

# BTI 2012 | Bosnia and Herzegovina Country Report

<b>Status Index</b>	1-10	<b>6.41</b>	# 39 of 128	
Political Transformation	1-10	6.40	# 49 of 128	➔
Economic Transformation	1-10	6.43	# 42 of 128	➔
<b>Management Index</b>	1-10	<b>4.04</b>	# 95 of 128	

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

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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**Key Indicators**

Population	mn.	3.8	HDI	0.733	GDP p.c.	\$	8590
Pop. growth <sup>1</sup>	% p.a.	-0.2	HDI rank of 187	74	Gini Index		36.3
Life expectancy	years	75	UN Education Index	0.723	Poverty <sup>3</sup>	%	<2
Urban population	%	48.6	Gender inequality <sup>2</sup>	-	Aid per capita	\$	110.2

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The period under review was marked by the lowest level of institutional government activity in Bosnia and Herzegovina's (BiH) recent history, in spite of a heavy agenda associated with integration into NATO and the European Union. Throughout 2009 and 2010, the political leadership among all three ethnic groups continued to exacerbate existing cleavages for populist and separatist purposes.

During the course of the last two years, state identity was challenged even more than during the last review period, in particular by Republika Srpska (RS) elites. RS Prime Minister Milorad Dodik led a sustained campaign calling for a secession referendum for Republika Srpska. He repeatedly questioned the legitimacy and stability of BiH institutions, and asserted that they would eventually collapse due to a lack of legitimacy among the Serb and Croat population.

On 22 December 2009, in the case *Sejdić and Finci v. Bosnia and Herzegovina*, the European Court of Human Rights ruled that the racial or ethnic-based exclusion of Jews and Roma from Bosnia's highest elected offices constituted unlawful discrimination. However, BiH authorities failed to reach an agreement implementing the ECHR ruling before the 2010 general elections were announced.

After four years of stalled reform and regression by political elites to extreme nationalist discourse and policies, citizens sought change at the October 2010 general elections. This was evident in part in the comparatively high turnout rate of 56.28%, the highest since local authorities began independently running general elections. Unfortunately, the post-election coalition-building process resulted in even more severe deterioration into political crisis, and the formation of a government was delayed for months, resulting in a complete halt to reform.

Effective governance continues to be hampered by veto mechanisms built into the decision-making system. Abuse of constitutional mechanisms designed to ensure fair ethnic

representation in state institutions continues to translate into ethnic-focused behavior that curbs elected rulers' effective power to govern.

Threats to journalists continued throughout 2009 and 2010, and there were even well-organized campaigns against open critics of certain parties or criminal groups. Political pressures were also brought to bear on the judiciary, particularly by RS Prime Minister Dodik.

Faced with increasing financial pressures in early 2009, BiH authorities committed themselves to austerity measures under the IMF Stand-By Arrangement (SBA). The program was designed to safeguard the currency and mitigate the effects of the deteriorating external environment; at the same time, the government adopted policies aimed at lessening fiscal imbalances and strengthening the financial sector.

On several occasions, the international community has sought to change BiH's complex yet incomplete constitution, with an eye toward making future European integration smoother. However, this has resulted in a series of failures, each followed by deterioration into further political crisis.

Although BiH committed itself to a series of structural reforms when it signed the Stabilization and Association Agreement with the European Union in 2008, by mid-2010 it had breached several of the agreement's provisions, and had failed to meet required deadlines due to a lack of political agreement on key reforms.

## History and Characteristics of Transformation

Democracy-building in Bosnia and Herzegovina (BiH) began only after the cessation of a violent four-year conflict. In the subsequent 15 years, the international community has focused its efforts on steering that process in the direction of values and standards present in consolidated democracies. However, that process has run simultaneously with efforts to reconstruct the country's infrastructure, spur economic recovery, enable the return of refugees and patch the divided country's social fabric. As a result, democracy and the establishment of a functioning market economy have not always and necessarily been the most prominent goals, and local political elites have often pursued alternative agendas.

The transition to democracy and the market economy in BiH has thus not been linear, but rather significantly perturbed by post-conflict agendas. The international community has remained the main driver of the democratization process throughout the post-war period, while BiH political elites continue to show a lack of interest in pursuing democratic consolidation. In the period following the 2006 general elections, political elites in power engaged in powerful rhetoric aimed at preserving the status quo, and pursued further divisions within society along ethnic

lines. The Serb and Croat nationalist parties intensified this form of rhetoric following the 2010 general elections, although Bosniak voters showed a desire for moderation in the elections.

Bosnia and Herzegovina's democratic path is further complicated by a complex, dysfunctional and ineffective state structure. The governance structure has been the subject of many local and international attempts to reform the constitution so as to create a state able to integrate into the European Union and NATO, goals held at least on the rhetorical level by all political parties. However, none of these attempts has produced stable results, and constitutional reform remains one of the country's most contentious political issues. The European Court for Human Rights has ruled that the current BiH constitution is in breach of the European Convention of Human Rights; however, in spite of this legal recognition that the constitution is "undemocratic," it has remained unchanged.

The majority of BiH citizens have a very low level of trust in each other, their political leaders and state institutions. In the general atmosphere of apathy and disillusionment with democracy and its structures, expressions of nationalism and ethnic division have filled the public space. Integration of society across ethnic lines, or even simply encouragement of interaction between different communities, has not been a deliberate goal of the elites in power for the past 10 years. Nor are there strong internal voices either in politics or civil society able to generate substantive pressure for societal integration. Civic representation that crosses entity and ethnic lines is still lacking, generating a huge social void.

The interests of individual ethnic groups continue to prevail, and the rhetoric of nationalist political leaders dominates the political space. This marginalizes the EU agenda, as well as any other potentially pro-democratic agenda. Democracy and the establishment of a functioning market economy thus continue to be only rhetorical goals of the political elites, even as democratic values are undermined in many ways. Moreover, this trend has intensified over time, with social divisions growing deeper. The period between the 2006 and 2010 general elections witnessed more undemocratic rhetoric than the period immediately following the conflict. This has been most evident in the calls for Republika Srpska's secession, as well as for the formation of a third entity that would be populated exclusively by Croats. This rhetoric intensified again after the 2010 elections, making government formation a long and difficult process, with no clear path ahead toward final resolution or even a more successful reform process. .

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The BiH state still lacks exclusive monopoly over the use of force on its territory, as competencies in this area are divided among different levels of government (state, entity and cantons within the Federation of Bosnia and Herzegovina (FBiH)), and international troops remain present. A single professional army with unified command structures was created through a long reform process that preceded BiH's application to join NATO. The process of reforming army structures is still underway and is considered to be successful.

Monopoly on the  
use of force

8

In April 2010, NATO foreign ministers agreed to grant a Membership Action Plan (MAP) to Bosnia and Herzegovina. This decision was based on a number of conditions having been met, including the destruction of surplus ammunition and arms, and the contribution of troops to the NATO mission in Afghanistan. However, further progress within the MAP process is conditional upon the registration of 69 military properties.

Police reform has continued, albeit slowly. Police structures remain fragmented, with persistent lack of coordination, though some progress has resulted in joint actions between entity police forces, some even taking on a regional dimension. Key staff has been appointed to newly established state-level institutions, but operational staffing levels are still minimal. Rulebooks for the operation of several institutions have been adopted, and their budget increased. The independent police supervisory board has been established and is operational. The work of the directorate charged with coordination of police bodies has intensified. Mechanisms for the coordination of police agencies and systems for exchanging electronic data between police and prosecution services are gradually being developed, although formal cooperation continues to be weak.

The European Union Force Althea (EUFOR Althea) military operation currently numbers approximately 1,900 troops. Its mandate was extended for a year in

November 2009 by the U.N. Security Council. The mandate of the EU Police Mission (EUPM) has been extended until 31 December 2011. It supports the fight against organized crime and corruption, and monitors implementation of police reform, using a mission of 280 officers.

