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BOSNIA AND HERZEGOVINA



COUNTRY DEVELOPMENT COOPERATION STRATEGY

DECEMBER 2020 - DECEMBER 2025

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ADMINISTRATIVE MAP OF BOSNIA AND HERZEGOVINA



Legend

- BiH State Border
- Entity/Brcko District Borders
- Cantonal Borders

Map Scale: 1:1.300.000

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ACRONYMS / ABBREVIATIONS

BiH	Bosnia and Herzegovina
C-TIP	Countering Trafficking in Persons
CDCS	Country Development Cooperation Strategy
CLA	Collaborating, Learning, and Adapting
CSO	Civil Society Organization
DFC	U.S. International Development Finance Corporation
DIS	Development Information Solutions
DO	Development Objective
DOC	Development Outreach and Communications
DMD	Deputy Mission Director
DPA	Dayton Peace Agreement
DQA	Data Quality Assessments
DRM	Domestic Revenue Mobilization
E&E	Europe and Eurasia
EC	European Commission
EC Opinion	European Commission's Opinion on BiH application for EU membership
EDYN	European Democratic Youth Network
EEPI	Enabling Environment for Private Investment
EnC	Energy Community
ERP	Economic Reform Plan
EU	European Union
FBiH	Federation of Bosnia and Herzegovina (one of two BiH entities)
FFM	Functioning Financial Markets
FSN	Foreign Service National
FSR	Financing Self-Reliance
FTA	Fiscal Transparency and Accountability
GBV	Gender-Based Violence
GDP	Gross Domestic Product
ICT	Information and Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
INL	Bureau of International Narcotics and Law Enforcement Affairs
IR	Intermediate Result
J2SR	Journey to Self-Reliance
LGBTI	Lesbian, Gay, Bisexual, Transgender, and Intersex
MEL	Monitoring, Evaluation, and Learning
Mission	USAID Mission in Bosnia and Herzegovina
NGO	Non-Governmental Organization
NPI	New Partnership Initiatives
NUP	New and Underutilized Partners
OECD	Organization for Economic Cooperation and Development
OHR	Office of the High Representative
OPA	Office of Public Affairs
PFM	Public Financial Management

PMP	Performance Management Plan
PSE	Private Sector Engagement
RS	Republika Srpska (one of two BiH entities)
SME	Small and Medium-sized Enterprises
Sub-IR	Sub-Intermediate Result
TIP	Trafficking in Persons
UN	United Nations
UNDP	United Nations Development Program
USAID/BiH	USAID Mission in Bosnia and Herzegovina
USDH	U.S. Direct Hire
USPSC	U.S. Personal Services Contractor

I. EXECUTIVE SUMMARY

USAID's goal for its 2020-2025 CDCS for Bosnia and Herzegovina (BiH) is:

BiH citizens hold their government accountable, participate in a robust, legitimate economy, and value and promote an inclusive society.

Over the course of five years, the USAID mission in BiH expects to refocus civil society on building constituencies and increasing the active roles that men and women, youth, and members of marginalized groups take in their communities and in political life. As a result, an increasing number of reform champions in government will have made tangible progress on reforms needed for the country's further Euro-Atlantic integration. One visible aspect of this progress will be BiH's return to Tier I status in the State Department's Trafficking in Persons (TIP) Report. Members of the diaspora will be visible not only in business but in community development initiatives and philanthropic ventures as well. As a result of our partnership with the U.S. International Development Finance Corporation, increased access to transparent financing will be evident through increased economic growth. All of these efforts will begin to constitute new power centers that can compete with entrenched corrupt interests.

BiH's Journey to Self-Reliance: Commitment and Capacity

Through all of its efforts over the five-year period, USAID/BiH aims to foster and improve BiH's *Commitment* and *Capacity* in its journey to self-reliance, as measured by the USAID J2SR Country Roadmap for BiH¹. USAID defines self-reliance as the capacity to plan, finance, and implement solutions to local development challenges, and the commitment to see these through effectively, inclusively, with accountability.

BiH is an upper middle-income country whose aggregate scores for managing its own development indicate a low degree of *Commitment* and an above-average degree of *Capacity*. However, the movement in many of the sub-dimensions under these two main categories is clearly behind the most pressing issue in the country: depopulation. This phenomenon has already affected the country's existing capacity and is threatening to impede demand for the urgently needed improvement in government commitment.

BiH's poor score for *Commitment* to self-reliance is marked by declining *Open and Accountable Governance*; sluggish *Inclusive Development*; and weak *Economic Policy*. The biggest change is the downward slide in *Open Government*. While an adequate formal framework for open governance is in place, it is not fully functional and does not ensure citizen participation and access to information.

The score for BiH's *Business and Investment Environment* has remained low and unchanged, preventing the country's economy from flourishing. In the *Inclusive Development* sub-dimension, the score for social group equality dropped significantly over the past five years, while the score for Economic Gender Gap improved slightly. Gender inequality persists in the BiH social, political, and economic arena, with women politically underrepresented and economically

¹USAID Journey to Self-Reliance Country Roadmap for BiH

dependent on men. Only one-third of women are active in the workforce, while a recent increase in women's employment rate is due more to emigration and a decline in the working-age population and labor force rather than an increase in the number of jobs.

Under the *Capacity* dimension, BiH scored lowest for *Government Effectiveness*. Indeed, BiH's rating for public-sector performance is among the worst in the world. The country has been placed on the U.S. State Department's TIP Tier 2 Watch List for three consecutive years. Half the women in BiH report having experienced some form of gender-based violence.

The score for *Civil Society Capacity*, although high, continues to deteriorate, which aligns with the findings of USAID/BiH-commissioned assessments, which revealed a lack of citizen trust in civil society organizations (CSOs) and the media, and a lack of CSO influence on government accountability. The roadmap also shows that BiH's economic capacity is only partially utilized: BiH has low export complexity, extremely high unemployment, and an underdeveloped entrepreneurial spirit. Despite some improvements, the private sector remains constrained by a poor business environment, underdeveloped infrastructure, high labor taxes, and inflexible labor policies.

Strategic Programming Choices

USAID/BiH will develop new activities under integrated Development Objectives (DO) to create a holistic approach that will be implemented in both entities and Brčko district. The Mission will continue to engage with the governments of BiH to seek reforms in areas of vital interest to the country and mutual priorities with U.S. interests. In working with the BiH government, the Mission will increase coordination and burden sharing with other donors, as well as the private sector and diaspora. Citizens' roles in democratic governance and oversight will be emphasized as will engagement and assistance to citizens in their struggle to make the BiH governments accountable. USAID/BiH will seek and support reformers within government agencies promoting progress, and work with them to enhance the voices of the citizenry as well.

To strengthen economic growth, USAID/BiH will assist the private sector and diaspora. Working to ensure full participation of BiH citizens in the economy is necessary to retain human and financial capital in the country. The conserved capital can be mobilized to develop small and medium-sized enterprises (SMEs) and attract international investments.

Specific strategic programming choices are described below:

- Engagement of other donors, especially the EU, and diaspora in democracy, human rights, and governance programs will be vital to achieving the policy reforms. The private sector and diaspora are key to pushing economic reforms and opening businesses and essential for increasing exports to the EU.
- Programs to strengthen independent media.
- Local Works programs will strengthen CSOs across the portfolio and transfer development functions to citizens and CSO networks for sustainability.

- This strategy fully integrates youth and women across the DOs and has cross-cutting priorities of countering emigration and malign influences.
- The Mission is taking a long-term approach to ensuring that BiH combats TIP.
- USAID/BiH will accentuate the rights of marginalized communities and groups to participate in BiH's economy, contribute to democratic governance, and receive adequate social services. All activities will consider the needs of youth, women, persons with disabilities, religious and ethnic minorities, and other marginalized groups.
- This strategy will build on current engagement with the leaders of the main religious communities as a key component of strengthening social cohesion. Per the U.S. Department of State's report on International Religious Freedom, Bosnia-Herzegovina is not identified as a country of concern nor on the Special Watch List. The report notes that "The constitutions of Bosnia and Herzegovina (BiH) and each of the country's two entities ... provide for freedom of religious thought and practice, prohibit religious discrimination, and allow registered religious organizations to operate freely." The BiH Constitution, however, discriminates against religious minorities by barring them from running for president and parliament's upper house. USAID/BiH supports and promotes religious freedom through multiple mechanisms that incorporate the tenets of tolerance and respect throughout programming.

- Linkage of the CDCS Goal with National, Regional, and Global Strategies

The CDCS goal is grounded in U.S. national security, joint strategic, regional, and integrated country goals and objectives. The National Security Strategy prioritizes the rule of law and a democratic system of government. The Joint Strategic Plan promotes American leadership through balanced engagement and transition to enduring diplomatic, economic, and security partners. The Joint Regional Strategy focuses on securing the Balkans from malign influences. C-TIP is a U.S. government priority while BiH remains a Tier 2 Watch List country, and C-TIP will be addressed in the new CDCS to strengthen progress. Through its CDCS, the Mission seeks to preserve the stability of a U.S. ally in a fragile region, counter malign actors that could adversely affect BiH's economic growth and independence, and create new opportunities for American businesses.

