

# BTI 2014 | Bosnia and Herzegovina Country Report

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scale      score      rank      trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	3.8	HDI	0.735	GDP p.c.	\$	9235.1
Pop. growth <sup>1</sup>	% p.a.	-0.1	HDI rank of 187	81	Gini Index		36.2
Life expectancy	years	76.0	UN Education Index	0.705	Poverty <sup>3</sup>	%	0.2
Urban population	%	48.8	Gender inequality <sup>2</sup>	-	Aid per capita	\$	138.4

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the review period, Bosnia and Herzegovina (BiH) was mired in one of the most unstable political periods in its troubled postwar history. The country's complex power-sharing arrangements require the presence of representatives from all three of BiH's "constituent peoples" (Bosniaks, Croats and Serbs) in central government. Following general elections in October 2010, a full 15 months elapsed before a government was formed. During this period, tensions were high between political representatives of BiH's ethno-national groups. Each political group promoted incompatible visions of the character of the fragile post-conflict state and their role in it. Governance in one of BiH's two autonomous sub-state entities, the mainly Bosniak and Croat Federation, was also seriously affected by incompatible interpretations of the letter and spirit of interethnic power-sharing arrangements there. By contrast, government formation in the largely monoethnic Serb entity, Republika Srpska (RS), proceeded smoothly despite formal power-sharing requirements there, as non-Serbs in the RS government are drawn exclusively from, or are loyal to, Serb governing parties.

The international community, once dominant in BiH's fragile governance system, showed little capacity to resolve the protracted crisis, and BiH's governance system appeared unable to function with a lack of agreement by the political elite on basic constitutional principles. During the protracted period of stalemate, representatives of the main Serb and Croat parties challenged the country's constitutional setup. Partly in reaction to the largest Bosniak party's decision to form the federation government without them, representatives of the largest Croat parties formed a so-called Croat National Assembly in April 2011, and called for the establishment of a new federal unit in BiH to protect Croat interests. Serb officials, most notably RS President Milorad Dodik, continued to assert the mainly Serb entity's right to self-determination, characterizing the state of BiH as pointless and unworkable. The High Representative, responsible for civilian aspects of peace implementation, concluded that the RS leadership had intensified a "six-year policy of open and direct challenges to the fundamentals of the peace agreement."

The government was finally formed in February 2012, a grand coalition of six parties that, together, represent the majority of votes of each ethnic group in BiH. However, the coalition partners have vastly different political and ideological positions on the future constitutional shape of BiH. Lack of common direction seriously hampered the output of the government, which operates according to power-sharing rules that give ethnic groups and representatives from each entity veto rights over common decisions. In place of agreement on pursuing Euroatlantic integration, or improving the economy and democratic institutions, the parties agreed in November 2012 to a limited set of measures, many of which seem to be designed to increase political control over independent bodies and appointment procedures across public administration, a regressive goal which all governing politicians, regardless of ethnicity, seem prepared to support.

Unsurprisingly, many measures of effective governance and management have been negatively affected during the turbulent time, characterized by protracted periods of caretaker government, political disagreement between newly formed coalitions of convenience and continuing attempts to reshuffle the federation government.

## History and Characteristics of Transformation

Democracy-building in Bosnia and Herzegovina (BiH) began only after the cessation of a violent four-year conflict in 1995. The transition to democracy and a market economy in BiH has thus not been linear, but rather significantly perturbed by post-conflict agendas. The country emerged from the war divided largely into three zones – de facto para-states – dominated by largely illiberal wartime ethno-national elites. BiH's constitution, with a critically weak federal center and two highly autonomous self-governing entities, was designed to end the war by reconciling competing visions of statehood, borders and self-determination rights for the country's three constituent peoples. While individuals indicted for war crimes were gradually excluded from public life, the wartime parties retained power for much of the postwar period. In firm control of powerful sub-state governing structures, the highly autonomous Serb and Croat elites had few institutional incentives to participate in central power-sharing structures. Rather, their participation was forced through international pressure.

BiH was governed as a semi-protectorate after the war, with a U.N.-mandated High Representative exercising executive powers that were used to remove individuals accused of impeding peace implementation and to impose central state institutions and liberalize sub-state levels of government. The international community has remained the main driver of the democratization process throughout the postwar period. Efforts to reform democratic institutions and establish a functioning market economy ran 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. Heavy international involvement in the country's transition has been criticized for usurping the power of political elites, over-riding democratic procedures and creating a culture of dependency in BiH. On the other hand, many of the institutions of liberal democracy, a market economy and the strengthened federal or state-level government would not exist were it

not for international intervention. BiH's political elites have often pursued alternative agendas, while giving rhetorical support to democracy and economic reforms.

International intervention papered over some of these alternative elite agendas and incompatible views of BiH's constitutional structure and statehood. However, since 2006, the authority of the civilian and military missions in BiH has been much reduced. In the absence of credible international threats and sanctions, BiH politicians have proved incapable or unwilling of reaching consensus on the formation of multiethnic coalition governments, on basic policy and even on fundamental constitutional rules. Since 2006, levels of nationalist rhetoric have sharply increased, most evident in calls for secession from the Republika Srpska leadership, and for the establishment of a third entity that would be populated mainly by Croats. The rhetoric of nationalist political leaders dominates the political space. This marginalizes the EU agenda, as well as any other democratizing/liberalizing agendas.

BiH's democratic path is further complicated by a complex, dysfunctional and ineffective state structure. With decreasing external intervention to unblock deadlock, there is an absence of meaningful shared governance in BiH. The most powerful veto points in the BiH's system of governance are endogenous and built into the complex decision-making process itself. Procedures for government formation and voting in the state parliament and the presidency give veto powers to representatives from each entity and constituent people that enable them to block common decision-making. The power-sharing system was designed to ensure fair ethnic representation and compromise in the common state institutions. However, given that the country's three ethno-national elites have no basic common vision of the character and role of the state, veto points are regularly exploited to prevent decision-making.

Lack of political will, endogenous veto points and an absence of horizontal mechanisms designed to solicit contact and cooperation between the many layers of government in BiH complicate and aggravate the country's relatively low levels of social and economic development, especially when compared to other countries of Central and Eastern Europe, and even neighboring countries in the Western Balkans. Although many exemplary laws and institutions are in place in BiH and are designed to guarantee democracy, the rule of law and a functioning market economy (many of which were imposed by the High Representative or negotiated under the tutelage of international organizations), many of these reforms remain unimplemented due to a fundamental lack of political will.

BiH citizens have low levels of trust in each other; though on some measures, there is greater interethnic trust in BiH compared to other countries in the region. However, regionally, BiH citizens have the lowest level of trust in their political leaders and state institutions. In this general atmosphere of apathy and disillusionment with democracy and its structures, expressions of nationalism and ethnic division often fill the public space, frequently engineered from the top down by self-serving politicians. Integration of society across ethnic lines, or even simply encouragement of interaction between different communities, has not been promoted by elites in power, and has often been actively discouraged by them. Moreover, there are few strong internal voices either in politics or civil society able to generate substantive pressure for societal integration that crosses entity and ethnic lines.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

Under the 1995 Dayton Peace Agreement, North Atlantic Treaty Organization (NATO) peacekeepers were deployed in Bosnia and Herzegovina (BiH) to enforce military aspects of the peace agreement. The size, composition and mandate of this force have been reduced incrementally over time. As of 1 September 2012, the European Union Force (EUFOR) Althea military operation consists of 600 troops. Under a renewed U.N. mandate, the foreign force acts in an executive military role to support BiH's efforts to maintain a safe and secure environment. As the security situation has largely normalized, the EU military mission focuses on capacity-building and training to support the BiH armed forces. A reserve force is also maintained outside BiH, prepared to deploy at short notice if required.

Monopoly on the  
use of force

8

Separate "entity"-level armed forces were maintained in BiH after the war. Their unification was a precondition for BiH's application to join NATO and was achieved in 2006. However, the lack of political support from the political leadership of Republika Srpska (RS), one of BiH's two constituent entities, continues to undermine the process of unification and reform. In October 2012, the RS president launched an initiative in the RS National Assembly to dissolve the BiH army into entity-level forces. The Bosnian Serb leadership is also stalling an agreement that would transfer ownership of immovable defense property to the state.

The security sector in BiH is highly fragmented, with competencies divided among several different levels of government. State-wide coordination mechanisms are in place but their mandate is weak and their operational capacity is low. A state-level directorate responsible for coordination of police bodies is functional, and mechanisms for coordination among police agencies and for exchanging electronic data between police and prosecution services are being developed, although formal cooperation continues to be weak. A non-executive European Union Police Mission (EUPM) operated in BiH until 30 June 2012, when its mandate expired. The mission

monitored implementation of police reform and provided training to local forces, with a focus on combating organized crime and corruption.

The three largest ethno-national groups in Bosnia and Herzegovina (BiH) hold differing views of the character of the postwar state and the self-determination rights of various groups within it. The majority of Bosniaks (also known as Bosnian Muslims) favors stronger central state structures and is strongly attached to the state of BiH. The majority of Bosnian Serbs and Bosnian Croats view their ethno-national identity as stronger than their fairly weak attachment to the state of BiH. There is evidence that support among Bosnian Serbs and Bosnian Croats for greater autonomy fell when international state-building in Bosnia was at its height. However, as the role of the international community was dramatically reduced from 2006 onward, the political elite has increasingly appealed to sentiment over ethno-national identity and intercommunal fears to entrench their political positions.

