribution of Swedish support is likely to be small at best.

Bosnia & Herzegovina's integration into the EU lags behind the other Balkan countries in the accession process (besides Kosovo) in that it is not yet a candidate country. A main reason for this is the governance issues and the divided policies of the entities. While Swedish aid has not directly cooperated with the EU at project level, there have been various forms of indirect cooperation. Overall, Sweden has contributed to the possibility of EU accession, although the results have been meagre in actual integration, and therefore the value for money low. In view of the fact that EU accession must be considered the single most important objective for Swedish assistance, more could have been done and should be done but with a different approach.

Gender equality is an objective permeating Swedish development cooperation in general, including to Bosnia & Herzegovina. While gender mainstreaming is an objective in most Sida projects in the portfolio, studies have been critical of the outcome. Partly as cultural and historical barriers for women in the economy are high, any noticeable impact on gender equality is not likely to result from mainstreaming attempts in the Swedish support

to economic development. However, a substantial share of the portfolio (agriculture and microfinance) includes women as participants and might in this respect have had some positive contribution. Our conclusion is, given the limited capacity of agriculture to create jobs, that the value for money has been low in achieving the gender equality objective.

In terms of *maintaining peace and stability* Bosnia & Herzegovina has not reverted into open conflict and political violence after the Dayton agreement. At least superficially, it has been a stable country over the last two decades. That said, the risk of a renewed war cannot be dismissed due to explicit threats by leading politicians in RS for independence. The context of ethnically driven populism globally and the fact that Bosnia & Herzegovina is at the fault line of a struggle for hegemony by international powers with Russia as the key actor, adds to the risk. The evaluation concludes that Sida at least has not contributed to greater volatility. An overriding question is whether the considerable fragmentation of aid to Bosnia & Herzegovina, which is characteristic for the international support and also the Swedish development cooperation, contributes to peace or whether it instead risks cementing the political/ethnic conflicts in a status quo scenario.

Sida's portfolio has been structured so that it can be argued that it has had a *poverty reduction focus*, in the sense that 60% of the allocations are for agriculture, a sector which in Bosnia & Herzegovina is considered a security cushion for the poorer segment of the population. Sida's microfinance interventions have played a similar role. However, the evaluation does not have sufficient information about relative poverty in the country to be able to judge to what extent, if at all, the support has contributed to poverty reduction. It should be noted that absolute poverty is extremely limited in Bosnia & Herzegovina, and the question is how relevant the objective is after the end of the reconstruction phase. The country strategies have not stressed this objective.

Conclusions

In summary, we estimate that about 20% of the finance under the portfolio has been allocated to projects with good value for money in terms of contributing to most of the overarching Swedish

objectives and Bosnia & Herzegovina's development challenges. This includes business environment reform, bank privatization, the CREDO projects, and Start Bosnia. On the other hand, 40% of the portfolio had poor value for money, including a large share of the agriculture support. About 30% of the support is between good and poor value, or has not been possible to assess due to contradictory results-reporting. The balance of 10% of the funding is still in too early a stage of implementation to judge the sustained results.

The under-performance of the portfolio can be attributed to the following key factors:

- The dominance of agriculture, a sector with limited economic potential, weak comparative advantage in an EU context, a declining share of GDP and weak capacity to create jobs.
- Difficulties in transitioning from humanitarian motivated support to market-based economic development when the reconstruction was finished in the early 2000s.
- Bosnia & Herzegovina's dysfunctional governance structure and antagonistic ethnic policies between the entities, which has seriously delayed or prevented progress and reforms.
- Difficulties in exiting projects and potentially the country as a whole.

The cooperation with USAID might also to some extent have contributed to questionable results, not least due to the different aid cultures in the two countries, including USAID's model of project implementation with large-scale projects designed and implemented by American consultancy firms.

Factors behind good value for money are:

- Cooperation with the World Bank group in bank privatization and business environment reform, two of the World Bank's key competence areas in which the Bank also has considerable authority and leverage.
- A willingness to pilot new approaches using local capacities and take risks, as reflected in CREDO.

- Promotion of hands-on collaboration between Swedish SMEs and Bosnian entrepreneurs.

An overarching conclusion of the evaluation is that there has been a declining rate of return of the Swedish support after the first decade's reconstruction and the transformation of Bosnia to a market economy. The first phase was facilitated by the considerable inflow of aid into the country and governance by the Dayton High Representative with the objective of creating a unified country. After the reconstruction phase, the need for aid and technical expertise declined and the local political obstruction towards a unified country increased.

Another key conclusion from the evaluation of the long-term development cooperation with Bosnia & Herzegovina is that over time the development assistance risks losing its original purpose and becomes an end in itself. Sliding into a business-as-usual mode risks making aid ineffective and even counterproductive in relation to the broader (political) objective(s) that triggered engagement in the first place. The Bosnian case shows that 'path dependence', i.e. a tendency of continuing in old tracks, is a good explanation for the evolution of Sida's aid portfolio and even for the strategy formulation. Particularly the continuing support to and dominance of agriculture is difficult to explain otherwise given the mediocre results over time.

Lessons

The evaluation points at different strengths of the Swedish development cooperation, but also weaknesses which need to be addressed. Among the strengths are that: Sida is a non-bureaucratic, flexible organization; that the Swedish development cooperation is ready to take risks as well as try new methods and partnerships; and that it has the ability to cooperate with different types of aid organisations and banks.

Some of the weaknesses which need to be addressed are:

Risks for 'aid as usual'. An essential lesson is that periodically it is essential to critically question the chosen approach, especially at a strategic level. Sida and/or the Government might consider

undertaking external strategic reviews regularly for this purpose. There is an inherent risk in a large, well-funded aid bureaucracy that it will continue operations for organizational or economic reasons rather than undertaking needed changes or even ending the aid, when the conditions have changed and results are mediocre.

Weak country strategies. The evaluation found that the country strategies for Bosnia & Herzegovina reduced in analytical quality over time and that there was a considerable gap between the Swedish country strategies and the reality on the ground. Country strategies need to be more analytical, more based on in-depth analysis of the unique constraints and opportunities in specific sectors of the country, more explicit about the links between the overriding objectives and actions, for example expressed in explicit theories of change. Development cooperation is a political project but in the implementation this tends to be watered down, and become a technical-bureaucratic undertaking. The political dimension should be strengthened.

Limited and short-term focused evaluations relating goals to higher objectives. The evaluation tool should be used more systematically than what was the case in Bosnia & Herzegovina, where a large share of the portfolio was not subject to any form of independent results assessment. It is essential that evaluations also attempt to judge results against the overriding Swedish objectives and not only against quantifiable goals at a lower level in a hierarchy of objectives. The evaluations should also place the projects in a broader context rather than treat them as isolated activities.

Sida's weak institutional memory . The evaluation showed that Sida's archive is too cumbersome to generate relevant documents and that the institutional memory mainly is with current and retired Sida staff and local embassy staff. This makes the memory vulnerable and to some extent arbitrary. Sida's institutional memory can be strengthened by the development of Open Aid, which is an excellent tool for transparency and for establishing a historical database, but which today lacks essential documents, while at the same time containing a considerable degree of irrelevant information.

Imbalance between tasks and personnel resources. Aid is a complex undertaking which is managed by a limited number of

persons. Excessive staff limitation at Sida and Swedish embassies runs the risks that analyses of the challenges of development and its results become limited and shallow; there is a rising temptation to chose large-scale projects and questionable partnerships for purely administrative reasons; small, innovative projects are avoided as they might require relatively high administrative resources and budgets are made larger than what is required. The management capacity can be strengthened at a low relative cost through professional local staff.

The way forward

There is little to argue that Bosnia & Herzegovina as an upper-middle income country needs continued development assistance from a technical know-how or financial resource point of view, or for poverty alleviation which is Sida's overriding objective in the poor countries of the world. There are only two justifications for continued aid: 1) as a means of speeding up and assuring EU accession, and 2) to maintain peace and stability, given Bosnia & Herzegovina's traumatic past, fragmented nation-building and its continuation as a zone for international power struggles. We believe that the most important means of achieving peace and stability is that Bosnia & Herzegovina becomes part of the EU. *If* Sweden continues support after the end of the current strategy period 2020, it should break with the past approach of 'development-cooperation-as-usual' and fully align with the EU in the accession process. The EU should determine Sida's priorities in order to reduce the fragmentation of aid and create better opportunities for putting political pressure on the leadership of the country. We propose that the Swedish Ministry of Foreign Affairs, jointly with the Embassy in Sarajevo, embarks on a strategy focusing on *political change* towards a speedy EU accession, both through close work with the EU and, as a complement, bottom-up initiatives for political change focusing on youth. Some specific ideas are provided in the final chapter of the report.

1. Introduction

Four faiths live in this narrow, mountainous and meagre strip of land. Each of them is exclusive and strictly separate from the others ... And each group considers that its well-being is conditioned by the disadvantage of each of the other three faiths, and that they can make progress only at their cost. Each of them has made intolerance the greatest virtue.

Ivo Andric: *The days of the Consuls* (1945)

1.1 The purpose

This report is an evaluation of Sweden's long-term development cooperation with Bosnia & Herzegovina.¹ The evaluation has been carried out in response to the terms of reference by the Expert Group for Aid Studies (EBA) under the Swedish Ministry of Foreign Affairs with two purposes:

- (i) to obtain an in-depth understanding of how and to what extent Sweden has contributed to the achievement of development objectives in the country, and
- (ii) to highlight potential lessons for Swedish development cooperation

The terms of reference for the study suggest concentrating on one or a limited number of related, broader objectives for Sweden's bilateral development cooperation over time. In line with this, the focus of the study is on economic development including BiH's road to a competitive market economy. This has been one of the focus areas in the Swedish assistance throughout the post-war period.

¹ Bosnia & Herzegovina is sometimes shortened as Bosnia or BiH, forms which also are used in this report.

1.2 The challenge

At the outset it should be noted that Bosnia & Herzegovina has been one of the more challenging tasks for the international community and for Swedish development assistance for the following reasons:

- When Bosnia & Herzegovina declared independence from the collapsing Yugoslavia in March 1992, the country had not been independent since 1463, i.e. more than 500 years ago. It was a new nation-state born into a devastating war.
- The Balkan wars 1991-1995 affected Bosnia & Herzegovina far more than any of the other republics in the collapsing Yugoslavia, leaving more than 100,000 persons dead and over half of the pre-war population of 4.5 million as refugees. About one million had fled out of the country.
- The war had strong nationalist-ethnic overtones with genocide and ethnic cleansing as features but there were also aspirations of the Croatian and Serbian leaderships to annex parts of the country. This led to massive physical and human destruction besides deep emotional wounds and suspicions of the 'others' among the survivors.
- The nationalist-ethnic composition of the population in Muslims, Bosnian Serbs, Bosnia Croats and with small minorities of Romas and Jews has a history of several hundred years of periodic conflicts and tensions often exploited by domestic political forces, as well as by occupying countries and empires. The religious affiliations and division in Catholics, Orthodox Christians, Muslims and Jews was and is an essential factor in this.
- After the collapse of the Communist world, Bosnia & Herzegovina had to go through a transformation from being a part of the Socialist Republic of Yugoslavia with its unique economic model of workers' owned industries, to a Western style democracy and an open capitalist market economy. The war had destroyed the Bosnian economy worse than in

most conflicts with a Gross Domestic Product (GDP) level after the war of 10- 20% of the pre-war status.

- The end of the war and the Dayton peace accord in 1995 did not eliminate the cause of the conflict and the aspirations of elements of the political elite to split the country. A threat of disintegration has been looming over the country since the war. The Serb entity Republika Srpska (RS) established by the Dayton agreement tries to function as a *de facto* independent country and its leadership expresses continuously wishes of RS breaking out of BiH to form an independent country or to join Serbia. Some observers claim the country is being in a state of a frozen war.
- The Dayton agreement, while successful in putting an end to the war, left a legacy of an ethnically divided country also in its governance structure in three entities and ten cantons, resulting in a Byzantine form of administration with 3 presidents, 14 governments and near 200 ministries for a population which had shrunk to about 3.8 million and which continues to shrink through outmigration triggered by a sense of negative views of BiH's future by a large share of the population
- Since Dayton, Bosnia & Herzegovina has increasingly become an arena for geopolitical ambitions for regional and international powers, including Russia, Turkey, China, NATO and the EU.

An important feature of the challenges of post-war Bosnia & Herzegovina is that it lies in the heart of southeastern Europe surrounded by EU members and/or EU candidate countries. From the late 1990s the integration of BiH and the other republics of Yugoslavia and the Balkans into the European Union has been a key objective of the (Western) international community. While Slovenia, Croatia, Romania and Bulgaria today are members, Macedonia, Montenegro, Serbia as well as Albania are candidate countries with a target year for membership, Bosnia & Herzegovina is still only a potential candidate country with no such target yet. As further discussed below, the EU accession process is currently the most critical developmental challenge and integration seen as the solution

for stability, peace and prosperity. At the same time, some reportage in media and books tends to describe the country on the brink of a renewed war and a failed democracy captured by the warlords that benefitted from the Balkan tragedy.

Not only the challenges are unique, but also the response by the international community. The reconstruction of the country after the war mobilized large volumes of aid. The dominance over the country's governance by the international community through the Office of the High Representative (OHR) established at Dayton has been unique as well as the magnitude of the NATO lead peace-reinforcing forces. Sweden was part of all these efforts and shared the objectives of the (Western) international community's efforts.

1.3 Methodology

A synthesis report from an OECD workshop on country evaluations identified two different approaches, one named 'a historian's analysis' based on an *inductive, top-down view* of country change and from this efforts to determine the role aid had played for such observed changes. The other approach was a '*deductive, bottom-up approach*' starting with specific aid projects and from these deduce their contribution to change (Conway & Maxwell, 1999). The methodology applied in the Swedish assistance to Bosnia & Herzegovina used this model and has included:

- 1) **a macro analysis** of Bosnia & Herzegovina's long-term evolution, including a historical overview tracing the pattern of governance, politics and the economic development and not least the root causes of the ethnic conflict that contributed to the war and is still lingering post-Dayton. This analysis, based mainly on a literature review, is also mapping the role the international community has played throughout the phases of conflict, humanitarian support, reconstruction and more conventional development assistance over the last decade or so. Sweden has been a small, but not insignificant player throughout these efforts, largely with the same objectives and values. A complement to the macro analysis is a comparison of various aspects of

the economic evolution of BiH with peer countries in the West Balkan region, i.e. the other former Yugoslav Republics and Albania.

- 2) ***a portfolio analysis*** of Sida interventions in BiH during the period 1995-2018 aimed at economic development defined as those interventions classified by Sida in the OECD/DAC categories of business and business environment development, financing and banking, industry, trade and agriculture. The studied portfolio contains about 50 projects with a combined aid allocation of about SEK 1 billion.

The two approaches complement one another in the sense that the macro analysis defines the context in which the Swedish aid has taken place post-war which also to a large extent sets the parameters for what development contribution can achieve or not achieve, and what the critical development issues have been. The portfolio analysis provides details of the interventions, how these evolved, their logic and their results, which forms the basis of the assessment of contribution to BiH's development and to the overall Swedish development objectives in the context of Bosnia & Herzegovina's unique challenges.

Sources and method of analysis. The portfolio analysis draws heavily on existing Sida and partner organizations results-reporting such as independent mid-term reviews, ex-post evaluations and final reports by the implementing agencies. The information provided in these studies have been complemented by structured interviews mainly for the purpose of addressing issues of longer-term impact and sustainability, as well as exploring the role of the projects in the wider BiH context. For the purpose of analysing the portfolio, the projects were arranged in five clusters: agriculture; finance; business environment reform; regional economic development and other SME development. An 'iterative contribution analysis' was carried out deducing the results of the projects on subsectors and sectors, and finally the portfolio as a whole on the strategic objectives of the Swedish development cooperation with BiH as expressed in Sweden's country strategies between year 2000 and 2020.

The key criteria used in assessment of the achievements were:

The **relevance** of the projects and the portfolio in addressing the specific strategic objectives given the Bosnian context.

The **contribution** of the projects and the portfolio to a sustainable way achieving the stated strategic objectives.

The **value for money** of the projects and the portfolio defined as the contributions in relation to the cost to the Swedish aid budget.

Limitations and biases There are major gaps in the sources used in the sense that reporting is missing and results-reporting tend to be limited to the most immediate stages of a results-chain, which has affected the portfolio analysis. It is obvious that the ‘process described above also depends on numerous judgements and reasoning, and that the outcome only can be called an ‘informed judgement’ by the evaluators. In terms of the accuracy of the results as reported in evaluation reports, a degree of triangulation has been possible through checking key results with interviews and also by a stakeholders’ review of our findings in various drafts of the report.

The main authors of this report have a long history in development cooperation including Swedish development cooperation, and have undertaken numerous project- and meta evaluations. It is unavoidable that such experience will affect the work and especially when we try to draw more general conclusions from the evaluation on lessons learned. Whether this can be called pre-conceived ideas or relevant genuine experience is for the reader to judge. We have not refrained in this report to draw some quite far-reaching conclusions for Swedish development cooperation both for the future in Bosnia & Herzegovina and more general.

For further details of the methodology, see annex 1.

1.4 The organization of Swedish assistance in Bosnia & Herzegovina

A note on the administration of the Swedish assistance to Bosnia and Herzegovina can be helpful to the reader. When the support started in 1992 it was managed by the Swedish International Development Authority (SIDA) on the ground mainly from the Swedish Embassy in Zagreb. In mid-1995 the Swedish aid organizational structure changed when several agencies were fused to form the Swedish International Development Cooperation Agency (Sida). In mid-1995 Sida established offices in Tuzla and Zenica which 1996 were merged in with the Swedish Embassy when the Embassy was established in Sarajevo. In 2008 the full responsibility of the Swedish assistance to the country was transferred from Sida, Stockholm, to the Swedish Embassy in Sarajevo with Stockholm providing backstopping. This is the current administrative form. Throughout the report, the acronym Sida will be used also for SIDA except in quotations.

1.5 Structure of the report

This report is structured as follows: after this introductory chapter, it provides a short summary of Bosnia & Herzegovina's complex and often traumatic history dominated by empires and being part of different nations until the declaration of independence in 1992 from the collapsing Yugoslavia, which triggered the war 1992-1995, followed by an unprecedented engagement by the international community over a decade.

Chapter 3 provides an outline of BiH's economic and political development during the reconstruction and development since 1995. It identifies different stages in this evolution, the role the international community has played and BiH's economic performance with peer comparison to other Western Balkan countries. It summarizes the key constraints in BiH's transition to a competitive market economy and accession to the EU.

Chapter 4 maps the Swedish assistance to Bosnia & Herzegovina since the war and specifically the support for economic development. It analyzes the Swedish country strategies during the period in terms of the objectives and the suggested themes for interventions within economic development and market transformation.

Chapter 5-9 reviews the Swedish assistance in five thematic clusters chosen for evaluation: agriculture, finance, regional economic development, business environment reforms and other SME development. Each of these chapters map the interventions in the cluster and the results of these projects as described in results-reporting such as mid-term reviews, evaluations, final reports etc. The contributions of these projects to the sector or theme are assessed in the context of the change and development which has taken place in Bosnia & Herzegovina over the post-war period.

Chapter 10 provides an aggregated assessment of to what extent the portfolio has contributed to the overriding objectives of the Swedish assistance which in the strategies are formulated as SME development; a competitive market economy; job-creation; economic growth, accession of BiH to the EU; gender equality; poverty reduction, and peace and stability.

Chapter 11 draws the conclusion for the evaluation, summarizing the relevance of the portfolio, its contribution to the strategic objectives and the value for money. It discusses factors which have contributed to good value for money as well as reasons for low value.

Chapter 12 summarizes the lessons learned for the management of Swedish development assistance. It provides suggestions how the Swedish strategy process can be strengthened to be more meaningful and what it takes to establish a stronger results-based management system.

Chapter 13, finally, discusses whether it is time to exit Bosnia & Herzegovina or, if Sweden decides to stay, what Swedish development could do from now.

2. The Origin

Glancing at the peaceful little stalls where Christians, Mussulmans and Jews mingle in business, while each goes his own way to cathedral, mosque and synagogue, I wondered if tolerance is not one of the greatest of virtues.

- L G Hornby: *Balkan Sketches: An Artist's Wanderings in the Kingdom of the Serbs*, 1927

Bosnia & Herzegovina is a useless State, a monster, a failure on the part of the international community.

- Milorad Dodik, president of Republika Srpska, 20172

2.1 Ottoman rule

During parts of the 14th century Bosnia was one of the most powerful of the Balkan countries but declined and in 1463 was eventually conquered by the Ottoman empire, the most advanced economic and military machine of Medieval times in Europe. Ottoman rule over Bosnia & Herzegovina lasted until 1878 when the Congress of Berlin *de facto* ceded Bosnia & Herzegovina to the Austro-Hungarian empire after Turkish defeat in the Russia-Turkish war. At this time, the Ottoman empire was severely weakened and on the verge of collapse. In 1908 Bosnia & Herzegovina was formally annexed by Austria-Hungary, a decision which has been claimed to have contributed to the collapse of the Double Monarchy in 1918.

More than 400 years of Ottoman rule naturally had a profound impact on Bosnia & Herzegovina. A large share of the population converted to Islam, not by force but by choice, to which socio-economic privileges offered by Istanbul to Muslims contributed. Over time, converted Bosnians became a privileged urban class in Ottoman Bosnia while non-Muslims in many ways were treated as secondary citizens. Yet, Turkish rule was tolerant of the other

² In a speech 9th January 2017 celebrating 25th year since Republika Srpska's unilateral declaration of independence 1992.

Abrahamic religions and at least in periods made efforts to make a multi-religious Bosnia function using the so-called *millet* self-governing system for non-Muslim villages.

During the first half of the Ottoman era Bosnia & Herzegovina prospered in the sense that the country became part of the most advanced empire at the time, the epitome of European civilization not only of political and economic power, but also of cultural and intellectual life. The economy developed through raw material-based industries, trade was promoted, embryonic urban centers such as Sarajevo and Mostar were expanding, infrastructure was built, not least famous bridges such the ones in Mostar and over the river Drina. During the 18th and 19th century, however, an increasingly sclerotic Ottoman administration and economy kept Bosnia & Herzegovina out of the current development of (Western) Europe triggered by the Enlightenment and industrialization. In the words of journalist and Balkan historian Misha Glenny:

By the early nineteenth century, chronic poverty, strained social relations, arbitrary official cruelty and bitter resentment towards Istanbul flowed through the Ottoman empire like poisoned blood, but no other province could match Bosnia and Herzegovina for the severity of its symptoms (Glenny 2012 p. 73).

Towards the end of the Ottoman period Bosnia & Herzegovina had become one of the poorest, least developed countries in Europe.

2.2 Austrian rule

Compared to the Ottoman era, the dominance of the Habsburg empire was brief, lasting 40 years until the end of the First World War. Austria attempted to make Bosnia & Herzegovina a pluralistic, multi-ethnic colony as a model to stem the nationalistic fervor which had emerged in the Balkans. The killing in 1914 of Arch-Duke Franz Ferdinand in Sarajevo by Gavrilo Princip, a radical Bosnian Serb nationalist, put an end to that concept. Hungary, the other part of the Double Monarchy, had also made considerable efforts to keep Bosnia & Herzegovina backward for its own reasons, blocking economic development of the province. The Austro-Hungarian

empire also used the divide and rule method playing the ethnic-religious groups against one another.

2.3 The first Yugoslavia

The collapse at the end of the First World War of both the empires which had dominated Bosnia & Herzegovina since medieval times left room for neighboring countries with regional aspirations. The concept of Croat and Serb nationhood had already spread to the Bosnian Croat Catholic and Serb-Orthodox communities in the mid-19th century and would have an increasing prevalence over time. Bosnia & Herzegovina would first be a part of the Serb-dominated Kingdom of Serbs, Croats and Slovenes, in 1929 renamed Kingdom of Yugoslavia (*Land of the South Slavs*). During the Second World War this Kingdom was destroyed and Bosnia & Herzegovina incorporated in the Independent State of Croatia (NDH), a puppet state created by fascist Germany and Italy. NDH was led by the Ustashe (the Croatian Revolutionary Movement), a fascist organization with aspirations of creating a Great Croatia covering most of Yugoslavia, including Bosnia & Herzegovina. Ustashe used genocide as a method for establishing a racially pure country along the contemporary fascist ideology. Serbs, Jews and Romas were targeted, while Muslims largely avoided persecution as the Ustashe considered them Croats from a racial point of view.

2.4 The second Yugoslavia

The defeat of the Axis powers and the end of WWII left room for Josip Tito to form a new Yugoslavia at the end of 1945. He had led a successful partisan war against the fascist regimes with the rugged Bosnian mountains as one of his bases. A leading concept in Tito's Federal People's Republic of Yugoslavia³ was a high degree of decentralization to the six republics that made up Yugoslavia, i.e. Bosnia & Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia. Initially Tito was a proselyte of Stalin, forming

³ Renamed Socialist Federal Republic of Yugoslavia in 1963.

Yugoslavia largely along the model of the Soviet Union. However, in 1948 Stalin broke with Tito after Tito embarked on a mission to make Yugoslavia an alternative socialist economy with workers' ownership of enterprises, profit-sharing and self-managing industries. Private ownership of small enterprises (less than four employees) was accepted and in agriculture (less than 10 ha of land) resulted in 85% of the arable land and much of agriculture production falling into private hands. The economy was decentralized and partly market-based, more open and with stronger links to the West than other socialist countries. It was considered a third option and middle way between the Capitalism of the West and Socialism of Soviet Union, China and the Eastern bloc. As such, the country attracted considerable attention in the third world.

The Yugoslavian economic model was successful in creating growth, and during 1960-1980 the annual growth was about 5%, one of the highest in the world during that period. In the early 1980s, the World Bank concluded that:

By any standards Yugoslavia's performance since World War II has been extremely impressive. In this period a largely rural, peasant economy, shattered by war, has been transformed into a modern urban industrial society with the abolition of absolute poverty and of hunger. This has been achieved despite the difficulties of nation-building in a multinational state with wide inherited regional disparities, while evolving a system of economic management unique to the country (World Bank 1983, p. xvi).

Yugoslavia's achievements were significant both in terms of the economy and nation-building and to a large extent dependent on Tito's command. According to Glenny in his review of the history of Balkan, Tito had:

... in a short period after the war, established a kind of harmony among communities emerging from the unimaginable civil conflict. He installed pride in a small country that, even by European standards, had suffered inordinately during the first half of the century. And for the first time in the region's history, a majority of the population enjoyed economic prosperity under his rule. (Glenny 2012 p. 174)

Tito's economic policy was based on a degree of economic specialization between the Yugoslav republics. Bosnia & Herzegovina focused on extractive industries as a means of exploiting BiH's rich mineral and other sources of raw material. The comparative disadvantage of Bosnia & Herzegovina's agriculture due to the nation's mountainous geography also played a role. Furthermore, much of Yugoslavia's weapons manufacturing was located in BiH due to its more easily defensible geography as Tito periodically feared Soviet invasion.

But regional specialization did not work as expected. Bosnia & Herzegovina, which was historically poorer than Serbia, Slovenia and Croatia, saw the gap widen during Tito's regime. By the late 1970s, the per capita income was less than 70% of the average Yugoslavian income. There was considerable economic disparity between the republics, with the GDP per capita more than three times higher in the richest republic, Slovenia, as compared to the poorest (World Bank 1979). By 1977 Bosnia & Herzegovina was not only the poorest republic together with Macedonia but also the only one with a clear negative trend in terms of a significantly lower relative income in 1977 as compared to 1954. The World Bank provided the following explanation for the (widening) gap, despite Tito's policy of transferring resources from the richer to the less developed republics:

The disparities reflect several factors: notably the greater incidence of low productivity of (private) agriculture in the less developed regions, their higher dependency ratios, and their higher population growth rates (World Bank 1985).

2.5 Yugoslavia's decline and collapse

Tito, who was the glue that held Yugoslavia together, died in 1980, a time which also was the beginning of the increasingly poor economic performance of Yugoslavia. To boost the economy, Yugoslavia had already in the late 1970s began to take large loans from the West, including IMF and the World Bank, to develop infrastructure and bring back production levels to their pre-crisis levels. But eventually Yugoslavia could not pay its debt and new

loans were taken to service old. Hyperinflation, social unrest with massive strikes and the turbulence created by the decline and eventual collapse of the socialist economic system in the Communist world were severely affecting Yugoslavia in the late 1980s. With the end of the Cold War, Western banks and governments had less incentive to bankroll Yugoslavia. The economic turmoil contributed to the disintegration of the country and eventually the war. Political leaders' nationalist rhetoric, a thin veil for their mis-management in combination with the better off republics, Slovenia and Croatia, wanting to leave the sinking ship, provided the conditions for war.

2.6 The Balkan wars

The conflicts that broke out in Slovenia and Croatia in 1991 might be described as wars of independence from Yugoslavia. That is hardly a good description of the Bosnian war. While the latter was triggered by Bosnian Serbs call for break-away followed by BiH's declaration of independence in March 1992, it was rather a civil war with strong interventions by Serbia with aspirations of dividing or carving out parts of Bosnia & Herzegovina. According to the historian Noel Malcolm:

What was still not fully understood was that ethnic cleansing was a not a by-product of the war. It was a central part of the political project which the war was intended to achieve, namely the creation of homogeneous Serb areas which could eventually be joined to other Serb areas, including Serbia itself, to create a greater Serbian state (Malcolm 2002, p. 246)

Croatia had similar ideas, leading to a war in which the third ethnic-religious 'nation', the Muslims were stuck in between with no 'fatherland' to rely on or identify with and therefore had to fight for as much of an intact Bosnian state as possible. What made the situation even more complex was that Bosnia & Herzegovina before the Balkan wars was not a country with distinct areas of Serbian, Croatian or Muslim populations which could be broken off and incorporated into Serbia or Croatia. Rather, villages with Serbs, Croats or Muslims were scattered throughout the country, and cities

such as Sarajevo had truly mixed populations, making the ethnic cleansing so much more brutal, manifested in systematic physical destruction, mass refugee flows, indiscriminate killings, including death camps and genocide. The 1992-1995 Bosnian war has been described as an attempted resolution of the unfinished Second World War in the region with its 'racial' ideologies. And this time, it was the Muslims that took the hardest beating. About 80% of the approximately 100,000 persons killed in the 1992-1995 war were Muslims.

The pre-war population of Bosnia & Herzegovina was about 4,5 million. Over 2.2 million fled their homes during the war, the largest displacement of people in Europe since the Second World War. About one million left the country. Germany was the main destination, but about 60,000 Bosnians became refugees in Sweden.

2.7 The causes of the conflict

Since the 19th century 'ancient ethnic hatred' has been used as an explanation for conflicts in Bosnia & Herzegovina. However, this is disputed by many contemporary historians who would rather blame leaders, often external, who for their own purposes exploit the ethnic division of the country. It was also a conclusion by the main architect behind the Dayton agreement, Richard Holbrooke:

Yugoslavia's tragedy was not foreordained. It was the product of bad, even criminal, political leaders who encouraged ethnic confrontation for personal, political, and financial gains. Rather than tackle the concrete problems of governance in the post-Tito eras, they led their people into war. (Holbrooke 1999, p.23)

What then is the ethnic division that 'bad populist politicians' and leaders could exploit? Bosnia & Herzegovina is not and never was a multi-ethnic country in the sense of being inhabited by people with different languages or with distinctly different ethnic backgrounds. Over time, the division of the Slavic tribes that initially migrated to the Balkans in the 7th or 8th century became grounded in which faith people confessed to. Bosnia & Herzegovina was on the fault line of the Roman church between the Catholics in Rome and Orthodoxy in Constantinople. From the 15th century onwards the Ottoman

empire added Islam. The division became so entrenched that even after 40 years of secular, socialist rule with the motto of one people, one country, 90-95% of Bosnians defined themselves as Bosnian Serbs, Bosnian Croats or Muslims in polls in the 1980s. Few used the epithet Yugoslavs even though Tito had instituted programs to develop a national identity. Muslims were not considered an ethnic group, but eventually during Tito's time Muslims were defined as a 'nation' on par with the other groups.

The ethnic-religious division has of course also been reinforced through the atrocities committed throughout history in a vicious circle. The economics of inequality and privileges added animosity between different groups, especially in overall downturns of the economy as in the late 1980s. A negative process has been ongoing for more than a century in the sense of populists and nationalists playing on fears and inequalities and in turn being rewarded with power by 'their' ethnic groups. Each ethnic group has developed mythologies of their distinct differences, and each group adds insignia to differentiate themselves from the others, including creating differences in their common language. The negative spiral of ethnic division has not abated since the war, albeit so far without violence since 1995.

It is an ironic contradiction that even though no country in the Balkans has lost so much of its population to violence and none of the countries has been so divided, Bosnia & Herzegovina has kept its borders intact over the last 500 years, and therefore has been more constant than some of the other Balkan countries.

2.8 The Dayton Peace Accord

Throughout the three and half years of war in Bosnia & Herzegovina, the international community - primarily the EU and USA - made considerable efforts to stop the war through economic sanctions, weapons embargo, peace initiatives and plans, deployment of UN led peace-keeping troops, and finally military interventions through air strikes by the USA against the Bosnian Serbs. Throughout the war the international community also provided massive humanitarian relief. In the words of one historian

“for the first time in Balkan history, the question of external intervention in the region revolved less around perceived strategic or economic issues than around humanitarianism” (Glenny 2012). This was due to a specific time in history. The West had won the Cold War, Soviet Union and the Communist world had collapsed. It was the “end of history” in the words of Francis Fukuyama, i.e. what appeared to be the universalization of Western liberal democracy as the final form of human government (Fukuyama 1992). However, we now know that the early 1990s was only a brief period when humanism had a chance to take priority over *real politik* in a major geo-political conflict.

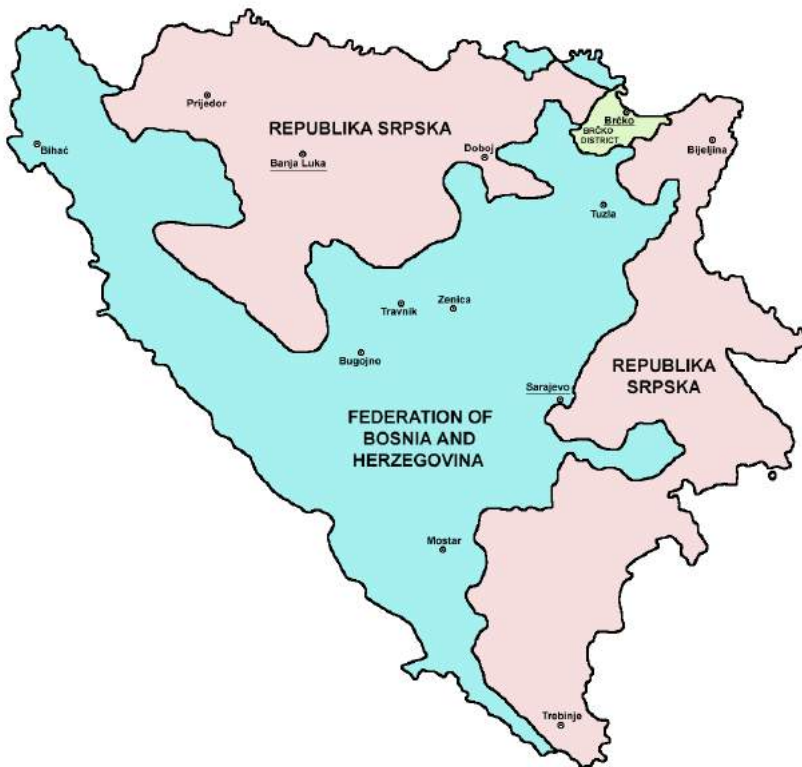
2.9 The key consequences of Dayton

Efforts by the international community and active military engagement by USA eventually stopped the war which resulted in the Dayton agreement, negotiated between the USA, the EU and the presidents of Serbia, Croatia and Bosnia & Herzegovina, and formally signed in Paris in December 1995. The agreement had significant implications for the future of BiH. First, Dayton confirmed the division of the country into ‘ethnic’ enclaves (see map below). Subsequently, this aspect has been the subject of much critique. In the words of one scholar:

Dayton enshrined ethnopolitics and not only consolidated ethnic division and led to permanent institutional paralysis but also provoked widespread discrimination against so-called ‘others’, i.e. those not belonging to any of the three ethnic groups or not wishing to state their ethnic background. (Stiks 2012)

However, as one of the key architects of Dayton, EU’s representative Carl Bildt, later would comment, there were really no options to this division if the objective was to hold the country together (Bildt 2015).

Second, and because of the ethnic division, a highly complex form of governance structure was created by Dayton. Bosnia & Herzegovina was divided into two largely independent entities, the



Bosnian Serb dominated Republika Srpska⁴ and the Croat-Muslim dominated Federation of BiH. As it could not be agreed at Dayton in which entity the north-western city of Brcko with a pre-war population of about 100,000 should belong, the city would eventually become a third entity, an independent city. To accommodate the ethnic division between Bosnian Croats and Muslims, the Federation was furthermore divided into ten largely independent Cantons, some dominated by Croats, some by Muslims, and a few with a mixed population. Each canton has its own government, headed by a Premier with his/her own cabinet with various regional ministries and agencies. It was agreed that the central government would be minimalistic, and most functions be devolved to the entities and/or the cantons. The country is

⁴ The name was given the entity in 1992 by the Radovan Karadzic, the Bosnian Serb and key architect behind the war. He was convicted in 2016 at the Haag war tribunal as a war criminal and sentenced to 40 years.

furthermore divided into 142 municipalities, each one headed by a mayor. To crown the ethnic division, BiH has three Presidents which collectively are the Head of State, one representing the Bosnian Croats, one the Muslims, and one the Bosnian Serbs.

