

BTI 2016 | Bosnia and Herzegovina

Country Report

	scale	score	rank	trend
Status Index	1-10	6.38	# 42 of 129	
Political Transformation	1-10	6.30	# 54 of 129	➔
Economic Transformation	1-10	6.46	# 37 of 129	➔
Management Index	1-10	4.09	# 91 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	3.8	HDI	0.731	GDP p.c., PPP \$	9922.8
Pop. growth ¹	% p.a.	-0.2	HDI rank of 187	86	Gini Index	33.0
Life expectancy	years	76.3	UN Education Index	0.655	Poverty ³	% 0.4
Urban population	%	39.6	Gender inequality ²	0.201	Aid per capita \$	143.9

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The review period in Bosnia and Herzegovina (BiH) was characterized by an unstable government, a failure to fulfil international obligations – particularly key requirements for membership in the EU – and continuing economic problems, which were themselves significantly exacerbated by serious flooding which deluged the region in May 2014. Damages from the flooding were estimated to total 5% to 10% of GDP. Yet, shifting government coalitions, social unrest and the natural disaster did not inspire the country’s political leadership to agree on reforms. Rather, tensions remained high between political representatives of BiH’s three main ethno-national groups. Each continued to promote incompatible visions of the fragile post-conflict state and their role in it. Serb officials, most notably the president of the Republika Srpska (RS) – the mainly Serb entity – continued to assert self-determination rights, characterizing the state of BiH as pointless and unworkable. The functioning of the country’s other mainly Bosniak and Croat entity – the Federation of BiH – was hampered by infighting and attempts to reshuffle the governing coalition.

General elections in October 2014 were conducted in a mainly open and fair manner, though several instances of alleged electoral fraud were reported. The results delivered a heavy blow to the largest governing party in the Federation – the Social Democratic Party (SDP) – and a less marked loss of support for the ruling Republika Srpska coalition, led by the Alliance of Independent Social Democrats (SNSD). The SDP lost votes to a new party – the Democratic Front (DF) – led by a former SDP member of the three-seat Presidency of BiH. The three traditional nationalist parties that came to power before the war in BiH – the Party of Democratic Action (SDA), Serbian Democratic Party (SDS) and Croatian Democratic Union of Bosnia and Herzegovina (HDZ) – all performed solidly, with the traditionally radical Serb SDS taking a more conciliatory approach compared to the governing SNSD. Candidates put forward by these parties, or coalitions led by them, won the three seats in the tripartite BiH presidency. At the time of writing, coalition governments had been formed only in the RS, led by the incumbent SNSD, with

the prospect of the opposition (Party of Democratic Progress (PDP), National Democratic Movement (NDP) and SDS) forming part of the state-level government, together with the SDA, HDZ and DF.

Lack of a common direction seriously hampered the output of all governments, particularly at the state and federation levels, which operate according to power-sharing rules that give ethnic groups and representatives from each entity veto rights over common decisions. Constitutional changes required by the EU to enable the Stabilisation and Association Agreement (SAA) to enter into force were not adopted, and there was little or no progress on fulfilling other requirements set by the EU and NATO. Some discrete improvements in the business environment were overshadowed by the devastating impacts of flooding in May 2014 and the fallout from large protests in February 2014. The country's first census since before the war was conducted in 2014. While the process was considered technically satisfactory, the census results, yet to be published, are politically sensitive. The census' figures on the relative numbers of each ethnic group may affect debates on the power-sharing formulas currently in place in BiH, potentially altering each group's level of representation.

Economic growth was set to accelerate in 2014, but severe flooding in May dramatically changed the outlook. This natural disaster caused major human suffering and hardship, affecting almost one quarter of the population. Thousands of people were displaced from their homes, over 2,000 of which were completely destroyed. A large number of businesses, farmlands, and infrastructure were also destroyed or severely damaged. The flooding moved land mines and other unexploded ordnance from the 1992 to 1995 war, leaving 70% of flooded areas at risk. Estimates put the total economic impact of the floods and consequent landslides at 5% to 10% percent of GDP. International donors pledged assistance, mainly in the form of loans, to assist the BiH authorities implement a reconstruction and recovery program in the flooded areas.