The Republika Srpska (RS) leadership now frequently questions the continued existence of the state of BiH and advocates self-determination rights for the mainly Bosnian Serb entity. Bosnian Serb politicians regularly challenge the authority of state-level government institutions and aim to return powers ceded from their entity to the weak federal state. According to a Gallup research in 2011, a majority of Bosnian Serbs polled believed that Republika Srpska has the right to self-determination and independence, should a majority of its inhabitants choose to vote to secede from BiH. However, polls indicate that citizens across BiH rate bread and butter issues, such as the state of the economy, employment and social services, higher than questions of ethnicity or their national status and rights.

Formal citizenship is generally not withheld from minority groups. However, aspects of the governance system are discriminatory. Individuals who do not declare themselves as members of one of the three “constituent peoples” (Bosniak, Croat and Serb) are prevented from participating in some of the country’s power-sharing institutions. There is further territorial-based discrimination, as the Bosnian Serb member of the presidency is elected by voters in Republika Srpska, and the Bosniak and Bosnian Croat members by the electorate of the federation (the same rules apply to indirect elections to the upper house of the state parliament). The European Court of Human Rights (ECHR) ruled in 2009 that these provisions discriminate against citizens on the grounds of ethnicity. A parliamentary committee was established in October 2011, tasked to draft constitutional and legal amendments to comply with the ECHR ruling. The committee has yet to propose amendments to parliament, and its work is crippled by lack of political will.

There is formally a complete separation between state and religion in Bosnia and Herzegovina (BiH). In practice, religious communities have an influential role in public and political life, with mixed effects on post-conflict reconciliation. The leaders of the country’s three dominant confessional groups – the Islamic community,

State identity  
3

No interference of  
religious dogmas  
8

and the Roman Catholic and Serb Orthodox churches – became key components of influential informal elite structures during the disintegration of Yugoslavia. Religious leaders continue to use their positions to shape political discourse and events in the country.

With some exceptions, religious leaders tend to emphasize the perceived disadvantageous position of their respective ethno-religious communities, rather than preaching inter-religious (and interethnic) tolerance and understanding. The leader of the Roman Catholic Church in Bosnia frequently emphasizes the political and social marginalization of Bosnian Croats, and has periodically hinted that he supports the formation of a third Croat-dominated entity. The head of the Islamic community until November 2012 was widely believed to have been a key player influencing the direction of Bosniak politics. He interfered directly in education policy in the Sarajevo canton in April 2011, leading the government to withdraw a proposal designed to downgrade the status of religious education in schools.

Basic administrative structures are in place, though they are unusually fragmented over the five levels of government – municipal, cantonal, entity, Brcko district and state levels. The entity governments of the Federation of Bosnia and Herzegovina and Republika Srpska are responsible for the bulk of services, including internal affairs, economy, environment, social and health policies, justice and direct taxation. In the federation, many of these responsibilities are shared with ten cantons, including health care, environment, education, social welfare, culture, tourism, housing, public services and local land use. The state-level government – the Council of Ministers – has exclusive responsibility for foreign policy, foreign trade, defense, customs policy, monetary policy, immigration, refugee and asylum policies, international and inter-entity law enforcement, communications, air traffic control and payment of international financial obligations. The state has assumed further responsibilities in the area of indirect taxation and regulation of judicial and prosecutorial bodies, following a transfer of responsibilities from the two entities.

Basic  
administration  
8

## 2 | Political Participation

General elections are conducted every four years at national, entity and canton levels. Local elections are also held every four years and are staggered to take place two years after the general elections. Universal suffrage with a secret ballot is ensured. However, constitutional provisions continue to discriminate on ethnic grounds, limiting the right to stand, given that only certain categories of citizens are permitted to run for the state presidency. Bosnia and Herzegovina's (BiH) continuing failure to amend discriminatory provisions of the constitution and electoral law have led the European Union and Council of Europe to threaten, in May 2012, that they would not recognize the legitimacy of general elections in 2014 under present rules.

Free and fair  
elections  
8

The Central Election Commission (CEC) is responsible for managing and certifying elections. Until 2006, elections were jointly administered with the Organization for Security and Cooperation in Europe (OSCE) and representatives of various international bodies participated in the work of the CEC. The CEC is now an exclusively domestic body and is considered to conduct its work broadly in line with OSCE and Council of Europe standards. However, the transition to full domestic management of elections has been accompanied by a greater degree of politicization in the work of the CEC.

Registration procedures for voters, candidates and parties are generally considered transparent and fair. However, there was controversy during the October 2012 municipal elections over voter registration in Srebrenica, the site of Europe's worst massacre since World War II (perpetrated by Serb forces against the male Bosniak inhabitants of the town). During previous elections, the town was granted special status, enabling Bosniak citizens who were forced to flee the right to vote there, and securing the election of a Bosniak mayor in the now Serb-dominated town. In 2012, the CEC did not to grant special status to Srebrenica, resulting in a heated public debate and heightened intercommunal tensions. Ultimately a Bosniak mayor was elected, following a high-profile campaign to register Bosniak voters.

The most powerful veto points in the Bosnia and Herzegovina (BiH) governance system come not from outside but are built into the complex decision-making process itself. Procedures for government formation and voting in the state parliament and the presidency give veto powers to representatives from each entity and constituent people that enable them to block common decision-making. The power-sharing system was designed to ensure fair ethnic representation in the state institutions. However, given that the country's three ethno-national elites have no minimal common vision of the character and role of the state, veto points are regularly exploited to prevent decision-making.

With decreasing external intervention to unblock deadlock, this frequently leads to a lack of any meaningful level of shared governance in BiH. Following the October 2010 general elections, the state government was formed after a lengthy stalemate of 15 months. During this time, the caretaker government was unable to agree on a state budget, and state institutions were forced to operate under temporary financing rules, limiting their capacity and output. As consensus is required on all matters, one entity can block the operational capacity of state institutions. For example, appointments to key positions in state institutions, including the Communications Regulatory Agency, the Indirect Taxation Authority, the Electricity Transmission Company and State Electricity Regulatory Commission, remain unfilled for months or years.

The constitution of Bosnia and Herzegovina (BiH) guarantees freedom of association and assembly, and the BiH Law on Associations and Foundations defines the rules governing assembly and association. Although political interference is not evident in

Effective power to govern

8

Association / assembly rights

8

granting permissions for association, the procedure for registration is lengthy and cumbersome. The Law on State Aid, adopted in February 2012, regulates the allocation of state funds to NGOs, but is yet to be implemented.

Independent groups, particularly in Republika Srpska (RS), have been subject to political intimidation and public criticism in media close to the government. In May 2012, the mayor of the town of Prijedor in RS prohibited commemorations planned to mark the 20th anniversary of war crimes committed in the town. In December 2012, a march to commemorate International Human Rights Day in the same town was banned by police, without legal reason. Amnesty International urged the RS authorities to uphold the right to freedom of expression and assembly.

Efforts to create a legal framework and conditions to encourage media independence in Bosnia and Herzegovina (BiH) have been considered a central element of peace implementation, given the destructive role played by ethnically divided state-controlled media in the disintegration of Yugoslavia. The OSCE Representative on Media Freedom concluded that BiH has an “advanced legal regime” governing freedom of the media. The constitution and legal framework guarantee freedom of expression. Libel and defamation have been fully decriminalized since 2002. The broadcast media are regulated by an independent Communication Regulatory Agency (CRA) and the print media is self-regulating through the BiH Press Council. Relatively advanced freedom of information legislation is in place.

However, there are sustained attempts by politicians to undermine media independence and influence editorial policy. During the review period, media independence declined, reflecting the deteriorating political and economic situation in the country. According to an international nonprofit organization fostering independent media (IREX), this is due to increasing political parallelism in the sector and shrinking advertising and other revenues, making outlets “more likely to serve the interests of their political and economic affiliates than the public.”

There have been several attempts to undermine the independence of the CRA, including a parliamentary attempt in June 2012 to undermine independent appointment procedures to the body. This follows a five-year period in which parliament failed to appoint a new director and members of the CRA council due to lack of political agreement. In July 2012, the federation parliament tried to contravene appointment rules to the steering board of the federation public service broadcaster, drawing criticism from the international community. The statute of the state public broadcaster was also changed in April 2012, giving its steering board full editorial and management control, increasing accusations of political control.

Public broadcasters and other media are divided on ethno-territorial lines, reflecting divisions in the body politic. Attempts to operate a multiethnic, statewide public broadcaster have been undermined by political obstruction, particularly from the

Freedom of  
expression

6

Republika Srpska (RS) political elite. The RS president called for the state public broadcaster to be abolished in December 2011.

Physical attacks against journalists are not widespread. However, journalists are discouraged from challenging the position of ethno-national elites and other powerful groups in society. The most troubling example of physical harassment was the violent attack on Stefica Galic, editor-in-chief of a web portal in the Croat-dominated town of Ljubuski, in July 2012. Galic was active in promoting inter-ethnic tolerance during the war and was the subject of a documentary cataloging her work that led to protests by right-wing Croat extremists. The OSCE Representative on Freedom of the Media characterized the incident as a “severe attack on freedom of speech and the safety of a journalist” and condemned the inadequate police response to it.