Third, the initial aggressor in the conflict, the Bosnian Serbs, emerged as the 'winner.' With about a third of the prewar population, RS was allocated 49% of the land in Dayton, including ethnically cleansed areas of Muslims such as Srebrenica.

Although not explicit in the text, the assumption of the Dayton agreement was that it should be a temporary solution to be replaced after some years with a more functional constitution for the 'newborn' country. Instead Dayton has become an agreement which seems unchangeable.

The Dayton Peace accord has been the subject of much critique. The British historian and Bosnian specialist Noel Malcolm wrote shortly after it was signed:

In the end, it seemed that American policy had succumbed to the false analysis which had so poisoned European policy since the start of the war – an analysis which saw 'ancient ethnic hatreds' as the origin of the conflict, and therefore favored some kind of ethnic separation as the solution. By persisting in their misunderstanding of Bosnia & Herzegovina's past, the Western statesmen, both European and American, were helping to ensure that Bosnia & Herzegovina would have a much more troubled and uncertain future. (Malcolm 1994, p.270-271)

Dayton was not only about ending the war but also provided an architecture for trying to win the peace. The agreement included significant initiatives by the international community to help build a peaceful and functional country after the war on the principles of a Western-style democratic market economy. The key elements were 1) the High Representative; 2) Peace-keeping forces under NATO command; and 3) massive financial support for reconstruction

2.10 The High Representative

The Office of the High Representative was a part of the Dayton agreement with the purpose of monitoring and implementing the agreement and coordinating the post-war work of the international community in BiH. The OHR was envisioned as a temporary feature for a limited number of years but the office is still in place, 23 years after its establishment and there is no official date for its termination.⁵ The first High Representative was the deputy chief negotiator of Dayton, Carl Bildt. He has been followed by six High Representatives.

Already during the first years of the OHR, the obstruction of the peace accord by Bosnian politicians forced the international community to strengthen the powers of the OHR.⁶ Especially under the third High Representative, the former leader of the UK's Liberal Party Paddy Ashdown, OHR was powerful and proactive. During the first ten years or so it was an essential and critical force in creating a nation with one flag, one passport, one type of vehicle registration plate, no borders between the entities and one military force. The OHR also provided conditions for World Bank/IMF initiatives to create a single currency, one central bank and other essential economic institutions.

However, there were claims that Bosnia & Herzegovina's 'neo-colonial status' as an international protectorate under the High Representative stopped Bosnian leaders from taking full responsibility for the country's fate. The role of the international community and the OHR was described as a "modern Raj", using the methods of a by-gone imperial time. According to some of the critics:

... outsiders actually set that agenda, impose it, and punish with sanctions those who refuse to implement it. At the center of this system is the OHR, which can interpret its own mandate and so has essentially unlimited legal

⁵ The current assumption is that OHR will be closed when Bosnia & Herzegovina has reached a series of conditions, including when Bosnia & Herzegovina is accepted as an EU candidate country

⁶ After Dayton, a Peace Implementation Council had been established comprising 52 countries and 21 NGOs with the purpose to oversee the implementation of Dayton. The Steering Board of the Council appoints the High Representative.

powers. It can dismiss presidents, prime ministers, judges, and mayors without having to submit its decisions for review by any independent appeals body. It can veto candidates for ministerial positions without needing publicly to present any evidence for its stance. It can impose legislation and create new institutions without having to estimate the cost to Bosnian taxpayers (Knaus & Martin 2003).

The critique was especially harsh during Ashdown's time in office, and when he left in 2006, OHR took a much more passive role, a style maintained today. However, the uncomfortable fact is that Bosnian politicians have not lived up to their enhanced responsibilities.

2.11 The peace keeping forces

Already during the war, a UN led peace-keeping force UNPROFOR (United Nations Protection Force) was deployed in former Yugoslavia with a focus on Bosnia & Herzegovina. The force had nearly 40,000 soldiers from 40 nations. UNPROFOR's performance has been the subject of critique for not being sufficiently equipped for warfare, having too limited a mandate and being poorly led. An example is the debacle in Srebrenica when a Dutch battalion had no option but to passively observe the Bosnian Serbs under Ratko Mladic murder some 7,000 Muslim men and boys.

Soon after the signing of the Dayton agreement in Paris in December 1995, NATO deployed a force to ensure the peace. IFOR (Implementation Force) was the first such mission for NATO and involved 70,000 persons. It was limited to one year. By the end of 1996 it was replaced by SFOR (The Stabilization Force) which also was led by NATO with a force of 32,000, which was gradually reduced to about 8,000 persons until SFOR was replaced by the European force EUFOR Althea in 2004. EUFOR is still in place, but with a much smaller number of persons

The cost of peace-keeping - or peace enforcement, as per the mandate of IFOR and SFOR - is staggering as compared to the humanitarian assistance and reconstruction support which was provided to BiH. Thus, the cost of IFOR's one-year mission was

about USD 5 billion, while SFOR initially had an annual budget of USD 4 billion (Brown & Rosecrance 1999). As shown in the next section, these costs per annum were 4-5 times above the total humanitarian and reconstruction assistance to Bosnia & Herzegovina at its peak the first years after the end of the war.

Sweden participated in UNPROFOR 1992-1995 with nearly 7,000 persons over these four years with a budget of SEK 1,8 billion.⁷ The Swedish engagement in IFOR was about 900 persons with a budget of about SEK 650 million. In SFOR Sweden initially participated from 1997 with 500 persons at a budget of SEK 400 million per annum, but the Swedish engagement was drastically reduced after 1999. When EUFOR replaced SFOR in 2004 the Swedish contribution was a handful of persons until 2016 when the engagement ended. Overall, 15,000 Swedes were engaged in peacekeeping and enforcement in the former Yugoslavia between 1992-2016, almost all in Bosnia & Herzegovina. The total cost of the Swedish operations was in the order of SEK 4 billion, a sum in the same order as the total Swedish assistance to Bosnia & Herzegovina 1992 to 2017.

2.12 Large volumes of development assistance

The prospect of peace in 1995 and the Dayton agreement at the end of the year triggered a massive commitment for the reconstruction of Bosnia & Herzegovina by the international community. A World Bank led appeal received a commitment of over USD 5 billion for the coming 5 years. Three phases of the development assistance can be defined.

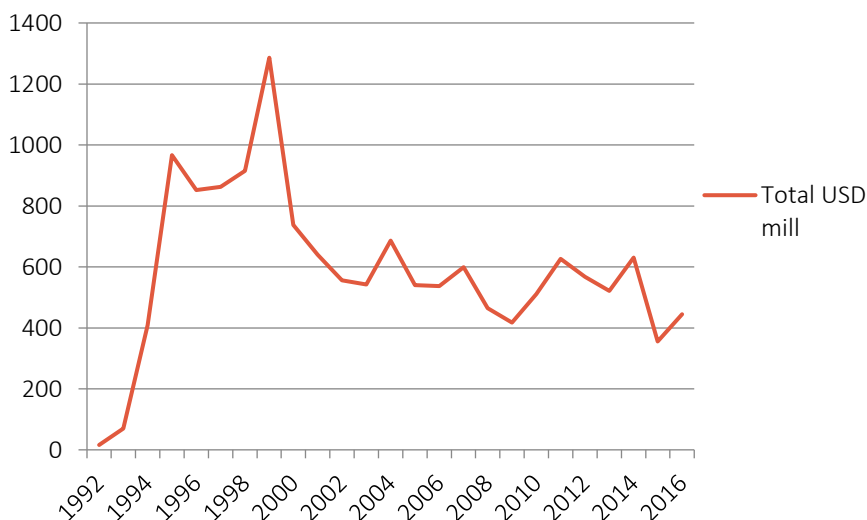
- First, during 1992-1995 it was emergency support and humanitarian aid amidst the on-going conflict in which UN organizations such as UNHCR and international relief NGOs such as the Red Cross, Caritas, Lutheran World Federation etc. were key actors. Sweden played an essential role during this phase, early on the ground in BiH.

⁷ Proposition till Riksdagen 1995/96:113.

- Second, beginning 1995 with the prospect of an end to the war and eventually a peace accord, aid to Bosnia & Herzegovina expanded to about USD 1 billion per annum with a mixture of continuing humanitarian relief and the beginning of reconstruction. Reconstruction aid peaked financially in 1999 (a year with a large donation by the United Arab Emirates of about USD 250 million) and by the early 2000s, the reconstruction phase was largely over.
- Third, the support from 2002 has been at a level of USD 500 million per year with a declining trend. This support has mainly been for conventional development assistance geared towards helping supporting Bosnia & Herzegovina to fulfil EU's Copenhagen integration criteria of democratic governance, rule of law, a competitive market economy and all the institutions required for this.

The total assistance 1992-2016 has been nearly USD 15 billion, varying from nearly USD 1.3 billion to about USD 500 million recent years as shown below:

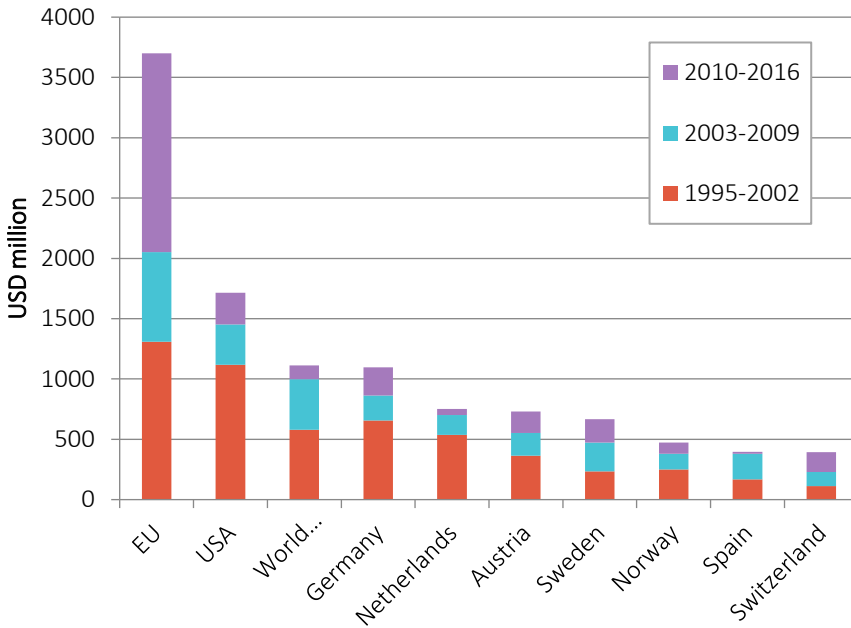
Figure 1. Official Development Assistance to Bosnia & Herzegovina 1992-2016 (Current USD million)



Source: OECD DAC and World Bank 2018

Already from 1995, the EU was the most significant donor, a role that has become increasingly pronounced over the years. The EU has provided about 25% of all ODA since the war. After 2010 the share has increased to nearly half of all the ODA. The second largest contributor of development assistance has been USA, in the first reconstruction phase much larger than any other bilateral donor. Sweden is the 7th largest in total and 5th largest bilateral after USA, Germany, the Netherlands and Austria as shown below.

Figure 2. The ten largest donors to Bosnia & Herzegovina 1995-2016 (USD million)



Source OECD/DAC and the World Bank 2018

3. Bosnia & Herzegovina's Post-War Economic Development

3.1 The dual challenge of reconstruction 1995–1999

At the end of the 1980s the Bosnian economy was the weakest of the six republics which made up Yugoslavia as noted earlier. It also became the economy that was hardest hit by the Yugoslavian wars. The World Bank has described Bosnia & Herzegovina as one of the most extreme declines of economic activity in modern history with a GDP in 1995 less than a fifth of the pre-war level (World Bank 2015). Besides rebuilding the economy, BiH also faced the parallel challenge of shifting from a socialist economic model to a market-based one in which no captive markets existed as during the socialist era. Before the war the economy was dominated by a dozen large industrial conglomerates responsible for more than half of the GDP (World Bank 2004). These industrial complexes, if not destroyed by the war, were mostly obsolete and uncompetitive in the new market situation. Privatization which was high on the agenda in the reform process was complicated due to many factors, including the workers' ownership during the Yugoslavian time. 23 years after the reform began, privatization of the industrial sector is still far from complete and is seen by for example the World Bank and the EU as a major factor preventing BiH to become a competitive market economy, one of the criteria for EU accession.

Following the war, the country's divisions were also reflected in its economic organization. At the time, Bosnia & Herzegovina had three separate currencies and, in practice, three diverging economic systems. The establishment of a central bank in 1997 and the introduction of a common currency in 1998 were the first reforms that set the foundation for the country's macroeconomic institutional framework. Given these conditions, the growth of the economy during the late 1990s was impressive with annual growth of the GDP in the order of near 40 % (World Bank 2018). This

growth was supported by the massive inflow of aid which accounted for a third of GDP 1995-1999. An even more significant source was the flow of remittances from Bosnians living abroad, many as refugees from the war but also from earlier labor migrants.

At the end of the 1990s Bosnia & Herzegovina had made several significant achievements in the reconstruction and building of a new nation:

- peace had been maintained
- a macro-economic framework with a stable currency and low inflation had been created
- the banking system had been reformed and was in the process of being privatized
- economic growth had been high
- the physical infrastructure destroyed by the war had largely been rebuilt
- there had been a substantial return of displaced persons and refugees

However, the shift towards a market economy was far from complete at this time. The International Crisis Group (ICG) wrote in 1999:

Current business regulations are cumbersome and designed to provide maximum bureaucratic control over business. The typical business is visited by an endless parade of various inspectors, including: sanitation, market, municipal, environmental, customs, financial. Many of these inspectors are vested with sweeping powers, including the right to shut down a company on the spot or seize goods. The inspectors use these powers to extort bribes. Because due process of law and an effective appeals system do not exist, businesses are left with no effective legal recourse. (ICG 1999)

The report was called “Why will no one invest in Bosnia & Herzegovina?” The title was accurate: in 1998, the total Foreign Direct Investment (FDI) was less than USD 70 million.

The international community played a pivotal role in the embryonic stage of building the new country through the

combination of a significant mobilization of aid, the power of the OHR and a major peace-reinforcing military force. The international community followed in Bosnia & Herzegovina largely the receipt of the reconstruction of Germany and Japan after the WWII. The difference was that the forces that had initiated the war in BiH were not defeated but remained in power except for their top leaders which were being hunted as war-criminals and put to trial in the Haag.

Despite the initial successes by the international community in rebuilding BiH, there were ample of underlying problems. A study in 1999 commissioned by Sida in preparation for its first country strategy for BiH painted a bleak picture:

The general prospects for an effective assistance to Bosnia and Herzegovina are not good. The country's authorities and politicians are not committed to reform. Most of the pre-war structures and failed economic policies that contributed to the decline and dissolution of Yugoslavia remain intact. Bosnia and Herzegovina is badly managed and politically volatile. The lack of absorptive capacity is a major constraint. The absence of reliable statistics and other information as well as the ignorance of the international community of conditions in Bosnia and Herzegovina also come into the picture." (Sandgren 1999, p.i)

The author noted that BiH was one of the worst managed countries among the transition economies from the Communist era, that the Dayton Agreement had perpetuated the positions of some of the former warlords leading to the fact that many politicians in power were those who were responsible for the war atrocities. The study argued that by-passing the local structures to create results, including the work by the OHR, neglected the issue of ownership and accountability of local stakeholders. The report further argued that the international community with inexperienced staff and a high staff turnover were ignorant of the conditions prevailing in Bosnia & Herzegovina including their political and ethnical complications. According to the author, the massive involvement of the international donor community has dampened the need to create a domestic revenue-base and resulted in a dependency-culture and recipient mentality (Sandgren 1999).

3.2 Steady growth 2000-2008

In the early 2000s the growth of the Bosnian economy continued at about 5 % per annum which was well above the European average and at par with the other former republics of Yugoslavia. The gap between the EU and the Bosnian average income per capita was slowly narrowing, but at the end of the 2000s, the GDP per capita in Purchasing Power Parity (PPP) was only a quarter of the average EU level. Due to a combination of reduced inflows of ODA and an increasingly larger economy, aid played less of a role in the economy, declining from 12% of GDP in 2000 to about 2% in 2008 (World Bank 2018). Remittances, on the other hand, grew through the period to reach nearly USD 3 billion by 2008, six times the level of ODA that year. Remittances fuelled the consumption which was a key source of economic growth in the period.

Also the productive economy grew significantly. For example, exports of goods and services more than tripled from USD 1,6 billion in 2001 to USD 5,2 billion in 2008. Foreign Direct Investments which had been at a level of USD 100 million per annum in the late 1990s, picked up to reach USD 1.6 billion in 2007, i.e. more than tenfold over a 7-8 year period. FDI was provided almost exclusively by European investors in which Austrian investors were dominant, followed by Serbian, Croatian, Slovenian, German and Russian investors. Some of the investments were in retail, banking and telecom, exploiting the fast emerging Bosnian market, but also export-oriented FDI in metal and engineering was significant, with the purpose of sourcing European companies, for example in car manufacturing building on established sub-contractual business systems from the Yugoslavian era. Yet, unemployment at a rate of 25-30% continued to plague the country. The informal sector was large, to some extent absorbing a number of the officially unemployed.

The political problems of disintegrating forces that initially started the war did not abate during this period and the dysfunctionality of the Dayton governance structure increased rather than decreased as local bureaucracies were built out. An attempted reform of the Bosnia & Herzegovinan constitution to weed out some of the issues created by Dayton failed in 2006 with

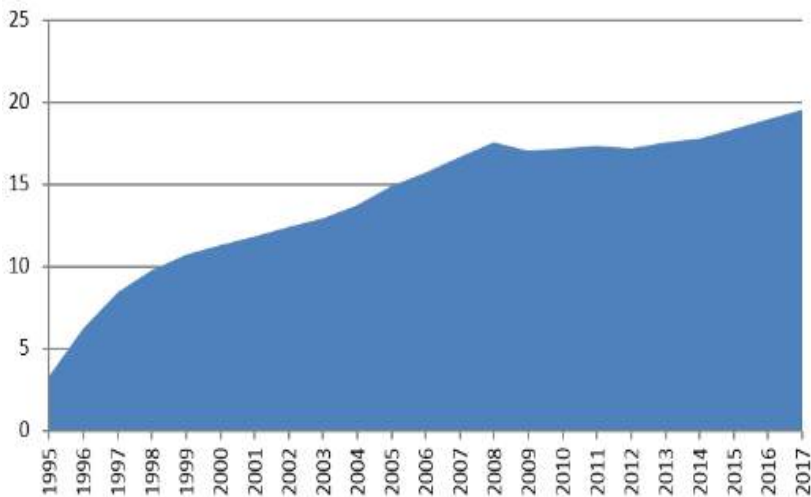
a narrow margin in the Parliament. In the elections, the population maintained the ethnic divisions, voting for ‘their’ candidates.

3.3 Economic stagnation 2009 – 2015

2008 became a watershed for the Bosnian economy. After robust growth throughout the period after the war, the GDP peaked in 2008, dropped in 2009 and thereafter became largely stagnant during the following years until 2015. As shown below, during the recent years the country has returned to a more modest economic growth.

Figure 3. Bosnia & Herzegovina GDP 1995 – 2017

USD billion Constant 2010 prices



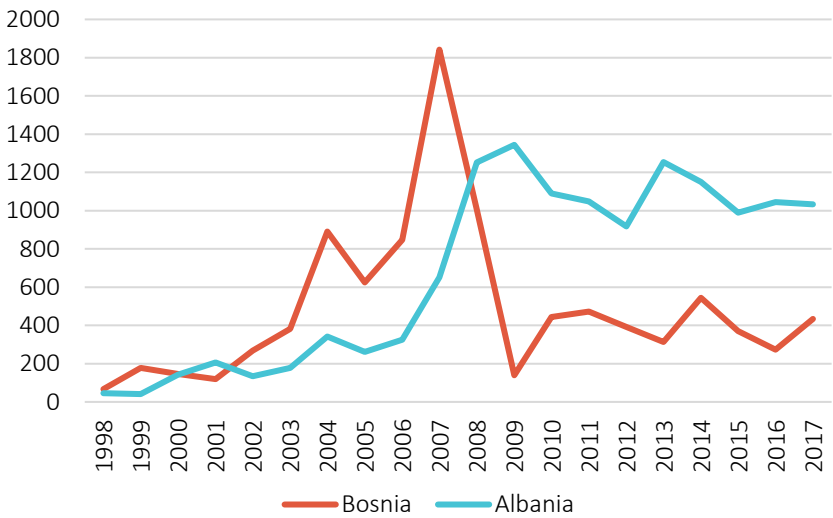
Source: World Bank 2018

A key external factor for the break of growth was the global financial crisis in 2009. However, there were also internal problems, making the dip of the economy deeper and longer than for the other Western Balkan countries. A manifestation of Bosnia’s economic travails since 2007 is the pattern of FDI inflow to the country. After rapid growth from the late 1990s, FDI fell dramatically after 2007

⁸ The reference World Bank 2018 refers throughout the report to the on-line data source <http://www.theglobaleconomy.com/compare-countries/>.

to less than one tenth of the peak and has since then hovered around at a level of about a fifth of what was achieved in 2007. The underperformance becomes even more pronounced in comparison with Albania, another Balkan country of a similar size in population and economy, with a formerly socialist economy and aspirations of becoming an EU member. As shown below, BiH outperformed Albania in terms of attracting foreign investors until 2007 but after that year, the Albanian inflow of FDI has been two to three times that of FDI to Bosnia & Herzegovina.

Figure 4. Foreign Direct Investments to Bosnia & Herzegovina and Albania 1998-2017 (USD billion)



Source World Bank 2018

The difference between BiH and Albania in inflow of FDI is even more dramatic if the size of the economies is considered. BiH's inflow of FDI has been at a level of 2% of GDP per annum since 2009, while the inflow of FDI to Albania for the same period has been at the level of 8-10% (World Bank 2018). Albania should by no means be considered a country providing a good business climate, nor one with highly conducive conditions for foreign investors. The comparison is rather a reflection of the extent to which foreign business which had begun to invest in Bosnia &

Herzegovina in the early 2000s lost faith in country after 2007. The reasons for the break can be found in several factors:

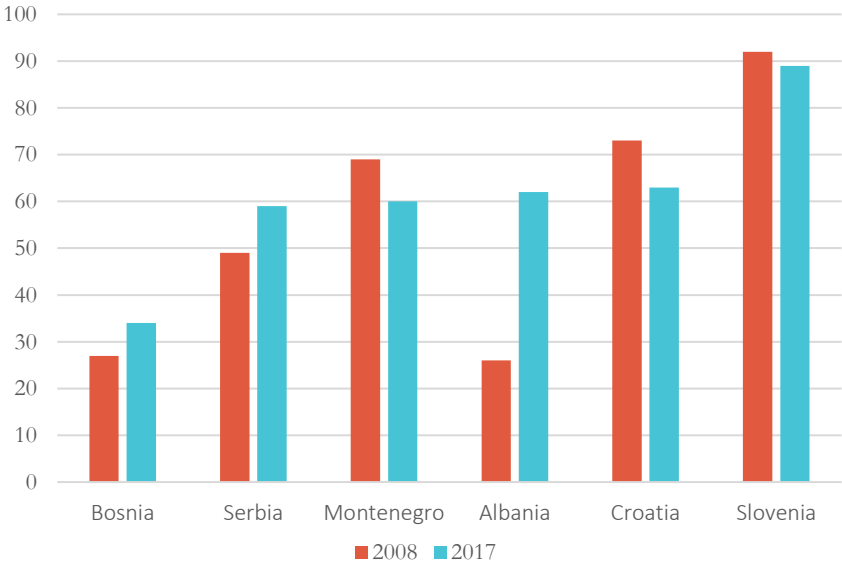
- The impact of the global financial crisis and the parallel eurozone crisis were significant with longer term implications: not only BiH experienced a broken record of growth at this time, but the pattern was similar for other former Yugoslavian republics.
- The international community represented by the High Representative reduced its role in de facto governing Bosnia & Herzegovina with the departure of Paddy Ashdown in 2006. The check on the disintegrative political forces in the country declined as a result. The political leadership at entity and canton levels had freer hands to pursue their own agendas, which sometimes by default and sometimes by design impacted negatively on the economy. The political climate took a turn for the worse with overt statements by the RS government of its desire to seek independence and split up the country.
- The EU integration process stalled. In 2003, BiH was recognized as a potential EU candidate country and in 2005 negotiations began for a Stabilisation and Association Agreement, a necessary step before application for EU membership. The agreement did not enter into force until 2015 due to Bosnian politicking, making the process of EU integration much slower than initially expected. In comparison, Albania received EU candidate status in 2014.

3.4 Returning growth after 2015

After seven years of a stagnant economy, the GDP growth returned at a modest rate from 2015 of about 3% per annum and is expected to continue at this level the coming years. Foreign direct investments, on the other hand, have not shown any sign of returning to the levels before the financial crisis, but remain at a modest 2% of GDP as noted above.

In terms of business climate and competitiveness of the economy, Bosnia & Herzegovina has consistently performed worst of the former Yugoslavian republics and Albania, as measured by institutions such as the World Bank and the World Economic Forum (WEF). For example, in the Forum's Global Competitiveness Index, composed of over 100 indicators including macroeconomic environment, quality of infrastructure, functioning of economic institutions, labor market efficiency, financial system, sophistication of the business sector, innovativeness, etc., Bosnia & Herzegovina is placed at the bottom quintile of the 130+ countries ranked. The country is also the worst performer of the former republics of Yugoslavia and Albania both in 2008 as well as in 2017, as indicated below.

Figure 5. Competitiveness ranking WEF Global Competitiveness Ranking for the former Yugoslavia republics and Albania 2008 and 2017 (position from worst ranked country respective year)



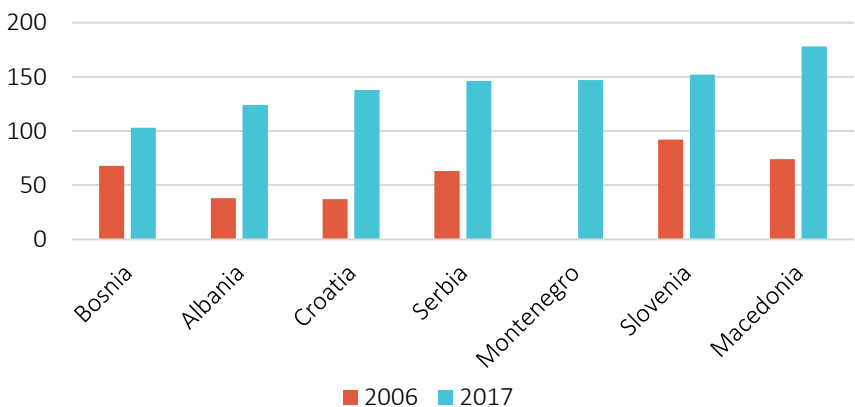
Source: World Economic Forum Global Competitiveness reports 2009 and 2018

The World Economic Forum also undertakes executive polls to define the most problematic issues in specific countries as perceived by the business community. The top ranked problems in Bosnia & Herzegovina most recent poll (2017) were:

- Inefficient government bureaucracy
- Corruption
- Tax rate
- Policy instability
- Government instability

In the World Bank’s Doing Business index, Bosnia & Herzegovina has improved its ranking between the late 2000s and 2017 and is currently ranked 86 amongst 189 countries. However, compared with the other former republics of Yugoslavia and Albania, BiH is ranked lowest in 2017. Furthermore, it shows the least improvement in ranking over time. In fact, according to the Doing Business Index, BiH had a better business climate in terms of ease in doing business in 2006 than Albania, Croatia and Serbia, as shown below.

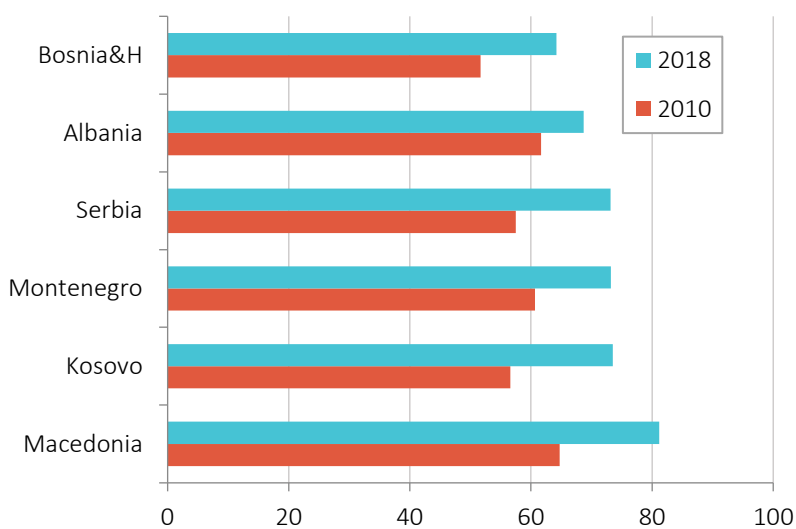
Figure 6. World Bank Doing Business ranking for the former Yugoslavia republics and Albania 2006 and 2017 (Position from worst ranked country)



Source: World Bank Doing Business reports for 2006 and 2017

Another way of analyzing the Doing Business ranking is assessing how far Bosnia & Herzegovina is from the ‘best in the class a particular year’, i.e. the distance from the best performer, a model called Distance from the Frontier (DTF). The figure below shows the Distance to Frontier indicator for BiH compared to some of its Balkan neighbours during 2010-2018. The country has improved its average performance during this period but continues to lag behind the other countries. In 2018 the average Distance to Frontier of Bosnia & Herzegovina was 64%, Albania 69%, Montenegro 73% and Macedonia 81%. Although aggregate Distance to Frontier data are not available for the years before 2010, other available information indicates that this trend is illustrative for the whole period as from year 2000.

Figure 7. Doing Business Distance to Frontier (%) for Western Balkan countries in 2010 and 2018



Source: World Bank Doing Business report different years

The fact that Bosnia & Herzegovina still is behind the other countries in the region is probably an important explanation of the negative perceptions in the business community regarding its business environment. These negative perceptions were clearly

illustrated by a questionnaire to members of the Foreign Investors Council in 2014: 62% of the respondents expressed “extreme or moderate dissatisfaction” with the business climate in Bosnia & Herzegovina, while only 19% were “extremely or moderately satisfied” (FIC 2015 page 12).

Another possible explanation may be that some of the negative perceptions are mainly related to higher-level factors like political uncertainty. According to the Business Survey carried out by the EBRD in conjunction with the World Bank in 2013 more than 30% of interviewed enterprises felt that “political uncertainty” is the greatest obstacle to doing business. On average only 13% of enterprises in five other Balkan countries shared this feeling (EBRD 2017).

Bosnia & Herzegovina’s economy and transition to a competitive market economy is monitored annually by the EU in the process of accession of the country to the European Union based on the Copenhagen criteria, including those concerning the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. In its most recent report, the EU writes:

Concerning the economic development and competitiveness, Bosnia made some progress, but is still at an early stage of establishing a functioning market economy. Some improvements of the business environment have been achieved and the financial sector has been strengthened. Key remaining issues are a weak rule of law, a still poor business environment, a fragmented and inefficient public administration and major labour market imbalances, related to a poor education system, weak institutional capacities, and an unsupportive investment climate. Moreover, the informal economy remains significant (European Commission 2018, p.30).

There is not much that argues for improvement in BiH’s overall governance. In Gallup’s Global States of Mind 2014 the Bosnian government was the least popular in the world with an approval rating of only 8%. In the election the same year, the ethno-nationalist politicians and parties which had dominated for many years were nevertheless re-elected. How dissatisfied they were with their politicians, due to factors of fear and mistrust people preferred

them to those who dared to propose a non-ethnic political agenda. BiH has over the years created a patronage system of the democracy which effectively maintain the elite in power, however dissatisfied the voters are.

A former OHR official wrote in 2016 in an account of Bosnia & Herzegovina's recent development:

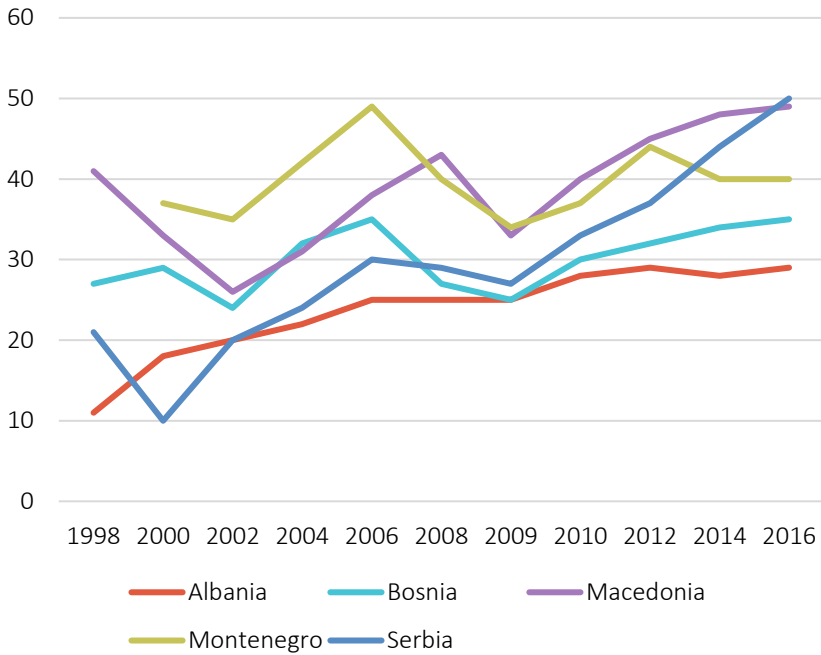
Despite unprecedented international investments and attention, the country has failed to evolve into a self-sustaining and stable democracy. Moreover, the situation is deteriorating at an accelerating pace, a fatalistic cynicism appears to have taken root, and much of what was achieved earlier in the peace process now appears to be at risk. (Bennett 2016, p. xix)

3.5 Does governance matter for the economy?

As a small country, Bosnia & Herzegovina's economy is dependent on trade. With exports of goods and services accounting for about a third of GDP, BiH is still far from an export-driven economy, but the trend is positive with growth of exports from a level of 25% of GDP in the late 2000s to 35% of GDP currently (World Bank 2018). Its current value of export is USD 6 billion per annum, of which most goes to countries in the EU, mostly in the form of manufactured products such as parts of vehicles, electrical equipment, footwear, etc. Bosnia & Herzegovina has a trade deficit, which however declined from around 60% of GDP in the late 1990s to less than 20% currently (World Bank 2018).

Given the negative business environment and poor rating on competitiveness, it is surprising that Bosnia & Herzegovina is following a similar pattern in export development as the other former republics of Yugoslavia (except Serbia), while performing better than Albania since the late 2000s, as shown below.

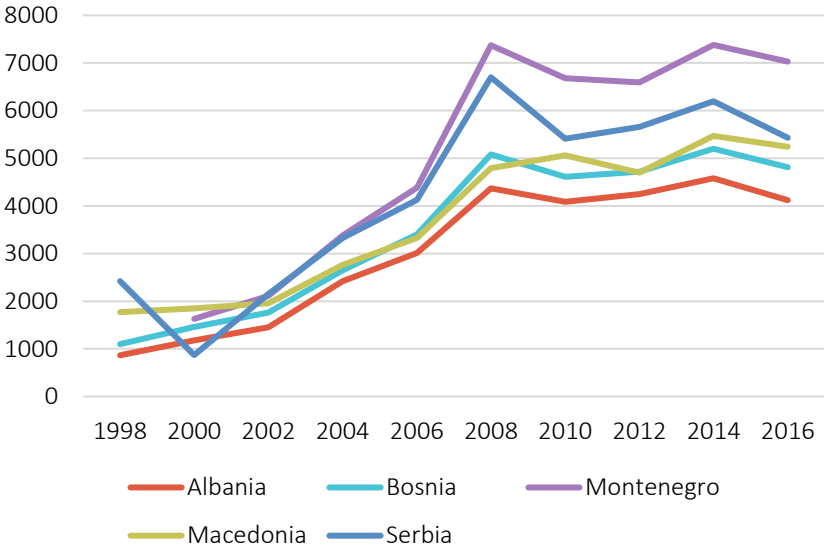
Figure 8. Exports of goods and services as share of GDP for selected former Yugoslavia republics and Albania 1998 to 2016



Source World Bank 2018

In terms of GDP per capita, Bosnia & Herzegovina performs on par with peer countries, except Montenegro which stands out as clearly better performing. They all display a rapid growth of per capita income in the early 2000s, peaking in 2008-2009 after which it has either been stagnant or only marginally improved as shown below.

Figure 9. GDP per capita for selected former Yugoslavia republics and Albania 1998 to 2016 (Current USD)



Source: World Bank 2018

The results seem contradictory to the bleak pictures of Bosnia & Herzegovina by organizations such as the World Bank, World Economic Forum and the EU, and contradictory to the country’s weak rating in business environment and competitiveness. Does governance matter for the economy? It does, but in the case of Bosnia & Herzegovina possibly less than assumed. Doing Business and WEF’s Competitiveness index are to a large extent based on indicators concerning the business environment, governance, laws and regulations, etc., rather than actual economic performance and the entrepreneurial spirit of business. It could be argued that the Bosnian entrepreneurs are doing well despite their environment. However, the widening gap between the best performer, Montenegro, and BiH, could be seen as an indication of the cost of the business and political environment in Bosnia & Herzegovina.

