

BTI 2008 | Bosnia and Herzegovina Country Report

Status Index	1-10	6.51	# 40 of 125	
Democracy	1-10	6.70	# 48 of 125	➔
Market Economy	1-10	6.32	# 49 of 125	➔
Management Index	1-10	4.61	# 79 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	3.9	HDI	0.80	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	-0.1	HDI rank of 177	62	Gini Index		26.2
Life expectancy	years	74	UN Education Index	0.87	Poverty ³	%	-
Urban population	%	45.7	Gender equality ²	-	Aid per capita	\$	140.8

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The ten-year anniversary of the Dayton Peace Accords in 2005 was expected to mark the transformation of Bosnia and Herzegovina (hereafter: Bosnia) from a postwar society to one approaching inclusion in the European Union. However, a number of setbacks have stymied this “Dayton to Brussels” transition during the period under review. In 2006, the international presence – including military aid – was reduced in Bosnia. The decision to close the Office of the High Representative in June 2007, however, was reversed in January 2007, suggesting that the international community lacked sufficient confidence in the ability of domestic institutions to maintain political stability in Bosnia. This report will evaluate both the impact of regional issues in Bosnia, namely the negotiations on the status of Kosovo, and the country’s domestic developments, in particular the failure of constitutional reform in 2006 and the electoral victory of diametrically opposed political forces among the three ethnic communities in October 2006. Since late 2006, political rhetoric has become more confrontational, and institutions have been slow to begin operating. In terms of economic development, Bosnia has made progress in recent years. The Serb-dominated entity, Republika Srpska (RS), in particular has been displaying high rates of growth, exceeding those in the Federation of Bosnia and Herzegovina (FBiH). This growth, however, stems from an overall low economic level and is based mostly on privatization. Unemployment has remained high and in fact increased in 2006. Overall, efforts to strengthen the Bosnian state and implement the reforms linked to EU integration slowed down in 2006. Nationalist rhetoric gained in strength in the run-up to the 2006 general elections and did not abate afterwards. The measures intended to establish a more functional federal system, such as constitutional and police reforms, either failed or face persistent obstacles. The country remains afflicted by inefficient consociational arrangements, a complex institutional structure and a lack of commitment among the political elites both to reform and to closer links with the European Union.

History and Characteristics of Transformation

Since 1995, Bosnia has been struggling with a quadruple transition: from a single-party system to multiparty democracy; from socialist self-management to a market economy; from war to peace; and from an ethnically divided and segregated country to a more integrated and coherent state. This demanding multitude of transformations in Bosnia would constitute a great burden on any country. Unsurprisingly, transformation in Bosnia has been conflicted and uneven.

The transformation from the dominant League of Communists to a multiparty system began with the first free elections in 1990. However, progress stalled under the three nationalist parties' nearly monopolistic positions in each of their respective communities: the Bosniak Party for Democratic Action (SDA), the Croat Democratic Community (HDZ) and the Serb Democratic Party (SDS). This continued, de facto, the tradition of one-party rule within the Bosniak, Serb and Croat community. Only over the past seven years have parties emerged within each community to successfully challenge the dominance of these three, and this only within the context of that particular community. Thus, today there are essentially three parallel multiparty systems in Bosnia.

The introduction of a market economy has been similarly delayed. Due to the war, privatization and economic reforms began in earnest only in the late 1990s. Wartime destruction, limited investor confidence, fragmented markets and a weak infrastructure have limited foreign investments and sustainable growth. Political meddling and cronyism have marred first attempts to privatize. In recent years, privatization has accelerated, particularly in the Republika Sprska (RS). Some more recent privatizations appear to be politically motivated, such as the sale of 65% of the RS telecommunications company to its Serbian counterpart for a price considerably above offers from Western investors in late 2006. Despite these occasional large-scale sales, the private sector only contributes to 55% of the GDP in 2005, which indicates the continued dominance of a large public sector.

The transition from war to peace has been the most successful of the aforementioned transitions. Violence is rare and physical attacks have decreased, facilitating significant refugee returns since the late 1990s. Public opinion also reflects the fading threat of war and conflict. Whereas in 2000, a UNDP survey showed around 40% of citizens feared a renewed war in the event of SFOR (Stabilization Force in Bosnia and Herzegovina) withdrawal, in 2006 this number had decreased to approximately 23%. Many wartime military and political leaders have been sentenced by either the International Criminal Tribunal in The Hague or domestic war crimes trials. In addition, the Office of the High Representative (OHR) has dismissed hundreds of officials from their duties for either obstructing the peace process or for wartime offenses. Nevertheless, the break with the war has not been clean; the same parties, and

much the same elites (religious communities, state institutions, intellectuals) who led or were involved in the war continue to shape political debates. Unsurprisingly, Bosnia has seen no concerted efforts made toward reconciliation, with the exception of a few civil society initiatives. As a result, many political disputes merely re-hash wartime conflicts.

Transforming the country from a dysfunctional asymmetric federation composed of ethnically homogenous units into an integrated multiethnic state has posed an equal challenge. The Federation of Bosnia and Herzegovina (FBiH) consists of ten cantons – three Croat-dominated cantons, five Bosniak-dominated cantons and two divided cantons, whereas the RS is overwhelmingly Serb. The Bosnian political leadership has been pursuing the agenda to strengthen the central government since 2000 only, and mainly as a result of international pressure. The Bosnian Constitution has thus been altered de facto without formal documentation, making these alterations fragile and variable. Despite this instability, the entities and cantons have been forced to accommodate non-dominant groups to a greater extent. These developments, albeit significant, still fall short of re-uniting the country's disparate segments to enable the state to meet EU integration requirements. The central institutions continue to suffer from ethnic fragmentation, often fail to successfully coordinate the implementation of policies with lower levels of government, and they rely heavily on the international community's support.

The 2006 constitutional reforms aimed at strengthening the state failed, and consensus on steps to advance state cohesion has proved elusive due to diametrically opposed positions on the constitutional question among the political leadership of the Bosniak and the Serb communities. International actors have driven much of Bosnia's transformation since 1995, in particular the Office of the High Representative, which oversees the implementation of civilian aspects of the peace process. International intervention has decreased in recent years, which emphasizes greater initiative among the Bosnian political elite. The political elite has yet to prove its commitment to overcome divergent visions for Bosnia and pursue sustainable reforms that would lead to further transformation and eventual EU membership.

Transformation Status

I. Democracy

The state of democracy in Bosnia has improved continuously over the past decade. While the October 2006 elections seemed to mark a political shift away from the dominant nationalist parties, they in fact merely confirmed the transition to an ethnically based and confrontational party system, hardly a step toward democratic consolidation. Dependency on international intervention has decreased in recent years, but quality of domestic decision-making has not increased proportionally.