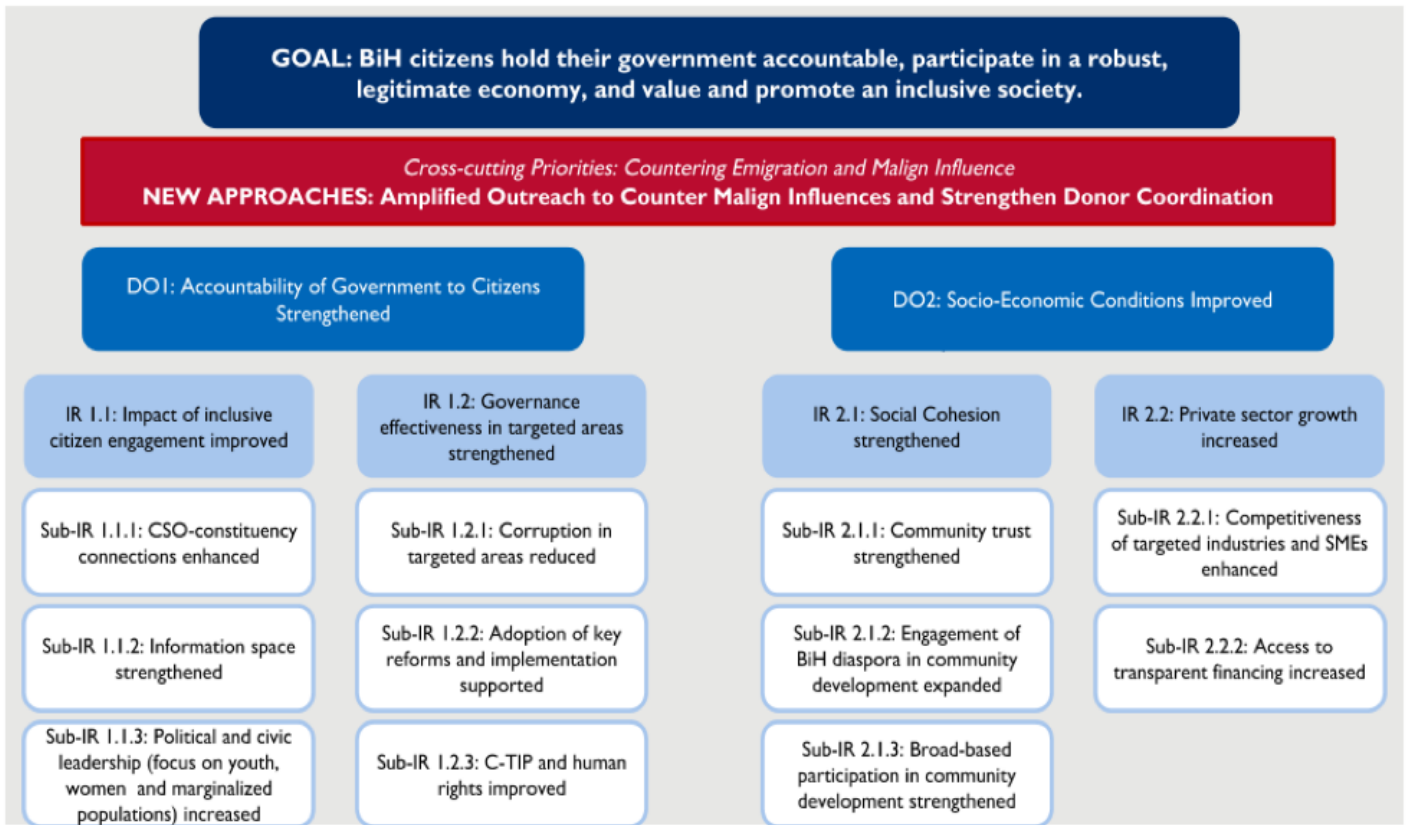
- Note on the COVID-19 Pandemic

COVID-19 cases rose steadily in summer 2020, after BiH governments removed curfews and reduced restrictions on businesses. As of November 2020, as Europe experienced another wave of high infection rates and renewed lockdowns, the rate of new daily cases in BiH had climbed to the highest levels seen to date. The economic consequences of the pandemic have been significant, with Standard and Poor's projecting a 6.9 percent drop in growth for 2020². The UN highlighted the need for recovery efforts to focus on the economy and social cohesion³. In both the short and long term, the economy is the most pressing issue to help the country recover from the pandemic. USAID's existing and new activities envisioned under this CDCS will be well positioned to help restart the domestic economy, especially in rural areas, during and after the COVID-19 crisis.

²<https://www.sarajevotimes.com/analysts-project-that-the-real-gdp-of-bosnia-and-herzegovina-will-drop-by-6-in-2020/>

³UN Economic Impact Assessment of COVID-19 in BiH, May 2020

RESULTS FRAMEWORK



II. COUNTRY CONTEXT

Salient Factors

BiH is a small, upper middle-income country. The last census, conducted in 2013 and contested by both entities (i.e., the Federation of BiH (FBiH) and the Republika Srpska (RS)) was released in 2016 and showed a population of 3.5 million people, a decline from a high in 1990 of 4.7 million people. In 2018, the BiH Agency for Statistics estimated the population to be 2.7 million. Other estimates are as low as 2.5 million.

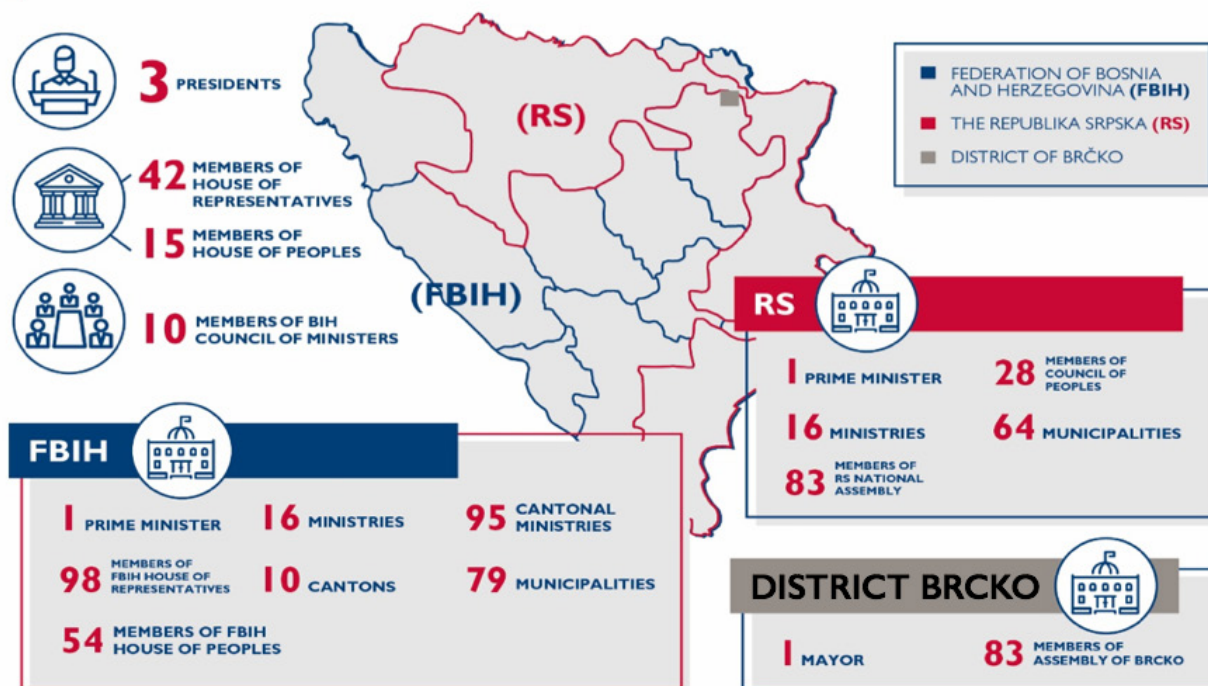
BiH has a very complicated government structure that was created through the Dayton Peace Agreement (DPA) that ended the war in 1995. The country consists of two entities, the Federation of BiH (FBiH) and Republika Srpska (RS), and the self-governing Brčko District. The entities each have a prime minister and 16 ministries. The FBiH is further divided into 10 local cantons, each having a significant level of autonomy and 12-13 ministries of their own. The RS has a single 83-member parliament. Additionally, there are 143 municipalities in BiH (79 in the FBiH and 64 in the RS).

The constitution formed under the DPA created a tripartite presidency that must include members from each of the three main ethnic groups (Bosniak, Croat, and Serb) and a state parliament that includes 42 members of the House of Representatives and 15 members in the House of Peoples. The DPA also established the Office of the High Representative (OHR) as the final authority on the interpretation of the civilian aspects of the agreement. The OHR has since been granted extensive powers to decree legislation and remove public officials (known as 'Bonn powers', which were last used in 2011). While the Bonn Powers are

increasingly difficult to use, the High Representative still plays an integral role in monitoring and assessing the stability of BiH.

USAID/BiH programming is active throughout the country, across both entities and Brčko District, all 10 cantons, and many municipalities. Although the government structure is multi-layered, change can only happen within the current system. This requires an understanding of the responsibilities of the different levels of government. For example, the Mission works with the state-, entity-, cantonal- and municipal-level governments to address human trafficking, judiciary reform, anti-corruption, and combating gender-based violence. On e-governance, financial and energy security issues, the Mission works at the state- and entity-levels. To fully implement any laws or reforms in the FBiH, all 10 cantons must harmonize their laws with those of the entity. Much of the Mission’s work and interactions with government officials, however, takes place at the municipal level. The Mission’s Local Works program provides assistance to grassroots organizations and municipalities to help transform communities to solve their own problems.

Governance Structure in BiH



During the war, BiH GDP fell approximately 90 percent and the country suffered more than \$200 billion in damages. In 1997, the Central Bank of BiH was established as the institution responsible for implementation of monetary policy, and it has maintained a functioning currency board ever since. The Bosnian convertible mark was introduced in mid-1998 and pegged to the euro, which helped keep inflation low. With assistance from the international community in the immediate postwar years, economic output recovered. Yet the economy has remained fragile over the years as it is primarily consumption driven and vulnerable to external fluctuations. In addition, the public sector is large and creation of private wealth is limited. In 2008, the global economic crisis pushed BiH into recession, and in 2014, severe floods caused damages of approximately 15 percent of GDP. Since 2015 (until 2020 during the pandemic), annual GDP growth has remained at about three percent.

BiH Government Priorities

The U.S. government has been present in BiH since the 1992-1995 war, providing humanitarian assistance and leading diplomatic efforts to end the conflict. Since then, the United States has played a significant role in rebuilding and developing BiH infrastructure and institutions. More recently, BiH officially committed to reform priorities for Euro-Atlantic integration at the state, entity, and cantonal levels. These are contained in the BiH Economic Reform Plan⁴ and relate directly to reforms identified by the EU through the 14-point reform program, which are based on the May 2019 European Commission Opinion on BiH's application for EU membership (EC Opinion)⁵. The EC Opinion reports that during 2015-2018, BiH embarked on an ambitious reform agenda to create economic growth and job opportunities. Little progress has been made on the necessary reforms and many challenges remain. Reforms to date have improved economic indicators, including balanced public finances and steady economic growth.

As part of the Euro-Atlantic integration plan, BiH has also submitted a Reform Program for NATO. The Reform Program contains significant points that match the country's Economic Reform Plan⁶, which USAID supports.

The current political system undermines BiH's progress towards Euro-Atlantic integration, as it remains discriminatory and deprives political rights to those who don't identify with one of the country's three main ethnic groups. BiH has yet to implement several decisions from the European Court of Human Rights, which has ruled that the BiH Constitution is not in line with international human rights law.

Challenges

Following the postwar period of rebuilding and economic and social recovery⁷, development has been relatively sluggish for much of the last decade. Indicators for BiH's J2SR Country Roadmap and the USAID Europe and Eurasia Bureau's Monitoring Country Progress both show stagnation (at best) and a decline in democracy and governance indicators (at worst).

- Economic Challenges

While GDP growth stayed above three percent until 2019⁸, when it fell to 2.6 percent, unemployment remains an overarching problem. The COVID-19 pandemic upended the economics of the country with estimates of a drastic GDP drop for 2020, and sluggish growth for the next few years. Unemployment has risen and will remain high for the foreseeable future. BiH's key economic challenge is the imbalance of its economic model: public policies and incentives are skewed toward the public rather than the private sector, consumption rather than investment, and imports rather than exports⁹.