The period was also characterized by more mass social unrest than has been seen in BiH since the end of the war. In summer 2013, thousands of protesters gathered in Sarajevo to demand the government pass legislation regulating the national identification numbering system, as a legal vacuum had been created and new-born babies could not be registered, impacting their access to health care and other services. In February 2014, mass protests against governments in the Federation turned violent, with a minority attacking and burning government buildings in Sarajevo, Mostar, and Tuzla. The protests began in Tuzla, led by workers from Communist-era factories demanding back payment of salaries and other benefits. Protests spread, with demands for the resignation of governments across the Federation due to their perceived abuse of office and mismanagement of the economy.

Following the October 2014 elections, partly in reaction to the underlying causes of social unrest and the economic consequences of the floods, EU member-states the United Kingdom and Germany launched an initiative designed to help move BiH forward on the EU integration path. With a view to allowing the SAA to enter into force, the initiative envisaged the postponement of a previously set condition relating to changing the method of electing the tripartite presidency and upper house of parliament (the so-called Sejdic-Finci case). The new approach, which was adopted

by the EU's Foreign Affairs Council, also envisages BiH applying for candidate status if a commitment to socioeconomic and other functional reforms is made. At the time of writing, BiH governing parties were discussing the text of a joint commitment to honor these conditions, a prerequisite for the SAA to enter into force. However, objections from the leadership of the RS were already evident.

History and Characteristics of Transformation

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

BiH was governed as a semi-protectorate after the war, with a U.N.-mandated High Representative exercising executive powers that were used to remove individuals accused of impeding peace implementation and to impose central state institutions and liberalize sub-state levels of government. The international community has remained the main driver of the democratization process throughout the postwar period. Efforts to reform democratic institutions and establish a functioning market economy ran simultaneously with efforts to reconstruct the country's infrastructure, spur economic recovery, enable the return of refugees and patch the divided country's social fabric. Heavy international involvement in the country's transition has been criticized for usurping the power of political elites, overriding democratic procedures and creating a culture of dependency in BiH. On the other hand, many of the institutions of liberal democracy, a market economy and the strengthened federal or state-level government may not exist were it not for international intervention. BiH's political elites have often pursued alternative agendas, while giving rhetorical support to democracy and economic reforms.

International intervention papered over some of these alternative elite agendas and incompatible views of BiH's constitutional structure and statehood. However, since 2006, the authority of the civilian and military missions in BiH has been much reduced. In the absence of credible international threats and sanctions, BiH politicians have proved 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 nationalist rhetoric have sharply increased,

most evident in calls for secession from the Republika Srpska leadership, and for the establishment of a third territorial entity that would be populated mainly by Croats. The rhetoric of nationalist political leaders dominates the political space. This marginalizes the EU agenda, as well as other democratizing/liberalizing agendas more generally.

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

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

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

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Under the 1995 Dayton Peace Agreement, North Atlantic Treaty Organization (NATO) peacekeepers were deployed in Bosnia and Herzegovina (BiH) to enforce military aspects of the peace agreement. The size, composition and mandate of this force have been reduced incrementally over time, and the mandate was transferred to the EU in 2004. Since 2012, the European Union Force (EUFOR) Althea military operation consists of 600 troops. Under a renewed U.N. mandate, the foreign force acts in an executive military role to support BiH's efforts to maintain a safe and secure environment. As the security situation has largely normalized, the EU military mission focuses on capacity building and training to support the BiH armed forces. A reserve force is also maintained outside BiH, prepared to deploy at short notice if required. Following violent protests in February, the troop force was temporarily boosted, with an additional 90 troops from the United Kingdom deployed for 6 months in 2014 during the election period with the stated aim of strengthening the mission's capacity to "foresee, monitor and prevent civil unrest across BiH."

Monopoly on the
use of force

8

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

The security sector in BiH is highly fragmented, with competencies divided among several different levels of government. State-wide coordination mechanisms are in place but their mandate is weak and their operational capacity is low. A state-level directorate responsible for coordination of police bodies is functional, and mechanisms for coordination among police agencies and for exchanging electronic

data between police and prosecution services have been developed, although formal cooperation continues to be weak. A non-executive European Union Police Mission (EUPM) operated in BiH until 30 June 2012, when its mandate expired. The mission monitored implementation of police reform and provided training to local forces, with a focus on combating organized crime and corruption.