1 | Stateness

The state remains weak in Bosnia, with much of the power still anchored in the entities (and cantons in the Federation). Security sector reform replaced entity armies with a small professional state army. In 2006, the Ministry of Defense took over from the entity-level ministries. The army remains divided into ethnically defined units, throwing some doubt on how well the army is likely to function as an integrative institution. In the past, the international military presence (under EU leadership since 2004) has provided security guarantees. The number of international peacekeepers has been gradually declining and was cut substantially from 6,000 in early 2007 to around 2,500 by March 2007. Their function has been to shore up the peace process and the state. Due to the decline in any apparent security threat to the state, this military presence has become less necessary. At the same time, the reduction and the departure of some countries' troops (the United Kingdom announced a withdrawal of its troops in March 2007) impair the ability of EUFOR to arrest indicted war criminals. The cumbersome process of police reform has proved even more recalcitrant. An international initiative to transform the entity-based police forces into a centrally controlled police with cross-entity regions has met with considerable resistance in the RS. Thus, although both entities agreed in principle on the initiative in 2005, implementation has been stalled.

Monopoly on the use of force

Support for the state of Bosnia has increased over the past decade, in particular among Serbs and Croats who largely favored secession in the aftermath of the conflict. Correspondingly, surveys published by the International Commission on the Balkans in 2005, indicate that the existence of a Bosnian state is no longer seriously contested by any ethnic group. Nevertheless, the legitimacy of the state

State identity

remains weak. In the UNDP Early Warning Report, only a fifth of Serbs felt proud to be a citizen of Bosnia, as opposed to over 80% among Bosniaks. During and after the 2006 pre-election campaign the RS Prime Minister Milorad Dodik repeatedly suggested a referendum on independence. In addition, high-ranking Serbian officials have rhetorically challenged the territorial integrity of Bosnia by drawing a parallel between the potential independence of Kosovo from Serbia with the independence of the RS from Bosnia.

Formally church and state are separate and constitutional reforms in the RS in 2002 eliminated the previously privileged status of the Serbian Orthodox Church. The three religious communities (Muslim, Orthodox, Roman Catholic) have nevertheless held considerable sway in political campaigns by endorsing parties and candidates. In the run-up to the October 2006 elections, independent parties successfully challenged the dominant Croat and Bosniak nationalist parties due to the backing of the Catholic Church and the Muslim community respectively. However, the religious communities' support aims to defend the interests of the respective national communities rather than to propagate religious dogmas. The head of the Islamic community, Mustafa Cerić, has been particularly supportive of Bosniak presidency member, Haris Silajdzic and made repeated controversial remarks, including a call for Bosnia to become the nation-state of the Bosniak majority.

No interference
of religious
dogmas

Bosnia suffers from an excessively complex administrative structure with often competing and overlapping competences. A substantial part of the state, entity and cantonal budget is spent on public administration. Horizontal and vertical cooperation between the different public administrations is often deficient. Furthermore, the legal status of the lowest level of the public administration, the *mjesne zajednice*, dating back to Communist times, remains unclear. In some areas they are officially recognized, whereas elsewhere they operate as quasi-NGOs. The most serious problem of the administrative structure is the lack of clear allocation of competences between different layers of governance, which results in duplication and competition.

Basic
administration

2 | Political Participation

Bosnia has held regular elections since 1996. The OSCE organized the first elections, but since 2001 the organization of elections has been a domestic competence, overseen by the Bosnian Election Commission. The 2006 elections were the first entirely administered by local authorities. The national elections in 2002 and 2006 and the local elections in 2004 have met international standards and have thus been deemed free and fair. As the Office for Democratic Institutions and Human Rights of the OSCE (ODIHR) noted after the general election, the main deficiency of the elections are the ethnic and territorial restrictions which run against existing European human rights standards. For

Free and fair
elections

example, the presidency candidate from the RS must be a Serb, and the two members from the Federation must belong to the Croat and Bosniak community. Other state and entity institutions have similar requirements, which are enshrined by the respective constitutions.

The consociational arrangement in Bosnia provides for a number of constitutionally enshrined veto mechanisms which require consensus on nearly all decisions among the three “constituent” peoples (Serbs, Bosniaks and Croats). These veto powers control decisions taken by the state presidency, the council of ministers and both houses of parliament. The number of veto provisions in the decision-making process is excessive, particularly at the level of central government and in the Federation. Such arrangements limit the authorities’ effective power to govern and allow any community to block most decisions. The Council of Europe’s Venice Commission has recognized this deficiency and put forward a recommendation to streamline decision-making procedures in Bosnia, especially with respect to the vetoing measures of vital national interest. In recent years, the Constitutional Court has begun to define Vital National Interests in order to reduce blanket vetoes, but vetoes continue to stall the decision-making process. A key veto actor remains the Office of the High Representative (OHR), which can dismiss officials and pass laws. Usually, its intervention has sought to unblock rather than hamper decision-making processes however. The scale of the OHR intervention has generally decreased in 2006, resulting from the less hands-on approach of Christian Schwarz-Schilling, the High Representative who succeeded the interventionist Lord Paddy Ashdown in January 2006. In 2005 91 decisions were passed, compared to 57 in 2006 (46 under the reign of the new HR). The Peace Implementation Council (PIC) an ad hoc body comprising key countries and international organizations, postponed the plan to close the OHR by June 2007. The hands-off, incoherent and widely criticized policy of Schwarz-Schilling has reduced the OHR’s veto power; whether it will be restored after his departure in June 2007 was uncertain as of March 2007.

Effective power
to govern

The right of political and civic organizations to freely organize is unrestricted and constitutionally guaranteed. The introduction of state-registration, as opposed to the previous entity-based registration, has facilitated the registration and operation of civic groups and NGOs across the country in recent years. Most NGOs however continue to operate at the entity level. Unclear state-level legislation has constituted a serious obstacle for the registration of some groups. In addition, the introduction of VAT in 2006 has placed an additional financial burden on many civic groups, even though this measure is not intended to hurt civic groups. The OHR has banned political parties for obstructing the Dayton Peace Accords in the 1990s, but have imposed no bans in recent years.

Association /
assembly rights

The state-run Public Broadcasting System has professionalized in recent years and gained some degree of political independence. However, the PBS’ legal framework has still not been completed, which has weakened the system.

Freedom of
expression

Political pressure remains a problem. In a recent example, the government of the RS decided to cease communications with PBS, claiming that the station had disadvantage the government in its reporting. The decriminalization of libel has helped reduce the pressure on the media from political and other interest groups. The most serious challenge is the low professional standard of many media, which thus often gives way to hate speech and inflammatory language towards political opponents and other ethnic groups, particularly in the print media. The Communications Regulatory Agency (RAK) regulates electronic media, whereas print media are self-regulated. Media in Bosnia remain fragmented along entity and ethnic lines, reducing their universal appeal and making them more vulnerable to the control of political and economic interest groups.