### 3 | Rule of Law

Bosnia and Herzegovina (BiH) has a uniquely complex constitutional structure. The state constitution and the constitutions of the two highly autonomous entities guarantee formal separation of powers between different branches of government. The state and the entities constitute semi-presidential systems. The three-member state presidency and the Republika Srpska (RS) president are elected by popular ballot, while the federation president is appointed by the federation parliament. In formal terms, the country has an independent judiciary, appointed and regulated by an independent High Judicial and Prosecutorial Council, though there are continuing concerns about political interference in the judiciary. Classic checks and balances are in place, such as the parliament’s power to adopt a no-confidence vote against the government, and the government’s right to dissolve parliament.

The main governance challenge in BiH continues to be the complexity of vertical division of competences between several layers of government and the inefficiency of horizontal power-sharing mechanisms. The system requires a huge amount of political will to function and this has been notably lacking since the war. 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, even on matters related to EU integration. Parliamentary decision-making is handicapped by multiple veto points, including de facto entity vetoes on state matters. The state lacks the enforcement mechanisms to harmonize legislation throughout the country.

In the absence of political agreement and dispute-resolution mechanisms, the international community has been relied upon to drive policy, broker or force domestic consensus and impose legislation where consensus was not forthcoming. Since 2006, international intervention and authority in BiH has rapidly declined.

Separation of  
powers  
8

Formally, Bosnia and Herzegovina (BiH) has a stringent legal framework to ensure the independence of the judiciary and prosecutors. The international community instigated a wide-ranging and controversial vetting and reappointment process for all judges and prosecutors in the country between 2002 and 2004, designed to root out corruption and to ensure professional competency and a fair ethnic balance. The process was implemented by High Judicial and Prosecutorial Councils (HJPC), comprising international and BiH staff. One HJPC for the whole country was created in 2006 and has since transitioned to a fully domestic body responsible for judicial and prosecutorial appointments across the country. The HJPC also acts as a disciplinary body, and is responsible for ensuring professional standards, providing training, and proposing and issuing opinions on draft legislation, regulations and other issues affecting the judiciary.

Independent  
judiciary

5

Evaluations of the effectiveness of the international-led vetting and reappointment process differ. However, the HJPC's transition to a domestic body has been accompanied by increasing political attempts to undermine its independence and the independence of other judicial bodies, particularly from the authorities in Republika Srpska (RS). The European Commission progress report for 2011 concludes that intensified political pressure and verbal attacks on the judiciary pose a "serious concern." In the reporting period, the RS authorities rejected the authority of the BiH Constitutional Court, and the competences of other state-level judicial institutions, proposing they be abolished through a referendum in April 2011. Under strong international pressure (a direct agreement with the European Union High Representative for Foreign Affairs and Security Policy), the RS National Assembly repealed the referendum decision in June 2011. However, the RS National Assembly conclusions remain in force and RS attacks on state-level institutions continue. Draft laws repealing the Law on the Courts of BiH and the Law on the Prosecutor's Office of BiH were submitted to the Bosnia and Herzegovina Parliamentary Assembly in February 2012.

Very few officials have been prosecuted for abuse of office and corruption in Bosnia and Herzegovina (BiH), though the legal framework is adequate and violations are catalogued in annual reports from the country's Supreme Audit Offices (SAOs). In the most high-profile case, the Republika Srpska (RS) special prosecutor's office dropped a corruption and abuse of office investigation into RS President Dodik and other senior entity officials in December 2011. In June 2011, under political pressure, the case was transferred to the entity prosecutor from the state prosecutor's office, which was acting on charges filed by the State Investigation and Protection Agency (SIPA) which alleged losses to the budget of €60 million as a result of corruption.

Prosecution of  
office abuse

6

Strict conflict-of-interest legislation imposed by the High Representative has been vastly unpopular among the country's ruling politicians. In a rare example of cross-ethnic party consensus, legislators amended the law in July 2012, watering down both the definition of conflict of interest and sanctions that can be imposed. For example,

officials accused of conflict of interest will no longer be punishable by suspension, but by a financial fine of maximum €5,000. Critics point out that this sum is meager in comparison to the corrupt profits some officials enjoy.

The most blatant circumvention of the law occurred in 2012 when the political party led by media tycoon Fahrudin Radoncic entered the governing coalition. Radoncic was proposed for the position of BiH Minister of Security in June. Under the conflict-of-interest law, his vast business interests in the country would have disqualified him from public office. His solution was to divorce his wife in July 2012 and, in the same month, to sell her his business for €100 million. In November, Radoncic was appointed security minister, reporting a monthly income of roughly €700 and stating that no member of his family owns or manages a private firm.

According to the 2011 U.S. Department of State Report on Human Rights Practices in Bosnia and Herzegovina (BiH), there were no reports of arbitrary or unlawful killings during 2011. Domestic courts and the International Criminal Tribunal for the former Yugoslavia (ICTY) continues to process war crimes. However, the 2012 European Commission progress report notes that the processing of cases was slow, due to both their complexity and vastly inadequate budgets and personnel numbers at all levels of jurisdiction. Many lower-level perpetrators of war crimes remain unpunished, despite the ongoing implementation of a strategy on domestic war crimes prosecutions.

Torture and other cruel, inhuman or degrading treatment or punishment is prohibited by law. However, the Council of Europe's Committee for the Prevention of Torture (CPT) reported that police have physically mistreated individuals at the time of their arrest and during detention, and that detention facility staff at times have physically abused prisoners. According to the CPT, there were several allegations that mistreatment aimed at forcing confessions is a frequent practice by crime inspectors at the Banja Luka Central Police Station.

In practice, recourse to civil judgment is undermined by inefficiencies in the court system. There is a backlog of nearly two million unresolved civil cases in BiH, more than half of which involve unpaid utility bills, and a lack of an effective mechanism to enforce court orders. Access to justice in civil trials is also restricted in practice as there is no state-level law on free legal aid; free legal aid continues to be provided mainly by NGOs.

Civil rights

7

#### 4 | Stability of Democratic Institutions

There is a great degree of friction between and across different levels of government in Bosnia and Herzegovina (BiH). Vertically, relations in the asymmetrical federal system are inefficient and ill-defined. The Venice Commission, a group of constitutional experts advising the Council of Europe, concluded in 2005 that the Bosnian state has one of the weakest federal centers in the world, lacking typical state competences and enforcement mechanisms to influence lower levels of government. Governance in the federation (itself a dysfunctional federation within a dysfunctional federation) was evaluated by the European Commission (EC) in 2011 as complex and costly, with competences overlapping between the federation, cantons and municipalities. The EC also notes that lack of harmonization mechanisms between different levels of government in BiH is a significant impediment to EU integration.

Horizontal power-sharing mechanisms that require the presence of all three constituent peoples in government also cause significant friction. In the largely monoethnic Republika Srpska (RS), power-sharing functions smoothly at the executive level as members of all three constituent peoples are drawn from ethnic Serb-dominated parties. The influence of the multiethnic RS Council of Peoples has also been deliberately reduced by the RS authorities: constitutional rules are misinterpreted to allow the RS constitutional court to reject the “vital national interest” claims of Bosniaks and Croats in the entity. However, in the federation and at the state-level, policymaking is significantly complicated by coalitions of ethno-national parties with sharply diverging interests and agendas. This is reflected in the quality and quantity of government output. The review period was marked by the lowest level of government activity and output in BiH’s recent history, despite a heavy agenda stemming from EU and NATO integration.

The current constitutional set-up of the country is routinely questioned and undermined by politicians, particularly from Republika Srpska (RS) and the main Croat parties. Bosniak politicians also question the legitimacy of RS institutions. The RS leadership continues to advocate independence for their entity, though no such constitutional right exists. They have also questioned the mandate and authority of several state-level institutions, most notably the Constitutional Court and the State Court; an entity referendum on the continued existence of these institutions was cancelled in July 2011, under international pressure. In September 2011, the RS prime minister announced his intention to propose a new RS constitution that would abolish the RS Council of Peoples, the body that reviews legislation to determine whether the “vital national interest” of one of BiH’s constituent peoples (and “others”) is undermined in that entity. Under present constitutional rules, the council could not be abolished without the consent of Bosniaks and Croats. However, the

Performance of  
democratic  
institutions

5

Commitment to  
democratic  
institutions

5

announcement underlined the RS leadership's antipathy to multiethnic institutions in the entity.

Dissatisfied with their exclusion from government following elections at the end of 2010, the two largest Bosnian Croat parties (Croatian Democratic Union of Bosnia and Herzegovina, HDZ, and Croatian Democratic Union 1990, HDZ1990) organized a so-called Croat National Assembly in April 2011, and called for the creation of a federal unit to be dominated by Croats. Their initiative was vocally supported by the Bosnian Serb leadership. Calls for a third Croat entity subsided somewhat following an agreement at the end of 2011 between the Bosniak-dominated Social Democratic Party (SDP) and the two main Croat parties to include them in the state and federation governments. Bosniak politicians have toned down their anti-RS rhetoric in recent years. However, they continue to challenge various aspects of governance in the mainly Serb entity, on the grounds of ethnic discrimination and entity usurping of state-level responsibilities.