3.6 The current situation

The Bertelsmann Transformation Index (BTI) analyzes transformation processes toward democracy and a market economy in international comparison. The BTI provides a ranking that combines qualitative, in-depth evaluations with quantitative scores for the performance of 129 developing and transition countries. In the most recent report, Bosnia & Herzegovina was ranked number 89, well behind the other Western Balkan states, including Kosovo and Albania. For most criteria the BTI showed a worsening trend for BiH. The country report concluded that

The elites' politics of instrumentalizing interethnic fear continued to undermine transformation and reform processes. The Republika Srpska (RS) leadership continued to threaten the existence of the state and its institutions; Bosnian Croat party leaders and elected officials continued to demand some form of Croat ethnic autonomy. The Bosniak member of the three-member Presidency of BiH continued nationalist rhetoric and took every opportunity to mobilize fear among the population. (BTI 2018 p.4)

The World Bank review of Bosnia & Herzegovina in 2015 lists some of the consequences of the Bosnian political economy:

The country has been plagued by governance and institutional dysfunction, political disagreements, paralysis and deadlock. Some of the consequences have been, among other things: lack of progress in reforming the economy; high unemployment (especially among youth and women) and poverty levels; an unattractive environment for doing business and investing; corruption; lack of internal socio-economic and political cohesion; and slower progress toward European accession than its neighbors. A large public sector that consumes about half of the country's GDP combined with institutional fragmentation/ duplication of functions contributes to a constant and unsustainable drain on the country's finances (World Bank 2015, p. 5).

To further illustrate the Bosnian malaise, the following can be mentioned:

- Transparency International ranked BiH in 2017 as one of the most corrupt countries in Europe, placed 91 among 180

countries in its global ranking. The place has not improved over the years. BiH's complex legal and regulatory frameworks create opportunities for corruption and rampant corruption is one of the key constraints in the country's EU accession process. Corruption creates higher transaction costs in the economy and uncertainty among investors.

- The extremely low labor force participation of around 50 percent and an even lower female participation rate is an impediment to a dynamic economy. Furthermore, BiH has high unemployment of about 25-30% and a large informal sector. Only one out of three Bosnians in working-age adults had a job and one out of four had a formal job. The informality of the economy means not only avoidance of taxes, but also unfair competition to enterprises which belong to the formal economy.
- The declining population due to low birth rate and sizable outward migration means an increasingly more unfavorable dependency ratio in the sense of fewer people in the workforce that will generate resources for those outside. Since 1995, the Bosnian population has shrunk from 4.5 million to an estimated 3.8 million today and there will only be around 3.5 million people living in Bosnia & Herzegovina by 2020, if the trend continues.
- An oversized public sector. National, sub-national and local government expenditures accounted for approximately 50 percent of GDP, not including State owned enterprises (SOEs). Many SOEs do not function at all, while others are on "life support". Large SOE arrears, including to the social security system, make privatization difficult. Policies and incentives are such that the public sector and import-oriented industries (typically those linked to consumption) benefit to the detriment of the private sector and export-oriented industries.

The World Bank report cited above was unusually clear about the constraints created by the political economy for reforms in BiH and who the losers of an unreformed economy are:

The winners of (a potential) reform will be the poor and often voiceless masses who will reap benefits only after a few years. By contrast, the potential losers tend to be a small group of easily identifiable people with significant ability to influence reforms. A dominant state sector generates many opportunities to create and share rents. The reform effort is made even more difficult because of the fragmented political system where the two Entities, which can sometimes behave antagonistically, are holding sway over key economic decisions. At lower levels of government, cantons control significant powers, notably in the health sector. The poor and vulnerable have been left out of the system, and around half of the population can be considered at risk of social exclusion by some measures (World Bank 2015).

The stalled reform process in Bosnia & Herzegovina frustrates the international community which is working on a vision of a united country based on democracy, human rights and a well-functioning market economy for eventual accession to the EU. Yet, there are periods of modern BiH when reforms were successful and sometimes rapid. This happened mainly the first decade after the war and to a minor extent a few years after 2015. These periods are characterized by significant efforts by the international community to enforce its agenda. In the first period the success of the international community in creating change was due to its dominance over the Bosnian economy and the unique powers of the OHR. From 2015 it was triggered by a strong effort by the EU jointly with IMF and the World Bank Group to pursue a new reform agenda for BiH. An essential element of this was strict conditionalities by the IMF for a new budget support credit. Part of the reform agenda concerned the market transformation, including a labor market reform, improvements of the business climate and competitiveness and reform of the state-owned enterprises. The steps taken by the Bosnian government on some of these, re-started the EU accession process leading to the Stabilization and Association Agreement and submission of BiH's membership application in 2016. However, also this process run into problems by 2017 as the conditionalities originally were somewhat relaxed. The EU and IMF have been criticized for letting down the reform conditionalities and thereby basically undermine the reform. For

example, the Berlin-based Democratization Policy Council (DPC) wrote in mid.2018:

In the face of resistance from political elites defending their entrenched patronage interests, the EU did not stick to strict conditionality, but resorted to old habits of lowering the bar and negotiating with BiH officials and political leaders behind closed doors, in effect colluding with the opponents of reform and making a mockery of the EU integration process. (Weber 2018, p.1)

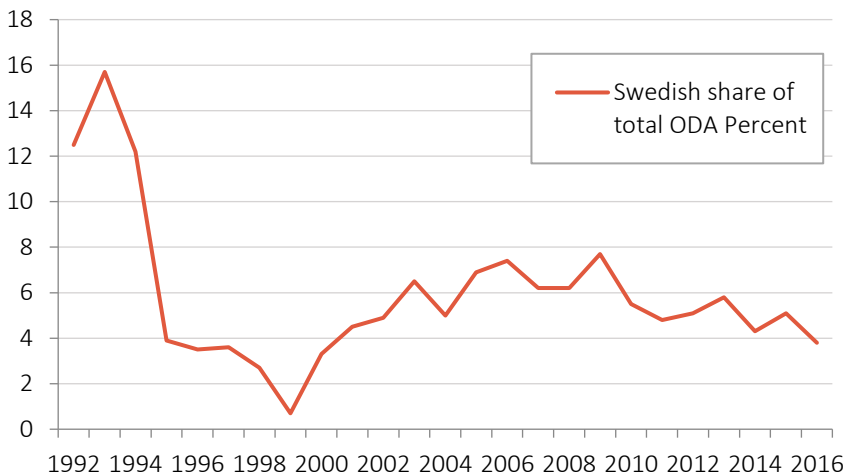
We can only conclude that the agendas of some within the political elite in Bosnia & Herzegovina and the international community, including the EU, have different agendas as to BiH's future when it comes to Bosnia & Herzegovina as unified country versus a divided one.

4. The Strategic Orientation of the Swedish Assistance to Bosnia & Herzegovina

4.1 The volume of Swedish assistance

The total Swedish assistance to Bosnia & Herzegovina 1995-2016 was about USD 650 million, or 4,6 % of the total international support for the period. As noted earlier, Sweden is the seventh largest donor over the period 1995-2016, but as many other bilateral donors have cut down its support after 2010 Sweden became the third largest bilateral donor after the USA and Germany. However, in terms of share of the total assistance, the Swedish share has declined from 2009 when it was almost 8% of the total ODA, to currently about 4% due to the EU contributions as indicated below.

Figure 10. Swedish share of total ODA to Bosnia & Herzegovina 1992-2016

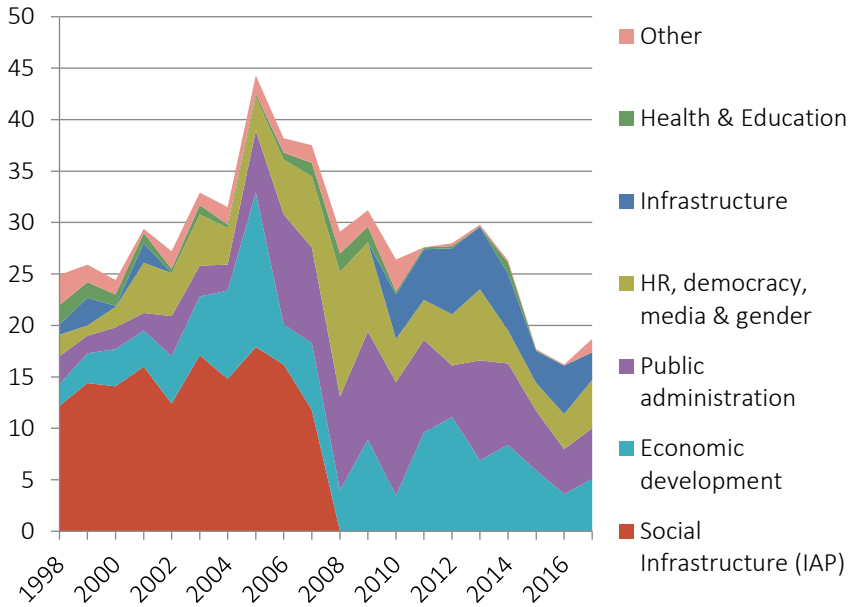


Source: OECD/DAC 2018

4.2 The structure of the assistance

Since its inception, Swedish support to Bosnia & Herzegovina has been divided into many sectors and themes. During the late 1990s until 2007, the funds were mainly allocated to a reconstruction program called the Integrated Area Program (IAP) with the objective of facilitating the return of refugees. IAP's core investments were home rehabilitation mainly through provision of building material for self-help. IAP also included related social infrastructure such as water & sanitation, schools and health facilities, as well as some support for self-employment, mainly in agriculture. As noted below, IAP absorbed more than half of the total Swedish budget for Bosnia & Herzegovina until 2005.⁹

Figure 11. Allocation of Sweden’s development assistance to Bosnia & Herzegovina 1998-2017 based on sectors and themes (USD mill.)



Source: www.openaid.se 2018

⁹ Data from 1998 from Open aid, www.openaid.se Data before 1998 not available.

Economic and market development, in this evaluation defined as agriculture, industry, finance and business development, has been one of three, four focus areas for Sida from the late 1990s and continues to be so. The ‘sector’ accounted for about a quarter of the total Sida budget 1998 to 2017.

4.3 The war period 1992-1995

The Swedish donor support to the collapsing Yugoslavia began in the fall of 1991 in the form of humanitarian aid to the conflict areas. The focus shifted in 1992 to Bosnia & Herzegovina when the civil war broke out. BiH became one of Sweden’s largest recipients of support relative to the size of the population in a short period of time. According to Sida staff engaged in this early stage of support, the political pressure from the Ministry of Foreign Affairs on Sida to move fast and on a large scale was strong. Budgets were not perceived to be a constraint. The active involvement in the peace process by Carl Bildt, Sweden’s Prime Minister 1991-1994, from June 1995 the European Union’s special envoy to the Former Yugoslavia and co-chair of the Dayton peace accord, contributed most likely to this political thrust. Another reason might have been the large flow of Bosnian refugees to Sweden. The largest bilateral donors to Bosnia & Herzegovina over time have been countries that received large number of Bosnian refugees, i.e. Germany, the USA, the Netherlands, Sweden and Austria.

4.4 Planning for reconstruction

In 1994 Sida began planning for reconstruction support despite the on-going war. Sida believed that emergency support should have a long-term vision with the post-war era in mind, and that humanitarian aid and reconstruction would have to run parallel for some years after the end of the war (Sida 1994). Infrastructure was a priority particularly in telecom, energy and water & sanitation. Local production of houses for returning refugees was also a priority, building on the positive experience of ongoing shelter support as part of the humanitarian aid.

In April 1995, half a year prior to the end of the war, the Swedish government instructed Sida to begin detailed planning of a bilateral program for reconstruction. The focus of the early reconstruction support became:

- Housing (self-help for rebuilding) and linked social infrastructure and income-generating activities
- Psycho-social support (trauma treatment)
- Telecommunications

In 1995 Sida established offices in Tuzla and Zenica. To get a quick start Sida channeled most of its early reconstruction support through organizations which had been partners to Sida during the war such as the Swedish Rescue Services Agency, HIFAB International, Swedtel, the Lutheran World Federation (LWF), Caritas, the Red Cross and the Norwegian Peoples Aid.

IAP, with its housing rehabilitation focus, dominated Sweden's postwar rehabilitation support but under this program various activities in economic development such as agriculture, microfinance and small business development emerged. Sida also began cooperation with the World Bank group in bank privatization and business environment reform.

4.5 Swedish strategy formulation from year 2000

In the late 1990s, Sida commissioned a series of studies in preparation for a longer-term post-war development cooperation. Based on these, Sida prepared the first country strategy for the period 2000-2002. The overriding objectives of the Swedish support were 1) peace and stability, 2) democracy and human rights, 3) a socially sustainable economic development and 4) return of refugees, all activities to be permeated by an equality perspective (Sida 2000). The strategy noted that:

Of strategic importance is also the division of the country in three ethnic groups and two entities. The tension between these stands in the way for progress in several areas. Political, mental, religious

and economic barriers must be broken down. If they remain, the wounds of the war will be unhealed and if the loyalty with Bosnia and Herzegovina is not created, there is no foundation for a development of the country (Sida 2000, our translation from Swedish).

The strategy gave several reasons for maintaining a significant continuous engagement by Sweden and suggested a prolific program, including continuation of the IAP, engagement in health care and social care; infrastructure, market development; finance; governance with planned activities in audit development, statistics; as well as civil society engagement in democracy and human rights; mine clearance; media and culture. The strategy argued that without sustainable economic growth, the basis for reform in many sectors would be undermined. In terms of market development, the focus was to be the continuation of support to the financial system, including micro credit.

The Swedish country strategy 2003-2005 provided a bleak picture of Bosnia & Herzegovina's development while placing similar importance on economic development as the previous one, both as a means for future integration into the EU and to the reduction of social/ethnic tensions.

An uncertain macroeconomic future with a continuous negative trade balance, too large public-sector spending, inefficient tax collection, slow and incomplete privatization, the almost total collapse of the industrial sector and increasing unemployment create worrying problems. The situation is made worse by the fact that corruption and organized crime are widespread in the whole system. Bleak economic prospects can easily create new socially loaded situations and be a breeding ground for enhanced ethnic polarization during the coming years (UD 2003, p.8 our translation from Swedish).

The 2003 expressed the overriding objectives as "peace and stability; and transition to a market economy". The strategy had an equally broad spectrum of interventions in many sectors. In terms of involvement in economic development, the strategy repeated the same focus as in the previous strategy, i.e. endorsing a continuation of the IAP and continuing engagement in the financial sector, including micro finance.

4.6 Shifting approach in the late 2000s

Sweden issued its third country strategy for Bosnia & Herzegovina in 2006, covering the period 2006-2010. The strategy issued by the Ministry of Foreign Affairs stated that the overriding objectives was “to support Bosnia and Herzegovina’s development plan, the Mid Term Development Strategy (MTDS), which focuses on accession to the EU and the fight against poverty.” The strategy instructed Sida to focus Swedish development assistance on two main sectors: building of a sustainable state and economic development. In terms of the latter, it noted that:

Aid planning is to proceed from a rights perspective and a poverty reduction perspective. It is to focus on the sustainable creation of jobs through the growth of micro, small and medium sized enterprises. Support to the private sector and assistance aimed at developing the financial sector are primarily to be provided via large-scale programmes together with international and local financial institutions. (UD 2006, p. 12)

An important decision by Sida during 2007 was ending the Integrated Area Program. IAP had in many ways set the tone of other forms of aid such as microfinance and agriculture which both had grown out of the IAP to become self-contained projects. Since its beginning, the IAP had absorbed about SEK 1.5 billion of Swedish support, by far the largest of all Sida’s projects in Bosnia & Herzegovina. When IAP was ended, the scope to undertake different forms of projects increased for budgetary and other resource reasons. As further elaborated, during this period the portfolio of economic development projects widened not least through deepened cooperation with USAID.

A fourth strategy was issued by the Ministry for the period 2011-2014. The overriding objective was now formulated as “a democratic, equitable and sustainable development as well as improved conditions for EU integration.” The strategy suggested three areas of interventions, including market development with a focus on economic growth through improved competitiveness and conditions for small and medium-sized companies. In terms of interventions, the strategy suggested mainly continuation of projects and themes already ongoing (UD 2010).

4.7 The cooperation from 2014

The fifth and most recent Swedish strategy concerns the 2014-2020 period. It is a regional strategy for Eastern Europe, the Western Balkans and Turkey. The overriding objective is that the 13 countries covered by the strategy should 'forge closer links with the EU'. For this purpose, the strategy argued that the development assistance should be integrated with that of the EU, for example that Sida should make use of opportunities to implement projects using funds delegated by the EU.

Covering so many different countries, the strategy is vague on how the overriding objective will be achieved. The objective of "enhanced economic integration with the EU and development of market economy" in the strategy for all the Western Balkans is limited to a few lines:

There is a need to strengthen administrative capacities to create the conditions for the continued economic integration of the partner countries with the EU and its internal market, to allow the implementation of the free trade areas, for example. Initiatives to facilitate enterprise and entrepreneurship are an important part of efforts to promote competitiveness, productivity and increased employment. (UD 2014, p.14)

4.8 Summary of objectives and suggested interventions in the strategies

Below is a summary of the Swedish country strategies for Bosnia & Herzegovina 2000 to 2020 in terms of the stated overriding objectives and the suggested interventions in the economic field.

Table 1. Summary Swedish strategy objectives and economic interventions

Strategy period	Objectives	Suggested interventions in economic development
2000-2002	Peace and stability, democracy and human rights, a socially sustainable economic development (as a pre-condition for other development); return of refugees, permeated by an equality perspective	Financial services; microcredits, agricultural credits, stock exchange; training of entrepreneurs, Start Bosnia
2003-2005	Peace and stability, transformation to a market economy; integration in European structures and eventual EU membership	Financial development; microcredits; privatization of state-owned enterprises; ecological agriculture; SME development; Start Bosnia
2006-2010	Poverty reduction and a rights perspective; EU accession; transformation to a market economy, job-creation; growth of micro, small and medium sized enterprises.	Financial sector development; microfinance; regional and local economic development; economic policy reform, institutional capacity building and reforms of the labor market
2011-2014	Democratic, equitable and sustainable development as well as improved conditions for EU integration; competitive business sector with a focus on small and	Improved conditions for the growth of small and medium-sized companies. FARMA and FIRMA with USAID; guarantees; Business climate; employment and women's economic participation

	medium-sized companies. Gender equality	
2014-2020 Regional strategy	Enhanced economic integration with the EU and development of market economy. Enhanced capacity among institutions to continue economic integration with the EU; Competitive small and medium-sized enterprises make up a greater share of the economy	Administrative capacities to create the conditions for the continued economic integration of the partner countries with the EU and its internal market, implementation of the free trade areas, facilitate enterprise and entrepreneurship; competitiveness, productivity and increased employment

Some of the objectives above are more or less relevant for economic development in the sense of to what extent such interventions are likely to be able to directly or indirectly contribute to these objectives. Of relevance for the portfolio are:

- A competitive small and medium enterprise sector
- (Transition to) a competitive market economy
- Employment and job-creation
- Inclusive economic growth (as a basis for overall development)
- Integration and eventual accession of Bosnia & Herzegovina into the EU
- Gender equality
- Maintaining peace and stability

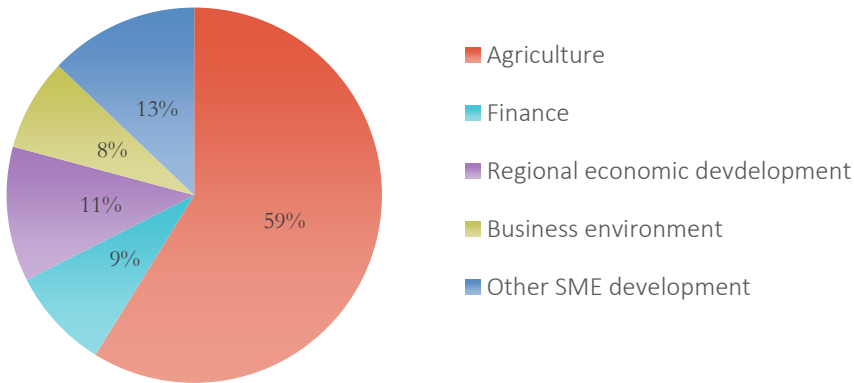
Poverty reduction takes a specific position in the sense that it is the overriding objective for Swedish development cooperation in general but has not been highlighted in the country strategies for Bosnia & Herzegovina to any greater extent.

These objectives will be used for the assessment of the achievements in this evaluation.

4.9 The structure of Swedish assistance in economic development

As mentioned earlier, the mapping of Swedish development cooperation in terms of support for economic development using the OECD/DAC classification produced a portfolio of about 50 projects since 1995 with a total budget of about SEK 1 billion.¹⁰ The financial allocations on the five clusters applied in this evaluation is provided below:

Figure 12: Financial allocations of Swedish assistance in economic development 1995-2020



Source: Compiled by the evaluation from different sources

As can be noted, *agriculture* dominates the portfolio. Thus, the aggregated allocation to agriculture projects is over SEK 600 million, or almost 60% of all the support for economic development. This considerable dominance is surprising in view of the focus of the Swedish country strategies from year 2000 in which agriculture has a low profile, and equally surprising given the structure and history of BiH's economy as discussed earlier in this report. Agriculture is the sector which has had Swedish support throughout the post-war period and is still the most significant sector in the on-going Swedish assistance in economic development.

¹⁰ This figure also includes allocations in a few projects which are still ongoing with end dates 2020.

During the first ten post-war years the support was financially dominated by projects linked to the Integrated Area Program, but the last decade includes substantial support in cooperation with USAID as well as a series of projects related to food safety and animal health. The evolution and composition of the portfolio and the achievements of the support are discussed in the following chapter.

Support for *finance* of about SEK 90 million, significantly smaller than what the Swedish strategies would suggest, is in money terms dominated by support for microfinance until the late 2000s. As elaborated in the subsequent chapter, Swedish aid was instrumental in building one of BiH's best performing microfinance institutions. However, it was a support with some significant question marks as discussed in chapter 6.

The Swedish support for *regional economic development* with a joint budget of about SEK 120 million is to a large extent focus on what turned out to be an innovative and successful series of projects under the acronym CREDO which was building on a regional structure created by the EU to stimulate economic cooperation between the political entities and cantons. In terms of *business environment reform*, which has been about SEK 85 million, Sida has mainly cooperated with the World Bank and IFC in a series of projects after year 2000. The Swedish support began with small share of the funding of large World Bank IDA credits, while Sida in the end had become a dominant funder. The projects all deal with the complexity of the governance structure and the problems of that in undertaking effective reforms. *Other SME development* is a category in the portfolio which includes an early version of the Start East program aiming at stimulating Swedish SMEs to undertake joint ventures in Bosnia & Herzegovina as well as a large USAID-Sida project focusing on SMEs. There is also a series of projects with an innovation and IT focus during the last five years. It should be noted that SME development permeates most of the other clusters.

In chapters 5-9 we analyze the composition of the Swedish support for each of the clusters, their evolution over time, and the results as reported by mid-term reviews evaluations, final reports and other forms of results-reporting. Finally, we discuss the likely

contribution of the Swedish support to the observed development from 1995 to 2018 in each of the sectors or themes of the clusters.

5. Agriculture Development

5.1 Background

From 1995 until today Sida has provided above SEK 600 million in some 20 projects in agriculture development.¹¹ These projects can be divided in the following categories:

- Agriculture development which grew out of Sida's Integrated Area Program. Half a dozen such projects were supported under the IAP umbrella from 1996 to 2005, implemented by local and international NGOs such as the Lutheran World Foundation and Caritas. Their combined budget was about SEK 280 million.
- A series of projects to end those above after some critical studies and reviews in 2004-05. These 'exit' projects were implemented 2006-2009. Their combined budget was about SEK 60 million.
- Six projects focusing on food safety and animal health implemented from 2007 and still on-going. Their combined budget is SEK 125 million
- Two joint projects co-funded with USAID from 2009 under the name FARMA which included value chain support at farm and agro-enterprise level in a few selected product groups combined with institutional interventions. The second project is still on-going and expected to end 2020. The total Sida budget is SEK 138 million.

5.2 Swedish country strategies on agriculture

In the first Swedish country strategy, agriculture development is only mentioned in the context of efforts to develop Bosnia's

¹¹ These figures are uncertain as earlier decision allocations are difficult to trace in Sida's archives.

financial system and under this in the form of potential agricultural credits. In the second strategy, 2003-2005, there is a recognition of what is taking place on the ground in the sense that Sweden should support the local economy through micro credits and small-scale agriculture in the context of the Integrated Area Program. The strategy 2006-2010 mentions agriculture under IAP and notes that these efforts should be separated from this program and focus on sustainable job-creation. The 2011-2014 strategy mentions the FARMA project with USAID but in the context of SME development, while the current regional strategy 2014-2020 does not mention agriculture at all. Overall, there is a large discrepancy between the strategies and the actual interventions. According to a participant in the early strategy formulation there was a difference of opinion between Sida and the Ministry where representatives for the Ministry did not believe in agriculture support and did not see BiH becoming a part of the EU due to its agricultural potential.¹²

5.3 The first approach: Agriculture under IAP

IAP included already from the beginning funding of agricultural inputs provided as gifts to refugee returnees involved in the housing programs. The motivation was that people returning to their rebuilt homes, whether from abroad or from other areas in Bosnia & Herzegovina, would need means of livelihood to be able to survive and stay. While the Bosnian economy prior to the war was mainly industrial and not agriculture based, in the immediate post-war period agriculture was considered by Sida and others as the fastest way to create sources of income for the returning refugees. Part-time agriculture had been a common source of additional income and production for self-sufficiency in the pre-war Yugoslavian Republic of Bosnia & Herzegovina which could be built upon. According to Sida staff engaged at that time there was very little else to support in order to provide the returnees with means for sustaining life.

¹² Comment by Per Byman on the draft report.

During the late 1990s and early 2000s non-government organizations which were implementing the IAP began providing more systematic agriculture support to their target groups such as extension services and marketing to make them more of commercial farmers. A leading NGO in this respect was the Lutheran World Federation which pioneered this form of support. Another relief organization engaged in IAP, Caritas, was encouraged by Sida also to expand its services to include provision of agricultural inputs and advisory services. The agriculture development expanded simultaneously to also include villagers who did not belong to the returnees. However, the support continued to be area-based and focused on the villages where the Sida funded house rehabilitation was taking place. By early 2000s, Sida was funding half a dozen projects which jointly could be considered an agriculture sector program of sort. The Lutheran World Federation was by far the largest implementor of these funds.

Lutheran World Federation's agriculture. LWF was one of Sida's main partners in the IAP. The organization had begun providing emergency support in the Balkans from the outset of the war which shifted to rehabilitation with the Dayton peace agreement.¹³ LWF's agricultural interventions evolved from relatively simple distribution into a more complex agricultural development program. Provision of material (seeds, fertilizers, seedlings), live materials (such as cows, sheep, chicks) machinery (such as tractors, chain saws, multi-cultivators) and building material (greenhouses, animal shelters, bee-hives) was based on needs assessments amongst the returning refugees. Inputs were provided free of charge with a value per benefitting family of about SEK 10,000-12,000. (These amounts should be seen in the context of free self-help materials for house reconstruction worth in the order of SEK 70,000 - 80,000 per family). LWF provided also advisory services by agronomists and veterinaries. Two parallel LWF projects emerged, both with considerable Sida support; one had the Tuzla

¹³ Sida's partners in the housing construction in IAP were Caritas, Cross Roads International [CRI], Lutheran World Federation, and the Swedish Rescue Services Agency [SRSA). LWF was a major partner organization to Sida in general. For example, LWF implemented projects with a total budget of SEK 120 million in 2004 in Southern-eastern Europe.

region in the north of Bosnia & Herzegovina as a base, the other Sanski Most in North-western Bosnia. They were almost exclusively covering the Federation of BiH.

Evaluation of LWF Tuzla. An evaluation of the Tuzla agriculture operations by LWF was commissioned by Sida in 2002. The evaluation, based on a survey of supported families, concluded that:

The agricultural rehabilitation assistance provided through LWF-Tuzla is successful in terms of creating conditions for sustainable production and income. There is a very high degree of satisfaction amongst the beneficiaries. The vast majority of the beneficiary households are able to earn an income through their own agricultural production. 86% of the returnees are totally or partially dependent on this income (SGDS 2002).

The evaluation concluded that the LWF interventions were efficient, that LWF was doing a good job and that it was important that Sida continued and expanded its support in a context where the government had little to offer.

Encouraged by the evaluation results the Sida support to the LWF's agricultural operations in Tuzla expanded, for example by establishing a greenhouse of 5,500sqm with attached warehouse and laboratory. By 2004, Sida had funded the LWF Tuzla operations with about SEK 150 million since 1997 and the support continued with annual allocations under IAP with SEK 20-30 million. LWF Tuzla had become Sida's dominating agricultural project and economic development project in general.

Other agriculture projects in the early post-war period. Besides the LWF project in Tuzla, there was a smaller LWF sister program in Sanski Most targeting 2,500 families in 10 municipalities. It had a similar origin and approach as Tuzla. There was also a project by Caritas in Gorazde and Birac aimed at returning refugees in Caritas housing program under the IAP, using a similar approach as LWF. A project called Cow How focused on dairy in the municipality of Maglaj was developed largely singlehanded by a Swedish female farmer in Hörby out of a Sida funded municipality twinning program. Region Halland implemented revitalization of the agriculture school Sanus Futurum in Sanski Most with Sida

funding, also providing scholarships for Bosnian students to Sweden. There was also an intervention in organic farming developed and implemented by the Sarajevo-based NGO ECON¹⁴ in cooperation with Grolink, a Swedish NGO specializing in organic agriculture with extensive experience working with Sida in Africa.

Critique of the on-going agriculture projects. Sida commissioned another evaluation of the LWF Tuzla project in 2004 (Denninger & Jelic 2004). It provided a quite different view than the evaluation two years earlier. It concluded that LWF-Tuzla continued to operate as a humanitarian organization providing considerable inputs free of charge valued now at over EUR 2,000 per family in a situation where the parallel Sida funded agriculture projects - including LWF Sanki Most - used revolving funds and micro credits. The evaluators stressed that the major subsidies were contrary to Sida's policy for support to market development. The evaluation also concluded that the revenues from the Tuzla production 1997-2004 were less than the donor support over the same time, making the LWF approach cost-ineffective and unsustainable.

The 2004 evaluation of LWF Tuzla was requested by Sida to provide ideas on how the ongoing Sida funded agriculture projects should be integrated into a program approach at a time when the Swedish aid shifted from emergency/rehabilitation support to development cooperation. In line with this, Denninger recommended an end to the scattered support to form one coherent program with the objective of increased competitiveness of the low-productive agriculture in preparation for the country's EU accession. The consultants concluded that:

Sida is well justified in remaining in the agricultural sector using projects to consolidate farmer skills and abilities. Making BiH agriculture competitive in an EU context is an enormous challenge; development and support are urgently needed if any viable agriculture is to continue in the country. Sida has invested substantially in Bosnia agriculture via the IAP programme;

¹⁴ Economic Cooperation Network (ECON) was established in 2000 by the staff of Refugee Trust Ireland following the decision of the Trust to withdraw from Bosnia & Herzegovina. ECON was looking for 'business in a new donor landscape like many other emergency-related NGOs in Bosnia & Herzegovina at that time.

abandoning the scene now would entail an investment loss. (Denninger & Jelic 2004 p. 37)

Parallel with the Denninger & Jelic evaluation, Sida was carrying out a major evaluation of the IAP. This evaluation was focused on the housing reconstruction and only marginally reflected on the agriculture interventions. The anecdotal evidence provided, nevertheless, gave a bleak picture in the sense that the inputs provided by LWF to the participating families in the housing program were seen by many of the receivers as a form of direct income, i.e. the inputs could be sold for cash (Magnusson et al 2005). A workshop which was part of the IAP evaluation concluded that the small-scale farming which had evolved in the IAP was not a long-term solution. There was a need for comprehensive economic analysis and a national survey of natural and human resources for future economic planning. Bosnia & Herzegovina needed an economic strategy on the national level that could clarify which sectors should be developed. (Molander et al 2004).

5.4 Exit from the first agriculture interventions

Rather than pursue an agriculture program based on the ongoing projects as suggested by Denninger, Sida began putting pressure on the international NGOs to make their projects self-sustained and 'localized' in Sida's terminology, the latter meaning implemented by local entities. It was *de facto* an exit process comprising the following actions:

- LWF initiated a process both in Tuzla and Sanski Most to create foundations which would take over the project assets and the development services from LWF. In Tuzla a NGO was called Bosper was established which would implement a Sida funded project 2006-2009 with a budget of SEK 27 million. In addition, Bosper was handed the Sida funded greenhouse and related assets for seedling production.
- In Sanski Most, LWF registered an NGO under the name Terra Sana. LWF transferred the micro credit scheme and its

assets and liabilities to this NGO.¹⁵ A project by Terra Sana for 2006-2009 with a Sida grant of SEK 8.5 million became the Sida exit.

- The Cow How project was put under pressure to transform its activities into a company which should become self-sustained through purchase-marketing of milk, sale of heifers, etc.
- A proposal for a new, expanded agricultural school project by Region Halland submitted in 2004 was rejected by Sida.
- In organic farming, ECON became the lead agency in a new project called Job Creation through Organic Agriculture implemented 2006-2009 with a Sida budget of SEK 12 million.

Results of Sida's first agricultural activities. The agriculture projects which had emanated out of the IAP or developed in parallel with the IAP had all come to an end by 2009. Except for the evaluations 2002 and 2004 of the LWF Tuzla project, no independent review of the results and impact of any of the other projects was commissioned by Sida although these projects had been supported by in the order of SEK 350 million in total. A study of Bosnian agriculture in 2007 with focus on Sida's IAP provided a critical view of the past approach in line with the Denninger evaluation cited above (Christoplos 2007). The author concluded that the agriculture development under IAP and similar programs had limited opportunities to create a sustainable and competitive agriculture. Too much had been focused on micro-farms, operated by persons who to a limited extent wanted to be commercial farmers. Thus, agriculture under IAP had become heavily subsidized farming by mostly non-farmers with generally too small parcels of land to be commercial. The study also questioned the Swedish strategy that the on-going agricultural program was a means for job-creation. According to Christoplos, agriculture in BiH was unlikely to be an absorber of the un-employed and the Swedish agriculture projects in particular had not that capacity.

¹⁵ Terra Sana was register as an NGO in 2005.

Sustainability. In terms of the institution building which took place at the exit phase, Bosper is still in operation, today struggling after the end of the Sida funding. Bosper had to reduce its staff from 18 persons engaged in the advisory services to the client farmers to currently four. Bosper maintains its advisory and marketing services at a limited level through support by various smaller donor funds for example by the Norwegian Embassy and with some support from the Tuzla municipality. Bosper's commercial enterprise Plant built around the Sida funded greenhouse runs a commercial operation producing seedlings for various vegetables such as peppers, tomatoes and eggplants. After some years of struggling financially, the company is now doing better. The company has 10 employees and an annual turnover of about EUR 0.7 million. The seedlings are sold throughout Bosnia & Herzegovina. If the capital investment in the greenhouse facilities provided as grants by Sida were calculated in, it is unlikely that the company would have survived as a commercial entity.

The Cow How project has ceased to exist, and the company established under the project collapsed. According to a Sida review 2009 the company failed as the time was too short to build sufficient working capital for the operation. It left some unfinished business behind.

The Sida support in organic farming had a partly different origin, established less as humanitarian assistance but as a commercial venture exploiting what was seen by the promoters as a comparative advantage of BiH in a European context, not least as the war had prevented use of pesticides in farming. A certifying body had been established, called *Organiska Kontrola*, which was ready for international accreditation. (*Organiska Kontrola* was accredited by the International Foundation for Organic Agriculture, IFOAM in 2007.) An export industry of berries and herbs, also involving some Swedish subsidiaries emerged from the project. BiH's organic farming is, however, slow in taking off, lagging the other countries in the region. Thus, IFOAM reports that organic farming continues to be embryonic. In 2016, less than 1,000 ha were under organic cultivation, which is less than 0.1% of agriculture land and only about 40 farmers were certified. (IFOAM World report 2017). The

implementing organization ECON engaged for some time in commercial marketing of organic products has ceased to exist.

5.5 A new approach from mid 2000s: food safety and animal health

Sida commissioned in 2006 a study by Swedish Institute for Food and Agricultural Economics (SLI) on the competitiveness of the agricultural sector in Bosnia & Herzegovina in a 5-10 years perspective (SLI 2006). The study found that the challenges of making agriculture competitive in a European or regional perspective were considerable. Constraining elements were the smallness of farms, in relative terms a high wage level, low productivity, not the optimal natural conditions, much lower subsidy levels than available in the EU or neighboring countries and not least, the policy and institutional weaknesses imbedded in the governance structure, for example the large number of entity and canton ministries of agriculture and their internal conflicts. The results of the study indicated that agriculture was unlikely to be a major job-creator, but the sector would continue to play a role as a social buffer providing food security for farm household members.