3 | Rule of Law

The reform of the rule of law has been one of the pillars of international intervention in Bosnia for more than a decade. Ethnic and political influence in the judiciary continues as a consequence of the judiciary's fragmentation through entity and cantonal boundaries. Only in recent years have state-level institutions assuring the rule of law been established, among these courts and prosecutors offices. Today, all three powers are separated de jure and executive influence on the judiciary has diminished in recent years. While the use of Bonn Powers has subdued under the mandate of the current High Representative, it continues to formally undermine the functioning of the system of checks and balances. Due to the complicated system of governance in Bosnia, no one party is able to enforce its decisions without agreement of other key actors. Even within governments, power-sharing requirements often bring competing political actors into power. Competences between lower levels of power and the state are often insufficiently defined and result in duplication and unclear responsibilities. As a result, the unclear separation of vertical powers also undermines the division between horizontal powers. In addition, informal influence of party leadership has undermined the independence of the judiciary and parliament.

Separation of powers

The judiciary operates relatively independently, but has suffered in the past from control by political parties, ethnic bias, weak professional standards and corruption. Since 2000, major reforms have substantially improved the independence and quality of the judiciary. The Independent Judicial Commission completed its work in 2004, which consisted of restructuring the court system and reducing the number of judges. A number of institutions established over the past years, especially at the state level, such as the High Judicial and Prosecutorial Council (HJPC), the State Court and the State Prosecutor Office have undermined political intervention into the judiciary. Nevertheless, as a Council of Europe Monitoring Report notes, the executive interferes in the judiciary through the problematic use of pardons. Furthermore, the new government has undermined the independence of the judiciary by creating an entity prosecutor's office

Independent judiciary

independent of the HJPC and under influence of the government. The main obstacle to an effective judiciary is widely viewed to be the fragmented legal system, which differs in both entities, at the state level and in the district of Brcko.

Corrupt officeholders have been prosecuted, but frequently political biases have tainted trials by only targeting political opponents. Laws on conflict of interest (2002), elections (2001) and other key areas (e.g., procurement) provide for adequate legal means to prosecute corruption. The Office of the Prosecutor of Bosnia and Herzegovina, established in 2003, has become a key state-level institution investigating serious crimes, such as terrorism, money laundering, trafficking and corruption. The departments dealing with war crimes and organized crime, economic crime and corruption include international prosecutors, first appointed in 2004 and reappointed in 2006. Courts have been more successful in penalizing officeholders for abuse of their positions. The most prominent case was the trial against Dragan Covic, president of HDZ BiH since summer 2005 and former Croat member of the presidency. The OHR first dismissed him in 2005 and sentenced him to five years prison for corruption in November 2006. Covic's release on a €1.5 million bail and subsequent active role in negotiations for forming a new Bosnian government revealed the extent of political influence on the judiciary. In the past, dismissals by the High Representative have constituted the most effective mechanism to penalize office holders for the abuse of office, a power that he has exercised on several hundred officials from local, cantonal, entity and state institutions, as well as political parties over the years. However, during the period under review, the OHR has drastically reduced such interventions. The ad hoc manner of dismissal and the absence of any due process have drawn criticism. A number of dismissed officials were rehabilitated in 2006, while nobody new was barred from office. In addition, the Constitutional Court declared in a landmark ruling that the OHR's dismissal of two RS officials in 2004 violated the Bosnian Constitution and the European Convention for the Protection of Human Rights and Freedoms. This was the first decision to challenge the procedure of OHR dismissals directly.

Prosecution of
office abuse

In the wake of massive human rights violations during the war and attacks against returning refugees and minorities after war, the protection of civil rights has greatly improved in Bosnia in recent years. The Dayton Peace Accords and the subsequent peace implementation have established an elaborate system of civil and human rights protection. Nevertheless, citizens continue to be subjected to violations of their civil rights. In particular, minorities, vulnerable groups (Roma, women) and returning refugees face continued violation of their rights at the hands of local and entity authorities, whether openly or discreetly. The relatively dense structure to protect human rights in postwar Bosnia has nevertheless been strained by a large number of violations. In recent years, the Constitutional Court has been significantly reducing the backlog of cases it inherited from the Human

Civil rights

Rights Chamber. Between January 2005 and mid-2006, it dealt with almost 3,900 cases. A key policy issue in Bosnia has been the process of returning property to refugees and internally displaced persons. This process is nearing completion. In March 2006, a total of 93.34% of the 211,781 cases had been closed. De facto however, many returned properties have not been available to returnees due to the failure of local authorities to enforce property claims.

4 | Stability of Democratic Institutions

Institutions in Bosnia in the immediate postwar years were often dominated by one ethnic group and discriminated against others. On top of the ethnic biases, the strong role of respective nationalist parties also meant that institutions were party-dominated. Reforms of institutions, again mostly driven by international agencies, and elections have since increased the quality and functionality of many state and local institutions. However, as institutions created by international organizations are transferred to the control of elected Bosnian institutions, there has been a threat of increased appointments along party lines. In addition, many institutions at the state level have remained embryonic and poorly staffed, leaving them vulnerable to backsliding. The multiple layers of institutions, often competing and overlapping, have also posed a formidable challenge to the stabilization of democracy. Since 2005, reform has mainly focused on amending the Dayton Constitution. The constitution, annexed to the peace agreement and never official translated from English into the state languages, is widely considered inadequate. The Venice Commission of the Council of Europe and other international organizations have clearly noted that the current constitution is incompatible with the objectives of full democratization, international withdrawal and EU integration. Reform efforts focused on legal amendments, which would recognize the changes in Bosnian reality since the original Dayton framework and reduce some of the cumbersome and often obstructive decision-making rules. In addition, the reform debate also focused on reducing some of the rigid ethnic quotas, which contradict the European Convention on Human Rights. Efforts at a modest reform, primarily from the U.S. State Department, to facilitate a constitutional reform came to naught in April 2006 when parliament narrowly defeated the amendments. The amendments would have strengthened the state and streamlined decision-making procedures, moving Bosnia towards a federal state with a less entrenched power-sharing system. However, as the amendments recognized the entity structure and basic consociational system based on three constituent peoples, the Bosniak Party of Bosnia and Herzegovina (SBiH) and the HDZ rejected it. The strong showing of the SBiH in the general elections strengthened the party's positions, which has complicated any renewed constitutional debates. The ongoing constitutional debate focuses also on reducing some of the rigid ethnic quotas, which contradict the European Convention on Human Rights.