## 5 | Political and Social Integration

The party system in Bosnia and Herzegovina (BiH) is almost exclusively divided along ethnic lines between the three constituent peoples, Bosniaks, Croats and Serbs. Political parties are also organized mainly on the territory of one entity. A handful of parties, most notably the Social Democratic Party (SDP BiH), maintain a multiethnic leadership; however, most of these individuals come from one entity – the federation – and the party's electorate is overwhelmingly Bosniak. The main federation-based parties, Party of Democratic Action (SDA) and Social Democratic Party (SDP), field candidates in Republika Srpska (RS) elections. However, as fewer Bosniaks choose to vote in their pre-war places of residence, the number of non-Serb party representatives elected to the RS National Assembly and at the municipal level is falling with each election (from 17 National Assembly seats in 1998 to 5 seats in 2010). Very few RS-based parties field candidates in some parts of the federation, with little electoral impact.

BiH has an unusually large number of political parties in proportion to its small population size, with some 87 parties registered by the October 2012 local elections. However, each ethnic group is dominated by two parties each: The SDA and SDP are the two key parties in Bosniak-majority areas; the Alliance of Independent Social Democrats (SNSD) and Serb Democratic Party (SDS) in Serb-majority areas; and Croatian Democratic Union of Bosnia and Herzegovina (HDZ) and Croatian Democratic Union 1990 (HDZ1990) in Croat-majority areas. A new political party formed in 2009 in the federation by media tycoon Fahrudin Radoncic, the Alliance for a Better Future of BiH (SBB), has made inroads into the support base of the SDA and SDP. However, at the 2012 local elections, the six main parties in BiH won all mayoral positions bar four, and over 70% of all municipal assembly seats. These main

Party system

6

governing parties and their patronage networks are well-established. According to an assessment made by the OECD and EU's Support for Improvement in Governance and Management (SIGMA) program: "ethnicity is invoked on a routine basis to disguise patronage, cronyism and nepotism."

The spectrum of interest groups in Bosnia and Herzegovina (BiH) span the usual array of organizations present in new democracies in the region; however, the number of active organizations is relatively small.

Interest groups  
6

The interests of groups that may be influential in more developed democracies and economies, such as business and consumer associations, are not well articulated in BiH, nor are they systematically included in policymaking. Their impact may be also reduced because of the lack of single country-wide associations. Their formation and registration is discouraged or prevented. For example, since 2002, BiH authorities have refused the request of the Trade Union of BiH to register as a union at the state-level, drawing criticism from the International Labor Organization.

Unsurprisingly, socially marginalized groups are particularly poorly represented. In terms of social and welfare policy, war veterans' associations are dominant and their powerful lobby continues to secure vastly disproportionate benefits for this sector of the population, at the expense of other vulnerable groups.

There are few calls in Bosnia and Herzegovina (BiH) for a return to a non-democratic system of government. However, there are vastly different levels of attachment to the state of BiH across BiH's three ethno-national groups. According to 2010 U.N. Early Warning System data, Bosniak citizens express high amounts of pride both in their state citizenship (88%) and their ethnic identity (90%). Croats express high pride in their ethnic identity (85%) and significantly less pride in their BiH citizenship (31%). Serbs express significantly greater pride in their ethnic identity (77%) compared to pride in BiH citizenship (18%).

Approval of  
democracy  
6

Levels of trust in democratic and other public institutions are low in BiH, even compared to a generally low regional average for Southeast Europe. In the 2012 Gallup Balkan Monitor survey, BiH citizens expressed the lowest approval ratings for the country's leadership, at just 16% (the regional average is 29%). Citizens across both entities also registered the lowest levels of approval for the national government (19% in the federation and 21% in Republika Srpska (RS), compared to a regional average of 30%). Levels of trust in the judicial system are 34%, reflecting low levels of confidence across the region. Levels of trust in the police are greater, with 19% of BiH respondents claiming a high level of trust and 41% "some" trust in the police. The military commands a greater degree of trust at 58%. However, there are sharp differences in levels of confidence across the two entities, with 69% trusting the military in the federation and a significantly lower 39% in the RS. These diverging

levels of support are partly explained by the merger of the RS army into a single armed force for the whole country in 2006.

General levels of trust in Bosnia are comparable to those in neighboring countries. The 2012 Gallup Balkan Monitor survey found general levels of trust in other people in Bosnia and Herzegovina (BiH) at 67%. Perhaps surprisingly, more people in BiH say they trust people from different nationalities, compared to elsewhere in the region. Despite suffering by far the heaviest human and other losses during the conflicts that marked the break-up of Yugoslavia, 56% of BiH respondents express trust in people of different nationalities. By contrast, BiH respondents recorded the lowest levels of strong identification with their country (75% expressing moderate to extremely strong identification, compared to 91% in Serbia). Of these, respondents from Republika Srpska (RS) express the lowest level of strong identification, at 60%. These levels have remained relatively low since polling began in 2010.

The European Commission estimates that of around 8,000 civil society organizations in BiH, only between 500 and 1,500 are active and only a small number of these are professional associations. The country's postwar transition gave rise to relatively influential associations of war veterans, as well as other groups representing individuals adversely affected by conflict, such as refugees and displaced persons. The country's ethnically divided territory and governance system have spawned ethno-territorial-based interest groups and civil society organizations. Cooperation between groups with similar mandates in different parts of the country is not typical, particularly as some may have different or even opposing agendas.

Social capital

6

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Bosnia and Herzegovina's 2011 Human Development Index (HDI) score is 0.733, ranking the country in the category of high human development, 74 of 189 countries. The score is below the average of 0.751 for countries in Europe and Central Asia. Bosnia and Herzegovina (BiH) has the second lowest score in Southeast Europe (after Macedonia). The country's Gini coefficient was 36.3 in 2007. According to the UNDP Human Development report, between 1980 and 2011, life expectancy at birth in BiH increased by 5.2 years and expected years of schooling increased by 0.4 years.

The UNDP's 2009 National Human Development Report for BiH documented manifestations of "exclusive social capital" in BiH institutions, including nepotism and clientelism, which perpetuate exclusion and deny basic human rights to many citizens. This report and others concluded that there is "very low generalized trust"

Question  
ScoreSocioeconomic  
barriers

6

in society, as well as limited levels of civic participation and social solidarity. In large part this is a direct consequence of conflict and the divided and inefficient postwar political system. Ethnic minorities are particularly vulnerable to exclusion, while internally displaced people are at a high risk of poverty. Other groups at high risk of poverty and social exclusion include the elderly (of whom over 65 years old are ineligible to receive a pension), youth, people with disabilities, the Roma population, and women, whose level of participation in the labor market is among the lowest in Europe.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	17082.9	16775.5	18242.5	<b>17047.6</b>
GDP growth	%	-2.9	0.7	1.3	<b>-0.7</b>
Inflation (CPI)	%	-0.4	2.2	3.7	<b>2.0</b>
Unemployment	%	24.1	27.2	27.6	-
Foreign direct investment	% of GDP	0.8	2.0	2.1	<b>3.7</b>
Export growth	%	-3.5	11.3	12.6	<b>-0.1</b>
Import growth	%	-4.5	27.5	7.9	<b>2.5</b>
Current account balance	\$ M	-1135.9	-913.9	-1729.2	<b>-1607.1</b>
Public debt	% of GDP	35.9	39.3	40.4	<b>44.3</b>
External debt	\$ M	11335.6	10934.2	10729.1	-
Total debt service	\$ M	525.0	800.9	869.3	-
Cash surplus or deficit	% of GDP	-4.3	-2.2	-1.2	-
Tax revenue	% of GDP	19.5	20.2	20.8	-
Government consumption	% of GDP	21.4	20.9	21.9	<b>23.0</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	6.9	7.0	6.9	-
R&D expenditure	% of GDP	0.02	-	-	-
Military expenditure	% of GDP	1.4	1.3	1.1	<b>1.4</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

According to the 2012 European Commission (EC) progress report, Bosnia and Herzegovina (BiH) made little progress in the review period toward establishing a functioning market economy, and major reforms are required to enable the country to cope with competitive pressure and market forces over the long term. Some improvements have been made to the business environment (the length of time to start a business and obtain a construction permit were reduced in 2011), but significant administrative barriers remain for private-sector development. The functioning of market mechanisms remains hampered by the large government sector. The International Monetary Fund (IMF) concluded in October 2012 that the government's significant presence continues to crowd out the private sector, and the general business environment discourages investment and expansion. This results in high unemployment and low labor-force participation. The EC concludes that there was limited progress on the liberalization of network industries, and the state continues to influence the economy through state-owned monopolies. There was also limited progress toward creating a single economic space within the country, though it is a key European Partnership priority and critical for attracting more foreign investment.

Market-based  
competition

6

The informal sector in BiH is large. The discrepancy between the official unemployment rate and the rate defined by the International Labor Organization (ILO) is marked. According to the BiH Labor and Employment Agency, there were 510,500 individuals registered as unemployed on 31 December 2009, some 46% of the labor force. This is almost twice as much as the ILO-reported determined unemployment rate.

