



More Money than Sense in BiH?

This project has been supported by the UK Government. The views expressed in this publication do not necessarily represent the views of the UK Government.

www.populari.org



British Embassy
Sarajevo

MORE MONEY THAN SENSE IN BIH?

TABLE OF CONTENTS

Summary	3
Money, Money, Money	4
Bosnian Transnistria	8
Can businesses push forward the EU agenda?	11
Communication Breakdown	17
Training Ground	22

Summary

The news that has marked last week is related to our first neighbours. In the next period Croatia will be able to receive up to 11.7 billion Euros, of which 8.092 billion for the cohesion policy, 3.462 for the common agricultural policy, and 203.7 million for the Schengen border. In addition to these funds, Croatia will be able to compete for funds for the common programs using the initiatives aimed at youth employment, that amounts in total around 6 billion Euros¹.

The aim of the four-month long Populari research into what we called “understanding European Union (EU) money in Bosnia and Herzegovina (BiH)” was to learn about the challenges different governmental levels in BiH face in their understanding of financial opportunities offered by the EU. When it comes to the EU accession processes, due to the endless internal political battles, in 2013, BiH is further away from EU accession than it was five – or even ten – years ago. With the exception of the relatively recent visa liberalisation process, the Stabilisation and Association Agreement (SAA) and the Feasibility Study that was done almost ten years ago was the most comprehensive exercise BiH has undertaken in the post-war period. It has, without doubt, helped create a pro-European and dynamic climate in the country. The following years have not manifested the same level of commitment to the process of EU accession. Rather, political stalemates and an absence of discussion on the country’s EU aspirations have become the norm. As a result of this delay, there is a colossal amount of work that still needs to be undertaken on BiH’s road to the EU. It includes changing and adapting laws and regulations, streamlining public administration and improving its capacities and skills, all of which are required to meet EU standards. The question we are asking is, whether political disagreements and disinterest made the EU destination more distant when it comes to the money that has been made available by the EU in the pre-accession process.

Looking into practical implications of the EU financial assistance in BiH, Populari visited places that are very often below the radar and are rarely heard of. How they understand the EU, have they used any of the possibilities and what they expect in the future were the central questions of the research. The tour captured a variety of actors: small and somewhat bigger ones, those that have good prospects by default and those who need to create them on their own.

1 “EU Summit: 11.7 billion Euros to Croatia, Milanović satisfied”, iPress, 8 February 2013.

Money, Money, Money

Like in other transitional countries in Central and Eastern Europe, the EU is the single largest international donor in BiH, too. It has contributed 2.5 billion Euros through European Community Funds, plus additionally 1.8 billion Euros from the Member States, within only 14 years (1991–2004).² Clearly, BiH has extensive experience with international donors, including the EU, since early 1990s. But until 1997 this assistance was often limited to humanitarian and emergency aid, and thus ad hoc in nature. In 1997, the EU introduced a more structured approach to assistance, for the first time in BiH, through Phare and OBNOVA programmes.³ Over time, many more EU programmes and add-ons to the existing ones followed, policies changed, and all of this was making it hard to effectively manage and use the available money for both the EU and the beneficiary countries, such as BiH. Therefore, a decade later, in 2007, all of the previous aid mechanisms were abandoned, and replaced by only one – *the instrument for pre-accession assistance* – IPA.⁴

Following its introduction in 2007, IPA has stirred a lot of excitement in BiH, and eventually turned into a buzzword. The mantra “*the money is there, you just need to take it*” has been repeated hundreds of times. Nominally, everyone was interested in the possibility of getting that money: governmental institutions at all levels, local communities, civil society, and private sector for all possible reforms that were needed. Local media was effectively fuelling the theme with catchy headlines:

“BiH is about to get 62.1 million Euros from EU this year”⁵

“13 billion for the Western Balkans and Turkey”⁶

2 European Commission website data.

3 The Phare and OBNOVA Programmes were two out of three pre-accession instruments financed by the EU to help accessing countries of Central and Eastern Europe in the period between 1997 and 2000. Phare was created in 1989, and stands for Poland and Hungary: Assistance for Restructuring their Economies but it later expanded from Poland and Hungary to cover other countries, including BiH. OBNOVA was established in 1996 and the programme was open to BiH, Croatia, the Former Federal Republic of Yugoslavia and Macedonia. Intervention areas included projects of regional cooperation and cross-border projects; the reconstruction of infrastructure and other private or public facilities damaged during the war; the return of refugees; the reintegration of refugees, displaced persons and former soldiers into professional life; the preparation of a production mechanism for economic recovery; the development of the private sector, the promotion of investment, etc. Through these two programmes BiH received around 891 million Euros.

4 IPA offers assistance to countries engaged in the accession process to the EU for the period 2007–2013. The aim of IPA is therefore to enhance the efficiency and coherence of aid by means of a single framework in order to strengthen institutional capacity, cross-border cooperation, economic and social development and rural development. For detailed description of IPA and amounts of money allocated in the given period, see European Commission website.

5 Dnevni avaz, no. 4070, p. 4, 25 January 2007.

6 Oslobođenje, no. 21.798, p. 64, 21 September 2007.

This trend continued until mid-2008:

“332 million Euros for Good Ideas”⁷

“Millions of Euros for Good Ideas and Projects”⁸

Such captions and statements sounded like a good incentive for all stakeholders, in particular governmental sector at all levels as the immediate beneficiaries, to agree on creating a common interest for successful absorption of the available grants. But while at the end of 2008, BiH's first neighbour, Croatia, was reporting the absorption of 51%⁹ of the IPA funds through implemented projects in 2007, BiH has slowly dragged the excitement and the possibilities of contracted IPA funds for 2007 into the heavily charged political arena. The absorption of 0% of contracted funds was in spotlight. Fuad Kasumović, BiH Deputy Minister of Finance, explained in daily newspapers on 11 December 2008:

“BiH has not used a single Euro from the EU IPA funds mostly because of the slowness and inefficiency of state institutions.”¹⁰

In addition to “slowness and inefficiency”, that almost all accession countries have experienced, the politicization of the key local role in EU integration process, in regard to IPA funds in particular, shifted the focus from IPA as a technical instrument into the realm of daily political rhetoric in 2008. The absence of a Director of the Directorate for European Integration for 15 months closed out possibilities to speed up the process of money absorption through IPA projects, and thus important reforms in the country. Already at that stage, IPA has been made an efficient political tool for political elites in the country, while for public servants, especially at lower administrative levels, and for the public, the very concept of IPA remained largely abstract and hard to understand. And even if it was understood by some public servants at a lower level, it was often perceived as additional and unrewarded workload.