Performance of
democratic
institutions

Generally speaking, all significant political parties accept the democratic system of government. This formal commitment does not always translate into reality however, as most ruling parties have been willing to resort to non-democratic means when in power. In particular, the long-dominant nationalist parties have tightly controlled institutions and used them to secure continued rule. Ethnic cleavages also prevent widespread acceptance of democratic institutions. For instance, the central institutions do not enjoy the unequivocal support of all ethnic groups, in particular many Serbs and some Croats. Also, many Bosniaks reject the RS institutions as illegitimate political constructions based on war crimes and mass population expulsion. Therefore, the conflicting political and territorial ambitions of different ethnic groups erode support for the democratic institutions at the level of the state and the entities. Prior to the elections in October 2006, concurrent calls from the Bosniak presidency member, Haris Silajdzic, for the abolition of the entities and from the RS prime minister Milorad Dodik for a referendum on independence demonstrated the lack of consensus among the dominant political elites on the existing institutions.

Commitment to democratic institutions

5 | Political and Social Integration

Bosnia possesses in effect three ethnically based party systems, with little cross-ethnic campaigning and voting taking place. Only the Social Democratic Party (SDP) seeks to appeal to a multiethnic constituency, with little success. The House of Representatives (the state-level lower chamber) includes deputies from 12 parties (42 members). The electoral system, which rewards small parties with compensatory seats even if they do not meet the required three percent threshold increases fragmentation. As a result, there are two or three significant parties in each community. The nationalist parties and the other large parties have built up rooted party infrastructures. As most parties see themselves as representatives of a particular ethnic group, they struggle to articulate other social interests. They often utilize nationalist rhetoric, not to mediate between society and state, but to secure continued support.

Party system

Civil society in Bosnia is, as most other segments of society, fragmented along entity and ethnic lines. Despite (or perhaps because of) substantial international investment, civil society has been weak and often unable to take roots in society, or is seen as a legitimate representative of particular interests. In the run-up to the 2006 elections, a number of new civil society organizations have become active, either to increase the professionalism of the political competition, such as Grozd, or to articulate general dissatisfaction with the political parties, as the movement Dosta (Enough). Their impact, however, has been modest, and it remains doubtful whether these organizations will be able to sustain themselves.

Interest groups

That most citizens surveyed support a reduction of powers of the OHR (50% in June 2006) could be interpreted as support for the democratic institutions and procedures of the Bosnian political system. This marks a significant change since

Consent to democratic norms

2001, when only Serbs and Croats displayed a comparable support for reducing the powers of the OHR, while most Bosniaks supported increased powers of the OHR. Trust in existing institutions however is generally low, in particular elected institutions and political parties.

Generalized trust, a core condition for social capital, varies greatly across Bosnia according to a 2003 study. Levels tend to be higher in ethnically more homogenous regions and among respondents with higher income. Trust in Bosnia tends not to extend much beyond one's immediate surrounding, that is, family members; even members of one's own group do not enjoy greater trust than those from others. Only a minority of citizens engages in associations (26.5% in 2003). However, comparatively speaking, these levels of trust and social engagement are not unusual and do not betray Bosnia as a postwar divided society. The high level of ethnic distance – a direct consequence of the war – and the postwar segmentation of society, continues to challenge Bosnian unity. In the aforementioned 2003 survey, 37% of respondents never or seldom have contact with other ethnic groups and 75% do not trust members of other ethnic groups. Similarly, UNDP numbers for 2006 suggest that between half and two thirds of surveyed citizens from the different communities are unwilling to accept marriage in the family to a member from a different ethnic group. While the degree is lower for other measures of ethnic distance, still 7% to one-third oppose neighbors from a different ethnic group (depending on group).

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

War-time destruction, brain-drain, low postwar investments and a legacy of heavy industry have dogged economic development in Bosnia. Most of the population lives on low incomes and there is no developed middle class. Half of the households in Bosnia live or are at risk of living in poverty, while only around a tenth of the population in both entities earns more than 1000 KM (approx. €12) a month. The socioeconomic minimum of Bosnian citizens is largely ensured through remittances. Economic disparities generally follow regional rather than ethnic lines. However, the ethnic homogenization during the war led to a considerable overlap. Generally, urban areas tend to be better off than rural, and on average Croats in Herzegovina find themselves in a better position than Bosniaks and Serbs. Vulnerable groups such as refugees returning into a minority environment and Roma are the most disadvantaged.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	6,142	7,732	9,306	9,949
Growth of GDP	%	5.3	4.0	6.2	5.0
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	4.4	4.9	6.6	3.0
Export growth	%	5.3	12.5	23.9	20.8
Import growth	%	-1.9	6	7.3	13.2
Current account balance	\$ mn.	-1190.7	-1631.0	-1840.2	-2155.8
Public debt	\$ mn.	2,035.3	2,321.0	2,690.7	2,559.9
External debt	\$ mn.	3,144.8	4,464.4	5,249.2	5,563.8
External debt service	% of GNI	2.6	2.6	2.5	2.6
Cash surplus or deficit	% of GDP	-	0.7	1.7	2.3
Tax Revenue	% of GDP	-	21.4	20.5	21.8
Government consumption	% of GDP	26.5	26.3	26.1	26.1
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.5	4.7	4.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.3	2.9	2.5	1.9

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

War-time destruction has hampered the emergence of a market-based economy, as has the dense informal network between political elites and economic structures, which emerged during the war and was consolidated afterwards. These ties provided privileged status to select businesses that supported the dominant nationalist parties, often entrenched in war crimes and wartime criminal activities. Only in recent years has the international community in Bosnia undertaken efforts to disentangle this network. A series of arrests and trials for corruption, abuse of office and war crimes have broken some of the links, but the economy remains

Market-based
competition

heavily politicized. In addition, a large informal sector shapes market-based competition. Estimates on the size of the informal sector vary between 20 and 50% of the GDP, although a number of estimates converge on around a third. In addition, the political and economic fragmentation of Bosnia as a result of the Dayton Peace Accords made market-based competition difficult. Within the framework of the DPA, the development and implementation of macroeconomic and fiscal policy is fragmented across a large number of government institutions and levels of government. Poor coordination among different levels of government aggravates the problem and leads to the disruption of the traditional links between the government's social, economic and fiscal policy objectives and aggregate economic performance. Attempts have been made at recreating a single market in Bosnia since then, as well as to improve the business climate by reducing bureaucratic obstacles. Still, the time required to register a company is far greater than in neighboring countries, and international efforts, such as the OHR's bulldozer initiative to reduce obstacles to businesses have been ad hoc and unsustainable. In recent years, the OHR has undertaken more systematic efforts to create a single economic space. Measures have successfully focused on establishing single regulatory institutions (e.g., Bosnia-wide banking supervision by the central bank) and frameworks at the state-level (e.g., for freedom of movement of labor) to replace entity-level equivalences, which had prevented cross-entity business development and in extension foreign investment. As elsewhere, implementing these reforms has been slow. A key reform effort has been the introduction of the Value Added Tax, which became effective in 2006. Not only did it increase government revenues and provide the state with a mostly independent source of revenue, but it facilitated economic activity.

