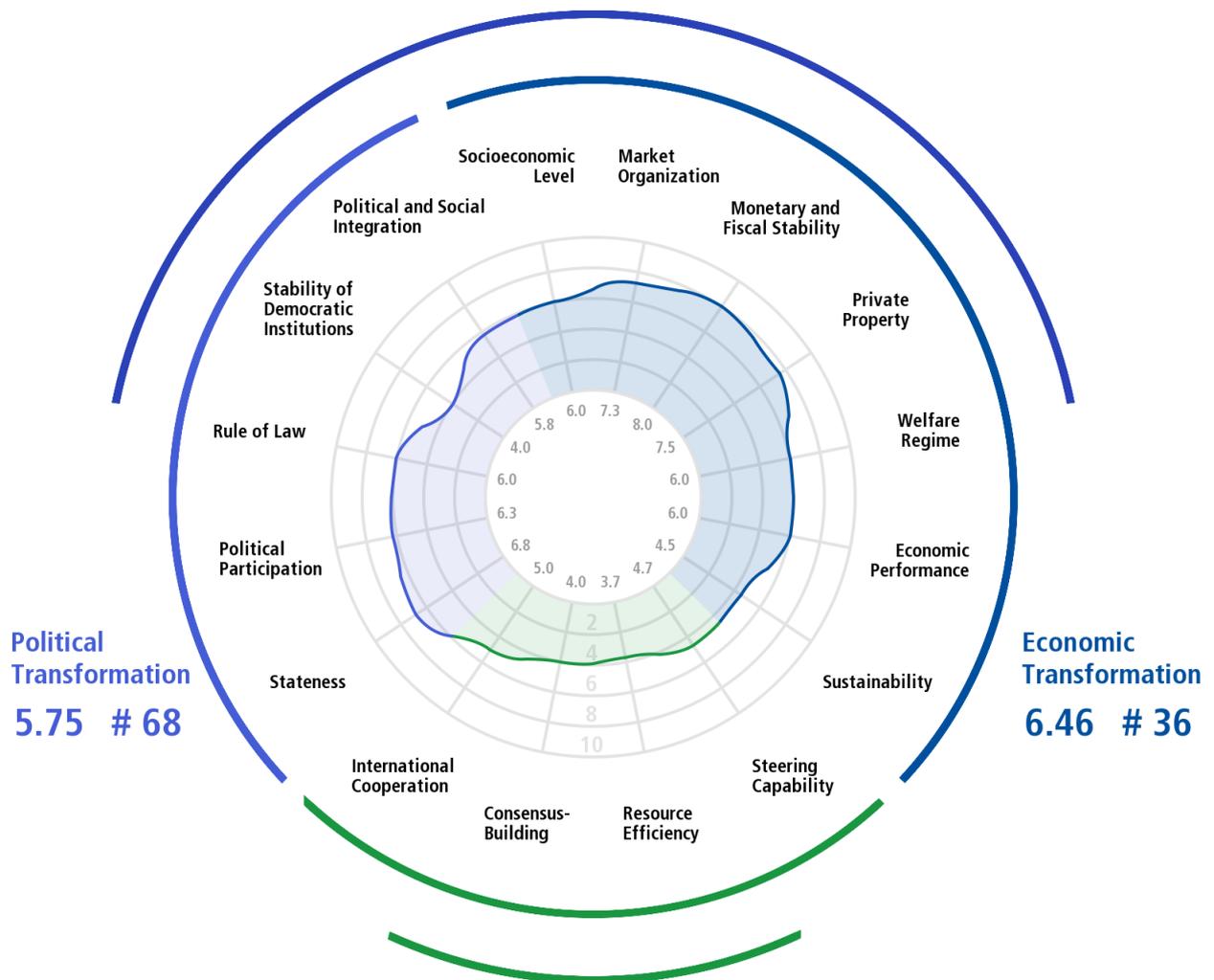


Bosnia and Herzegovina

Status Index

6.11 # 53

on 1-10 scale out of 137



Political Transformation
5.75 # 68

Economic Transformation
6.46 # 36

Governance Index

3.80 # 104

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	3.3	HDI	0.769	GDP p.c., PPP \$	14348
Pop. growth ¹	% p.a.	-0.8	HDI rank of 189	75	Gini Index	33.0
Life expectancy	years	77.1	UN Education Index	0.706	Poverty ³	% 0.8
Urban population	%	48.2	Gender inequality ²	0.162	Aid per capita \$	131.5

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Since 2017, Bosnia and Herzegovina (BiH) has been characterized by political instability, and an almost complete stagnation in political and socioeconomic reform, ending a short period (2015 – 2016) that was marked by government stability and (limited) reform. Between 2015 and 2016, BiH authorities agreed on a joint, broad agenda for socioeconomic reform, the so-called Reform Agenda 2015 to 2018, the centerpiece of the European Union’s new Bosnia initiative, which BiH authorities had started to implement in part. In return for beginning to implement some reforms, BiH (the only western Balkan country apart from Kosovo that has not been granted EU candidate status) was invited to begin the three-step EU integration process – a process previously blocked for almost a decade. In December 2016, the European Commission requested that BiH authorities complete a questionnaire, which would form the basis of the European Commission’s recommendation to EU member states on whether to grant candidate status to BiH. In addition, the IMF granted a new credit arrangement to BiH designed to support structural reform and paid out the first tranche.

However, following this progress, the European Union reduced political pressure on BiH authorities. As a result, the implementation of reforms came to an almost complete stop in 2017 and 2018. The Reform Agenda 2015 to 2018 expired at the end of 2018 having only been partially implemented. The agenda had some limited positive economic outcomes, such as the stabilization of public budgets. On the other side, no structural reforms that would have undermined the existing patronage systems in BiH and challenged the ruling elites’ interests were implemented. Accordingly, payment of the IMF’s second credit tranche was postponed from December 2016 to February 2018 and was only paid out after the IMF substantially lowered its strict conditions. At the same time, it took BiH authorities (across all governance levels) a record 14 months to agree on the answers to the European Commission questionnaire and even then BiH authorities failed to do so in the way requested by the European Commission. Answers to a second round of questions were still pending at the end of 2018. The breakdown of the previous reform agenda was largely caused by the constant clashes over ethno-national topics among the ruling coalition partners at

state and Federation of BiH (FBiH) levels, and subsequent government and parliamentary inertia across BiH's various governance levels. Campaigning for the October 2018 general elections thus kicked off a record two years ahead of election day.

General elections were conducted on national, entity and cantonal levels on October 7, 2018. However, the elections brought no marked political changes, except for the collapse of the opposition block in the Republika Srpska (RS). Traditionally heightened during campaigning periods, divisive ethno-nationalist rhetoric, questioning the integrity of the state, was extended to the post-election period largely due to two developments: the promotion of RS leader Milorad Dodik from entity to state level as the new Serb member of the state presidency of BiH; and the defeat and subsequent replacement of Dragan Covic, the leader of the largest Bosnian Croat ethnic party HDZ-BiH, by Zeljko Komsic as the Croat member of the state presidency due to the support for Komsic by Bosniak voters in FBiH, which sparked continued nationalist complaints of alleged discrimination against Croats in the FBiH. Elections took place in the context of the unresolved so-called election law crisis. In a highly controversial ruling, the BiH Constitutional Court in 2016 annulled provisions of the BiH election law related to the formula for delegating cantonal assembly delegates to the ethnic caucuses of the FBiH House of Peoples, a decision that risked undoing the already fragile constitutional balance in FBiH. In 2018, parliamentary parties in FBiH failed to agree on an amendment to the election law, which has threatened the implementation of the October election result at the central state and FBiH levels. As of January 2019, it remained unclear whether the election law crisis would turn into a fully-fledged constitutional crisis.

In the RS, the alleged cover up of the murder of a student in Banja Luka, David Dragičević, sparked several weeks of public protests in autumn 2018, which ended after the elections in regime repression, with the regime targeting protest organizers and individual representatives of the political opposition.

Finally, a rerouting of the Balkan route through BiH in 2018 led to 24,000 migrants transiting the country. The response of BiH authorities to this situation demonstrated the fragmented, dysfunctional character of the BiH state. The lack of political will and the inability of BiH authorities to coordinate policies across state, entity, cantonal and municipal levels of governance meant that BiH authorities failed to ensure basic humanitarian needs for the 4,000 to 5,000 migrants temporarily residing in BiH, a role that was subsequently fulfilled by international organizations.

History and Characteristics of Transformation

Democracy-building in Bosnia-Herzegovina (BiH) began after the end of a violent four-year conflict in 1995. The transition to democracy and a market economy in BiH has been significantly perturbed by post-conflict agendas. After the war, the country was divided into three zones – de facto para-states – dominated by largely illiberal wartime ethno-national elites. BiH's constitution (i.e., the Dayton Agreement) was designed to end the war by reconciling competing visions of statehood, borders and self-determination rights for the country's three constituent peoples. It established a highly decentralized, fragmented state with weak central institutions and two sub-state entities: a majority Serb, highly centralized Republika Srpska (RS) and the Federation of BiH, with a weak federal center and strong cantons. It allowed the warring elites to agree to a joint state, but failed to guarantee institutional functionality or offer a common state identity. In the postwar period, individuals indicted for war crimes were gradually excluded from public life, but the wartime parties retained power. The highly autonomous Serb and Croat elites tried to use power-sharing in central state structures to pursue their ethnopolitical interests. Upholding interethnic tensions served all ethnic elites to maintain patronage systems. Fear and patronage have seriously undermined democratic and economic reforms in postwar BiH. The dysfunctional institutional and constitutional system of the Dayton Agreement proved to be the ideal vehicle.

During the first postwar decade, a United Nations-mandated High Representative held executive powers in a sort of semi-protectorate, while a NATO-led military mission restored safety and security throughout the country. The international community remained the main driver of democratization, economic reform and state-building aimed at establishing at least basic state functions. Efforts to reform democratic institutions and establish a functioning market economy progressed simultaneously with efforts to reconstruct infrastructure, spur economic recovery, enable the return of refugees, and patch the divided country's social fabric. The High Representative used his executive powers, where needed, to remove public officials and policymakers accused of impeding the implementation of peace, impose legislation and changes to the entity constitutions, and establish additional state-level institutions. This heavy international involvement has been criticized for usurping the power of political elites, overriding democratic procedures and creating a culture of political dependency in BiH. However, international interventions created preconditions for a liberal democracy, opened space for dialog and compromise, led to some pluralization of the party system and political life, established core state functions, and set the basis for economic reconstruction and fiscal stability. Since 2003, transition efforts slowly moved toward integration with the European Union.

Between 2005 and 2006, the international community abruptly decided to end international intervention and transfer responsibility for further transition to domestic political actors. This was partly motivated by the belief that domestic political elites were ready to continue reforms on their own within the framework of EU integration process, but also by waning political will among Western governments to continue the costly postwar policy. The handover did not yield the

expected results, both because there was little international willingness for a gradual transition and because the international community had not secured a solution for reforming BiH's constitutional system. The system was originally designed for only a few years, to be replaced by one that would guarantee functionality of the state. The Dayton constitution remains an almost insurmountable constraint to sustainable democratic and economic transition. BiH politicians have proven unable or unwilling to reach consensus on the formation of multiethnic coalition governments, on basic policy and even on fundamental constitutional rules. Since 2006, levels of nationalistic rhetoric have sharply increased, most evident in calls for secession from the RS leadership. They have marked the rise of Milorad Dodik as the new strongman in RS (and BiH as a whole), who has established in RS a regime that over the years became increasingly autocratic as democratic standards were lowered and political opposition weakened. In parallel, Bosnian Croat elites' rhetoric has radicalized, focusing on the demand for the establishment of a Croat territorial entity. The nationalist rhetoric has marginalized the EU reform agenda and other democratizing/liberalizing agendas.