During 2009, numerous, but repeatedly incomprehensible, vague and misleading headlines on IPA performance and possibilities were reaching the public through local media:

7 Bojana Vučenović, *Nezavisne novine*, no. 3455, p. 9, 20 March 2008.

8 *Oslobođenje*, no. 22.000, p. 21, 10 April 2008.

9 *Dnevni avaz*, no. 4756, p. 5, 11 December 2008.

10 Fuad Kasumović, BiH Deputy Minister of Finance for *Dnevni avaz*, no. 4756, p. 5, 11 December 2008.

“The Uninformed and Frivolous Lose out on Billions of Euros”¹¹

“2.7 billion Euros Arrived in BiH”¹²

In light of the 2010 general elections, IPA in BiH became an even stronger and more frequently used political tool. The feeble enthusiasm of previous years that surrounded IPA vanished completely, and as a reaction to populist behaviour of local politicians, serious warnings came from Brussels. A new approach to BiH by the EU was mentioned, including the possibility of abolishing IPA funds until the reforms in the country were started again. Local politicians were divided in opinions and reactions whether such reinforced EU presence was good for the country. Nevenka Savić, Director of the DEI, believed that

“[...] the abolition of financial assistance to BiH due to blockage of reforms by the European Union would be counter-productive.”¹³

In September 2011, after neither recommendations nor threats from the EU improved the political situation in BiH, the European Commission issued an internal decision to suspend all IPA funding for 2011, unless Bosnian authorities demonstrated political consensus. Thus, the EU threatened to leave the country without 96 million Euros and previously contracted 14 projects. The main reason was that there was no agreement on the projects at the state level.¹⁴

“Commissioner Füle is considering a reallocation of the funds [96 million Euros] from the IPA programme for BiH to the IPA Multi-Beneficiary Programme for the Western Balkan region unless an agreement on the programme for BiH is immediately notified to the Commission.”¹⁵

Only one month afterwards, Nikola Špirić, the Chair of the BiH Council of Ministers, sent a letter to the European Commissioner for Enlargement Štefan Füle, confirming

11 Čengić, R., Start, no. 276, p. 26, 14 July 2009.

12 Šajinović D., Nezavisne novine, no. 4060, p. 8, 23 November 2009.

13 Nevenka Savić, Nezavisne novine, no. 4113, p. 5, 19 January 2010.

14 The disagreement focuses on a proposal of projects, to be funded by IPA, submitted by the BiH DEI, to the European Commission in May 2011. At the time of submission, approval had been reached from both the FBiH and RS entities. However, RS officials voiced objections to four of the projects originally agreed upon to receive IPA funding. Concerned that the funds would be infringing the entity's autonomy, the RS officials claimed that agriculture, employment, statistics, and the judiciary were competencies for the entity-level governments, rather than state-level institutions, and as such should not receive IPA funds, which are geared to state-level capacity building. RS officials thus proposed a package worth 88 million Euros. BiH's Council of Ministers voted to reduce the number of projects to receive funding from the IPA, lowering the required allocation from 96 to 88 million Euros, with remainder going to regional cross-border projects. The FBiH entity rejected this move, saying that the process set out by the EU had been circumvented.

15 McGuffey A., Balkan Insight, “Bosnia: Political Infighting Threatens €100 million Aid”, 20 September 2011.

that an agreement among all stakeholders has been reached on the use of 96 million Euros of the IPA allocation foreseen for BiH in 2011.¹⁶

The ubiquitous problem of practical absence of government during 2011 coupled with the 'old' problems of entity vs. state competences, and disagreements on priorities for projects brought on identical frictions when it comes to IPA in 2012, too. Again, threats from Brussels, followed by promises from BiH politicians blurred out the main purpose of the money available, just like in the previous years.

To date, this attitude did not change. In January 2013, shortly before the commencement of consultations on IPA 2014–2020, the message from the EU is clear:

“The key to the availability of funds from IPA 2 for BiH is the establishment of the so-called EU coordination mechanism, ensuring vertical and horizontal political cooperation. There will be no IPA 2 without this mechanism.”¹⁷

Six years after IPA has been introduced in BiH, an additional explanation on where we stand at the moment comes from Brussels:

“Currently, there is not enough reform in BiH that would allow a credible application for membership, which would be considered by the EU Council. For ordinary citizens of your country this lack of progress - considering that as a candidate you gain access to, structural and cohesion funds, which are much larger than the IPA - means that their daily life remains difficult because there is no improvement of education, there is no better economic conditions, or a general quality of life for people.”¹⁸

In principle, this means that once structural and cohesion funds get into play, only those who are competitive, educated and creative will continue playing the game, but the way Bosnians have dealt with it so far, leaves space for doubts.

Having extensive experience with absorbing the “EU money” since 1997, one would assume that BiH already mastered the skills and developed the capacities needed to be successful in this exercise. Indeed, the absorption rate of the IPA funds in BiH points to an average performance of Bosnians when compared to other countries in the region. In total, until 2011 61%¹⁹ of the IPA funds available have been contracted.²⁰ But

16 Hopkins, V., Balkan Insight, “EU Confirms €96 Million Aid for Bosnia”, 4 October 2011.

17 Populari Interview with the EU Delegation to BiH, 29 January 2013.

18 Paola Pampaloni, Head of Unit for BiH, Directorate General for Enlargement, for Nezavisne novine, 15 December 2010.

19 Directorate for European Integration in BiH website data.

20 Due to the previously mentioned slowness and inefficiency of local state structures, the absorption of IPA in BiH commenced with a delay. For this reason and because the process of choosing projects, contracting them and finally implementing them takes several years, we can for now only talk about statistics that relate to the 1st call for project applications, which was published in 2008. Some of the projects from this call are still being implemented.

what does this percentage mean in practice? And to what extent are the contracted funds used, projects implemented, and processes mastered in peripheral BiH?