⁴<http://www.dep.gov.ba/naslovna/?id=2280>

⁵European Commission's Opinion on BiH's application for EU membership, 2019

⁶<http://www.dep.gov.ba/naslovna/?id=2280>

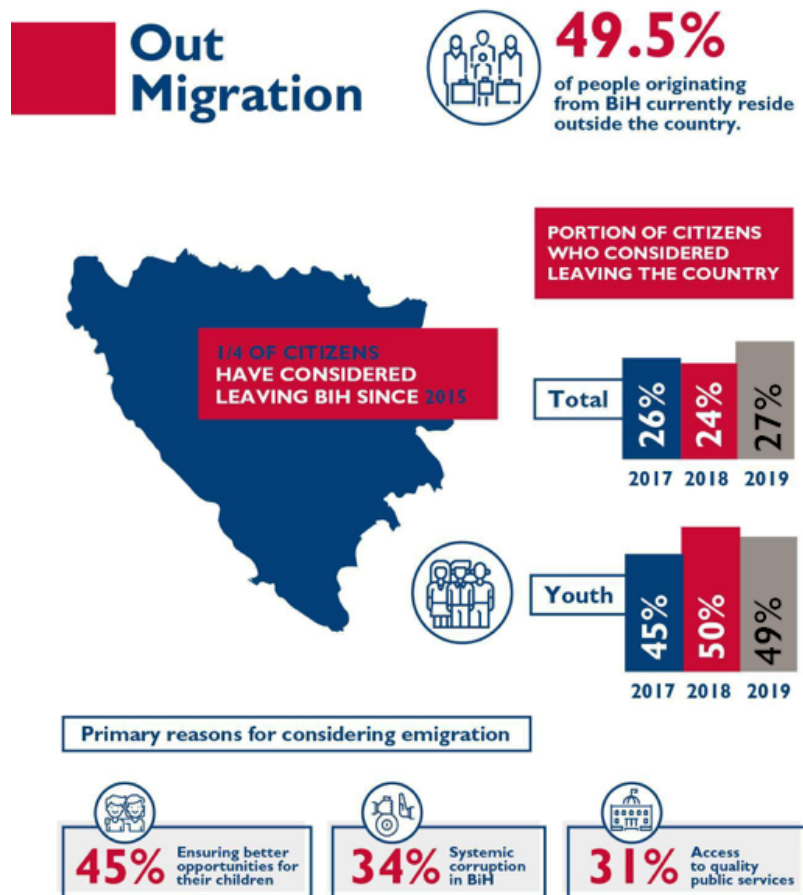
⁷IMF, BiH at a Glance

⁸World Bank

⁹World Bank Group, Global Economic Prospects: Europe and Central Asia, 2020, p.83

- Out-Migration

As of 2020, depopulation is at a 20-year peak; 49.5 percent of people originating from BiH reside outside the country¹⁰. Youth in particular have been hurt by the poor economic growth: They experience the largest unemployment rate in Europe. The International Labour Organization estimates the rate to be 40 percent in 2020¹¹. High unemployment, among other reasons, has driven youth (and families) to emigrate to other parts of Europe. With high unemployment in other European countries in 2020, there is an opportunity to entice those who have returned to BiH with employment and entrepreneurial opportunities.



- Social Cohesion

Internal divisions within the political sector of BiH have created an enabling environment for potentially destabilizing influences to affect domestic policies in BiH.

In the general population, civic and political participation remain scarce. When it comes to political engagement, many citizens are afraid or apathetic. The little activism there is has not led to the desired changes because there is no real or functional link between the government and the governed. These are not new phenomena; they have been seen to a greater or lesser extent for over two decades. During that time, there have been many efforts to push for change—through the ballot box or through civic activism—but without much success¹². Part of this may be attributed to the fact that civil society's connection with everyday citizens is weak.

- Marginalized Populations

The socio-economic and political dynamics impose a particular burden on marginalized populations in BiH who are less engaged in political and civic issues. This also includes BiH's failure to effectively counter TIP, which has led to its inclusion on the State Department's TIP Tier 2 Watch List. There has been no improvement—and even backsliding—in the position

¹⁰World Bank Group, Migration and Brain Drain, 2019, p.29

¹¹<https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

¹²USAID/BiH, Political Economy Assessment, 2020

of women, who, despite the Law on Gender Equality, are underrepresented in politics, the labor market, and public life. Women’s economic and political activity and employment rates remain significantly lower than for men, which perpetuate women’s dependent status. When it comes to LGBTQI populations, as well as persons with disabilities, the laws are inadequate for ensuring equal rights. Migrants and asylum seekers have emerged as another marginalized group in BiH.

J2SR Country Roadmap Highlights

On its J2SR Country Roadmap (Annex A), BiH’s aggregate *Commitment* and *Capacity* scores for managing its own development indicate a low degree of *Commitment* and above average degree of *Capacity*. However, when benchmarked against Balkans regional averages for these dimensions, BiH’s *Commitment* score is below the Balkan average, while its *Capacity* score aligns with the regional average.

BiH’s score on *Liberal Democracy* is low and implies a need for progress in government accountability. In particular, the BiH score for *Stability of Democratic Institutions* sub-indicator lags far behind other countries in the region (4.0 compared with the next-lowest scoring country, North Macedonia, which scored 5.5).



Citizen trust in judicial institutions remains low and has shown little progress over the past three years¹³. BiH scores poorly on the Varieties of Democracy’s (V-Dem) Electoral Index in 2018, which connotes the existence of systematic irregularities.

An adequate formal framework for open government is in place, but it does not ensure citizen participation and access to information. Low levels of citizen participation (indicating low self-governance) are confirmed by data showing that 26 percent of BiH citizens participated in some form of political activities, while only 12 percent participated in civic activities¹⁴. The country’s accountability is severely damaged by corruption, one of the core problems in BiH. BiH consistently scores poorly on Transparency International’s Corruption Perception Index, which ranked BiH as 101st among 180 countries assessed in 2019.

On *Social Group Equality*, BiH ranks among the worst in the Balkans. Social equality in BiH is a long-standing issue that involves political, economic, and social concerns. In terms of *Economic Gender Gap*, BiH’s score on *Economic Participation and Opportunity* ranks the lowest in the Balkans. This very low ranking is in line with the comprehensive USAID/BiH 2019 Gender Equality Analysis and other reports the Mission has commissioned and analyzed.

BiH’s J2SR score on *Government Effectiveness*, already the worst in the Balkans, is falling. According to the World Economic Forum, BiH is among the worst performing countries in the world in public-sector performance—which scores the country’s burden of government

¹³USAID/BiH-commissioned Judicial Effectiveness Report, 2019

¹⁴USAID/BiH, National Survey of Citizen’ Perceptions, 2019

regulations (137 out of 141 countries), the efficiency of its legal framework in settling disputes (139 of 141), e-participation (110), the future orientation of the government (137), and the government's responsiveness to change (139).

BiH has made some progress in mobilizing resources through increasing tax revenue. Compared with neighboring countries, BiH personal, corporate, and value-added tax rates are among the lowest. Its social security contributions (SSC), on the other hand, are among the highest in the region. High SSCs apply a high tax burden on labor, which is a deterrent to businesses to hire workers legally and is an incentive for them to resort to the large informal economy instead. To make matters worse, the COVID-19 pandemic resulted in an immediate reduction in tax revenue. According to the BiH Indirect Taxation Authority, collection of revenues from indirect taxes in the first eight months of 2020 were down by 9.4 percent compared with the same period of 2019, and in August alone, tax revenue was down almost 20 percent.¹⁵

Transitioning from USAID Assistance

While BiH is not expected to transition from USAID assistance within the next five years, the Mission's work is laying the foundation to help the country realize its potential and build its governance and economic capacities to do so. USAID/BiH supports partnerships with the U.S. International Development Finance Corporation (DFC) and the BiH diaspora that will expand access to finance and mobilize private capital. Programs and activities also strengthen SME abilities to enter international markets, particularly the EU. The Mission is using the BiH government's desire for Euro-Atlantic integration to suggest commitments to policy and reforms that make integration possible. Increasing numbers of reform champions in government will help guide tangible progress on those reforms and in BiH's transition into a prosperous democratic society. The Local Works program and the incorporation of its approach will drive locally owned and led development models that put local actors in the lead for addressing local challenges.

III. STRATEGIC APPROACH

In this CDCS, this Mission will increase BiH's self-reliance by helping citizens hold their government accountable and improving the socio-economic conditions of the country. While the focus will be on building the capacity of citizens and their organizations, the Mission will also continue to engage with the BiH government on these issues, identifying and aiding reformers within the government that can help the country progress.

The U.S. government continues to have an excellent reputation in BiH, positioning USAID as a leader in the development sector. Using this leadership role, USAID/BiH is reaching out to the private sector, civil society, religious institutions, and other donor countries to leverage their connections, experience, and funding. USAID/BiH regularly coordinates with the EU.

Redefining USAID's Relationship (RDR) with the BiH Government

The compromises required to obtain consensus on the Dayton Peace Agreement for ending the war in 1995 included the formation of a complex political structure.

¹⁵<https://www.sarajevotimes.com/net-collection-of-revenues-from-indirect-taxes-recorded-decrease-in-bosnia-and-herzegovina/>

The BiH governments have stated a number of objectives for the country. USAID/BiH has identified the areas in which U.S. interests and the BiH governments' interests align—including fiscal transparency and effectiveness and the energy sector. USAID will also work with the BiH government on other activities to promote Euro-Atlantic integration. In particular, the Mission will support the three-year Economic Reform Plan (ERP)¹⁶ to boost growth and competitiveness in line with EU recommendations, improve economic policy coordination, and support the Reform Program. USAID/BiH will support reformers within the government in political parties, with a particular focus on youth and women. Simply put, USAID/BiH will partner with levels of government that indicate a willingness and desire to make positive changes.

This CDCS is designed to help the country move forward, particularly on its path to Euro-Atlantic integration. Yet the Mission's leverage to push for lasting change at the higher levels of government is limited. Only through proactive citizen engagement can BiH be transformed into a more stable, prosperous, and democratic country. USAID/BiH will explore new approaches to engage citizens to become more active and effective in improving and managing their own communities. Through these efforts, USAID/BiH will strive to transform citizens' perceptions of their own roles in their communities, moving them from passive observers to active participants. As envisioned under Development Objective 1, the Mission will help empower citizens with the knowledge and tools necessary to impact their own society and to pressure the various layers of government to enact reforms. USAID/BiH anticipates that citizens and local governments will develop self-reliance and champion reforms at the grassroots level, and that these same champions will then push reforms to the higher levels of government.

Coordination with other agencies within the U.S. Embassy and other donors will help the Mission pressure government institutions to change. Connecting and incentivizing BiH diaspora to inject financial, technological, and social capital into the country will help stimulate development.

Coordination with the EU and Other Donors

The donor landscape has changed over time. To continue moving the development needle, the Mission has sought ways to leverage new development approaches and finances and to use new and different tools. In particular, USAID/BiH is striving to enhance coordination and collaboration with donor countries, particularly the EU. The commitment of the BiH government to Euro-Atlantic integration was demonstrated by the BiH Council of Ministers' adoption of the ERP in January 2020, the sixth three-year plan BiH has submitted to the EC. The country needs to remove impediments to a functioning market, including in the areas of rule of law, bureaucratic red tape, lengthy and overly complex administrative procedures, and fragmentation of its internal market.¹⁷ As the BiH government's ERP is aligned with the Euro-Atlantic integration process, the Mission's emphasis on coordinating with the EU will be particularly important.