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

In Bosnia-Herzegovina (BiH), the state's monopoly on the use of force is, in principle, established across the entire territory. However, this monopoly continues to be undermined by poor institutional coordination among the security services and persistent politicization. The armed forces of BiH were established in 2006 through unification of the three separate ethnic forces. This process was supported by the state-building efforts of the international community. However, the armed forces of BiH are not mandated to maintain security within BiH.

Since 2004, the European Union has maintained a military presence in BiH, European Union Force Althea (EUFOR Althea), which succeeded the North Atlantic Treaty Organization (NATO) peacekeeping mission deployed under the 1995 Dayton Agreement. EUFOR Althea continues to be the only international security force in BiH with a statewide mandate to guarantee security. However, the reduction in troop levels to only a few hundred over the last decade has meant that it will be difficult for EUFOR Althea to guarantee security in the event of a serious security crisis.

The police forces in BiH suffer from a high degree of institutional fragmentation and increased politicization. In the RS, the police are highly centralized and under the strong influence of the ruling parties. In the Federation of BiH, competencies of the police are divided between the federal and cantonal level with cooperation among the agencies incompletely institutionalized. In ethnically mixed cantons, ethnic divisions among the police forces persist. Since 2011, police agencies on all levels have experienced a massive push by the ruling elites for more political control and to roll back reform. State-level institutions have a weak mandate and low operational capacities, the result of a partial police reform carried out in 2007. They also suffer from poor coordination with agencies at lower levels of government.

Question
Score

Monopoly on the
use of force

8



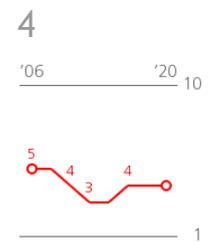
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The Bosnia and Herzegovina (BiH) constitution, an annex to the Dayton Agreement, does not refer to unified state identity. Since the international community shifted from sponsoring state-building to a more hands-off approach in 2006, large segments of the political elite have appealed to ethno-national identity and intercommunal fears to entrench their political positions. The Republika Srpska (RS) leadership, in particular, frequently challenges the integrity of BiH by insisting on statehood for the RS and an (unconstitutional) right to secede. They have frequently made political ultimatums on the return of competences transferred to the state during the first postwar decade. The Bosnian Croat national parties (e.g., HDZ-BiH) also frequently question the integrity of the state and condition its survival upon the formation of a Croat ethno-territorial unit, either directly or indirectly (via changes to the electoral system). Polls in on citizens' attitudes toward the state increasingly reflect the impact of top-down nationalism on the Serb and Croat population while the Bosniak majority remains committed to a unified state. However, according to a poll commissioned by the European Union after the outbreak of violent social unrest in February 2014, citizens across the country rated bread and butter issues (e.g., economy, corruption, lack of social justice) higher than questions of ethnicity and their national status.

After a decade of threatening to hold a referendum on secession or to challenge state-level institutions, the RS leadership in September 2016 undertook the most serious challenge to the authority of the state since the war: a referendum on a RS national day. In December 2015, the state-level Constitutional Court declared 9 January as RS national day unconstitutional as it discriminated against non-Serbs. Instead of adhering to the binding court decision, the RS leadership organized a referendum on maintaining the holiday, though the court had already banned the referendum as unconstitutional.

Individuals who do not declare themselves as members of one of the three "constituent peoples" (Bosniak, Croat and Serb) are prevented from running for certain key state offices. There is further territorial-based discrimination as the Bosnian Serb member of the three-member Presidency is elected by voters residing in Republika Srpska and the Bosniak and Bosnian Croat members of the Presidency are elected by voters residing in the Federation of BiH. A similar form of discrimination applies to indirect elections to the House of Peoples of the BiH parliament. The European Court of Human Rights (ECHR) ruled in 2009 that these provisions discriminate against citizens on the grounds of ethnicity, but the authorities have continuously failed to implement the ruling.

State identity

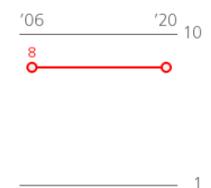


There is formally a complete separation between state and religion in Bosnia-Herzegovina (BiH). In practice, however, religious communities have a rather influential role in public and political life, with mixed effects on post-conflict reconciliation. The leaders of the country's three dominant confessional groups – the Islamic community, and the Roman Catholic and Serb Orthodox churches – became key components of influential informal elite structures during the disintegration of socialist, secular Yugoslavia. By siding with the emerging ethno-nationalist movements and lending legitimacy to policies of ethnic cleansing, the three communities semi-integrated into political party structures. An almost complete merger of ethnic and religious identification, particularly among Serbs and Croats, resulted from this alliance. In the 2013 census, 50.7% of BiH citizens identified themselves as Muslims, 30.7% as Orthodox and 15.2% as Catholic. Ethnic and religious self-identification are almost perfectly matched: 50.1% Bosniaks, 30.8% Serbs and 15.4% Croats. Religious leaders continue to use their positions to shape political discourse and events in the country. With some exceptions, religious leaders continue to emphasize the perceived disadvantageous position of their respective ethno-religious communities, rather than preaching inter-religious (and interethnic) tolerance and understanding.

Basic administrative structures are in place, but are unusually fragmented over five levels of government: municipal, cantonal, entity, Brčko District and central state levels. Governments in the two entities – the Federation of Bosnia-Herzegovina and the Republika Srpska (RS) – are responsible for most services, including internal affairs, economy, environment, education, social and health care policies, justice, and direct taxation. The state-level authorities have 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 central state has assumed further responsibilities for indirect taxation and the regulation of police, intelligence, judicial, and prosecutorial bodies, following a transfer of responsibilities from the two entities. This transfer of authority is frequently criticized by the RS government and politicians. The RS leadership's ideologically motivated rejection since 2006 of any, even minimal, transfer of competences to the central level, combined with a refusal to coordinate or harmonize entity policies, seriously impedes the effective and efficient provision of basic services to citizens. As a result, the quality of public health care, social protection and education is rather low. Countrywide infrastructure like railways and highways remain markedly underdeveloped compared to neighboring countries.

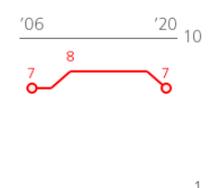
No interference of religious dogmas

8



Basic administration

7



2 | Political Participation

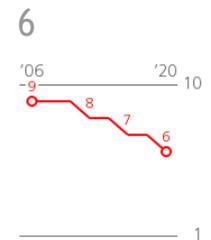
General elections are conducted every four years at national, entity, canton and local levels. Universal suffrage with secret ballot is ensured. However, constitutional provisions discriminate on ethnic grounds, limiting the right to stand, given that only certain categories of citizens are permitted to run for the three-member Presidency and to the House of Peoples. In 2009, the European Court of Human Rights ruled in the so-called Sejdić-Finci case that BiH needs to amend its constitution and election law. Even though it is a key EU requirement, the ruling parties and leaders have so far failed to find an agreement to do so.

Municipal elections were last organized countrywide in 2016. However, elections in Mostar have not taken place since 2008, as there is no agreement on the mechanism for electing the city council.

General elections for executives and legislatures on the central state, entity and cantonal levels were held on October 7, 2018. Voter turnout was 53.4%, slightly lower than in previous elections. In May and June 2016, some of the weaknesses identified by the OSCE Office for Democratic Institutions and Human Rights (ODIHR) after the 2014 elections were addressed in amendments to election legislation. In its 2018 election observation report, ODIHR concluded that the legislative framework is generally sufficient for conducting democratic elections, but still listed a number of remaining severe shortcomings. These shortcomings include insufficient safeguards to prevent abuse of state resources; the lack of a law on political parties and inadequate campaign finance regulation; political control exerted by ruling elites over public broadcasters, which impedes the fairness of election campaigns; and pressure by political subjects on voters. In addition, ODIHR registered serious shortcomings in the training and subsequent conduct of polling station commissions, and shortcomings in addressing complaints on voting irregularities, many of which remain unaddressed.

Most importantly, elections were conducted without a solution to the so-called election law crisis. In November 2016, the BiH Constitutional Court in the so-called Ljubic case annulled several provisions of the election law. Those related to the formula according to which members of the Federation of BiH's (FBiH) cantonal assemblies were to be delegated into the three-ethnic caucus of the FBiH House of Peoples. The ruling was highly controversial, seen by some constitutional law experts as politically motivated, part of the HDZ-BiH's long-term effort to establish a de facto third Croat entity by changing the electoral system. The ruling was not implemented as an international mediation effort among political parties to agree on a legal amendment failed in 2018. Following the 2018 elections, the Central Election Commission in January 2019 stepped in and determined a formula, drawing criticism from almost all political groups in the federation.

Free and fair elections



The most powerful veto points in the Bosnia-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 central state parliament and presidency give veto powers to representatives from each entity and each of the three “constituent people,” enabling them to block common decision-making. The power-sharing system was designed to ensure fair ethnic representation in central state institutions. However, given that the country’s three ethno-national elites lack a minimal common vision, veto points are regularly exploited to block decision-making. In addition, in both entities similar power-sharing systems are in place. With decreasing external intervention to unblock deadlock, this regularly leads to a lack of any meaningful level of shared governance in BiH.

In 2015, central state and entity level governments agreed on a common Reform Agenda, strongly supported and designed by the European Union and international financial institutions. Authorities adopted several measures from the Reform Agenda 2015 to 2016, some through parliament, but mainly through the executive. Nevertheless, the central state-level and federal governing coalition was hampered by three conflicts: between the Republika Srpska (RS) opposition being part of the central state-level coalition and the RS government; between the Croat and Bosniak coalition partners in the Federation; and among Bosniak parties. These conflicts seriously impeded effective power to govern and slowed the reform at the end of 2016. Implementation of reforms and the work of executives and parliaments came to an almost complete halt during 2017 and the election year 2018.

The constitution of Bosnia-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 granting permission for association, the procedure for registration is lengthy and cumbersome.

Independent groups, particularly in the Republika Srpska (RS), have been subjected to political intimidation and public criticism in media close to the government. In February 2014, the RS Law on Public Peace and Order was amended to expand the definition of “public space” to the internet, a change that could seriously impede freedom of assembly. Despite domestic and international critique, the Law on Public Peace and Order remained in place during the review period. Two other laws proposed in 2014, one limiting the time protesters may spend near government buildings and another on government control of foreign-funded NGOs were withdrawn following strong criticism from human rights advocates.

Citizen protests in the RS capital city, Banja Luka, in autumn 2018 over the death of the student David Dragičević were ended by police repression and the prosecution of some protesters, which marked the most serious challenge to the constitutional rights to freedom of association and assembly in postwar BiH.

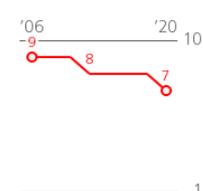
Effective power to govern

6



Association / assembly rights

7



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) with executive enforcement powers, and the print media is self-regulating through the BiH Press Council. Relatively advanced freedom of information legislation is in place.