The three largest ethno-national groups in Bosnia and Herzegovina (BiH) hold differing views of the character of the postwar state and the self-determination rights of various groups within it. The majority of Bosniaks (also known as Bosnian Muslims) favors stronger central state structures and is strongly attached to the state of BiH. The majority of Bosnian Serbs and Bosnian Croats view their ethno-national identity as stronger than their fairly weak attachment to the state of BiH. The level of support among Bosnian Serbs and Bosnian Croats for the Bosnian state that existed when international state-building in Bosnia was at its height has gradually declined over the years. Since 2006, many political elites have increasingly appealed to sentiment over ethno-national identity and intercommunal fears to entrench their political positions.

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

Formal citizenship is generally not withheld from minority groups. However, aspects of the governance system are discriminatory. Individuals who do not declare themselves as members of one of the three “constituent peoples” (Bosniak, Croat and Serb) are prevented from participating in some of the country’s power-sharing institutions. There is further territorial-based discrimination, as the Bosnian Serb member of the presidency is elected by voters in Republika Srpska, and the Bosniak and Bosnian Croat members by the electorate of the federation (the same rules apply to indirect elections to the upper house of the state parliament). The European Court of Human Rights (ECHR) ruled in 2009 that these provisions discriminate against citizens on the grounds of ethnicity. The BiH authorities failed to amend the constitution and electoral legislation in line with the ruling, despite EU involvement in negotiations between the parties.

State identity

4

There is formally a complete separation between state and religion in Bosnia and Herzegovina (BiH). In practice, 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 Yugoslavia. Religious leaders continue to use their positions to shape political discourse and events in the country. With some exceptions, religious leaders tend to emphasize the perceived disadvantageous position of their respective ethno-religious communities, rather than preaching inter-religious (and interethnic) tolerance and understanding.

No interference of religious dogmas
8

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

Basic administration
8

2 | Political Participation

General elections are conducted every four years at national, entity and canton levels. Local elections are also held every four years and are staggered to take place two years after the general elections. Universal suffrage with secret ballot is ensured. However, constitutional provisions continue to discriminate on ethnic grounds, limiting the right to stand, given that only certain categories of citizens are permitted to run for the state presidency and to be elected to the House of Peoples. The 2009 European Court of Human Rights ruling in the so-called Sejdic-Finci case requires BiH to amend discriminatory provisions of its constitution and election law. BiH has failed to do so, although the issue became a key EU requirement.

Free and fair elections
7

Federal and entity-level parliamentary and presidential elections were held on 13 October 2014. The electoral turnout was 54.5%. In its report on the 2014 general elections in BiH, the OSCE Office for Democratic Institutions and Human Rights

(ODIHR) concluded that the BiH's legislative framework is generally sufficient for conducting democratic elections, but has several shortcomings including limiting the right to file a complaint, insufficient safeguards to prevent abuse of state resources, no law on political parties and inadequate campaign finance regulation. ODIHR noted that the elections were held in a competitive environment, where fundamental freedoms of expression, association and assembly were respected. However, ODIHR also noted "widespread credible allegations of electoral contestants manipulating the composition of polling station commissions," raising concerns about the integrity of the elections process. Concerns were also expressed by other international actors on the high number of spoiled ballots and other alleged irregularities.

Levels of provocative rhetoric were high during the election campaign. The ruling coalition in the Republika Srpska (RS), in particular, manipulated sensitive wartime events and used intimidating rhetoric against minorities. In August 2014, the RS president threatened to analyze election results to determine which minority (Bosniak) communities in the RS supported his party and to base their post-elections treatment on their loyalty to the regime.

The most powerful veto points in the Bosnia and Herzegovina (BiH) governance system come not from outside but are built into the complex decision-making process itself. Procedures for government formation and voting in the state parliament and the presidency give veto powers to representatives from each entity and each "constituent people" that enable them to block common decision-making. The power-sharing system was designed to ensure fair ethnic representation in the state institutions. However, given that the country's three ethno-national elites lack a minimal common vision of the character and role of the state, veto points are regularly exploited to prevent decision-making.