The Law on Competition and its by-laws are harmonized with EU regulations, and the Bosnia and Herzegovina (BiH) Competition Council is operational across the whole country. The European Commission (EC) notes that anti-trust legislation needs to be improved and the administrative capacity of the Competition Council increased. The council adopted seven anti-trust decisions and eight merger decisions and imposed fines totaling about BAM 201,500 (to November 2012) on companies that infringed competition rules. A Market Surveillance Agency has been established. The EC progress report notes that the agency is implementing the 2012 Annual Surveillance Plan and securing good cooperation with the entity inspectorates and the Brcko District. A State Aid Law was adopted. However, implementing legislation has not been adopted, and the State Aid Council and secretariat has not yet been staffed.

Anti-monopoly  
policy

8

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 the European Union. Bosnia and

Liberalization of  
foreign trade

9

Herzegovina (BiH) is still not a member of the WTO, and thus comparative data is not available. Progress was made in 2012 on negotiations for WTO accession. BiH has started to implement an Interim Agreement on Trade and Trade-Related Matters with the European Union and planned reductions of custom tariffs are underway.

The banking sector dominates the financial system of Bosnia and Herzegovina (BiH), with an 83% share of total assets in 2011. 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. BiH's bank capital-to-assets ratio is 8.0. The share of non-performing loans was 11.7% in 2011, rising to 12.6% in the second quarter of 2012. According to the 2012 European Commission progress report, the capital adequacy ratio increased from 15.3% in the third quarter of 2011 to 16.8% in the second quarter of 2012, comfortably above the legal minimum of 12%.

The central bank worked to mitigate the effects of the global financial crisis, effectively preserving financial and monetary stability. 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.

## 8 | Currency and Price Stability

Bosnia and Herzegovina (BiH) experienced slightly higher inflation in absolute numbers compared with the European Union, but did not significantly deviate from regional trends in Southeast Europe. BiH did not experience a significant relative increase from its neighbors or the European Union in inflation from 2010 to 2011. In 2011, the rate of inflation in BiH was 3.7%, a 1.6% increase from the previous year, a trend also present among BiH's neighbors. With the exception of Serbia (where inflation reached 11% in 2011), BiH and neighboring countries Croatia and Montenegro all had inflation rates that fell between 2% and 4%. The corresponding rate of inflation in the European Union during 2011 was 3.1%, a 1% increase from 2010. Inflation in BiH moderated in the first seven months of 2012, dropping to 1.4% in July, pushing the 12-month moving average inflation rate down to 2.8%. The similarity in relative inflation rate increases during the review period may be attributed more to the fact that the Bosnian convertible mark (BAM) is pegged to the euro than measures taken by the Bosnian Central Bank or the government.

After five years of economic growth, resulting from an expansion in private-sector demand fueled by a credit boom financed from abroad, Bosnia and Herzegovina (BiH) experienced a decline in GDP of nearly 3% in 2009 as a result of the global economic crisis. Percentage of growth of real GDP year-on-year from 2009 – 2012

Banking system  
8

Anti-inflation /  
forex policy  
9

Macrostability  
7

in BiH was low. According to World Bank figures, annual percentage growth of GDP rose from -2.9% in 2009 to 1.3% in 2011. However, this is not sufficient to halt expanding debt that has resulted from chronic deficit spending, a negative current account balance, growing government expenditure and a meager total reserve. The IMF concludes that BiH authorities have made progress in maintaining fiscal discipline and safeguarding financial sector stability. However, progress on structural reforms has been slow. The IMF staff projects that real GDP will regain its 2008 level in 2013.

From 2008 to 2011, fiscal policy in BiH contributed to a progressively worsening macroeconomic situation. BiH consistently engaged in deficit spending from 2008 to 2010. In 2010, the country's deficit reached -2.3% of GDP. A large contributing factor to deficit spending in this period was a steady increase in government expenditures, which grew from 21.4% of GDP in 2009 to 22.1% in 2011. The IMF notes that reductions in spending on public wages and war-related benefits as a share of GDP was slower than programmed, though both grew slower than inflation in 2008 – 2011, constituting a “significant departure” from past trends.

Because of slow growth coupled with chronic deficit spending, BiH continues to carry progressively higher debt from year to year. In 2010, it reached 36.9% of GDP, up from 30.9% in 2008. BiH's situation is not unique to the region; in 2008 – 2010 the country maintained lower debt as a percentage of GDP than its neighbors Croatia, Montenegro and Serbia.

Further compounding this situation is BiH's current account balance, which is -\$1.7 billion for 2011, an increase of - \$0.8 billion from 2010. In an effort to somewhat offset this negative account balance, BiH has made efforts to build total reserves as a means to protect itself from external economic forces. This has resulted in an increase in reserves of \$1.3 billion in 2002 to \$4.1 billion in 2011. While this is a positive development, taking into account the wider state of its economy, it is insufficient to cushion BiH from significant negative external economic trends.

## 9 | Private Property

The ease with which property can be registered in Bosnia and Herzegovina (BiH) has radically improved in recent years. BiH is ranked 93 of 185 countries on ease of registering property. According to the World Bank's 2013 Doing Business survey, 25 days are required to register property in BiH, eight days less than in 2012. This represents a massive reduction compared to the 331 days that were required in 2008. However, the country still unperformed compared to the regional average for Eastern Europe and Central Asia (where the average regional position is 59 of 185

Property rights

8

economies). BiH shows better performance in Southeast Europe, ahead of all countries in the region, except Serbia.

As regards reclaiming property confiscated during the war, a high proportion of property repossession requests have been resolved. The Commission for Real Property Claims of Displaced Persons and Refugees (CRPC) ceased working in 2009. As of 2012, it is estimated that there over 110 unresolved cases and approximately 300 cases pending before the Court of Bosnia and Herzegovina.

The World Bank's Doing Business survey ranks Bosnia and Herzegovina (BiH) 162 of 185 countries on the ease of starting a business. Starting a business in BiH requires 11 procedures, 37 days, costs 14.9% of income per capita and requires paid-in minimum capital of 29.1% of income per capita. The regional average ranking for Central and Eastern Europe is 60. BiH also performs significantly worse than neighboring countries in the Western Balkans (Serbia is ranked at 42, Montenegro at 58, Albania at 62 and Croatia at 80). Companies are still required to register in both entities before they can do business in the whole country, further discouraging BiH-wide business start-ups and foreign direct investment.

Despite the country's poor position, there has been progress in recent years on improving the climate for doing business. The time required to register a business in BiH was reduced from 69 days in 2010 year-on-year to 37 days in 2013. However, the length of time compares very unfavorably to neighboring countries (12 days in Serbia, 10 days in Montenegro, nine days in Croatia, four days in Albania and two days in Macedonia).

Privatization of state companies is resisted in some sectors, particularly in the federation. The 2012 European Commission progress report notes that the privatization process has stalled for the fourth consecutive year in BiH. The private sector's share in GDP is estimated to have remained stable, at around 60% of GDP in 2011. In Republika Srpska (RS), 69% of the initial stock of state-owned capital intended for privatization had been sold by September 2012, unchanged from a year earlier. In the federation, none of the 10 companies included in the 2012 privatization plan have been sold. About 58% of the initial stock of state-owned capital intended for privatization remains state-owned.

## 10 | Welfare Regime

Social protection is regulated at the entity level in Republika Srpska (RS), while competences are shared between the entity and canton governments in the federation. The systems are not harmonized. There are contributory and non-contributory schemes in both entities. The social security system encompasses social insurance, social assistance, family and child assistance and war veterans' protection. Within the

Private enterprise

7

Social safety nets

6

social insurance scheme are pension and invalidity insurance, health insurance and health protection, and unemployment insurance.

The World Bank and others point out that there are inadequate levels of social assistance provided to the most vulnerable groups in society, in large part because war veterans continue to obtain the highest levels of protections and constitute a powerful lobby against change. Therefore benefits are often provided on the basis of status rather than need. The system is costly: BiH spends 4% of its gross domestic product (GDP) on non-insurance cash transfers for social protection. This assistance is poorly targeted, as a higher share of benefits go to affluent sectors of society while the poorest receive less proportionately, making the system essentially regressive rather than progressive. In 2009, the World Bank estimated that people in the bottom 20% consumption quintile receive only 16.9% of the total non-insurance social protection cash transfers.

Life expectancy at birth is 75.4 years, according to 2012 World Bank World Development Indicators. Some 6.8% of GDP is spent on health services.

The UNDP's 2009 National Human Development Report for Bosnia and Herzegovina (BiH) documented manifestations of "exclusive social capital" in BiH institutions, including nepotism and clientelism, that perpetuate exclusion and deny basic human rights to many citizens. Ethnic minorities are particularly vulnerable to exclusion, while internally displaced people are at a high risk of poverty. Other groups at a high risk of poverty and social exclusion include the elderly (of whom over 65 years are ineligible to receive a pension), youth, those with disabilities, the Roma population and women, whose level of participation in the labor market is among the lowest in Europe.