During the period under review, BiH state identity was challenged even more than in the preceding period, particularly by elites from Republika Srpska. RS Prime Minister Milorad Dodik led a sustained campaign calling for a referendum on the secession of Republika Srpska. This intensified following the July 2010 ruling by the International Court of Justice that Kosovo had not violated international law when it declared independence from Serbia in February 2008. According to Gallup research, 87% of BiH Serbs would support Republika Srpska's secession and transformation into an independent state if a vote was held. Only 10% of Serbs would prefer to see constitutional change strengthening the state government in accordance with EU regulations, as opposed to 44% of Bosniaks and Croats. A similar campaign for the formation of a third ethnic entity was revived by Croat nationalist parties following the October 2010 general elections. According to Gallup, 43% of Bosnian Croats would support the third entity.

Formal citizenship is generally not withheld from minority groups. However, there is continued constitutional discrimination against individuals not belonging to the three "constituent" groups which participate in the country's power-sharing agreement. On 22 December 2009, in the case *Sejdić and Finci v. Bosnia and Herzegovina*, the European Court of Human Rights (ECHR) held that the racial or ethnic-based exclusion of Jews and Roma from Bosnia's highest elected offices constituted unlawful discrimination. Under Annex IV of the Dayton Peace Accords, only those belonging to one of the three constituent peoples of Bosnia and Herzegovina are permitted to stand for election to the House of Peoples or for the presidency, thus excluding members of the country's 14 other national minorities. BiH authorities failed to reach an agreement on implementation of the ECHR ruling before the 2010 general elections were announced, thus constituting a breach of Article 2 of the country's Interim Agreement with the European Union.

BiH being a secular state, it should not ideally experience significant influence from religious communities. However, with ethnicity and religion serving as important components of political life, religious communities have integrated into influential informal elite structures. Religious leaders extensively exploit public space in order to shape political discourse. Particularly concerning has been a sustained campaign by the leader of the Islamic Community in Bosnia and Herzegovina organization against any media organization of figure critical of his role. He labeled such media figures as "Islamophobic," and publicly named individual journalists who in his opinion fell into this category. He also claimed that Islamophobia was widespread within state institutions, and prevented Bosniaks from making professional progress. The Islamic Community stood behind and publicly defended a Sarajevo

State identity  
3

No interference of  
religious dogmas  
8

Canton Ministry of Education policy to introduce religious studies into kindergartens, despite opposition by parents' associations.

All three religious leaderships played a prominent role during the election campaigns, and showed open support for political parties.

The state has a basic administrative structure, though this is fragmented throughout the country. Basic public services are provided at the municipal, cantonal and/or entity, and state levels. However, considerable overlap exists with respect to the provision of services between various levels of government, and there is little coordination at either the level of policy-making or implementation. Horizontal and vertical cooperation between the various public administrations is often lacking. The administration remains extensively politicized, and the quality of staffing is often undermined by the practice of ethno-political patronage. A substantial portion of the public budget is spent on the public administration, which continues to be the single largest financial burden on the state.

Basic  
administration  
8

## 2 | Political Participation

Bosnia has held regular elections since 1996. The national elections in 2006 were the first to be entirely administered by local authorities. The turnout rate for the October 2010 general elections was 56.28%, the highest since local BiH authorities had independently begun to run general elections. The absolute number of voters who voted in 2010 was more than 370,000 individuals higher than in 2002, an increase of 22%.

Free and fair  
elections  
8

The body charged with administering elections, the Central Election Commission (CEC), has increasingly come under the sway of partisan political influence. The process of voting and the verification of results were poorly managed, with many delays. The process of selecting election observers from political parties was also mismanaged.

A large number of complaints were filed by political parties following the October 2010 elections, and the CEC performed only formal investigations during the process of complaint resolution. Election fraud was suspected in a number of cases, and many procedural complaints were registered as well. Elections had to be repeated in a number of polling stations due to procedural faults. Finally, the CEC banned public civil society organization activities during election day despite lacking any legal basis for the decision. The banned CSO activities had been aimed at voter mobilization, in support of electoral participation.

Effective governance is prevented by veto mechanisms built into the decision-making system. Abuse of constitutional mechanisms designed to ensure fair ethnic representation within state institutions has persistently led to ethnically driven

Effective power to  
govern  
8

behavior that curbs elected rulers' effective power to govern. The European Union's 2010 progress report for BiH again identified the country's complex decision-making system as the main obstacle to effective governance and European integration.

The BiH Law on Associations and Foundations defines the rules governing assembly and association. Although political interference is not evident in granting permissions for association, the procedure for registration is still lengthy and cumbersome. However, independent groups in Republika Srpska have been increasingly subject to political intimidation and public criticism by media close to the government.

Association /  
assembly rights  
8

Funding of NGOs is non-transparent, and the RS 2010 budget provided for NGO funding to be allocated at the president's discretion, rather than through government ministries. The Law on State Aid, which would among other issues regulate the allocation of state funds to NGOs, has been continuously blocked by RS representatives.

The BiH constitution and legal framework guarantee the freedom of expression, and freedom of information legislation is in place and extensively used by media. There is somewhat more freedom of expression in FBiH than in the RS, but the treatment of journalists is equally problematic in both places.

Freedom of  
expression  
6

In FBiH in 2009, a number of new threats to journalists emerged, rising even to the level of well-organized campaigns against open critics of certain parties or criminal groups. Bakir Hadziomerovic, the editor of the weekly TV political magazine 60 Minutes, received persistent threats to his safety, and there were even rumors of his planned assassination by the mafia. He has been under continuous police protection for several years. A journalist from the same program, Damir Kaltovic, was prosecuted by a court in RS after broadcasting a report in which he was physically threatened by a former human rights ombudsman, Vitomir Popovic. The trial is ongoing. Duska Jurisic, the editor of another weekly TV political magazine called Speaking Honestly, was removed from her position after a series of reports on the activities of Fahrudin Radoncic, the owner of the Avaz daily newspaper and leader of a new political party. Prior to her removal, she was continuously criticized by Avaz, labeled as Islamophobic, and presented as unable to do her job appropriately because of her ethnic origin. The main editor of the Oslobodjenje daily paper, Vildana Selimbegovic, was also portrayed as Islamophobic by Avaz and Islamic leader Reis Cerić because of her critical reports on their political activities.

Reported cases of pressure on journalists also increased in RS in 2009 and 2010. Milorad Dodik, former RS prime minister and current president, has publicly spoken of a "blacklist" containing his most significant critics, mainly independent journalists and civil society activists. He boycotted Federation TV, and instructed



his party and government officials not to give statements to journalists from FTV. He previously boycotted BHT1, the largest public broadcaster. He openly attacked a journalist from Alternative TV during a press conference in the RS government building after a question about the lack of progress in building a motorway, and afterward launched a boycott of Alternative TV as well, leading many businesses to cancel sponsorship of this TV station. Alternative TV was barred from entering Dokik's party's building, or from reporting from there during campaigns or elections. However, Dodik is strongly supported by a number of media organizations closely associated with the RS government, and which are owned by individuals personally and politically close to Dodik himself.

### 3 | Rule of Law

In the institutional sense, formal separation of powers between different branches of government exists. However, this formal arrangement is to a large degree undermined by the unclear constitutional assignment of competencies, overlaps in the division of labor between the various levels of government, and dependence on a high degree of political will in order to produce even basic functioning. Executive powers at the state level are still weak, and have been hampered for the last four years by a lack of basic political agreement on the direction and substance of reforms, particularly related to EU integration. State power is subject to the law, but there are no mechanisms for imposing sanctions on the deliberate boycotting of government functioning for political reasons. The parliamentary decision-making process is handicapped by the existence and use of multiple veto points, including de facto entity vetoes on state matters, and the state lacks the enforcement mechanisms necessary to harmonize legislation throughout its territory.