Anti-cartel and monopoly laws and policies are part of Bosnia's process of EU integration, as the European Union places considerable emphasis on the prevention of cartels. A Competition Law was adopted in 2005 and a Competition Council began operating in 2006, bringing together relevant entity institutions to propose laws and policies to reduce monopolies. In spite of these measures, implementation is lagging and a number of monopolies and cartels exist in the entities.

Anti-monopoly
policy

Bosnia has signed free trade agreements with all countries of Southeastern Europe and joined the Central European Free Trade Agreement (CEFTA) in December 2006. The implementation of bilateral free trade agreements with Croatia and Serbia has often been difficult, as the export or import of particular products were restricted due to supposed health concerns and consumer protection.

Liberalization of
foreign trade

The banking sector is well regulated by entity-level institutions under supervision of the independent central bank. Most banks are foreign-owned, which amounts to 73% of the country's capital in 2006, and only a few banks in the Federation remain state-owned. The separate entity supervision of banks remains a problem,

Banking system

which reduces cross-entity mobility and diminishes the effectiveness of supervision.

8 | Currency and Price Stability

Bosnia has a strong and independent central bank, as well as a currency board which links the national currency, the convertible mark (KM) to the euro. While inflation has been low in the past, it increased to 7.6 % in January 2006 as a result of the introduction of the VAT and higher energy prices. The higher inflation rate for 2006 is thus likely to be an isolated event rather than a shift in government policy.

Anti-inflation /
forex policy

Overall, public external debt decreased in recent years and exports increased significantly, while imports grew only slightly, helping to offset the large trade deficit. Fragmentation of government spending, reflecting the complex institutional structure, has however continued to complicate economic development in Bosnia. Furthermore, Bosnian authorities have often lacked fiscal discipline, in particular in light of recent elections and the increased income from the VAT. Structurally, the fiscal sector suffered from excessive fragmentation in the past. This phenomenon owes both to insufficient coordination among different levels of government and the lack of an institution responsible for producing consolidated government accounts, setting aggregate fiscal targets and apportioning these targets among different levels of government. In the past few years, a number of institutional reforms were carried out to address the above-mentioned problems. Coordination mechanisms were put in place through the creation of the governing board of an indirect taxation authority, in which three ministers of finance make joint decisions on fiscal policy in the realm of indirect taxation. In parallel, the collection and distribution of indirect taxes was centralized through the creation of a single account at the level of federal government. The National Fiscal Council was established, taking the responsibility to set aggregate fiscal targets, formally settle the allocations of the targets between each level of government, and monitor their realization. However, the National Fiscal Council still functions as a voluntary coordination forum with no legal framework or enforcement mechanisms to formalize its mandate, lend legitimacy to its work or implement its decisions. This combined with the lack of political commitment to strengthen fiscal coordination in Bosnia has prevented the NFC from becoming truly functional. Also, political obstruction still frequently blocks the functioning of the Governing Board, and the International Chairman still presides over the institution. Because monetary policy is constrained through the currency board arrangement, a sound fiscal policy (which also necessitates effective fiscal coordination) is imperative for maintaining the macroeconomic stability in Bosnia. In the past, the framework of the IMF's Stand-by Arrangement has ensured fiscal discipline to a large extent.

Macrostability

However, the Stand-By Arrangement expired in 2005. Fiscal policy is thus often problematic. The year 2006 saw a considerable increase in expenditure commitments (mostly for wages and social spending) in comparison to 2005, what was in part linked to the general elections. The unexpected increase in revenues from the VAT helped cover the rise in expenditures in 2006. According to the IMF estimates, further increases in expenditure are expected during and past 2007, due to the financial requirements of the state-building agenda and infrastructure projects planned by Bosnian authorities. As the overall government expenditures already surpass that of other countries in the region (50% of GDP), future deterioration of fiscal stance is a clear danger.

9 | Private Property

The return of property to returning refugees problematized property rights in Bosnia. The principle of refugee return and the restitution of property meant formally that all refugees and IDPs reclaimed their pre-war properties. By 2004, this property restitution process was formally completed. As the Helsinki Committee notes however, local authorities often have not acted upon these decisions and formally restituted property. Socially owned property has posed a particular challenge to the restitution process. Many of these properties have been inhabited by families for decades, although the properties are technically owned by authorities.

Property rights

Recent years have seen substantial privatizations in Bosnia. The first postwar voucher-based privatization has had limited success, as it favored the buying up of vouchers by local business interests without sufficient investment and modernization capacities. Privatization accounts for most growth in recent years, and has attracted some foreign investments. The private sector's share of the GDP increased from 50 to 55% from 2004 to 2005. While privatization has accelerated in the RS, it has slowed in the Federation; Bosnia still has a large public sector. The delays owe to complex procedures and, at times, insufficient international interest.

Private
enterprise

10 | Welfare Regime

The legacy of extensive social protection during the Communist period and adherence to all key international conventions constitute an extensive formal commitment to social equality and protection in Bosnia. However, with an official unemployment rate above 40% and many recipients of veteran's benefits, the social net is stretched to its maximum, and benefits are uneven and limited across the country. Approximately 90,000 citizens have suffered disabilities as a result of the war. Among the total adult population in 2004, only 42.6% are employed, with 21.5 % unemployed and 35.9% inactive (in terms of official

Social safety nets

statistics). According to estimates by an EBRD working paper, 42.7% of all employment in 2004 was in the informal sector. Thus nearly half of all employed are unable to benefit from substantial parts of the social safety net, such as pensions, unemployment benefits and employment protections. Even in the formal sector, social protection is far from effective. Often owners of privatized companies do not honor the obligations stemming from company policy, such as pension and disability payments. According to estimates, 26% of the population is not covered by health insurance, which particularly affects women. There is no general welfare system for all of Bosnia, which has resulted in great differences between welfare provision in the entities and cantons.

The massive human rights violations during the war have made it difficult for Bosnia to re-establish conditions for equal opportunity after the war. Formal equality among all three dominant groups was established at the entity and lower levels only after 2002, when constitutional amendments abolished the privileged position held by the respective dominant groups (i.e., Serbs in the RS and Bosniaks and Croats in the Federation). Legal equality has infrequently translated into genuine equality. Minority returnees receive the least social protection. They are often unable to secure jobs (they are rarely offered the position from which they had been illegally dismissed before or during the war) and are viewed with hostility by local authorities. In addition, Roma (and other members of minorities) are most likely to be disadvantaged by state, entity and local social networks. According to official data in 2003, in three central Bosnia municipalities (Sarajevo, Tuzla and Zenica) the rate of employment among Roma was less than 1%. Roma suffer from broad social stereotypes as they do elsewhere in Europe, and face disproportionate administrative obstacles in such procedures as obtaining official papers.