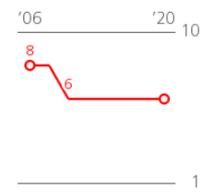
However, politicians repeatedly try to undermine media independence and influence editorial policy. According to IREX, an international non-profit organization that supports independent media, negative trends continued in 2017 to 2018. Among the main problems are: low salaries and irregular pay of journalists, which facilitates political pressure and fosters self-censorship; nontransparent media ownership; a corrupt relationship between media and advertisers in a shrinking advertisement market with an increasing share of government and public companies; nontransparent government funding for media; and regular civil libel suits against critical media outlets and journalists. The European Commission noted in its 2016 BiH country report that the independence of the CRA “continued to be an issue of concern.”

In addition, direct intimidation of journalists has increased. In 2018, the Association of BiH Journalists registered 12 physical attacks on and 13 death threats received by journalists, by far the highest number in years. An unprecedented incident took place on August 26, 2018, when Vladimir Kovacevic, a correspondent of the Republika Srpska (RS) opposition station BN TV, was physically attacked and seriously injured by two masked men.

Public broadcasters in both entities remained open to political influence. In the Federation of BiH, parliament failed to amend legislation that would have ensured depoliticized selection of the broadcaster’s steering board. In the RS, as the European Commission notes, the public broadcaster’s steering board remains politically affiliated and “under the firm political control of the ruling party.” Because of the lack of support from the ruling ethnopolitical parties, the central state-level public broadcaster BH Radio-Television (BHTV) continued to face existential financial problems in 2017 and 2018, which substantially hindered the professional conduct of its public mandate.

Freedom of
expression

6



3 | Rule of Law

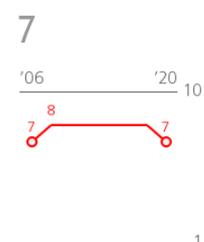
Bosnia-Herzegovina (BiH) has a uniquely complex constitutional structure. The state constitution and the constitutions of the two highly autonomous entities guarantee formal separation of powers between different branches of government. The state and the entities constitute semi-presidential systems. The three-member state presidency of BiH and the president of the Republika Srpska (RS) are elected by popular ballot, while the president of the Federation of BiH (FBiH) is appointed by the FBiH parliament. In formal terms, the country has an independent judiciary, appointed and regulated by an independent High Judicial and Prosecutorial Council, though the judiciary remains highly fragmented across state and entity levels. 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.

In practical terms, the only effective and efficient checks are exerted by the leading ethnic parties through expansive power-sharing mechanisms. The formal separate functioning of the three powers – of governments, parliaments, and judiciaries – in practice remains politicized. Constitutional courts at the state level and in FBiH, but less so in the RS, continue to exert some control over the legislative and executive branches, though a high number of court rulings are not implemented. Non-adherence to Constitutional Court rulings is a crime that is almost never prosecuted. Parliaments hardly exercise their oversight function, remaining mere rubber stamps for ruling party leaders. Several corruption investigations commenced during the review period against high-ranking judicial officials, resulting in suspensions and removals from office.

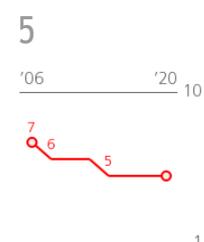
Formally, Bosnia-Herzegovina (BiH) has a solid legal framework that seeks to ensure the independence of the judiciary and prosecutors. A High Judicial and Prosecutorial Council (HJPC) was created in 2006 and has since become responsible for judicial and prosecutorial appointments across the country. The HJPC is also a disciplinary body and responsible for ensuring professional standards, providing training, and proposing and issuing opinions on draft legislation, regulations and other issues affecting the judiciary. Beyond that, the BiH judiciary remains fragmented across the state, two entities and Brčko District, with four separate legal systems in place. At the state level, the Prosecutor's Office of BiH and Court of BiH were established during the state-building postwar era. Their countrywide jurisdiction is limited to war crimes and high-level cases of corruption and organized crime, though they also hold jurisdiction related to state-level institutions.

Since the international community shifted its policy approach in 2006, and especially since 2011, attacks by political elites on the independence of judicial bodies and efforts to roll back reforms that secured a certain level of independence have intensified. In particular, authorities in the Republika Srpska (RS) regularly

Separation of powers



Independent judiciary



questioned the authority and competence of the three state-level bodies. In the RS, an illegal law on the courts remains in place since 2012 that seizes jurisdiction from the higher, state-level HJPC law. Within the Structured Dialog on Justice, organized by the European Union in 2011 with BiH authorities, the RS leadership has aimed at making use of a planned amendment of the Law on the Court of BiH to abolish part of the court's countrywide jurisdiction. In 2015, the RS Ministry of Justice presented its own draft of the state-level law. If accepted, the law would leave the country without any state-level judicial body to prosecute attacks on the independence, sovereignty or territorial integrity of the state. The escalation of the conflict pushed by the RS government, and supported by HDZ-BiH at state and Federation of BiH level, led the European Commission in July 2017 to take the unprecedented step of suspending its involvement in the Court of BiH issue in the framework of the Structured Dialog.

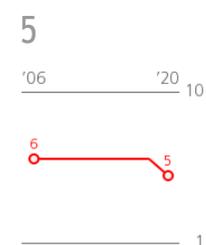
In October 2017, the HJPC adopted a set of conclusions, initiated by the council's president, which equated to a substantial ethnicization of the prosecution of war crimes and risked undermining the independence of the judiciary. It was only under strong pressure by the European Commission, EU member states, the United States and the OHR, that the HJPC revised its controversial conclusions.

Corruption is systemic within public administration and governments and reported in media on almost a daily basis. Nevertheless, despite adequate legal framework, the number of officials investigated and indicted, let alone convicted, is miniscule. According to the European Union, no high-level corruption case ended in a final conviction in 2017. Countrywide, between September 2015 and August 2016, 232 indictments were confirmed, with 156 convictions, most of which led to suspensions.

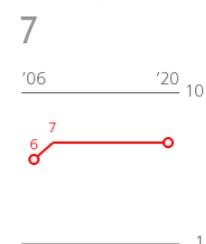
In January 2016, the president of one of the ruling Bosniak parties, the Union for a Better Future (SBB), was arrested together with a state minister from his party for allegedly influencing a witness in the case of a prominent Albanian figure in organized crime in BiH and Kosovo. The case against the SBB officials, however, was initiated by the European Union's rule of law mission in Kosovo (EULEX) where the Kosovo Albanian is being tried. As with many high-level indictments previously, the case ended with the three defendants acquitted of all charges in May 2018.

Civil rights are codified by law, but not always respected and protected. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, but are not consistently effective. With the work of the International Criminal Tribunal for the former Yugoslavia drawing to an end in 2017, continuation of the prosecution of war crimes committed during the war between 1992 and 1995 increasingly falls to domestic courts. In 2013, the European Commission initiated a "decentralization" of war crimes processing, which transferred many cases from the state-level judiciary to entity level courts, to speed up prosecutions. However, results remain limited to date.

Prosecution of
office abuse



Civil rights



Occasional reports concerning the ill-treatment of suspects in police stations, and inmates in prisons or detention facilities continue to be insufficiently addressed by the authorities.

Overall, equal access to justice is seriously undermined by the fragmentation, politicization and inefficiency of the judicial system. At the end of 2016, the backlog of unresolved civil cases exceeded 2.1 million, 1.7 million unresolved cases involving unpaid utility bills. Mechanisms to enforce court orders are ineffective.

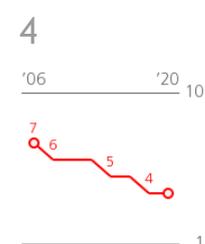
In April 2016, the Federation of BiH added provisions on hate crimes to its criminal code, with similar provisions already in place in Republika Srpska (RS) and Brčko District. Nonetheless, individuals who do not belong to one of HiB's three main ethnic groups are still prevented from running for key public offices, despite a 2009 European Court of Human Rights ruling that requires this restriction to be removed from the constitution. Women continue to be underrepresented in politics and even more so in the economic sphere, despite existing legislation on equal rights. Legislation on gender-based violence, in particular domestic violence, is inadequate and implementation remains poor.

LGBTI people remain particularly vulnerable. Despite certain improvements in the legislative framework for protecting their human rights, hate speech and discrimination remain widespread, and domestic and peer violence against the LGBTI community continues to grow. While authorities failed to respond adequately to such human rights violations, administrative obstacles have limited the freedom of assembly, which, for example, has for years prevented the organization of BiH's first gay pride.

4 | Stability of Democratic Institutions

There is a great degree of overlap and poor coordination between and across different levels of government in Bosnia and Herzegovina (BiH). Vertically, relations in the asymmetrical governance system are inefficient and ill-defined. Horizontal power-sharing mechanisms, requiring the presence of all three constituent peoples in government, cause additional friction. In the ethnically mostly homogeneous Republika Srpska (RS), power-sharing functions smoothly as the influence of the multiethnic RS Council of Peoples has been deliberately reduced: 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, at the central state level and in the Federation of BiH (FBiH), policy-making is complicated by coalitions of ethno-national parties with sharply diverging interests and agendas. This is reflected in the quality and quantity of government output. Only at the municipal level are the democratic institutions generally stable and responsive to citizen needs and interests.

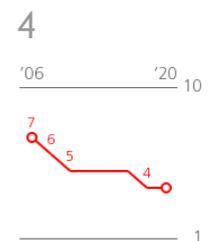
Performance of democratic institutions



Following the 2014 election, a governing coalition was formed fairly quickly, compared to the 15 months it took to form a governing coalition after the 2010 election. The government managed to agree with the European Union a broad Reform Agenda for structural socioeconomic and fiscal reforms, and a way to unblock the country's EU integration process. The governing coalition was initially stable, despite conflicts between coalition partners in the FBiH government and the BiH Council of Ministers after EU pressure to implement the Reform Agenda waned in September 2016. With a focus on divisive national topics and election campaigning beginning two years prior to the last general elections, legislative work almost stopped. As a result, the FBiH government during its entire 2014 to 2018 mandate approved only 166 laws, 74 less than the previous government, while the Federation parliament in 2017 implemented only 14% of planned legislation. At state level, the Parliamentary Assembly adopted only 59 laws, 26 less than the already ineffective previous parliament.

The constitutional set-up of the country is routinely questioned and undermined by politicians, particularly from the Republika Srpska (RS) and main Croat parties. Meanwhile, Bosniak politicians question the legitimacy of RS institutions. The RS leadership continues to advocate independence though no such constitutional right exists. They question the mandate and authority of state-level institutions, most notably those established since the current Dayton Agreement constitution was adopted (e.g., the Court of BiH, Prosecutor's Office of BiH and the armed forces). They characterize Bosnia and Herzegovina (BiH) as a failed state which can only function as a confederation of its entities. The largest Croat party, the Croatian Democratic Union (HDZ), continues to advocate the division of the Federation of BiH into Bosniak and Croat units. This is strategically supported by the RS president who publicly supported the recreation of the Croat wartime para-state "Herceg Bosna." Bosniak politicians continue to challenge various aspects of governance in RS on the grounds of wartime atrocities and continuing discrimination against minorities. In January 2019, Bakir Izetbegovic, the president of the Party of Democratic Action (SDA), launched the most serious attack on the mono-ethnic character of the RS so far, questioning the ethnic name of the entity in an appeal to the Constitutional Court. Its 2016 ruling against the RS national day has been ignored by the RS authorities. A referendum against the ruling, which was declared unconstitutional by the court, represented the gravest disrespect for democratic institutions in postwar BiH. In 2017 and 2018, the RS government continued to ignore the court decisions and celebrated the national day.