With decreasing external intervention to unblock deadlock, this frequently leads to a lack of any meaningful level of shared governance in BiH. It took more than 15 months to form the federal government coalition following the October 2010 general elections. Only 14 new pieces of legislation were adopted by the federal parliament during its 2010 to 2014 mandate, while 71 existing laws were amended. Although the weak BiH state has fewer competences than a typical candidate for EU membership, this represents a sharp decrease in legislative activity compared to the previous two mandates and illustrates a lack of common vision among BiH's politicians as well as a collective lukewarm attitude towards the requirements of EU integration. The failure to appoint judges to the Constitutional Court of the Federation (one of the two entities) blocked the appointment of a panel to judge claims of so-called "vital national interest" referred by the legislature, blocking the adoption of some laws and decisions in the Federation.

Effective power to govern

7

The constitution of Bosnia and Herzegovina (BiH) guarantees freedom of association and assembly, and the BiH Law on Associations and Foundations defines the rules governing assembly and association. Although political interference is not evident in granting permission for association, the procedure for registration is lengthy and cumbersome. The Law on State Aid, adopted in February 2012, regulates the allocation of state funds to NGOs, but is yet to be implemented. Independent groups, particularly in the Republika Srpska (RS), have been subject to political intimidation and public criticism in media close to the government.

Association /
assembly rights
8

During the reporting period, NGOs critical of RS authorities came under pressure, with the arrest of some government critics and other reports of harassment. In 2014, the ruling RS party, the Alliance of Social Democrats Party (SNSD), published a dossier alleging that a network of foreign funded NGOs were planning to undermine the “constitutional order” of the RS. In February 2014, the United States, EU, and OSCE condemned accusations by RS authorities that certain media outlets are “foreign agents.” Human Rights Watch also highlights police intimidation during the February 2014 protests, when police intimidated and beat journalists and confiscated footage, violating the right to freedom of the press.

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

Freedom of
expression
6

However, there are sustained attempts by politicians to undermine media independence and influence editorial policy, with particular influence exerted on public broadcasters. According to an international nonprofit organization fostering independent media (IREX), in 2013, negative trends in the country’s media sphere continued, including a low level of professionalism, poor protection and conditions for journalists, a weak and oversaturated media market, an unsustainable public media service, a fragmented media scene, and political influence. The independence of the CRA has also been questioned following the appointments of seven new members of the CRA, which was criticized by the Association of Journalists in BiH as illegitimate because rules on experience and gender balance were not respected. Legislative amendments in the Republika Srpska (RS) excludes the CRA from the

selection and appointment procedure for the RS public broadcaster, which led to criticism of increased political control and undermining of editorial independence.

Physical attacks against journalists are not widespread. According to the Free Media Help Line, the number of reported cases of crimes against journalists fell just slightly to 45 cases in 2013, compared with 47 in 2012. The most serious cases included three physical assaults, one death threat, and 21 cases of other threats and pressure; the remaining cases related to other infringements of media freedom. However, journalists are discouraged from challenging the position of ethno-national elites and other powerful groups in society, particularly in the RS, where various forms of pressure were exerted in the reporting period on media and civil society groups critical of the RS government. In September 2014, the RS president warned workers of a bankrupt public company that they would not receive court-mandated settlements if they spoke to a media outlet critical of the government.

3 | Rule of Law

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

The main governance challenge in BiH continues to be the complexity of vertical division of competences between several layers of government and the inefficiency of horizontal power-sharing mechanisms. The system requires a huge amount of political will to function and this has been notably lacking since the war. Executive powers at the state level are still weak, and have been hampered for the last several years by a lack of basic political agreement, even on matters related to EU integration. Parliamentary decision-making is handicapped by multiple veto points, including de facto entity vetoes on state matters. The state lacks the enforcement mechanisms to harmonize legislation throughout the country. In the absence of political agreement and dispute-resolution mechanisms, the international community has been relied upon to drive policy, broker or force domestic consensus and impose legislation where consensus was not forthcoming. Since 2006, international intervention and authority in BiH has rapidly declined.

Separation of
powers
8

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

Independent
judiciary

5

Evaluations of the effectiveness of the international-led vetting and reappointment process differ. However, the HJPC's transition to a domestic body has been accompanied by increasing political attempts to undermine its independence and the independence of other judicial bodies. In particular, authorities in the Republika Srpska (RS) continued to regularly question the authority and competence of federal judicial institutions, including the BiH Constitutional Court, State Court and Prosecutor's Office, and High Judicial and Prosecutorial Council. In October 2013, the RS National Assembly passed a decision calling for the HJPC to be dismantled into three separate councils at the federal and entity levels. This attempt to undermine the independence of the judiciary drew criticism from the EU and other IOs. The RS president also threatened that the RS would cease to apply decisions of the Court of BiH and the BiH Prosecutor's Office on RS territory.