Separation of  
powers  
8

In its various decisions interpreting the legal nature of the BiH constitution, the Constitutional Court has stressed that the Peace Agreement as a whole serves as “a constitutional charter” for Bosnia and Herzegovina. The Peace Agreement and all its annexes represent the state's formal “constitutional law.” This includes Annex X and the Office of the High Representative (OHR), as integral and fundamental parts of that constitutional system. The OHR was built into the system through Annex X of the Dayton Peace Agreement as a mechanism to resolve disputes in cases in which no domestic institutions are entitled to do so. It is a mechanism for unblocking conflict situations and disputes between the entities and the state. The Dayton Peace Agreement did not define or give powers to any other domestic institution to resolve political issues between entities and the state. Those powers were vested solely in Annex X, and subsequently strengthened through the Bonn powers.

Though the judiciary is formally independent, political pressures have continually been brought to bear on the work of the State Court, Prosecutor's Office and the High Judicial and Prosecutorial Council (HJPC). RS Prime Minister Dodik in particular continued his campaign against the highest judicial institutions throughout 2009 and 2010. He claimed that both the State Court and Prosecutor's Office are unconstitutional institutions because they were "created by the Office of the High Representative." Dodik said both should be eliminated because they are places of "political execution." He has also questioned the independence of the HJPC. Meanwhile, a Constitutional Court judge, Krstan Simic, was dismissed because of his close affiliation with Dodik's party.

Independent  
judiciary  
6

According to the EU 2010 Progress Report, BiH's complex legal framework and fragmented judicial system hamper judicial reform. The report highlights the frequent political interference, and notes flaws in the prosecution of organized crime. Some fear that political interference will become even worse following a decision of the Peace Implementation Council not to extend the mandates of international judges and prosecutors in the area of organized crime.

Lower-level courts struggle with significant backlogs and the system as a whole suffers from inadequate funding.

A legal framework regulating office abuse and conflict of interest is in place, and a large number of high-profile indictments and prosecutions have been launched. However, no such cases have resulted in final convictions or sanctions. In 2009, a court confirmed a previous Election Commission ruling that Foreign Minister Sven Alkalaj had engaged in conflict of interest, but he remained in office through his mandate nevertheless. Office abuse in the case of former FBiH Prime Minister Edhem Bicakcic was not deemed proved in spite of evidence presented through the course of a lengthy legal process. FBiH Prime Minister Nedžad Brankovic left office in 2009 following indictment for office abuse, a case that remains pending. In spite of a three-year investigation into alleged office abuse by RS Prime Minister Dodik, by January 2011 the State Prosecutor had not yet opened any formal prosecution or issued an indictment.

Prosecution of  
office abuse  
6

In 2009, the State Investigation and Protection Agency (SIPA) reported on the involvement of Dodik and an additional 14 high ranking RS officials in activities including money laundering, tax evasion and the illegal award of government contracts. Charges were brought against the prime minister, two ministers of finance, the head of urban planning, the head of the department for road construction and development, and owners of the construction companies that had allegedly profited from the illegal contracts. Dodik responded to SIPA's report by claiming that SIPA and the BIH Prosecutor's Office were illegitimate institutions not foreseen by the Dayton Peace Agreement. The widespread politicization of the police and judiciary helped prevent a formal indictment against Dodik, and

contributed to the dismissal of the SIPA deputy director who had launched the investigation.

Dodik also refused to accept judgments by Bosnia's High Judicial and Prosecutorial Council, which challenged several political appointments of entity judges. In addition, delegates within Dodik's party in the BiH Parliamentary Assembly voted against extending the mandate of international judges and prosecutors in Bosnia. As a result, international prosecutors (who were less susceptible to political pressure than domestic prosecutors) are no longer allowed to work on cases pertaining to organized and economic crime and corruption.

According to the EU Commission's 2010 report, Bosnia's Central Electoral Commission (CEC) has started to monitor asset declarations, conflicts of interest and political party financing. It has imposed financial and administrative sanctions in 18 cases.

A state-level antidiscrimination law has been adopted, but its scope remains limited. The EU's 2010 Progress Report notes that protection of women and children is still weak, particularly in the fields of health, social protection, education and domestic violence. Implementation of a strategy addressing the Roma population is underway, but widespread discrimination continues. At its August 2010 session, the U.N. Committee on the Elimination of Racial Discrimination (CERD) concluded that discrimination against Roma persists, and it expressed its particular concern over the fact that a large number of Roma children remain unreported or unrecorded in newborn registration services. The committee also pointed to obstacles to the return of refugees and displaced persons, and recommended that BiH authorities provide equal conditions for employment, education, health and social care to returnees. Finally, the CERD stated that BiH authorities have "failed to effectively monitor implementation of the International Convention on the Elimination of All Forms of Racial Discrimination in Bosnia and Herzegovina regularly, consistently and within the prescribed deadlines, since the concept of racial discrimination also encompasses ethnic and religious discrimination, segregation and intolerance."

Civil rights  
7

#### 4 | Stability of Democratic Institutions

The reporting period was marked by the lowest level of institutional government activity in BiH's recent history, despite a heavy agenda stemming from integration into NATO and the European Union. According to a project monitoring the work of all BiH government levels and implemented by the Centers of Civic Initiatives (CCI), in the four years of the last government mandate, the BiH parliament adopted 170 laws out of 508 planned. On average, the state parliament adopted just 30% of planned laws each year. In 2010, only 27 laws were adopted by the state

Performance of  
democratic  
institutions  
6

parliament. The BiH Council of Ministers held only 23 sessions in 2010, and passed only eight laws.

The CCI also reported that the FBiH government passed no decisions in 11 of the 32 sessions held in 2010, and that it still has legal projects pending approval dating from 2007. In 2009, the FBiH minister of spatial planning left office and was not replaced until the end of the government's mandate, due to lack of political agreement.

Some aspects of the work of the FBiH Constitutional Court were blocked for over a year due to delays in appointing three judges, largely caused by FBiH President Borjana Kristo for political reasons.

According to the European Union's progress report, "coordination between the various administrations within the country needs to be further improved." The report also points to a need to eliminate political interference and limit the role played by ethnic identity and political affiliation in civil service, and to establish a "professional, impartial, accountable, transparent and efficient civil service based on merit and competence."

The international community has sought support a constitutional reform that would facilitate BiH's European integration. However, the "Butmir negotiations," cosponsored by the United States and the European Union during Sweden's presidency, failed at the end of 2009.

The main challenge to the legitimacy of democratic institutions in 2009 and 2010 came from politicians from Republika Srpska. Milorad Dodik, the former RS prime minister currently serving as president, repeatedly questioned the legitimacy and stability of BiH institutions, asserting that they would eventually collapse due to a lack of legitimacy among the Serb and Croat population.

Commitment to  
democratic  
institutions  
5

## 5 | Political and Social Integration

After four years of stalled reform and regression by political elites to extreme nationalist discourse and policies, citizens sought some change during the October 2010 general elections. This was partly evident in the high turnout rate of 56.28%, the highest such since local authorities began independently administering general elections.

Party system  
5

The preceding four years of government were marked by a sharp turn toward the discourse of nationalism as opposed to Euro-Atlantic integration. The ethnic fragmentation of the political agenda resulted in the lowest level of government

activity since the country's European agenda was set, and the most strikingly divergent nationalist positions since the peace was signed in 1995.

New RS President Milorad Dodik continued his campaign for greater RS autonomy throughout the election campaign. He also encouraged the Croat political community to seek the establishment of a third ethnic-territorial entity within BiH. Nationalist rhetoric intensified even further after the elections. Specifically, the Croat Democratic Party tried to undermine the Social Democratic Party's (SDP) candidate, Željko Komšić, who was reelected to the Croat seat.