Given the results of the various studies and evaluations, that Sida systematically had exited from its first cluster of agriculture projects and had abandoned the idea of a program approach, it is surprising that Sida in the latter part of the 2000s would pursue a new, quite ambitious group of projects in agriculture development. Especially as the country strategy 2006-2010 had no indication that agriculture should be a focus point in the economic sector in Sweden's support. It was not that the agriculture sector was underfinanced by the donor community. By the late 2000s some fifteen bilateral donors and international organizations were engaged in Bosnian agriculture and rural development including the World Bank, EBRD, IFAD, OPEC, UNDP, FAO, the European Commission, Italy, Japan, the Netherlands, Norway, Spain, Switzerland, the UK and USA. An inventory identified about 20 agriculture and rural development projects on-going 2010-11 with a joint budget of over EUR 100 million (Bilali et al 2011).

The new Sida projects were a mixture of 1) farm and agrobusiness focused interventions based on value chains, and 2) efforts to address the institutional and policy issues in Bosnian agriculture mainly related to food safety and animal health. The partners were not anymore NGOs but the World Bank, USAID and the Swedish public institutions National Food Agency (SLV) and the Swedish Board for Accreditation and Conformity Assessment (SWEDAC). Sweden became jointly with USAID one of the largest bilateral donors in the agriculture sector at this time.

World Bank Agriculture and Rural Development. The first of these efforts was a collaboration with the World Bank. The Agriculture and Rural Development Project (ARDP) co-financed by Sida, was a USD 27 million, 6-year (2007-2012) project with the purpose of strengthening the institutional policy framework in food value chains and to prepare Bosnia & Herzegovina to be eligible for EU's the Instrument for Pre-Accession Assistance in Rural Development (IPARD). The project included improving agricultural information systems, strengthening veterinary services, food safety and plant health protection, strengthening inspectorate capacity and agricultural advisory services. As a means of addressing IPARD, it also had a rural development dimension with inputs to improve rural development program planning and coordination, and grants for investments in targeted areas.

Sida provided USD 6 million (SEK 41 million) of the ARDP budget. Specifically, Sida funding was expected to be for training of staff in the National Accreditation Body and supporting the Food and Safety Agency (FSA) staff in drafting laws and regulations; and providing the hazard analysis and critical control points training for the FSA staff, industry representatives and inspection services. The project was very slow in implementation, redesigned mid-term and the financial resources were partly shifted for rehabilitation purposes after the severe flooding during the winter 2010/11. The project period was also extended four years until 2016. Despite this, the disbursement under the ARDP was substantially less than originally planned. Of the World Bank's IDA credit of USD 21 million, only USD 12 million was disbursed. Sida's USD 6 million grant contribution was, on the other hand, fully disbursed by the World Bank.

The Bank's completion report rated the ARDP as "moderately unsatisfactory" in terms of outcome (World Bank 2016). For example, there was no clear evidence that the project had achieved the outcome making substantial contribution to an acceleration of the country to access IPARD funds. The slow implementation and less than successful performance was blamed on the complexity of the political landscape creating duplications of institutions often in conflict which delayed and sometimes prevented progress. The Bank concluded that, given the complex institutional set-up in Bosnia & Herzegovina, the Bank would need to pursue a less complicated operation with a simpler design covering fewer institutions in the future. Staff at the Swedish Embassy at the time of ARDP was also critical of the World Bank's management of the project, carried out from Washington DC and that the project had not overcome imbedded corruption in the system.

According to the Bank's completion report the Sida funds were redirected and disbursed for flood rehabilitation. Thus, these funds helped rebuild small rural bridges and access roads to remote villages, refurbished water supply systems for rural communities and small irrigation systems, rehabilitated greenhouses and replanted orchards and vineyards. In some ways, the Sida involvement in ARDP thus became a continuation of the IAP approach, this time to combat a natural disaster rather than a man-made. It appears that the Sida funds were not at all used for institution building in food safety. Sida did not undertake a review or evaluation of its own and had no comment on the Bank's draft completion report.

Food safety and animal health. Parallel to the on-going ARDP, Sida began work on strengthening food safety and animal health through a series of other projects. First one out was a SEK 15 million project 2008-2011 aimed at supporting the relevant institutions in adapting to the European Union Acquis and to the WTO agreements, in particular the Sanitary and Phyto Sanitary measures (SPS). The project had a background in a Sida funded ITP course in 2003 involving representatives from the Balkan. Out of the course emerged a regional program idea promoted by the Swedish consultancy firm which was running the ITP course, which eventually became a project called Quality and Regulatory Infrastructure Development for Food Safety and Quality in South

East Europe. However, only Bosnia & Herzegovina and Macedonia eventually participated in two separate projects.

The services under the SPS project were provided by two Swedish organizations, SWEDAC and SLV with SWEDAC as the formal counterpart to Sida. SWEDAC considered in its final report having achieved good results in terms of capacity building and awareness in different parts of the Bosnian food safety system. However, the report also expressed frustration over how the system functioned and that the objective of the project had been far from achieved:

With efforts and resources invested by the Project, we are free to once again remind that B&H system still works on ex-Yugoslavia principles (internationally looking on GATT principles), and is not based on requirements of today's global food safety requirements, based primarily on the WTO SPS and TBT agreements... The B&H system still does not recognize the EU common internal market requirements. Therefore, in comparison with the EU system, the B&H system does not provide sufficient guarantees of the protection of the life and health of consumers from unsafe food and does not create the conditions for international food trade (SWEDAC 2012, p.29).

The report identified the key constraint for the under-performance and the consequences of that:

Although the official commitment of B&H is to become a member of the WTO and the EU, it cannot be seen in the behavior of the politicians. Discussions about the responsibilities between the state and the entities are constant. This situation distances B&H from international trade. Establishment of a single economic space is very slow. On the other hand, it sends a clear message to foreign capital not to come in B&H and continues impoverishment of the State and its citizens (SWEDAC 2012 p.31).

It is noteworthy that the SPS project was designed and undertaken in parallel with the ARDP above largely focusing on the same issues and the same institutions, but these aspects were not mentioned in any reporting, nor have we come across any justification in Sida documents for the two-track approach. The reason seems to be that the projects evolved from proposals by two different organizations, the World Bank and the Swedish

consultancy firm and the projects to some extent could be seen as in competition. As it were, this issue never came to fruition due to the changed use of the Sida fund in ARDP. After the ARDP and SPS projects, Sida would not pursue food safety anymore but shifted attention to animal health.

Four projects with the State Veterinary Office. Sida began its cooperation with the Bosnian State Veterinary Office (SVO) from 2009 in a project providing vaccine as an emergency input aimed at fighting an ongoing brucellosis epidemic.¹⁶ Sida funded a project with SEK 25 million 2009-2010. The project was entirely in the form of procurement of vaccines and related equipment with the planning and procurement handled by SVO. The implementing organization reported that about a million small ruminants (almost entirely sheep and goats) had been vaccinated and close to 95% of the stock of animals registered as a result of the project. In the Embassy's view, the project served as a model for dealing with infectious diseases. SVO's performance in the project implementation was seen by the donor as highly satisfactory, efficient, transparent and above all very professional. SVO was judged to be one of rare well-functioning, depoliticized institutions at the central level in Bosnia & Herzegovina.

In 2010 SVO proposed a 5-year program to various donors including Sweden with a budget of about EUR 18 million of which the government was expected to fund EUR 2.5 million. The purpose of the program was providing vaccinations, strengthening the capacity of SVO and building facilities for the country's border veterinary inspection. Sida agreed to part-finance the program 2011-2014 with EUR 3 million (SEK 31 million), mainly for a continuation of the brucellosis vaccination program. Cyprus in cooperation with Sida would finance the border inspection facilities (EUR 0.9 million). As Cyprus dropped out of the project during the implementation, Sida funds were used to finish these units. No other donors participated in the program. The SVO's final report considered the project a major success: about half a million animals

¹⁶ Brucellosis is a highly infectious disease affecting cattle, sheep, goats and pigs, and indirectly also humans. Brucellosis is a significant cause of reproductive losses in animals and results potentially in high economic costs.

(sheep and goats) were vaccinated 2011-2013. With the previous vaccinations the complete population of small ruminants in the country had been vaccinated and the cases of brucellosis declined from near 23,000 in 2008, to less than 100 in 2013. The cases of humans diagnosed with the disease had dropped from about 1,000 to about 80 over the same period according to SVO.

Sida supported in 2016 a third project with the State Veterinary Office for Lumpy Skin Disease¹⁷ vaccine in response to an outbreak of the disease in the Balkan region which threatened also Bosnia & Herzegovina with potential severe economic consequences. Sida provided SEK 2.6 million for procurement of vaccine. In April 2018, Sida signed a fourth contract with SVO for continuation of the brucellosis vaccination program with support of SEK 9.5 million. The justification was that an effective vaccination campaign to eliminate brucellosis should be carried out over 8 years.

No independent evaluation has so far been carried out by Sida for any of the four vaccination projects despite grants of in total about SEK 70 million to one authority, nor of any of the other food safety and animal health projects since 2007. SVO has not only received support from Sweden. It is one of the beneficiary institutions from EU IPA funds from 2014 Program for the Control and Eradication of Animal Diseases in Bosnia & Herzegovina, including developed vaccination and post-vaccination monitoring programs. The SVO support has to some extent been controversial among Sida staff in Sarajevo. One officer expressed critique to the evaluation arguing that the relevance can be questioned of using grant funds to buy vaccines in a country with a GDP of almost USD 5000 per capita, where animal health is of utmost importance for export. These costs should be possible to be borne by the country.

¹⁷ Lumpy Skin Disease is an infectious disease in cattle. The virus has important economic implications since affected animals tend to have permanent damage to their skin, lowering the commercial value of their hide. Additionally, the disease often results in chronic debility, reduced milk production, poor growth, infertility, abortion, and sometimes death.

5.6 Cooperation with USAID: the FARMA value chain projects

The second strand of Sida's new support in agriculture since the late 2000s was a joint project with USAID called Fostering Agricultural Markets Activity (FARMA), a USD 21 million project to be implemented 2009-2014 with equal funding by Sida and USAID. The Swedish allocation was SEK 66 million. The overall objective of FARMA was increased agricultural competitiveness leading to economic growth and poverty reduction. FARMA's specific and quantified objectives were increase in sales and employment by the participating producers, new products eligible to enter the EU market, and return on the investments. The tools to achieve these objectives included market research, training, technical assistance, demonstrations, events, study tours and grants selected based on concept papers submitted by the producers and partner organizations. FARMA was designed by USAID which also was in charge of administering the project, including the recruitment of the implementing American consultancy group, Chemonics, through a competitive procurement process.

FARMA had a background in a USAID project called LAMP (Linking Agriculture Markets to Producers) implemented 2003-2008. LAMP had focused on three sub-sectors, (dairy, fruits & vegetables and medical & aromatic plants) and had provided training, assistance, grants and institutional development related to these product groups. FARMA was basically a repetition of LAMP with largely the same mix of approaches and focus on the same sub-sectors. FARMA also had the same implementation mode as LAMP in the sense it was managed by a US-based consultancy firm responsible for the project.

The Sida decision of co-funding FARMA appears mainly have been a matter of convenience; FARMA was a means of engaging in a seemingly well-designed project with limited demand on Embassy staff resources.¹⁸ According to the head of the development

¹⁸ Overall, Sida staff has commented on the considerable management resources differences between the Embassy and the USAID office in Bosnia &

cooperation in Sarajevo at this time, the Swedish Embassy had ‘freed’ resources as the IAP had been ended, while the Swedish annual aid allocations for Bosnia & Herzegovina had remained largely the same. The Embassy looked for opportunities to engage in SME development in line with the country strategy 2006-2010 and found that USAID seemed the best option for cooperation. A parallel project aimed at SMEs called FIRMA was also co-funded by Sida and USAID, see further chapter 9. It could be added that Sida’s overall policy at this time was closer cooperation with USAID during the Obama administration. Sida also already had a positive experience of cooperation with USAID in Bosnia through the successful municipality project GAP and prior to that participation in a regional development project in 2001 (see chapter 6 on Finance).

FARMA was evaluated in 2015 by two independent evaluations, one commissioned by Sida, the other by USAID. These evaluations came to different conclusions. The Sida evaluation reported that the project performance had been good (Ardeni 2015). The evaluation claimed that FARMA had strongly contributed to the objective of improved agricultural competitiveness and economic growth. It also had found that the project had visible impact on beneficiary producer organizations, particularly in improved market linkages for many companies and farms, increased sales and exports, number of products eligible for EU markets, access to finance, and increased technical capacity and skills.

The USAID evaluation reported much more lukewarm results. The evaluation was carried out by a team under a USAID project called MEASURE with a specific task of undertaking high quality evaluations in Bosnia & Herzegovina of USAID projects as well as improving the standards of evaluation in the country. The team used a methodology with control groups to address the counterfactuals. The evaluation did not find any statistically significant effects for the full sample used, nor for the fruits and vegetable sub-sector or the medicinal and aromatic plants sub-sector. However, it found statistically significant results in the dairy sub-sector in terms of

Herzegovina with USAID having about 5 times as many staff managing an aid budget not much larger than Sida’s.

positive impact on sales. There were no significant results for the exports related outcome variables, nor evidence that the project had increased the value-added level of the three sub-sectors. According to the evaluation, FARMA did not substantially improve the overall policy environment for the producer organizations. Assistance to government institution was limited to harmonization with the EU technical standards and did not address the most pressing issues partially due to lack of political will (Vukotic et al 2015a).

The FARMA implementing firm, Chemonics, responded to the USAID evaluation claiming the methodology was so flawed mainly by the choice of control groups that the results could not be trusted. The evaluators in their turn responded by a more refined analysis with a control group more similar to FARMA's target and found their initial results robust.

FARMA II. USAID and Sida were not discouraged by the MEASURE evaluation and decided on a follow-up project to FARMA. A USD 18.5 million project was agreed for the period 2015-2019 financed in equal parts. (The Sida budget was SEK 72 million). The same implementation procedures applied as in the first project in the sense that USAID designed and managed the project. The implementation was delegated to a consultancy firm based on a competitive bidding process. The US firm Cardno International won the assignment.¹⁹ The project focused on dairy, poultry, fruits, vegetables, medicinal and aromatic plants and honey, i.e. largely the same as in the first FARMA and to a large extent a continuation with the same product group as in LAMP. The addition was poultry, a product group for which Bosnian producers did not have access to the EU due to food safety issues. Compared to FARMA I, an objective of poverty reduction was dropped. USAID had an explicit strategy to avoid the poverty-orientation and rather aim at commercial farmers and agro-based companies in a value chain with a potential for rapid growth which indirectly would benefit also smaller farmers.²⁰

A mid-term review was undertaken in 2018 by USAID under the MEASURE project. In general, the review indicated that the project

¹⁹ CARDO had implemented the parallel project FIRMA 2009-2015.

²⁰ USAID wrote a confidential memo to the Swedish Embassy on the subject.

was on track to meet the quantified targets in terms of employment and export, but it was questionable if sales could be reached. The mid-term report noted that the project had focused on the largest companies in the food sector already established on the EU market based on the concept of value chain, that ‘company beneficiaries’ generally were satisfied with the support, but the feelings among institutions were more mixed. FARMA II’s contribution to the preparation of a BiH’s Rural Development Strategy which was endorsed by the parliament in February 2018 - an EU condition for Bosnia & Herzegovina’s access to IPARD - was noted by the mid-term review as an achievement. Nevertheless, the mid-term review has triggered some issues among the three partners, USAID, Sida and the Cardno management in terms of performance and the future orientation of the project.

5.7 The sector context

While the economy of Bosnia & Herzegovina has changed dramatically since the Yugoslavian time, there are certain features of the agriculture sector that are largely the same. Agriculture was a complement to other sources of income and production for home consumption for a large share of the population before the war and remains so also today. Bosnia & Herzegovina is a country where about 60% of the population lives in rural areas, a share which is the same today as in the 1980s. This pattern is not because it is an agriculture-based economy, but more a tradition from the Yugoslavian time when employment was primarily in large industrial complexes and the workers commuted from their home villages facilitated at that time by a good public transport system, today by private cars. People living in villages produce for home consumption and for the market in the same way today as before the war. UNDP described the setting in rural areas in the early 2010s:

Half of rural households have little or no involvement with agriculture, at most keeping a vegetable garden. 36% of rural households operate “smallholdings”, producing a significant share of their own food requirements, but generating very little cash income; around 13% of rural households may be considered

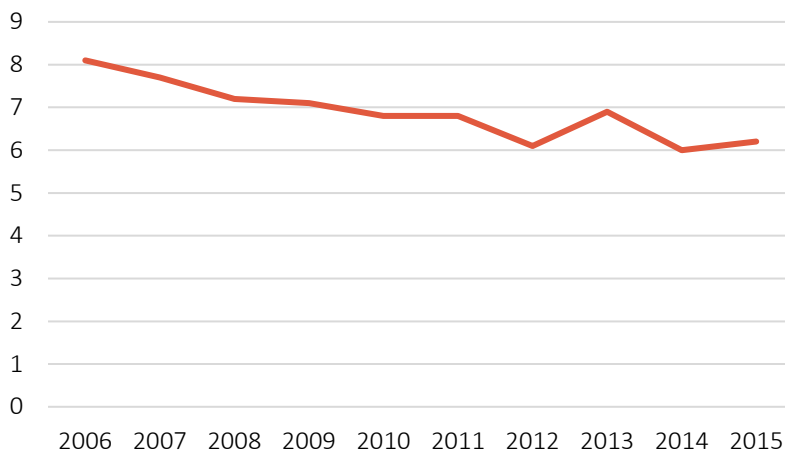
as full-time or part-time farms, producing significant quantities for sale, yet even these gain more than three-quarters of their income from outside agriculture. Less than 1% of households would typically be classified as “commercial farms” (UNDP 2013, p. 11).

The UNDP report further stated that less than 10% of the rural households generate a cash income from agriculture, which averages 6% of total household income. Furthermore, that formal employment in agriculture appeared to be very low, with most of the labor provided by unpaid family members. The UNDP report claims that there might be a potential to increase agricultural productivity from its current level but changing the practices of hundreds of thousands of part-time producers would be a major challenge, particularly when there is no effective advisory service.

The World Bank diagnostic study of Bosnia & Herzegovina in 2015 gives a mixed picture of the agriculture sector. On the one hand, the study noted that the sector’s share of GDP had declined from 15% in 2001 to 8% in 2013, on the other hand that the sector has been important as a means of poverty reduction for the near 20% of the labor force engaged full-time or part time in agriculture (World Bank 2015).

A background report prepared for FARMA II in 2017 shows that between the 2006 and 2015 there has been a declining trend of gross value added in agricultural production, including forestry and fishing, in absolute terms as shown below:

Figure 13. Gross value added in agriculture, forestry and fisheries 2006-2015 (KM billion)



Source FARMA II

In terms of employment, long-term trends indicate a decrease in the number of people engaged in agriculture; however, this decrease is slow and indicates agrarian overemployment (Vasko & Mirjanic 2013).

5.8 Contributions to agriculture development

Looking at Sida's agriculture development in retrospect, considering that Sida has invested in the order of SEK 600 million from 1995 until today, it is striking how little is known of the results, the impact on competitiveness the contribution to BiH's agriculture development, institution building in the sector, job-creation in general as well as to what extent the projects have contributed to the country's accession to the EU. Sida has spent little on evaluations of the different projects and programs, few of them have at all been reviewed and evaluated independently and when evaluations have taken place as in the case of FARMA, the results have to a large extent been contradictory. There is also a striking disconnect between the Swedish country strategies and the action on the ground in terms of agriculture development. Little in the

strategies explains the main thrust on agriculture in the Swedish assistance.

It would be wrong to judge the initial phase of Sida's agriculture projects from a pure agricultural economic perspective. They had a different objective, defined by their humanitarian dimension, designed as a complement to the issue of counteracting ethnic cleansing, rather than determined by their agrobusiness potential. They were more driven by the aim of providing means for surviving in the immediate post-war period, than driving economic development. Judging from the 2002 evaluation of LWF Tuzla the approach was successful in the humanitarian context. According to Sida staff engaged at that time, it was also extremely difficult to find alternatives to agriculture as a means of income-generation during the early post-war years. While seemingly relevant and effective in its early stages in this respect, the relevance declined as did their effectiveness as the economic environment changed in Bosnia & Herzegovina. The reconstruction after the war was largely completed by the early 2000s and the economy had picked up fast with two-digit annual growth. Sida was slow to end its agricultural support. When the shift occurred in around 2006, it was more driven by exit than preparing for the future.

A shift took place in the late 2000s with a stronger focus on creating an enabling environment for agriculture by addressing the institutional and policy issues in food safety and animal health, which were critical elements in the context of the EU accession. Also, Sida joining USAID in the FARMA project in 2009 meant a stronger drive for a commercially competitive agro-industry. The attempts to address essential policy and institutional issues to improve the business environment and facilitate the EU accession, ran into political constraints related to the dysfunctional governance structure. Sida took eventually a pragmatic approach by working with one central agency, the State Veterinary Office, focusing basically on one development problem: vaccination for animal health. Seemingly this approach led to some quick results. However, these projects were *ad hoc* forms of budget support with no capacity building in a situation when the government was unable or unwilling to provide the needed finance. While the development of food safety and animal health are critical aspects of the EU accession

process, a longer-term comprehensive program approach (in cooperation with the EU) might have made more sense than the quick emergency responses.

The cooperation with USAID has had its own issues. Sida became a largely passive bed-fellow to USAID and the implementing consultancy firms. Furthermore, the USAID model of procurement made *de facto* only American firms competitive for contracting of these large-scale projects. There is a degree of an old-fashioned project approach in USAID with its strong reliance on outside consultants, a model perhaps more suitable in a least-developed country context, than in an upper-middle-income European country. To what extent the considerable resources invested in the FARMA project on a few product groups has paid off is yet to be determined after two evaluations with quite different results and the intervention still ongoing.

A broader question remains whether agriculture development has been a good choice in using Swedish aid funds towards economic development of Bosnia & Herzegovina beyond the first post-war years. Agriculture was a weak sector in the pre-war period, and in the post-war period a declining sector in relative terms in the Bosnian economy, not an absorber of the unemployed, nor likely a sector which will reduce the brain drain of educated youth.

6. Financial Sector Development

6.1 Background

Sida's engagement in finance sector development since the war has a total allocation of about SEK 90 million so far. The activities have included three forms of support:

- Bank privatization through co-funding (technical assistance) with the World Bank and IFC from 1998 to 2005. The total support was SEK 23 million.
- Microfinance development through international NGOs from 1997 to 2010 of in total about SEK 60 million. In addition to this Sida initiated a credit guarantee facility and refinancing window for micro finance institutions (MFIs) with the German development bank KfW with a budget of SEK 48 million. The latter project was cancelled in 2010 and most of the funding returned to Sida
- Credit guarantees jointly with USAID to five commercial banks with the purpose of expanding their lending to SMEs. This began in 2010 and is on-going today. The cost cannot be determined until the guarantees are closed in 2025 but is so far SEK 6 million in fee subsidy.

6.2 The Swedish country strategies on finance

A consultancy study in 1997 was commissioned by Sida and intended as a background to a long-term strategy for Swedish support in private sector development. The study suggested an approach with inputs in bank privatization, development of financial inspection, SME development, development of an audit office, etc. While the envisaged long-term strategy never emerged, Sida began engaging in the ongoing economic reform program with focus on bank privatization. Microfinance became a second leg, albeit not indicated in the consultancy study mentioned above but out of a different origin.

Swedish support to the reform of the Bosnian financial system is well expressed in the Swedish country strategies already from 2000, including the support for microfinance, but also indicating possible support for other forms of support which never materialized such as agriculture credits and equity instruments such as a stock exchange. In term of microfinance, the first strategy highlighted the importance of regulation of microfinance, a subject that did not become a focus of Swedish assistance. Overall, the conclusion is that the actual engagement in finance by Sida is considerably less in budget terms and in diversity compared to what at least the earlier strategies expected. If anything, finance sector development jointly with SME development have been the core of proposed engagement in the Sweden's country strategies in terms of economic and market development. This is another example of the discrepancy between the government's country strategies and Sida's interventions.

6.3 Bank privatization

After the Dayton agreement several donors and International Finance Institutions (IFIs) began work on reforming the banking sector, primarily led by the World Bank. The World Bank requested Swedish technical support in a USD 5 million Emergency Pilot Credit Project 1998, followed by a USD 50 million Bank and Enterprise Adjustment Credit 1999-2002. Technical assistance was provided by Sida and the Netherlands to Bank Privatization Units in the Republika Srpska and in the BiH Federation. These units were established by the World Bank for privatization of solvent banks and liquidation of insolvent banks. Swedish long-term and short-term consultants worked first in the RS unit and from 2000 also in the Federation unit. The Swedish assistance had a budget in total of SEK 11 million.

In the end of the 1990s, there were near 70 banks operating in Bosnia & Herzegovina of which the majority were owned by public enterprises. Private banks in both entities were generally created during or after the war and were very small in capital or asset size. While Bosnia was over-banked in terms of the number of banks registered, the level of banking and lending services available was

highly inadequate to support the recovery of the economy after the war.

In the World Bank's completion report of the Bank and Enterprise Adjustment Credit Project (World Bank 2003), the overall outcome of the project was rated 'satisfactory'. The project had substantially achieved its development objective by strengthening the institutional and legal framework for privatization. It also had exceeded the privatization targets for enterprises and banks. No specific mentioning of the Sida support was made in the report. However, in the preparation for Sweden's country strategy 2003-2005, the results of the Sida support was summarized:

The finance sector reform is one of few success stories in BiH. One important reason is that in the centre of reforms has been a national institution. The Dayton created CBBH, Central Bank of BiH has been capable to act with integrity and drive the process on strength of its Dayton mandate, a good governing law and a competent international in charge, the New Zealander Peter Nicholl. Another reason is the unified policy recommendations/pressures from the WB/IMF and OHR and large assistance of foreign experts in the process. The Sida support to the Bank Privatisation Units has been an essential piece of the reform (banking) process. The Sida consultants worked closely with the World Bank, the CBBH, and the USAID advisors to the Banking Agency. (Iwansson & Byman 2002 p.9)

An off-spring of the bank privatization project by the World Bank was the IFC sponsored Sarajevo Privatisation Venture (SPV), a holding company for three Bosnian banks in need of re-capitalization before they could be privatized. IFC applied for technical assistance and Sida supported SPV with SEK 12 million 2002-2005.

Achievements and contributions. The Swedish support in the economic reform program in the late 1990s and early 2000s was small in financial terms as compared to the inputs by the World Bank group, USAID and also the Netherlands. The reform process is by most observers seen as one of the most significant achievements by the donor community in Bosnia & Herzegovina. Together with a well implemented macro-economic framework

with a central bank and a new convertible currently pegged to the Euro, the reform made BiH quickly recover economically from the war and to establish a functional and competitive banking system. The reform was a joint effort by the international community under the lead of the World Bank, taking place in a context where the domestic political powers were weak, unable to obstruct the process of a unified system rather than two or three for the entities. Sida provided technical expertise to the World Bank of high caliber with senior positions in the Swedish banking system and experience from the bank privatization process in the Baltic states. The Sida study referred to above noted:

The successes of Sida financed projects in bank privatisation are a result of good experts but also of the success in general in reform of the finance sector. Sida is not by itself large enough to be a major actor in economic reforms but can follow what the bigger financial institutions do and complement those or join forces with others (Iwansson & Byman 2002, p. 11)

The Swedish support was basically over and the reform finished when the Bank Privatization Units were closed down. After this, Sida has not had any significant engagement in the capacity building in the banking sector as such.

6.4 Microfinance

Swedish support for microfinance grew out of the Integrated Area Program. Several of the NGO which were implementing agriculture projects as complement to the housing reconstruction changed the supply of inputs to returnees from grants to loans through revolving funds. Some of funds were later transformed into Microfinance institutions (MFIs). We have not been able to trace the fate of the revolving schemes for agriculture established by NGOs such as the Lutheran World Federation and Caritas. On the other hand, Sida's cooperation with the World Vision International (WVI) ²¹

²¹ World Vision International is an Evangelical Christian NGO with roots in the 1950s and is dedicated to working with children, families and communities to overcome poverty and injustice. It has a global reach and employs today over 40,000 persons world-wide.

contributed to building one of Bosnia & Herzegovina's most successful microfinance institutions.

World Vision and EKI. WVI was providing emergency relief in Bosnia & Herzegovina from 1994 and began developing a micro credit scheme in 1996 with a first office in Zenica. Sida supported World Vision's microfinance in a series of allocations under the IAP between 1996-2004 with in total about SEK 24 million. In addition to the funding from Sida, the organization was also provided with finance and technical assistance by from World Bank, UNHCR, USDA and Canadian CIDA. Sida was the largest funder, however, accounting for about half of the funds. The microcredit program was initially called the Bosnia Enterprise Fund, a name changed in 1999 to *Ekonomiska Kreditna Institutcija* (EKI) which in 2001 was established as a foundation under the new Federation microfinance law. WVI transferred formally the Sida funds to EKI as an interest free loan. In 2004 Sida funded a final project of SEK 19 million for the period 2004-2008, this time directly to EKI. In summary, Swedish support of WVI/EKI microcredit operations were SEK 43 million over the period 1996-2008.

CHF and LIDER. In 2001 Sida began cooperating with another US-based NGO, the Cooperative Housing Foundation (CHF) under a USAID funded regional project. Sida co-financed one component of this USAID/CHF project called the Home Improvement Loan program with SEK 5 million. The microcredit operation was administered by a unit called the Local Initiative for the Development of Economic Region (LIDER) registered by CHF in 2002. In 2003 Sida funded a new CHF/LIDER project proposal for the period 2003-2008 with SEK 14 million. As further discussed in chapter 7 on Regional economic development, the microfinance project by CHF was linked to a regional development initiative which CHF proposed for Sida financing at that time, which became Sida's first regional economic development project.

The Sida-KfW project. In 2005 Sida took an initiative for a wider approach in support of the microfinance industry through a project jointly with Germany for securing further funding of the Bosnian MFIs. A study commissioned by Sida had estimated that there would be a demand for refinancing of MFIs of about EUR

100 million in the next five years, while the opportunities for MFIs to access bank financing were considered limited. The German/Sida project, expected to be carried out 2005-2013 with a Sida budget of SEK 48 million, would be implemented by the German development bank KfW. The project included three components:

- A revolving credit fund of EUR 5 million to improve the availability of medium- to long term liquidity to the MFIs through local banks. The German government was expected to add an equal amount at a later stage to the fund. KfW would manage the fund at a fee charged to Sida of 2% and relend it to interested MFIs.
- A guarantee facility to provide additional collateral to local banks willing to lend to MFIs. Sida would guarantee up to EUR 10 million against losses and KfW the same amount.
- Technical assistance to banks and MFIs of EUR 0.2 million.

The project's revolving fund was lent by KfW to the only commercial bank interested in the scheme, the Austrian Raiffeisen, one of Bosnia & Herzegovina's leading commercial banks, which in its turn re-lent the funds to four MFIs, including EKI. The re-financing market for microfinance turned out to be different than portrayed in the study which was the basis for the project. Rather than a scarcity of funding for MFIs there was ample finance available. A considerable inflow of commercial resources and support from other IFIs to the Bosnian MFIs took place around 2004-05 with the result of a dramatic expansion of the lending operations of the MFIs. For example, EBRD entered the financing of MFIs with several major credits to Bosnian MFIs, including EKI.²² As a result, the microfinance sector could triple its lending between 2004 and 2008 to some 400,000 clients, or near 15% of the population.²³

²² EKI received an EBRD loan of EUR 6 million in 2007.

²³ The tendency of loan-takers of having more than one loan probably reduces this figure to 200,000-250,000 unique clients.

In 2008 the global financial crisis hit Bosnia & Herzegovina which impacted also on the microfinance sector with reduced demand and increased number of non-performing loans. At this time, administrative procedures in Sida created added complications. Sida should not, in line with the Swedish Capital Supply Ordinance, own equity such as revolving funds, which in combination of other issues, made the Swedish embassy in 2010 to call for an end of the agreement with KfW. The revolving fund and the unused technical assistance fund were repaid minus KfW's management fees. In 2010, the facility was closed by Sida.

Sida exit of the microfinance support. Sida commissioned a mid-term review of the World Vision/ EKI and CHF/LIDER projects in 2006, which concluded that the performance of the two MFIs had achieved their objectives and Sida should consider exit at the end of the current support period as both the organizations were now self-sustained. The form of exit had to be determined as in both cases Sida was the formal owner of the revolving funds. A study suggested transforming the revolving funds provided to EKI and LIDER in the most recent projects (2004-2008) into grants, a proposal accepted by Sida and undertaken in 2008 (DFC 2007).

The context. Sida was far from alone in its support to microfinance in the pioneering years in the 1990s and early 2000s. In 1996 the World Bank approved an IDA credit of USD 22 million to Bosnia & Herzegovina for microfinance development targeting demobilized soldiers, displaced persons, returning refugees and widows. The credit was co-financed by UNHCR, the Netherlands, Italy, Japan, Switzerland and Austria but not Sweden. The Bank project provided re-lending and technical assistance to selected MFIs which were being set up at the time by international NGOs such as Care, Mercy Corps, Women's World Banking and World Vision. The World Bank project was considered a success, more than 10,000 loans had been provided which was over 5 times the target, and a second IDA credit of USD 20 million was approved for the period 2002-2005. About 90% of both credits were on-lent to the chosen MFIs.

Already in the early 2000s a background study for the preparation of the Swedish country strategy 2003-2005 noted the emerging success of the microfinance industry:

Microcredit lending is a general success in BiH with very low default rates. Micro-credit lending has through all organisations involved created an estimated 50,000 new jobs, with another 100,000 jobs sustained. The Sida supported institution EKI (created by WV) has grown to be one of the largest ones with at present 8,119 loan-clients. (Iwansson & Byman 2002)

By the mid-2000s Bosnia & Herzegovina had near 50 registered MFIs and was considered as one of the most successful countries in the world in microfinance development, reaching more of its citizens relative to the population than any other country except Bangladesh. When the US business magazine Forbes in 2007 ranked the top 50 MFIs globally, four of the 50 MFIs on Forbes list were Bosnian. The highest ranked of the Bosnian microfinance institutions was EKI. Forbes' ranking criteria were scale, efficiency, risk and return.

But not everyone was impressed. For example, Bateman argued that the commercial microfinance approach has led to 'deindustrialization and infantilization' of the Bosnian economy and that microfinance has 'atomized' the local enterprise sector (Bateman 2007; Bateman and Chang 2009). Bateman argued that:

Very little evidence has emerged in BiH to suggest that the commercial microfinance model actually possesses the required 'transformative capacity' to secure genuinely sustainable poverty reduction, through genuinely sustainable local economic and social development. On the contrary, the commercial microfinance model is quite centrally implicated in the evolution of the disturbingly weak, unsophisticated, anti-social, disconnected and unfair economic and social structures we see in Bosnia & Herzegovina today. (Bateman 2007, p 220)

Bateman is not alone in his critique of microfinance. Maksudova claims that while there is evidence of a positive impact of microfinance on economic growth in low income countries, this is not the case in middle income countries such as Bosnia & Herzegovina, but rather the reverse (Maksudova, 2010).

Notwithstanding this critique, microfinance has played and continues to play a positive role in Bosnia & Herzegovina through improved access to finance for 'non-bankable' persons, funding of startups, micro enterprises and for consumption purposes. This is done by an industry which for many years has not needed subsidized funds and donor support. To what extent the donor community and the IFIs 'mislead' Bosnia & Herzegovina's economic development and re-industrialization with this 'neo-liberal' tool is an issue of broader significance not addressed in this evaluation. It should be noted that microfinance account for a small share of the financial sector in Bosnia in terms of assets and lending volumes, of about 2%.

Achievements and contributions. Swedish development assistance can be credited of having provided considerable support to what became one of Bosnia's leading MFIs, and as such has also contributed to the development of one of the world's leading microfinance industries. EKI (and LIDER) are today well-established and profitable MFIs. EKI with 73 branch offices, employing 280 persons has some 40,000 loan clients and a loan portfolio of EUR 120 million. EKI has a strong focus on servicing the poor and women with 65% percent of the clients are in rural areas and one of three clients a woman. EKI is a dominant player on the microfinance market, and the services of its key personnel are used to provide technical assistance around the globe. LIDER which operates only in central Bosnia & Herzegovina, has 16 offices employing 60 persons and about 6,000 clients. The two MFIs' services are mainly for agriculture, small businesses, household loans and housing.

While the achievements are considerable, Sida continued its grant support to the microfinance sector when the leading MFIs had become profitable already in the early 2000s (Cicic & Sunje 2002). Another issue is that Sida did not participate in the creation of a regulatory framework of the microfinance industry in contrast to the World Bank and some other donors despite the Swedish country strategy intentions. Together this leads to the conclusion that, while Sida's support to MFIs in Bosnia contributed to create one of the most successful MFIs, it might have been more proper to co-fund the World Bank's microfinance support from 1996. This would have

provided a more even playing field amongst the emerging commercial MFIs, rather than favoring one (or two) over the others.

The failure of the KfW facility has its own lessons. Misled by a consultant's feasibility study in 2004, problems to exit a sector which had seen quite successful development, misreading the microfinance industry in Bosnia & Herzegovina at time of decision of allocation, the unfortunate and by most unforeseen external event of the global financial crisis in 2009 combined with administrative issues in Sida in handling instruments such as revolving funds, contributed to the failure. In financial terms the cost for Sida was limited, but the cooperation with KfW was according to a staff at the Swedish Embassy "severely damaged for a long time here in Sarajevo."

It is also regretted that when EKI has been requested recently by World Vision to return their loans for microfinance (which were provided as grants to WVI), Sida has – contrary to the World Bank - not responded to EKI's question whether the grant funding to VWI was supported to be for microfinance in Bosnia & Herzegovina or not. Sida's response is that the projects are closed, and no opinion can be given. EKI has as a result an issue with the Bosnian Bank inspection.