Bosnian Transnistria²¹

More than a three hours' drive from Sarajevo, and almost two hours more than that from Banja Luka, there is a small town of Ljubinje. Administratively, it belongs to the Republika Srpska (RS) entity, and is part of the region of Eastern Bosnia. One major street, a health centre, employment bureau, municipality and only about 4,000 inhabitants. Formerly, before the war in 1992, the road through Ljubinje was busy, and the town noisy and much more vibrant. During the summer season, everyone who travelled from BiH to Montenegro or Dubrovnik passed through Ljubinje. At the time, this small town offered more opportunities, and had more educated young people. They studied in Podgorica, worked in Mostar, while summers were spent in Slano, Croatia. Big companies, like Mostar Hepok and Aluminium, employed thousands of workers from and across Eastern Herzegovina. This, however, is no longer the case.

In early November 2012, Ljubinje gained unexpected attention by the media. Mayor Vesko Budinčić announced a referendum on separation from the RS entity with the aim of merging with anyone who is willing to offer decent life (Croatia, Montenegro and even Federation of BiH). Budinčić is fifty-five years old, was born in Ljubinje, and is now serving his fourth consecutive term as the mayor of Ljubinje municipality. He points out that he is earning the lowest mayor's salary in the whole of the country. Also, municipal budget is a very modest one – it stands at around 1.7 million KM.

Mayor Budinčić also insists that the announcement of a referendum is not a political game, but a desperate call for help before Ljubinje disappears.

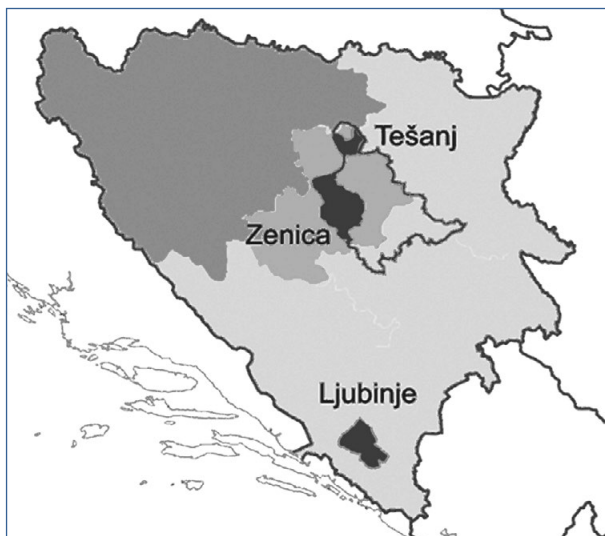
"It is an economic and social story, not a political one,"²² he said.

One of the results of the dissolution of former Yugoslavia was the marginalisation of small towns in political processes. Big decisions on behalf of small towns in BiH are made in the administrative and economic centres. Money is located there too. Budinčić feels that Ljubinje and the entire region are isolated from the processes and ignored by decision makers in RS and BiH. But the situation in Ljubinje is only the tip of an iceberg. Bileća, Nevesinje, Popovo polje, Berkovići are experiencing the same situation. Eastern Herzegovina is dying. Budinčić gives an illustrative example:

21 Transnistria (also called Trans-Dniestr or Transdnestr) is a breakaway territory located mostly on a strip of land between the River Dniester and the eastern Moldovan border with Ukraine.

22 Populari Interview with Vesko Budinčić, Mayor of the municipality of Ljubinje, 7 November 2011.

“You know how many fires we have over here during the summer season. Every year, throughout both the municipality and the region. And Ljubinje has the squad of 12 fire fighters who work on the entire municipal territory and beyond; they distinguish fire wherever needed in this region. But, they are under the municipal authority. When I ask for funding for the squad in Banja Luka, they simply tell me that it is the municipality’s responsibility. When something bad happens, like fire, then, it is responsibility of a local community. But, from where should I provide the funds?”²³



- Region Northwest – a part of the eligible area within the bilateral CBC programme BiH – Croatia together with two more regions: Herzegovina and Northeast Bosnia Region
- Central Bosnia – adjacent area
- Northeast Bosnia, Sarajevo Region and Herzegovina – the overlapping area between three bilateral CBC programmes in which BiH participates with Croatia, Montenegro and Serbia

The municipal administration is staffed with 30 employees and is divided into two departments: the general administration (urban planning and construction) and the economy (entrepreneurship, budget and finances). The employees have mainly earned high school diplomas, while six of them have university degrees. The most prominent one is Vitomir Vojčić. Hired to run the Agency for Development of Small and Medium Enterprises, Vitomir is also the person responsible for EU funds. He is

²³ Ibid.

the only person in the entire administration aware of all the project application calls municipality is eligible for. However, project writing, application and implementation is not a one-man show, rather it is teamwork. A chronic lack of a good and capable team that would support these efforts is very evident in Ljubinje. Both Budinčić and Vojčić are aware of the CBC funds available but the Mayor shrugs off as he wonders:

“Croatia and Montenegro are just around the corner, but what is in it for us,”²⁴

In fact, there is a lot. Among other things, it can fully equip the fire brigade.²⁵

As it is clear from this map, unlike many other places in BiH, Ljubinje has the most favourable position a municipality can possibly have in relation to EU funds. The immediate proximity of borders with Montenegro and Croatia make the municipality eligible for 100% of EU IPA funds in the cross-border cooperation (CBC) programme. Its eligibility to apply for CBC with Croatia and Montenegro, bilaterally, and the Adriatic Programme with Adriatic states,²⁶ makes it an extremely favourable municipality in BiH.

But to win funding of projects, offered by the EU, administrative and human resource capacities, as well as a set of other specific skills are required.