The SDP won most votes than even since the Dayton Peace Agreement. The Party of Democratic Action (SDA) nominally lost a significant number of votes, but still secured more seats in Parliament than any other Bosniak party. Their candidate, Bakir Izetbegovic, was elected to the BiH presidency. His predecessor, Haris Silajdzic, won only half as many votes as before, and thus lost his seat. His party suffered significant losses in parliament too. A new political party, the Alliance for a Better Future (Stranka za bolju buducnost, SBB), won a significant number of seats for a newcomer, but its president and founder Fahrudin Radoncic failed to be elected to the state presidency. Due to his confrontational and violent media campaign against all rivals, the party was not considered seriously as a coalition partner by any parties, although some negotiations did take place. Another new party, Nasa Stranka, failed to win seats in the state parliament.

Following the elections, the two largest parties in RS signed a platform pledging "joint action in the institutions of BiH," while the two largest Bosnian Croat parties also joined forces. This created two ethnic political blocs that narrowed the room for negotiations on any non-ethnic issues. Such an ethnically fragmented political scene created difficulties in forming post-election coalitions. However, four parties from FBiH to some degree managed to impose a dialogue on pragmatic issues, thus counteracting the concept of two or three ethnic political blocks.

According to the European Delegation in BiH, the country is home to about 8,000 civil society organizations (CSOs). However, only 500 to 1500 are actually active, and only a small number can be described as professional organizations. According to a report on the non-governmental sector in BiH, this group includes humanitarian associations, associations representing refugees and displaced persons, associations of war veterans, professional associations, unions, associations for the protection of fundamental human rights or of gender equality, and associations supporting issues including the further development of democracy, environmental protection and other such issues. However, only a small number are publicly active and visible to the media, and the public space was for a long time dominated by only a few CSOs in three or four urban centers. These are organizations which have firm goals and the capacity to articulate them, but their focus has tended not to be focused on the broader social interest, which remains generally underrepresented. The division of

Interest groups

6

society as a whole along ethnic and territorial lines is also reflected in polarization among CSOs, both in terms of territorial and ethnic representation.

The population's lack of trust in democratic norms and procedures is most visible through a low level of confidence in institutions and political parties, and an inadequate level of representation. According to the 2010 Gallup Balkan Monitor, a majority of people within all three ethnic groups still feel that they lack someone to speak for them at the political level. The feeling of being represented is unevenly distributed among ethnic groups in BiH – 31% of Bosniaks and 42% of Bosnian Serbs felt adequately represented by a party or a politician, but only 12% of Bosnian Croat respondents.

Approval of  
democracy  
6

Assessments of state government performance have been rather negative – 92% respondents in the Federation and 82% in Republika Srpska said they thought the government's work was poor or only fair. Among Serb respondents, 64% were convinced that the Republika Srpska government was doing a poor or only a fair job, while 91% respondents in the FBiH had a negative assessment of their entity leaders.

Faith in the outcome of the October 2010 elections is also minimal. According to Gallup, a large majority expressed the belief that none of the major policy areas in need of reform and political action would improve as a result of the elections.

A somewhat higher level of trust in democracy was reported with respect to the expected consequences of BiH joining the European Union. A majority of respondents said they hoped for a strengthened rule of law and less corruption once BiH entered the EU; these issues were mentioned by more than 70% of respondents in the FBiH, and more than 60% in RS.

According to the Gallup Balkan Monitor, citizens of all three constituent peoples show very low level of trust in both national institutions and the European Union. The national government is among the least trusted institutions, while the EU is trusted only slightly more. All three groups trust the military and religious communities more highly.

According to the Gallup Balkan Monitor 2010 survey, relations between Bosniaks, Croats and Serbs in the country seem to be improving. In 2010, respondents showed more trust in members of the other religious groups than they had in 2006. Among Croats, 73% of respondents expressed trust in Serbs, and 63% trusted Bosniaks. The Bosnian Serbs also expressed much higher levels of trust than in 2006: 67% trusted Croats and 62% trusted Bosniaks.

Social capital  
5

The survey additionally showed that members of the three major ethnic groups differed strongly in their identity profiles. The two items that the three groups related to the most were the ones that differentiated them from each other: their

nationality (68% of Bosnian Serb respondents, 48% of Bosnian Croats and 50% of Bosniaks said they identified very or extremely strongly with their nationality) and their religion (respectively 63%, 51% and 47% of respondents). This was confirmed when asked which national team they would support at international sports events. Among Bosniaks, an overwhelming majority (94%) said they generally rooted for their country, while almost three-quarters (72%) of Bosnian Croats declared their support for Croatia and 88% of Bosnian Serbs said they would support the Serbian national team.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Bosnia and Herzegovina's Human Development Index (HDI) score is 0.710, giving the country a rank of 68 out of 169 countries with comparable data. The HDI score of Europe and Central Asia as a region has increased from 0.534 in 1980 to 0.717 today, placing Bosnia and Herzegovina below the regional average. According to the World Bank, the country's Gini coefficient was 36.3 in 2007.

The unemployment rate continues to increase, from 24.1% in 2009 to 27.2% in 2010, according to the BiH Statistics Agency. Employment is hampered by the size of the informal sector, coupled with structural rigidities (high social contribution rates, distorted wage-setting mechanisms, high and poorly targeted social transfers, and low labor mobility).

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	15240.3	18512.3	17049.5	<b>16577.9</b>
GDP growth	%	6.8	5.4	-2.9	<b>0.8</b>
Inflation (CPI)	%	1.5	7.4	-0.4	<b>2.2</b>
Unemployment	%	29.7	23.9	-	-
Foreign direct investment	% of GDP	13.6	5.3	1.4	<b>1.4</b>
Export growth	%	12.6	4.2	-3.5	<b>11.3</b>
Import growth	%	16.6	-1.9	-4.5	<b>27.5</b>
Current account balance	\$ mn.	-1647.7	-2604.6	-1074.9	<b>-1008.5</b>

Question  
Score

Socioeconomic  
barriers  
6

Economic indicators		2007	2008	2009	2010
Public debt	% of GDP	32.9	30.9	35.4	<b>36.9</b>
External debt	\$ mn.	8822.7	8303.2	9624.8	<b>8457.3</b>
Total debt service	\$ mn.	435.6	445.6	800.2	<b>1358.8</b>
Cash surplus or deficit	% of GDP	0.9	-1.7	-4.3	-
Tax revenue	% of GDP	22.2	21.0	19.6	-
Government consumption	% of GDP	21.8	19.8	21.4	<b>21.1</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	9.8	10.3	10.9	-
R&D expenditure	% of GDP	0.03	-	-	-
Military expenditure	% of GDP	1.1	1.1	1.3	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

According to the EU's 2010 Progress Report, BiH has made little progress made toward establishing a functioning market economy, and major reforms will be required to enable the country to cope with competitive pressure and market forces over the long term. The central bank worked to mitigate the effects of the global financial crisis, effectively preserving financial and monetary stability was preserved. This can partly be attributed to the country's currency board system. Inflation rates were reduced and external imbalances have decreased, driven by an adjusting trade balance.

The business environment is still affected by administrative inefficiencies. The lack of a single economic space within BiH is a serious curb on business activity.

According to the Foreign Policy Initiative BH (FPI) Report on Monitoring BiH Integration into the EU in 2009, the capacities of the BiH Competition Council (BiH CC) have improved. In the second half of 2009, BiH CC made 32 decisions and 21 resolutions, and issued seven opinions and four conclusions. Of those decisions, 23 dealt with concentrations (mergers) of business entities; one of which was initiated as a consequence of discoveries made by the media. Three decisions dealt with the abuse of dominant market position, and two dealt with illegal agreements. Two decisions were made in cases where enterprises refused to implement a BiH CC resolution, one opinion focused on initiating procedure and

Market-based  
competition  
6

Anti-monopoly  
policy  
8



one opinion dealt with changes and amendments to the BiH Law on Road Transport, which the BiH CC found not to be harmonized with the Law on Competition. However, this trend did not carry into 2010. Overall, the number of decisions by the BiH CC fell by almost 50% in the first half of 2010. Very few cases concerned the abuse of market position, while the majority of decisions dealt with concentrations.