In 2007, the UNDP developed three new indicators to measure human development and social inclusion in BiH. The General Social Exclusion Index (HSEI) for BiH reports that 50.32% of the population in BiH is socially excluded (unable to have a normal standard of living, is not covered by health insurance, has no access to education, cannot participate in society and has no access to services). The Extreme Social Exclusion Index (HSEI-1) reports that 22% of BiH citizens is extremely excluded from the most basic processes and has no access to realize even the most basic societal needs. The Long-Term Social Exclusion Index (HSEI-2) measures how many population members have only limited means to improve their situation, and found that 47.31% of employed BiH citizens are at risk to remain in this category.

## 11 | Economic Performance

In 2011, the slow economic recovery continued at moderate pace with real GDP growth accelerating slightly to 1.3%, as compared to 0.7% in 2010. Average annual

Equal opportunity

5

Output strength

5

inflation was 3.7% in 2011, compared to 2.2% in 2010. Inflation moderated in the first seven months of 2012, dropping to 1.4% in July, pushing the 12-month moving average inflation rate down to 2.8%. The average unemployment rate reached 27.6% in 2011, rising from 27.2% in 2010. The consolidated budget deficit reached 1.3% of GDP in 2011, compared with 2.5% in 2010. Fiscal consolidation was achieved partly as a result of rising revenue, fueled by the economic recovery and increases in tax, contribution and excise rates. Tax revenue increased by 7% in 2011.

The IMF notes that the slow post-2009 economic recovery lost momentum in 2012. The IMF concludes that the pickup in economic activity did not spread from export-oriented industries to the wider economy, with domestic demand held back by stagnant wages and employment and slow credit growth. In the first half of 2012, the repercussions of the worsened external environment were increasingly felt in public finances. Tax revenue fell by 0.8% year-on-year reflecting the downturn in economic activity, while most expenditure categories increased in year-on-year comparisons.

General government debt, both domestic and foreign, increased by 6% and stood at 39.5% of GDP at the end of 2011. External debt accounted for 26.1% of GDP and domestic debt for 13.3%. After a crisis-led adjustment in 2009 – 2010, the current account deficit soared from 5.7% of GDP in 2010 to 8.8% in 2011. This deterioration was mainly driven by the expansion of the trade deficit, surging by 12.3% year-on-year to 27.9% of GDP. External public debt increased by 5.9% to 26.1% of GDP in 2011, while external private debt reached 33.1% of GDP. In the first half of 2012, the external public debt rose further by 5.1% year-on-year. External imbalances have widened again after the sharp crisis-led contraction in 2009 – 2010, thus indicating that the adjustment was just temporary and not structural. The investment-to-GDP ratio remained relatively low at about 20% in 2011, broadly unchanged from 2010.

## 12 | Sustainability

The idea of environmentally compatible growth is barely taken into consideration in macroeconomic terms in Bosnia and Herzegovina (BiH), and no specific governmental policies have been adopted in microeconomic terms. According to the 2012 European Commission 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 to monitor compliance. The report underlines that overall administrative capacity in the environmental sector is weak within existing institutions with responsibility for the environment, due to fragmentation of vertical and horizontal competencies and a lack of a harmonized legal framework for environmental protection.

Environmental  
policy  
5

Levels of public expenditure on education in Bosnia and Herzegovina (BiH) are not available via the Human Development Index (HDI), and there is a general lack of reliable data on the education system in BiH. A 2006 World Bank expenditure and institutional review estimated total public spending on education at 4.3% of GDP in 2005, higher than many other countries in the Western Balkans but below the EU average. According to the 2011 HDI, the population has 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 97.8% in 2008. In 2011, the gross enrollment ratio for primary school was 90%, secondary school 89%, and tertiary education 38%, according to World Bank statistics.

Education policy /  
R&D  
5

Expenditures for research and development in BiH are extremely low, some 0.02% of GDP in 2009. This is significantly below the OECD/EU mean of 2% of GDP, and is also low compared to 1.86% in Slovenia, 0.89% in Serbia and 0.83% in Croatia. BiH 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.

The education reform process in BiH began some 15 years ago with international support. Efforts have been made to reduce ethnic segregation in schools and to liberalize and improve ethnically based curricula. Although the Framework Laws on Primary and Secondary Education and Higher Education were adopted at the state level in 2003 and 2007 respectively, the education reform process is hindered by the different speeds of implementation of laws and reforms within the country and the lack of mechanisms to enforce the implementation of state-level laws.

The European Training Foundation concludes that improving access to quality education and training in BiH requires the modernization of teaching and learning at all levels of education, an improvement of learning and teaching quality, introducing a student-centered learning methodology, orientation toward learning outcomes and key competences. Special attention needs to be paid to the students with special needs and other specific groups.

## Transformation Management

### I. Level of Difficulty

Postwar Bosnia and Herzegovina (BiH) is undergoing at least a threefold transition: from war to peace, from communism to democracy and a market economy, and from membership in a federation to independent statehood. The legacy of the war significantly complicates the country's transition compared to neighboring countries. The security situation has largely normalized and physical war scars are decreasing, thanks in large part to international donations. However, BiH makes more limited progress on democracy, governance and other reforms in comparison to neighboring countries. The country's constitutional future remains contested and the least stable in a volatile region. These problems stem partly from a lack of common vision among the country's political elites (and to a lesser extent its population), which is, in turn, shaped by a governance system that favors ethnicity and territorial self-government as organizing principles. This is combined with an electoral system that poses incentives for politicians to appeal to voters on the basis of ethnicity, outbidding moderates to appeal to nationalist extremes. The complexity of the system allows public officials ample room for corruption and patronage, which is, to an extent, obfuscated in a complex, opaque system that lacks accountability.

Structural  
constraints

5

A degree of system functionality was previously ensured by the international community, which used executive civilian and military powers to enforce peace implementation and ensure the minimal functionality of common power-sharing institutions. 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 and a desire to "normalize" the international presence in the country. However, in the absence of sustained and consistent international pressure, the system frequently comes to a standstill.

Civil society as an integral part of democratic processes does not have long tradition in Bosnia and Herzegovina (BiH). Civil society traditions have been weaker in Bosnia than in the Croat, Serb and Slovene republics of the former Yugoslavia, and civil society organizations (CSOs) have been constrained to urban centers such as Sarajevo, Banja Luka or Tuzla. Anti-war CSOs protested against the nationalist mobilization prior to 1992, but they were marginalized by nationalist parties and their

Civil society  
traditions

5

CSOs. CSO efforts have been significantly undermined by an environment in which political dialogue is dislocated into informal, but influential non-institutional circles.

Since 1995, the most vocal liberal civil society organizations have drawn most, if not all, of their funding (and political support) from international sources. A small number of prominent NGOs (such as the Centers for Civic Initiatives and Transparency International BiH) frequently and forcefully expose government inefficiencies and other transgressions. However, their activities are not typical of the sector. It should also be noted that there are elements of civil society that are illiberal and/or anti-reform-minded, such as the Associations of War Veterans.

Citizens in Bosnia and Herzegovina (BiH) identify strongly with their ethnic group. Identification with the BiH state as a whole is high among Bosniaks, lower among Croats and very low among Serbs. The governance system recognizes ethnicity as an important organizing principle of politics, with power-sharing mechanisms between the three dominant ethno-national groups in place at state and regional (entity and canton) levels of government. At the entity-level, other minorities are also afforded protections (in the Federation House of Peoples and Republika Srpska (RS) Council of Peoples) but they are excluded from the state House of Peoples and cannot run as candidates for the state presidency.

Interethnic power-sharing is accompanied by, and to a certain extent encourages, a highly confrontational style of politics. The top-down dissemination of interethnic hatred was a key technique employed during the war to divide Bosnia on ethno-national lines. After the war, the heavy international presence in Bosnia discouraged its continuation, by rooting out extremists and imposing sanctions on public officials who questioned the terms of the peace agreement. However, after 2006, the international presence was weakened and external influence on political elites declined rapidly. This was accompanied by a rise in nationalist political rhetoric and increasing obstruction of power-sharing structures.

Conflict intensity  
5

## II. Management Performance

### 14 | Steering Capability

During the review period, political elites showed little capacity to move beyond immediate concerns of electoral competition and gaining access to government positions. In this climate of political crisis and stalemate, strategic priorities and other pressing governance issues were ignored or sidelined. Multiethnic coalitions at the state and federation levels lack basic common direction, and policy was reduced to lowest common-denominator issues. This is evidenced by the agreement reached

Question  
Score

Prioritization  
4

between the largest two parties in each entity (Social Democratic Party, SDP, and Alliance of Independent Social Democrats, SNSD) in November 2012, which would reverse some of the international community's flagship reforms in Bosnia and Herzegovina (BiH), taking powers away from independent bodies (like the High Judicial and Prosecutorial Council, the Central Election Commission and the Civil Service Agencies) and giving them to politicians. The proposals have drawn sharp criticism from civil society groups and some in the international community, who accuse the main parties of undemocratic means of entrenching their power.