Local and regional authorities are not only responsible for the implementation of the EU legislation; their duty is also to attract EU funds. A significant chunk of money is granted to initiatives coming from the municipal and cantonal levels. The way citizens live their everyday life depends on the policies adopted and implemented primarily at these levels. As a potential EU candidate, BiH currently has access to only two components of IPA:²⁷

- I the “support for transition and institution-building,”²⁸ and
- II the “cross-border cooperation”.

24 Ibid.

25 The bilateral CBC programme with Croatia has two priorities, and each priority has two measures. The second priority is “improving quality of life and social cohesion” which is implemented through two measures: (1) environment protection and (2) improvement of accessibility to all services in local communities in border areas. The fire squad issue and similar problems can be successfully addressed through these CBC priorities and measures. The detailed information on bilateral CBC programmes can be found on the following websites: with Croatia - www.cbc-cro-bih.net; with Serbia - www.srb-bih.org; and with Montenegro - www.cbc.bih-mne.org.

26 Albania, BiH, Croatia, Greece, Italy, Montenegro, Serbia and Slovenia.

27 IPA provides assistance to countries engaged in the EU accession process for the period 2007 – 2013. The aim of the IPA is to assist public institutions, civil society and private sector to align its legal framework with the EU Acquis and to prepare the country for the structural fund. It consists of five components: Transition Assistance and Institution Building, Cross-border Cooperation, Regional Development, Human Resources Development, and Rural Development. As long as BiH is a potential EU candidate country, it will only have access to the first two components.

28 This component is aimed at financing state capacity building and institution building.

Focusing on the 2nd component only, CBC is realized through six programmes.²⁹ The beneficiaries of these programmes and funds are the ones who are most closely connected to the citizens – municipal, cantonal and federal administrations, public development agencies, educational institutions, public companies and civil sector organizations. These programmes are implemented in the bordering zones, so-called eligible areas,³⁰ which in BiH through three bilateral programmes and the Adriatic CBC cover the entire country. The eligible areas overlap; and some municipalities, like Ljubinje, may benefit from two and more programmes.

With the chronic shortage of educated and capable people, Ljubinje to date did not get a single EU project. In fact, the only application they have made was for a project of the Agency for Development of Small and Medium Enterprises in cooperation with Dubrovnik region. Unfortunately, though, the application was not successful. The reasons are numerous, but the fact is that after two decades of trainings, project proposal writing, mentoring and investing into human capacities, there is still no ability to effectively use the opportunities that exist.

Unlike Ljubinje, situated on the border, there are municipalities that have limited access to the CBC funds due to their geographic location. One such municipality is located at the northern tip of the Zenica-Doboj (Ze-Do) Canton.

Can businesses push forward the EU agenda?

Tešanj is situated almost 300 kilometres north of Ljubinje in a somewhat different municipal environment. To look into distinction between Tešanj and Ljubinje municipalities, one must begin with the most prominent and vibrant feature of Tešanj – its **businesses**. In a competitive production environment such as the one in Tešanj, companies matter. Settled in the region of Central Bosnia, the place is dynamic and entrepreneurship prone municipality. It is marked by a very old tradition of crafts and thriving entrepreneurial spirit that emerged after the privatization process in BiH, which ruined much of the economy in many bigger cities.

29 Three bilateral cross border cooperation programs aimed at supporting cooperation between BiH and Croatia, Montenegro and Serbia; two transnational programs – one supporting BiH cooperation with EU member states (Mediterranean) and the other supporting cooperation among the SEE countries; Adriatic involving cooperation between eight countries of the Adriatic Sea.

30 The programmes' eligible areas consist of the NUTS level 3 regions along the common border with the neighboring country. Since BiH has not yet adopted statistical classification under the NUTS, it operates under the regions defined within EU RED project of economic regions in BiH – there are five of them: Northwest, Northeast, Herzegovina, Central BiH and Sarajevo region.



A view over Tešanj (Source: Wikipedia; Photo: Martin Brož)

A simple model was used and proved to be a successful formula. Those who have been laid off work were, instead of redundancy money, given production machines their company no longer used. Most of them continued small, home-based production in Tešanj. The success of this method inspired other and bigger companies, for instance in Zenica, to do the same, but things have played out differently there.

“As the workers in Tešanj happily took machines from their former employers, and started up their own businesses, we believed that the same method could be applied in the case of Zenica’s Željezara. However, out of thousands of workers that were eligible to take machines as a severance pay, only two of them used that opportunity.”³¹

But already more than a decade ago, things in Tešanj were moving even faster. Companies grew like mushrooms and one of them a visitor cannot miss at the very entrance into the city is Alpina Bromy.

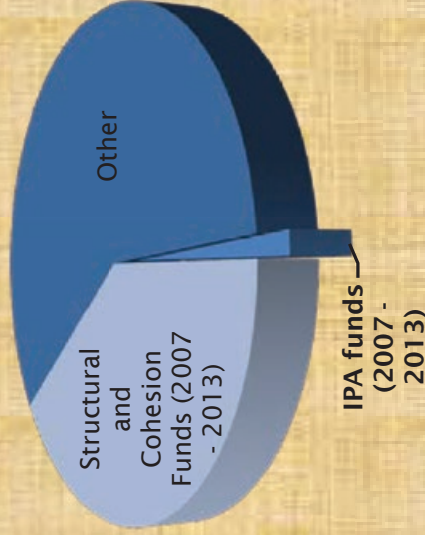
As one enters the production facility, it is hard to distinguish between the director (who is at the same time a partial owner), Suad Roša, and the rest of the workers. He seems like one of them.

³¹ Populari Interview with Amir Abazović, Assistant to the Minister of Economy in Ze-Do Canton, 4 December 2012.

EU Funds in BiH: Factsheet



EU Budget Division (2007 - 2013)



IPA Funds Allocations per Beneficiary Country (2007-2013)
 — Montenegro

EU's specifically targeted *Instrument for Pre-Accession Assistance (IPA)* has the aim to support the country's stabilisation and accession process.