¹⁶<http://www.dep.gov.ba/naslovna?id=2280>

¹⁷<https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-bosnia-and-herzegovina-opinion.pdf>

The Role of Citizens, Civil Society, and Media

Political and economic stagnation in BiH will not change if citizens are not engaged. But citizens need to trust that their voices will be heard and learn how to turn their words into concrete and effective action to become a force to contend with themselves. The Mission's strategic approaches to increasing the country's self-governance and citizen responsibility will focus on: implementing anti-corruption activities (that also address C-TIP); disrupting political stagnation; and countering malign influences. USAID/BiH will also continue to strengthen independent media and provide resources to journalists to produce investigative documentaries that expose corruption and promote accountability. Continued assistance on policy reforms, particularly in the energy sector, will also counter malign influences and enhance economic resilience.

Self-reliance is rooted in locally led development in which local actors take the lead in defining development challenges in their communities and addressing them through broad citizen participation. USAID's Local Works programs will strengthen social cohesion by increasing trust among local actors, developing local capacity for sustainable growth, and mobilizing local resources vigorously. USAID/BiH will assist CSOs with a demonstrated track record in identifying and building constituencies for local development activities.

The CDCS strives to improve the accuracy and credibility of public information by supporting independent media and media literacy. The USAID/BiH 2016 Assessment of the Media Sector found that the main challenges for media are political manipulation, an opaque market, poor professional development, and lack of media literacy. Professional journalism is deteriorating as media continues to be divided along ethno-national and political party lines, while freedom of speech remains restricted¹⁸.

Other USAID Modalities

Private Sector Engagement (PSE)

The Mission will enhance broad-based participation by all community actors and foster PSE in supporting the country's journey to self-reliance. The private sector, including the BiH diaspora, are the most important actors in fully exploiting targeted areas of the economy like rural livelihoods, tourism, and SMEs. These areas can spur economic growth and provide opportunities to youth, women, and marginalized populations.

There is a vacuum for corporate responsibility and engagement in societal affairs, but the private sector has its own primary problem to contend with: sluggish economic development. BiH has an above-average J2SR score on *Export Sophistication*, but many of its exports are low complexity products (i.e., raw, unprocessed goods such as wood, textiles, and agriculture), rather than value-added products like furniture, clothing, or food products. BiH's score for *Business Dynamism and Innovation Capability* is indicative of its underdeveloped entrepreneurial culture, which may stem from the country's high administrative burden and very small improvements in research and development and diversity of workforce over the years.¹⁹

¹⁸IREX, Media Sustainability Index 2019: Europe & Eurasia

¹⁹World Bank Group, Towards a Private Sector led Growth Model - BiH: Innovation and Entrepreneurship Assessment, 2019

The Mission will enhance broad-based participation of all community actors and foster PSE in supporting the country's Journey to Self Reliance. This engagement will follow USAID/BiH's PSE strategy for programming, which envisions the Mission transitioning from being the primary catalyst of interventions for leveraging private sector resources and expertise to increasing co-creation with the private sector and facilitating private sector-led development. USAID/BiH efforts to broaden access to loans and investments also provide avenues for developing the private sector.

Financing Self-Reliance (FSR)

“The ‘reform agenda’ of socio-economic measures, public administration, and rule of law reforms that BiH implemented as of 2015 allowed, among other things, to create a more flexible labor market and to better align financial sector regulations to international standards. Due to stronger economic growth and tax collection efficiency, the country's public finances are largely balanced, which would offer a great opportunity to invest in the country's long neglected infrastructure, or to start lowering the high labor taxation in support of new jobs.”²⁰

Of all the Balkan countries, BiH is the best at revenue collection. However, some revenue is lost to corruption and much is used to fund the bloated public sector (patronage positions). In this CDCS, the Mission has enhanced and expanded the definition of **Domestic Resource Mobilization (DRM)** to include non-state revenue derived through philanthropy and human capital. USAID's approach to conserving and mobilizing BiH resources includes nurturing community trust (geographic, ethnic, religious, and cultural), ensuring religious freedom, and strengthening BiH society (cultivating transfers of knowledge and broad-based community engagement). This approach also helps BiH realize its economic potential by supporting targeted industries and expanding access to diverse financing for businesses. These activities will enhance BiH's *J2SR Tax System Effectiveness*. Keeping BiH human and financial resources within the country and mobilizing them for internal use helps the country's resilience and self-reliance.

Corruption occurs at all levels of government in BiH, which leads to opaque public accounting and fiscal activities. BiH's complex government system reduces the transparency of doing business, undermining the overall business environment²¹. This, in turn, discourages investment, which perpetuates high unemployment²². Improving **Public Financial Management (PFM)** and **Fiscal Transparency and Accountability (FTA)** will increase investor confidence in the **Enabling Environment for Private Investment (EEPI)** in BiH.

To reduce corruption and increase the transparency of public fiscal activities, the Mission will support independent media, civil society, and faith-based organizations, and will engage private businesses to demand and ensure fiscal transparency and accountability. To assist the government in this process, the Mission will create an e-governance structure and processes that reduce opportunities for bribery at various levels of government. E-governance will make it much easier for entrepreneurs to register new businesses.

²⁰European Commission's Opinion on BiH's application for EU membership, Brussels, May 29, 2019

²¹World Bank Group, *Doing Business 2020: Comparing Business Regulation in 190 Economies*, 2019

²²USAID/BiH, *Political Economy Assessment*, 2020

To create an EEPI, the Mission will work with the government to empower the justice sector to prosecute high-level cases of corruption, organized crime, and government abuse of power. Through current and future projects, USAID will help BiH develop trade policies and agreements that open export markets and allow for foreign direct investment.

IV. RESULTS FRAMEWORK

USAID's goal for the 2021-2025 CDCS for BiH: **BiH citizens hold their government accountable, participate in a robust, legitimate economy, and value and promote an inclusive society.**

USAID/BiH's CDCS for 2021-2025 will build on previous U.S. government efforts to develop a more democratic, prosperous, and stable BiH. The new strategic approach centers on amplifying outreach and coordination with other donors, particularly the EU. Amplified outreach and leveraged coordination with the EU will support efforts to counter malign influences and build a state in which citizens hold their government accountable, participate in a robust, legitimate economy, and value and promote an inclusive society.

According to its J2SR Country Roadmap, BiH has a decent level of *Capacity* to push the development process forward, but its level of *Commitment* is feeble. A new emphasis on citizen participation, local development, and civil society will help citizens to demand a government that can show increased commitment. The roadmap highlights the country's challenges in areas such as *Open and Accountable Governance* and *Social Inclusion*, as well as limited *Government Effectiveness* and *Capacity of the Economy*.

The Mission will move toward the CDCS goal by achieving its two Development Objectives (DO), which are aimed at strengthening the country's self-governance and accountability (DO1) and improving its socio-economic conditions (DO2) to enhance and support BiH's path to self-reliance. Mission efforts will rely on symbiotic and coordinated interventions between the two. Intermediate Results for each of these DOs are designed to fill the gaps identified in BiH's roadmap, primarily, increasing the country's commitment and maximizing the use of its capacities for further development.

Development Objective I (DOI): Government Accountability to Citizens Strengthened

DOI Hypothesis Statement:

IF the impact of inclusive citizen engagement is improved through civic, media, and political structures, and **IF** governance effectiveness in targeted areas, including but not limited to the energy, fiscal, and financial sectors, is strengthened to enable more robust response to corruption, TIP, lack of key development reforms, and other challenges the country faces ...

THEN the BiH government's accountability toward its citizens will be strengthened. To achieve DOI, USAID/BiH must strengthen civil society and support reformers within the government, which, combined, will facilitate a system in which the government makes more

informed decisions and policies—and takes more responsibility for implementing them. Building a strong, trust-based citizen-state relationship is of paramount importance for BiH stability and economic growth, and makes a strong foundation for countering out-migration and malign influences.

DOI Hypothesis Narrative:

BiH's poor J2SR ranking for *Commitment* points to significant gaps in the country's laws, policies, actions, behaviors, and informal governance mechanisms for addressing its development challenges.

Citizens' participation in government decision-making processes, which is necessary to drive government accountability and responsiveness, is very low. In 2019, only 12 percent of the population had ever participated in civic or political activities²³. Lack of citizens' engagement stems from their disbelief that they can make any difference in whether ruling officials and parties address their needs and demands²⁴. Only 10 percent of BiH citizens think CSOs have a positive influence on the government's decision-making²⁵. Less than one-fifth of BiH citizens say they trust CSOs and the media, while about one-third of citizens believe that the media they follow are under the influence of political parties²⁶.

CSOs often face financial sustainability issues, depend on international community support, and lack a clear vision on how to address citizens' priorities²⁷. Instead of having strong constituencies and acting as citizens' agents, CSOs are mainly perceived by the public as serving the interests of international funders and political parties or advocating for issues of interest only to themselves. The media's main challenges are political instrumentalization, an opaque media market, poor professional development, and lack of media literacy²⁸. As a result, professional journalism is deteriorating as media continues to be divided along ethno-national and political party lines, and freedom of speech remains restricted²⁹.

Meanwhile, the fragmented nature of the BiH state has been reinforced through the Election Law and electoral units and works to the advantage of the ruling political parties³⁰. The dominance of nationalist political parties has limited the role of issue-based party platforms, while illiberal foreign actors use corrupt political elites to reinforce the geopolitical fault lines in BiH and the region³¹. Such dynamics are a result of partitocracy, in which political parties—regardless of ideas, ideologies, platforms, or citizens' wishes or needs—have an unbreakable lock on power³². Moreover, political representation of marginalized groups, including youth and women, is scarce. There is little room for women to compete in the political sphere.

²³USAID/BiH, National Survey of Citizens' Perceptions, 2019

²⁴USAID/BiH, Political Economy Assessment, 2020

²⁵USAID/BiH, National Survey of Citizens' Perceptions, 2019

²⁶USAID/BiH, National Survey of Citizens' Perceptions, 2019

²⁷Economic Policy and Regional Development Office, Mapping Study of CSOs in BiH, 2016

²⁸USAID/BiH, Assessment of Media Sector, 2016

²⁹IREX, Media Sustainability Index 2019: Europe & Eurasia

³⁰USAID/BiH, Political Economy Assessment, 2020

³¹USAID/BiH, Political Economy Assessment, 2020

³²USAID/BiH, Political Economy Assessment, 2020

Although the candidate lists for the election must reflect gender equality as prescribed by law, the number of elected women remains far below the 40 percent minimum³³.

Citizen satisfaction with public services is deteriorating³⁴, and BiH is among the worst performing countries in the world when it comes to public-sector performance³⁵. The country's multiple government levels and layers of bureaucracy increase the complexity and reduce the transparency of doing business and undermine the ability to do business overall³⁶. This business environment discourages investment and thus perpetuates the high unemployment rate³⁷. Corruption has an effect on the BiH government and takes the form of undue political influence and interference, clientelism and patronage, bribery and abuse of public office, and TIP. More than four in five people think the government is not doing enough to combat corruption³⁸. Consequently, corruption is one of the main motivators for people to leave the country (and is also responsible for the country's low J2SR score on *Liberal Democracy*).