As with many other reform processes in BiH, strategic documents are usually developed under pressure from international organizations. Strategic planning coordination or cooperation between levels of government is inadequate and usually follows international pressure or guidance. Even the country's key goal, EU integration, is given little strategic direction. A country development strategy and social inclusion strategy were adopted in the federation and in Brcko District, but remain to be adopted by the state and Republika Srpska (RS) governments. A directorate for European integration operates within the state government, but has limited capacity to ensure the dissemination of EU policy and the harmonization of domestic legislation with EU requirements across different levels of government. In conditions of what the 2012 European Commission progress report on BiH describes as "fragmented, uncoordinated policymaking," BiH's EU integration agenda is effectively stalled. Strategic planning units have been established in some ministries. However, their ability to develop and monitor the implementation of strategy and policy is at an early stage of development, and their role is not given adequate political support.

Policy development and implementation were seriously hampered by the protracted crisis in government formation in the federation and at the state level. The situation at the state level was most marked. During the 15 months of negotiations on government formation, there was a critically low level of output, and the state operated without an adopted budget, using emergency measures instead. Even after the government was formed, the Centers for Civic Initiatives (CCI) reported in September 2012 that in the preceding nine months, parliament had operated without even a semblance of a work plan, adopting only 16 laws, and rejecting almost as many.

The federation was also beset with political deadlock. In the first nine months of 2011, CCI reported that the federation parliament adopted only nine of 90 planned laws, a meager 10%. Initially formed without the participation of the two largest Croat parties, the coalition fell apart in May 2012, due to a dispute between the two main Bosniak parties in the coalition (Social Democratic Party, SDP, and Party of Democratic Action, SDA). The SDP attempted to replace the SDA and the smaller Croat Croatian Party of Rights (HSP) party from the federation with the main Croat parties, Croatian Democratic Union (HDZ) and Croatian Democratic Union 1990

Implementation  
5

(HDZ1990) and the mainly Bosniak Alliance for a Better Future (SBB). The dispute continues, as SDP lacks the requisite votes in the federation parliament. As a result, parliamentary work is on virtual standby.

Governance in the Republika Srpska (RS) is more straightforward, as all coalition partners are Serb parties and the entity is highly centralized. However, implementation rates in the entity are still low. CCI reported that during the first nine months of 2012, only 49 measures of 112 envisaged in the National Assembly's "unambitious" program of work were passed, amounting to a 44% implementation rate.

There is little evidence of institutionalized or ad hoc policy learning in Bosnia and Herzegovina (BiH). Assessment mechanisms are rare. The country's multiple layers of government reduce opportunities for policy learning. There is a dearth of mechanisms to monitor policy implementation or to enforce the decisions of the federal center (at state and federation levels) at lower levels of government. The protracted crisis in government formation at the state and federation levels during 2011 negatively affected policymaking, implementation and learning, with many government bodies at a virtual standstill for much of the review period.

Policy learning  
4

## 15 | Resource Efficiency

The multiple levels of government in Bosnia and Herzegovina (BiH) are extremely costly and inefficient. Attempts to streamline government have been stymied by lack of political will, particularly as the public administration serves as a rich patronage arena for governing parties. The number of employees in the already bloated public administration continued to rise in 2011, as well as in the first half of 2012. Civil service laws exist at all levels of government, but implementation of merit-based provisions is hampered by political interference. A report produced by the OECD and European Union's Support for Improvement in Governance and Management (SIGMA) program concludes that ethnicity is the "cornerstone" of the country's administrative and civil service systems; as political parties are organized on the basis of ethnicity, ethnicity is thus used to cover up political patronage and nepotism. The 2012 European Commission (EC) progress report notes that no progress has been made toward the development of a professional and depoliticized civil service.

Efficient use of  
assets  
4

The 2012 EC progress report concludes that the protracted delay in adopting a state-level budget and the Global Frameworks for Fiscal Policies for 2012 – 2014 and 2013 – 2015 seriously undermined the "transparency, sustainability and reliability" of public finances in BiH. The report also notes that entity budgets were adopted without a medium-term fiscal framework, violating legal requirements. The public audit function is in place at all levels of government and is generally assessed to be sufficiently independent. However, governments often fail to act on audit findings.

The 2011 report of the BiH Audit Office found that a significant number of recommendations contained in previous audit reports have not been implemented by the government, even where parliament has supported the auditor's opinion. For example, three years after the adoption of a law on salaries and benefits, regulations on allowances for officials' cars, representation and official telephones have still not been adopted.

The uniquely complex and fragmented division of government functions leads to overlapping services, and inefficiencies are exacerbated by poor coordination and even poorer cooperation between different levels of government at both the policymaking and implementation stages. The functioning of state-level bodies is frequently stymied by political disagreement, particularly obstruction from representatives from Republika Srpska (RS), who routinely question the authority and legitimacy of common state-level bodies. Even basic information sharing is often lacking between different levels of government. For example, the IMF underlines that poor information sharing among the three statistical agencies and the three tax agencies in BiH inhibits economic analysis as well as tax collection and enforcement.

Policy  
coordination  
4

The IMF concluded in 2012 that there was a "breakdown in national policy coordination" following the October 2010 elections. Improved policy coordination is a condition of the IMF standby arrangement negotiated with BiH authorities in 2012. A statewide BiH Fiscal Council (FC) adopted a Global Framework of Fiscal Balance and Policies for 2013 – 2015. While welcoming this, IMF staff note that the FC needs to be strengthened to lead efforts to design medium-term fiscal policy and targets.

As with many other reform areas, anti-corruption efforts in Bosnia and Herzegovina (BiH) are poorly implemented due to lack of political will to enforce legislative and institutional frameworks. Anti-corruption efforts tend to be pushed by international organizations; much of the legislative and institutional framework to deal with corruption in BiH was put in place using the High Representative's executive powers prior to 2006. Politicians have spent more time since then attempting to undo these reforms than encouraging their implementation. The 2012 European Commission progress report concludes that corruption "remains widespread throughout the public and private sector."

Anti-corruption  
policy  
4

The legislative and institutional framework was either initially imposed by the High Representative (legislation on public audit functions, political party financing, freedom of access to information, conflict of interest) or adopted with high degrees of external assistance and under strong international pressure (public procurement legislation). The government has adopted an anti-corruption strategy and action plan for 2009 – 2014, but has failed to put into operation the Agency for the Prevention of Corruption and Coordination of the Fight against Corruption. The Group of States against Corruption (GRECO) has identified various deficiencies in the legal framework to fight corruption. Rather than making changes to improve the

legislation, the BiH parliament adopted legislative amendments in 2012 that weaken the definition of conflict of interest and sanctions against public officials.

Prosecutions for corruption are low, and rarely involve senior officials. Politicians directly and indirectly discourage the investigation of corruption. In 2009, Republika Srpska (RS) leaders successfully lobbied for the removal of international prosecutors from the organized crime and corruption section of the state prosecutor's office. There is speculation that this directly caused the significant reduction in the number of cases brought before the state court in 2011. RS leaders also advocate repealing a legal provision that allows the state-level prosecutor and court to take over entity investigations and cases. As the International Crisis Group concludes, removing this power from the state would in effect immunize senior RS officials from prosecution, since no RS court has ever convicted a powerful senior government figure.

In June 2011, the cantonal court in Mostar acquitted the leader of the largest Croat party and former member of the BiH presidency, Dragan Covic, of corruption charges in connection with the privatization of a mobile phone subsidiary of a Mostar-based telecommunications company.

## 16 | Consensus-Building

All major political actors in Bosnia and Herzegovina (BiH) are formally committed to the country's integration into the European Union, which entails the continuation and intensification of democratic and market economy reforms. However, in practice, politicians from across the political spectrum are keen to entrench their positions, and show little readiness to undertake painful structural reforms, whether economic or constitutional. Reform-minded politicians are extremely constrained within multiethnic coalitions of convenience that lack consensus on basic policy. The country's EU integration process is unlikely to be characterized by the high levels of political elite consensus in the countries of Central and Eastern Europe, which was required to persuade often reluctant populations to tolerate difficult reforms.

Republika Srpska (RS) politicians' attempts to undoing state-building and their rhetorical support for RS independence creates an impression that the state of BiH as a whole is increasingly unworkable and no more than the dysfunctional sum of its parts. Calls for more Croat autonomy may have a similar effect. Politicians use these issues instrumentally for electoral purposes, without regard for the negative impact on social trust within BiH and the confidence of the European Union and foreign investors. Without basic agreement on the constitutional future of the state among BiH's political elites, it is unlikely that general goals of development and transformation will be successfully and collaboratively implemented.

Consensus on goals

7

Reform-minded politicians in Bosnia and Herzegovina (BiH) are increasingly marginalized and their room for maneuver significantly constrained in government. Partly as a result, distinctions between reformists and nationalist politicians (who question and undermine constitutional rules) and are becoming less clear. The most significant anti-democratic veto actors in BiH control veto positions within the constitutional system of power-sharing and policymaking. Constitutional rules are ignored and flouted by senior government members, most obviously through the exclusion of opponents from multiethnic coalitions or their boycott of power-sharing institutions.

