

Germany

Policy approach

Germany is committed to assist BiH on its long path towards the EU, to overcome its various obstacles and to support taking the steps spelled out in the B-H Reform Agenda. Building on decades of economic co-operation, this today particularly requires an overall focus on fostering private investment schemes and adapting its business climate accordingly. Foremost, this is B-H development into a functioning market economy with private investments and a stable macro-economic outlook, efficient administrative and governmental structures, the alignment of its related legal system with the EU *acquis* and the overcoming of the aftermath of war.

For this purpose, the German Government has provided and will provide bilateral development assistance to BiH directly and through several implementing agencies and non-governmental organizations. The most prominent are: *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* for technical assistance, *KfW Entwicklungsbank* (Development Bank) for financial assistance. In addition, AHK (Chamber of Commerce) promotes German investments and bilateral trade. CIM integrated experts are working in a number of private sector organizations and NGOs. Projects are also implemented through political foundations and other German institutions represented in BiH. The Embassy oversees and co-ordinates these efforts and implements some funds directly.

Socio-Economic Priorities – Private Sector Development

Against B-H largest bilateral trade volume annually exceeding currently € 1.5 billion and an overall German investment totals € 350 million. Still situated in BiH since its independence, German companies overall provide for the strongest German potential to stimulate private sector development in Bosnia and Herzegovina. *Inter alia*, activities are accompanied by AHK and its assistance in supportive programmes and by the Standing Working Group on bilateral business, established by the respective Ministries of Economics in May 2017. Ongoing programs implemented by GIZ build, *inter alia*, capacities in the B-H public and private sector for strengthening competitiveness of selected business locations (10 municipalities), their specific sectors and as well as their respective small and medium enterprises in BiH. In addition to competitiveness in metal and wood processing and tourism sectors, this program promotes the establishment of agricultural value chains for selected fruit and vegetables products with a potential comparative advantage.

For a cross-sector engagement to support innovation in private sector, the German government co-funds together with the EU a programme including a granting scheme for local private companies through GIZ (EU ProLocal). Several projects focus on education to improve employability. TVET (technical and vocational education and training) project introduces important elements of Germany's dual TVET system (Duale Berufsausbildung). The project was extended from single cantonal level to include several locations in both entities. It aims at the introduction of a cooperative and competence based TVET System which will better respond to the needs of the labour market. Involvement of the private sector and cooperation between schools and companies in TVET delivery is an essential element.

A regional project fosters co-operation between SEE countries in relation to various foreign trade issues in order to remove trade barriers and boost trade within and with export destinations outside of the region.

Focus Sector (1): Energy

The Energy sector in Bosnia stands out for one of the most promising sectors for economic investment and growth, as much as for a core need of service for the public to be fully secured in Bosnia and Herzegovina and to further pursue an environmentally healthy and climate change sensitive path.

Until today, activities have focused on German governmental support for the rehabilitation of existing power plants (hydro-electric power plants) and the introduction of forms of renewable energies (wind energy). Various large-size projects of KfW Development Bank in RS and Federation with a total financing volume of approximately €400 million are in different phases of implementation. These projects of German Financial Cooperation are most importantly related to hydropower and wind power generation. A number of new projects in the area of renewable energy are in principal agreed upon between the Federal German and the BiH governments, including the Windfarm Hrgud (€ 60 million) and a number of hydropower projects.

A project on renewable energy is implemented by GIZ since end of 2015. The objective of this project is to improve the framework conditions for the increased use of renewable energies in BiH. The project cooperates with all relevant partners at entity as well as state level. Besides the improvement of the legal framework, licensing and permitting regime as well as monitoring of the NREAP, the project works on energy modelling and scenarios. It develops options for support schemes reform, frame conditions for increased sustainable application of small hydropower and use of biomass in electricity and heating generation.

Focus Sector (2): Environment

With reference to the adopted country-wide strategy on environment, activities in this sector are – beyond their immediate environmental effect and their assistance to meet climate change goals – essential to improve the general conditions to allow for private sector development not only in the environmental sector itself, but those depending on it. Primarily, this may include the production and processing of agricultural and natural goods with their standards required as much as tourism.