Government Effectiveness is also hindered by the lack of reforms needed to improve public management in energy, fiscal, financial, and other sectors. BiH is a signatory to the Energy Community (EnC) Treaty, but the country lags behind other EnC participants in the Western Balkans, mainly due to a political environment that delays adoption of energy sector reforms. BiH is 100 percent dependent on Russian natural gas and Russia owns the only oil refineries in BiH.

Poor Government Effectiveness includes BiH's responsiveness (or lack thereof) to human rights violations, especially TIP. In BiH, TIP takes the form of forced begging, sex trafficking, and domestic servitude in forced marriages, as well as forced labor in construction and other sectors; women and Roma children make up the majority of victims³⁹. The BiH government does not meet the minimum standards for eliminating TIP and as a result the country has been placed on the Tier 2 Watch List for the past three years⁴⁰.

BiH lacks unified and endorsed country-level policies against gender-based violence (GBV), although half of all BiH women report having been exposed to some form of GBV after the age of 15. GBV worsened during the COVID-19 crisis. The NGOs that run safe houses for women noted an increase in the number of SOS calls for domestic violence after March 2020, although assisting GBV victims was compromised because of measures imposed to combat the spread of the virus.

To strengthen citizen-responsive governance, the Mission will leverage the already high-scoring *Civil Society and Media Effectiveness* to encourage citizens to engage civically and politically, arouse their interest and improve their capacity for government oversight, and strengthen

³³USAID/BiH, *Gender Equality Analysis: 2019 Follow-Up*

³⁴USAID/BiH, *National Survey of Citizens' Perceptions, 2019*

³⁵USAID/BiH, *National Survey of Citizens' Perceptions, 2019*

³⁶World Bank Group, *Doing Business 2020: Comparing Business Regulation in 190 Economies*

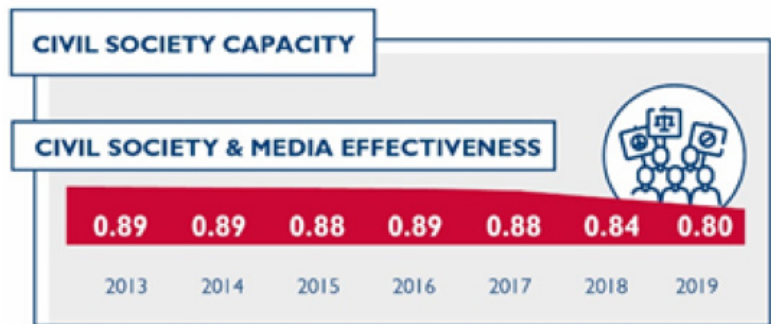
³⁷USAID/BiH, *Political Economy Assessment, 2020*

³⁸USAID/BiH, *National Survey of Citizens' Perceptions, 2019*

³⁹U.S. Department of State, *2020 Trafficking in Persons Report: Bosnia and Herzegovina*

⁴⁰U.S. Department of State, *2020 Trafficking in Persons Report: Bosnia and Herzegovina*

their influence on government decision-making. While developing a more active, engaged citizenship, the Mission will foster new voices in political parties, particularly among youth and women. DOI activities will improve BiH's *Economic Gender Gap*, the largest in the Balkans region, and its *Social Group Equality* score, and support human rights and mutual respect, tolerance, and freedom for all BiH citizens. To counter disinformation and provide the public with fact-based news, the Mission will also support independent media reporting and media literacy. Building up inclusive and powerful engagement by civil society will include creating and supporting new voices in political parties. These new voices will be advocates for governance reforms.



Mission activities under DOI will also address poor *Government Effectiveness*, which is characterized by citizens' deteriorating satisfaction with public services and a very low score on the World Economic Forum's public-sector performance indicator (which includes the burden of government regulation, inefficiency in settling disputes, e-participation, the future orientation of government, and the government's responsiveness to change). USAID/BiH will address corruption, one of the main challenges to government accountability by coordinated interventions through legislation, the judiciary, media, and civil society. The Mission will continue previous efforts to improve the economic aspects of governance that are relevant to business activity and extend those to more profound overarching reforms that buttress self-reliance and economic resilience.

Under DOI, USAID will also support BiH efforts to address human rights violations, including properly responding to TIP and preventing and caring for victims of GBV. USAID will help BiH move from the TIP Tier 2 Watch List to Tier 1 status and adopt a more effective approach to preventing GBV. Activities will be adjusted as these issues evolve.

USAID/BiH will use a two-fold approach to build a solid citizen-government relationship based on trust and transparency. USAID/BiH will support citizens striving for more democratic and transparent decision-making processes, and it will enhance the government's response to citizens' demands (i.e., accountability). The Mission will catalyze broader, more inclusive citizen engagement for a civil society that serves citizens' needs. USAID/BiH will also work with the government to remedy the gaps that prevent it from effectively serving citizens and their needs.

DOI efforts to enhance government effectiveness will focus on public sector corruption, human rights violations (especially TIP and GBV), and inadequate legal solutions and public services – all of which are identified as drivers of out-migration⁴¹. DOI will also restore citizens' desire to live in BiH by creating the conditions for enabling inclusive citizen and political engagement of *all* population groups.

⁴¹USAID/BiH National Youth Survey, 2018

USAID/BiH support for strong democratic governance will limit opportunities for malign influences. Countering corruption and building an adequate legal framework will counter malign practices outright and provide the basis for implementing EU-oriented solutions for development. These efforts will help BiH make progress along its Euro-Atlantic integration path. The Mission will continue nurturing close communication with other donors and international financial institutions to avoid overlapping activities and identify opportunities for collaboration that will augment the effectiveness of our efforts.

To secure government buy-in, USAID/BiH will build on and strengthen previous efforts at engaging local stakeholders to implement projects and assess their progress. Such an approach is recognized to foster local ownership and sustainability of results, which contributes to the country's advancement to self-reliance. Given the complex nature of the BiH government, the Mission will work with institutions at the local, entity, and state levels to ensure progress in addressing main governance accountability challenges identified through DOI. The Mission's approach will accommodate decentralized governance structures but will foster synchronized solutions across governing units to enable a unified response to BiH development challenges.

The Mission envisages concurrent, coordinated, and symbiotic programmatic efforts across all DOI Intermediate Results (IR) as necessary measures of progress and success. Mission efforts in accomplishing the defined IRs will support FSR by ensuring a concurrent approach to DRM secured through fact-based information, enhanced political representation, and strengthened CSO-constituency connections. The Mission will help other FSR drivers materialize by countering corruption and human rights violations and supporting the adoption and implementation of government reforms, including enhanced PFM, FTA, FMF, and EEPI. To improve the impact of citizen engagement and government effectiveness, the Mission will work to enhance CSOs connections with BiH citizens, strengthen fact-based, accurate information and foster greater political and civic engagement of youth, women, and marginalized groups, especially in political parties.

DOI Critical Assumptions and Risk Factors

Critical Assumptions:

- BiH continues to commit to Euro-Atlantic integration, as mentioned in the RDR section.
- BiH government (or champions within the government) demonstrate readiness to commit to the country's ultimate self-reliance. USAID/BiH works at all levels of government to advocate reforms where success is most likely.
- BiH government has champions in democracy and governance open to reforms supported by USAID programming.
- BiH citizens remain open and motivated for social and political changes and collaboration with USAID.
- Independent media continue to resist political pressures.

Risk Factors:

- Malign influences.
- Instability in the EU and NATO due to the rise of populism and changing societal perceptions.
- Corruption that diminishes public-sector performance and public trust.
- Prolonged COVID-19 crisis in BiH, the Balkans, and the EU that closes borders and reduces economic integration.

DOI Intermediate Results (IR)

IR 1.1: Impact of Inclusive Citizen Engagement Improved

Through close and holistic work with local partners, including political parties, CSOs, and media, USAID/BiH will ensure that citizens' participation in government decision-making processes fuels and catalyzes accountability and responsiveness of government institutions and officials. Enhancing CSO connections with citizens will develop more representative civil society groups that advocate and establish stronger citizen-responsive governance at the local, entity, and state-levels. Our approach to constituency-building will incorporate the Local Works philosophy and approach. This will increase trust among local actors, mobilize available local resources, and develop local capacity for sustainable growth. The Mission will also work to advance political participation and civic leadership opportunities for all BiH citizens, particularly youth, women, and other marginalized groups whose participation in decision-making processes remains invisible and unrecognized.

USAID/BiH will strengthen the impact of BiH citizens on government decision-making by enhancing structures and procedures that give citizens a stronger voice, thus increasing their influence on the political processes. In parallel, USAID/BiH will work to enhance democratic and transparent decision-making processes within the government structures. The Mission expects this two-fold approach to revive the roles both sides play in democratic processes, and ultimately cultivate closer and long-lasting citizen-state relationships.

To ensure citizen's voices are broadly represented, the Mission will continue to strengthen media independence and literacy. Efforts will focus on enhancing accurate and ethical reporting on issues of public interest to counter media manipulation by elite political parties to instill fear and social divisions and enable other malign influences. The Mission will also provide legal support for media organizations and journalists, including citizens as active contributors to the media space, with capacity-building elements and strong promotion of independent media voices.

Mobilizing youth, women, and other marginalized groups in political processes is expected to drive government responses to the difficulties faced by these sectors of the population, including high unemployment, corruption, and human rights violations (to name just a few), which push more and more of them to seek better lives and opportunities abroad. Women view economic affairs as the top development priority, yet they rarely have the opportunity to address the issue by being elected, despite legal incentives stipulated by the Election Law. Even when elected, women are constrained by discrimination and party discipline.

IR 1.2: Governance Effectiveness in Targeted Areas Strengthened

Under IR 1.2, USAID will help BiH's national government more effectively address major issues and reforms needed to unblock the government standstill and advance the country's commitment to self-reliance. By strengthening BiH's rule of law, investigative journalism, and citizen oversight, USAID/BiH will address corruption in the country. The Mission will work to empower the judiciary to prosecute high-level corruption cases. While enhancing these formal public structures to combat corruption, USAID/BiH will capitalize on a stronger, more active citizenship for oversight and a courageous, determined team of investigative reporters to build a strong anti-corruption bloc. The Mission will also stimulate strong and sustainable citizens' activism against corruption by empowering and promoting civil society as a credible anti-corruption force. Support of reforms that comply with EU regulations, put forth effective approaches to prevent corruption, and enable an investor-friendly framework will help anti-corruption efforts.



In the energy sector, USAID/BiH will support the creation of a regulatory framework in accordance with Energy Community (EnC) Treaty obligations and EU Energy Directives and integration of the BiH energy sector into regional and EU energy markets. The Mission will also support financial stability and fiscal discipline, and work to improve overall public financial management.

In the tourism sector, USAID will exploit BiH's tourism potential to drive the country's economic growth. The Mission will support policy, regulatory and institutional changes that will create a solid base for further tourism development. USAID/BiH will also facilitate the development of coordinated tourism competitiveness strategies at the entity and state levels to enable growth in the tourism sector.