BiH, the potential EU candidate country, has access to 2 IPA components' funds:

- (I) support for transition and institution building, and
- (II) cross-border cooperation.

The process of absorbing currently available funds mirrors the absorption process for additional IPA funds that will be available when BiH becomes a candidate country:

Ljubinj* SME Development Agency

7 IPA app. submitted

0 IPA projects implemented

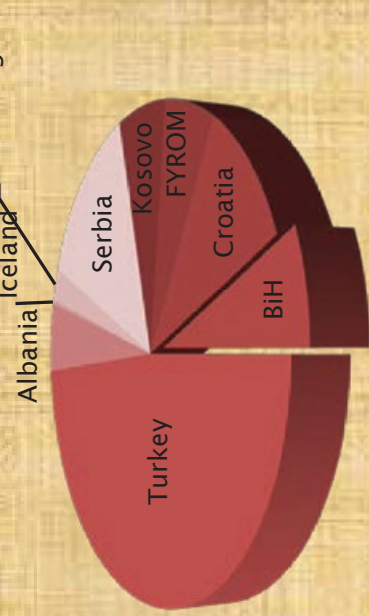
*4,000 citizens

✓ optimal geographic position in terms of money accessibility

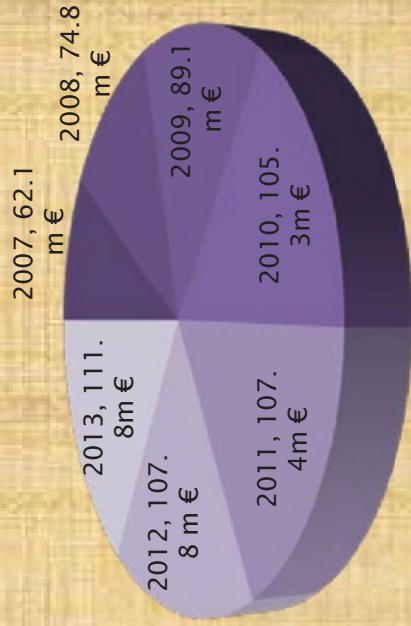
— poor human resource capacities and no skills

Tešanj* Tešanj Development Agency

Tešanj Development Agency



IPA Funds Allocation in BiH per year



- (III) regional development,
- (IV) human resources development,
- (V) rural development components.

With similar absorption processes far more significant amounts of funds are also waiting in the EU-member states zone in the form of **Structural and Cohesion Funds**.

Absorbing IPA I and II components is thus an invaluable **training ground** for future.

But how good is BiH in training?

17 IPA app. submitted

0 IPA projects implemented

***52,000 citizens** good capacities and strong willingness to succeed

access to the bilateral IPA CBC is severely limited

Ze-Do Canton* Business Service Center

30+ IPA app. submitted

10 IPA projects implemented

***400,000 citizens** relatively good financial capacities and skills

access to the bilateral IPA CBC is severely limited, and thus lack of initiative to lead projects

*"I am a general director, operations manager, technical director... and anything that I need to be to make this company work. I feel best when I am with my employees, and I try to build good relations with them without any sense of arrogance."*³²

After leaving the troubled Sloga,³³ a state owned company destined for privatization, in 2002, he set up his own shoe manufacturing business called 'Bromy'. The initial capital was raised in several ways, including taking a small loan from the bank, borrowing money from his relatives living abroad, and with the financial and moral help from his friend who owned a company³⁴ in the nearby town of Teslić, located in neighbouring entity of RS. Stakes were high during the start-up period.

*"I was afraid that somebody might steal production machines, so I often took the blanket and the pillow from my home and went to sleep in the factory."*³⁵

Initially, he employed 24 workers, and among them, 20 were his former co-workers from Sloga. This proved to be a successful move, and as the business developed steadily, he decided to employ more people. But because all money was spent on equipping the production facility, he needed assistance from the cantonal government to make his plans come true. At that time, the canton was co-financing the employment of new workers. As the number of people whose employment was to be co-financed was insufficient, Suad arranged a meeting with the cantonal Prime Minister, in order to check if they could co-finance extra number of workers in Bromy. He describes his anxiety before the meeting with the cantonal prime minister:

*"I was very nervous and sweating, since at that time, politicians for me were distant and important at the same time."*³⁶

By securing financial assistance from Ze-Do Canton, his company expanded. Suad was granted 80,000 KM for the employment of additional 35 workers. Two years after the commencement of operations, his company was providing full time employment for around 60 workers. This success would soon be noticed by a big foreign company.

32 Populari Interview with Suad Roša, Director and Shareholder of Alpina Bromy, 30 November 2012.

33 Sloga d.o.o. was founded during 1950's. It produced shoes and leather clothes. Production came to a halt in 2008 due to failed privatization leaving hundreds of workers without jobs and income.

34 Škrebić d.o.o. is a shoe manufacturing company located in Teslić, RS, currently employing around 230 workers.

35 Populari Interview with Suad Roša, Director and Shareholder of Alpina Bromy, 30 November 2012.

36 Ibid.

By invitation of Alpina³⁷ to attend the celebration of the company's 60th anniversary, Suad went to Slovenia to attend the event along with other Alpina's business partners. His visit at this festive event resulted in what is today deemed as one of the most prominent examples of foreign investments in BiH – Roša and Alpina opened a joint company in Tešanj. Receiving the 2011 award for the manager of the year for the region of Central and South-East Europe,³⁸ Suad's success was justifiably recognized on the regional level.



Alpina Bromy's Factory in Tešanj (Source: Biznis Centar Jelah–Tešanj website)

Today, Alpina Bromy is one of the largest employers in the municipality of Tešanj, employing 340 people. Many young people are working there, with the average age of the company's employees 28. One of the reasons why Alpina launched its production in Tešanj is the close proximity of the town to the Croatian highway, which is only one and a half hours' drive away. Besides this, the local people are more prone to work in factories compared to their counterparts in Sarajevo, where the average age of employees in Alpina's factory is 48. This success story is not an exception in Tešanj; rather, it is a rule.