The European Commission progress report for 2014 concludes that there are "persistent flaws in the independence and impartiality" of the judiciary in BiH, and singles out political interference in the processing of war crimes cases in 2014. Attempts by the HJPC itself to amend conflict of interest rules in 2014 were criticized by the EU. Long-standing vacancies in the Federation Constitutional Court were eventually filled, under international pressure, in 2014.

Few officials are convicted of abuse of office and corruption in Bosnia and Herzegovina (BiH), though the legal framework is considered adequate. In the reporting period, there was an increase in investigations against higher-level officials. However, some of these investigations appeared to be conducted in a politically selective manner, targeting members of political parties that had come into conflict with stronger coalition partners. In the most high-profile case, the Federation President was arrested in April 2014 over alleged involvement in selling presidential pardons. The state court determined it was not competent to deal with the case and referred it to the cantonal court in Sarajevo. Another high profile indictment was issued against the Deputy Prime Minister of the Federation, who was arrested with other government officials in 2014 on charges of being involved in organized crime,

Prosecution of
office abuse

6

money laundering and tax evasion. Both cases have yet to reach trial. Accusations of political motivation have been made in both cases, as the accused lead small parties that were under pressure from the main governing parties to leave the coalition.

The June 2014 arrest of the former director of the country's Indirect Taxation Authority, together with several customs officials on charges of organized crime, abuse of office and money laundering was one of biggest investigations carried out in post-war BiH. Nevertheless, the EU has criticized the credibility of BiH's efforts to tackle corruption and abuse of office, noting that the track record of investigation and prosecution in high profile cases remains unsatisfactory and the overall level of effective investigations, prosecution and convictions is low. There was also concern that conflict of interest provisions had been watered down during the reporting period.

Civil rights are codified by law, but are not always properly respected and protected. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, but are not consistently effective. Domestic courts and the International Criminal Tribunal for the former Yugoslavia (ICTY) continue to process war crimes. However, the 2014 European Commission progress report noted that the processing of cases was slow, due to both their complexity and inadequate budgets and personnel numbers at all levels of jurisdiction. Many lower-level perpetrators of war crimes remain unpunished, despite the ongoing implementation of a strategy on domestic war crimes prosecutions.

Civil rights

7

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

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

Persons who do not belong to any of the three main ethnic groups continue to be excluded from the right to compete for public office despite a 2009 European Court of Human Rights ruling that requires BiH to remove this restriction from its constitution.

4 | Stability of Democratic Institutions

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

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

The current constitutional set-up of the country is routinely questioned and undermined by politicians, particularly from the Republika Srpska (RS) and the main Croat parties. Bosniak politicians also question the legitimacy of RS institutions. The RS leadership continues to advocate independence for their entity, though no such constitutional right exists. They question the mandate and authority of federal institutions, most notably the Constitutional Court and the State Court, and characterize 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 for the division of the Federation into federal units to be dominated by Bosniaks and Croats respectively. This position is strategically supported by the RS president who publicly supported the recreation of the Croat wartime para-state “Herceg Bosna.” Bosniak politicians have toned down their anti-RS rhetoric in recent years. However, they continue to challenge various aspects of governance in the mainly Serb entity, on the grounds of wartime atrocities and continuing discrimination against minorities.

Performance of
democratic
institutions

5

Commitment to
democratic
institutions

5

In polling carried out by the United Nations in 2013, 59% of Serbs polled said they would prefer to live in an independent Republika Srpska, while 11% would prefer the RS to join Serbia. A significantly smaller percentage thought that the RS would actually gain independence in the future (19%). 38% of Croat respondents would prefer to live in an independent Croat entity, while 8% would prefer to join Croatia.

5 | Political and Social Integration

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

BiH has an unusually large number of political parties in proportion to its small population size. However, each ethnic group is dominated by two or three parties that tend to alternate in government: the Alliance of Independent Social Democrats (SNSD) and Serb Democratic Party (SDS) in Serb-majority areas; the Croatian Democratic Union of Bosnia and Herzegovina (HDZ) and Croatian Democratic Union 1990 (HDZ1990) in Croat-majority areas; and in Bosniak-majority areas, the Party for Democratic Action (SDA) dominates, with two new parties, the Union for a Better Future (SBB, formed in 2009 by an influential media tycoon) and Democratic Front (DF, formed in 2014 by the former SDP member of the BiH Presidency) making inroads into the former communist Social Democratic Party (SDP) vote in the 2014 general elections. Electoral volatility, that is, the sum of changes in vote shares (absolute values) for legislative parties between the 2010 and 2014 elections (divided by two) was 18%, which represented a decline compared to previous elections.