Equal opportunity

11 | Economic Performance

Reconstruction largely drove growth in Bosnia in the first postwar years. Despite double-digit growth in the second half of the 1990s, the GDP in 2005 amounts to only approximately 70% of the pre-war GDP. Increases in industrial production and privatization have driven growth in recent years. Whereas in the past growth had been stronger in the Federation, recent growth rates in the RS have overtaken it. Generally, growth remains limited and still does not suffice for Bosnia to catch up with other economies in the region. Despite the relatively high growth rates, unemployment has been increasing in recent years as a consequence of privatization. The scale of foreign direct investments is low and primarily limited to privatization.

Output strength

12 | Sustainability

There is little attention paid to the environmental aspects of economic development. War and postwar reconstruction has pushed environmentally aware policy-making back by at least a decade. Construction without permits and sufficient infrastructure, the lack of adequate water and waste treatment are just a few of the challenges. In addition, the economy relies both on heavy industry (although much was destroyed during the war) and the exploitation of raw materials, including extensive and often illegal logging. As noted by the European Commission in its 2006 report on Bosnia, the fragmentation of most environmental policy along entity lines has hindered the institutional development of environmental protection. In addition, existing institutions are underequipped and lack an adequate legal framework. Some laws on waste management and air and water quality have been adopted in both entities in recent years, such as Laws on Environmental Protection (2002: RS, 2003: Federation) but these have not yet translated into real improvements. Key policy documents in Bosnia, such as the Poverty Reduction Strategy of 2004 and the National Environmental Action Plan of 2003 signify a growing awareness of environmental issues, even if largely internationally driven.

Environmental
policy

The educational sector remains divided along ethnic and entity lines (14 ministries in Bosnia deal with education). The quality of education is generally low. State-level laws on primary and secondary education passed in 2003 set the general framework for education. These reforms of the educational sector, however, have stalled due to different nationalist parties' concerns over the perceived negative impact simplified institutions would have on their respective communities. The educational system remains old-fashioned, shaped by nationalist perspectives and an authoritarian structure, which is not in line with the needs of the labor market. In the Federation, schools remain ethnically segregated (some 50 schools are divided) while the educational program in the RS does not accommodate Bosniak or Croat returnees. Throughout Bosnia, many schools only represent one community and symbolically exclude others through their use of curricula, names and symbols. National minorities suffer further exclusion in the absence of minority-language textbooks; in the case of the Roma community estimates suggest that only 15% of Roma children are enrolled in schools. The university system is increasingly fragmented along ethnic lines and the system of education is not in line with the Bologna accords. The nostrification of foreign diplomas is difficult, often preventing the return of foreign-educated Bosnian students.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The complexity of governance in Bosnia renders reform and transformation difficult. A complex administrative structure, which slows down decision-making processes and accounts for a majority of government spending and a lack of consensus on the nature of the state combine to make transformation in Bosnia slow and uneven. Decision-making is based on consensus-building at all levels, from cantons and entities to the state. So-called Vital National Interests allow communities to block decision-making in parliament and in most governments. While several decisions of the Constitutional Court have restricted their scope in recent years, the Vital National Interests continue to paralyze the decision-making process. Power-sharing requirements make government formation slow (establishment of governments in Bosnia following the October 2006 elections lasted four to five months). Complex institutions and multiple levels of governance pose further difficulties, with around 140 ministries (e.g., State: 9, RS: 16, Federation: 16, canton Sarajevo: 12), including several ministries at multiple levels of government (i.e., finance or justice) with the same remit. Significant disagreement between political elites over the nature of the state and its organizations both obstruct the reform of institutional structures and block decisions made by the institutions. The level of support for and loyalty to Bosnia as a nation-state differs among the three dominant ethnic communities. This clearly complicates leaders' ability to govern, as the failure to adopt constitutional reforms in 2006 illustrated.

Structural
constraints

Traditions of civil society are weak. Civil society began to emerge in earnest after the war, although there were some anti-war and humanitarian organizations active prior to and during the war. Postwar civil society development has received substantial financial support from Western donors. The support did not, however, facilitate the emergence of a volunteer culture, but rather of a service delivery sector with little root in society. International donors rather than domestic needs have largely driven the priorities of the NGO sector. Structural difficulties, division along ethnic lines and over-reliance on external support continue to dominate the civil society sector. On a positive note, according to the regular USAID study on NGOs in Bosnia, public perception and media reporting on NGOs have improved in recent years.

Civil society
traditions

Bosnia remains ethnically divided even in the religious sphere, a phenomenon consolidated by the political and party systems. Interethnic violence has been rare and mostly expresses itself in the context of cross-ethnic sports events (soccer games) or through attacks against returnees and bomb attacks against symbols of a particular ethnic group (church, mosque, monument, etc.). The violence has been sporadic and considerably less frequent than in earlier years. Implicit and indirect discrimination against minority returnees in parts of Bosnia poses a more serious problem, where local authorities disadvantage these peoples either in terms of property rights, employment or education. In 2006, according to UNDP data, between 2.4% (in the RS) and 14.1% (in Bosniak areas) of minorities felt they had been discriminated against within a one-year period.

Conflict intensity

II. Management Performance

14 | Steering Capability

The aforementioned institutional and political restraints obstruct the capacity to steer reforms in Bosnia. In addition, the political elites have not shown convincing commitment towards a profound transformation or EU integration. Elections in October 2006 brought to power diametrically opposed parties in the two entities, rendering reform potentially more difficult. Bosnia has benefited from substantial assistance and external intervention, which has, in the past, facilitated the advancement of reforms. Nearly all key reform bills over the past decade were either imposed by the High Representative directly or negotiated under its heavy-handed influence. With reduced international involvement, the need for domestic reform capacity is even more apparent today. Besides its rhetorical commitment to EU integration as Bosnia's long-term goal, the political leadership has not displayed a clear policy strategy. The overarching goal of the RS political elite has been to keep up the status quo in terms of the entity's competences. The dominant Bosniak parties, the SDA and the now-dominant SBiH seek a more centralized state and have challenged the legitimacy of the RS. The judgment of the International Court of Justice in February 2007 found Serbia guilty for failing to prevent genocide in Srebrenica. The SBiH has further used the court's recognition of genocide in Srebrenica to question the RS, and has called for granting Srebrenica a special status, which would remove the town from RS jurisdiction. Among the Croat parties, the primary concern is strengthening the dwindling Croat community. While few still promote the idea of a third Croat entity in Bosnia, others favor stronger rights protection in the Federation. These primarily ethnic programs clearly subordinate any overarching reform agenda. Both the Federation and the state level institutions suffer from

Prioritization

blockages in implementing reforms. Decision-making and implementation has generally been more effective in the RS. The fall of the SDS-dominated government, formally over the budget but de facto due to the weakening of the SDS in the wake of a number of dismissals and other penalizations from the OHR, cleared the stage for a more effective government under the leadership of the head of the Alliance of Independent Social Democrats (SNSD), Milorad Dodik. The government has engaged in a number of more rapid reforms and attempted to tackle both privatization and anti-corruption measures more energetically. At the same time, the European Commission notes in its report on Bosnia that the government also passed some problematic decisions, in particular by challenging the independence of the civil service and judiciary.