6.5 Loan guarantees

The third strand of intervention in the finance system in Bosnia & Herzegovina is through loan guarantees. Sida began in the late 1990s on a pilot basis applying independent guarantees as an innovative instrument in development cooperation. In 2009 this instrument was made a regular feature of Sida's work when the government gave Sida the mandate to issue guarantees up to in total SEK 5 billion with the Swedish state as the guarantor. This frame has subsequently been increased to SEK 12 billion.

The guarantee instrument was attempted in Bosnia & Herzegovina under the KfW microfinance project in 2005 but was never utilized as mentioned above. A different approach was initiated in 2010 when USAID and Sida established a broad agreement concerning joint work in issuing guarantees. Bosnia were

to be one of the first countries where this agreement was put in practice. Both agencies had by then over ten years of experience in issuing guarantees and were in the forefront among bilateral donors using this tool. USAID, through the Development Credit Authority (DCA), had a more extensive record on guarantees and had also developed elaborate administrative mechanisms for management and monitoring of such projects. It was therefore natural that USAID would take a lead in the implementation of the joint efforts.

The first round of guarantees. USAID/Sida's first credit guarantees were signed in 2010, providing USD 20 million as a guarantee frame in total to two Austrian owned commercial banks, Volksbank and Raiffeisen Bank. The purpose was to stimulate the two banks to increase their lending to SMEs and the agriculture sector to promote growth and create formal sector employment. The project was a partial portfolio guarantee of 50% of which Sida and USAID shared the risk equally. Sida's maximum guarantee amount was SEK 49 million. Preference was to be given to borrowers active in the agriculture, tourism, wood processing, or metal working sectors. The guarantees were valid for a ten-year period. The guarantees were designed by USAID/DCA which had been active in Bosnia since 2003 and had guarantees to five banks (which also included Volksbank and Raiffeisen). USAID administered the guarantees. The guarantees were designed partly as a complement to the then new Sida/USAID projects FIRMA and FARMA which provided technical assistance and grants to SMEs and the agriculture sector. (See details of these projects in chapter 5 and 9).

After a few years, the first guarantees had made sufficient headway for the donors to consider a second guarantee project, this time with a new set of banks. Both Volksbank, which was renamed to Sberbank after having been bought by the Russian Sberbank in 2013, and Raiffeisen had achieved a reasonably high rate of utilization of the guarantees in their SME lending with about 50 loans under the cover. Some 400 new jobs were claimed to have been created (Sida 2015).

The second round of guarantees. In 2015 USAID/Sida approved of new guarantees totaling USD 30 million for three

banks: Nova Banka, a Bosnian owned bank based in the RS, the German Procredit Bank and Austrian Sparkasse. The purpose was similar to the first round of guarantees, i.e. to motivate the banks to develop new, affordable lending instruments and expand lending to SMEs to promote growth and create or sustain formal sector employment. A new feature was a focus on diaspora Bosnians through Nova Banka. A lesson learnt from the first round was that technical assistance was important for successful implementation. The cooperation with FARMA and FIRMA had not worked as envisaged. In the new round of guarantees technical assistance was going to be provided to Procredit and Sparkasse through the USAID-Sida's GOLD project which had been signed in 2013 (for details of GOLD, see section on Regional economic development, chapter 7), and to Nova Banka via a USAID funded Diaspora project.

A guarantee is structured in such a way that the participating banks are paying a fee for the guarantee cover. This fee should reflect the risk for defaults associated with the covered lending and the cost for administration. Until 2018 the Swedish Export Credit Board (EKN) calculated the risk and proposed a market-based fee for Sida. (This task is now taken over by the Swedish National Debt Office.) To motivate the banks to use the guarantees and the SMEs to apply for loans, Sida can subsidize the fee and this subsidy is then treated as a grant by OECD/DAC. In the first round, no subsidy was provided, but in the second round Sida provided a subsidy of SEK 6 million. The structure of the two rounds and their performance are given below:

Table 2. Sida/USAID credit guarantees 2010 – 2025 (May 2018)

Bank	USAID/ Sida guar- antee (USD mill.)	Sida guar- antee (SEK mill.)	Sida sub- sidy (SEK mill.)	Utilisa- tion (per- cent)	No. of loans	Claim (USD)*
1st round						
Raiffeisen	5	24.5	0	71	25	0
Volksbank	5	24.5	0	97	22	310,000
/						
Sberbank						
**						
2nd round						
Procredit bank	7.5	47.8	3.0	90	59	0
Nova Banka	5.0	31.9	2.0	12	10	0
Sparkasse bank	2.5	15.9	1.0	86	8	8,400
Grand Total	25	144.6	6.0	72	124	318,400

* Claims in EUR calculated in USD at current rate

** In 2013 the Volksbank changed ownership and name when it was bought by the Russian Sberbank. The guarantee to Sberbank was terminated by USAID in 2014 due to the boycott of Russia after Russia's annexation of Crimea.

Source: Sida 2018

As seen from the table above, the utilization of the guarantee has been overall reasonably good except for Nova Banka. The latter bank has so far used the facility to a small extent due to an overestimate of the demand for loans by the Bosnian diaspora combined with an underestimate of the need to promote such a guarantee. The diaspora has mainly been interested in loans for startups, which the bank generally does not provide. Thus, the project substantially mis-judged the demand. While the first two guarantees are closed for the new loans, the second round of guarantees are open to 2020, hence the degree of utilization has the potential to increase. 124 loans have so far been covered by the guarantees by the five banks with a total loan amount of USD 36

million and an average loan amount of about USD 300,000.²⁴ The claims have so far been limited, or 1.3% of the guarantee, mainly by Sberbank with three such claims.

A potential third guarantee round. In early 2018 the Swedish Embassy in Sarajevo initiated a consultancy study with the purpose of identifying new opportunities for Sida to engage in innovative finance such as guarantees. At the time of the evaluation report it is not clear whether the Embassy will pursue a new set of guarantees or not.

The context. At the time the first guarantee project was designed in 2010, there were 27 banks in Bosnia & Herzegovina²⁵ in a market totally dominated by foreign owned banks from Italy, Austria, Germany, Russia and Turkey, together accounting for about 95% of the market. The bank system was overall considered well-functioning and competitive, but as in almost all countries with an overall conservative lending policy towards smaller enterprises. When the global financial crisis 2008-09 hit Bosnia & Herzegovina the banks became further conservative in lending to SMEs. From an average annual credit growth of 20% prior to the crisis, the growth turned negative in 2009 and thereafter expanded very marginally. With declining deposits and prospective of declining longer-term liabilities from parent banks, lending was squeezed and enterprises, especially SMEs faced liquidity and funding pressures at a time of worsening market conditions. Loan maturities became shorter while interest costs increased. The non-performing loans ratio went up from below 6 percent in 2009 to over 15 percent in 2013. With concerns over further decline in the quality of the loan portfolio, the willingness of banks to extend new loans was further impaired and the need for additional capital in some banks increased. In short, the USAID/Sida guarantees in 2010 could be considered a well-timed approach to counteract the Bosnian banks'

²⁴ The figures are based on a 72% utilization of a guarantee frame of USD 25 million which covers 50% of the loans.

²⁵ The number of banks is to some extent overstated as several banks are registered both in the Federation and RS as the entities have separate bank regulation systems.

tendency to apply an even more conservative lending policy towards the SMEs from 2009 and onwards.²⁶

The global financial crisis slowly subdued. A study of SME's access to finance in Bosnia & Herzegovina by the European Investment Bank (EIB) found in terms of supply and demand for finance by the SMEs that:

In terms of loan funding, high competition among lenders means that good SMEs do not lack for options, but poor loan portfolio quality among banks, a legacy of the crisis period of 2008-2010, has led to conservative credit practices, so borrowers with less than ideal characteristics may have difficulty getting credit on acceptable terms... Startup enterprises have particular difficulty getting funding, as do enterprises that are too big to be served by MFIs but small enough to be of limited interest to banks. As a result of strong deposit growth and low credit growth in recent years, access to funding does not represent a constraint for most financial intermediaries. (EIB 2016; p.2)

The EIB study of Bosnia was part of a comparative study of the Western Balkan region. The latter described Bosnia & Herzegovina in relative terms as slightly better supplied with financial services for SMEs than the peers.

The study commissioned by the Embassy concerning potential new guarantees mentioned above made the following assessment of the market in 2018:

The development finance landscape in BiH is characterised by a multitude of donors and institutions that are operating in parallel with each other. It is a crowded space for a country with a modest population size with a variety of initiatives and financing facilities running in parallel. Institutions that are working on (quasi) commercial lines such as EBRD are “competing” with donors that

²⁶ Other players also intervened at this time of the same reason. The World provided an IBRD loan of USD 70 million in 2009 to increase the access to finance for SMEs, which was expanded in 2012 by another USD 120 million with the same purpose. These loans provided refinancing for commercial banks in Bosnia & Herzegovina for SME lending. Also, EBRD and EIB were engaged in improving access to finance for the SMEs through lending to Bosnian banks.

offer soft financing. There are about a dozen guarantee facilities that are operating side by side in BiH (Jansson et al 2018, p.1).

Furthermore, the authors concluded that:

... the commercial banks expect funding from the international community to be extended at very concessional terms. In other words, the market is “spoilt” in terms of subsidised costs of finance (equity, debt and guarantees) provided by the international development institutions, in particular facilities related to the European Union. This does not encourage commercial behaviour by market actors and is a serious policy issue at the macro level. It also makes it difficult for guarantee institutions such as Sida to charge a fee for its guarantees, which bears any resemblance to a risk-reflective fee. (Jansson et al 2018 p. 2)

In short, there is an increased risk of creating market distortions in the financial sector over time.

Achievements and contributions. Neither Sida nor USAID have independently evaluated the joint guarantee projects in Bosnia & Herzegovina. However, the guarantee to the Raiffeisen bank was included in a thematic evaluation commissioned by Sida in 2016. The evaluation which covered four Sida financed guarantees (two in Uganda and one global in addition to one on Bosnia & Herzegovina, all selected by Sida for the evaluation) concluded that:

The guarantees of Sida are useful instruments that positively contribute to private sector development. In cases where financial intermediaries are not able to lend to clients because of the risks involved, guarantees have shown to be important instruments to bridge the risks and allow intermediaries to reach out to clients that could otherwise not be served (Carnegie 2016)

However, the evaluation considered that the guarantee to the Raiffeisen bank in Bosnia & Herzegovina was the least successful in terms of additionality of the four cases. It argued that most of the SME lending by Raiffeisen under the guarantee could also have been provided without a guarantee by the bank or by other commercial banks in the country. The key reason for this was, according to the evaluation, the conservative approach by Raiffeisen to the instrument. The bank treated the guarantee merely as a ‘comfort factor’, not as first-class collateral. In terms of *additionality* (i.e.

lending which not otherwise would have taken place to SMEs) the evaluation concluded that:

The guarantee may have induced Raiffeisen to provide finance to some clients at a longer maturity, but virtually all clients were existing clients with a loan history. In addition, a major part of these clients could have financed their needs through other banks or other sources of finance. (Carnegie 2016)

The conclusions of the Carnegie evaluation triggered a strong response by USAID/DCA with critical comments on the methodology applied by the evaluators, not least that the conclusions would need counterfactuals to be valid. The evaluation created a somewhat strained relationship between Sida and USAID.²⁷

Guarantees are complex interventions in financial market systems. It is critical that a thorough analysis is undertaken to what extent market failures are at hand which would justify such an intervention if subsidies would be used. There is also a risk of market distortion if the instrument involves subsidies and is only open to some of the players on the market. The evidence in Bosnia & Herzegovina at the time of the second project would indicate that such market failure did not exist. However, due to transaction costs related to imperfect information, banks might provide uncollateralized credits to SME to a lower extent than optimal from a societal perspective; hence a guarantee could in theory always be justified if it bears a risk-reflecting fee. Sida's overall experience is that the cases when the guarantees are called upon are very few, hence in a long-term perspective the guarantees have so far been development assistance at no cost, except for the subsidy element of the fees and the administrative inputs by Sida to structure and administer the guarantees.²⁸

²⁷ To judge from e-mail exchange between the embassy and Sida made available to this evaluation.

²⁸ Other aspects are that the guarantees tend to be long-term, i.e. the real cost to the government of claims on the guarantees are not known for many years and as the Sida guarantee system expands and diversifies the historical pattern of low default rates might not be valid in the future. Furthermore, the use of the

The USAID cooperation in guarantees points to a broader issue in Swedish development cooperation in the sense that, on the one hand, USAID has considerably larger administrative resources than Sida for design and implement projects, but on the other hand USAID has a different culture in aid. USAID's critique of the Bosnian case in the 2016 evaluation is an example of this. The conclusion of the evaluation should have been taken as a point of an in-depth analysis of the critical issue of additionality, not strong efforts to refute this critique.

6.6 Contributions to the financial system

In summary, the Swedish support for bank privatization in the immediate post-war period was small in financial terms and part of a much larger World Bank initiative, but essential in the market reform process. In micro-finance Sida chose to work on its own rather than cooperate with a major on-going World Bank initiative. While successful in building two leading MFIs jointly with some other donors, this support meant increasingly a market distortion as Sida provided generous grant-funding to selected profitable commercial operators. The attempted ambitious cooperation with German KfW came to nothing due to the timing and issues around revolving funds. The guarantee projects with USAID have potentially a good leverage effect for a financially small Sida contributions, but with decreasing relevance.

While the banking sector overall, dominated by foreign banks functions well, the financial market is shallow in terms of different financial instruments, the equity market is under-developed, and the supervisory system placed at the entity levels is complex. This would have provided opportunities especially earlier in the country's post-war development for Sida to engage. On the other hand, the sector support is dominated by the International Finance Institutions with the World Bank Group in the lead, possibly leaving little opportunities for Sida to act on its own. A strategy position in 2006 that Sida should work with the World Bank in a large-scale financial

guarantee frame has an opportunity cost, i.e. the other forms of use of Sweden's creditworthiness are prevented.

program never materialized. An option for support not explored by Sida is the local guarantee systems existing at municipal and canton levels. Possibly, support to (some of) these could have added value of localizing the knowledge and worked towards deepening the Bosnian financial sector.

7. Regional Economic Development

7.1 Background

The EU took in 2001 the initiative to establish five new regional zones covering the whole of Bosnia & Herzegovina. Each region cut across RS and the Federation with the purpose of stimulating national integration through a bottom-up approach. In 2004 the EU initiated a Regional Development Association (RDA) for each of the five regions. The RDAs were registered as non-profit organizations or non-profit companies involving relevant canton governments, municipalities and business associations. The RDAs were:

- ARDA – Accredited Regional Development Agency of North-West BiH (with Banja Luka as center)
- NERDA – North East Economic Regional Development Agency (with a center in Tuzla)
- REDAH – Regional Development Agency for Herzegovina (with Mostar as center)
- REZ – Regional Development Agency in Central BiH (with Zenica as center)
- SERDA – Sarajevo Economic Regional Development Authority

EU's interest in regional economic development in Bosnia & Herzegovina should be seen against the background of the political and dysfunctional governance structure that was created by the Dayton agreement which resulted in various barriers in economic development discussed earlier in this report. Inspiration for the RDAs was taken from Ireland where such agencies had been successful in the 1960s and 70s.

The initiative to deviate from the Dayton structure and impose different entities in Bosnia & Herzegovina should also be seen against the background that the international community with the Office of the High Representative in the early 2000s took a stronger position in imposing political and administrative decisions under

Paddy Ashdown than previously (or later) as discussed earlier. In 2005 the government of RS formally rejected the concept and the RDAs. RS' President instructed the municipalities in Republika Srpska not to cooperate with the RDAs (Osmanagic 2006). Due to the political opposition, the RDAs could only be registered as NGOs or enterprises, not public agencies. In the map below, the regions are displayed.

In parallel to the EU initiative, the Cooperative Housing Foundation began supporting a regional development project involving 14 municipalities in central Bosnia & Herzegovina with funding from USAID in a project called Municipal and Economic Development Initiative.²⁹ Sida contributed to this project with a SEK 5 million fund for microcredits for house-loans. In 2003 CHF



²⁹ MEDI was a large project with a contribution of USD 70 million.

submitted a proposal to Sida for continuation and expansion of the regional project under the name Regional Economic Development Initiative (REDI). The project had two components: 1) regional development focusing on SMEs and 2) an expansion of the microcredit project. Sida agreed to finance CHF's proposal but split it up in two different projects: the regional development initiative and a microfinance project with CHF's microfinance organization LIDER discussed in the previous chapter.

7.2 Swedish country strategies on regional economic development

Regional economic development, except as a concept in IAP, was only mentioned in the Swedish country strategy 2006-2010:

Institutional frameworks for regional and local economic development may be supported. Greater support for the newly established regional economic development offices may be considered if this is politically viable. (UD 2006 p. 12)

This was written at a time when the first Sida regional project REDI was coming to an end and a proposal for a new regional project in the North East was being discussed. While the Sida support in regional economic development intensified during the following strategy period 2011-2013 through CREDO and GOLD – see below - this was not reflected in any of the following strategies. In hindsight, one of the most successful initiatives by Sida in Bosnia & Herzegovina passed largely under the radar screen of the Swedish strategies for the country.

7.3 The Regional Economic Development Initiative, REDI

The REDI project with a Sida budget of SEK 13 million aimed to establish a fully functional regional development agency in Zenica, which in 2004 became the Regional Development Agency in Central

BiH (REZ).³⁰ REDI involved capacity and institution building of REZ, training of SMEs, consultancy services to selected SMEs for example in marketing, establishment of clusters around key economic sectors in the region focusing on metal, wood processing, tourism, textiles and agriculture, development of regional economic strategies, advocacy and so on. The SMEs in the region could also benefit from the microfinance project LIDER implemented by CHF in the same region and funded by Sida.

In 2006 Sida commissioned an evaluation of REDI with the dual purpose of assessing the results of the project and reviewing options for continued support in regional development as CHF had proposed a new project for the North East region. The evaluation concluded that REDI had been successful in terms of capacity building of the regional development agency. At the time of the evaluation, REZ had the reputation as the best of the five RDAs in Bosnia. This was also a standpoint reiterated by the EU (Sweddevelop 2007). Overall, the evaluation described REDI as a success and concluded that CHF had done a commendable job. However, despite these achievements the evaluation was critical of how the REDI project had been designed. A main critique was that REDI implied market distortions: the project – through donor funds - provided free or highly subsidized services to the SMEs, hence prevented the development of market-based business services. The evaluation was also critical of the project as it fell short of making REZ a self-sustaining institution. The evaluation was furthermore skeptical of the CHF proposal for a new project and suggested, if such a project was considered by Sida, direct implementation by the RDA. Sida accepted the consultant's conclusions and a new project for the North-Eastern region with NERDA³¹ as the implemented organization was designed with active engagement by the REDI

³⁰ REZ was established in May 2004. The founders were 15 municipalities, 2 cantons, 15 business associations, 1 international organization and 1 micro credit organization. Geographically, REZ covers 10% of BiH's territory with approximately 600.000 inhabitants.

³¹ NERDA was registered May 2004 as a non-profit and non-governmental association. The region encompasses 34 municipalities and Brcko with a population of about 1 million.

evaluation consultants. That initiative would be called the Competitive Regional Economic Development (CREDO).

7.4 The CREDO projects

In total three projects would take place with Sida funding with a common methodology between 2007 and 2016, all implemented by local organizations.

CREDO North East. The CREDO North East project covered 34 municipalities and the Brcko district. It had the following overriding objective: To create/sustain jobs and reduce poverty and improve economic status of North Eastern BiH through ... supporting SMEs development and growth. The interventions that emerged under this project and further refined in the following CREDO projects would encompass the following elements:

- A diagnostic phase involving a baseline study, training needs analysis, etc.
- Capacity building of the implementing RDA
- Sector development, including identification of industrial sectors with high growth potential for SMEs; establishing 4-5 Industrial Sector Boards each with 8-15 members from the industries, authorities and academia; value-chain analysis in the sectors and gap-analysis of constraints and opportunities; development of action plans and study tours; and training of SME entrepreneurs;
- Support to local authorities at the municipality, canton and entity level for example in formulation of regional economic strategies
- A development grant fund available to SMEs, local authorities and NGOs and also a voucher scheme for SMEs to 'buy' local consultancy inputs and other services.

CREDO North East came to focus on metal industries, food, wood and plastics for which sector boards were established. The

budget for the project was SEK 30 million of which about 40% was the grant fund. It was implemented in two phases 2007-2011.

The project was subject for a mid-term review in 2009. The review concluded that “the CREDO staff did an excellent job of implementing all of the activities planned for Phase I and is on track to do the same in Phase II ... Overall, CREDO has used the funding well and to good effect.” In summary, in the opinion of the consultant, “Sida made an excellent choice in selecting NERDA to implement the CREDO project” (GRM 2009). The mid-term review also pointed out that the RS government had ordered the 18 municipalities inside Republika Srpska not to cooperate with the project, but that the project had found ways of ‘low key approaches’ to continue working in the RS municipalities.

CREDO Herzegovina. The positive reporting by GRM made the Swedish Embassy assess the opportunity to repeat the CREDO approach in other regions. Sida commissioned GRM to review the RDAs and the consultants concluded that the Regional Economic Development Association for Herzegovina, REDAH³², would be the most suitable option. A new CREDO project was designed largely copying CREDO North East using NERDA as a co-implementing agency. Sida agreed to finance a two-phase 4-year project (2011-2014) with a budget of SEK 20 million.

CREDO Herzegovina was subject of a mid-term review in 2012. The review concluded that “the quality of the design, teamwork, planning, management and implementation has been good to very good ... Management of CREDO has been professional and accountable, winning the praise of virtually all stakeholders interviewed... Teamwork and relationships management receive very high marks. As a methodology, CREDO has proven to be effective in focusing both SMEs and local authorities on competitiveness issues and on a participatory approach” (Spear 2012).

CREDO Krajina. In 2013 Sida embarked on a third CREDO project, this time in the north-western part of Bosnia &

³² REDAH was registered as an NGO in December 2003 and includes 23 municipalities

Herzegovina. ARDA, the regional development agency established for the region, had ceased to function as it had been stopped by the RS authorities in line with its policy not to cooperate with the Federation in these initiatives. Instead a consultancy group, the Enterprise Development Agency, EDA³³, based in Banja Luka took on the role as project designer. EDA was supported by NERDA both in the project design and project implementation. The budget for the project was SEK 30 million, later expanded to SEK 35 million to address the consequences of the severe flood in Bosnia & Herzegovina 2014. The objective of the project was to improve competitiveness of SMEs in the Krajina region in order to create and/or sustain jobs, reduce poverty and improve the economic status of the region. The type of interventions was largely the same as in the two previous CREDO projects.

CREDO Krajina was reviewed mid-term by the same consultant as the earlier CREDO project. The review was as positive to CREDO Krajina as of the two earlier projects. It concluded that “CREDO Krajina was being implemented professionally and systematically and with the cooperation of NERDA, EDA has refined and improved the CREDO model to tailor it to Krajina’s needs and realities, and to fit with relevant ongoing initiatives. It has exposed company executives to new perspectives on competitiveness and productivity, and with the Development Fund and other activities, has given firms an opportunity to apply them” (Spear 2015).

The CREDO model. The mid-term review of CREDO Krajina was requested to make a broader assessment of the CREDO model. The reviewer Andrea Spear was enthusiastic, arguing that the model had proved to be “very relevant in terms of providing concrete sectoral results that offer lessons and good practices for the broader regional and SME development agenda.” She further concluded that:

³³ EDA was registered in 1998 as a non-profit NGO and had at the time of the CREDO Krajina project a staff of 7 persons.

Implementation of CREDO in three regions of BiH since 2007 has demonstrated that the concept and methodology are sound and replicable. CREDO offers an efficient and effective, highly participatory approach to secure results and change mindsets through direct assistance to SMEs. It addresses needs that are common across BiH regions and industrial sectors. It is a continuous learning and improvement experience for all involved, from the implementers to the beneficiaries. (Spear 2015, p.52)

For natural reasons, in reviews that take place about two years into a project, not much could be said in terms of (sustained) results related to the overall objectives of CREDO, i.e. improved economic status of the region, the competitiveness and growth of SMEs, job-creation or impact on poverty. Spear in the 2015 review stated nevertheless that “the outcomes are definitely relevant enough to conclude that the CREDO model has the potential to contribute to more competitive sectors, sustainable job creation and poverty reduction.” (Spear 2015, p. 50).

The interviews undertaken by us of enterprise participants, municipality representative and authorities confirm the positive assessments in the mid-term reviews. Some of the representatives considered CREDO the best project they had participated in.

7.5 GOLD with USAID

SERDA, the only region not funded by Swedish assistance under the CREDO program, had made considerable efforts to interest the Embassy for a CREDO type of project. However, these efforts failed and instead in 2013 Sida joined USAID in a different style of regional development focusing on economic growth, called Growth-oriented Local Development (GOLD). This project had a substantially different approach to local development than CREDO, not using the RDAs as the base, but focusing on selected municipalities in the whole country.

GOLD began in 2013 with a planned end-date in 2018. The project had a budget of USD 18.5 million, of which Sida was expected to finance half or up to SEK 70 million. GOLD’s overriding objective was to assist local communities in achieving

their economic growth and development goals, and to prepare Bosnia & Herzegovina for eventual accession to the European Union. It was targeted at 47 municipalities in six different localities. The project was implemented by USAID which contracted the management to the US consultancy firm Deloitte after a tendering procedure. However, the GOLD project was ended prematurely in 2015. The unusual action to close a major project mid-term was driven by USAID (consented by the Swedish Embassy), a decision triggered by GOLD's poor results. Of the total Sida project budget of SEK 70 million, SEK 22 million were spent by Sida before the closure of the project. No independent evaluation of GOLD has taken place by Sida or USAID. The question whether the failure was due to a poorly design project or poor implementation by Deloitte or a combination of these has not been addressed by the donors.

7.6 CREDO Plus

An effort to revive the CREDO model was taken by NERDA and EDA in 2015. Encouraged by the positive mid-term reviews of the CREDO projects, these organizations developed a joint nation-wide project called CREDO Plus. It combined the already proven CREDO approach for the two regions which had not been exposed to CREDO (Sarajevo and central Bosnia & Herzegovina) and with complementary activities targeting the whole country with a stronger focus on innovation and addressing institutional and policy constraints for the SMEs. The project proposal was presented to the Swedish Embassy in 2015 which expressed willingness to fund the project. However, the process of signing a contract was stalled as the Swedish government at this time instructed Sida not to commit funding to any new projects due to the then on-going migration crisis in Sweden. (Development assistance resources were to be shifted to financing part of the cost of handling the massive inflow of asylum seekers as an emergency measure.) Since 2015 no further discussion of a CREDO Plus have taken place between the Embassy and the sponsors NERDA/EDA. As a result, by 2015/2016 when CREDO Krajina was completed and GOLD was cancelled, Sweden has ended its engagement in regional economic development in Bosnia & Herzegovina.

7.7 Contributions to regional economic development

Sida's work in regional economic development, primarily through CREDO has contributed to:

- Successful capacity building of the RDAs which had been initiated by the EU in the early 2000s. The three RDAs and the EDA are all professional, well-functioning and sustained entities currently engaged in a multitude of development activities.
- A methodology for cooperation across the Federation and the RS at company, municipality and authority levels despite a political resistance by the RS government. These forms of cooperation have in one form or the other to a certain extent been maintained post-projects for example through the formation of business associations.
- Growth of SMEs in the sub-sectors chosen with strengthened competitiveness and ability to succeed on EU and other export markets.
- Improved linkages between the business community and the public sector, facilitating a process towards creating a more business friendly environment

The most essential contribution in our view is 'local development by locals'. While projects such as FIRMA and FARMA have no natural continuation when the projects are over and the American consultancy firms leave, CREDO has a continuation in the sense of the RDAs trying to maintain progress utilizing different financial sources. It has also built management capabilities and helped finding local solutions to Bosnia & Herzegovina's often unique problems. There is clearly considerable ownership by the local authorities.

GOLD, on the other hand, was an expensive mistake, not only due to the failure of the project, but also as it *de facto* prevented a continuation of the series of the CREDO project and further building of the method and utilization of local capacity. In retrospect, it is difficult to understand the Embassy's decision to

abandon the CREDO concept in 2013 and replace it with GOLD. The temporary freezing of Sida's budget in the wake of the migration crisis in Sweden and its impact on CREDO Plus was another unfortunate factor in Sweden's support for the CREDO regional development approach. However, the learning from the CREDO projects has been used in a different context of a new project called Small Business Act implemented by EDA. See further next chapter.

8. Business Environment Reform

8.1 Background

Various interpretations may be given to the concept *business environment*. In line with the Donor Committee for Enterprise Development (DCED) we use the definition “the complex of policy, legal, institutional, and regulatory conditions that govern business activities” (DCED, 2008). Business environment is seen as a sub-set of the wider concept investment climate which also covers dimensions such as political stability, infrastructure, rule of law etc.

Sida has supported business environment reforms since the early 2000s in most cases through cooperation with the World Bank Group. In the portfolio there are nine projects with a joint budget of about SEK 85 million. The portfolio includes six World Bank/IFC projects with different orientations. In addition, a locally implemented project on Small Business Act harmonization between the entities and a policy oriented regional project on female entrepreneurship. The portfolio also has a failed bilateral project on privatization of state-owned enterprises.

8.2 Country strategies on business environment reforms

The first Swedish strategy for cooperation with Bosnia & Herzegovina 2000-2002 gave a clear signal to Sida that future support should gradually have more and more emphasis on reforming policies and institutional structures, while the strategy for 2003-2005 stressed that Sida should support the transfer towards a market economy. Both strategies mentioned the possibility to support privatization of state-owned enterprises. The 2006-2010 strategy was more explicit about supporting business environment reforms by emphasizing the institutional framework for regional and local development as well as labor market reform. The strategy for 2010-2014 referred to business environment in the context of

market development with a focus on SME and EU integration. There is stronger coherence between strategy and interventions in business environment reform than in the three other clusters earlier discussed.

8.3 Partnerships with the World Bank Group

An important starting point for Sida's cooperation with the World Bank Group was a diagnostic study carried out by IFC's Foreign Investment Advisory Services (FIAS) in 2001. Sida subsequently decided to support continued work by FIAS during 2002 with a small contribution of SEK 0.7 million. This was the starting point for some 16 years of more or less continuous Swedish support of business environment reform in cooperation with the World Bank. Another channel for early Swedish support was the regional multi-donor IFC facility South East Europe Enterprise Development. From Sida's support to this project an amount of USD 0.5 million was set aside for projects in Bosnia & Herzegovina, some of which included regulatory reforms.

The Business Environment Adjustment Credit. The first major effort of reform of the business environment was the World Bank Business Environment Adjustment Credit (BAC) amounting to USD 44 million. BAC was supposed to be concluded by the end of 2003, but due to lengthy political processes the completion was delayed until 2007. Several agencies besides Sida (DfID, USAID, GTZ, EBRD and EC) provided parallel funding to the BAC. Sida's contribution was small; SEK 3 million, or about 1% of the total cost. Most of the Sida funded budget was used for an inspector training program included in the reform of inspection functions at entity level. The aim of this reform was to create a more efficient inspection system. The World Bank's ex-post performance assessment in 2014 rated the overall outcome of the BAC program as "moderately unsuccessful" (World Bank, 2014). However, in comparison with this bleak overall picture, the Sida-financed support to inspection reform was given a high rating. Overall inspector "training was very successful" and "the reduction in cost of inspections to businesses has been significant".

Two sub-national reform projects. When the BAC project came to an end several donors started to support regulatory reforms at the sub-national level, i.e. the cantons and the municipalities. Support to sub-national reforms was initiated by USAID in 2006 and followed by the Sub-national Competitiveness Project executed by the IFC with financial support from FIAS, SECO and DFID. In 2009 Sida decided to support the second phase of the latter project. Sida's contribution was USD 0.5 million covering 20% of the total cost at USD 2.5 million 2009-2010. The participating cantons and municipalities provided part of the funding.

IFC continued its work with regulatory reforms at the sub-national level during years 2011-2015 within the frame of the Investment Climate Regulatory Advisory project (ISCRA). Regulatory reforms were carried out in totally 23 municipalities, 4 cantons and dozens of entity and national agencies with e.g. e-registries, regulatory control functions, simplification of business-related procedures etc. This time, Sida was the main financier by providing SEK 19.5 million covering 71% of the total project budget USD 4.1 million. The remaining funding came from Austria (5%) and in the form of both cash and in-kind from "clients" in Bosnia & Herzegovina (24%). ISCRA did not only work at the sub-national level but also included work to facilitate foreign direct investments as well as activities to enhance agricultural value chains such as investment promotion strategies for fruit, vegetables, meat and dairy products.

The sub-national reforms appear to have been a successful functional area within Sida's support to business environment reform. An independent review commissioned by Sida in 2014 reported impressive results:

Most municipal, cantonal and government officials interviewed by the Team gave high marks to IFC, saying their expectations had been fully met to date. They were particularly satisfied with IFC's methodology and approach and its dedicated, professional experts ... The project's high visibility and wide media coverage heightened awareness of regulatory reform in general.... The Review found that the IFC regulatory reform effort since 2007 has indeed contributed to greater transparency, predictability and administrative accountability in the institutions that undertook the

streamlining process and are maintaining e-Registries and permanent regulatory control functions (Spear & Kavalec 2014).

IFC reported that simplification of business procedures in cantons and municipalities had led to considerable staff time savings, cost reductions and waiting time reductions for businesses in localities taking part in the program (see further below).

Investment Climate and Institutional Strengthening. In parallel with the ISCRA project above, Sida was also the main funder of the Investment Climate and Institutional Strengthening (ICIS) project carried out by the World Bank during 2011-2014. Sida provided SEK 32 million corresponding to 91% of the total budget. The main components of ICIS were (i) the establishment of an Information Interoperability System (IIS) providing the backbone infrastructure for future e-government, (ii) support to continued national quality infrastructure and inspection bodies and (iii) continued improvement of procedures for starting business and business exit. The implementation of the ICIS project was severely delayed, and the project was completed only in December 2017. One of the reasons for the delays was the need for close cooperation between the responsible agencies in RS and the Federation in the development of the IIS.

Interviews by us show that the IIS gave some interesting results. First, it contributed to the creation of a breakthrough ICT infrastructure backbone in the future national digital infrastructure. Secondly, it created the prerequisites for gradual development of e-government at all levels of the public sector. Thirdly the process was locally managed and involved for the first time a joint procurement by the two entities in itself seen as a major achievement. Since the completion reporting is not yet available, we have not been able to get a clear picture of the results of the two other components of the ICIS projects.

The exit from the cooperation with the World Bank Group. At the end of the ISCRA project, the sub-national regulatory reform work had reached only about 16 % of the total number of municipalities and 40% of the cantons. Sida's decision to exit from this kind of support appears to have been partly triggered by problems experienced during discussions aimed at finding capable

local partners that could take over the responsibility for managing the technical assistance to cantons and municipalities. Discussions had reached far between Sida, IFC, the Association of Municipalities and Cities and the Centre for Promotion of Local Development, when Sida decided to transfer the allocated resources to other projects within its overall support to institutional development in Bosnia. The UK Government decided in 2015 to take over the support and DFID engaged the IFC for a three-year continuation of the previous support under IS CRA to cantons and municipalities.

8.4 A failed effort to facilitate the privatization of SOEs

The large number of inefficient or non-functioning state-owned enterprises was early identified as one of the major obstacles to Bosnia & Herzegovina's economic development. Some privatization processes were started before the break-down of Yugoslavia, while privatization of banks started in 1997. While the bank privatization was successfully completed as earlier described, other privatization processes encountered numerous problems and poor outcomes. Despite efforts by the World Bank and others, the privatization of remaining large SOEs was more or less stalled by the mid 2000's due to strong political resistance.

A particular problem in Bosnia different from other socialist countries in Eastern Europe was that workers had ownership of many SOEs and there were issues of outstanding pensions and debts. In order to pave the way for continued privatization, three bilateral agencies representing the UK, the Netherlands and Sweden developed jointly the Enterprise Sector Recovery Fund (ESRF). Through this the donors planned to provide technical assistance to restructuring of non-privatized companies, post-privatization restructuring, pension and health sector reforms and labor market reforms. In 2006 Sweden decided to contribute SEK 9 million to ESRF, while the UK and the Netherlands would provide EUR 5 million each, i.e. Sida was a small donor to the joint project. Political resistance prevented the project from getting off the ground, and the project was finally terminated in 2009. Sida's cost was SEK 0.2

million. According to Sida's completion report the main reason for terminating this project was that

The project did not get past the first step, i.e. it could not establish an organization which would execute the project under the direction of a government nominated steering board. The reason is that it took too long (more than 1.5 year) to get a basic structure in place, after which it became more obvious that delays would remain due to lack of political will and would make the project impossible (Sida 2010).

We are not aware of any further efforts by donors to support SOE privatization after the failure of ESRF. In 2015 a World Bank country diagnostic report stated "many SOEs do not function at all, while others are on life support". The report also highlighted the lack of knowledge on the state of the SOE sector even as to the number of SOEs, their liabilities, the number of employees, etc.