The main governing parties and their patronage networks are well-established. According to the 2014 EU Progress Report for BiH, “Political patronage networks are widespread and influence all levels of government.”

Party system
6

The number of active interest groups is relatively small. The interests of groups that may be influential in more developed democracies and economies, such as business and consumer associations, are not well articulated in BiH, nor are they systematically included in policy-making. Their impact may be also reduced because of the lack of single countrywide associations, the formation and registration of which is discouraged or prevented. For example, since 2002, BiH authorities have refused the request of the Trade Union of BiH to register as a union at the federal-level, drawing criticism from the ILO.

Interest groups
6

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

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

There are few calls in Bosnia and Herzegovina (BiH) for a return to a non-democratic system of government. However, there are vastly different levels of pride in and attachment to the state of BiH across BiH's three ethno-national groups. According to 2013 U.N. polling results, over 90% of Bosniak, Croat and Serb respondents expressed pride in their ethnic identity (94%, 91% and 92% respectively). However, pride in BiH citizenship and attachment to the state varies significantly across BiH's ethnic groups: 91% of Bosniak respondents were proud of their BiH citizenship, 60% of Croat and 46% of Serb. An overwhelming majority of respondents across all ethnic groups expressed pride in their regional/town identity (87% to 89%) and religious identity (90% to 93%).

Approval of
democracy
6

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

The military commands a greater degree of trust at 58%. However, there are sharp differences in levels of confidence across the two entities, with 69% trusting the military in the federation and a significantly lower 39% in the RS. These diverging levels of support are partly explained by the merger of the RS army into a single armed force for the whole country in 2006.

According to polling commissioned by the United Nations in 2013, BiH citizens are not very socially active, and surveys show that they are rarely active in NGOs, humanitarian, political or other types of organizations. Social protests and demonstrations are rare. In the U.N. survey, respondents were asked to assess if they are willing to take part in the following activities: to vote in the elections, join a political party, join a citizens' action group, demonstrate, use violence or force if it becomes necessary or leave BiH. More than half of the respondents stated they were willing to vote in the elections. Significantly, more citizens stated they were willing to leave the country, than were willing to demonstrate (less than a third of citizens). Respondents were much less willing to join political or citizens' action groups.

General levels of trust in Bosnia are comparable to those in neighboring countries. The 2012 Gallup Balkan Monitor survey found general levels of trust in other people in Bosnia and Herzegovina (BiH) at 67%. Perhaps surprisingly, more people in BiH say they trust people from different nationalities, compared to elsewhere in the region. Despite suffering by far the heaviest human and other losses during the conflicts that marked the break-up of Yugoslavia, 56% of BiH respondents express trust in people of different nationalities. By contrast, BiH respondents recorded the lowest levels of strong identification with their country (75% expressing moderate to extremely strong identification, compared to 91% in Serbia). Of these, respondents from the Republika Srpska (RS) express the lowest level of strong identification, at 60%. These levels have remained relatively low since polling began in 2010. A representative opinion survey conducted by the European Bank for Reconstruction and Development in 2011 found that approximately 27% of the respondents were active members in at least one of various civil society organizations.

Social capital

6

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Bosnia and Herzegovina's 2013 Human Development Index (HDI) score is 0.731, ranking the country in the category of high human development, 86th out of 187 countries. The score is below the average for countries in Europe and Central Asia. Bosnia and Herzegovina (BiH) has the lowest score in Southeast Europe. The country's Gini coefficient was 36.3 in 2007. According to the UNDP Human Development report, between 1980 and 2011, life expectancy at birth in BiH increased by 5.2 years and expected years of schooling increased by 0.4 years. According to the World Bank, the share of employed persons in the total population (older than 15 years) was 32.5% in 2013, which is one of the lowest shares in Southeast Europe (only Kosovo has an even lower share). The unemployment rate increased to 28.4% in 2013 (ILO), 90% of these individuals are considered long-term unemployed. In a household budget survey conducted in 2011, the Agency for Statistics of BiH found that 17.9% of the population were living on less than €13 per month (income of an adult household member, adjusted for household size).