Commitment to democratic institutions



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 largely organized in the territory of one entity. A handful of parties – most notably, the Social Democratic Party (SDP), Demokratska Fronta, and Nasa Stranka – identify themselves as multiethnic or non-ethnic and maintain a multiethnic leadership; however, most of these political leaders come from one entity – the Federation of BiH (FBiH) – and their electorate is overwhelmingly Bosniak. The main FBiH-based parties, Party of Democratic Action (SDA) and SDP, field candidates in elections in Republika Srpska (RS). Very few RS-based parties field candidates in the FBiH, with little electoral impact.

BiH has an unusually large number of political parties given its small population. However, each ethnic group is dominated by two or three parties that tend to alternate in government. The dominant parties in Serb-majority areas are the Alliance of Independent Social Democrats (SNSD) and Serb Democratic Party. In Croat-majority areas, the Croatian Democratic Union of BiH (HDZ-BiH) has been dominant over the last decade, trailed by the Croatian Democratic Union 1990 (HDZ1990). In Bosniak-majority areas, the SDA dominates, but two newer parties, the Union for a Better Future (formed by an influential media tycoon) and Democratic Front (formed by the former SDP member of the BiH presidency) made inroads in the 2014 and 2018 elections.

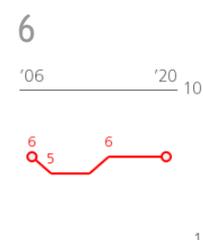
Governing parties rule over a deeply entrenched patronage system based on access to administrative resources, particularly employment in public administration and state-owned enterprises. Party membership and activism is primarily motivated by material interests, and party programs play a secondary role.

The number of active interest groups is relatively small. Trade unions and employers' associations are established on the entity level with a weak countrywide confederation of the two entity trade unions. Due to the large public sector and privileged public employment based on affiliation with the ruling political parties, both interest groups remain associated with and dependent on ruling political elites.

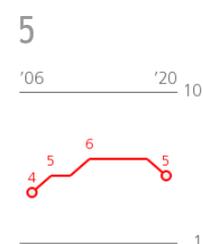
Socially marginalized groups are particularly poorly represented. War veterans' associations are powerful lobbies and secure disproportionate social benefits for this (vastly inflated) segment of the population, independent of real social needs, at the expense of other, more vulnerable groups.

A rudimentary cross-entity protest movement against the weak rule of law emerged in 2018. The death of a 21-year-old student David Dragičević in Banja Luka sparked several months of citizen protests under the slogan "Justice for David," spearheaded by his parents. It was provoked by Republika Srpska police attempts to define the

Party system



Interest groups



cause of death as suicide – an interpretation not only questioned by the student’s parents who incriminate the entity police and regime, but also by the local prosecution. The Justice for David protests connected with protests against a similar instance of unprofessional conduct in a murder case of a young student, Dzenan Memic, in Sarajevo.

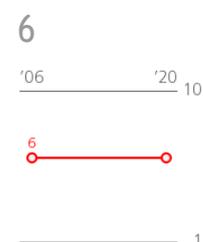
The country’s ethnically divided territory and governance system have spawned ethno-territorial interest groups and civil society organizations. Cooperation between similar groups across the divides is uncommon, particularly as they can have different or opposing agendas.

Bosnia and Herzegovina (BiH) is formally a democracy, but in reality functions as a corrupt power-sharing ethnocracy. This has seriously affected citizen approval for democracy, though no polling data is available. Levels of trust in democratic and other public institutions are low, even compared to a low regional average for Southeastern Europe. In the 2012 Gallup Balkan Monitor survey, public approval ratings were lowest for the country’s leadership, at just 16% (compared to a regional average of 29%). Citizens across both entities ranked the national government the least popular institution (19% approval in the Federation of BiH and 21% approval in Republika Srpska, compared to a regional average of 30%). In addition, 3% of respondents trusted the judiciary, reflecting low levels of confidence across the region. In contrast, levels of trust in the police were higher – 19% of respondents had a high level of trust and 41% “some” trust in the police.

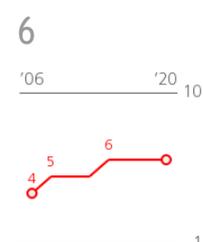
A 2013 United Nations poll demonstrated that ethnic identification dominates all spheres of life. Over 90% of Bosniak, Croat and Serb respondents expressed pride in their ethnic identity (94%, 91% and 92%, respectively). Pride in BiH citizenship and attachment to the state varies significantly: 91% of Bosniaks were proud of their BiH citizenship, 60% of Croats and 46% of Serbs. An overwhelming majority across all ethnic groups expressed pride in their regional/town identity (nearly 90%) and religious identity (over 90%).

General levels of trust in Bosnia are comparable to those in neighboring countries, but substantially lower than in European and Western societies. 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. A 2009 UNDP survey on social capital demonstrated that the social trust of BiH citizens hardly reaches beyond one’s own community, widely excluding even one’s own ethnic group. High levels of trust included family members, close friends, and neighbors, at 83%, 61%, and 38%, respectively. Trust in one’s own ethnic group was expressed by a mere 21% of respondents.

Approval of democracy



Social capital



A representative opinion survey conducted on behalf of the European Bank for Reconstruction and Development in 2016 found that approximately 21% of the respondents were active members in at least one of various civil society organizations.

II. Economic Transformation

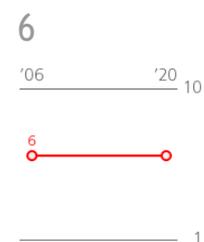
6 | Level of Socioeconomic Development

According to the 2017 Human Development Index, Bosnia and Herzegovina (BiH) had a high level of human development, ranked 77 out of 188 countries. Its score (0.77) is slightly below the average for Europe and Central Asia, but the lowest in Southeast Europe after Macedonia and Kosovo. The Gini coefficient for BiH was 33.8 in 2011. According to the World Bank, the share of employed people in the adult population (older than 15 years) was the second lowest in Southeast Europe after Kosovo (34.3% in 2018). The unemployment rate stood at 18.4% (2018, ILO), although youth unemployment reached 60%. In a household budget survey conducted in 2011, the Agency for Statistics of BiH found that 17.8% of the population lived on less than €213 per month (income of an adult household member, adjusted for household size).

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, youth, people with disabilities and the Roma. Women, too, disproportionately suffer from social exclusion and poverty. The UNDP's 2015 Gender Inequality Index ranked BiH 37 out of 188 countries. Female labor market participation is among the lowest in Europe. In 2017, only 35.2% of the labor force were women.

Question
Score

Socioeconomic
barriers



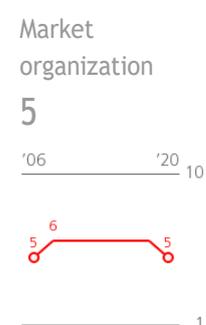
Economic indicators		2015	2016	2017	2018
GDP	\$ M	16211.5	16913.3	18080.1	19781.8
GDP growth	%	3.1	3.1	3.2	3.1
Inflation (CPI)	%	-1.0	-1.1	1.2	-
Unemployment	%	27.6	25.4	20.5	20.8

Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	2.4	1.7	2.6	2.5
Export growth	%	7.8	9.3	11.8	5.9
Import growth	%	0.8	6.8	7.7	3.2
Current account balance	\$ M	-857.3	-786.8	-851.0	-828.8
Public debt	% of GDP	45.5	44.1	39.2	34.3
External debt	\$ M	13916.5	14425.2	15317.6	15824.2
Total debt service	\$ M	769.2	1077.5	906.6	946.8
Net lending/borrowing	% of GDP	0.4	1.1	2.6	-
Tax revenue	% of GDP	19.9	20.0	20.3	-
Government consumption	% of GDP	22.0	21.0	20.3	20.0
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	6.6	6.5	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	1.0	0.9	0.9	1.1

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

According to the 2018 European Commission country report, Bosnia and Herzegovina (BiH) remains at an early stage in establishing a functioning market economy, and major structural reforms are required to enable the country to cope with competitive pressure and market forces over the long term. BiH has substantially strengthened its commitment to market-economic reforms by agreeing with the European Union on the Reform Agenda as well as with the IMF on a three-year reform program in support of the agenda. Some improvements have been made to modernize labor legislation, address weaknesses in the banking system, and improve the business environment, addressing the length of time to start a business and to obtain a construction permit. Still, Bosnia and Herzegovina ranked a dismal 183 out of 190 countries in the World Bank's 2019 Doing Business report regarding the sub-index "starting a business." It takes 13 procedures and 81 days, and costs 14.9% of GNI per capita with starting capital of 11.1% of GNI per capita to start a business. In



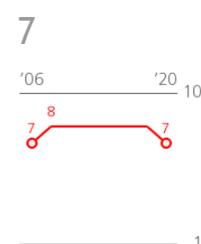
addition, the new labor legislation has been criticized for not incorporating the social dimension. During 2017 and 2018, continuous disputes between state and entity level executives, weak coalitions and the politicization of issues resulted in an almost complete breakdown in the implementation of Reform Agenda measures. As the agenda expired in 2018, major structural reforms, which could have strengthened the market economy by undermining the existing patronage systems, remained untouched.

Significant administrative barriers remain for private sector development. The functioning of market mechanisms remains hampered by the large government sector. Total public expenditure continues to be close to 50 % of GDP and is even higher when one takes into account the large number of state-owned enterprises. The IMF concludes that the government's significant presence continues to crowd out the private sector, and the general business environment discourages investment and expansion. The public sector often prices out the private sector with high salaries and other privileges, distorting the labor market. The lack of a single economic space within BiH continues to seriously curb business activity. The European Commission concludes that there was limited progress on the liberalization of network industries and that the state continued to influence the economy through state-owned monopolies as well as through nontransparent public procurement procedures. The informal sector in BiH is large. Estimated at 30% to 50% of GDP, it provides a huge number of unregistered jobs and heavily distorts market-based competition. As a consequence, the rate of registered unemployed significantly exceeds the rate estimated on the basis of Labour Force Survey data (ILO method). Overall, the extensive intervention of state in the economy and the semi-formal/informal control that political elites exert via the huge informal sector means that only a very limited segment of the private sector, mostly in the Federation of BiH, functions primarily on market economic rules.

The Law on Competition and its by-laws are harmonized with EU regulations. The Bosnia and Herzegovina (BiH) Competition Council and Market Surveillance Agency are operational across the whole country. The latter has functioning inspection bodies at the entity level and implements and coordinates proactive and reactive surveillance activities. In 2018, the Competition Council adopted six antitrust decisions and 24 merger decisions. The European Commission notes that the council's efficient functioning persists due to limited administrative capacities, a low level of enforcement activities, a cumbersome nomination procedure for the chairperson and the ethnicity-based veto rights of the six council members.

A State Aid Law is in force, but continues to be only partially in line with EU regulations, though alignment should have been completed in 2012. A State Aid Council is in place to ensure the consistent application of the state aid system law. Though all eight council members have been appointed, the European Commission notes that the secretariat is still not fully staffed and the council is inadequately

Competition policy



funded due to the Republika Srpska withholding its budget share, substantially hampering the council's work.

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 (SAA) and an Interim Agreement on trade with the European Union, that had been in place from 2008 until June 1, 2015, when the SAA entered into force. In 2017, the simple average MFN (“most favored nation”) tariff rate stood at 6.3%.