Anti-democratic  
actors

5

Ethno-national cleavages in Bosnia and Herzegovina (BiH) are significant and are reflected in the party system. Politicians play on interethnic tensions and lack of trust for electoral gain. The Republika Srpska (RS) leadership continued to express support for RS secession, labeling the Bosnian state an unnatural and unworkable entity. The RS leadership, in particular President Milorad Dodik, employed highly charged rhetoric to question the legitimacy of the state and the possibility of a harmonious common future between BiH's entities and various ethnic groups. In the face of allegations of corruption and mismanagement of public funds, Dodik has styled himself as the protector of Serb interests against an allegedly centralizing state and prejudiced international community. The High Representative has described this rhetoric at its worst as "hate speech." In September 2012, at a pre-elections rally, Dodik stated that genocide was not committed in Srebrenica, contradicting the rulings of the International Criminal Court and the International Criminal Tribunal of the former Yugoslavia (ICTY).

Cleavage /  
conflict  
management

2

Croat politicians, excluded from government, called for the establishment of Croat self-government. Bosniak politicians are least likely to question the country's constitutional order, partly because their electorate favors a united BiH, which entails ethnic groups living together. However, the Bosniak-dominated Social Democratic Party (SDP), while sporting a multiethnic leadership, antagonized the largest Croat parties by ignoring the spirit, if not the letter, of interethnic power-sharing rules.

Some provisions enabling institutional cooperation between government and civil society are in place, but the actual links between the political system and civil society organizations remain weak. Civil society is generally not consulted in the course of agenda setting or policy formulation. Where contact occurs, it is usually initiated by civil society itself. International organizations and donor projects in Bosnia and Herzegovina (BiH) facilitate and support such cooperation, but there are rarely guarantees that civil society positions will be integrated into final policy.

Civil society  
participation

5

Civil society is thus involved more in monitoring government activities and reporting on their performance. General levels of apathy in society and low expectations of

politics and politicians exacerbate the situation, as does the complicated and often opaque multilayered system of government.

Politicians in Bosnia and Herzegovina (BiH) have generally absolved themselves of the moral or practical requirement to promote post-conflict reconciliation in the war-scarred society. The initially international-led prosecution of war crimes (which has so far only resulted in the trial of a small fraction of war criminals) has not been accompanied by a formal reconciliation process, and this is unlikely to happen without a sea change in the behavior of the country's political leadership. Politicians present sharply different versions of wartime events, often manipulating war crimes and victims for political gain. With some exceptions, many moderate politicians also shy away from addressing wartime events, preferring to focus on issues of common concern, such as the economy. Republika Srpska (RS) President Dodik's September 2012 denial of genocide in Srebrenica is the most divisive example of manipulation of wartime events as a weapon against political opponents in the review period.

Reconciliation  
3

## 17 | International Cooperation

Governments in Bosnia and Herzegovina (BiH) have experienced a sharp change in their relations with international organizations since 2006. In the 10 years following the adoption of the 1995 peace agreement, the country was highly dependent on international aid, and international organizations, most notably the executive power-wielding Office of the High Representative, formulated policy and legislation on a wide range of areas, much of which had little in common with the interests and priorities of the country's political class. There remains a rather passive attitude toward international assistance in many quarters; officials are not proactive and may be indifferent or even antagonistic toward certain forms of external support, particularly if tangible benefits are not immediately forthcoming.

Effective use of  
support  
5

A lack of political consensus on program priorities for the EU's substantial Instrument for Pre-Accession Assistance (IPA) funds during 2012 illustrated a basic lack of common political and economic reform priorities in BiH, and politicians' reluctance to reconcile different priorities in the interests of compromise. The European Union underlined that strengthening coordination mechanisms on programming is an urgent priority, but political leaders continue to pursue separate agendas. The European Union also reports that BiH has done little to set up a structure for decentralized management of EU funds.

The governments in BiH failed to take full advantage of other forms of international financial assistance in the review period. Only one-third of the funds available from the Standby Arrangement negotiated with the International Monetary Fund (IMF) in 2009 were withdrawn before the agreement expired in 2012. Budgetary support from

the World Bank was delayed, due to poor implementation of legislative reforms in the area of cash transfers.

The international community has long viewed the authorities in Bosnia and Herzegovina (BiH) as lacking in reformist credentials. Much international activity in the period up to 2006 was devoted to undermining and even removing political elites who were perceived to threaten peace implementation and reform priorities. During this time, representatives of international organizations were more likely to lobby the Office of the High Representative rather than domestic elites to further implementation of reform priorities.

Credibility

4

The abrupt reduction in the use and credibility of the High Representative's powers and the transition to more domestic ownership of reform agendas has not significantly increased international confidence in governments in BiH. During the review period, numerous international organizations, most notably the European Commission in reports in 2011 and 2012, report meager or no progress on meeting international obligations and reform priorities. The IMF concluded in October 2012 that key structural reforms stalled following the October 2010 elections, including reform of the war-related benefits, pensions systems and the public wage bill.

Several bilateral donors and foreign government representatives in BiH also condemned attempts by governing parties to undermine reform processes in the period, including political attacks on the judiciary and the independence of the media. The High Representative characterized the actions of Serb and Croat leaders during the period as contravening the terms of peace agreement.

There have been significant improvements in fragile post-conflict regional relations since 2000. Modest regional cooperation takes place within the framework of various initiatives (such as the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Migration, Asylum and Refugees Regional Initiative (MARRI)). However, modest and usually technical-level cooperation was often overshadowed by political events in the region during 2011 and 2012. The election of the right-wing Serbian President Tomislav Nikolic in May 2012 is a case in point. Nikolic's ultranationalist past, which included the espousal of a Greater Serbia including the territory of BiH's Republika Srpska, provoked concern in other parts of Bosnia and Herzegovina (BiH) and complicated bilateral relations with Serbia. Nikolic's election followed a period of ever closer political relations between Republika Srpska and Serbia, under President Tadic and RS Prime Minister Dodik, a situation that was perceived in other parts of BiH as an attempt to undermine the country's territorial integrity and statehood.

Regional cooperation

7

Relations between BiH and Croatia were more constructive at the political level. The election of a Social Democrat-led government in December 2011, and Croatia's

impending accession to the European Union in July 2013, prompted Croatia to initiate negotiations on outstanding bilateral disputes with BiH. Some progress was achieved in resolving outstanding issues, including property issues and border demarcation, though there was little progress on border management. The exclusion of the largest Croat parties from government following elections in 2010 complicated BiH's relations with Croatia. The Croatian government intervened to assist in government formation, asserting the right of the largest Croat parties to enter government. This drew criticism from Bosniak politicians, including the refusal of BiH Foreign Minister Zlatko Lagumdžija to meet the Croatian Prime Minister Zoran Milanović during his visit to BiH in February 2012.

## Strategic Outlook

The political elites in Bosnia and Herzegovina (BiH) showed themselves to be incapable or unwilling to overcome institutional constraints and oppose political agendas to form stable governments or to implement reforms to promote economic growth and accelerate the country's shaky and unsure path toward EU integration. Continuing attempts to reshuffle the federation government are testimony to the protracted nature of the governance crisis in the country. Weak coalition governments are formed after protracted negotiations that focus little on policy and mostly on the divvying up of public positions (and the spoils of office) along ethnic lines. There is little evidence that even a minimal political consensus on policy objectives can be achieved in these coalitions of convenience, where the main political actors differ sharply on the country's future constitutional structure, and some profit from promoting continued political and constitutional uncertainty.

Although elements in the government favor BiH's integration into the European Union and the North Atlantic Treaty Organization (NATO), key political players question these strategic goals, directly and indirectly. It is not clear that either integration process is supported by all of BiH's political elites, though increasing regional integration is likely to pull them along. In this regard, Croatia's accession to the European Union in 2013 is likely to be one of the most significant events in the region, with profound consequences for neighboring BiH. It is hoped that Croatia's accession will have a positive impact on other countries of the Western Balkans, and that Croatia will be a champion of further EU integration in the region. However, once Croatia becomes an EU member, it will have a veto on the entry of other countries to the union. In this context, not enough progress has been achieved on resolving outstanding issues between Croatia and BiH, particularly as Croatia is a "kindred" state, with a constitutional (and electoral) interest in the fate of the Croat population in BiH.

Much has been made of the importance of transferring "ownership" and full sovereignty from the ad hoc international institutions in BiH to the country's democratic authorities. The fate of the Office of the High Representative remains uncertain. Plans for its closure have been postponed on several occasions due to deterioration in BiH's political situation; however, its authority has been much reduced. EU integration therefore remains the most significant impetus for reform. The European Union Special Representative (EUSR) has increased his profile in the country. However, EU policy is to treat BiH more or less as any other candidate country. This approach ignores the extraordinary circumstances of postwar BiH's traumatic (re)birth and the extent to which the international community has been required in the past to break deadlock between the country's ethno-national elites and to establish and breathe life into basic institutions of state.

The international community may yet hold the key to improved governance in BiH or, if mismanaged, its descent into further polarization on ethno-territorial lines. Other successful examples of imposed power-sharing agreements (though few and far between) demonstrate the

need for a positive regional environment and continued external management of “power-sharing equilibria” when there are insufficient domestic incentives for politicians to cooperate. As the European Union remains the most significant external actor in the region, holding the significant “carrot” of future EU membership, a more creative approach is required from EU institutions and member states that conditions BiH’s integration process, at key stages, on democracy and governance reforms that will improve the functionality of her institutions. These reforms would place BiH in a better position to tackle a number of economic and financial challenges, including the consequences of the economic crisis.