A key challenge in Bosnia has been the fact that many of the reform policies have been internationally imposed or negotiated under international supervision, while implementation is left to inadequate Bosnian institutions. As a result, Bosnia has exemplary legislation and institutions in a number of fields, but fails to implement these laws, policies and institutions. Despite international support, implementation capacity at the state level, as stipulated in the State Government Strengthening Plan of 2004, has been limited, often due to a lack of capacity and personnel. Entities, cantons and municipalities often lack the capacity or the will to implement reform policies as well. Legal reform measures have passed parliament, but it is often difficult to establish a consensus on reform policies, especially if they threaten perceived vital interests of any of the communities, such as the autonomy of the entities and cantons. Opposition from the SBIH strengthened in the October 2006 elections and the split from the HDZ contributed to the failure of constitutional reform in April 2006, which highlighted the challenge of agreeing upon reforms. Police reform, which was formally agreed to in October 2005, provides a good example of weak policy implementation. Since the police reform sought to dismantle the entity-based police structure, the political elite of the RS, in particular Milorad Dodik, opposed it. Thus, only few of the commitments in the agreement have been implemented.

The political leadership has accommodated the extensive international intervention in recent years. Thus, the nationalist political parties have tuned down their radical rhetoric considerably and have been willing to confront their past (in part). The former president of the SDS and RS Dragan Cavic has acknowledged the war crimes committed in Srebrenica in 2004. While such flexibility often appears externally induced and ungenue, it has had an impact on domestic discourse. Similarly, with regard to reform measures, the governing nationalist leadership has been willing to compromise with international demands despite formal opposition. This flexibility contributed in no small degree to the electoral defeat of SDS in the RS and SDA's poor results in the Federation.

Implementation

Policy learning

15 | Resource Efficiency

The approximately 70% of total budget spent on public administration reveals that existing resources are not used efficiently. As the World Bank noted in 2006, the level of public spending has decreased in recent years, but still stands at 40.5% of the adjusted GDP, considerably higher than other transition countries. Recent years have seen a drastic reduction in the government deficit. In 2003, the general government debt amounted to 43.3% of the GDP, comparable with Bosnia's neighbors. From a serious government deficit in 1999 of 6.3%, it has now reached near balance according to the World Bank, suggesting a significant improvement in fiscal discipline. However, this improvement is not based on a more efficient government apparatus or administration, but rather on more effective tax collection (such as the introduction of the VAT). The tasks and competences of the ministries and governments at the different levels of governance overlap to a large extent. There are some 14 governments and assemblies with legislative powers in Bosnia (the state, two entities, 10 cantons and the district of Brcko), often resulting in thin layers of public administration despite the cost. Appointments often take ethnic affiliation and party association into account and do not always reward quality. Whereas in a divided society some degree of acknowledgment of ethnic affiliation appears necessary, governments and administrations in Bosnia have been wasting scarce resources on a complex and inefficient system of government. The application of ethnic representation requirements through the administrative system further hinders the performance of the administration: ethnically based reporting hierarchies within the civil service are reinforced, and the quality of staffing is subordinate to ethnic representation principles.

Efficient use of assets

Since governments at the state level have to include parties from both entities and all three ethnic groups, governments are not based on ideological preferences or programmatic similarities, and in fact often bring together antagonist parties. Coalition agreements therefore only exist between parties representing the same ethnic groups. This of course frustrates government coordination. At the state level, ministries tend to be very small, and at all levels, political considerations dictate high-ranking civil service appointments. The necessary level of coordination between the state and the entities also proves difficult to meet. Members of the current and past governments have often made contradictory political statements, reducing the appearance of a unified government. In fact, the nature of governance in Bosnia has made most governments in postwar Bosnia miniature parliaments rather than coalitions based on shared political priorities and interests. For example, the new state-level government, established in February 2007 (including two Croat, two Bosniak and a Serb party), was four months after the elections still unable to effectively begin its work, since members of the government boycotted its

Policy coordination

sessions over a number of disputes between representatives from the RS and Bosniak parties.

Corruption continues to be a widespread phenomenon in Bosnia, linked to the dominant political parties and the often tainted privatization process. Since 2003, Bosnia has dropped in the TI Corruption Perception Index from 70th to the 93-98th place in 2006. Nevertheless, Bosnia has taken some steps to combat corruption. These include directly relevant laws and policies and other reforms that have positive implications on reducing corruption. The introduction of a statewide VAT in January 2006 has reduced a number of previously existing opportunities for corruption and boosted the financial resources of the state. The creation of entity and state auditing institutions and the freedom of information act constitute key anti-corruption measures. However, many reported violations of public procurement legislation (2004 at state level) and other laws and regulations related to corruption did not lead to prosecution. A state-level special prosecutor for corruption control was appointed with an international staff. The creation of this position has led to more cases being pursued and several high-profile audits into entity-owned companies and political parties being conducted. In June 2006, the Bosnian state government adopted a strategy on organized crime and corruption, but legislation and measures frequently lack coordination between the entities. The case against the former Croat presidency member Covic and a number of other high-ranking politicians for corruption suggests that courts have become more active and less politically restrained in pursuing even high profile cases. Insufficient implementation of the legal framework constitutes the main obstacle to battling corruption. Furthermore, local and cantonal authorities are often perceived as being the most corrupt, as they are subject to less monitoring than the state or entity level government, which makes enforcement and implementation of anti-corruption measures more challenging.

Anti-corruption
policy

16 | Consensus-Building

Bosnia remains a consensus-based democratic system without consensus among the key political actors. It is this tension between institutional systems and antagonistic elites that has driven the need for external intervention and has slowed down transformation. Nevertheless, all key political players are formally committed to EU integration, democracy and market economy. Extremist parties that openly advocate major human rights violations (such as ethnic cleansing) or oppose democracy are marginal and lack any significant support. Nevertheless, the more conservative streams within the nationalist and other ethnicity-based parties in Bosnia are reluctant to support equal rights for members of other ethnic groups. The three nationalist parties and some other groups have also displayed anti-democratic practices, in particular in attempting to manipulate the public administration in areas under their control. The greatest obstacle to

Consensus on goals

building an effective system of governance is the lack of consensus on the nature of the state, its system of governance and the sub-state units. The Dayton Constitution remains in place, but is still widely perceived as imposed and not reflective of a consensus among the main Bosnian political actors.

Most blockages in terms of reforms originate less from anti-democratic actors than from the narrow, ethnic agenda of most political parties, which prevents consensus building. Conservative wings within the nationalist parties sought to topple moderate leaders in the SDA and the SDS after both parties fared badly in the October 2006 elections. In the SDA, the moderate Sulejman Tihić managed to retain his leadership position, whereas in the SDS the reform-oriented Dragan Čović resigned following the electoral defeat.