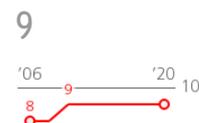
However, as Bosnia and Herzegovina (BiH) had not since 2012 followed EU demands to adapt the Interim Agreement to take into account the country's traditional trade with Croatia (i.e., trade before that Croatia joined the European Union), the European Commission on January 1, 2016, suspended a number of trade benefits for some BiH agricultural exports into the European Union. In July 2016, state- and entity-level executives agreed on a protocol on the adoption of the Interim Agreement. The same month the protocol was approved, the European Union reintroduced the trade benefits.

As a consequence, exports to the European Union rose substantially, from €3.4 billion in 2016 to €4 billion in 2017. The European Union continues to be BiH's main trading partner. In 2017, 66% of the country's external trade was with the European Union; more than half of total exports were directed to Germany, Italy and Croatia. Non-tariff barriers such as sanitary standards continue to hamper the export of BiH products to the European Union, especially in the field of agriculture.

BiH has preferential trade agreements with Central European Free Trade Agreement member states. BiH is still not a member of the WTO, thus comparative data is not available. Though accession negotiations are approaching the final stage, BiH's Council of Ministers missed its self-imposed target to complete accession by December 2016. Bilateral negotiations on market access with three WTO member states (Brazil, Russia and Ukraine) were not completed within the planned timeframe and continued during the current review period.

A special arrangement for the export of BiH products in the review period led to a substantial rise in exports to Turkey and Russia. In 2017, exports to Russia rose by 33%, while exports to Turkey rose by 10%.

Liberalization of
foreign trade



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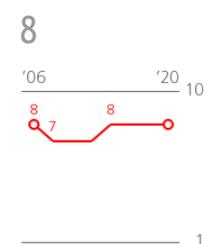
The banking system is dominated by foreign-owned banks (90% of assets) and is largely aligned to international standards. The sector remains reasonably liquid and well-capitalized. The capital adequacy ratio stood at 15.2% in 2018 according to the Banking Agency of the Federation of Bosnia-Herzegovina (FBiH). The share of non-performing loans increased from less than 6% in 2009 to over 15% in 2013 before decreasing to 10.4% in 2017. Pockets of vulnerability remain, especially among domestically-owned banks, which suffer from low liquidity ratios and a relative high share of non-performing loans. In 2015, the IMF in cooperation with the central bank of Bosnia and Herzegovina (BiH) and entity banking surveillance agencies conducted a stress test of all BiH banks. As part of the IMF's reform-oriented three-year credit arrangement with BiH, the Republika Srpska (RS) government in May 2016 agreed to hire international auditors to conduct Asset Quality Reviews for six domestically-owned banks. In 2015, one private and in 2016 one state-owned bank in the entity had to close due to insolvency.

The central bank of BiH, the Deposit Insurance Agency (DIA) and the entity-level banking agencies supervise the banking sector. However, supervision is obstructed by institutional fragmentation, and insufficient cooperation and coordination among regulators. As part of the IMF reform program for BiH, the oversight function of the central bank of BiH has been reaffirmed. The central bank of BiH, the DIA and the banking agencies signed a memorandum of understanding, which will provide for the regular exchange of information. At the end of 2016, the RS parliament passed a new banking law and amended the banking agency law; the FBiH followed beginning of 2017. The IMF program also foresees a reform of the entities' development banks. In June 2016, the RS government dissolved its development bank's credit council through which government members participated in decisions on direct lending to the private sector. This practice had enabled the executive to directly interfere with, and channel public funds to, the private sector.

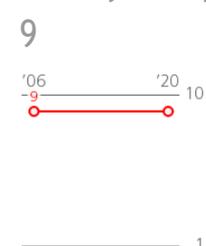
8 | Monetary and fiscal stability

Inflation has steadily fell between 2011 and 2017, with consumer price inflation decreasing from -0.1% in 2013 to -1.1% in 2016. However, the trend reversed in 2017 when inflation rose to 1.2% and it further rose in 2018, standing at 1.8% in November 2018. The central bank is exclusively responsible for monetary policy. The exchange rate is pegged to the euro under a currency board arrangement. According to a European Commission report on Bosnia and Herzegovina (BiH), the currency board enjoys a high level of confidence and credibility. The independence of the central bank is enshrined in law. Statements by political actors in 2015 suggesting using the bank's monetary policy to "solve" budgetary difficulties have been rejected by the central bank as improper interference. As part of the IMF reform program, BiH authorities in 2016 recommitted to the bank's independence and to not use the central bank's foreign reserves for budgetary or public investment purposes.

Banking system



Monetary stability



Failure to maintain fiscal control over public spending has been one of the main threats to macroeconomic and social stability in Bosnia and Herzegovina (BiH) since the international community handed over full ownership to domestic political elites in 2006. Government spending rapidly increased over the last decade due to extensive public sector employment and social transfer payments that are not needs-based, two pillars of the country's patronage system.

Within the Reform Agenda, BiH authorities in 2015 for the first time committed themselves to a comprehensive policy of fiscal sustainability. A three-year program of fiscal consolidation was aimed at the medium-term reduction of the budget deficit and public debt. This was to be achieved by reducing public spending and the size of government and by increasing revenues through broadening of the tax base and improvement of the tax authorities.

In 2015, governments at state and entity levels introduced a freeze of public wage bills and moratorium on new hiring in public administration. Governments at all levels began to identify the overall public wage bill, supported by the World Bank. Unlike in previous years, budgets for 2016 and 2017 were adopted on time. The BiH Council of Ministers adopted a debt management strategy in 2016. Also, in 2016, tax authorities began to exchange tax data between state, entities and Brčko District. Measures to control spending by cantons and municipalities were introduced in both entities. Several fiscal laws were adopted in both entities designed to broaden the tax base and reduce tax exemptions. Fiscal stabilization measures continued throughout 2017 to 2018. However, ahead of general elections, the Republika Srpska National Assembly in July 2018 amended the labor tax legislation and increased public sector wages by between 9% and 12%, which risks undoing the effects of previous reforms.

The combined measures yielded some, though limited, results. The general government deficit dropped to 0.8% of GDP in 2015 from 2.9% in 2014 and turned into a surplus of 2.6% of GDP in 2017. This was partly due to total government expenditures decreasing from 45.8% in 2014 to 43.2% of GDP in 2015, 42.3% in 2017 and 41.4% of GDP in 2018. Total public debt started to decrease in 2016, decreasing from 44.7% of GDP in 2015 to 43.7% in 2016 to 40.5% in 2017. The external debt stood at 61.1% of GDP in 2017, down from 63.8% in 2016.

In September 2016, the IMF agreed on a three-year credit arrangement with BiH authorities of €553.5 million to be disbursed under the Extended Fund Facility (EFF), a program designed to support structural economic reform. However, due to the failure to adopt the required changes to the Law on Excise Tax, payment of the second IMF tranche had been postponed from November 2016 to February 2018. With the total breakdown of the reform process in 2018, the continuation of the EFF is at risk.

Fiscal stability

7



1

9 | Private Property

Bosnia and Herzegovina (BiH) has an adequate legal framework for the protection of property rights, though the enforcement of these rights through the judicial system can be extremely slow. Outdated and non-harmonized land registry and cadaster systems have hampered the execution of property rights in postwar BiH. According to the World Bank, the ease with which property can be registered in BiH has significantly improved in recent years, but started from an extremely low postwar base.

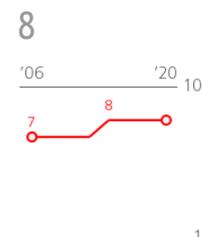
As regards reclaiming property confiscated during the war, a high proportion of property repossession requests have been resolved. Regarding the restitution of private property confiscated during and after World War II, efforts by the BiH Council of Ministers undertaken in 2005 failed. A draft law on denationalization has never been adopted. Political representatives have been unable to agree on a resolution of defense property, a condition required for the closure of the Office of the High Representative.

Foreign investors may own real estate and are not legally discriminated in comparison with BiH citizens and legal entities. BiH has adopted laws to protect intellectual property rights in accordance with European Union and international rules. A state-level Institute for Intellectual Property is in place, yet its functioning remains hampered by insufficient administrative and financial resources. A system for the collection, analysis, and exchange of data between the various enforcement institutions is lacking and no enforcement strategy has been adopted. As a consequence, enforcement of intellectual property rights remains deficient.

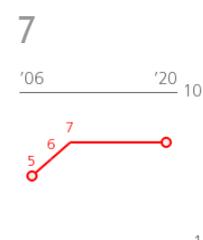
While Bosnia and Herzegovina (BiH) performs significantly worse than all neighboring countries in the Western Balkans in the World Bank's Doing Business survey, there has been some progress in recent years. As part of the Reform Agenda's goal to improve the business climate, the Federation of BiH (FBiH) government worked on the introduction of "one stop shops," but the planned November 2016 introduction has been delayed. In 2015, the FBiH passed new laws on enterprise and foreign direct investment and the Republika Srpska (RS) passed a new law on bankruptcy. However, many constraints on private enterprises continue to exist in BiH.

Privatization of SOEs remains a challenging political and economic issue, as the state-sector is large, inefficient, and reportedly loss-making. This is particularly true in the FBiH, where around two-thirds of the initial stock of state-owned capital intended for privatization remains state-owned. Attempts to sell 14 earmarked companies in the FBiH failed again in 2015. In the RS, only a small number of large companies remain under state ownership. Strategic sectors such as transport, energy and telecommunications (in the FBiH) continued to be dominated by state-owned

Property rights



Private enterprise



companies. In the framework of the Reform Agenda, both entities' governments agreed to speed up restructuring of state-owned enterprises. While the FBiH government agreed with the World Bank to screen all public companies in the entity, the RS government only agreed to screen the entity railroad company. In 2016, the FBiH government managed to sell minority shares it held in several privatized companies, while the RS government managed to liquidate or sell several smaller public companies. During 2017 and 2018, restructuring and privatization of SOEs in the Federation was blocked by the ruling elites, while in the RS only the restructuring of the railroad company commenced. No further improvements in the legal framework for private enterprises in BiH were introduced over the last two years.

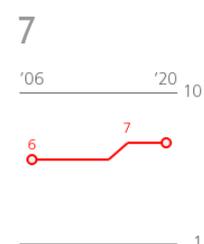
10 | Welfare Regime

Social protection is regulated at the entity level in the 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 social insurance scheme are pension and invalidity insurance, health insurance and health protection, and unemployment insurance.

International financial organizations conclude that the level of social contributions is prohibitively high in Bosnia and Herzegovina (BiH) and the system financially unsustainable. The ratio of those working in the formal sector who pay social contributions to those who are entitled to health care – estimated at around one to five in BiH by the World Bank in 2010 – remained unchanged in 2015. The pension system also has a low ratio of contributors to beneficiaries and is unevenly targeted. Structural reforms of the pension, health care and social welfare systems agreed to by the entity governments as part of the Reform Agenda remained at an early stage during the review period. Reform of the pension system in the Federation was adopted at the beginning of 2017. However, at the time of writing, due to certain implementation delays, it remains too early to assess the overall effects of the reforms.

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 (e.g., so-called privileged pensions and non-insurance transfer payments) and constitute a powerful lobby against reform.