8.5 Women entrepreneurship

In 2011 Sida began funding a three-year regional project in women entrepreneurship in which Bosnia & Herzegovina was one of nine countries. The project with a budget of SEK 20 million aimed at improving the policy framework for women entrepreneurs in the countries in line with the EU Small Business Act. A project evaluation in 2014 reported that the awareness of issues around women entrepreneurship had been raised by the project also in Bosnia & Herzegovina, but no policy change could yet be found. Overall, the evaluation concluded that "there is little in the way of outcomes for women entrepreneurs to show, but there is enough information to discuss improvements of the project, which would influence maybe a four-year period." (Markensten et al 2014).

8.6 The Small Business Act

Having decided in 2014 to leave the area of sub-national regulatory reforms in cooperation with IFC, Sida entered in 2017 on a different path providing SEK 17 million to a Small Business Act project to

be carried out 2017-2021. The project was based on a proposal by EDA which had implemented the third CREDO project. The purpose of this project is to harmonise SME policies and related legislation in line with EU integration and reform priorities. SME policies and legislation are not usually categorised among the core functions of business environment reform, but rather belong to the supporting functions forming part of the wider investment climate concept. While SME policies may count in the context of EU accession, they do not necessarily appear to have a strong impact on the remaining core obstacles to doing business in Bosnia. In some ways the Small Business Act project is an approach similar to CREDO in an effort to stimulate cooperation across the entities at a technical level. This is not surprising as it was initiated by EDA which also was one of the sponsors behind the concept of CREDO Plus. This points to the value of ‘development by locals’ where learning is maintained and structured in new ways to achieve results in Bosnia’s complex reality. No result-reporting is yet available on this project.

8.7 The context

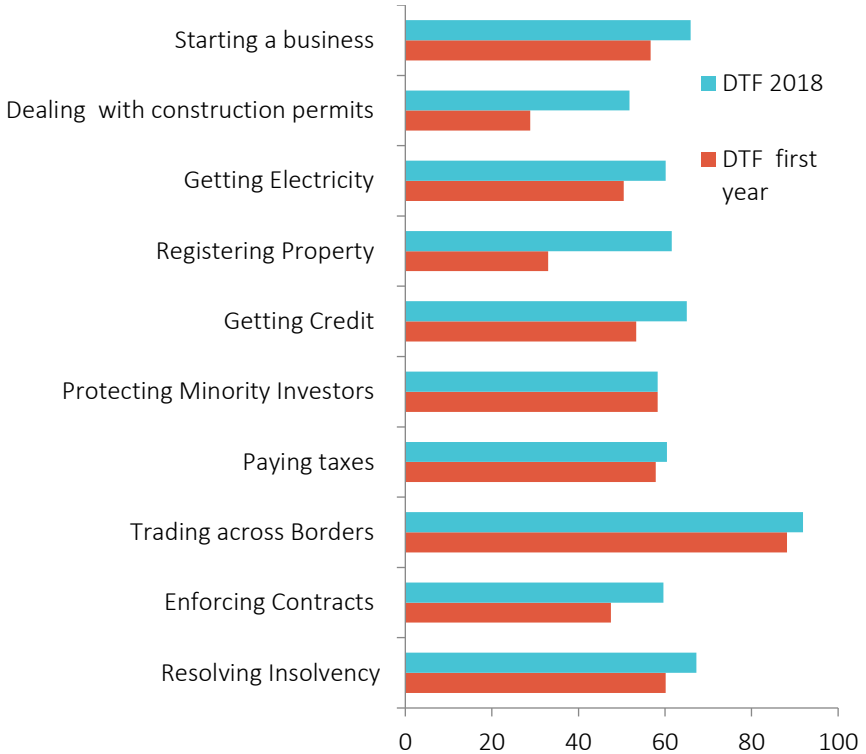
Bosnia & Herzegovina has struggled since the start of its post-war existence with challenges in establishing a single internal economic market and in removing obstacles in its business environment. A report published by the International Crisis Group quoted earlier in this report is worth referring to once again in the description of the business environment in the late 1990s.

The regulations governing business activities are extremely intrusive and time consuming. They are based on the old communist philosophy that capitalism is bad and that the state ultimately retains ownership over all means of production. As such, the business regulations and laws are inherently biased against private business. One businessman stated that his company’s accountant spends an entire day every two weeks, simply filling out the forms necessary to meet payroll for a staff of eight employees. The paperwork tax officials require of businesses requires a small company to fill out numerous forms when changing prices, and when buying and selling goods or services. Unable to come to grips

with capitalism, government officials continue to control the state economy as under communism (ICG 1999).

In order to assess changes over time in the performance of the business environment there is a variety of investment climate and business environment indicators. All of them have pros and cons and unfortunately none of them provide a fully consistent time series for aggregate changes in the business environment. The *Distance to Frontier* indicator based on the World Bank's Doing Business indicators, avoid some of the pitfalls connected with the more commonly used Ease of Doing Business country ranking. The Distance to Frontier indicator shows a country's position as a percentage of the frontier, i.e. the best performance among all countries for a specific dimension of the business environment or as an average for all Doing Business dimensions. In chapter 3 the Distance to Frontier was compared for Bosnia & Herzegovina with some of the other Balkan countries showing that Bosnia had improved its relative position since the late 2000s (and most likely also during the 2000s) but was still the least well-performing of the peer countries in the region, including Kosovo. Figure 14 below shows changes in the Distance to Frontier for each of the dimensions covered by Doing Business Indicators.

Figure 14. Distance to Frontier (DTF) in Bosnia & Herzegovina for each Doing Business dimension



Comment: The rows show the Distance to Frontier values in % with the lower row showing the first year that Distance to Frontier was recorded in the annual Doing Business report. With the exception for “Getting Electricity” (where the first year was 2010), the first year for all other indicators are derived from 2004, 2005 or 2006. DTF values have been subject to adjustments to correct for changes in indicator definitions.

While improvements in the Distance to Frontier have been recorded for almost all indicators, it is obvious that there is a considerable variation between different dimensions of the business environment. In several cases like (i) starting a business, (ii) dealing with construction permits and (iii) paying taxes improvements are quite modest. For these three dimensions Bosnia & Herzegovina is ranked close to the bottom among the 190 countries for which data have been published, while the country in the overall ranking is ranked as 86.

What about informality? Bosnia & Herzegovina is one of the countries in Eastern Europe with the lowest share of the population that is employed as noted earlier. At the same time there is a high degree of informal employment and informal economic activity. An econometric study based on the most recent EBRD Business Survey shows that the practices of the informal sector is regarded as one of the most serious obstacles to doing business in Bosnia & Herzegovina (EBRD 2017). At the same time research has shown that there are close links between the regulatory framework and the degree of informality in an economy. For this reason, the Donor Committee for Enterprise Development has high-lighted the need to give serious consideration to informality in connection with business environment reforms (DCED 2011).

Against this background it is surprising that most of the documentation regarding business environment reform in Bosnia & Herzegovina does not even mention the concept of informality. We take it for granted that implementing agency professionals are aware of challenges related to informality. For this reason, we would have expected that project documents had included a discussion on how planned/implemented regulatory changes were expected to impact on informal economic activity and informal employment. Although informality by its very nature is hard to study empirically, Bosnia would also seem to be a clearly relevant place to study the causes and effects of informality and the role of regulatory reforms in this context.

8.8 Contributions to the business environment reform

The available results-reporting of the World Bank/IFC projects with Sida co-funding suggests reasonably good achievements. Bosnia has also improved its relative position in Doing Business ranking and Distance to the Frontier at least in some aspects of business environment. There are some caveats to this in the sense that the World Bank Group is both implementer and judge on business environment reform as it is measured in Doing Business.

Nevertheless, the only Sida review of the IFC ISCRA project gives the performance good marks.

Successful reforms of the business environment are expected to have an impact on variables such as the formation of new enterprises, increased investments and increased employment. Such linkages are usually hard to trace in connection with evaluation of donor interventions, while on the other hand one may find research studies which provide evidence of this kind of higher-level impacts (DfID and UKaid, 2015). IFC in its Completion Report for the ISCRA project claimed that there is evidence of some impacts of this kind (IFC 2015). More specifically IFC reported that “private sector facilitated/generated in the amount of 35 MUS\$ as a result of project activities”. IFC also referred to an independent impact evaluation of sub-national level work which “showed an employment increase of 6.4% in localities where the project performed regulatory simplification” (Halebic et.al. 2015). However, as far as we can see, the methods applied in the two studies initiated by the IFC do not allow any firm conclusions to be drawn regarding casual impacts of the IFC interventions.

Business regulatory reform is one of the few areas within institutional development where there exists an internationally established model to assess the cost-effectiveness of donor interventions (often described as the value-for-money of aid). The Standard Cost Model was developed during the 2000’s to become the regulatory reform tool of choice in EU and OECD countries for identifying and reducing regulatory compliance costs. The World Bank Group has applied this model to get estimates of the aggregate savings to businesses in countries where business environment reform projects were implemented. Western Balkans became one of the first regions where results were reported.

Based on the Standard Cost Model, IFC reported in 2015 that the aggregate annual savings at USD 6.9 million in compliance costs for businesses which had benefitted from the sub-national reforms initiated by the ISCRA project (IFC 2015).³⁴ This was the result of

³⁴ This estimate does not include indirect cost savings, e.g. through shorter waiting times for businesses. Depending on how waiting time is valued, these savings may be substantial.

reducing the processing time and fees and eliminating information requirements and unnecessary documents. Each dollar invested in the project would consequently lead to annual cost savings for the private sector amounting to USD 1.7. It is however important to be aware of the fact Standard Cost Model does not consider other impacts than cost savings for businesses. E.g. when fees are cut this will result in savings for businesses but in a reduction in the municipal revenues. The model does also not take into account wider social or environmental value of business regulation. The cost savings calculated by the model are to some extent hypothetical and not figures derived from actual savings, for example evident from broad business surveys. However, based on a case study in Bosnia & Herzegovina in 2009 which compared results from the Standard Cost Model with estimates based on a more detailed business survey, FIAS claimed that the model might underestimate the compliance cost savings (FIAS 2009).

The World Bank Group is a professional and competent partner to Sida in which the roles are clear: The World Bank and IFC design and implement the projects, and Sida provides larger or smaller funding. As the specific political conditions in Bosnia & Herzegovina makes IBRD credits difficult to agree upon by the government, the World Bank Group has become increasingly dependent on trust-fund financing by donors for its operations. Sida has, jointly with other donors, facilitated the World Bank's operation especially recent decade and overall the return on this funding has been in relative terms good. World Bank cooperation in economic development sticks out among Sida's partnerships as the most effective in Bosnia. A question can be raised why the Embassy has ended this cooperation.

9. Other SME Development

9.1 Background

The Swedish SME support has taken many forms since the end of the war. In the preceding chapters we have discussed 1) Finance sector development which had as a core access to finance for SMEs and micro enterprise; 2) Business environment reforms which also implicitly has SME as a target; 3) Agriculture development where smallholder agriculture is core, and 4) Regional economic development, all of which to large extent has had SMEs as a focus. This section deals with another set of SME development projects:

- Mobilization of Swedish direct SME investments through joint ventures under the Sida Start programs, ongoing since 1997 under different labels. An estimated budget of SEK 10 million was allocated for the period 1997 until 2009 when the program was transferred to Swedfund and then remodeled under the name Swedpartnership.
- Sida's cooperation with USAID in the technical assistance and grant project FIRMA 2009-2015 with a Sida allocation of SEK70 million.
- A group innovation and startup projects since 2013 to a large extent *de facto* with a focus on information technology. One of these projects is ongoing. The total budget for the projects is SEK 53 million.

In addition to these efforts, the IAP included also selected smaller ad hoc projects in the 1990s in support of SMEs for example in construction materials to supply the self-help housing under IAP and in agro processing linked to the agriculture activities in IAP. These efforts have not been possible to follow-up due to lack of information.

9.2 The Swedish country strategies on SME development

Development of small and medium enterprises has been the core of economic development and transition to a competitive market economy in the Swedish country strategies from the beginning and maintained over time, for example reflected in the strategy for 2011-2013, stating that “the objective of cooperation within market development is: A competitive business sector with a focus on small and medium-sized companies” (UD 2010, p.4). There is good coherence between the strategies and the interventions in terms of SME support.

9.3 The Start programs

Start Bosnia. Shortly after the end of the war Sida commissioned a feasibility study to determine if there was a scope to make a copy in Bosnia & Herzegovina of the recently initiated Sida program Start East. The latter had begun in 1994 with the purpose of engaging Swedish SMEs in cooperation with local partners in the Baltic States and in Northwest Russia.³⁵ The consultants were encouraging, and Start Bosnia was initiated in 1997 and continued to 2000. Under Start Bosnia Swedish SMEs were provided with up to SEK 750,000 for joint projects on a cost-sharing basis. Of this SEK 250,000 was a write-off loan for know-how transfer and the balance was an investment loan to be repaid. The terms and objectives were the same as for Start East. Start Bosnia as well as Start East were delegated by Sida for implementation to the Swedish public agencies NUTEK and Almi.

A dozen projects were initiated under Start Bosnia with a total Sida budget of about SEK 5 million. Many of these were ventures involving Bosnian refugees in Sweden; others were initiated by Swedish entrepreneurs with or without earlier experience of Bosnia & Herzegovina. There was a wide range of sectors, including

³⁵ Start East expanded over time to Eastern and Central Europe. A parallel program, called Start South, was initiated in 1997.

construction material, textiles, toys, wood-based products, metal products, services such as travel and security. Most of the projects failed or ended after a few years. There were different reasons for the failures such as a bad match between the partners; misreading of the market conditions in Bosnia; complexities with the privatization process in Bosnia & Herzegovina; a desire of the Bosnian partner to return to Sweden, and so on. Three projects, nevertheless, were successful and have resulted in well-established companies. One of these – Alarm West - is a success story of significant magnitude. See box 1.

Box 1. A success story in Start Bosnia

Alarm West was established 1997 in Sarajevo providing security systems and services. The Bosnian entrepreneur, a young refugee who came to Sweden in the end of 1992, wanted to return to Bosnia after the war. In Bosnia & Herzegovina he tried different entrepreneurial activities without success. Eventually he thought of security systems, having seen the prevalence of these in Sweden. He found a Swedish partner, started a one-man operation in Mostar with second hand-equipment provided by the Swedish partner without much success. Jointly with the Swedish firm he applied to Start Bosnia in 1997. With this start-capital Alarm West was established and took off. By 1999 the entrepreneur could buy out the Swedish partner. Alarm West grew fast; it had in 2003 about 200 employees and in 2008 over 1,400 employees in several Balkan countries. The entrepreneur sold 85% of Alarm West to Securitas in 2010 for SEK 120 million. He continues as CEO for Securitas in Bosnia & Herzegovina and has since the sale of his share invested in numerous ventures in real estate, food industries, pharmaceuticals and in agriculture. His group has about 600 employees and a turnover of about EUR 20 million today. The entrepreneur is also considering taking the initiative to a business angel network to provide financial inputs and risk capital to startups in the IT sector. The old Alarm West (now Securitas) has currently about 1,800 employees in Bosnia & Herzegovina.

Alarm West was not the only successful project in Start Bosnia. A Swedish firm Mittplagg started in 1998 a subsidiary in Bosnia for production of medical textiles. The company is still in operation with some 50 employees and exporting 100% of the production to the EU. Pasico Trade established a company in Bosnia for collection and processing of wild mushrooms. Market conditions made Pasico

shift to medical plants. Boletus employs 30 persons and 300 families part-time. 95% of the production is exported to the EU.

Start East. Start Bosnia was absorbed in Start East in 2001 under the same condition and administration. Under Start East about SEK 5 million was disbursed between 2002 and 2008 to projects in Bosnia & Herzegovina. No details of these companies are available to us, but the budget indicates that another dozen projects would have been financed. One success story is BosAgroFood, an export industry of organic berries and herbs. The company was established in 2002 by Olle Svensson AB with Start East support. Today BosAgroFood has modern freezing facilities in Srebrenica exporting world-wide and employing some 100 persons. BosAgroFood is reputedly the largest employer in the municipality.

Swedpartnership. In 2009, Start East and Start South were transferred from Sida to Swedfund by the government. The programs were re-structured and merged into what is now called Swedpartnership. It has the same objective as Start East and Start South, but with support of up to EUR 200,000 per project on a cost-sharing basis. Swedpartnership is financed by a yearly allocation from the government, which is also covering the administration cost of the program. Of about 220 projects have been financed under Swedpartnership since 2009 around 50 are located in Eastern Europe, and of these, ten projects are in Bosnia & Herzegovina.³⁶ The majority of these are doing well according to Swedpartnership's management. Especially Swedish IT industries find Bosnia a good source for co-operation.

Achievements and contributions. Overall, the Start programs do not feature strongly in the reporting of the Swedish assistance to Bosnia for example in the context of Sweden's country strategies. If at all, Start Bosnia was portrayed as a program not performing well. For example, the Sida country strategy 2000-2002 stated that:

There has not been any greater interest in Start Bosnia, but the need for private sector support nevertheless justifies that the program is

³⁶ Swedpartnership is open for investments currently in Albania, Belarus, Bosnia & Herzegovina, Kosovo, Moldavia, Serbia, Turkey and Ukraine.

maintained, although at a low level. (Sida 2000, our translation from Swedish.)

Yet, if we were to single out one specific Sida project which has achieved considerable results with a small financial input, Start Bosnia would be the one, largely due to the success story of Alarm West and the economic multiplier effects created by a single entrepreneur. Start Bosnia turned out to contribute jobs at a fraction of the cost to Sida as compared to, for example FIRMA and CREDO.³⁷ As joint ventures with Swedish firms these programs provide direct and hands-on technical transfer rather than going through middle agents such as advisers and consultants in conventional technical assistance projects. The Start concept also promotes businesses that are often fully export-oriented with a direct in-built link to EU markets. The limited FDI flow into Bosnia & Herzegovina since the late 2000s is currently one of the key constraints in the country's economic development as discussed earlier.

9.4 FIRMA with USAID

Sida began in 2009 joint financing with USAID parallel to FARMA discussed in chapter 5. As mentioned earlier, these projects were the result of a mapping by the Swedish embassy in 2006-07 to determine what Sida could engage in terms of SME development when the IAP ended. Fostering Interventions for Rapid Market Advancement, FIRMA, was a five-year project (2009-2014) with a budget of USD 21 million with equal funding of USAID and Sida. FIRMA was developed by USAID as its third generation of business development in Bosnia & Herzegovina. The objective of FIRMA was to increase sustainable economic growth and sustainable employment through increased sales, exports, access to finance and through supporting enterprise competitiveness in value chains. FIRMA aimed also to advance Bosnia's ability to meet the Copenhagen Economic Criteria for accession to the EU. FIRMA

³⁷ If the attributional issue is disregarded, it can be argued that the cost per job was about SEK 2,000 in Start Bosnia while the employment targets for projects such as FIRMA and FARMA is in the order of SEK 50,000-60,000 per job.

focused on three sectors: tourism, wood, and light manufacturing/metals, which had been part of USAID's earlier SME projects. FIRMA was implemented by the US firm Cardno Emerging Markets.

A mid-term review commissioned by Sida noted that the project was progressing towards the ambitious and measurable target objectives (Niras 2011). The beneficiaries had participated in activities which had helped them gain access to internal and foreign markets and to develop their capacity to meet new technical standards. The effects of the activities on the SMEs were increases in sales, exports and jobs.

In a completion report at the end of the project, the implementing consultants concluded that:

FIRMA made impressive strides to create an ecosystem of support for the three targeted sectors and improve business results and sustainability ... successfully persuaded local government bodies and agencies to collaborate with each other and with the Project in providing support to companies in a more efficient and transparent manner. (Cardno 2015)

The completion report claimed that the project had created new contracts worth USD 50 million as well as 4,000 new or saved jobs. The conclusions of an independent evaluation undertaken on behalf of USAID in 2015 came to quite different views. The evaluation (Vučić et al 2015) found no statistically significant effects for the project sample except for a significant positive impact on the wood sector employment. Nor did the evaluation find any significant and positive results for the exports related outcome variables, impact on access to finance or on policy. According to the evaluation, almost all respondents mentioned that their biggest obstacles to doing business were in terms of the policy environment which was not addressed by the project.

The FIRMA evaluation together with the parallel evaluation of FARMA by the same team are the most ambitious of all evaluations reviewed by us in this study and the only ones that have attempted to address issues of counterfactuals. The evaluators used a quasi-experimental design that compared the outcomes of SMEs that received the interventions (treatment group) with outcomes for

similar groups of SMEs that did not receive the interventions (comparison group). As no identical comparison group of natural reasons can be found, the estimate of impacts was done through a multivariate regression analysis based on a difference-in-differences design.

Sida and USAID decided not to undertake a follow up FIRMA project after its end in 2015. Thus, the donors took a different decision on FIRMA than on FARMA. USAID, nevertheless, initiated a smaller SME project called Workforce and Higher Access to Markets Activities with a USD 4 million budget for 2017-2020. The new project is focusing on metal, wood and textiles. USAID approached the Swedish Embassy for potential co-financing, but the Embassy declined this option.

Achievements. Similar to FARMA it is difficult to judge in retrospect the results of FIRMA given the quite different opinions provided by the different evaluations and reviews. It is noteworthy that the sectors in which FIRMA engaged has performed well over the years in terms of output and exports, including exports to the EU. Tourism is also one of Bosnia's fastest growing sectors. In hindsight, the Swedish Embassy's decision of funding a follow-up of FARMA but not of FIRMA might not have been the best use of resources from the point of view of contributions to job creation and economic growth.

9.5 Innovation-focused business development

In 2013 the Swedish Embassy began a series of new projects with a focus on innovation with a leaning towards Information Technologies (IT). This followed a trend in donor supported private sector development in general, but Sida had to some extent a pioneering role in Bosnia & Herzegovina.³⁸

The Challenge. In 2013 the Swedish Embassy initiated a pilot project based on a challenge fund approach aimed at innovative startups in Bosnia & Herzegovina and the Bosnian diaspora in

³⁸ Also EU's IPA II (2014-2017) open to Bosnia & Herzegovina has innovation and competitiveness as one of its themes.

Sweden. The project called the Challenge was a 3-year project with a budget of SEK 5 million implemented directly by the Swedish Embassy. Under the project, 27 MSMEs were awarded grants in three calls with on average grant of EUR 17,500 on a cost-sharing basis. The winning companies were selected from about 1,150 applications to the fund, i.e. about 2% were awarded. Nearly half of the winners were micro companies with three or less employees, and about 40% were start-ups (newly registered without a financial record). IT dominated, but there was a wide spread of sectors.

The pilot scheme was evaluated in 2015 (Lindahl & Ivankovic 2015). The evaluation concluded that it was too early to assess outcomes such as employment, profitability and sustainability of the enterprises as most projects were in an early stage of implementation. The merit of the project was the large interest by applicants reflected in over 1,000 applications, the applicants overall positive views of the project, and that young, educated entrepreneurs described the fund as an opportunity when many left Bosnia & Herzegovina for lack of opportunities. They also saw the project as non-corrupt, influenced by Swedish values in a country context where corruption and cronyism were commonly experienced.

Hub 387 – an IT incubator project. A second project in the batch of innovative-focused startup and entrepreneurship projects was HUB 387 approved by the Embassy in 2014 for three years and a grant support of SEK 18 million. The project aimed at startups in the IT sector through an incubator style operation called NEST 71 and also to enhance skills in IT through an Academy providing training to entrepreneurs. In addition, HUB387 had a vision to become a change agent in Bosnia by initiating dialogue on IT issues with the authorities, educational entities and private to create a conducive environment for the expansion of the IT sector. One of the targets for the project was seven self-sustained startups with 50 employees.

HUB 387 and the Academy were newly established at the time of the project, initiated by a Bosnia -American entrepreneur resident in the US, jointly with a marketing firm in Sarajevo. The concept behind HUB 387 and the Academy was to reduce the number of

young people leaving Bosnia and provide them with a business opportunity in the country. Startup IT companies were rapidly developing in cities such as Tuzla and Mostar, but Sarajevo was lagging.

At the end of the project period, the Embassy initiated an efficiency audit of the project. The result of the study was damning to the management and administration of HUB 387, indicating breach of the rules concerning NGOs, concentration of powers to a single person (the Bosnian-American initiator), weak management of Sida funds, poor reporting and non-compliance with the agreement with Sida. The study also noted that during the whole period of project implementation Sida did not perform adequate control or project monitoring related to management of the project and achieved results.

An evaluation of the project carried out parallel to the audit repeated the critique while also noting that “in regard of the goal of building a vibrant IT community it was evident that HUB 387 was the first initiative of its kind in BiH that significantly influenced numerous other IT businesses and education related activities among entrepreneurial and innovative people in BiH.” (Sorensen & Cero 2017 p.4). However, of seven start-ups only three continued throughout the incubator period and none were self-sustained at the time of the evaluation. Sida had reserved the option of funding an additional year of the project but refrained from doing so based on these reports.

The HUB 387 and the Academy has since the end of the project moved to new offices in Sarajevo with top modern facilities for a co-working space where about 65 IT emerging businesses currently are housed. Of the three funded startups of the project, all are now in business and self-sustained. Since the beginning of HUB 387 several successful startups have emerged from HUB 387 with about 100 employees. The negative opinion of the evaluation was thus premature. It is unfortunate that HUB 387 has got a bad reputation as the project had strong positive features: the initiative by a diaspora Bosnian wanting to return something to his homeland; a focus on youth and on modernization of the economy.

Challenge to Change. Based on the experience of the pilot challenge fund, the Swedish Embassy initiated a larger fund in 2016 called Challenge to Challenge (C2C) over the period 2017-2021 with a budget of SEK 30 million. The project is currently being implemented by the Sarajevo Economic Region Development Agency, SERDA, with the Republic Agency for Development Small and Medium Enterprise as a partner. A first call under the C2C was in 2017 in which SERDA got 700 applications. A second call took place early in 2018. It is too early to assess any results of the fund, but the Embassy considers the interest reflected in number of applications as a promising sign.

Achievements. The innovation-based projects have played a pioneering role and have as such high-risk feature. It is too early to judge the achievements of this project group. There is a tendency by donors to judge such projects in a too short time perspective and assume a high degree of successful startups. But startups in almost all contexts have high failure rates, and those who make it big tend to do so after considerable time. There was a certain naivety on behalf of Sida in the HUB 387 project and even the C2C might lead to disappointment of failed startups. If donors attempt to engage in the innovation/startup 'sector' it is essential to keep this in mind, and perhaps rather than try to identify the 'winners' instead work on establishing a diverse 'ecosystem' for innovations, including financial support structures.

10. Contribution to Sweden's Overriding Objectives

10.1 A strategic theory of change

In chapter 4, we summarized the objectives of the Swedish assistance to Bosnia & Herzegovina as expressed in country strategies from year 2000 and onwards. We argued that relevant strategic objectives for the portfolio in economic development are:

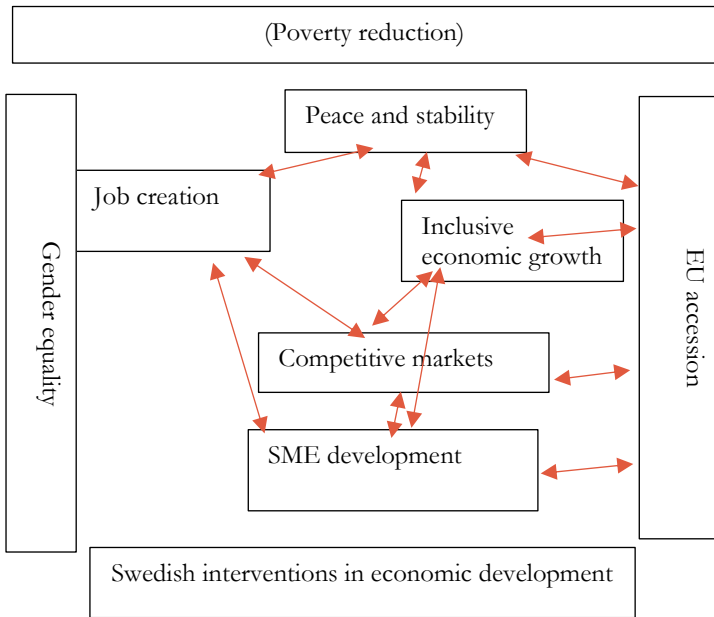
- A competitive small and medium enterprise sector
- (Transition to) a competitive market economy
- Employment and job-creation
- Inclusive economic growth (as a basis for overall development)
- Integration and eventual accession of Bosnia & Herzegovina into the EU
- Gender equality
- Maintaining peace and stability:
- Poverty reduction

The strategic objectives above can be arranged in a form of *strategic theory of change* where these objectives are mutually reinforcing and some are means for higher objectives. We place *peace & stability* at the top of the goal hierarchy given BiH's emergency from a civil war, its prevailing ethnic and political division, and as an arena for international struggle for hegemony. If peace cannot be maintained, all other achievements would fall apart to quote a truism. *Poverty reduction* on the other hand, the overarching objective for Sweden's development assistance in general, is given less importance in the strategies given the country's (current) status as an upper-middle income country with a very small share of absolute poor in the population. *EU accession*, the objective highlighted throughout the period in Sweden's strategy formulation can be seen as an overriding objective in itself as well as a means for achieving the other objectives, and in particular peace and stability. *Gender equality*, in line

with Sida’s overall policy framework should permeate development cooperation in general. An assessment of the contribution by Sida’s economic development portfolio to *democracy and human rights* is not attempted in this evaluation as the possible casual linkages are highly indirect if at all. It should be stressed that the analysis in this chapter only concerns the contribution by the assessed portfolio, not the Swedish assistance in its totality.

Below is an illustration of this strategic theory of change:

Figure 15. A tentative strategic theory of change



The objectives as expressed in the Swedish country strategies tend to be vague in what they really mean and especially what indicators might be used to assess performance at country level and to what extent the Swedish support is effective in this context or not. In Annex 2 we have attempted to capture some aspects of this for the purpose of evaluation of the contributions.

10.2 Contributions to SME development

Country performance. Bosnia & Herzegovina has come a long way from the socialist pre-war economy with its dominance of large industrial conglomerates. According to a study, Bosnia & Herzegovina has a higher share of micro and SMEs than the other Balkan countries and with a share of 49 SMEs per 1,000 inhabitants which is also higher than the average for the EU of 44/1000³⁹ (EIB 2016). Bosnian SMEs contribute over 60% of the GDP and near 70% of employment, which are at the level of EU averages. The policy and regulatory environment for SMEs, on the other hand, is ranked worst in the Western Balkan states according to OECD SME Policy index.⁴⁰ The degree of internationalization of the SMEs is also lower in a Balkan comparison as is also the innovation capacity.

Swedish contribution. Most, if not all, of the Sida projects in economic development have had an SME focus directly or indirectly. There are projects addressing SME development at macro-level such as at the policy framework, at meso-level such as business regulations and access to finance, and at micro-level with various forms of interventions aimed directly to enterprises through technical assistance, grants, efforts to stimulate FDI and so on. The portfolio includes projects aimed at micro enterprises and start-ups as well as larger, mature medium size companies. There are projects in many different sectors and product groups, from collection of wild berries to design of IT applications. In summary, the relevance of the portfolio to SME development is strong and there is a considerable degree of creativity in the portfolio in efforts to address various constraints in Bosnia's SME development well in line with the strategy formulation.

Some of projects have been reasonably effective in its contributions to the SME development objective. Examples discussed in the preceding chapters include business environment

³⁹ The EIB study notes that the Bosnian statistics also include self-employed which might exaggerate the figures somewhat.

⁴⁰ <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>.

reform with the World Bank Group and the financial sector interventions which can be considered essential for fostering the basis for entrepreneurship. More hands-on support was effectively carried out in regional economic development projects REDI and CREDO, and the Start Bosnia program. Microfinance in the early post-war period provided funding for many microenterprises.

Our overall conclusion is that the contribution of Sweden's support in economic development towards the objective of SME development has been considerable. However, the value for money is significantly reduced as a third of the allocation in the portfolio was for agriculture projects with highly questionable performance and not a small number of other projects with marginal contributions.

10.3 Contributions to a competitive market economy

Country performance. Also the shift from the socialist economy of former Yugoslavia to Bosnia's contemporary market economy is dramatic. Market principles are applied throughout the economy. However, the EU in its latest country report considers the country still at an early stage of establishing a functioning market economy mainly due to a still poor business environment, a too large informal sector, weak institutions and rule of law. The World Bank in a recent exposé of the Bosnian economy considers its transition to a market economy still incomplete mainly due to unfinished privatization of large state-owned enterprises and that a single economic space has not been created (World Bank 2018b).

Swedish contribution. The Swedish assistance as reflected in the evaluated portfolio has had market transition to a competitive market economy at the core through interventions at policy, regulations and at the institutional level as well as efforts to increase the skills of the market players. The support has attempted to address the constraints identified by the EU and the World Bank to a large extent through co-operation and co-funding of World Bank projects, but also through bilateral cooperation aimed at SOE

privatization and the CREDO projects. A negative aspect of the market development is that the portfolio to a not small extent has introduced market distortions. The initial agricultural projects under the IAP had clear such distortions with heavy subsidies to selected operators. Also the initial microfinance support EKI and LIDER provided significant subsidies to selected profitable commercial operators on the emerging market.

Sida's decision to work with the World Bank group on policy and business environment reform was the right one given the competence and authority of the IFIs which also was reflected in achievements. The failure of the SOE privatization project was unfortunate but cannot be blamed on the donors but was due to the dysfunctionality of Bosnia's governance.

Swedish aid has also focused its economic support at the micro-level, i.e. in support to the market players themselves. With the exception of the initial agriculture cluster, the efforts to strengthen the Bosnian entrepreneurs have overall paid off, hence given the limited financing, there has been a good contribution to creation of a competitive market economy.

In summary, the contributions of Sweden's support in economic development in assisting Bosnia & Herzegovina in the transition to a competitive market economy must be considered reasonably good. The value for money is reduced by the poor performance of the initial agriculture projects with systematic market distortions.

10.4 Contributions to employment and creation of jobs

Country performance. High levels of unemployment, especially for youths, have plagued Bosnia & Herzegovina since the war and are still a major problem. Unemployment rates have been in the order of 25-30% for both men and women for many years, and the youth unemployment over 50% (Wiiw & World Bank 2017). A recent IMF report described migration by (educated) youth, driven by limited opportunities at home, as a key threat to Bosnia & Herzegovina's economic future (IMF 2018). The World Bank

quoted opinion polls undertaken by Gallup and others indicating that less than one in ten Bosnians believes the economy is going in the right direction in 2016 as compared to four in ten in 2006. Four out of ten in 2016 would like to move to another country and nearly two out of three of those in the age group 15-29 want to leave Bosnia & Herzegovina mainly due to lack of jobs (World Bank 2018b).

Swedish contribution. Job-creation has been one of the overriding objectives for Sida's support since the reconstruction began in 1995. Initially agriculture was considered a means of creating jobs, but the fact soon emerged that a viable commercial agriculture sector would need to reduce the number of persons engaged rather than employ more. Officially about 20% of the labor force is engaged in agriculture, which provides only 7% of GDP.

With an allocation of 60% of the economic support to agriculture, we conclude that Sida support has not provided value for money as a means to address the job creating objective. Other large-scale projects such as FIRMA and CREDO have had job-creation as a key objective and even exceeded targets set at project design. However, the number of jobs supposedly created are few in relation to the labor market needs and the number of unemployed. The investments per job created were also high. There are exceptions, such as the Start Bosnia project, but this is small in the total context.

Until recently, the Swedish portfolio in economic development did not have any project directly targeting educated youth. The new batch of IT and start-up projects in recent years is the exception. It is unfortunate that the incubator project HUB 387 was not well managed by the project management and the Embassy and therefore received a negative review in an evaluation. A project of this kind can contribute to modernize the Bosnian economy and labor market as well as attract educated youth.

The overall conclusion is that Sida's support in economic development so far has provided meagre contributions in terms of job creation with low value for money as a consequence.

10.5 Contributions to inclusive economic growth

Country performance. The concept *inclusive growth* has largely replaced other terms previously used by Sida and other development agencies such as pro-poor growth, socially sustainable growth or broad-based growth. Unfortunately, there is no agreed definition of how inclusiveness shall be measured.

The Bosnian economy performed very well in terms of growth during the first post-war decade with high annual growth, albeit from a low level. After 2007 this growth pattern changed to stagnation and with a renewed but lower rate after 2015. In terms of inclusiveness the World Bank notes that Bosnian inequality is relatively low and that “growth was good for the poor in BiH as the B40 were able to expand their consumption during periods of economic growth.”(World Bank 2015). However, according to World Bank data, the Gini index for BiH (a measure of equality of the economy⁴¹) has shown a somewhat deterioration of equality from the early 2000s to most recent data. Among the peer Western Balkan countries BiH has a higher degree of inequality than, for example Serbia, Kosovo and Montenegro. (World Bank 2017). Another indicator of weak inclusiveness is the inability of the Bosnian economy to significantly reduce unemployment as well as the high share of informal jobs in the economy.

Swedish contribution. Economic growth is not an explicit overriding objective in the Swedish country strategies for Bosnia except in the first one (2000-2002) which stipulates that Swedish development cooperation should pursue ‘socially sustainable economic growth.’ It is important to place the Swedish contribution in economic development to the Bosnian economy. The portfolio is on the average about USD 5 million per annum in the relation to a GDP currently of about USD 15 billion. For such a small aid

⁴¹ The Gini Index is a measurement of the degree of economic equality-inequality in a scale from 0 to 100 with 0 indicating perfect equality and 100 maximal inequality.

program to have any noticeable impact on economic growth, a significant leverage effect towards structural change is required to have happened.