The FPI 2010 Report states that the Law on Competition and its by-laws are harmonized with EU regulations, and that the Competition Council has been fully staffed. A Market Surveillance Agency has also been established. However, BiH breached a deadline from the Interim Agreement with the EU by not passing a Law on State Aid before July 2010.

Generally, foreign trade is liberalized, with uniform, low tariffs and no fundamental state intervention in free trade, in line with the Stabilization and Association Agreement and the Interim Agreement with EU. BiH is still not a member of the WTO, and thus comparative data is not available. However, BiH has started to implement an Interim Agreement on Trade and Trade-Related Matters with the European Union. So far, planned reductions of custom tariffs are under way.

Liberalization of  
foreign trade  
9

A banking system in line with international standards is largely in place. The central bank, currency board and Agency for the Security of Deposits perform functional banking supervision. However, capital markets are differentiated and vulnerable to severe fluctuations due to extreme dependence on outside factors. FBiH and RS both have adopted entity laws on foreign currency trading, which are harmonized with EU standards. The entity laws were adopted instead of a single state law, which would have strengthened the supervisory competencies of the central bank, partially as protective measures in cases of severe damage to the monetary or foreign currency policy.

Banking system  
7

## 8 | Currency and Price Stability

The BiH central bank is independent. The national currency is controlled by the currency board through a peg of the convertible mark to the euro, thus containing the inflation rate. Although independent from the government, the central bank does not have the authority to undertake monetary policies due to the existence of the currency board. According to the BiH Statistics Agency, in February 2010 the annual inflation rate had risen by 1.7% compared to the previous year.

Anti-inflation /  
forex policy  
9

According to the IMF's October 2010 World Economic Outlook, the general government gross debt in 2009 was 35.4% of GDP, and was estimated at 39.1% in 2010. The public deficit in 2009 was 5.8%, and an estimated 5% in 2010. The IMF's Staff Report for the 2010 Article IV Consultation, Second and Third

Macrostability  
8

Reviews Under the Stand-By Arrangement notes that the “persistently high current account deficit contracted sharply and financing pressures were alleviated” during 2010, which can be attributed to a steep decline in domestic demand along with a slump in the international prices of BiH imports.

The ratio of deficit to GDP in 2009 was 5.2%, with a projected 2010 ratio of 4.5%, according to data from the central bank and the IMF, combined with projections of the effects of austerity measures. The external debt of the government sector GDP had progressively declined as a proportion of GDP until 2009 and the onset of global recession, which caused overall external government debt to rise from 17.2% of GDP in 2008 to 21.8% in 2009.

According to the abovementioned IMF report, fiscal performance has posed risks to macroeconomic stability. Faced with increasing financing pressures in early 2009, BiH authorities committed themselves to austerity measures under the IMF Stand-By Arrangement (SBA). The program was designed to safeguard the currency board’s actions and cushion the effects of the deteriorating external environment, while including policies aimed at redressing fiscal imbalances and strengthening the financial sector. Despite commitments on expenditure savings measures under the Stand-By Arrangement, the consolidated general government wage bill grew in 2009 and savings on cash transfers were less than planned. However, the IMF’s overall assessment is that fiscal performance in 2010 was in line with a revised fiscal adjustment strategy that accommodates a slightly higher deficit for 2010 (4.5% of GDP).

## 9 | Private Property

FBiH has still not adopted a Law on Real Rights, although the proposal has been discussed for over six years, and been going through the official procedure for three years. The law would mark a new approach to the regulation of ownership and other rights, and have an enormous impact on property relations in this entity. It would establish the uniformity of property rights and deal with the transformation of formerly socially owned property into private property. The RS National Assembly adopted such a law in 2008.

Republika Srpska authorities have continued to delay the payment of compensation for property destroyed during the war to private persons, based on court decisions. The most prominent such case is that of the Alijagic family in Trebinje. BiH has not yet resolved the issue of the restitution of property confiscated by the Yugoslav authorities, which is estimated to be worth over €28 billion.

According to the International Property Rights Index (IPRI), BiH is at the bottom of the international ladder with an average score of 3.6. This in fact represents

improvement in comparison to the 2009 score, which can be attributed to changes in the ease of registering property. According to the IPRI Report, it previously took an average of 331 days to register private property, but due to policy changes in 2009, this has dropped to 128 days. However, property rights regulation in Bosnia and Herzegovina remained unchanged on any other concrete measure. Despite the improvement, BiH places among the bottom 10 countries worldwide on the IPRI, and scores the worst in its region.

The process of privatizing the largest and most profitable state-owned enterprises has not yet been initiated, due to a lack of political consensus. On the other hand, most large enterprises in RS were privatized earlier, which partly explains the fact that only small-scale privatizations took place during the period under review. According to data from the RS Development and Investment bank, the sale of state capital assets earned about BAM 6.2 million in 2009, about half the amount registered in 2008 and the lowest annual sum seen since the beginning of the privatization process. The only company privatized in 2009 from the former list of strategic enterprises with majority state capital was the Boska department store in Banja Luka.

The largest privatization projects in RS include the Brod oil refinery, lubricants producer Modrica and fuel retailer Petrol, all of which were sold to a Russian investor, and the joint venture between the RITE Gacko thermopower plant and Czech state power company CEZ, all of which were initially hailed as success stories. In each case the RS government conducted the negotiations in secrecy, failed to provide timely and accurate accounts, and agreed to terms that hurt the interests of small shareholders. The CEZ subsequently pulled out of the Gacko power plant project. Transparency International Bosnia and Herzegovina's (TI BiH) analysis of the agreement on privatization of the oil sector of the Republika Srpska (NIRS) showed that the NIRS' sale had no positive effects. A conservative calculation verified an outflow of funds and capital from RS and BiH following that single privatization arrangement in the amount of almost a billion BAM.

The Global Corruption Report provides findings on corruption in the private sector in BiH, particularly in the process of the privatization of state-owned enterprises. It points to examples of corrupt practices occurring in the formation of contacts between the state and business sector, above all in public procurement and contracting, which was recognized as the area most susceptible to corruption.

## 10 | Welfare Regime

Social protection programs in BiH include social insurance programs, pensions and unemployment insurance, while social policy programs include those designed to meet social policy goals such as access to housing and utility services. However,

Private enterprise  
7

Social safety nets  
6

according to the EU's 2010 Progress Report, social and employment legislation and policies, as well as public health legislation, remain very fragmented. Lack of cooperation between the various levels of government continues to be a serious handicap to the development of coordinated approaches.

According to a World Bank report called *Protecting the Poor During the Global Crisis: 2009 Bosnia and Herzegovina Poverty Update*, 12.4% of the population reports receiving benefits in the form of noncontributory social assistance transfers (civilian or veteran-related). However, only a small fraction of the poor actually receives the benefit. "The share reporting receipt of such benefits is slightly higher among the poorest quintile (15.1%) than the richest (9.7%). A much larger share of the population reports receiving social insurance benefits (40%), and about half the population reports receiving some type of benefits (contribution-based social insurance and/or noncontributory social transfers)."

According to the same report, BiH social programs have several weaknesses. Despite significant fiscal outlays (4% of GDP), noncontributory transfer coverage is low, a comparatively high share of benefits goes to those in richer quintiles, noncontributory social benefits have a negligible impact on poverty, and nontargeted programs have reached the limits of the fiscal envelope to the point of crowding out targeted ones.