Aside from their usual business connections, local businesspersons are also connected and organized through the Business Association. Currently, it counts 130 members. The steering committee has 11 members and a president, with elections being held each year to choose new members of these bodies.

37 In 1947, a number of private shoemaking workshops joined together to form the Alpina Company. Today, Alpina operates as a joint stock company. Each year the company produces approximately 1.7 million pairs of shoes and boots. Today, they have retail stores in Slovenia (55), Croatia (33), Bosnia and Herzegovina (11), Serbia (11), Hungary (2), Romania (1) and Bulgaria (1).

38 This award was announced on 7 July 2011 by the European Association of Managers and the Euro-manager Journal.

The president of the Tešanj Business Association³⁹ and the owner of a private company, Osmo Saračević⁴⁰ explains:

“Companies from Tešanj are specific in a sense that they recognize what the market demands, and they fill that gap.”⁴¹

With such a vibrant business sector, the administration had to follow. With the introduction of e-governance, Tešanj opened up towards a modern and transparent type of work. Accompanied with a call centre at service to its citizens, Tešanj built a reputation of a proactive municipality. In 2007, the mayor at that time, Fuad Šišić, made another step further and appointed a person assigned for accessing EU funds in the municipality. This position was filled by Ismar Alagić. A PhD graduate at University of Zenica, with impressive education abroad, Ismar sees his role as a pivotal one:

“One of my tasks is to improve international cooperation, and in this sense, some would say that Tešanj is the first municipality with its own minister of foreign affairs.”⁴²

Being recognized in the international circles, Ismar certainly contributes to Tešanj's image, but with an ambitious list of tasks set before him, his position has so far been underutilised.

Established to be an anchor in the process of turning Tešanj into a place with more EU accent, Tešanj Development Agency (TRA) was also founded in 2009. Currently, its work is carried out by four full time employees, whose responsibility is to work towards TRA's principal aims, namely strategic planning, foreign investments, connecting the companies and municipal administration, and applying for EU funded projects, as well as for other available funds.

Muhamed Džihić, project manager in TRA, graduated in Malaysia with a Bachelor degree in Mass Communications, and then earned his Master degree in International Relations and European Studies at Central European University in Budapest. He and his colleagues admit that the learning process has just begun as dealing with the EU requires advanced skills and knowledge to carry out demanding tasks.

39 Business Association is an organization formed and financed by local companies to connect and coordinate the activities of companies in Tešanj.

40 Osmo Saračević is owner and director of Saračević d.o.o. His company employs nine people and is an exclusive partner and distributor of Hardox metal materials produced by Swedish company SSAB.

41 Populari Interview with Osmo Saračević, Director and Owner of Saračević d.o.o. and the President of Tešanj's Business Association, 28 November 2012.

42 Populari Interview with Ismar Alagić, Advisor of Mayor for Access to EU funds, 10 December 2012.

“We attended a five-month long training related to project writing, including EU project application process, organized by a consulting agency from Slovenia.”⁴³

Muhamed monitors the calls for projects announced by the EU, foreign embassies and other international organizations through their websites. If a call is relevant, the process begins.

Because of its geographic location in the Central Bosnia region, Tešanj along with 15 more municipalities⁴⁴ ended up on the list of the approved adjacent areas for bilateral CBC with Croatia and the Adriatic programme that can only apply for 20% of the total allocated funds through CBC. The 20% rule provides limited possibilities for those territories of the country that are not located on or very close to border. In practice, this means that for example out of 1 million Euros available annually for CBC programme with Croatia, Tešanj can compete for only 200,000 Euros.

Within the last three years, since established, the Agency has prepared and submitted applications for 25 different projects to around 12 different donors; out of these, 11 project proposals were prepared and submitted to the EU. A closer review of the projects submitted reveals that out of 11 EU projects, two were intended for the bilateral CBC with Croatia, and six for the Adriatic Programme, while three projects were prepared for EU fund schemes other than CBC – but none was implemented.

While 25 projects in total and the diverse network of donors is evidence of hard work that is being done by the TRA team, it also lays out what still needs to be done. Even with limited opportunities, Tešanj possesses critical capacities to pursue EU agenda seriously. A positive and competitive spark created by the business community in the town might be a pivotal explanation of such attitude. To reflect and maintain an image of a dynamic and progressive place, Tešanj should be entering a new phase.

By following the business community, the local administration is transforming the municipality into a business-like institution that delivers results.

43 Populari Interview with Muhamed Džihčić, Project Manager at Tešanj Development Agency, 27 November 2012.

44 Central BiH region includes the following municipalities: Doboj Jug, Kakanj, Maglaj, Teslić, Usora, Zavidovići, Zenica, Žepče, Bugojno, Busovača, Donji Vakuf, Gornji Vakuf – Uskoplje, Novi Travnik, Travnik, Vitez and Tešanj. Initially, they were not able to take part in the CBC and Adriatic programmes. However, on the basis of the region’s traditionally strong economic, cultural and historic relevance in relation to the neighboring countries, all of the previously named municipalities were approved as the ‘adjacent programme area’.

Communication Breakdown

A city overarching Tešanj, in both administrative and economic sense is Zenica. With some 130,000 inhabitants, it is one of more representative BiH cities. If any place in BiH reflects the former Yugoslav times, it is Zenica. Its success was largely based on the highly developed steel industry and coalmining, and thus on the working class labour. Since the end of the Second World War and until the beginning of a new era in the 1990s, Zenica was a city in bloom. Its urban areas were continuously spreading and all necessary infrastructure – including roads, housing estates, public utilities and faculties – was being either built or improved. During this time, the municipality's population had increased by almost ten times, but with its similarly developed cultural, sport and social life made Zenica more than just a labour city. Back then, Zenica was the economic leader of Bosnia, and while at its peak, the steel company *Željezara* as the symbol of the city, was among the largest in Europe.⁴⁵

Only remnants of this former glory are left today and there is hardly any trace of what was once a model for other towns in its closer and farther proximity. The prominence of its heavy industry took a high toll on the environment, which is clear to the visitor immediately at the arrival to the city. A visit to the cantonal government headquarters shows the legacy of what was once a great and modern industrial city. A tall and colourless building is home to all of cantonal ministries and other auxiliary governmental bodies. Its cold and draughty hallways and the worn out interiors leave a depressing impression of the processes that are taking place in numerous offices.