Furthermore, the dominance of agriculture in the portfolio is in an economic growth perspective a problem: as noted earlier, agriculture accounts for a rapidly declining share of Bosnia's GDP since the early 2000s. On the other hand, one might argue that agriculture focused economic development has been *pro-poor* as the sector to a larger extent engage poorer segments of the population, such as women, in economic activities (World Bank 2018c). Given the record of Bosnian agriculture we find, nevertheless, it is likely that there is a negative trade-off for inclusive economic growth by supporting less dynamic economic sectors with a higher share of the relative poor versus support to more dynamic sectors in the economy. The latter would have the ability to engage larger segments of the labor force and/or with economic distribution effects for example by higher tax revenues used for transfer payments or services benefitting poor such as in health or education.

In summary, given low contributions in a majority of projects which mainly are aimed at the micro-level (agriculture operators and SMEs), the aggregated impact on the overall economy is likely to be small at best.

10.6 Contributions to EU accession

Country performance. Bosnia's accession process to the EU has been slower than for all the other former Yugoslav republics and Albania. The key obstacle to a more rapid process of EU integration for Bosnia & Herzegovina is the governance structure of the country and the politics of ethnic division. Part of the accession process is fulfilling the Copenhagen criteria concerning the economy, i.e.

The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.

As noted earlier, EU considers that Bosnia & Herzegovina “at an early stage of establishing a functioning market economy”, more related to the policy and regulatory dimensions and the ability of the Bosnian market players to compete at home or abroad.

Swedish contribution. Bosnia & Herzegovina’s integration into the EU has been a key objective for Swedish development assistance from the beginning and has been expressed in every country strategy. However, the manifestation of Sida’s strategy is more in the form of expressed values and common goals than in concrete cooperation activities seeking synergies. In the portfolio reviewed in this evaluation, there is not one single project which is a joint effort with the EU. Nor has the Embassy sought participation in the EU’s delegation to member states of EU funded projects despite statements of the strategies. A key reason is that the EU is not an easy partner to cooperate with. Cumbersome procedures, slow decision making and more financial resources than the EU administration easily can manage are some factors. Given the increasing dominance of EU funds⁴², the EU has a thin structure to manage its portfolio, further reducing the incentives for cooperation. Nevertheless, Embassy staff argues that the cooperation has been close in the sense that planning, policy issues and content have been jointly discussed and aligned between Sida and the EU in Sarajevo and that Sida has had influence on the definitions of EU’s IPA funding.

In addition, there have been many indirect forms of collaboration between Swedish aid and the EU: the CREDO program built on and deepened the work initiated in regional development by the EU. The Sida-World Bank cooperation under the Agriculture and Rural Development project in the late 2000s aimed at facilitating access for Bosnia & Herzegovina to EU IPARD funds; the support of the State Veterinary Office’s vaccination program functioned as ad hoc bridge financing until Bosnia can access the EU’s IPARD funds. The SPS project made the alignment with WTO and EU Aquis requirements a key objective; the recently

⁴² For the period 2007-2013 EU’s Instrument for Pre-accession Assistance (IPA) had a budget of some € 11.5 billion; its successor, IPA II, has a budget of € 11.7 billion for the period 2014-2020 for the Western Balkan and Turkey.

initiated Sida project on Small Business Act aims at harmonizing policies and regulations on SMEs to facilitate the EU accession process. The FARMA II project played a key role in assisting Bosnia in issuing a Rural Development strategy which both entities supported, a pre-condition for access to IPARD and eventually membership. Last, but not least, Sida's co-founding of World Bank and IFC business economic reform projects are closely aligned with the EU requirement and important indirect support to the EU accession.

In summary, the value for money of Sweden's portfolio in economic development as a contribution to BiH's EU accession has been low, partly due to the poor performing agriculture projects, partly due to the constraints imposed by the Bosnia's dysfunctional governance.

10.7 Contributions to gender equality

Country performance. Bosnia & Herzegovina is ranked high in UNDP's Gender Equality Index and has also improved the equality between men and women during recent years (UNDP 2018).⁴³ However, BiH, has an unusually low labor-force participation of women. Only about 35% for women in the age 15-64 are in the labor market as compared to near 70% of the EU. This has historical and cultural reasons but reflects also structural problems of the labor market, including weak female education. The participation rate for women in the labor force has improved only marginally in the postwar period despite significant government and donor efforts (World Bank 2018b). Female youth unemployment is a particularly critical issue with near 70% unemployed (Wiiw & World Bank 2017). In terms of women entrepreneurship, Bosnia & Herzegovina's performance is also weak due to similar cultural reasons.

Swedish contributions. Gender equality permeates Swedish assistance to Bosnia & Herzegovina at strategic level. For example,

⁴³ The index is using indicators in three dimensions, reproductive health, empowerment and labor market.

the strategy 2003-2005 states that “Special consideration should be given to the principle of equality and in all projects the issue of equality between the sexes should be considered “(UD 2003, our translation). Similar statements are repeated in all the strategies. Gender mainstreaming is reflected in many Sida projects in the economic portfolio in the sense of attention to women as beneficiaries, engagement of women in implementation structures, specific indicators on gender, segregation of data on gender etc. In respect of projects with a direct focus on gender, the portfolio has only a small regional project on women entrepreneurship with an estimated allocation for BiH of SEK 2 million.

Despite the systematic mainstreaming in the objectives and design, studies have been critical of the outcome, arguing that results have fallen short of the targets (Spear 2015; Abrahamsdotter 2015). In specific project evaluations, such as on the CREDO projects, the evaluator concludes that “gender mainstreaming is a weak point” (Spear 2015).

The Sida portfolio in economic development has no explicit focus on sub-sectors which specifically could absorb female labor, or which is aimed at women as economic agents with the exception of agriculture. However, agriculture is, as argued earlier, not an engine for job-creation. Microfinance could also be considered pro-women in the sense of a reasonably high share of female clients. The regional project in 2011 on female entrepreneurship covering nine countries including Bosnia & Herzegovina is too small to be likely to change the policy environment for female entrepreneurship. Overall, any noticeable impact on the gender equality through mainstreaming is unlikely as a result of the Swedish support in economic development.

The value for money of the Swedish support to economic development in terms of contributing to better gender equality must be considered low.

10.8 Contributions to peace and stability

Country performance. Bosnia & Herzegovina has not reverted into open conflict and political violence after the Dayton agreement. At least superficially, it has been stable country over the last two decades. In the Global Peace Index 2018⁴⁴, Bosnia & Herzegovina is ranked 89 of 163 countries, at a similar level as Macedonia, and ahead of China or USA. In other sources dealing with war-risk, Bosnia tends to be below the category of high-risk countries which almost exclusively are located in the Middle East and Africa.⁴⁵ Nevertheless, the political forces in Bosnia & Herzegovina for disruption are considerable and the ethnic division and rhetoric not much different than that of the immediate pre-war period. The risk for a renewed war cannot be dismissed, especially not in a time when ethically driven populism is rampant in the world and BiH is one of the focal points of the increased struggle for hegemony between Russia and the West, and also with influence by Turkey and China.

What is the importance of economic development in this context? The correlation between low per capita income and slow economic growth, and higher propensities for internal war is one of the most robust empirical relationships in the literature (Blattman & Miguel 2010). A common view of this relationship is expressed in a report by International Alert:

Competition over access to resources is at the heart of most wars and other forms of organised violence. Sustainable peace within and between societies is only possible when people have fair opportunities for a sustainable livelihood and the accumulation of assets, combined with general wellbeing, justice and security in a context of good governance. (Vernon 2015, p. 4)

Yet, Bosnia & Herzegovina's history points to a more complex case as an arena in the struggle of empires and religions in which the discourse on 'frozen wars' in the fringes of the former Soviet Union,

⁴⁴ <http://visionofhumanity.org/app/uploads/2018/06/Global-Peace-Index-2018-2.pdf>

⁴⁵ See for example https://www.theglobaleconomy.com/rankings/war_risk/

as well as concepts such as hybrid wars might be more relevant⁴⁶ (Chivvis 2017). An excellent review in an upcoming report on Sida's support to peace-building in conflict and post-conflict contexts in which BiH is a case country, provides a summary of drivers for conflict and peace in the country (Brett 2019).

Swedish contribution. Taking the quote above as a point of departure, the Swedish assistance in economic development appears at least not to have done harm. Together with the donor community at large it was effective in the initial postwar period to create common institutions, rebuild the country and re-start the economy and driving high growth rates. There was in the first post-war period hope in Bosnia & Herzegovina as well as among international investors that the country was on the right way. The pattern has changed as discussed earlier in this report towards a bleak picture of Bosnia & Herzegovina's future both among the Bosnians and outside observers. This coincides with slow growth, inequality, corruption and high rates of unemployment. If "fair opportunities for a sustainable livelihood and the accumulation of assets" is a preventer of conflict, the Swedish support in economic development has not contributed much. It has overall been weak in providing effective support for shared economic growth and job-creation, the latter by the Bosnians considered by far the most urgent problem facing the country according to opinion polls.

On the other hand, the Swedish support in economic development has in parts included systematic efforts to build bridges and encourage cooperation between the entities and ethnic groups in the business community and the public sector. CREDO is an interesting and successful example in this. While that program is over, the methodology is carried on in the new Small Business Act project.

It is noteworthy that the study quoted above which is assessing Sida's peace-building efforts in Bosnia & Herzegovina after 1995 is not dealing explicitly with the potential relevance, effectiveness and impact of the Swedish support in economic development for peace-building (Brett 2019).

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10.9 Contributions to poverty reduction

Country performance. In the early post-war period when the Bosnian economy had contracted to less than 20% of the pre-war level, material poverty was a paramount problem and there was most likely also a degree of extreme poverty. As the Bosnian economy grew rapidly the first post-war decade and the country today is classified by the World Bank as an Upper-Middle Income country with a GNI per capita of about USD 5,000, extreme poverty is rare. The percentage of the population in extreme poverty (with an income of less than USD 1.9 per capita and day)⁴⁷ was estimated by the World Bank in 2011 to about 0.1%, or some 4,000 persons. More relevant is relative poverty, for example defined as household income below 60% of the average income for the country. According to this definition relative poverty in Bosnia has been 17-18% of the population during the last decade. The share has declined somewhat since the early 2000s and is today about half a million persons (World Bank 2018c).⁴⁸

Swedish contributions. Poverty reduction has not featured strongly in the Swedish country strategy formulation for Bosnia & Herzegovina except for the 2006-2010 period and then defined as relative poverty. It could be argued that the Sida portfolio in economic development has been structured so that it has a significant (material) poverty focus in the sense that 60% of the allocations are for agriculture, a sector in Bosnia which is considered as a form of security cushion for the poor (World Bank 2018b). Microfinance is also having a poverty orientation by providing finance to the non-bankable. Whether Sida's support has any poverty reducing impact is, however, difficult to determine in this evaluation as none of the result-reporting has attempted to address this issue. Furthermore, there is not sufficient data who the (relative) poor are; which groups are benefitting directly and how much by Sida interventions, and which groups potentially indirectly. In terms of potential impact, the other dimensions of poverty applied in Sida's multidimensional definition, i.e. (lack of) security,

⁴⁷ Measured in PPP in 2011 terms.

⁴⁸ <http://povertydata.worldbank.org/poverty/country/BIH>.

opportunities, power and human rights, we have even less possibilities to judge the assistance.

11. Conclusions

11.1 Summary assessment of the portfolio

Below is a summary of the Sida portfolio in economic development and our assessment of the results in terms of value for money.

Table 3. Results of the Swedish development projects in economic development in Bosnia & Herzegovina 1995-2018

Projects (co-funding)	Allocation (SEK mill)	Period	Comments
<i>Agriculture projects</i>			
NGO implemented agriculture projects (LWF, Caritas, Cow How) 5 projects	280 ⁴⁹	1996-2005	Questionable results in terms of sustainable economic development. Projects initiated of humanitarian reasons to support IAP but with an increasing commercial orientation. Marginal contribution to the sector. Low value for money
Exit projects from NGO agriculture (3 projects)	40	2006-2009	An exit with limited results. Created NGOs today struggle for survival. Limited contribution to the sector and low value for money
Organic agriculture 2 projects	24	2001-2009	Swedish-Bosnian NGO cooperation with some institutional impact (certification organization) and business links with Sweden
Agriculture and rural	41	2007-2015	Relevant, but cumbersome, slow and not successful implementation due to governance problems. Sida

⁴⁹ The figure is estimated due to lack of precise data.

development (World Bank)			funds diverted to infrastructure rehabilitation purposes after floods 2011. Results of the latter not assessed. Value for money in food safety nil
Food safety SPS	15	2008-2011	Relevant but low impact due to political and governance constraints. No independent results-reporting. Low value for money
Animal health 5 projects)	69	2009-2019	Support to SVO to fight mainly a brucellosis epidemic through financing of vaccines. Relevant, good immediate results, but questionable if ad hoc budget support is good use of donor funds in Bosnia. No independent results-reporting. Questionable value for money
FARMA (USAID) 2 projects	138 ⁵⁰	2009-2020	Focus on three product groups over many years, including an earlier USAID project. Different assessments in reviews/evaluations after FARMA1. Last project still ongoing. Relevance of approach and results unclear. Unclear value for money

Finance projects

Bank privatization (World Bank) 2 projects	23	1998-2005	Relevant. Good technical assistance at crucial time with World Bank in the early economic reform process. Good value for money, especially first project. No independent results reporting
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⁵⁰ The figure included also budget for future implementation.

Microfinance (series of projects)	60 (110 budget)	1997-2010	Very successful in building two MFIs through American NGOs. but co-funding with World Bank would have been a better option to avoid market distortions. Grant funding carried out too long. Planned project in 2006 with Germany (KfW) poorly timed and cancelled. Good value for money with the reservation above
Guarantees (USAID) 2 projects	6	2010-2025	Initial pioneering effort at right timing, but with declining relevance in second project. Issues of additionality. On the other hand, low aid cost pointing at good value for money

Business environment reform projects

SEED (IFC)	5	2000-2006	Difficult to identify specific results related to Bosnia & Herzegovina in this regional project
Inspection reform etc. (World Bank) 2 projects	35	2002-2017	Relevant. Sida-supported inspection reform component described by World Bank as “very successful”. Good value for money
Sub-national competitiveness (IFC) 2 projects	24	2009-2015	IFC reporting and review claim good impact and substantial cost-savings for business. Relevant and good value for money
State enterprise reform ESRF (UK, Netherlands)	9 (budget) 0.2	2006-2009	Highly relevant, but project never took off due to political resistance

Small Business Act	18	2017-2020	Project recently started. Motivated by the duality of Bosnian governance. Building on the CREDO approach. Relevant but results too early to assess.
Women entrepreneurship	About 2	2011-2014	Regional project, Bosnia & Herzegovina one of nine countries. Unclear results and value for money

Regional economic development projects

REDI	13	2003-2005	Pilot project built on EU created regional zones. Inspired the CREDO approach. Effective and good value for money
CREDO 3 projects	85	2007-2016	Pioneering and innovative triple helix approach using local resources in implementation. Overall high remarks in extensive results-reporting. Relevant and good value for money
GOLD (USAID)	22	2013-2018	Failed project. Cancelled 2015 after poor performance. No independent results-reporting. Waste of significant aid resources

Other SME development projects

Start programs (Start Bosnia & Herzegovina and East)	10?	1997-2008	Several successes in joint ventures with Swedish firms with limited aid inputs. Good value for money
FIRMA (USAID)	70	2009-2015	Mixed reviews on results. Sida declined participation in USAID follow up project. Relevant, support provided to fast

			growing sub-sectors. Unclear value for money
Innovation support (2 challenge funds and HUB 387)	53	2013-2021	Significant interest from start-up community. Too early to assess results. One project (HUB 387) mismanaged but results might nevertheless be good

11.2 A portfolio of mixed value for money

From the above, we conclude that the achievements of the portfolio have been mixed but with a dominance of interventions with marginal contributions and of low value for money. There are projects which are relevant for the strategic objectives of the Swedish assistance in the context of the development challenges of Bosnia & Herzegovina, which have been effectively implemented leading to reasonable contributions and, given the aid resources spent, must be considered good value for money. These interventions include the cooperation with the World Bank group in bank privatization and in business environment reform. Also the innovative CREDO projects with its pioneer REDI in regional economic development belong to this category. The Start Bosnia is a third example. Together, these projects have an allocation of Swedish aid of about SEK 200 million, or 20% of the total portfolio.

There is another set of interventions which we consider having had low value for money by being less relevant, with limited sustained contributions and, in some cases, having used considerable aid budgets. The most significant example is the IAP related agriculture projects and the exit phase of those. Overall the agricultural support has in our assessment low value for money in relation to the strategic objectives of SME development, fostering competitive markets, job-creation and inclusive economic growth. To the category of low value (or no) value for money should also be added the failed regional economic development project GOLD. In total, projects with a joint budget of SEK 400 million, or 40% of the total portfolio, have been rated as low value for money.

Sweden's support for microfinance (SEK 60 million) in the first post-war decade was, on the one hand, quite successful in support of two well performing MFIs in a successful business, but on the other hand, was done with significant market distortions. The support of animal vaccination to SVO (about SEK 70 million) has had good immediate results, but as budget support, the relevance can be questioned.

For a not small share of the portfolio it is difficult to determine results and value for money. This relates to Sida's cooperation with USAID in agriculture (FARMA) and SME development (FIRMA) together with Sida allocations of over SEK 200 million. The reason for this is that the projects are complex and extensive results-assessments have come to different assessments. In terms of FARMA we lean towards an assessment of low value for money mainly due to the focus on the sector.

A part of the portfolio are still at a stage of implementation when it is too early to assess contributions and value for money. This related to the innovation-focused SME development and also the Small Business Act project. We consider these projects as relevant in relation to the strategic objectives and overall interesting in design. However, the first category has a high risk.

11.3 Reasons for low value for money

Key reasons behind projects (or clusters of projects) which we have rated as low value for money are primarily:

- The dominance of agriculture in the portfolio
- Problems in shifting from humanitarian assistance to market based economic development in the late 1990s and early 2000s
- The dysfunctional governance structure of Bosnia & Herzegovina
- Problems of when to exit

Dominance of agriculture. There has been an exaggerated focus throughout the period on agriculture, a sector of the Bosnian economy which had a poor record from the Yugoslavian time and for which Bosnia & Herzegovina in a European context has limited comparative advantages. It is no coincidence that agriculture has shown a declining share of the Bosnian economy throughout the post-war period. A substantial share of the interventions had little concern for sustainability in its design. Sida and the Ministry of Foreign Affairs (the latter in the country strategies) misunderstood the ability of agriculture to generate employment. Hence, the achievements towards the job-creation objective especially suffered, but also in terms of contributions to economic growth.

Sida's decision to pursue a new set of agricultural projects after exiting the first IAP projects in the mid-2000s given various critical reports at that time is difficult to understand. The agriculture focus, and that projects under this label in most cases did not perform well, explains that the value for money of the Swedish support to economic development 1995 – 2018 overall must be considered low, given that agriculture accounted for 60% of the financing. On a plus side, should be mentioned the possible gender equality dimension of agriculture as women of tradition have a higher participation in this sector versus other economic sectors.

Transition from humanitarian assistance. A second key reason for low value for money towards the at least some of the strategic objectives was the difficulties in transition from humanitarian aid to market-based development in the early 2000s. This is particularly the case with the initial cluster of agriculture development that emerged out of IAP and the exit phase from these projects. It also affected the microfinance support when grant support was continuously provided to commercially successful market operators. These projects included to larger or smaller extent market distortions by providing significant subsidies as grants to selected market players.

It is in this context important to stress than these projects were not primarily driven for the purpose of developing the Bosnian market economy, but for the benefit of the target group for IAP's housing construction, thus basically with the key purpose to assure

success of the IAP housing program. Added to the transition problems was also that the projects were implemented by humanitarian international NGOs and that aid funds were readily available and allocated on a year-by-year basis in the context of the much larger housing construction program. It was not a prudent use of resources.

Dysfunctional governance structure of Bosnia & Herzegovina with its ethnic dividing politics which is manifested in near inability for the entities to cooperate is a major reason for less value for money almost throughout the portfolio. This has affected projects in agriculture, particularly food safety, to some extent business environment reforms, the SOE privatization, by either making projects impossible to take off, or delayed the process of implementation heavily. In some cases, the issue is bordering the absurd where a key sign of achievement is getting technical staff in the two entities to at all cooperate. The governance issue has also made donors, including Sida, to focus on sub-national levels to avoid political bottle-necks when effective aid normally would take place at the central level.

The governance problem is beyond Sida's ability to influence and possibly beyond the capacity of the donor community to overcome as reflected also in implementation problems also in World Bank projects. If nothing else, undertaking development cooperation in Bosnia & Herzegovina comes with an added cost related to less results for money, delays in implementation causing higher costs, or entirely stalled interventions.

Problem of exit is common in development cooperation and so also in BiH. Sida should have exited the IAP agriculture projects much earlier than what happened, and should also have ended grant funding of the commercially successful microfinance institutions EKI and LIDER much earlier. Phase 2 of FARMA could well be a problem of exit given the questionable results of phase 1. The continuing funding of the SVO vaccination programs is questionable as it contains no developmental dimension but only budget support.

A more basic question is the continuation of the Swedish support to Bosnia & Herzegovina. The country does not lack human

competence, nor is the country poor in the sense of being short of financial resources. The weaknesses in business environment is not due to technical incompetence or shortage of know-how on reforms but a result of political decisions. As discussed later in this report, aid is seemingly continued as a ‘business as usual’ mode independent of the underlying reasons for ‘developmental challenges.’ That paves the way for low value of aid.

11.4 Factors contributing to good value for money

Factors that seem to have contributed to good results and reasonably good value for money in Bosnia are:

- Co-financing with the World Bank Group in finance and business environment reform. The World Bank has significant authority and a high skill level in these fields. Sida contributions were essential in adding technical assistance and grant funding especially when the Bank shifted from IDA credits to IBRD loans. It was based on a clear division of roles as Sida basically a passive funder of World Bank designed and implemented projects, but also in the early stages with provision of good technical expertise. Not all of the collaborations with the World Bank, however, was good value as reflected in the agriculture collaboration concerning food safety.
- Preparedness to take risk in new style projects with local partners. The CREDO projects stick out specifically in this respect as it pioneered a new approach and high risk-taking by delegating implementation to largely unproved local organizations outside the government structure. It basically carried on a program which was opposed by the political interest of the RS government in the sense that it attempted to create links between the entities. Also, the innovative driven projects from recent years fall in the category of donor flexibility and risk-taking, albeit the outcome is yet to be determined.

- Funding and collaboration with Swedish SMEs to promote joint ventures and other forms of cooperation between Swedish entrepreneurs and Bosnian. The value for money lay in direct creation of new businesses and jobs, linking Bosnian businesses with external markets and hands-on technology transfers through FDI and company to company cooperation at a limited cost to the aid budget. The Start Bosnia in the early post-war years, while a small intervention, sticks out in this respect at the time when commercial risks in investing in Bosnia & Herzegovina were considerable.

11.5 Cooperation with USAID

A special feature of the Swedish portfolio in economic development in Bosnia & Herzegovina is that there has been a considerable degree of cooperation with USAID through a series of projects, together accounting for about 25% of the total portfolio allocation, which is more than double of cooperation with the World Bank. A question is if this cooperation reduced the value of Swedish aid. While co-financing can be a good thing in leveraging resources and influence, the problem lay in the cooperation format. Sida became a junior partner in spite of equal funding and equal responsibilities and had de facto to accept USAID's mode of operation and values as well as delegation of implementation exclusively to American consultancy firms. It can be question if this mode of operation was a suitable arrangement in BiH with its considerable human competence. Sida accepted these arrangements for reasons of convenience due to limited own management resources. The collaboration also means very significant aid resources allocated to basically technical assistance projects leading to questions of absorption capacity and prudent use of resources.

The guarantee cooperation, on the other hand, did not suffer in this and might even have provided added value due to USAID's more significant technical experience in this form of cooperation at the outset.

11.6 Fatigue in Swedish strategy formulation?

As noted in chapter 4, Sweden has issued four country strategies in Bosnia & Herzegovina beginning 2000 and with the current one ending in year 2020. In our assessment the quality of these strategies have declined over time. Thus, the earlier country strategies were preceded by in-depth analyses of different aspects of the Bosnian situation which were also reflected in the strategy formulation. Over time the analysis and background studies have largely disappeared at least as documents in the public domain. There seem to be a declining intellectual capital invested in the strategy formulation. Possibly this is due to the syndrome of continuing aid as ‘business as usual’ mentioned earlier.

The last strategy, the regional strategy of 2014, is especially questionable. It does not make sense to lump together 13 countries of quite different nature and with significantly different development challenges in one, short strategy. Furthermore, the formulation in this strategy that SMEs should *make up a greater share* of the economy is non-sensical.⁵¹

There is in general a gap between the formulation of the overriding objectives and the suggested interventions. The latter seem more suggested from the point of what is already ongoing in terms of projects, than founded in a deep analysis of the key constraints of the economy and how Swedish assistance could address these.

11.7 Path dependence

Swedish aid to Bosnia & Herzegovina since 1992 has gone through the phases of humanitarian/emergency aid, to reconstruction and finally development assistance aimed at building capacity and institutions. The focus and concrete activities within these three

⁵¹ If this is the objective, Swedish aid could focus on closing down and ban any company with more than 250 employees, the upper limit of SMEs in terms of employees according to the EU definition. According to staff involved in the strategy process, the formulation came about from the pressure to formulate goals in a measurable way.

stages have to a large extent spilled over to the next phase. Thus, the emergency support included shelter and out of this experience in the reconstruction phase the IAP was developed with its focus on housing rehabilitation. The IAP piloted agriculture support as a means of creating some livelihood for returnees developed into a large-scale agriculture program which over time evolved into new forms of support in the sector and is even still on-going today. Microfinance had a similar development pattern out of IAP until it ended in 2010. The evolution of projects based on the past is understandable in the complex setting of post-war development, in a situation where aid budgets are large and the staff to design and implement projects are small, and when many donors engage and define their profile of aid in a landscape where there is competition for space. But the approach might not necessarily be effective aid or even relevant aid. The problem lies in the fact that different objectives and conditions might apply in the three phases.

Path dependence is a concept used in economics and political science to explain human decision making which continues even if the circumstances have changed. The Bosnian case shows that path dependence is a good explanation for the evolution of Sida's aid portfolio and even for the strategy formulation. A lesson from this is that it is essential to periodically critically question the chosen approach, even if it is at strategic level. It usually takes external actors to do this, as shown in Sida's engagement in agriculture in the early phase of support. Such external inputs might happen in, for example, project evaluations, but there is a risk that the focus of these are too narrow to question the premises of the project or strategy.

12. Lessons for Swedish Aid Management

12.1 Strengths of Swedish assistance

Bosnia & Herzegovina has been a major challenge for the donor community in general as well as for Sida, challenges almost all related to the ethnic-based politics of the country which also became the platform of Dayton. A number of projects which were initiated by the Swedish assistance in economic development provided less results (or in some cases no results) than anticipated. There are nevertheless some intrinsic values of Swedish aid essential to highlight:

- Sida (and the Embassy) is a non-bureaucratic organization which facilitates implementation, act flexibly and respond quickly to critical situations. This was especially clear during the war when Sida was an essential provider of humanitarian assistance with an early presence on the ground. The early reconstruction period was also characterized by a pragmatic, flexible approach.
- Swedish aid has the preparedness to take risks and trust local partners. The CREDO projects are the best examples: Sida trusted largely unproven organizations to design and implement financially large projects, which furthermore were technically complex and carried out with the explicit purpose of counteracting ethnic divisions and poor governance in the country. The support to the State Veterinary Office in the vaccine projects is another example of such trust and risk willingness. Likewise, the support to the IT incubator HUB 387, and the challenge funds for innovative startups are examples of risk-taking projects at the forefront of Bosnia & Herzegovina's modernization. Risk-taking means that they will produce both successes and failures.
- There is a willingness to cooperate with different types of funding partners. In the economic field in Bosnia &

Herzegovina, Sida has cooperated with bilateral agencies of the USA, Austria, the UK, the Netherlands and Cyprus, besides the international finance institutions and the German development finance institution KfW. Some of these collaborations have worked well, others have been less successful. Overall, Sida appears to be an appreciated partner.

12.2 Avoid 'aid as usual'

A key lesson from the Bosnia & Herzegovina case is that development assistance over time risks losing its original purpose and becomes an end in itself. In Bosnia this started to take place after the first ten, twelve years of post-war support, largely when the reconstruction was over and the OHR had reduced its role. Sliding into a business-as-usual mode risks making aid ineffective and possibly even counterproductive in relation to the broader (political) objective(s) that triggered engagement in the first place. Aid as usual is here defined as a concern for creating or maintaining a project portfolio and disbursing a budget, a focus on technical project indicators and targets related to outputs and a more narrow outcome, prolonged financing of projects in new phases without prior analysis and/or evidence of contributions to the overriding objectives, and neglect to assess what the portfolio really does in terms of achieving the overriding (political) objectives that justified Sweden's initial engagement. It is also a mode of operation when evidence shows that constraints are difficult to overcome, yet support is continued of its own momentum, thus inadvertently misusing tax-payer money and in worst scenario becomes dysfunctional by, for example, maintaining a status quo and developing a culture of aid-dependency in parts of the society.

The balance between the Government's (political) objectives of providing public funds to a specific country in a meaningful way on the one hand, and the aid organization's institutional requirement of managing a large budget and portfolio, on the other, is complex. It is both the Government's role and the role of agency top-management to critically scrutinize that the aid is worth the money,

that the interventions are effective towards the broader objectives, and to determine when it is time to shift orientation or exit.

The means for the Swedish government and Sida's top-management to achieve this would require:

- Strengthening of the strategy formulation
- Strengthening of the feed-back system on results
- Making aid-budgets dependent on what is achieved or not, rather than politically pre-determined.
- Making exit an explicit criterion for aid both at country level and in projects

Together this would form a Results-based management system towards more relevant and cost-effective development cooperation.

12.3 Strengthen strategy formulation

As is evident in the evaluation, there has been a considerable disconnect between the country strategies for Bosnia & Herzegovina and what is implemented in terms of projects. Some of the priorities of the strategies are only marginally reflected in projects on the ground, while rather significant projects do not have a clear basis in the strategies. The reasons for this disconnect are several:

- Swedish country strategies were weak documents when it came to translate the overriding (political) objectives to potential interventions on the ground. Over time, the Swedish country strategies for Bosnia & Herzegovina have also become weaker in the analysis and vaguer about what to do. There seems to be a degree of aid fatigue in the strategy formulation.
- The aid portfolio in economic development in Bosnia & Herzegovina was not developed as a result of systematic analysis of the unique challenges of the country and the constraints and opportunities of the economy. It seems rather have emerged of reasons such as responding to proposals and

requests for funding from different stakeholders; wishes to try new tools for development; and the continuation of past efforts due to the difficulty of phasing out and a 'sunk cost syndrome'. Strategies were often formulated from what was already on-going rather than the other way around.

- The country strategies did not sufficiently take into account the significantly changed circumstances in Bosnia from the late 1990s to today, nor the political economy of the country.
- The division of roles in the strategy formulation process between the Foreign Ministry, Embassy and Sida headquarters are complex and furthermore tend to shift dependent on the political leaning of the government.

On the assumption that the strategy process for Bosnia is not an exception, to be meaningful and worth the effort, country strategies need to be more analytical, more based on in-depth analysis of the unique constraints and opportunities in specific sectors of the country, more explicit between the links between the overriding objectives and actions, for example in explicit theories of change. Sida and/or the government can utilize considerable intellectual resources in Sweden for such analyses at a limited cost, especially if these costs are compared to potentially wasted aid. The intellectual quality of the international analysis undertaken by, for example, the World Bank is high and free to be used. It is essential that outside expertise is used as in-house analysis carry the risk of aid as usual and maintain on-going programs independent on results. The concept of a regional strategy as the case for BiH is a blind alley with its one-fit-all approach.

12.4 Strengthen results-analysis

Evaluations are indispensable tools in aid if carried out independently and professionally. It is the only check on stakeholders, whether recipient organizations, NGOs or consultants implementing projects and potentially even Sida project officers, who might have an interest in prolonging aid and sweep poor results under the carpet. Stakeholders might also have vested interests in

exaggerating positive results. To be effective, results-reporting should:

- Be used systematically. In Bosnia, Sida used the evaluation tool surprisingly sparingly even when large budgets have been involved over extended periods of time. Overall, the stated principle for Sida's evaluation of looking back to move forward has not fully been adhered to. Sida should make it mandatory that all its interventions are subject for some form of independent results-assessment.
- Not replace evaluations with mid-term reviews. The latter should be used as a tool to improve, if necessary, the design and/or the management of a project or program, not as a guessing game of the end-results after a year or two. It is noteworthy, that one of the most systematically programs in Bosnia, the CREDO projects, were assessed through a series of mid-term reviews, not any ex-post evaluations.
- Require that evaluations attempt to assess the linkage between the project results with the overriding objectives of Swedish aid as best as this can be done. This should be included in the terms of reference and be part of the evaluation design.
- If possible, use control groups to determine impact and contributions. The USAID evaluation project MEASURE in Bosnia & Herzegovina is an interesting example. It was an ambitious attempt to strengthen evidence-based evaluations of USAID projects, but the results of the efforts were largely ignored by the donors who rather preferred to listen to reviews with less stringent methodology but more positive results.
- Request evaluations to place projects and their results in a sectoral context, including what other donors have done in the sector. Many evaluations are carried out as if a Swedish aid project was the only factor happening in the sector.
- Have a parallel results-reporting like the system the World Bank uses, i.e. institutionalize that Sida and the responsible project officer make their own assessment of results. When Sida publishes evaluations, make it mandatory that the reports

include Sida's own assessment and comments on the evaluation results. Sida has a system for management response to evaluations but it is an internal process. It is essential that Sida's voice and views are explicit.

12.5 Learn from history

A lesson from the Bosnian case is that aid did not pay much attention to the (economic) history of Bosnia & Herzegovina. The first strategy in 2000 would have benefitted from an analytical look at Bosnia's economic path and the comparative strength of different sectors of the economy, as well as other factors. It was at this time that the pattern of future Swedish assistance was formed, a pattern still in place to a large extent due to path dependence. A lesson for similar post-war scenarios is to undertake a diagnostic study of future options as early as possible, not forgetting to take the historical context into account, and out of this formulate a long-term strategy for assistance, a strategy that periodically should be scrutinized for its relevance in changed contexts.

12.6 Consider the political economy

No factor has impacted on the Bosnia development pattern as much as the political economy of country and its basis in ethnic nationalism. While the Swedish aid has not been ignorant of this, the country strategies and interventions have not sufficiently taken this into account on what is possible and what counteractions are required. There has been a tendency over time to deal with Bosnia from a 'technocratic' perspective both in strategies and interventions, rather than making the dysfunctionality of the political economy explicit and formulate means to address this issue. To judge from the Bosnia case, there is a need for a stronger political analysis and content in the development assistance. After all, development cooperation is a political project based on values that not necessarily are fully shared by the recipient party.

12.7 Address the imbalance of resources

There is an imbalance between the considerable Swedish aid budgets on the one hand, and the limited administrative resources by Sida and the Embassy to manage this on the other. Over the post-war period Sida has had a project portfolio in Bosnia with several hundreds of projects, in many sectors and sub-sectors. Most of the projects are complex in what they are attempting and take place in a complex setting. This is managed by a small team (after 2008) at the Embassy, of which the expatriates stay only a few years normally. The imbalance has many negative consequences:

- There is not enough time for deep analysis prior to engagement, when projects are ongoing or when they are ended (or should be ended).
- There might be a temptation to select interventions with large budgets and/or cooperate with donors with larger management resources such as USAID, not because that necessarily would improve quality, but because they would make the aid administration more manageable.
- Small projects are avoided as they require more or less the same management inputs as larger projects, even when small projects can provide better value for aid money. Some of the best projects in Bosnia & Herzegovina were relatively small: technical assistance provided to the World Bank's privatization of the banks, Start Bosnia and the Challenge are examples.
- Results-reporting might suffer as it takes management resources. Critical analysis of results might be dismissed because it is less demanding to continue than to redesign interventions.

It is difficult to think of any sector in the public administration where there is such imbalance between the resources that are handled, i.e. the aid budget, and the administrative resources to manage this. A lesson from the Bosnian case is that local staff at the Embassy is critical for aid management and for Sida's institutional

memory. In relative terms it is a low-cost input towards enhancing quality of aid.

12.8 Avoid market distortions

There are some specific lessons to be learned from assistance in the economic sphere in general and in business development specifically. One of these is related to market distortions. Intervention in commercial systems, especially at the micro-level by grants, always bears a risk of distorting a market by favoring one actor over the others. Such interventions can provide sub-optimal results and in a worst scenario result in a negative outcome. Market distortions were common in the Swedish support to Bosnia, especially in the earlier phases, for example in microfinance and agriculture. Market distortions also took place in the exit of the initial agricultural projects that handed over substantial investments to a donor-created commercial entity. To what extent distortions have taken place in projects with grant funds such as FIRMA, FARMA and CREDO were not assessed in the reviews and evaluations of these projects, but overall at least the intention was to provide grants on a competitive basis. Anecdotal evidence indicate that market distortions were not absent in FARMA and FIRMA.

While intervention at the micro-level in market development can be justified and effective, Sida needs to carefully assess the risk of distortions and monitor projects to ensure it does not happen. If grants are provided to commercial actors, a transparent and open competitive process as applied in, for example, challenge funds is preferable. This also reduces the risk of vested interests by the implementing entities in the process. It is important that grants are used to address a market failure rather than as an incentive for businesses to participate in a donor project. This said, Sida has become much more aware of potential market distortions over time than, taking BiH as an example, was the case a decade or longer ago.