Through IR 1.2, USAID/BiH will enhance the protection of human rights. It will help BiH move its Tier 2 Watch List rating on the U.S. State Department's TIP Report to Tier 1, a rating BiH has achieved in the past. Further activities will support implementation of the Strategy to Suppress Trafficking in Human Beings in BiH 2020-2023 and help increase the effective operation of BiH's C-TIP Strike Force. USAID/BiH will also assist BiH in countering gender-based violence (GBV) by strengthening government structures and mechanisms for responding to this problem.

USAID/BiH will ensure climate change risks are considered in IR 1.2 with explicit guidance for designing new activities. BiH is subject to seasonal flooding, with major flooding as recent as 2014. Rising temperatures, unpredictable rainfall, and flooding affect agriculture, infrastructure, transportation, energy, and other aspects of the economy. USAID/BiH will prioritize climate assessments of new energy and other reform projects.

In all areas within IR 1.2, USAID/BiH will identify and cooperate with those government institutions that are keen and able to support regulatory and legal activities and push for

reforms. An example of this is the Mission's long-standing partnership with prosecutorial offices, with which the Mission has identified common goals and will continuously review and track progress in meeting them.

Development Objective 2 (DO2): Socio-Economic Conditions Improved

DO2 Hypothesis Statement:

IF social cohesion in BiH is strengthened by nurturing and enhancing engagement by, and trust between, key community actors; and **IF** private sector growth is strengthened by enhancing the competitiveness of targeted BiH industries and increasing access to transparent financing for the private sector ...

THEN socio-economic conditions in the country will improve. DO2 efforts are expected to contribute to the development of an investor-friendly environment, help create a robust, legitimate economy, and build on DOI efforts to enhance an inclusive society where all community actors, including citizens, civil society, private sector, and government will be engaged to facilitate development progress. Strengthening socio-economic conditions in BiH will move the country much farther along its journey to self-reliance. Stronger social cohesion means greater community and diaspora commitment to, and engagement in, BiH's future, while PSE growth will help create a reinforcing cycle of commitment, investment and prosperity. In addition to fostering self-reliance, this DO will also strengthen BiH's progress toward Euro-Atlantic integration and help the country counter the high rate of out-migration and malign influences.

DO2 Hypothesis Narrative:

From the beginning, BiH's postwar recovery period was marked by complex challenges, among them pervasive political and social tensions. USAID/BiH has worked extensively in BiH's divided society to build trust and encourage attitudinal and behavioral changes for mutual tolerance and respect—all aimed at ensuring sustainable peace. Yet well into 2020, solidarity among groups within the community remains weak. Inter-ethnic prejudices are common⁴² and capable of instilling fear and dividing communities⁴³, and they are further exploited by malign actors to sow discord.

The J2SR score for *Social Group Equality* is depressed by high income inequality, whereby 27 percent of citizens are at risk of living in poverty⁴⁴, and their access to adequate income sources and opportunities is limited. Almost half of the population believes the term social division refers to a gap between the rich and the poor⁴⁵. Poverty can fuel grievances and conflict and threaten the country's *Safety and Security*. This also allows malign influence from non-state and state actors. These issues contribute to under-utilization of available community resources to drive development progress. BiH lacks sustainable mechanisms to transfer knowledge the diaspora gained abroad to BiH, while citizens living in BiH, especially marginalized groups are

⁴²USAID/BiH, National Survey of Citizens' Perceptions, 2019

⁴³European Commission Against Racism and Intolerance Report on BiH: 5th Monitoring Cycle, 2017

⁴⁴European Social Policy Network, In-work Poverty in BiH, 2019

⁴⁵USAID/BiH, National Survey of Citizens' Perceptions, 2019

unmotivated to pursue societal change. This lack of motivation includes youth and women. BiH has the largest youth unemployment rate in Europe and second largest in the world⁴⁶.

Women continue to be disproportionately more involved in the economy of care than in paid market activities or looking for work⁴⁷. This is further accentuated by BiH's low J2SR score on *Economic Gender Gap*. The burden of workforce development is on the private sector⁴⁸, which has only partially demonstrated an altruistic approach to community development⁴⁹. Transparent, specific, and current official data on giving for public benefit by legal entities is not collected, but available data indicate that donations that provide one-off alleviation/relief are much more present than donations that support long-term solutions to societal problems or deficiencies. According to the *2018 Global Philanthropy Environment Index*, BiH is among the worst performing countries in the Balkans, with an especially poor political and socio-cultural environment for philanthropy⁵⁰.

Economic recovery has its own challenges. Private sector growth is sluggish and can hardly compete with fast-growing, innovative EU and global industries. Although BiH's J2SR score on *Export Sophistication* is above the global average, it is characterized by low-complexity products, namely textiles and agriculture. The country's score for *Business Dynamism and Innovation Capability* shows that BiH has an underdeveloped culture for entrepreneurship, a high administrative burden, with very small improvements in research and development or workforce diversity over the years⁵¹. As a result, BiH is identified as the least competitive economy in Europe⁵². Workforce skills that meet international standards—which are critical for improving productivity and growth in BiH—are assessed as poor because of the discrepancy between education and labor market needs.

At the same time, BiH has a wealth of economic potential that has not been fully exploited, namely tourism. BiH has unique layers of history with a fascinating heritage and is endowed with one of Europe's most distinguished natural landscapes. Over the years, BiH registered impressive growth in visitor arrivals, with 1.64 million international visitors in 2019 and \$1.08 billion earnings in 2018⁵³. Most visitors arrive during summer, although BiH has strong winter tourism assets (and a Winter Olympics history). Growth in the popularity of adventure tourism (agritourism, cultural tourism, etc.) bodes well for BiH's tourism industry. BiH has not fully used the sector's potential to facilitate steady economic growth and create job opportunities, especially for youth. And, as evidenced by BiH's extremely low J2SR score on *Environmental Policy* and USAID/BiH's Biodiversity Analysis⁵⁴ tourism faces many challenges. The main culprits are the lack of environmentally protected areas, year-round tourism offers and appeal, poor access to regional and global markets, and modest visibility and branding. In

⁴⁶World Bank, Unemployment, Youth Total

⁴⁷USAID/BiH, Gender Equality Analysis – 2019 Follow-Up

⁴⁸USAID/BiH, Political Economy Assessment, 2020

⁴⁹Giving BiH, Annual Report on the State of Philanthropy, 2018

⁵⁰Lilly Family School of Philanthropy, The Global Philanthropy Environment Index, 2018

⁵¹World Bank Group, Toward a Private Sector-led Growth Model - BiH: Innovation and Entrepreneurship Assessment, 2019

⁵²World Economic Forum, Global Competitiveness Report, 2019

⁵³World Bank Group, International Tourism Receipts

⁵⁴<http://www.measurebih.com/bosnia-and-herzegovina-biodiversity-analysis-and-addressing-biodiversity-needs>

2020 and 2021, however, the biggest challenge for tourism sector growth is the COVID-19 pandemic.

Another impediment to economic competitiveness is poor financing of SMEs, the backbone of the BiH economy⁵⁵. Complex application procedures for registering SMEs are of particular concern⁵⁶ and provide room for corrupt practices and unequal treatment of business entities. As a result, private sector and overall economic growth is lost. This is especially concerning given how much the BiH government allocates for private sector support. Private sector growth will remain constrained, however, without social cohesion and citizen engagement. USAID/BiH will attain the latter by building community trust and garnering broader-based involvement in community mobilization. The Mission will take a combined two-pronged approach that enhances resource mobilization at the community level and marshals private sector resources. Currently, human resources are either departing the country or underutilized, while financial resources are controlled by corrupt elites. Mobilizing resources through other means has the promise of creating new centers of power that can peacefully challenge their dominance. Community engagement of the BiH diaspora, the private sector, civil society, and marginalized groups (in particular youth and women) should be amplified to reverse the negative influences and messages that bombard BiH citizens today.

Through DO2, the Mission will enhance broad-based participation of all community actors and foster PSE in supporting the country's J2SR. This engagement will follow the mission-wide PSE strategy for programming, which envisions the Mission's role as transitioning from being the primary catalyst of interventions that leverage private sector resources and expertise to a role in which it increases co-creation with the private sector and facilitates private sector-led development.

Developing access to loans and investments provides avenues for financing in BiH. The Mission's approach to preserving and mobilizing BiH resources will nurture community trust and strengthen BiH society by cultivating transfers of knowledge and participatory, broad-based community engagement. But it will also focus on bolstering the BiH economy's potential and resilience by supporting targeted industries and strengthening private sector access to diverse financing. These efforts will ensure more transparent public financing and thus better conditions for attracting private investments. Keeping the human and financial resources that BiH has within the country and mobilizing them for use internally will make the country more resilient and lead to its self-reliance.

DO2 Critical Assumptions and Risk Factors

Critical Assumptions:

- BiH continues to commit to Euro-Atlantic integration, as mentioned in the RDR section.
- Key influencers, such as community and religious leaders, academics, and other reform-oriented citizens, have an interest in and motivation to strengthen community trust.

⁵⁵World Economic Forum, *Global Competitiveness Report*, 2019

⁵⁶European Central Bank, *Access to Finance in the Western Balkans*, 2017

- BiH diaspora retain and act upon a strong emotional, financial, and familial connection with BiH.
- BiH citizens, especially youth, women, and other marginalized groups, strive for economic equality.
- The private sector remains open to learning, adapting, and collaborating with USAID/BiH to improve its performance.

Risk Factors:

- Malign influences.
- Instability in the EU; the rise of populism in EU countries, COVID-related border control measures, general economic impact of policies, other countries following BREXIT.
- Gender-based discrimination and stereotypes.
- COVID-19 prolongs BiH's economic crisis.

DO2 Intermediate Results (IR)

IR 2.1: Social Cohesion Strengthened

The lack of social cohesion, the main obstacle to sustainable development of BiH, reflects community tensions that are nurtured by foreign actors. Since the 1992-1995 war, the USAID mission to BiH has assisted the country's development toward a more multi-ethnic and tolerant society. The country has come a long way in its recovery and is transitioning to a prosperous democratic society. But the lack of social cohesion, solidarity, and shared values and norms, combined with income inequality, has created a new form of mistrust. This undermines the capacity of society to ensure the well-being of all its members.

IR 2.1 will strengthen social cohesion as a key driver of long-term prosperity by mobilizing and empowering connection and solidarity among various groups in society, including CSOs, the private sector, the diaspora, and marginalized populations. The Mission will popularize community development through mechanisms based on the Local Works model and philanthropy activities, and encourage and support civil and private sector networking and collaboration.

The Mission will build on its previous efforts to support initiatives that bring citizens together to address specific concerns and improve their own and broader communities. This will be accomplished by bringing together key influencers, including diaspora, across geographic, ethnic, religious, and cultural spheres to institutionalize a collective vision for a stable future, and to build a civic movement to foster community trust across ethnic and religious divides—which is imperative for BiH stability and economic prosperity.

Capitalizing on its efforts in building stronger inter-community trust, the Mission will channel available human capital to strengthen community mobilization. The mainstay of this is BiH diaspora, specifically, encouraging them to connect with their homeland and share the knowledge they gained while living and working in other countries.