- *Energy efficiency*

The ongoing GIZ supported project aims at capacity development for energy efficiency (fulfilling requirements of Energy Community, monitoring and data management, legislative framework and its implementation, implementation of energy efficiency measures) at municipal and entity level and in close coordination with MoFTER. Energy efficiency is also subject of a SEE regional project. KfW Development Bank is also currently preparing energy efficiency programmes.

- *Water supply and waste water*

KfW Development Bank still has an ongoing portfolio in this sector both in the RS and the Federation BiH. The project “Water Supply and Waste Water Banja Luka” was completed in 2016, while “Waste Water Bihac” was due for completion in 2017.

- **Biodiversity**

The Open Regional Fund SEE on Biodiversity aims at enhancing capacities to better value ecosystem services, to collect and manage biodiversity information for monitoring and reporting purposes. The project co-operates with public and NGO partners in the region to establish a transboundary ecosystem management.

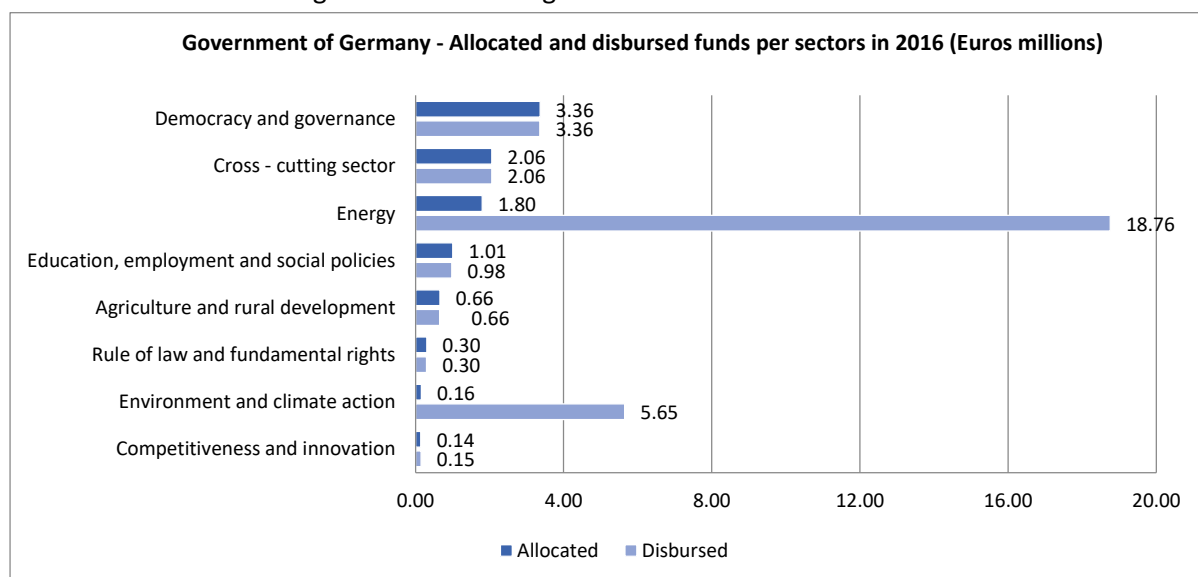
Public Administration Reform and Rule of Law Affairs