Anti-democratic veto actors

The dominant nationalist parties and other parties based on a narrow ethno-political constituencies have thrived on maintaining the political cleavages. The electoral campaign for the general elections in October 2006 emphasized cleavages and ethnic differences more than in previous elections. In the past, the dominant nationalist parties have been able to cooperate, often based on pragmatic divide-and-rule considerations, while campaigning on diametrically opposed platforms. The considerable weakening of the nationalist parties in October 2006 brought to power or at least strengthened more “principled” parties, which have often displayed a stronger ethnocentric agenda, but have not been engrossed in corruption or war-time human rights violations. The political system has been unable to bridge these differences effectively to allow for effective governance. Due to the high degree of decentralization in Bosnia, the nationalist parties have been able to govern independently at lower levels (cantons, entities), and cooperated minimally at higher levels of government, which requires more compromise-seeking. Such forms of avoiding confrontation in Bosnia are no longer possible, as the state institutions have been strengthened in recent years and EU integration requires more state governance.

Cleavage / conflict management

Most civil society organizations have been promoting interethnic cooperation and values closely linked to Western donor priorities. This agenda often contradicted the nationalist agenda of the dominant political parties and institutions. As a consequence, tension and mutual hostility characterize relations between civil society and political leadership. In recent years, the political leadership’s perception of NGOs has gradually improved and cooperation between state institutions and NGOs has become more frequent. Nevertheless, there are few genuine participatory policy formulation processes and civil society participation is often mere tokenism. Generally speaking, international actors have promoted civil society consultations; however, the constitutional reform process, mainly supported by the U.S. Institute for Peace and later the U.S. State Department, was conducted behind closed doors without the inclusion of civil society.

Civil society participation

Most often, confronting the past has been ethnically motivated. Political leaders have been reluctant to confront war crimes committed by their own community, generally pointing at the war crimes of others. For instance, the RS has been pushing for the establishment of a truth commission on war crimes committed against Serbs in Sarajevo and boycotted state parliament for a month in 2006 over lack of progress in the matter. Legislation for a state-wide truth and reconciliation commission has waited in parliament for years with little prospects passing. Confronting the past remains difficult, as two of the most wanted indicted war criminals of the Bosnian war, Radovan Karadzic and Ratko Mladic, remain at large. Domestic war crimes trials as well as the independent Research and Document Center, which documents all victims of the war, have made progress in recent years, but have limited political impact.

Reconciliation

17 | International Cooperation

The primary goal of Bosnia's international cooperation is integration into the European Union. As Bosnia remains in part governed by international actors, international cooperation has often taken the form of domestic politics. The most challenging relations are with Bosnia's neighbors Croatia and Serbia. Ties with the two countries are often shaped by ethnic considerations and the fear of their predatory ambitions towards Bosnia, in particular in the case of Serbia. International organizations have driven reform, reconstruction and transformation in Bosnia, which has included the investment of substantial resources. International assistance, however, has declined in recent years (from 6.9% of GDP in 2002 to 3.8% in 2004). International officials hold offices in the domestic institutional structure (e.g., the Constitutional Court). In addition, a number of key institutions at the state level have been designed either by international actors or with substantial international assistance (e.g., the State Investigation and Protection Agency, SIPA). International support has however often not been able to penetrate deeper than the institutional and formal level and help to advance substantial reforms. The insufficient commitment of parts of the political leadership to reform has often led to incomplete use of international partners in implementing reforms.

Effective use of support

Generally speaking, Bosnia has been a reliable partner in international relations. In terms of support for domestic reforms however, governments in Bosnia – both at the entity and state level – have often not been as reliable. Under the rule of the HR Paddy Ashdown, dismissal of high, mid and low-ranking officials has been commonplace. While the number of dismissals and coercive imposition of reforms have decreased, international organizations often criticize the insufficient commitment of Bosnian governments to reform.

Credibility

Cooperation with Croatia and Serbia has improved in recent years, but remains difficult due to the war-time legacy. Since Croatia cut ties with the secessionist project in Bosnia and funding to the Croat dominated cantons, relations have

Regional cooperation

greatly improved. Ties with Serbia remain more tense, since Serbian officials have intervened on behalf of the RS (with the international community), and high-ranking officials in Serbia have declared their support for a possible secession of the RS. Shortly before the October 2006 elections, Serbia and the RS signed a new agreement on bilateral relations. Such agreements are endorsed in the Dayton Peace Agreement, but viewed with considerable skepticism for their ethnic bias.

Strategic Outlook

Integration into the European Union is a clear and top long-term goal for Bosnia and its citizens. According to September 2006 survey results, over 60% of the population support EU integration, whereas opponents number less than 4%. However, ethnic cleavages and the opposing visions of the political elites have rendered the country's economic and political transformation more challenging than first hoped. Managing the transition from international governance to fully autonomous decision-making processes and adapting Bosnia's constitutional and institutional framework to facilitate EU integration are key priorities for the medium-term. The decision in 2006 to close the Office of the High Representative (OHR) by June 2007 and the nomination of the explicitly non-interventionist High Representative Christian Schwarz-Schilling marked steps toward increasing Bosnia's autonomy. However, this goal suffered a setback in January 2007 when the announced closure of the OHR office was postponed and the Bonn powers, which allowed the HR to dismiss officials and impose laws, were abandoned. Although these developments might extend international presence, there is little doubt that international intervention has diminished and support for it has declined in recent years. Following a clear report from the Council of Europe's Venice Commission in 2005, it became apparent that the quasi-protectorate status of Bosnia was incompatible with further EU integration. The question thus remains when and how the international community will stop intervening directly in Bosnia's governance affairs and how effective EU supervision will be. The failure of constitutional reforms in 2006 was largely the consequence of a rushed process without sufficient public debate and concerted international support. As the aforementioned Venice Commission report and the European Union have noted, constitutional reform is crucial in bringing Bosnia closer to EU integration and advancing political and economic reform. Thus, a renewed constitutional debate and a more inclusive and negotiated process of constitutional change are both probable and necessary. However, the Party for Bosnia and Herzegovina, which is popular among Bosniaks and led by the Bosniak presidency member Haris Silajdzic, opposes the entity structure and favors a more centralized Bosnia. In contrast, the main Serb party, the Alliance of Independent Social Democrats of Milorad Dodik, insists on the continued existence of strong entities. Bridging the gap between these two major parties is the central challenge to that process. More than a mere conflict between two of the largest parties in Bosnia, this split reflects a profound division in the population's view of the nature of the state. Low voter turnout (55.31% in 2006) and general dissatisfaction – 53.5% of citizens expect the political situation to deteriorate and two-thirds of the 18 to 35 age group want to leave Bosnia – suggest that many citizens support neither the reliance on ethnic politics nor the existing political elite.