Social safety nets



Equality of opportunity is only partially achieved. Women and members of ethnic, religious, and other minority groups have limited access to education, public office and employment. Nepotism and clientelism in Bosnia and Herzegovina (BiH) institutions 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, youth, those with disabilities, the Roma population and women. In 2017, women comprised 35.2% of the total labor force in BiH compared to the male rate of 58.7%, a level of participation in the labor market that is among the lowest in Europe. In addition, 71.7% of the female population had at least some secondary education compare to 88.7% of the male population.

Equal opportunity

5

'06 '20 10



11 | Economic Performance

The economic recovery following the setback following the 2014 May floods continued in 2017. Real GDP growth was above 3.0% in 2015 to 2017, after just 1.1% in 2014. The drivers of growth were domestic demand, particularly resilient private consumption and an increase in industrial production, partly reflecting growing external demand. Foreign direct investment (FDI) sharply decreased from 2.9% of GDP in 2014 to less than 2% in 2016, but rose again in 2017 to 2.5% of GDP.

Output strength

6

'06 '20 10



Per capita GDP was only 32% of the EU average in 2016 – one of the lowest in the Western Balkans. Inflation remained negative until 2016, when it stood at 1.2% at the end of the year. Unemployment decreased substantially from 27.7% in 2015 to 18.6% in 2017, helped by increased labor migration to the European Union.

The economy relies on export sectors, such as wood processing, and metal, chemical and weapons production. Industrial production increased by 3.1% in 2017, compared to 4.0% in 2015. The steady growth of tourism continued in 2017 to 2018.

Public finances showed initial signs of improvement as a result of a mid-term fiscal consolidation policy. The first general government surplus in years was achieved in 2017 (2.6% of GDP). This was helped by increased tax revenues, which increased from 21.9% of GDP in 2014 to 22.7% in 2017. The current account deficit dropped to 5.2% in 2017 (from the post-flood peak of 7.5% in 2014). This was partly due to a reduced trade deficit, which declined from 29.7% of GDP in 2014 to 23.8% in 2017 – the lowest since the Bosnian War.

12 | Sustainability

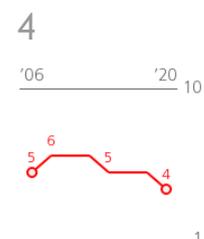
The idea of environmentally compatible economic growth is barely taken into consideration in macroeconomic terms in Bosnia and Herzegovina (BiH), and no specific governmental policies have been adopted in microeconomic terms. A state-level environmental law creating a countrywide framework for harmonized environmental protection remains to be adopted, and no state-level environment agency has been established to monitor compliance. No specific laws on environmental inspections at the level of entities, Brčko District and cantons exist. Overall, administrative capacity in the environmental sector is weak, due to fragmentation of vertical and horizontal competencies and a lack of a harmonized legal framework for environmental protection. On the entity level, a limited number of strategies exist and are implemented: on water and waste management. A countrywide revised strategy and action plan on biodiversity for 2015 to 2020, in line with the U.N. Convention on Biological Diversity, were adopted in April 2016. Following the 2014 floods, a statewide action plan for flood protection and river management for 2014 to 2017 has been implemented.

In 2017, central state- and entity-level governments with EU support developed and subsequently adopted a joint framework energy strategy for BiH, which will run until 2035. The document has been criticized by experts and civil society for lacking a consistent strategy for preventing climate change and reducing greenhouse gas emissions. For example, the document fails to outline any initiatives that would substantially reduce BiH's dependence on coal for energy production.

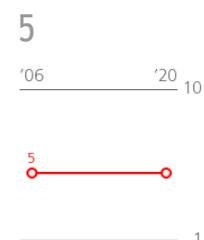
Bosnia and Herzegovina's (BiH) system of education and training remains fragmented, operated and coordinated by 14 ministries across four levels of governance. As a consequence, there is a general lack of reliable data on the education system in BiH. A 2013 joint BiH Finance Ministry and United Nations report on the country's progress toward meeting the Millennium Development Goals estimated total public spending on education at 4.9% of GDP in 2011, comparable to most other countries in the Western Balkans, but below the EU average of 5.3%. The literacy rate was 99.6%. In 2011, the gross enrollment ratio for primary school was 97.6%, secondary school 91.8% and tertiary education 38%. According to the 2016 Human Development Index (HDI), the population had a mean of 9.7 years of education and an average expected 14.2 years of schooling in 2017. In UNDP's Education Index, BiH scored 0.718 in 2016 and 2017.

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 liberalize and improve ethnically based curricula. Framework laws on primary, secondary and higher education are in place, yet in the absence of enforcement mechanisms at the state level, cooperation and coordination across the various government levels

Environmental policy



Education policy / R&D



remains difficult and harmonization of educational standards insufficient. In the Federation of BiH (FBiH), Croat-majority cantons continue to reject the authority of the FBiH Ministry of Education. There have been improvements, however, in 2016 regarding coordination and standardization.

Discrimination in the education system continues to be highlighted by international organizations such as the Council of Europe. In November 2014, the FBiH Supreme Court upheld a lower court decision which had ruled that schools in the FBiH that educate pupils separately according to ethnicity are discriminatory (so-called two schools under one roof). However, to date, the political will to implement the ruling has been absent.

Expenditures for research and development in BiH are extremely low, some 0.27% of GDP in 2012. This is significantly below the OECD/EU mean of 2% of GDP and also low compared to other countries in the region. BiH managed to be associated to the European Union's Horizon 2020 program, but participation remained limited due to the country's limited research capacities.

Governance

I. Level of Difficulty

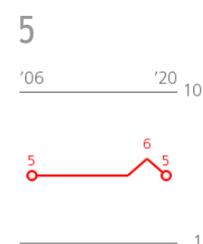
Postwar Bosnia and Herzegovina (BiH) is undergoing at least a threefold transition: from conflict to peace, from communism to democracy and a market economy, and from membership in a federation to independent statehood. The legacy of the war significantly complicates the country's transition in comparison to neighboring countries. The security situation has largely normalized and physical war scars are decreasing, thanks in large part to international donations.

The existing constitution keeps in place a dysfunctional institutional system. Governments in BiH continue to face a multitude of structural constraints inherited from the war and postwar period. These include a technologically antiquated economy dominated by heavy industries (some of which suffered physical destruction during the war); a labor force structurally unfit for a 21st century economy; accelerating emigration among high-skilled workers largely to the European Union (in 2017 to 2018 alone, almost 100,000 people emigrated); high long-term and youth unemployment; obsolete infrastructure (e.g., economically unsustainable railways and a lack of motorways); and an outdated education system, particularly vocational training, which has not responded to the needs of the labor market.

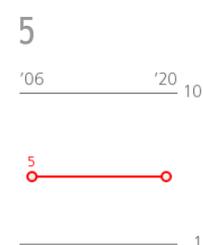
Civil society as an integral part of democratic processes does not have long tradition in Bosnia and Herzegovina (BiH). Civil society traditions were weaker in Bosnia than in most other republics of the former Yugoslavia. Anti-war CSOs protested against the nationalist mobilization prior to 1992, but they were marginalized by nationalist parties.

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 frequently and forcefully expose government inefficiencies and other transgressions. However, their activities are not typical of the sector, which remains dominated by organizations that de facto deliver services to citizens in a way that often substitutes the role of the dysfunctional state. At the same time, there exist strong civil society elements that are illiberal and/or anti-reform and are funded by government sources (particularly the war veterans' associations) in a

Structural
constraints



Civil society
traditions



nontransparent way. CSOs in general suffer from low organizational capacities and a lack of financial sustainability due to the lack of domestic philanthropy and an almost complete dependence on foreign funding. Registration is spread across central state and entity levels with different legal regulations.

As the most important improvement in civil society-government relations, CSOs and the BiH Council of Ministers in 2017 signed a memorandum on civil society-government cooperation. An incomplete BiH-wide registry of CSOs had registered 17,000 active organizations by the end of 2017.

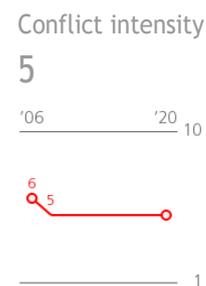
Citizen protests and groups (e.g., the groups that emerged from the violent social protests in February 2014 or the 2018 Republika Srpska “Justice for David” protests) are marked by the limited role of formal CSOs. This reveals the lack of public trust in civil society organizations and reflects the fact that the largely donor-driven professional civil society organizations are by-and-large detached from the interests and needs of ordinary citizens.

Political elites in Bosnia and Herzegovina (BiH) continue to be highly polarized along ethnic lines and instrumentalize interethnic polarization for their own political and material interests. As a consequence, citizens in 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.

Interethnic power-sharing is accompanied by, and encourages, a highly confrontational style of politics. The international presence has been reduced since 2006 and external influence on political elites has rapidly declined. This has been accompanied by a rise in nationalist political rhetoric and the increasing obstruction of power-sharing structures.

As the 2014 violent social protests have demonstrated, the country’s patronage systems constitute stark social differentiation and polarization. In such a volatile social environment, the explosion of social frustrations into violent social unrest cannot be excluded. Existing ethnopolitical confrontation and social polarization represent a potentially dangerous sociopolitical mix. All the more so as the complex political-institutional system makes it nearly impossible to transform social protest into social change.

The nationalist political elite have continued to exploit ethnic divisions and tried to openly mobilize sections of society along ethnic cleavages. In 2017 to 2018, political leaders on all sides provoked other ethnic groups, thus renewing public debate on the possibility of a new violent conflict. This was supported by the nationalist campaign for the 2018 general elections and discussions about an ethno-territorial division in the framework of the Kosovo-Serbia negotiations.



II. Governance Performance

14 | Steering Capability

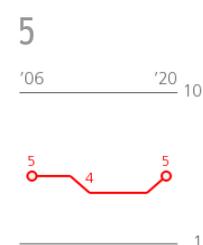
Given that the political system in Bosnia and Herzegovina (BiH) is marked by a policy of interethnic fear and patronage, when viewed from the perspective of the ruling political elites, the structural dysfunctionality of state institutions and their low output and bad quality of service delivery represent integral parts of the system rather than structural deficiencies that need to be overcome. As a consequence, there is little interest on the part of the ruling elite to set any strategic developmental goals, despite the publicly declared strive for democracy, market economy and EU integration. Policy strategies, where they exist, are not an expression of serious interest in strategic policy development and undermined by the fragmented nature of the governance system in BiH.

In this respect, the last review period (2015 – 2016) marked a stark contrast from previous practice with the adoption and initial implementation of the Reform Agenda 2015 to 2018, a broad agenda for socioeconomic reform, and the subsequent adoption of central state and entity level action plans. This change, however, would not have taken place without the European Union's 2014 BiH initiative, which established the core policy direction, and international financial institutions, and was underpinned by strict financial conditions. However, BiH's ruling elites chose a negative prioritization, implementing only those elements that did not endanger the patronage system. Furthermore, after international pressure decreased at the end of 2016, the implementation of structural reforms almost completely stopped, particularly the implementation of reforms that would have seriously undermined the patronage system.

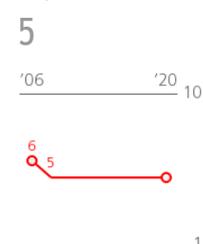
The complexity of the horizontal and vertical division of competences in Bosnia and Herzegovina (BiH) significantly hampers the ability of governments to effectively implement policies. In this respect, 2015 to 2016 differed from the traditional pattern of failing to implement set policies. State and entity level governments adopted austerity measures to consolidate public budgets, while both entities adopted long-blocked reforms of labor legislation, and the pension system was substantially reformed in the federation. These, however, were all measures that unlike other agenda elements did not undermine the country's patronage systems. At the same time, after the European Union forwarded BiH's membership application to the European Commission in September 2016 (the last step in BiH's EU integration process). Consequently, reform pressure subsequently eased and the pace of implementation dramatically slowed, almost completely stopping in 2017 and 2018.