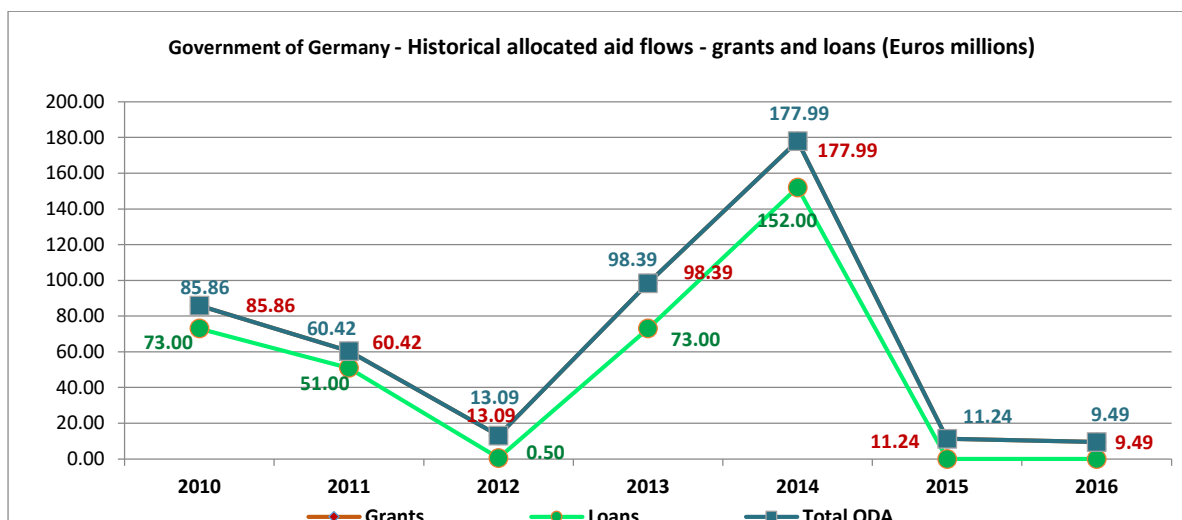
The German engagement with Bosnia and Herzegovina in Public Administration Reform tackles the pertinent issue of improving service delivery of public administration also needed to allow for investment and growth of the private sector. As set out in the B-H Reform Agenda, GIZ-supported program co-operates with PARCO, DEI and other selected public institutions at state level. These institutions are supported in order to apply the principles of public administration for transparent, accountable, effective and efficient public service delivery. Along the same lines, a GIZ project supports the process towards business friendliness of Municipalities, and was able to award “Business Friendly Certificates”. The newly created, bilateral Standing Working Group on Business Co-operation between the German Ministry of Economics and MoFTER including their respective Trade Chambers is similarly pointing towards initiating specific public reforms needed to especially establish more solid grounds for private foreign investment.

As suggested in the B-H Reform Agenda, a strong, reliable and independent judicial system is an indispensable prerequisite of further development. So far, different legal reform issues have been dealt with in a regional GIZ-project for South Eastern Europe. Finally, a regional project supports capacity development within the region with regard to EU accession, integration processes and the management of IPA funds. All regional projects also cooperate with partners in BiH.

Key activities in 2016

The Government of Germany **allocated € 9.49 million and disbursed € 31.90 million in 2016 in the form of grants and loans** to the following sectors: Energy, Environment and climate Action, Democracy and governance, Education, employment and social policies, Agriculture and rural development, Rule of law and fundamental rights and Competitiveness and innovation. The German activities are framed along the B-H Reform Agenda and its commitment to the Berlin+ Process.





Medium and long-term approach

In the context of the Berlin Process and EU perspective of Bosnia and Herzegovina, Germany will continue its path from a traditional donor to a stronger facilitator of investments and rely on enhancing Bosnia and Herzegovina largest bilateral trade volume of currently about € 1.7 billion per annum and various forms of private investments. This would require mutual efforts in developing markets and adjusting the institutional setting.

Against this background, the German government will continue its commitment for technical and financial co-operation, primarily under the headers of (1) local economic and private sector development with (2) energy efficiency and renewable energy and (3) further sectors of business development according to developments on the B-H side, as well as (4) democracy and public administration, especially including (5) the rule of law. In all projects regional cooperation will remain an important aspect of German cooperation.

Donor coordination efforts

Co-ordination among donors and investors are overseen by the German Embassy and eventually assigned to specialized agencies as GIZ and KfW Development Bank. Aside regular participation in the Donor Coordination Forum, they also coordinate among EU Member States (Aid Coordination Meeting organized by the EU-Delegation).

KfW Development Bank, in all three active sectors of bilateral German Financial Cooperation (renewable energy and energy efficiency, municipal infrastructure and SME/microfinance), coordinates with BiH partners at State, Entity and Municipal levels and with other relevant donor agencies. GIZ participates in several sector coordination groups with those donors and implementing agencies that have interventions in the sector (local governance, Energy efficiency and renewable energy group, Agricultural sector group with MoFTER, Public Administration Reform).

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