Through IR 2.1, USAID/BiH will strengthen participative locally-driven community engagement by mobilizing the untapped potential of civil society, the private sector, and marginalized groups to lead local development processes. Using the Local Works approach, the Mission will partner with local resource organizations that command trust and respect among other local organizations to work together to empower and support communities to mobilize resources and implement their own solutions to local development challenges. The Mission will further amplify its approach to mobilizing community resources by empowering youth, women, and other marginalized groups to act as major drivers of societal change.

IR 2.2: Private Sector

While there is room for corporate engagement and responsibility in improving society, the private sector in BiH has its own issues with sluggish economic development. The Mission's work to increase private sector growth through IR 2.2 will focus on supporting the competitiveness of industries and SMEs recognized as having the potential to drive economic growth. The Mission's primary targets are the tourism sector, which has the potential to be one of the fastest-growing industries in the country, and the energy and information and communications technology sectors. Tourism has the potential to support growth in employment of youth, women and marginalized groups across the country and focus efforts on preserving and developing natural resources.

To support energy and information communications technology sectors, which are essential for economic growth, USAID/BiH will support efforts to increase private sector driven energy source diversification, cybersecurity and other technological advancements. International companies may be inclined to move production facilities to BiH, given the comparative advantage in wages and a decrease in the time between EU-based client orders and product delivery. This is particularly advantageous given post-COVID supply chain realities.

The Mission will capitalize on a strengthened private sector to channel its impact for greater scale and sustainability. Providing support for more extensive and open means of FTA will ensure secure and stable industry growth and therefore more PSE in community development. In all areas within IR 2.2 USAID/BiH will identify and cooperate with those government institutions that are interested and able to support private sector engagement and growth. The Mission will contribute to efficient utilization of public resources and improve fiscal governance to ensure that public sector budget allocations are conducted transparently and responsibly.

USAID/BiH will consider climate change risks in IR 2.2 in new activities to support livelihoods, tourism, and SME development. Climate risks will be determined at the project and activity levels. The Mission will explore supporting capacity-building to encourage incorporation of information about climate change and weather/flooding.

V. MONITORING, EVALUATION AND LEARNING

USAID/BiH remains devoted to effective monitoring, evaluation, and learning (MEL) to ensure its development programming decisions are timely and grounded in evidence. By embodying the principles of self-reliance, the Mission's MEL practices support its efforts to build a country whose citizens hold the government accountable, participate in a robust, legitimate economy, and value and promote an inclusive society. USAID/BiH will develop a Learning Agenda as a tool for facilitating continuous learning about the best approaches and practices for reviving BiH's commitment and strengthening its capacity for self-reliance. Specifically, the agenda will focus on identifying, addressing, and learning from opportunities to:

- Strengthen citizen effectiveness at different levels of governance.
- Build independent, powerful CSO and media sectors and improve the integrity of the information space.
- Support civic and political integration of BiH youth, women and marginalized populations.
- Combat corruption in the public sector.
- Enhance community trust to create conditions that enable broad-based participation in community development.
- Engage diaspora in socio-economic development.
- Enhance marginalized groups' (particularly youth and women) economic independence and participation in societal changes.
- Enable access to broad (nonpolitical) financing for the BiH private sector.

Central to this CDCS are the new approaches to amplify outreach to counter malign influences and strengthen donor coordination. As such, the Mission will design specific indicators to track their progress. Specific indicators will also be designed for the cross-cutting initiatives of countering emigration and malign influence.

As part of the Performance Management Plan (PMP), the Mission will develop monitoring plans to measure progress in achieving the two DOs and their contribution to accomplishing the overall CDCS goal. The Mission will also track performance and context indicators for each IR and sub-IR, as well as each individual activity. The Mission will build on its previous efforts in strengthening the engagement of local stakeholders in assessing Mission progress and desired results. By enabling inclusive participation of local counterparts in its activities, the Mission aims to strengthen sustainability and local ownership of the development outcomes. The Mission will ensure all data collected meet the five standards of data quality: validity, integrity, precision, timeliness, and reliability.

The Mission will develop an evaluation plan to identify, summarize, and track evaluations as they are planned during the CDCS timeframe. And it will decide on the approach and modalities for conducting each evaluation to best inform decision-making processes. The Mission will also ensure that each evaluation is based on a rigorous methodology that is independent, objective, and transparent and ensures high-quality, credible evidence.

To build on its previous efforts in strengthening local social science research and evaluation capacities, the Mission will ensure that each evaluation provides comprehensive opportunities for engagement of local experts and/or organizations. The experience and knowledge to be gained through USAID/BiH evaluations will enable a local cadre of individuals and organizations to build up their capacities for professional assessment of the local strategies, projects, and activities, and therefore ensure government accountability and learning.

Finally, USAID/BiH will develop an overall plan for strategic collaboration, continuous learning, and adaptive management (CLA) under this CDCS. The CLA plan will build upon and reinforce existing Mission practices and introduce new ones to identify opportunities to collaborate, address knowledge gaps, monitor progress results, consider lessons learned, and, as necessary, adapt our programming—including necessary changes in culture, processes, and resources. Specifically, the Mission will use the CLA process to:

- Facilitate continuous and proactive approaches to using technical evidence, including portfolio reviews, evaluations, assessments, and other analyses to inform programming decisions.
- Facilitate internal Mission collaboration to learn from implementation and to pause and reflect on opportunities to adjust.
- Further strengthen the Mission’s external collaboration with key stakeholders (including implementing partners, BiH governments, civil society, and the international community) to foster an exchange of experience, evidence, and lessons learned, and better identify and address knowledge and/or programmatic gaps.
- Build on previous efforts at transferring knowledge to local counterparts (individuals and organizations alike) in conducting rigorous, high-quality evaluations, assessments, and other analyses to reinforce government accountability and promote a culture of evidence-based decision-making.

Strengthening partnerships with key stakeholders through CLA activities is expected to bolster local ownership and sustainability of the CDCS implementation results and, therefore, support BiH’s journey to self-reliance.

VI. OVER THE HORIZON

The COVID-19 pandemic negatively affected global markets and all countries. In BiH, it exposed economic and political weaknesses. The disjointed health and political systems have been unable to adequately address the pandemic. Initially, the BiH government reacted well to the pandemic. In April, BiH had 1,700 confirmed cases of COVID-19, with 65 deaths. By July, BiH introduced policy measures aimed at addressing the slowdown in key sectors such as trade, services, transport, manufacturing, and tourism⁵⁷. But as entity governments dropped curfews and allowed businesses to reopen, the number of reported cases and deaths began to climb, and by November, the number of confirmed cases had risen to its highest daily average. Deaths reported from COVID were the highest in the region. Nevertheless, the active cases

⁵⁷<https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Bosnia-and-Herzegovina.pdf>

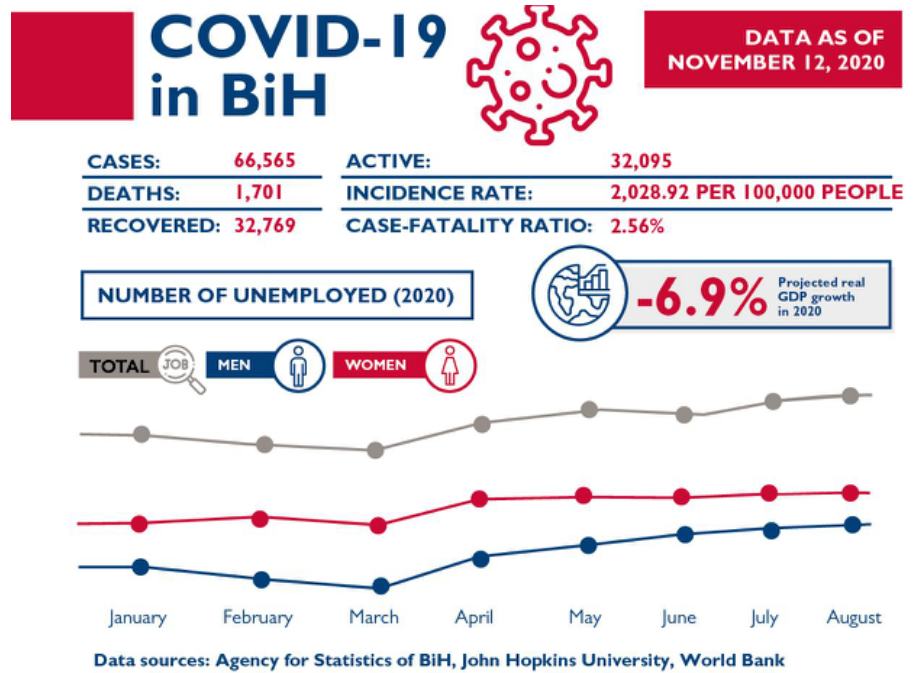
and death rate in BiH continue to fluctuate, a trend that is expected to continue around the world. USAID/BiH will remain cognizant of these changes, tracking it with Embassy and USAID counterparts, to ensure the most up-to-date information is used for decision making.

Economically, the short-, medium- and long-term effects of COVID-19 in BiH look grim. The World Bank reported in April 2020 that regional growth in the Western Balkans for the

year is projected to fall 3 to 5.6 percent, and in BiH, by 3.2 to 4.2 percent. In September 2020, Standard and Poor's projected GDP growth showed a decline of 6 percent and the BiH government projected a decline of 3.3 to 5 percent⁵⁸. The OECD reports that BiH is particularly vulnerable to breaks in the EU production chain and a decrease in worker remittances, the latter of which accounts for more than 10 percent of BiH's GDP. Meanwhile, as the countries in which BiH citizens have traditionally gone for work face their own COVID-related pressures and reductions in workforce needs, remittances can be expected to drop. In Slovenia, for example, work permits for BiH citizens were reduced by almost half in April (from 5,265 to 2,771 on a year-on-year basis)⁵⁹. Remittances, according to the International Organization for Migration (IOM), have been playing a key role in keeping small businesses afloat during the pandemic. Small businesses and the self-employed have been the hardest hit.

Value chains in the trade and manufacturing sector have also been broken, and tourism, a nascent sector with high potential, has been devastated as tourist travel came to a standstill. BiH's unemployment rates, already among the highest in the Western Balkans, may rise even further along with the country's public debt. The reduction in growth, remittances, and tourism has had a detrimental effect on tax collection, with revenues from indirect taxation falling by 9.4 percent in the first eight months of 2020.

USAID/BiH's strategy is based on two pillars that provide the greatest potential for realizing the country's self-reliance: Economic Growth; and, Democracy, Human Rights and Governance. The CDCS development objectives align with IOM suggestions for early recovery: A focus on economic recovery and social cohesion—involving communities in the recovery efforts of small businesses and the self-employed. The Mission's economic development activities focus on assisting SMEs and entrepreneurs. The focus is also on helping industries such as tourism, which has the potential in the short term to return to pre-COVID rates of growth, and to increase rates of growth in the mid to long term. USAID's new strategy for BiH



⁵⁸http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

⁵⁹<https://balkaninsight.com/2020/09/24/covid-19-quarantine-costing-migrant-workers-jobs-in-slovenia/>

also emphasizes the need to increase community development and ensure that CSOs work with—and for—their constituents.