Question
Score

Prioritization



Implementation



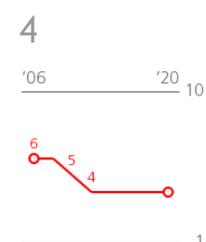
Conflicts between ruling parties on the state and entity levels, and an extraordinarily early start to campaigning for the October 2018 elections enabled the ruling elites to avoid implementing reform measures that would have substantially hurt their interests.

There is little evidence of institutionalized or ad hoc policy learning in Bosnia and Herzegovina. 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 and enforce the decisions of the state and lower levels of government. Implementation of the Reform Agenda has led to some level of exchange and best practice learning between the entities, but this remained limited to a narrow circle of prime ministers' advisers. Key reforms are designed by the international community, with little reliance on capacities within the domestic civil service. As a result, little actual learning from past experiences takes place. External consultancies are rarely employed.

Although the Reform Agenda has been a good example of policy planning, unfortunately it revealed considerable government weaknesses in terms of innovation and creativity. The government has stuck blindly to policies designed by international financial institutions, and thus failed to create a wider social consensus on the required reforms. It excluded whole sections of society in the process and antagonized opposition parties as well as some coalition partners within the government. It left no room for social dialog on proposed measures, adopting the majority of legislation through urgent procedures (which the Constitutional Court overruled on the grounds that the actions disrespected legislative procedures).

Given that the review period was marked by politically motivated postponement to the implementation of reforms, with the core components of the Reform Agenda remaining unimplemented when the agenda expired at the end of 2018, one cannot even speak about a policy learning process, as the ruling elites have demonstrated a lack of interest in policy learning.

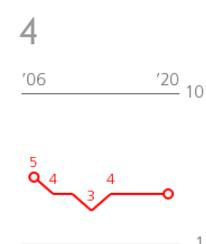
Policy learning



15 | Resource Efficiency

The multiple levels of government in Bosnia and Herzegovina (BiH) are extremely costly and inefficient and attempts to streamline government have been stymied by a lack of political will. Public employment remains based on political party membership and nepotism rather than a merit-based system. Public employment has continued to rise, even after the deterioration of the fiscal situation in 2009, though at a slower pace than before. As a consequence, apart from health care and pension systems, public wage bills make up the major share of state and entity budgets, leaving little space for capital investments. In the health care system, the disproportionate share of non-medical staff, the result of politically motivated

Efficient use of assets



recruitment policies, contributes to a system that is one of the most costly in Europe, while the system's output is comparably very low.

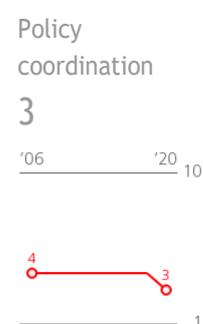
Since 2000, BiH has gone through a lengthy public administration reform (PAR) process, but the state of public administration has not improved over the last decade, but rather worsened. The previously adopted PAR strategy has never been fully adopted and the adoption of a new strategy has been delayed.

In 2015, governments at the state and entity levels adopted freezes on public wage bills and public employment as part of efforts toward fiscal sustainability undertaken in the framework of the Reform Agenda. PAR formed one of the agenda's seven core reform areas, yet implementation in 2017 and 2018 remained at a preparatory stage. Thus, it was only in 2018 that the BiH Council of Ministers as well as the Federation of BiH government adopted PAR strategies for 2018 to 2022. The 2006 PAR strategy expired in 2014. In the absence of a new strategy and as little more than 60% of the previous strategy had been implemented, governments continued to implement the expired strategy, though at a very slow speed. In 2016, implementation almost came to a halt, while only 4% of planned reform measures were implemented in 2017.

The fiscal impact of wage bill freezes was, however, positive in 2017 and 2018, with public budgets stabilizing (i.e., producing surpluses) and the state debt slowly decreasing.

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 policy-making and implementation stages. The functioning of state-level bodies is frequently stymied by political disagreement, particularly obstruction from representatives from the 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. Coordination between the Federation of BiH and its 10 cantons, especially its Croat-majority cantons, is also poor and politicized. Over the last decade, the RS leadership and biggest Croat ethnic party HDZ-BiH have time and again blocked policy decisions, making them conditional on an institutional approach that puts entities and cantons on par with the state, which is unconstitutional.

In the review period, Bosnia and Herzegovina (BiH) authorities and political leaders managed to agree on countrywide strategies for important economic sectors (e.g., agriculture, energy and transport), although only under substantial EU pressure and with substantial delays. A judicial reform strategy for 2015 to 2018 was finally agreed upon in August 2015, after the European Commission had sanctioned BiH, cancelling some funds directed to the judiciary, although agreement on an action plan was only reached in February 2017. Adoption of a National Plan for adopting EU legislation is also still lacking. After the European Union made publication of the results of the



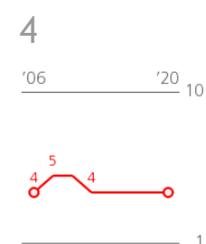
first postwar census in 2013 a condition in its new BiH initiative, the state statistics agency in May 2016 finally published the census. However, the RS government refused to accept the applied methodology and the entity agency published its own results.

Within the framework of the 2015 to 2018 Reform Agenda, entity governments and the BiH Council of Ministers have improved coordination of structural economic reforms and economic policy to a limited degree. Though that proved irrelevant during the current review period, as the implementation of reforms almost completely stopped. In August 2016, political leaders finally reached agreement on a so-called coordination mechanism. The mechanism had been a long time EU condition aimed at establishing effective coordination on EU integration matters between the various levels of government and for BiH authorities to speak to EU institutions with one voice. The mechanisms established a hierarchy of four bodies for internal coordination among BiH authorities, in which state, entities, and cantons participate as equals and decision-making relies on consent, lending de facto veto powers to both the entities and cantons. Against that background, it remains highly questionable whether the mechanism will really lead to better coordination and cooperation in the future. The fact that it took BiH authorities an unprecedented 14 months to draft coordinated answers to the European Commission's questionnaire handed over to Sarajevo in December 2016 seems to have confirmed these doubts. The most prominent failure of policy coordination during the review period related to migration in 2018. In 2018, 24,000 migrants transited BiH, with 4,000 to 5,000 temporarily residing in the country. The situation presented a serious challenge to BiH authorities and quickly turned into a crisis as BiH authorities proved unable to accommodate the few thousand people who entered BiH. The crisis resulted from failures in policy coordination between central state, entity, cantonal and municipal levels of governance.

As with many other reform areas, anti-corruption efforts in Bosnia and Herzegovina (BiH) are poorly implemented due to a lack of political will based on entrenched patronage interests of the ruling political elite. The European Commission's 2018 BiH report assesses that the legal and institutional framework is inadequate and remains fragmented across the various government levels. It concludes that "there remains a gap between the declared political will and the lack of concrete results."

A new Agency for Prevention of Corruption and Coordination of the Fight against Corruption (APIK) became operational on the state level in 2014. Under its coordination, an anti-corruption strategy for the period from 2015 to 2020 was adopted in May 2015. In September 2016, the Federation of BiH (FBiH) government adopted a 2016 to 2019 anti-corruption strategy and action plan. The Republika Srpska (RS) government previously adopted a new anti-corruption strategy and action plan for the period from 2013 to 2017. However, those strategies suffer from a lack of coordination and harmonization and a low degree of implementation.

Anti-corruption policy



Implementation of conflict of interest legislation has de facto stalled since 2013, when amendments to the state law transferred responsibility from the independent Central Election Commission of BiH to a newly formed parliamentary commission. In October 2015, the FBiH parliament adopted an amendment to the FBiH Conflict of Interest Law placing the state-level commission also in charge of implementation of the entity law. In 2014, the FBiH coalition passed a law establishing special departments for the fight against corruption and organized crime within FBiH-level courts and prosecutorial bodies, without securing the material backing for the prescribed institutional changes. As a consequence, the law remained unimplemented during the review period, leaving the judicial fight against organized crime and corruption in FBiH more or less suspended. In the RS, results of the work of the Special Prosecution on corruption established in 2007 remained limited. In June 2016, the RS National Assembly amended the Law on Civil Servants halving the duration and level of fines for disciplinary violations.

16 | Consensus-Building

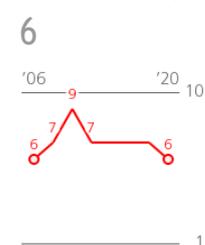
All major political actors in Bosnia and Herzegovina (BiH) are formally committed to the country's integration into the European Union, which entails the continuation and intensification of democratic and market economy reforms. However, in practice, politicians from across the political spectrum are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

In particular in Republika Srpska, continued and intensified political pressures on the media and civil society show that the commitment to democracy only exists on paper.

BiH's transition to a market economy is incomplete and political actors are driven to implement difficult socioeconomic reforms generally only when international macro financial assistance demands it. Consensus-building among the various government actors in BiH improved during the initial phase of the Reform Agenda in 2015 to 2016 and focused on structural economic reforms, but was only enabled by an authoritative new BiH initiative from the European Union and a policy of strict financial conditions pursued by international financial institutions. Once international pressure waned at the end of 2016, inner- and inter-governmental consensus-building in 2017 and 2018 almost entirely collapsed.

It took BiH authorities and political leaders a record 14 months (compared to two to five months for neighboring countries) to provide answers to the European Commission's 3,242 questions, which will form the basis of the European Commission's recommendation to EU member states on whether to grant candidate

Consensus on goals



status to BiH. Still, BiH state and entity level governments partially failed to provide joint instead of separate answers to the European Commission's questions. Agreement on answers to a subsequent 655 follow-up questions had still not been agreed by BiH authorities at the time of writing.

Reform-minded politicians in Bosnia and Herzegovina (BiH) are marginalized, and their room for maneuver is significantly constrained in government. The most significant veto actors in BiH, the political parties favoring a disintegration of the state, control veto positions within the constitutional system of power-sharing and policy-making. 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. As a result, distinctions between reformist and nationalist politicians, between ethno-nationalist and multiethnic, pro-European and pro-democracy parties becomes secondary; the differences vastly vanish when non-ethnic parties enter ruling coalitions.

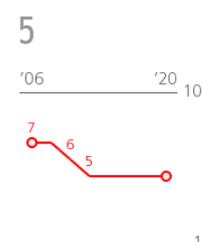
Meanwhile, individuals close to political parties maintain a strong influence over policy-making, using it to protect their interests, businesses and corrupt networks.

During the review period, the few reformers in government at central state and entity level, which drove the socioeconomic reforms of 2015 to 2016 on the domestic side, were subdued by the ruling ethnic parties' leadership, which opted to shift to a pre-election mode of heightened interethnic hostility and subsequent intra-coalition clashes, which obstructed the reforms. The repression of citizen protests (e.g., the "Justice for David" initiative in Republika Srpska) demonstrated that the space for outer-institutional democratic actors was shrinking.