Ze-Do Canton Building, Zenica (Source: radiosarajevo.ba)

⁴⁵ Website of Municipality of Zenica.

Edin Arnaut is the Director of the Section for Labour and Social Policy at the cantonal Ministry of Labour, Social Policy and Refugees. He is only one out of more than 200 Ze-Do canton's governmental employees. Desk-bound in his document-filled office, Arnaut is reviewing the work of social work centres from all over the canton. A part of it is going through the databases on child benefits that are intended for some 22,000 beneficiaries and amount to somewhere between 11.75 and 17.70 KM per child. In practice, this means he is spending long hours inserting the figures into Excel tables, sending them around via e-mail. The workload is so big that he believes more people should be employed to do the job. A more progressive option, computer software that would shorten and ease database processing, however, is available, but Arnaut and the ministry he works for do not use it. They cannot afford a cost of some 2,000 KM monthly to increase working efficiency.

"A type of such software has been in use for a while for war victims. We need software like this, but it takes a lot of money."⁴⁶

Although young and prospective, and one would expect very much exposed to the EU themes, Edin possesses no knowledge or experience with the EU. Neither he nor any of his colleagues had an opportunity to hear about the benefits of the EU financial assistance and they do not know how to reach out for it. Even getting new software that would make their lives much easier and work more efficient, Edin cannot foresee. In fact, he believes that this part of the work should be done by others, namely the Business Service Centre (BSC), located in the first floor of the building.

"BSC should be following EU calls for project proposals and applying for the EU funds. It is not realistic to expect us – with our current capacities – to also work on the EU funding opportunities. I need to do my work, this would mean staying after working hours,"⁴⁷ says Arnaut.

Two floors above, Nada Delibašić runs some of the most demanding tasks within the Ministry of Finance of Ze-Do canton. This energetic woman, Treasury Assistant, deals with accounting, and the adoption and implementation of the cantonal budget. The type of work she does requires sophisticated and expensive software:

"So far, we got some software with USAID donations, but there is so much more to be integrated if the system is to be fully efficient."⁴⁸

46 Popolari Interview with Edin Arnaut, Director of the Section for Labour and Social Policy at the Ze-Do canton Ministry of Labour, Social Policy and Refugees, 4 December 2012.

47 Ibid.

48 Popolari Interview with Nada Delibašić, Treasury Assistant to the Minister of Finance in Ze-Do Canton, 4 December 2012.

Again, for cost-related reasons, most of their work is done through incomplete computer software, and the ministry cannot afford it. When asked about the IPA funds and the opportunities at disposal, Nada says:

“Yes, we should be doing it, but it would be extra work hours that nobody would acknowledge, so there is no incentive for us. Also, the ministries have other work to do. During the past year, I have not followed EU project application calls. BSC is the institution that should take care of this for the entire canton, but they are also understaffed, and do not get enough attention within the government.”⁴⁹

One of the smallest ministries in the building, with only 12 employees, is the Ministry of Economy of Ze-Do Canton. The recently appointed minister, Džemil Ugarak is better known as a businessman. He is the director of the ‘Ugarak Produkt’ company from the municipality of Visoko, established in 1996 for the production of PVC and ALU carpentry.

“I was not satisfied with how Zenica and the canton are doing economically. They can do so much better, which was a challenge to me and a reason to take this position. As a businessman I think I can understand the economy better and bring about change.”⁵⁰

Ugarak believes the cantonal ministry of economy exists to serve the local economy and businesses. But, like in other cantonal ministries, financial issues and the lack of human resources are a bone of contention at the Ministry of Economy as well:

“Too much attention and therefore too large a part of the budget go into the social assistance programmes and veterans’ affairs. In contrast, too little attention is paid to economy and agriculture, which could be improved with more financial resources.”⁵¹

The issue appears even more profound when enquiring about the role cantonal administration play in absorbing IPA and other EU funds that are available to BiH at the moment. Amir Abazović, Assistant to the Minister is very straightforward in describing how they perceive EU funds that are at disposal:

“Applying for EU funds is not a requirement for us in the legislation, and we are more focused on those requirements that stand in the legislation.”⁵²

49 Ibid.

50 Populari Interview with Džemil Ugarak, Minister of Economy in Ze-Do Canton, 4 December 2012.

51 Ibid.

52 Populari Interview with Amir Abazović, Assistant to the Minister of Economy in Ze-Do Canton, 4 December 2012.

He also believes that in fact the BSC, the special cantonal body, should be putting the entire canton closer to the EU perspective.

And interestingly, when it comes to the question of responsibility for absorbing EU funds, the cantonal ministries appear to be in agreement – they are not the ones who should be chasing the EU money.

Further deepening this dissonance among various cantonal bodies on the EU perspective in general, their responsibilities and the ways to approach them, is the understanding of its role by the target of all high expectations, the BSC.

In BSC they strongly reject the diversion of all canton-wide failures onto them. Established in 2003, BSC is in charge of

- a. Promotion of businesses and business potential, as well as the development of an adequate business environment in the canton,
- b. Identification of acceptable programmes, application to public calls and implementation of projects, financed through international funds, and bilateral projects,
- c. Harmonisation of the strategic planning process in Ze-Do canton.⁵³

In light of these varied responsibilities, Salih Alispahić, Assistant Secretary at BSC, makes clear the BSC believes that with their five full time employees and occasional part time co-workers they are neither competent nor required to work on very specific topics within the domain of individual cantonal ministries. Instead, it is the ministries that should use their own expertise and capacities to write projects related to their specific fields.⁵⁴ What BSC does do, however, is apply for EU and other international funding, and implement projects linked with a wide array of topics: from various aspects of tourism statistics to the eco industrial development. Alispahić explains:

“BSC is following and locating EU calls for applications, and sometimes delegates them to other institutions like universities... We do not carry out any concrete activities with the ministries, we only forward them information. We do not have the capacities to develop projects for ministries – we do not have any competences to be able to write topic-specific project within the domain of ministry. Also, we only have five employees, while in line with staffing systematisation we should have 18.”⁵⁵

With its EU projects, BSC has shown a total financial result of around 700,000

⁵³ Regulation on the Business Service Center of the Zenica-Doboj Canton.