The UNDP's 2009 National Human Development Report for BiH documented manifestations of "exclusive social capital" that were found to pervade Bosnia and Herzegovina institutions in ways that perpetuated exclusion and impeded the realization of basic human rights. The report stated that BiH is a society characterized by "very low generalized trust," which applies to people of other ethnicities, people of other ways of life and even to people of the same ethnicity who are not part of one's immediate social circle. People who are ethnic minorities in a given area are particularly vulnerable to exclusion. The elderly were also identified as being at highest risk of poverty and social exclusion, with more than half of those over 65 ineligible to receive a pension. Other groups experiencing significant levels of exclusion include youth, who demonstrated high levels of disillusionment about the future; people with disabilities, who have little or no access to education or employment; internally displaced persons, who show higher levels of poverty than the rest of the population; members of the Roma minority, who face extreme levels of exclusion from education and employment as well as having comparatively poor access to health care; and women, who have less favorable positions in society and whose level of participation in the labor market is among Europe's lowest.

According to the UNDP report, internally displaced persons (IDPs) are one of the most vulnerable groups in BiH. Among this group there are a high proportion of persons who are physically disabled, chronically ill or suffering from mental illness.

Equal opportunity

5

Roughly one-third of the IDP population is made up of female-headed households. Persons with low levels of education and women in rural areas are also vulnerable.

## 11 | Economic Performance

Economic growth began to slow in 2009. Real GDP fell by 2.9% in 2009, from 5.7% growth in 2008. According to BiH central bank data, industrial production fell by 3.3%, exports of goods and services by 17.6%, and imports of goods and services by 24.4%. The current account balance improved from a deficit of 15.1% in 2008 to a deficit of 7.5% in 2009, but this was coupled with rising unemployment. Household consumption and investment activity respectively declined by 4.1% and 30.2%, but government consumption increased by 3.2%. The projected growth rate for 2010 is 0.7%, according to the central bank. The deficit is being addressed through the implementation of austerity measures.

Output strength  
5

## 12 | Sustainability

Though a number of activities have been initiated aimed at setting up a legal and institutional framework for environmental policy, there was no further progress in 2010. According to the EU's 2010 Progress Report, a state-level environmental law creating a country-wide framework for harmonized environmental protection remains to be adopted, and no state-level environment agency has been established. The idea of environmentally compatible growth is barely taken into consideration in macroeconomic terms, and no specific governmental policies have been adopted in microeconomic terms. BiH is ranked 98th in the Environmental Performance Index, with a score of 55.9; it shows the overall lowest score reported in ecosystem vitality, with very low scores in air pollution, climate change and biodiversity.

Environmental  
policy  
6

The Human Development Index for BiH shows the population to have a mean of 8.7 years of education, though the current average expected years of schooling is 13. According to the most recent World Bank data, the literacy rate was 98% in 2008. The gross enrollment ratio in 2008 was 99.1, also according to the World Bank. The UNDP reports that in 2009, the primary school net enrollment rate was 96%, the secondary school rate was 77%, and the higher education enrollment rate was 50%. According to a WV Report headlined "Are skills constraining growth in BH?" secondary school graduates do not have the right type of training, skills and experience needed by firms. The high unemployment rate among young secondary school graduates coexists with a 7% tertiary enrollment rate among unemployed school graduates, suggesting that "many young people participate neither in the labor market nor in higher education, which poses a serious challenge to BiH's future economic growth."

Education policy /  
R&D  
5

According to the same report, “tertiary education is dominated by public universities located in the largest cities, which each have a wide offering of degrees at their various semi-autonomous faculties.” The public universities are located in major urban centers, and there are an increasing number of private universities. A number of private universities have also been established in partnership with universities in the United States and Britain.

According to the European Union’s 2010 Progress Report, no progress has been made in terms of harmonizing legislation at the entity and canton levels, and implementation across the country has been uneven.

Bosnia and Herzegovina is associated with the Seventh EC Framework Program for Research and Development, but its access to funds is constrained by the country’s very limited research capacities.

## Transformation Management

### I. Level of Difficulty

BiH continues to suffer from structural constraints stemming from redundancies within its institutional framework and a complex decision-making processes. On one hand, it is crippled by the existence of 13 full-fledged governments, even without considering the local level; this requires irrational levels of public expenditure and hinders legal harmonization across the territory. The system's complexity leads to fragmented and uncoordinated policy-making. On the other hand, numerous veto powers within the decision-making process hamper the development of consistent policy-making, which is dependent on the presence of a high degree of political will. In its absence, the system comes to a standstill.

Structural  
constraints

5

Some system functionality was previously retained by the international community. The substantial levels of intervention that characterized the 10 years after the close of the war began to decline in 2006, based on an impression abroad that the country had progressed to the point that its reforms were irreversible. However, the state-building process was substantially incomplete, and the political climate was in fact changing for the worse. In the absence of sustained and consistent international pressure, domestic political actors increasingly undermined the common state framework in 2009 and 2010.

Civil society as an integral part of democratic processes does not have long tradition in BiH. CSO efforts are significantly undermined by an environment in which political dialogue is dislocated into informal, but influential noninstitutional circles. Traditional civic groups' influence on political elites is thus significantly diminished, hampering their ability to play a representative role. Research conducted by Foreign Policy Initiative BH showed that civil society perceives a significant degree of "non-freedom" to influence the public dialogue. Political elites are seen as having appropriated and absorbed discussions on issues of public interest, and see no value in including civil society in that process. CSO influence has also been curtailed by nationalist parties' continuous insistence on ethnic and emotionally driven issues.

Civil society  
traditions

5

However, some progress was visible prior to the October 2010 elections. CSOs were active during the election campaign, calling for the accountability of political

parties, raising awareness about party funding and candidates' assets, profiling voters based on party programs, measuring the extent to which parties kept their promises from the 2006 campaign, and so on. These efforts ensured that political parties for the first time were not only competing against each other's campaigns, but also responding to the visible pressure exerted by civil society. To some degree, this effort managed to shift the political campaign in direction of issues that affect the lives of voters, rather than focusing on the emotionally driven ethnic issues that had previously dominated.

The BiH decision-making system is designed to operate in spite of the country's ethnic cleavages; however, the period under review saw these cleavages give birth to the longest-lasting political crisis since the Dayton Agreement. After four years of reform stalemate, political elites regressed to extreme nationalist discourse. The period was marked by the prevalence of nationalist rhetoric and inflammatory discourse, a lack of binding state or social identities, apathy, the lack of consensual political culture, the perpetuation of political crisis, and violent demonstrations.

RS Prime Minister Milorad Dodik consistently alluded to the prospect of RS independence, which, coupled with constant calls for the abolishment of the RS by a former member of the three-member BiH presidency, Haris Silajdzic, placed nationalism at the core of the political discourse and strengthened ethnic tensions. These opposing political agendas sustained a confrontational politics until the 2010 elections. This was reflected in a further decline in the level of social trust, as shown in *The Ties That Bind*, a UNDP report. The report emphasizes that "in contrast to what one might assume – that levels of trust and social cohesion would be increasing, as the conflict recedes into the past – evidence suggests that over the past few years trust levels have been worsening." According to Gallup research, 87% of BiH Serbs would support the secession of Republika Srpska so as to become an independent state, if the people voted for such change. Among Bosnian Croats, 43% would support the dissolution of the FBiH into separate Croat and Bosniak entities.

Following the 2010 elections, the nationalist leaders tried to construct a new political reality composed not of individual parties, but of ethnic political blocs, which again sidelined the EU agenda for several months.

Conflict intensity  
5



## II. Management Performance

### 14 | Steering Capability

Question  
Score

The country's two key strategic priorities remain EU and NATO integration. Although the government adopts prioritized plans aimed at achieving these goals, these have rarely been followed or fulfilled in detail. Moreover, the key priorities in 2009 and 2010 ultimately became the main points of contention between political parties forming the government, including the Law on the Census, resolution of the issues of state and military property, constitutional changes needed to comply with European Court for Human Rights rulings, and more.