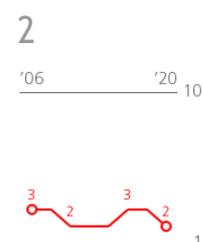
Ethno-national cleavages in Bosnia and Herzegovina (BiH) are significant and reflected in the party system. Politicians play on interethnic tensions and lack of trust for electoral gain. Throughout 2017 and 2018, the Republika Srpska (RS) leadership continued to express support for RS secession, labeling 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.

Croat politicians have increasingly alleged systematic discrimination of Croats in the Federation of BiH and called for the establishment of Croat self-government. This claim has become the centerpiece of all policy negotiations for the past nine years. During the review period, the Croat Bosnian political leadership escalated this interethnic dispute in relation to the Ljubic case ruling of the Constitutional Court of BiH and the subsequent negotiations among parliamentary parties over reform of the BiH election law. The political struggle of the leading Bosniak party in Bosniak-majority areas is traditionally characterized by heightened conflict rhetoric.

Anti-democratic actors



Cleavage / conflict management



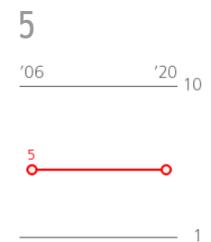
Some provisions enabling institutional cooperation between government and civil society are in place, but the actual links between the political system and civil society organizations remain weak. Civil society is generally not consulted in the course of agenda setting or policy formulation. Where contact 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 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.

During the review period, participation of civil society in agenda setting and policy formulation suffered. The agreement of BiH authorities on the Reform Agenda proceeded in a completely opaque manner, as did the implementation of many agenda measures. Most laws and amendments listed in the agenda's action plans have been adopted through expedited parliamentary procedure, leaving no space for public consultations.

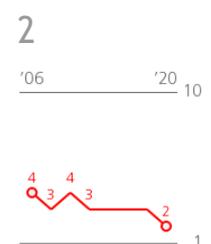
Politicians in Bosnia and Herzegovina (BiH) have generally absolved themselves of the moral or practical requirement to promote post-conflict reconciliation in the war-scarred society. The initially international-led prosecution of war crimes (which has so far only resulted in the trial of a small fraction of war criminals) has not been accompanied by a formal reconciliation process, and this is unlikely to happen without a significant 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 continued to use wartime events to shore up his nationalist credentials.

No reconciliation efforts were undertaken by political actors in 2017 and 2018. Though the written commitment to reforms, signed by BiH political leaders the beginning of 2015 in the framework of the European Union's BiH initiative, contained a reference to reconciliation, there have been no follow-up activities. Two key rulings by the U.N. war crimes tribunal (ICTY) in the Hague in November 2017 sparked interethnic tensions and revived ethnic war narratives on Serb and Croat sides in BiH. On November 22, former RS military leader Ratko Mladic received a lifelong sentence. A week later, six high-level former officials from the Bosnian Croat wartime para-state Herceg Bosna were convicted. In addition to being convicted for a "joint criminal enterprise," it was the suicide committed by one of the convicts during the pronouncement of the judgment that particularly raised tensions.

Civil society participation



Reconciliation



17 | International Cooperation

Government departments and officials in general show indifference or even antagonism toward certain forms of international assistance, particularly if tangible benefits are not immediately forthcoming. Acceptance of international support, in particular of financial support from the international financial institutions and the European Union, on the part of officials and political leaders in Bosnia and Herzegovina (BiH) has regularly been aimed at short-term stabilization of domestic budgets, while at the same time trying to circumvent the implementation of structural reform conditions. As a consequence, in 2015, the IMF terminated the Standby-Arrangement with BiH without paying out the final two tranches of financial aid, as core conditions had not been met.

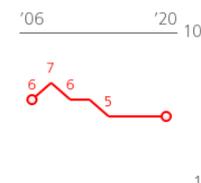
In 2015 to 2016, the authorities in BiH agreed on a Reform Agenda on structural socioeconomic reform, opening the path to substantial financial support from the international financial institutions and the European Bank for Reconstruction and Development. In September 2016, BiH signed a new credit arrangement with the IMF, a so-called Extended Facility Fund designed to support governments in structural economic reform efforts. Nevertheless, the end of 2016 payment of the second IMF tranche was delayed as BiH authorities missed deadlines to implement some reform measures. It was only paid in February 2018 after the IMF had substantially lowered its previous conditions. No subsequent tranches have been paid.

BiH lost a substantial share of the European Union's Instrument for Pre-Accession Assistance (IPA) funds between 2008 and 2013 due to policy disagreements between BiH governments on meeting some conditions. Implementation of those programs continued in 2017 and 2018. BiH gained access to the follow-up IPA programs, IPA II, but restricted these to certain sectors and only for the period from 2014 to 2017 (instead of the full programming period from 2014 to 2020). The reason is the lack of agreement between the different government levels on countrywide sectoral strategies, most of which stem from the Republika Srpska (RS) leadership's ideologically motivated rejection of the conditioned establishment of any additional state-level bodies or transfer of even minimal entity competences to the state level. For the same reasons, BiH lost access to €300 million in European Union IPARD funds for the country's agriculture sector between 2007 and 2013, as documented by the BiH NGO Green Council.

The international community has long viewed the authorities in Bosnia and Herzegovina (BiH) as lacking credibility and a commitment to reform. BiH is aspiring to become an EU member state, but its progress on the EU membership path effectively came to a standstill in 2008 when the European Union signed a Stabilization and Association Agreement (SAA) in June. All EU member states subsequently ratified the agreement, but entry into force remained blocked for years

Effective use of support

5



Credibility

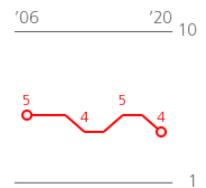
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as BiH failed to implement the remaining EU condition: implementation of the ruling of the European Court of Human Rights on the Sejdić-Finci case. An Interim Agreement (IA) with the European Union had been in force since 2008. However, BiH came to violate the IA, as authorities failed to agree with the European Commission on the adaptation of the agreement following Croatia's EU entry; trade arrangements with BiH were subsequently partly suspended by the European Union in 2016.

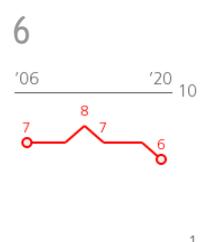
In the framework of the European Union's December 2014 BiH initiative and the Reform Agenda, BiH for the first time in a decade improved its performance on meeting international obligations and unblocked its EU integration process, though with continuous delays and under substantial pressure from the conditions-based policies of international actors. BiH authorities met all the conditions and were rewarded the three steps in EU integration foreseen within the initiative: in June 2015, the European Union entered BiH's SAA into force, in February 2016, the president of the three-member BiH presidency handed over the country's application for EU membership, and, in September 2016, the European Union's General Affairs Council (GAC) forwarded BiH's application to the European Commission. In December 2016, the European Commission handed a questionnaire to BiH authorities to which BiH authorities provided answers in February 2018. However, implementation of the Reform Agenda stalled in 2017 and 2018, and it took BiH authorities an unprecedented 14 months to answer the questionnaire, reducing BiH's compliance with international obligations vis-à-vis the European Union to a minimum. In parallel, BiH authorities widely failed to meet agenda-related obligations set by international financial institutions.

BiH's pending NATO membership application was unblocked in December 2018 when NATO decided to initiate the next step in BiH's accession, the so-called Membership Action Plan (MAP). However, this progress was only enabled by NATO dropping a previous condition over which BiH authorities continue to disagree. At the same time, activation of MAP was immediately called into question by Republika Srpska authorities, which are opposed to the country's NATO membership and insist on adopting Serbia's attitude of military neutrality.

There have been significant improvements in fragile post-conflict regional relations since 2000. Modest regional cooperation takes place within the framework of various initiatives (e.g., the South East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement, the Migration, Asylum and Refugees Regional Initiative). Croatia and Serbia's destabilizing interference in Bosnia and Herzegovina (BiH) affairs has continued in spite of declarations of support for bilateral cooperation. This has intensified since the election of Croatia's new president. The ideological and political feud between the Bosniak member of BiH Presidency and the political leadership of Serbia continued throughout this period. In April 2014, the State Prosecutor's Office signed a



Regional cooperation



cooperation agreement with its counterpart in Montenegro on prosecuting war crimes, crimes against humanity and genocide, following similar agreements with Croatia and Serbia in 2013.

The atmosphere between BiH state leaders and the leaders of neighboring countries somewhat improved in the context of the Berlin process initiated in 2014 by German Chancellor Angela Merkel. Several regional infrastructure projects have been initiated since the launch of the process.

BiH's bilateral relations with neighboring Serbia and Croatia worsened during the review period. A stronger alignment of Serbian President Aleksandar Vucic with the Republika Srpska leadership led to a deterioration in relations with Bosniak political leaders.

Relations with Croatia declined due to the increasingly prominent support of officials from the HDZ-led government in Zagreb for the ethnopolitical constitutional demands of Bosnian-Croat political parties (e.g., the HDZ-BiH) in BiH. Conflicts escalated after Zejko Komsic replaced HDZ-BiH leader Dagan Covic as the Croat member of the State Presidency following the October 2018 general elections – with Bosniak politicians accusing Croatian government officials of meddling in BiH's domestic political affairs.

These bilateral disputes demonstrate that BiH does not have a unified regional cooperation policy, but rather that BiH's ethnic Serb and Croat political elites are aligned to the political leadership of Serbia and Croatia, pursuing ethno-nationalist aims instead of defending BiH state interests.

Strategic Outlook

The October 2018 general elections held in Bosnia-Herzegovina (BiH) marked the end of two years of almost complete stagnation in implementing reforms and pursuing Euro-Atlantic integration. This stalemate was accompanied and enabled by heightened ethno-nationalist rhetoric, and the partial suspension of work across BiH's various government and parliamentary levels. These two years ended a short period characterized by limited structural socioeconomic reform and EU integration within the framework of the European Union's new BiH initiative and Reform Agenda 2015 to 2018. Progress ended with the expiring of the agenda in 2018, having failed to address the core interests of the ruling ethnic elites (i.e., the country's patronage system).

The results of the recent general elections brought no substantial political change, with the leading ethno-national parties (SDA, SNSD and HDZ-BiH), which represent BiH's three constituent peoples (Bosniaks, Serbs and Croats), cementing their political positions. In the Republika Srpska, the post-election collapse of the former opposition block will further strengthen the already uncontested, authoritarian ruling regime. In the Federation of BiH, opposition and multiethnic parties seem too weak and fragmented to seize power, let alone achieve real political change in the near future.

Moreover, as the election law crisis remains unresolved, the danger of it turning into a fully-fledged constitutional crisis in 2019 remains possible. Even without such a crisis evolving, it is already clear that the formation of a central state government will be more complicated and time consuming than after the 2014 general elections. It remains to be seen whether it will turn into a government formation crisis as was the case in 2011.

Against this background, it remains unclear whether central state- and entity-level governments will be willing and able to revive the 2015 to 2016 reform policy and speed up the EU integration process.

In the absence of clear political perspectives offered by central state bodies and politicians, continued clashes between spontaneous social protest movements (e.g., "Justice for David") with BiH authorities, which increasingly show authoritarian tendencies, cannot be excluded.

The influx of tens of thousands of migrants into BiH in 2018, with many migrants attempting to transit the small Western Balkan country and enter the European Union, will continue in 2019. This will continue to present a major political challenge to BiH authorities. Given the BiH authorities proven inability to coordinate policy-making across the fragmented institutional system, it is possible that the migration crisis will turn into a security crisis in the near future.