⁵⁴ Populari Interview with Salih Alispahić, Assistant Secretary at BSC in Ze-Do Canton, 4 December 2012.

⁵⁵ Ibid.

Euros,⁵⁶ which is almost twice the amount of its 2012 yearly budget (388,462 Euros). In spite of this relatively significant achievement, it is also evident that their projects do not follow any clear strategy. Certainly, some of their projects can be seen as contributing towards the goal of developing the local community (e.g. MEID project for eco industrial development or the GSR Model project intended for building sustainable governmental services). But others demonstrate a questionable link to canton's activities or the improvement of local economy and seem to serve the purpose of increasing the number of projects implemented.

At the same time, in all of these projects BSC took on the role of a partner, rather than the leader, so the question remains of whether its employees have in the past six years, since IPA programmes commenced and they have attended numerous trainings and workshops, made an actual step further in this training ground for future EU funds. Have they gained knowledge and skills to be able to independently conceive, write and manage an EU-funded project?

A chronic absence of any communication between the cantonal ministries and the BSC – even though the only barrier between them is that of a few cold hallways of the cantonal building – speaks volumes. It seems that even six years after IPA funds have been introduced to BiH, there is no effective understanding of what that money is for and who should be using it.

Training Ground

From 2007, when the EU processes were getting the important momentum, instead of approaching the EU and IPA pragmatically, BiH political leadership has excessively politicized the issue, thus turning the opportunity for the entire country into another daily political issue. In the meantime, lower administrative levels as well as the public have been flooded with incomplete, limited and often misleading information about IPA. This is largely reflected in narrow understanding and distorted perception of the “EU money” in BiH. With IPA 2⁵⁷ starting in 2014 and further challenges lying ahead, it is necessary to make a dramatic shift in the way we perceive and utilize this instrument. BiH has already been warned that a key requirement for the use of funds from IPA 2 is the establishment of an effective mechanism of coordination in

⁵⁶ Not including the 15% of their co-financing.

⁵⁷ IPA 1 denotes IPA between its starting year, 2007, and 2013 when the current programme finishes. Shortly, informal as well as formal consultations on programming IPA 2, lasting between 2014 and 2020 will commence in beneficiary states. The EU will continue its support to enlargement countries, including BiH, in the next period, through a renewed Instrument for IPA, building on the positive experience from the current instrument. IPA will continue helping these countries implement the comprehensive reform strategies needed to prepare for future membership, with emphasis on regional cooperation, implementation of EU laws and standards, capacity to manage the Union's internal policies upon accession, and delivery of tangible socio-economic benefits in the beneficiary countries.

BiH.⁵⁸ Now, the question is whether BiH is capable of mounting a response to the complex processes, considering both political and technical deficiencies.

The case studies presented in this paper demonstrate that BiH authorities still have no real intentions and means of gaining the most out of the EU. Few key features guide this analysis: the importance of the EU processes to be mastered in BiH, implications on the more significant, future structural and cohesion funds and whether big or small actors will be better at it, once the opportunity resurfaces.

Despite numerous projects, trainings and workshops organized and implemented in BiH in the past six years, the average Bosnian bureaucrat is neither equipped nor willing to push forward the change. The key problem lies in the absence of any interest of the political elites or public administration for substantial discussions. Also, the most influential pressure group, the EU, dedicates lots of attention to the administrative centres in the country, even though some peripheral places seem to have more clear view and understanding of the EU and can act as future leaders. A genuine shift in the EU strategy for BiH would involve the representation of the interests of those who do not see the benefit in the present status of the EU agenda in the country.

In the best possible scenario, in which BiH gets the status of a candidate country, the money that reaches BiH now via IPA funds will look symbolic. And once BiH becomes a member state, the millions from the pre-accession assistance will alter to billions through the structural and cohesive funds and other post-accession programmes. For illustration only, according to Croatian Deputy Prime Minister and Minister of Regional Development and EU Funds, Branko Grčić,

"[...] already in the second half of 2013, 450 million Euros is waiting for Croatia in these funds, and after that – over 1 billion Euros annually."⁵⁹

One billion Euros roughly equals the total sum of all money the EU invested in Croatia through the IPA funds since 2007. This represents a major change and an enormous challenge for the Croatian administration, but it also an opportunity no one would miss out. The amounts increase tremendously, but the procedures are the same. For that reason, the experience with IPA components I and II is invaluable in view of BiH's future. It can be understood as an early training ground for what is still to come. Once BiH makes progress in the EU accession process excellent knowledge of funds managing will be required. In words of Senad Lulo, Expert Consultant in the sector for Coordination of EU Assistance, at the BiH Directorate for European Integration, IPA's aim is:

58 Popolari Interview with the EU Delegation to BiH, 29 January 2013.

59 "Absorption of the EU IPA Funds increased to 53.2 %", Business.hr, 24 September 2012.

"[...] to teach people how to prepare and implement the projects. The amount of available money is relatively small, since this is, basically, a preparation for the large Structural Funds. We call this a 'preparatory period.'"⁶⁰

IPA regulations simulate the rules and the procedures of Structural and Cohesion Funds; and their implementation provides a vital learning opportunity for all stakeholders and this opportunity should not be missed.

BiH does not have experts specifically qualified for EU projects applications. Experiences from neighbouring countries and the EU is proof that good results are achieved if there is good organisation and education.

⁶⁰ Populari Interview with Senad Lulo, Expert Consultant within the Sector for Coordination of EU Assistance at the BiH Directorate for European Integration, 17 December 2012.



British Embassy
Sarajevo

www.populari.org

This project has been supported by the UK Government. The views expressed in this publication do not necessarily represent the views of the UK Government.