12.9 Improve Sida's institutional memory

Our evaluation of Sweden's long-term development assistance in Bosnia has not only faced methodological problems intrinsic to such evaluations, but also issues of information availability. Swedish aid is transparent as a matter of principle. However, Sida's archive is organized and administered in a way that makes collecting essential information on historical projects time-consuming. When the task requires gathering key reports for 50 projects, some of which date back to 1995, it is *de facto* an impossible task within a reasonable timeframe. This has nothing to do with the willingness of the Sida archive to be cooperative, but a matter of procedures and how access to the archive is organized.

The institutional memory of Sida concerning Bosnia is borne by individuals who are or were part of Sida's work in the country. Thus, retired Sida staff engaged in the 1990s and 2000s not only were able to provide their experiences but also shared files on their personal computers and/or hard copies of essential Sida documents which they had kept for personal interest reasons. In the same way, local staff in Sarajevo were able to provide electronic information of the projects they had been involved in to an extent beyond what they were obliged to in their work capacities. For interventions handled by staff who had left Sida, the documentation on the other hand was lost. The hard copy archive at the Embassy in Sarajevo is next to useless due to unclear principles of filing and uncertainty of what is filed in Stockholm and what is archived in Sarajevo. Dedicated staff at Sida and the Embassy is Sida's real practical institutional memory, but this is of course an arbitrary and vulnerable sort of memory.

Open Aid (www.openaid.se), which electronically contains all decisions on financial allocations by the Swedish government since 1998, is a commendable effort by the Swedish government to create transparency and a good source for historical analysis. However, our experience from the evaluation is that the associated reporting is lacking in the system for most activities/projects. This is not just for older projects, but even for newer ones.

If Sida made sure that all relevant documents for each activity (project) contained in Open Aid was included in the platform, the

transparency of Sida's work would be dramatically enhanced and the long-term evaluability of Sida's work would improve markedly. It would also contribute to an easily accessible institutional memory. According to the web-site, Open Aid is continuously being updated and improved. It is essential that this also concerns historical documents, and that there is a check to assure that key documents are systematically uploaded. When the latter is done, it is essential that core documents are not missed such as appraisal reports, mid-term reviews, evaluations and final reports. Less essential, or irrelevant documents such as e-mail exchange concerning who is off or on vacation etc. should be excluded.

13. The Way Forward

13.1 Bosnia & Herzegovina – a case of unique international solidarity or diplomatic failure?

The architect behind Dayton, Richard Holbrooke, considered in his memoirs that the ‘former Yugoslavia was the greatest collective security failure of the West since the 1930s’ (Holbrooke 1999). Yet, the international community’s response to the Bosnian tragedy and its post-war development has been an unprecedented effort since WWII: to end a war, to reduce the human suffering during and after the war, to maintain peace, to rebuild the country from the war damages and finally to support its transition to a democratic market economy. Sweden has been an active part of these efforts and shared the values behind the support.

23 years after the war’s end Bosnia & Herzegovina is neither the economic miracle of Germany or Japan of the late 1960s, nor a well-functioning democracy. The head of Republika Srpska, Milorad Dodik, makes no secret that he wants RS to break out of Bosnia & Herzegovina, either to form an independent state or to join Serbia as a Greater Serbia. Not much has changed in this respect from Radovan Karadzic’s war rhetoric. The views of the Bosnian Croats are less vocal, but the idea of splitting the country and the Bosnian Croat dominating areas joining Croatia are not dead. The risk that after more than 500 years as an entity Bosnia & Herzegovina will break apart is not insignificant. The international community appears unable to roll back the ethnic-nationalist politics of Bosnia & Herzegovina. Serbia and Croatia, which prior and during the war fueled the ethnic division, have now been replaced by other forces, especially Russia with its aggressive efforts to weaken Europe and the Western democracies. Dodik is vocal in the media about his preference for dealing with Russia over the EU, and according to opinion polls, the Bosnian Serbs see Russia as a key ally. It is a historical irony that Bosnia & Herzegovina which kept intact for more than 500 years under the hegemony of empires or being part of larger countries, risk of falling apart once it is independent.

What are the options today for the international community in general and Sweden specifically in Bosnia & Herzegovina? Continue as before and hope that long-term efforts will prevail, and a *stable, peaceful, multi-ethnic state based on democracy, human rights and a market economy* eventually will be created ready to be assimilated into the EU? If so, what is the time frame? Or draw the hard conclusion that not more can be done after more than two decades of support and therefore donors should exit, save tax-payers money and let the Bosnians take care of their own situation? Or accept a break-up of Bosnia into two (or three) nations and deal with each of them as an independent country in an EU context? Are there other strategies? This will be the subject of this chapter in which we also suggest what Sweden can do. Our recommendations go beyond the issue of continuing promoting economic development and transition to a market economy. We base the suggestions less on the evaluation of the Swedish portfolio in economic development and more on the macro analysis which has been part and parcel of the study. The recommendations, furthermore, are directed to the Swedish Ministry of Foreign Affairs which is formulating the strategic orientation.

13.2 Declining returns on aid

There were strong compelling reasons for Sweden to enter during the war to reduce human suffering through humanitarian support. The government and Sida are to be commended for quickly providing such support on a large scale, often under difficult circumstances, with considerable personal risks to those engaging on the ground. There were also compelling reasons for Sweden to participate in the reconstruction of Bosnia & Herzegovina after Dayton as part of the international community. The rebuilding was largely successful, and aid was well spent in terms of building a functional state, not least due to the involvement by the OHR to maintain one nation and avoid a further ethnic split. However, as the Bosnian leadership, which had been put in power through largely fair elections, have used the last two decades obstructing the creation of a viable state, and shown no interest in reforming the Byzantine form of government structure created by Dayton, the

justification for continuing support becomes less and the continuation questionable. This was especially the case after the late 2000s when the reform attempts of the Dayton constitution failed, OHR reduced its role and local politicians increasingly played the ethnic-nationalist card. Aid to Bosnia & Herzegovina became increasingly 'business as usual,' more resembling long-term donor engagement in a low-income nation in Africa, than temporary transition support to a former socialist European middle-income country with a large pool of skilled labor, an economic history of industries competing on global export markets and a significant share of the population having lived a European style middle-class life in the 1970s and 80s. In short, our conclusion is that there have been rapidly declining returns on aid in relation to the overriding political goals over time.

Bosnia has reached upper-middle income status with a GNI per capita of about USD 5,000. Much argues for donors to end their engagement in Bosnia & Herzegovina except for two reasons: first, the desire to integrate Bosnia & Herzegovina into the EU for stability in Europe. Second, the risk of Bosnia & Herzegovina sliding back into civil war. The risk of this seems to have been substantially lowered according to most observers. The peace-keeping force EUFOR has been reduced to a minimum without jeopardizing the peace. One of the achievements of the OHR was to place command of the military forces under the state, not allowing the entities to develop their own forces. Furthermore, the political leaders in the entities have comfortable and lucrative positions with no apparent incentive to risk this for potential gains through a war. Rather, they use the fear of war as a means of mobilizing their voters in each election to maintain their positions. Jasmin Mujankovic, a young Bosnian political scientist who in 2018 published a damning critique of the developments in the Balkans and of Bosnia in particular, put it bluntly:

In practice, the EU and US have spent the last twenty years paying hush money to a constellation of largely unreformed and unrepentant war profiteers and warlords. When pushed to implement local leaders have routinely opted to fabricate political crises in order to extract renewed commitments for the internationals. In this manner, local elites have kept both local

populations and the international community in perpetual fear of renewed conflict, while simultaneously presenting their respective regimes as essential for peace (Mujankovic, 2018, p. 48)

However, the world of the late 2010s has rapidly changed with nationalist and far-right political movements gaining power in Europe and elsewhere, and the consequence of their rhetoric is fueling conflict between ethnic groups and potentially between nations. These movements also affect Bosnia & Herzegovina. The world is less stable than at any time since the end of WWII when our security alliances were established. That system for keeping the peace is in flux, and the Balkans is one of those weak fault lines that can once again become a battleground in an unstable world. The decision to go to war is never rational, particularly when it is underpinned by strong ethno-religious divisions. Continuing commitment by the international community to Bosnia & Herzegovina might be the factor preventing such a violent conflict. Maintaining peace is clearly a much cheaper option than dealing with war and finance the reconstruction after war. The question is how this commitment should be manifested to avoid Mujankovic's hostage scenario.

13.3 Let the EU take a renewed lead

The only dynamic force in the international community that in our judgement seems realistically able to facilitate change in Bosnia & Herzegovina towards the objectives of a stable, peaceful, multi-ethnic state based on democracy, human rights and a market economy is the EU through the process of accession. However, Bosnia's accession process has been slower than for all the other former Yugoslav republics and Albania. Slovenia was accepted as an EU member in 2003 and Croatia in 2013. Serbia, Montenegro, Macedonia and Albania are candidate countries potentially ready to join in 2025, while Bosnia & Herzegovina remains a potential candidate country with no time set for a potential membership (Kosovo, with its background as a break-away region of Serbia in the late 1990s and its independence still disputed by some EU countries, shares this status).

The key obstacle to a more rapid process of EU integration for Bosnia & Herzegovina is the governance structure of the country. Some observers, such as former strategic analyst of the OHR Kurt Bassuener, even questions if Bosnian politicians want EU integration:

The ugly truth is that Bosnia & Herzegovina's political elites have long since completed their cost-benefit analysis on meeting the EU's standards, and come to the conclusion that they have more to lose than to gain ... The entrenched elites have managed to derive maximum benefits from the EU with little to no durable reform – even reversals of prior reforms. Continuation of the current EU policy is a sucker's game, with the benefits flowing overwhelmingly to those most resistant to effective and accountable governance (Bassuener 2012, p. 113).

Currently, the EU is stuck in between two unattractive prospects: on the one hand admitting the ethnically divided Bosnia & Herzegovina to the Union to counter the geopolitical situation of the Balkans with Russia actively promoting its policy of destabilizing Europe. On the other hand, enlargement in the current crisis mode of an ongoing Brexit and populist movements skeptical to the EU in some of the member countries. Inclusion of Bosnia & Herzegovina also means assimilating a country with a per capita income of a third of the EU average, rampant corruption and aggressive ethno-nationalist politics. The experience of Bulgaria's and Romania's membership might be a deterrent to add new countries in the region. Yet, in 2015 the EU began to pursue a reform agenda to assimilate Bosnia & Herzegovina first as a candidate country and eventually a member. In 2017, the commitment by the EU of accession of Bosnia was reiterated.

Within this context, there is a considerable risk that the current development assistance is less than effective in supporting such assimilation, and possibly slows it down or even prevents Bosnia's progress into the EU by delivering fragmented, myopic assistance. Continuation of the development cooperation of the kind that Sweden has carried out in economic development can become a disguise for required political change by implicitly or explicitly place the reason for slow progress on technical weaknesses in fulfilling required criteria rather than slow progress is due to systematic

political obstruction. The EU requires that Bosnia & Herzegovina speaks with one voice and stands behind one strategy. Perhaps the international community should do the same and begin a new strategy to end the many projects, which reflect the various donors' and IFIs' agendas, rather than a common effort to move Bosnia forward towards membership.

13.4 Ideas for Swedish support

Sweden should consider whether continuing development cooperation support to Bosnia after the end of the current strategy 2020 is justified or if Sweden should exit. If cooperation is continued, Sweden should break with the past 'development cooperation as usual' and form a new strategy focusing on political change rather than an assumption that Bosnia needs more support to develop its market system, more strengthening of its SMEs, further enhancing of the banking system, and improvements of the labor market, and so on. Bosnian businesses, foreign investors and the youth looking for jobs mistrust the future due to the Bosnian politics, not some intrinsic technical weakness of its economy. Our recommendation for such a new Swedish strategy would thus be stronger alignment with and support of the EU, preferably in cooperation with IMF and the World Bank, for greater pressure on the Bosnian governments for *political reform* towards EU accession.

Such a strategy might encompass:

- Let the EU define in what way Swedish development assistance can support the EU strategy for and activities in Bosnia. Select out of this a few areas where Sweden could have a comparative advantage. Drastically reduce the plethora of interventions to a few well-targeted which are of high relevance in the EU accession process.
- Explore if Sweden can facilitate the EU administrative process. Today the EU is tendering large projects under IPA in which organizations such as UNDP and German GIZ often succeed to win but local organizations fail as the projects are too large and their capacity to prepare tender is

weaker. Thus, the EU's administrative capacity problems counteract the building of local capacity. EU has very large aid resources but is thin in management of these. Build on the success of CREDO to strengthen local capacities.

- Show the EU that Sweden is a strong supporter of the enlargement to include BiH and is willing to adjust its development cooperation to fit that would be affective in that process.
- If required, support the EU in its thinking on how to integrate divided countries such as Bosnia & Herzegovina into the EU, building on the experiences of countries such as Belgium, Spain and Switzerland. It is wishful thinking that Bosnia & Herzegovina would become a fully united country in the foreseeable future.

The EU approach *from the top* could be combined with efforts for creating political change *from below*, for example:

- Focus on youth to make Bosnians willing to stay and participate in developing their country. Projects such as HUB 387 and challenge funds on innovation start-ups is one way forward but small projects supporting change agents of different kinds can pay high dividends especially in installing hope among the youth.
- Support ideas of dynamic change agents. There are a large number of dedicated social entrepreneurs in Bosnia to choose from. Make sure these efforts are cross-entities building bridges between the different ethnic groups. Youth can be the force to replace the populist politicians of today.
- Build on successful efforts of the past of integration from below, such as the CREDO program and the current Small Business Act. If successful, such efforts could build momentum for change. Such models could also be used to influence EU's work.

In summary, we propose that the Ministry jointly with the Embassy in Sarajevo initiate a new style strategy formulation process for Bosnia & Herzegovina thinking 'out of the box' with a stronger political content and with one objective: EU accession.

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Annex 1. Methodology

Best practices in country evaluations

In 1999 OECD arranged a workshop on evaluations of country programs with presentation of case studies by donor agencies from several countries, including Sweden, as well as from the EU and the World Bank. A synthesis report concluded that donors found it especially hard to assess the impact of country programs, in particular when the program was small in relation to total donor flows, and/or to the scale of public sector activity and/or donors employed a diverse range of instruments and channels such as partner governments, NGOs and multilaterals (OECD 1999). Some donor representatives even argued that impact assessment should not be attempted at all. Issues of contribution versus attribution and dealing with counterfactuals were highlighted as reasons. The workshop also concluded that too little attention in country program evaluations was paid to contextual factors impacting on development assistance and its results such as political events, trade, etc.

In the design of the evaluation of Swedish assistance in economic development to Bosnia & Herzegovina we took note of a synthesis report from the OECD workshop which identified two fundamentally different approaches to country evaluations, one named ‘a historian’s analysis’ based on an *inductive, top-down view* of country change and from this efforts to determine the role aid had played for such observed changes. The other approach was a ‘*deductive, bottom-up approach*’ starting with specific aid projects and from these deduce their contribution to change (Conway & Maxwell, 1999).

Inspired by this dual approach we elaborated a methodology for the BiH evaluation consisting of:

- 1) a macro analysis of BiH’s long-term evolution, including a historical overview tracing the pattern of governance, politics and the economic development and not least the root causes of the ethnic conflict that contributed to the war and is still lingering post-

Dayton. This analysis is also mapping the role the international community has played throughout the phases of conflict, humanitarian support, reconstruction and more conventional development assistance over the last decade or so. Sweden has been a smaller, but not insignificant player throughout these efforts, largely with the same objectives and values as the donor community at large. A complement to the macro analysis is a comparison of various aspects of the economic evolution of BiH with peer countries in the West Balkan region, i.e. the other former Yugoslav Republics and Albania.

2) a portfolio analysis of Sida interventions in BiH during the period 1995-2018 aimed at economic development. The studied portfolio contains about 50 projects with a combined aid allocation of about SEK 1 billion. Part and parcel of the portfolio analysis Swedish country strategies for Bosnia & Herzegovina which have been in place since year 2000.

Defining Sida's portfolio in economic development

Defining which projects and activities that can be considered in support of economic development is to some extent arbitrary. Basically, most forms of donor support might be relevant and even necessary for economic development in one way or the other. Functional infrastructure, good governance, land and tax administration, a reliable judiciary system, efforts to maintain peace, human resource development, etc. can all to be elements for sustainable and inclusive economic development. To limit the study for practical reasons our selection criterion was projects which have been classified by Sida within the categories of *business and business environment development, financing and banking, industry, trade and agriculture* using OECD/DAC's classification. These types of projects are those identified in the Swedish country strategies under the theme of economic development and/or development of a market economy.

Mapping of these projects we used sources such as Open Aid (www.openaid.se), Sida's and the Swedish Embassy's web-sites and documents in Sida's archives. During the mapping we found that activities prior to 1998 were difficult to trace. Staff at Sida's archive was helpful, but the archive is not easily navigated due to the enormous number of documents of different kinds available and the titles in the registry often do not clearly identify what the document is about. Documents concerning Swedish aid to Bosnia & Herzegovina prior to the establishment of the new Sida in July 1995 are, furthermore, placed at the State Archive.

Identifying key reporting

The next step was collecting the relevant documentation of the projects in the portfolio such as assessment memos, appraisal reports, mid-term reviews, completion reports and ex-post evaluations. Open Aid is an excellent concept for transparency of the Swedish aid after 1998, but it has some short-comings especially as it lacks links to documentation for most of the projects listed. The Sida archive due to the reasons given above proved also to be a source of little use to us. The Embassy in Sarajevo, on the other hand, was helpful in digging out key documents for most of the projects in the portfolio especially projects that began after 2002. The physical archive at the Embassy, on the other hand, had little to add as it is poorly organized. Former staff at Sida engaged in Bosnia & Herzegovina were helpful providing us with documents they had saved for personal reasons. We must admit that despite considerable efforts to identify the key documents, not all relevant reports could be found. In the main report we highlight the short-comings of Sida's institutional memory and suggest how this can be improved. A conclusion discussed in the main report is that Sida's institutional memory in much too high degree is dependent on individual staff members ability to dig out documents from own sources.

Clusters in Sida's 'economic' portfolio

Once a portfolio had been established, as noted above, we arranged Sida's projects in economic development in five clusters to facilitate our analysis:

- Agriculture
- Finance, including micro credits and guarantees
- Regional economic development
- Business environment reform
- Other SME development

Projects do not always fit exclusively in one of the five categories. For example, many of the projects in finance, regional economic development and business environment reform have SME development as a focus, and projects defined as SME development might to a certain extent have an agriculture focus. The categorization nevertheless functioned well as a means for the assessment.

During the analysis we found that a sub-classification of the clusters was useful when the projects were of different nature. For example, in finance there are three distinct types of Sida interventions in Bosnia & Herzegovina between 1995 and 2018: 1) support for bank privatization in the early post-war period; 2) microfinance and 3) guarantees to commercial banks for their SME lending.

Country strategy mapping

Sida and the Swedish government have issued five country strategies for Bosnia & Herzegovina beginning year 2000 with the current one covering the period 2014 until 2020. The last strategy is regional, and Bosnia & Herzegovina is included together with 12 other countries. The strategies form an essential part of our analysis, identifying the overriding objectives of the Swedish assistance, how these objectives were expected to be translated into activities and projects, and lessons learned from past assistance. The earlier strategies had as background useful analytical studies of different aspects of Bosnia's development. Such studies became less frequent over time. An issue brought up in the comments to the draft report was that the reduced reliance by the Ministry of Foreign Affairs on analytic work provided by Sida had as a consequence a reduction of quality of the later strategies.

Mid-term reviews and evaluations

Given the large number of projects which is part of the evaluation, we have been heavily dependent on secondary data and especially results-reporting such as independent mid-term reviews and ex-post evaluations. Contrary to our expectations, we found that not few projects in the portfolio lacked such results-reporting. In our estimate, the results of nearly half of the SEK 1 billion allocation for economic development have not been subject of external assessment.

In general mid-term reviews and evaluations tend to be focused on assessing performance against the quantitative output and outcome indicators established in the underlying Sida project documents. As such project targeting tends to be at a lower level in an implicit theory of change or log frame. There is an overall gap between the reported project results and the overriding objectives of the assistance. In general, the project results-reporting has not attempted to address to what extent the projects contributed to the overriding objectives, with some exceptions such as job-creation. When aggregating project results from such evaluations and mid-term reviews, this is a fundamental problem also for our analysis. Our conclusions concerning the contribution of the portfolio to the broader objectives must therefore be based on inference from available data rather than evidence from underlying project studies of such contributions.

Some of the projects in the portfolio have been extensively reviewed by different evaluations. An interesting case is Sida's cooperation with USAID in the projects FIRMA and FARMA. USAID is funding a special project called MEASURE (with a budget of USD 8.9 million for 1014-2019) which has the purposes to improve the evaluation methodology concerning USAID's projects in Bosnia & Herzegovina and to undertake high-quality evaluations of US funded projects. MEASURE evaluated both FIRMA and FARMA at the end of the project period in 2015 using a quasi-experimental design that compared the outcomes of the beneficiaries that received the interventions (treatment group) with outcomes for similar groups that did not receive the interventions (comparison group). As no identical comparison group can be found, the estimate of impacts was done through a multivariate

regression analysis based on a difference-in-differences design. The results of these evaluations were broadly that no impact could be found. Sida also undertook its own reviews of FIRMA and FARMA which found both projects performing well. It is tempting to consider the MEASURE evaluations to be more accurate, given its higher level of ambition in methodology.

External evaluations and mid-term reviews often, but not always, play a central role in Sida's decision making on whether to continue or exit a project. While evaluations are critical for results-assessment, they tend to be carried out with limited financial resources and over a short period of time, and the results are influenced by the team's perception and possibly pre-conceived ideas. There is a risk that these evaluations and mid-term reviews are given too large of an influence. The views of the donor are critical as a complement. We found in the evaluation no systematic information by Sida in terms of its results-assessment to be used in parallel to the evaluations. Sida should institutionalize such explicit self-assessments and make them an integral part of the results-reporting.

Interviews and field visits

Semi-structured interviews with past and current stakeholders have been an essential tool for the evaluation. Such interviews were conducted with current and former Sida staff members engaged in Bosnia & Herzegovina during and after the war, persons engaged in or 'beneficiaries' of the Sida projects, representatives for NGOs, authorities, municipalities, canton and entity governments, persons from academia, business representatives and staff of multilateral and bilateral organizations engaged in Bosnia & Herzegovina. Most of these interviews were conducted in person, but some had to take place over skype or phone. Some of the stakeholders were interviewed more than once to verify findings or discuss hypotheses. Interviews in Bosnia & Herzegovina took place during two visits, one month-long visit in April, and a one week-long in early September 2018. The interviews aimed primarily to provide a form of triangulation of results with the documented sources, but also as a means for determining impact in the longer-term and sustainability of the results.

Theory of Change

Theory of Change (ToC) has been defined by Anderson (2004) as “a way to describe the set of assumptions that explain both the steps that lead to a long-term goal and the connections between these activities and the outcomes of an intervention or program.” It is a way of working backwards from a desired long-term goal to identify all the conditions (outcomes) that must be in place and how these related to one another causally for the goals to occur.

Swedish assistance has not used explicit ToCs in its country strategies or in projects in Bosnia. We assumed at the outset of the study that constructing ToCs would be possible which would facilitate the evaluation by testing underlying implicit assumptions. We found that this was not a feasible method. The country strategies are short and general, covering many themes, and the assumed logic causal chain between activities and desired objectives not spelled out. A significant weakness is that Sweden’s country strategies overall are characterized by a gap between the overriding objectives for the assistance (such as transformation to a market economy, economic growth, etc.) and suggested concrete intervention in SME development, for example. While ToCs are no panacea for relevant development assistance, using the methodology would improve the construction of interventions and also the results-assessment ex-post.

Nevertheless, a theory of change was established at a strategic level of the relevant objectives identified in the country strategies.

Evaluation Matrix

Evaluation matrices are, as elaborated by Morra Imas and Rist (2009), organizing tools to help plan for the conduct of an evaluation. The matrix organizes evaluation questions and plans for collecting information to answer questions and sub-questions. We constructed an Evaluation Matrix to guide the research process at the Inception phase. The matrix has guided the study in terms of the questions pursued and sources of information used, although the results of the country evaluation are not presented in the same format as in this matrix.

Contextual analysis

The EBA terms of reference say that “the evaluation is expected to put Sweden’s contributions in a wider context of development and other donors’ contributions over time.” Such a contextual analysis is particularly relevant in the case of Bosnia & Herzegovina as the country has been one of the most favored by the donor community. Swedish assistance to Bosnia & Herzegovina in total since the war accounts for less than 5% of the total flow of ODA. As donors tend to support largely similar types of activities and only to minor extent do this under joint projects, it is obvious that there are many influences at hand and that it might be difficult to single out the contribution of a specific project on broader social changes. It would be useful if project evaluations to a larger extent than the practice today provide the context in which a project takes place in, especially by identifying other forms of similar assistance. This would help to address the relative contribution of the specific evaluated project. Sida could make such contextual description and assessment mandatory in terms of references.

We have chosen to interpret the term context in a broader meaning also tracing the economic and political history of Bosnia & Herzegovina based on the belief that this matters for the contemporary economic structure of the country and especially its political economy with its strong ethnic-nationalist division. As evident from our report, Bosnia & Herzegovina’s unique governance system and the underlying political conflicts interfere with almost all forms of donor activities and overcoming the dysfunctionality of this structure has become a major, usually implicit objective of aid in Bosnia & Herzegovina.

Contribution analysis

A key concept in EBA’s objective of the evaluation is *contribution*. There is an intensive debate in the development assistance community over this concept in parallel to the concept of *attribution* i.e. the direct causal relationship between an input and a manifested change. It is often argued that in complex programs it is meaningless to attempt anything but assessing possible contributions due to the many external factors that play a role. Contribution analysis has been designed to provide plausible evidence to reduce the uncertainty

about the ‘difference’ a program is making (Mayne, 2001). Hendricks (1996) calls contribution a ‘plausible association’; where a reasonable person, knowing what has occurred/is occurring in the program agrees that the program contributed/is contributing to the outcomes. It does not prove a contribution but provides evidence to reduce the uncertainty about the contribution made. In short, contribution analysis should not be seen as definitive proof, but rather providing a line of reasoning from which one can draw a plausible conclusion that within some level of confidence, the program has made an important contribution to the documented change.

Contribution analysis is an essential part of our evaluation. It is done at three levels of aggregation in an iterative process: First, to what extent has a project cluster in the assessed portfolio contributed to the development in the sub-sector in which it is taking place? An essential part of this analysis is to get an idea of other inputs which might have impacted on the same sub-sector. As an example, Swedish aid in the first post-war decade had microfinance as a significant form of support. Most of this was provided directly or indirectly to EKI, an MFI which became one of Bosnia’s most successful MFIs. But EKI was supported by many other donors besides Sida, and in parallel there was two large World Bank projects for MFI development with a sector approach, also including EKI. Judging whether Sida’s support to EKI was critical for its development or if EKI would largely have evolved in the same way without Sida’s funding we have to make a judgment for which no clear evidence exist. But, as Sida was the donor providing most of the funding to EKI, and EKI was at the forefront of the microfinance industry in Bosnia, we can, with a degree of confidence claim a clear contribution.

The second level of aggregation is to what extent a project cluster has contributed to the sector development overall. Using finance as an example, Swedish aid had three forms of support in the sector: bank privatization, micro finance and loan guarantees. Each one of these sub-clusters had to be assessed as mentioned above to determine their role in their ‘sub-sectors.’ Thereafter the joint contributions to the Bosnian financial sector needs to be determined. What role do MFIs play in Bosnia’s financial sector?

how significant was the bank privatization and the guarantee instruments? There are no easy answers: for example, the discourse on microfinance in Bosnia includes studies claiming the MFI industry in the country and the strong backing of it by the donor community was contrary to the development of a dynamic economy in general. Or that the only study on guarantees found marginal additionality to the studied bank's SME lending.

The third level of aggregation is taking the portfolio at large and determine to what extent it has contributed, if at all, to the overriding objectives of Swedish development cooperation in Bosnia, including (inclusive) economic growth, job-creation, transition to a competitive market economy, reduction of poverty and facilitating Bosnia & Herzegovina's EU accession? Given how heterogenous the portfolio is, this analysis must be done in two steps: 1) what is the possible contribution of each cluster or sub-cluster towards these objectives and 2) aggregating these 'contributions' what would be the likely overall contribution to the objectives? This becomes a complex process given the number of objectives and the heterogeneity of the portfolio, based on an overall weak evidence base and more on logic reasoning.

It is clear from the above, that the assessment of contributions at the different levels of analysis contains significant uncertainties and is based on systematic reasoning rather than hard evidence. We have tried to make this reasoning as explicit as possible to justify our conclusions.

Game changers

As a part of our suggested methodology we tried to identify possible game changers in the Swedish portfolio in Bosnia & Herzegovina with the purpose of making them subject for in-depth case studies. The common feature is that game changers create significant and structural differences, and stimulate paradigm shifts of sort. No clear such projects were identified, but two quasi case studies were carried out, one for Start Bosnia, a successful program promoting joint business between Swedish SMEs and Bosnian companies. The program was carried out 1997-2000 with some significant results beyond expectations. The other quasi case study concerned a Sida

funded regional economic development program called CREDO implemented 2007-2015 which had elements of game changing as elaborated in the report.

Value for money

Absent in much of the discussions on methodology in country evaluations is the assessment of contributions in relation to aid inputs. While cost-benefit analyses generally are too complicated to undertake in complex programs, cost-effectiveness or *value for money* are concepts aimed at capturing such relationships in qualitative terms. The Sida evaluations generally have no discussion of cost-effectiveness and/or value for money possibly as these reviews are using OECD/DAC standard criteria for evaluations (relevance, efficiency, effectiveness, impact and sustainability). When Sida has co-funded World Bank and IFC projects, the evaluations of some of the business environment reform have such assessments. In general, however, our rating of value for money of the projects in the portfolio and the portfolio as a whole it is based on our best judgement.

Reference group and comments by stakeholders on drafts of the report

The evaluation has been conducted in an iterative process in the sense that drafts of the report have been subject for three stages of critique. First, discussion in the EBA reference group, second a review by various present or former staff members of Sida which have been involved in the Swedish support to Bosnia from the earliest days to presently, and third review of the draft report by the EBA itself, Sida headquarters and the Swedish Ministry of Foreign Affairs. All these reviews have influenced the final report to a great extent, correcting factual mistakes, added information and sharpened our arguments as well as restructuring of the report. The reviews have also functioned as a form of triangulation in the sense of testing our conclusions on the informed stakeholders.

Annex 2 List of Abbreviations

ARDA	Accredited Regional Development Agency of North-West BiH
ARDP	Agriculture and Rural Development Project (World Bank)
BAC	Business Environment Adjustment Credit (World Bank)
BATA	National Accreditation Body (Bosnia & Herzegovina)
B&H	Bosnia & Herzegovina
BiH	Bosnia & Herzegovina
BTI	Bertelsmann Transformation Index
CBBH	Central Bank of Bosnia & Herzegovina
CHF	Cooperative Housing Foundation (USA)
CREDO	Competitive Regional Economic Development (Sida)
DCA	Development Credit Authority (of USA)
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development (UK)
DTF	Distance from the Frontier
EBA	Expert Group of Aid Studies (Sweden)
EBRD	European Bank for Reconstruction and Development
EDA	Enterprise Development Agency (Bosnia & Herzegovina)
EIB	European Investment Bank
EKI	Ekonomaska Kreditna Institutcija (Bosnia & Herzegovina)
ESRF	Enterprise Sector Recovery Fund (Bosnia & Herzegovina)
EU	European Union
EUFOR	European Military Force Althea
FAO	Food and Agriculture Organisation (UN)
FARMA	Fostering Agricultural Markets Activity (Sida- USAID)
FDI	Foreign Direct Investment(s)

FIAS	Foreign Investment Advisory Services (IFC-World Bank)
FIRMA	Fostering Interventions for Rapid Market Advancement (Sida-USAID)
FSA	Food and Safety Agency (Bosnia & Herzegovina)
GAP	Governance Accountability Project Sida-USAID)
GDP	Gross Domestic Product
GOLD	Growth-oriented Local Development (USAID)
IAP	Integrated Area Program (Sida)
ICG	International Crisis Group
ICIS	Investment Climate and Institutional Strengthening (World Bank)
IDA	International Development Association (World Bank)
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFI	International Finance Institution(s)
IFOAM	International Foundation for Organic Agriculture
IFOR	Implementation Force
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance (EU)
IPARD	Instrument for Pre-Accession Assistance in Rural Development (EU)
ISCRA	Investment climate regulatory advisory project (IFC)
IT	Information Technology
LIDER	Local Initiative for the Development of Economic Region (Bosnia & Herzegovina)
LWF	Lutheran World Federation
MFI	Microfinance Institution(s)
NATO	North Atlantic Treaty Organization
NDH	Independent State of Croatia
NERDA	North East Economic Regional Development Agency (Bosnia & Herzegovina)

NGO	Non-governmental Organization
ODA	Official Development Assistance
OHR	Office of the High Representative
OPEC	Organization of the Petroleum Exporting Countries
PPP	Purchasing Power Parity
RDA	Regional Development Association (Bosnia & Herzegovina)
REDAH	Regional Development Agency for Herzegovina
REDI	Regional Economic Development Initiative (Bosnia & Herzegovina)
REZ	Regional Development Agency in Central BiH
RS	Republika Srpska
SAA	Stabilization and Association agreement
SECO	State Secretariat for Economic Affairs (Switzerland)
SEK	Swedish Krona
SERDA	Sarajevo Economic Regional Development Authority
SFOR	The Stabilization Force
SIDA	Swedish International Development Authority
Sida	Swedish International Development Cooperation Agency
SLI	Swedish Institute for Food and Agricultural Economics
SLV	Swedish National Food Administration
SME	Small and Medium Enterprise
SOE	State-owned enterprise(s)
SPS	Sanitary and Phytosanitary System
SVO	State Veterinary Office (of B&H)
SWEDAC	Swedish Board for Accreditation and Conformity Assessment
UD	Ministry of Foreign Affairs (of Sweden)
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees

UNPROFOR	United Nations Protection Force
USD	United States Dollar
USAID	United States Agency for International Development
WB	World Bank
WEF	World Economic Forum
WVI	World Vision International (American NGO)
WWII	Second World War
WTO	World Trade Organization

Annex 3 Indicators for assessing strategic performance

Strategic objectives	Definition, indicators, sources
SME development	<p>Two dimensions might be considered: 1) the performance of the micro, small and medium enterprises sector as such, and 2) the policy framework and environment for the SMEs. Possible performance indicators of the first dimension are the share of the SMEs of the economy, employment in the sector, growth, internationalization and competitiveness, capacity to innovate, etc. Elements ranking in World Economic Forum's Competitive index is another proxy, for example Product Market and Business Dynamism. http://reports.weforum.org/global-competitiveness-report-2018</p> <p>In terms of policy environment, OECD's SME Policy index is an attempt to provide a composite index. See http://www.oecd.org/global-relations/smallandmedium-sizedenterprisessmepolicyindex.htm.</p>
Market development	<p>As above, two dimensions can be considered 1) the functioning of the market and its players; and 2) the policies, regulations, rules and institutions which creates the framework for the market players. A useful proxy in Bosnia & Herzegovina is the assessment annually provided by the EU using the Copenhagen criteria. See https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/accession-criteria_en</p> <p>Elements ranking in World Economic Forum's Competitive index is another proxy, http://reports.weforum.org/global-competitiveness-report-2018/</p> <p>SME development can be considered a sub-set of Market development in the sense at market institutions that SMEs often make up the majority of the economy.</p>
Inclusive economic growth	<p>Economic growth is a well established and indicators are available for long-run series and international comparisons. See for example, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations</p>

	<p>Inclusive growth is less easily measured concept. It is, for example, defined by OECD as “economic growth that is distributed fairly across society and creates opportunities for all.” A World Bank paper noted that the concept “encompasses equity, equality of opportunity, and protection in market and employment transitions”. A partial proxy might be the Gini index, which measures the (in)equality in an economy in terms of distribution of income. Another indicator of inclusiveness might be to what extent an economy is able to reduce unemployment.</p>
Job creation	<p>Employment data, labor force participation and unemployment are recorded for most economies. See for example https://tradingeconomics.com/ or https://www.theglobaleconomy.com</p> <p>Performance in job-creation should be placed in the context of the labor market and the ability to increase participation rates for different categories and reduce unemployment. An issue is informal employment and job-creation might also be judged in the ability to shift employment from informal to formal.</p>
EU accession	<p>Performance can be judged against the stage Bosnia is in the EU accession process and the degree it fulfils the Copenhagen criteria. This is done relative to the other candidate countries. See http://ec.europa.eu/environment/enlarg/candidates.htm</p>
Gender equality	<p>An established performance measure is the UNDP Gender inequality index available for many countries on a year to year basis. The index is composed of maternal health, empowerment and labor force participation. See http://hdr.undp.org/en/content/gender-inequality-index-gii</p>
Poverty reduction	<p>Sida is applying a multi-dimensional poverty concept for which no clear operationalization as far as we know exists to allow assessment of performance. Different measures of material absolute and relative poverty are calculated by the World Bank. In Bosnia & Herzegovina absolute poverty (USD 1,9 per person and day) is very marginal.</p>

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