Prioritization  
4

The years 2009 and 2010 showed the lowest level of government activity since the Dayton Peace Agreement. According to reports monitoring the work of the Council of Ministers (CoM) by the Centers for Civic initiatives, in the first eight months of 2010, ministers and the CoM chairman individually spent an average of just over three working days per month in government sessions. An average of just 0.65 laws were adopted per session. Out of 797 government priorities for 2010, only 233 were adopted. None of the ministries carried out more than 50% of its planned activities. The CoM adopted only six of 35 laws planned for 2010. In the Programme of Priorities for Harmonization of the Legal Framework in Line with the European Partnership and Interim Agreement, the Directorate for European Integration proposed 59 priority measures for the 2008 – 2010 period. Only 12 passed the CoM in that period.

According to the European Union's 2010 Progress Report, "reform implementation has been slow, due to a lack of consensus and political will, and to the complex institutional framework. A shared vision by the political leaders on the direction of the country and on key EU-related reforms remains essential for further progress toward the European Union." To that end, the EU report also points out that few European integration-related laws have been adopted to date. The report states that "the government institutions, at all levels, continued to be affected by internal political tensions and fragmented and uncoordinated policy-making."

Like the prioritization of policies, policy implementation too became a victim of politicization driven by nationalist parties in government. The stalemate created at the political level was echoed on the technical level. In the absence of political leadership on key reform projects, implementation lagged and even stagnated in some areas.

Implementation  
5

In its report *Monitoring Integration of the BiH into the EU*, the Foreign Policy Initiative emphasizes that a number of laws were drafted primarily as a matter of form, and that implementation never took place. This specifically refers to the failure to pass bylaws, a process for which the government never had adequate technical capacities. This has affected regulations meant to govern the free movement of goods for industry, agriculture and fisheries. Also, because there is no mechanism for the compulsory harmonization of bylaws with the *acquis*, there are many cases in which laws cannot be implemented because their supporting regulations are not in conformance with EU standards. Lack of adequate staff is also a serious obstacle to implementation of EU priorities in the following fields: laws on the internal market, technical legislation on product safety and market monitoring, civil aviation, transportation in general, etc.

Significant implementation delays occurred in the areas of public administration reform, human rights and the protection of minorities, ensuring the rights of women and children, the fight against violence against children, monitoring of the implementation of the juvenile delinquency strategy, etc.

Throughout 2009 and 2010, there was little evidence of policy learning or of the flexibility associated with it. One of the few positive examples of government flexibility in 2010 was the adoption of a set of measures which led the EU to allow BiH citizens to travel to Schengen countries without visas. This reform project was carried out under enormous public pressure internally and under great competition with other countries in the region that had passed the necessary reforms much earlier. Another factor contributing to this success was the clear set of conditions set forth by the European Union, which the BiH government had to fulfill in order to get on to the “Schengen white list.” The clarity of these conditions, with their firm associated timelines, helped guide institutions through the process.

Policy learning  
4

## 15 | Resource Efficiency

In 2009 and 2010, the government showed no awareness of a need for resource efficiency, nor did it pass any measures aimed at this end. This was particularly striking during the economic crisis, when instead of introducing austerity measures, parliamentary representatives increased their own financial remuneration. Entity budgets had to be rebalanced several times. The reform of public administration continued at a very limited level, focusing on short-term priorities rather than the rationalization and efficient use of human resources.

Efficient use of  
assets  
3

There were many cases in which appointments of key personnel to newly established institutions required by EU integration were delayed; this can be attributed to the lack of political agreement on the ethnic and party distribution of those positions. In a number of state agencies, key personnel remained in office for

several years beyond the expiry of their mandate, largely due to a lack of agreement on their replacement even after a full competitive hiring procedure.

Government activity in BiH is hindered by a complex allocation of functions and responsibilities, both vertically and horizontally. Not only are the responsibilities defined in a way that causes inevitable overlap, but there is also little clarity as to the distribution of functions. On top of the structural difficulties, there was little communication or coordination between institutions during the period under review, especially between different government levels. The most blatant example has been the absence of institutionalized coordination between the state and entities at either a legislative, political or technical level throughout the entire process of negotiation with the European Union. This has hindered reform in the areas of labor mobility and the creation of a single market. In these cases, fragmented legislation creates different investment conditions and also fragments BiH's already-small market, resulting in fewer investment projects.

Policy  
coordination  
4

This is particularly true in the case of Republika Srpska, where authorities have acted as if their entity had goals and objectives independent of the country as a whole. The entity's state parliamentary representatives and civil servants have obstructed major reforms related to EU and NATO integration, thus creating conflicts between the priorities of the country as a whole and the narrow political interests of the RS alone.

Legislation exists which in theory regulates state spending audits, party financing, access to information, asset declarations and conflict of interest rules. In 2010, Bosnia's parliament also adopted a law establishing an anti-corruption agency. However, the record of implementation in these areas is weak. According to the European Union's 2010 Progress Report, Bosnia and Herzegovina has achieved "little progress in the fight against corruption, which remains prevalent in many areas and a serious problem." Also, little progress has been made in meeting the recommendations formulated by the Group of States against Corruption (GRECO). According to the report, prosecution remains insufficient, with a very limited number of convictions attained. There is also a lack of political commitment and of determined action against corruption. The EU report also makes note of limited progress in the area of financial control, where "stronger efforts are necessary to improve public internal financial control and the follow-up of audit reports."

Anti-corruption  
policy  
4

The main obstacle to successful implementation of anti-corruption policy remains the ruling elite, which thwarts independent scrutiny by politicizing relevant institutions or by intimidating individual officials attempting to expose corruption. Transparency International (TI) points to a need to develop systematic anti-corruption solutions. BiH's efforts in this regard are assessed as very limited. TI notes that no progress has been achieved in applying the U.N. Convention against Corruption (UNCAC), and that according to all indicators in the group's surveys, "a

significant lagging of reforms is manifested in BiH compared to other countries in the region and Europe.”

## 16 | Consensus-Building

Democracy and the market economy remain little more than rhetorical goals for the country’s political elites. Indeed, authorities in the RS have demonstrated not only a lack of commitment to those goals, but have engaged in outright breaches of the basic principles of democracy, and have shown a lack of the responsibility and transparency required by market economic principles. Following the 2010 elections, four parties offered a coalition platform containing important measures that would return BiH to the path of strengthening democracy and building a solid market economy. However, nationalist parties organized themselves into ethnic blocs that rejected this platform, thus showing a lack of serious desire for successful democratization.

Consensus on goals  
7

Anti-democratic actors, particularly from Republika Srpska, have managed to sidetrack major reforms and marginalize other actors from comparatively more democratic parties, civil society, media and even the judiciary. Milorad Dodik in particular has shown a complete lack of commitment to basic democratic principles, and has openly and verbally attacked other party leaders, journalists, civil society activists, members of the international community, prosecutors, judges and members of parliament in a very violent manner. However, he continues to enjoy strong public support within the RS electorate due to his populist rhetoric, patronage, and appeal to the Serb population’s sense of victimization, themes that were again evident in the 2010 election campaign. He has continued to dominate the political and public space, and uses his veto powers through his party representatives in state institutions to block most reforms.

Anti-democratic  
actors  
5

Nationalist rhetoric rose in intensity throughout the period under review. The political leadership of all three ethnic groups continued to exacerbate existing cleavages for populist and separatist purposes. On the Bosniak side, former member of BiH presidency member Haris Silajdzic, supported by the Avaz daily newspaper and Islamic leader Reis Ceric, sought to reinforce Bosniaks’ sense of victimization, and kept the idea of genocide as a central issue within the political discourse. His populist messages were designed to create an image of him as the political figure with the power to protect Muslims from any future attempts to undermine them as a group.

Cleavage /  
conflict  
management  
2

Croatian Democratic Union (HDZ ) leader Dragan Covic successfully sustained the idea of splitting the FBiH into two ethnic-territorial entities, which would give Croats an administrative entity in which they would form the political and ethnic majority. He mobilized Bosnian Croats, encouraging their feelings of insecurity at

being the country's smallest constituent ethnic group. His rhetoric intensified following the 2010 elections, in which his party's candidate failed to secure a seat in the state's three-member presidency. He thus denied the winning Social Democratic Party (SDP) candidate the right to represent Croats, and tried to mobilize other parties with Croat majorities to form an ethnic political bloc.