This CDCS is a living, breathing planning document that will be updated and adjusted as USAID/BiH implements it in the midst of this still-developing context. Built into this CDCS, its follow-on designs, and its PMP are provisions for monitoring changes in country context, new scenario planning, lessons learned, and adaptive management. In short, during the life of this CDCS, there is room to make more informed decisions and adjust the Mission’s response and activities to address the pandemic, secondary impacts, or any other issues that may emerge.

VII. ANNEX

Journey to Self-Reliance Country Roadmap for BiH

BOSNIA AND HERZEGOVINA

JOURNEY TO SELF-RELIANCE:
FY 2020 COUNTRY ROADMAP

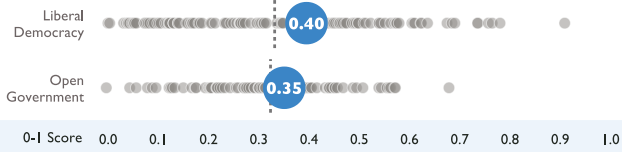


LEGEND

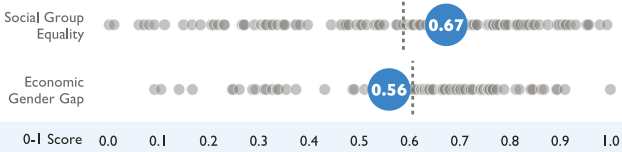


COMMITMENT

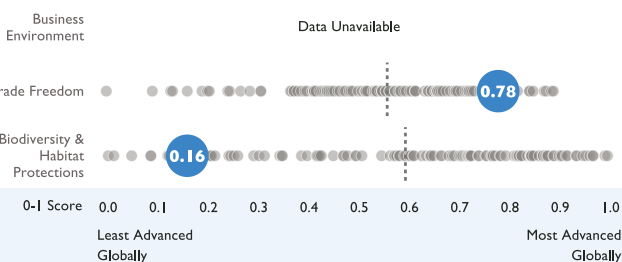
OPEN AND ACCOUNTABLE GOVERNANCE



INCLUSIVE DEVELOPMENT



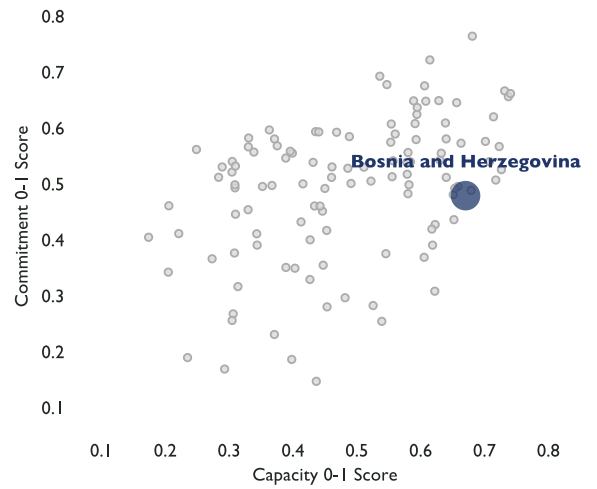
ECONOMIC POLICY



RISK OF EXTERNAL DEBT DISTRESS

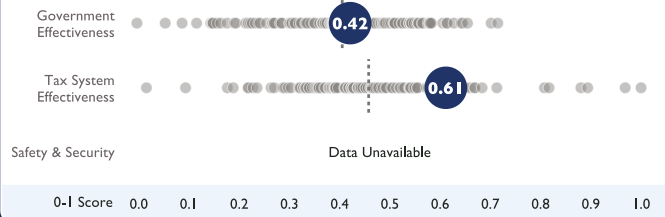
Recent IMF Risk of External Debt Distress rating not available for this country. See the Country Roadmap Methodology Guide for more information and the Secondary Metrics Compendium for additional tools to explore the issues of fiscal policy and health. Both are available at selfreliance.usaid.gov.

LOW- & MIDDLE-INCOME COUNTRY SNAPSHOT

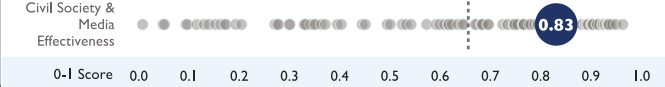


CAPACITY

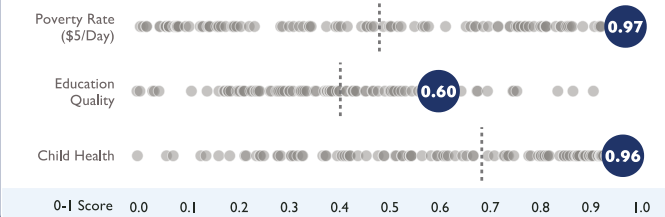
GOVERNMENT CAPACITY



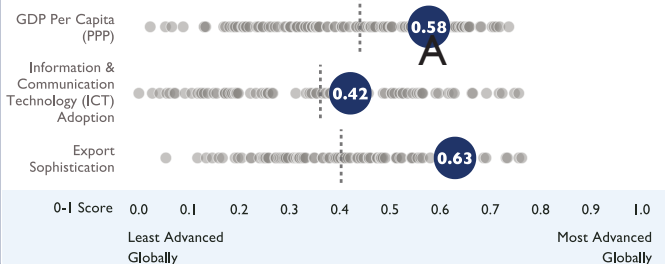
CIVIL SOCIETY CAPACITY



CITIZEN CAPACITY



CAPACITY OF THE ECONOMY



SELF-RELIANCE ROADMAPS

INDICATOR DEFINITIONS AND SOURCES

COMMITMENT

OPEN AND ACCOUNTABLE GOVERNANCE

Liberal Democracy: Measures freedom of expression, freedom of association, suffrage, elections, rule of law, judicial constraints on the executive branch, and legislative constraints on the executive branch. Source: [Varieties of Democracy \(V-Dem\)](#).

Open Government: Measures the degree to which a government shares information, empowers people with tools to hold the government accountable, and fosters citizen participation in public policy deliberations. Sub-factors include: publicized laws and government data, right to information, civic participation, and complaint mechanisms. Source: [World Justice Project, Rule of Law Index](#).

INCLUSIVE DEVELOPMENT

Social Group Equality: Measures political equality with respect to civil liberties protections across social groups as defined by ethnicity, religion, caste, race, language, and region. Source: [Varieties of Democracy \(V-Dem\), Social Group Equality in Respect for Civil Liberties](#).

Economic Gender Gap: Index comprising five components: (1) wage equality between women and men for similar work; (2) the ratio of female estimated earned income to male income; (3) the ratio of female labor force participation to male participation; (4) the ratio of female legislators, senior officials, and managers to male counterparts; and (5) the ratio of female professional and technical workers to male counterparts. Source: [World Economic Forum, Global Gender Gap Report, Economic Participation and Opportunity Sub-Index](#).

ECONOMIC POLICY

Business Environment: Assesses a country's entrepreneurial climate by measuring business' access to infrastructure (such as the internet and transport, and to credit), business flexibility (the costs of starting business and of hiring and firing), clear and fair regulations (e.g., intellectual property rights), and perceptions of meritocracy and opportunity. Source: [Legatum Institute, Prosperity Index](#).

Trade Freedom: Measures a country's openness to international trade based on average tariff rates and non-tariff barriers to trade. Source: [Heritage Foundation, Index of Economic Freedom](#).

Biodiversity & Habitat Protections: Measures extent of marine protected areas, terrestrial biome protection (weighted for both national and global scarcity), representativeness of protected areas, and whether protected areas cover the ranges and habitats of critical species. Source: [Yale University/Columbia University Center for International Earth Science Information Network \(CIESIN\)](#).

RISK OF EXTERNAL DEBT DISTRESS

Rates a country's risk of public sector debt distress on a four-tier scale: "low risk", "moderate risk", "high risk", and "in debt distress". Ratings are based on countries' debt and market structures, fiscal and macroeconomic outlook, and institutional capacity to manage debt burden. Ratings help guide the borrowing decisions of lower-income countries to meet development needs while reducing the chances of excessive debt build-up. Ratings are shown for 54 lower-income countries for which the IMF prepares risk ratings and are not scored components of Commitment or Capacity. Source: [International Monetary Fund, Debt Sustainability Analysis for Low-Income Countries](#).

All source data are for the latest year available, typically 2018 or 2017, and are derived from third-party institutions. All indicators are weighted equally in the calculation of the overall Commitment and Capacity scores. Names and boundary representation in the map are not necessarily authoritative.

For more information on definitions and sources, please visit selfreliance.usaid.gov.

CAPACITY

GOVERNMENT CAPACITY

Government Effectiveness: Measures the quality of public services, the quality of the civil service and its independence from political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to its stated policies. Source: [World Bank, Worldwide Governance Indicators](#).

Tax System Effectiveness: Estimated ratio between a country's tax collection and the expected level of tax revenue that a country could achieve, given its macroeconomic, demographic, and institutional features. Source: [USAID, Collecting Taxes Database, Tax Effort Indicator](#).

Safety & Security: A combination of objective measures of security, and subjective measures of personal safety, personal freedom, and social tolerance. Source: [Legatum Institute, Prosperity Index](#).

CIVIL SOCIETY CAPACITY

Civil Society & Media Effectiveness: Measures the range of actions and mechanisms that citizens, civil society organizations, and an independent media can use to hold a government accountable. The mechanisms include using informal tools such as social mobilization and investigative journalism. Source: [Varieties of Democracy \(V-Dem\), Diagonal Accountability Index](#).

CITIZEN CAPACITY

Poverty Rate (\$5/Day): Measures the percent of the population living under \$5/day in purchasing power parity (PPP) terms. Source: [World Bank, PovCalNet](#).

Education Quality: Gauges both the quality of education—using harmonized scores across major international student achievement testing—and the quantity of schooling received—using age-specific enrollment rates—to evaluate the relative performance of educational systems worldwide. Source: [World Bank, Human Capital Index, Learning-Adjusted Years of Schooling Indicator](#).

Child Health: A composite measure that aggregates child mortality, access to at least basic water sources, and access to at least basic sanitation facilities. Source: [Columbia University Center for International Earth Science Information Network \(CIESIN\)](#).

CAPACITY OF THE ECONOMY

GDP Per Capita (PPP): Measures the flow of resources available to households, firms, and government to finance development as the country's total Gross Domestic Product (PPP) divided by the country's population. Source: [World Bank, World Development Indicators](#).

Information & Communication Technology (ICT) Adoption: Index comprising: (1) mobile-cellular telephone subscriptions; (2) mobile-broadband subscriptions; (3) fixed-broadband internet subscriptions; (4) fiber internet subscriptions; and (5) internet users. Source: [World Economic Forum \(WEF\), Global Competitiveness Index](#).

Export Sophistication: Measures the diversity and ubiquity of a country's exported goods, key markers that can help gauge economic sophistication and resilience. Source: [Center for International Development at Harvard University, Economic Complexity Index](#).