However, Milorad Dodik and his Alliance of Independent Social Democrats (SNSD) mounted the most severe campaign aimed at entrenching divisions and cleavages. He successfully sustained his rhetorical crusade on inter-ethnic relations. His campaign included the denial of genocide against Bosniaks, the denial of Bosniak identity and traditions, an attempt to undermine the state and all its symbols, etc. One goal of his declared political agenda was to hold a referendum on RS secession, although he also denied having a deliberate plan to create an autonomous RS. Nonetheless, he entertained the idea throughout his mandate, and public surveys have shown over time that he has managed to convince a large part of the RS electorate that secession is both possible and desirable.

Although some institutional prerequisites enabling institutional cooperation with civil society have been put in place, the actual links between the political system and civil society organizations remain very weak. Civil society is generally not consulted in the course of agenda setting or policy formulation. Even when there is some cooperation, it is in most cases initiated by civil society itself. International and donor projects in BiH facilitate and support such cooperation, but there are usually no guarantees that civil society positions will be integrated into final policy. Civil society is thus involved more in monitoring government activities and reporting on their performance.

Civil society  
participation  
5

Nationalist political leaders in BiH hamper attempts of reconciliation, in much the same way as they act to deepen ethnic cleavages. This is manifested in political leaders' support for convicted war criminals (Dragan Covic's support for Dario Kordic, and Milorad Dodik's for Biljana Plavsic, for example). Reconciliation has also been thwarted by the inability of regional governments to arrest two remaining war criminals sought by the International Criminal Tribunal for Former Yugoslavia in the Hague. Dodik in particular has continuously insulted the families of war victims, and denied the genocide against Muslims in Srebrenica. He also failed to join regional leaders in commemorating the passage of 15 years since the end of the genocide in July 2010. He manipulated data on the number of Serb civil victims during the war, and undermined the work of the state's Commission for Missing Persons. An RS government plane was sent to transport convicted war criminal Biljana Plavsic to Belgrade upon her release from a Swedish prison, where she was personally greeted by Dodik.

Reconciliation  
3

A somewhat more positive climate was created with the election of Bakir Izetbegovic to a seat within the BiH three-person presidency, and the almost

immediate apology he offered to all those to whom harm was done during the war by the BiH army. He has also joined a number of regional reconciliation efforts.

## 17 | International Cooperation

In the context of EU integration, some progress has been made in the establishment of a decentralized implementation system for the management, programming and monitoring of EU assistance funds. However, as the FPI Monitoring EU Integrations report notes, a high degree of political will is still required in order to adopt any kind of formal framework, as well as to strengthen absorption capacities to the point that BiH institutions will be able to benefit fully from EU funds.

Effective use of support

6

In 2009, BiH signed a stand-by arrangement with the IMF. The BiH government's letter of intent outlines the entire structural adjustment package and lists all reforms that need to be undertaken in order to receive the various credit tranches. The arrangement allows BiH to pull 1.015 billion in special drawing rights (or €1.2 billion) over a period of three years and is worth 600% of BiH's IMF quota (169.1 million in special drawing rights). However, the implementation of these measures was delayed somewhat, initially due to the election campaigns, and subsequently by the difficulty in forming a government.

BiH governments did not have a great deal of international support in 2009 and 2010, but neither were they the target of considerable open criticism. Given that BiH authorities have not yet fulfilled conditions for closure of the Office of the High Representative of the International Community, they still do not enjoy the full confidence and respect of the international community. Closure of OHR was briefly discussed at the Peace Implementation Council meeting in December 2010, but only in the context of describing the necessary conditions to be met, and of subsequent transition into an enhanced EU mission. In the same spirit, EUFOR Operation Althea's executive mandate was extended by U.N. Security Council Resolution 1948/2010 on 18 November 2010. Given the deterioration of the country's political situation and the prolonged need to maintain an executive international office in BiH, the EU Progress Report no longer insists that the OHR must be closed before the country can apply for candidate status.

Credibility

4

Regional cooperation stagnated for several years, but some positive developments took place in 2010, both in the area of cooperative police activity and at the political level. In the middle of 2010, the first joint session of the BiH Council of Ministers and the Republic of Croatia's government was held. Trilateral meetings were held with Serbia and Turkey, and again with Turkey and Croatia, both times initiated by Turkish authorities. This initiative resulted in appointment of a BiH ambassador to Belgrade, the presence of President Tadić at the Srebrenica genocide victims' commemoration in July 2010, and the Serbian Assembly's passage of the resolution

Regional cooperation

8

which condemned the crimes committed in Srebrenica. Visits by Croatian President Josipović to places where victims on all sides had suffered also contributed to strengthening relationships between the neighboring countries.

However, as the FPI's Monitoring EU Integrations report notes, there are also numerous examples for which concrete regional cooperation is required, as with the issues of borders and property, but for which no agreement with neighboring countries has yet been made. There is a lack of systematically coordinated activities and even of political commitment to start resolving open issues. However, even modest improvements in the regional political environment need to be considered as positive steps.

## Strategic Outlook

The main challenge to Bosnia's democratization is likely to come from the radicalization of nationalist agendas, and from the accompanying flammable rhetoric. Not only do nationalist agendas present a challenge to democratic consolidation, but also, more broadly, to the country's stability and sustainability. To date, the international community has not shown itself willing to stand up to such challenges, and appears unlikely to do so in the near future. Although gaining influence, civil society also lacks the ability to halt the radicalization of the political space. This negative trend can only be slowed or stopped by political leaders themselves, through the implementation of firm political agreements that would take them through the next four years. However, the election results resulted in no radical change in terms of the main players on the political scene, and it is unclear what would shift today's leadership toward a more democratic agenda.

During coalition negotiations, political parties seem to have ranged themselves for or against two opposing views of BiH's future – one which sees BiH as a country on the way to EU and NATO membership, and another that is more concerned with sustaining legacies of division and preserving power within the individual ethnic groups. Although it is hard to imagine how these two extreme poles could be reconciled, there seems to be little alternative other than dialogue between them.

The fate of the Office of the High Representative remains uncertain, and plans for its closure have been postponed on several occasions due to deterioration in BiH's political situation. Also troublesome in that respect is the European Union's seeming inability to take the initiative and provide some strategic leadership in BiH's reformist agenda. The EU has continued to demonstrate a total lack of responsiveness to the challenges facing BiH's democratization processes. Therefore, the role of the international community will need to be more clearly defined and better contoured in years 2011 and 2012. Equally important, no matter how the international community restructures its presence in BiH, it will need to provide its representatives on the ground with adequate means to implement their policies. Given the recent record of political deterioration, the international community will need to maintain a firm and visible commitment at the highest decision-making level if the process of democratizing BiH is to be completed.

In the next two years, BiH will have to tackle a number of economic and financial challenges, while still dealing with the consequences of the economic crisis. Particularly concerning will be the situation in Republika Srpska, where privatization funds have dried up. Generous financial rewards will need to be curbed, and serious austerity measures introduced. The prospects for the continuation of major capital infrastructure projects and economic development more generally are also gloomy.



Last, but not least, corruption will remain a dominant and defining feature of the political system in BiH. As the example of the RS prime minister's refusal to cooperate with anti-corruption agencies shows, the ethnic elite is able to brush away any potential scrutiny as "threats to sovereignty," effectively using ethnicity as a smokescreen for corruption. No matter which direction a new government takes, corruption needs to be addressed as a highest priority. This might require changes to the functioning of the judiciary and investigative institutions, so that a more efficient and effective system can be created. Otherwise, the tight marriage between corruption and nationalist policies will continue to corrode democracy in BiH.