Socioeconomic
barriers
6

The UNDP's National Human Development Report for BiH documented manifestations of "exclusive social capital" in BiH institutions, including nepotism and clientelism, which perpetuate exclusion and deny basic human rights to many citizens. This report and others concluded that there is "very low generalized trust" in society, as well as limited levels of civic participation and social solidarity. In large part, this is a direct consequence of conflict and the divided and inefficient postwar political system. Ethnic minorities are particularly vulnerable to exclusion, while internally displaced people are at a high risk of poverty. Other groups at high risk of poverty and social exclusion include the elderly, youth, people with disabilities, the Roma population, and women, whose level of participation in the labor market is among the lowest in Europe.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	10903.6	16847.5	17851.3	18344.3
GDP growth	%	5.0	0.7	2.5	1.2
Inflation (CPI)	%	-	2.2	-0.1	-0.9
Unemployment	%	25.6	27.2	28.4	-
Foreign direct investment	% of GDP	5.7	2.6	1.8	3.1
Export growth	%	-	-	7.0	-
Import growth	%	-	-	1.6	-
Current account balance	\$ M	-1844.4	-1030.7	-1029.3	-1401.4
Public debt	% of GDP	25.5	39.1	41.6	44.8
External debt	\$ M	6377.5	9935.0	11077.5	-
Total debt service	\$ M	310.0	800.9	1120.0	-
Cash surplus or deficit	% of GDP	2.1	-2.2	-	-
Tax revenue	% of GDP	20.5	20.1	-	-
Government consumption	% of GDP	22.2	23.2	22.8	-
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	5.0	6.9	6.7	-
R&D expenditure	% of GDP	0.03	-	-	-
Military expenditure	% of GDP	1.6	1.3	1.1	1.1

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

According to the 2014 European Commission (EC) progress report, Bosnia and Herzegovina (BiH) made little progress in the review period toward establishing a functioning market economy, and major reforms are required to enable the country to cope with competitive pressure and market forces over the long term. Some improvements have been made to the business environment (the length of time to start a business and obtain a construction permit were reduced in 2011), but significant administrative barriers remain for private-sector development. The functioning of market mechanisms remains hampered by the large government sector. The private sector only accounts for an estimated 60% of GDP. The IMF

Market-based
competition

6

concludes that the government's significant presence continues to crowd out the private sector, and the general business environment discourages investment and expansion. This results in high unemployment and low labor-force participation. The EC concludes that there was limited progress on the liberalization of network industries, and the state continues to influence the economy through state-owned monopolies. The lack of a single economic space within BiH is seriously curbs business activity. The informal sector in BiH is large. The rate of registered unemployed significantly exceeds the rate estimated on the basis of Labour Force Survey data (ILO method).

The Law on Competition and its by-laws are harmonized with EU regulations, and the Bosnia and Herzegovina (BiH) Competition Council is operational across the whole country. The European Commission (EC) notes that anti-trust legislation needs to be improved and the administrative capacity of the Competition Council increased. In 2013, the council adopted 23 anti-trust decisions, 20 merger decisions and imposed fines totaling about €80,000 (as of November 2014) on companies that infringed competition rules. A Market Surveillance Agency has been established, with functioning inspection bodies at the entity-level, implementing and coordinated proactive and reactive surveillance activities. A State Aid Law is in force; the State Aid Council and management for the secretariat have been appointed. The secretariat is not fully staffed and the European Commission notes that budget problems may hamper its work.

Anti-monopoly
policy

8

Generally, foreign trade is liberalized, with uniform, low tariffs and no fundamental state intervention in free trade, in line with the Stabilization and Association Agreement and the Interim Agreement with the EU. However, BiH has not followed EU demands to adapt the Interim Agreement to take into account the country's traditional trade with Croatia (i.e., trade before that country had joined the EU). The European Commission has threatened to deprive BiH of some trade benefits if the adaptation process is not finalized by the end of 2015. BiH is still not a member of the WTO, and thus comparative data is not available. Progress was made on negotiations for WTO accession. BiH has started to implement an Interim Agreement on Trade and Trade-Related Matters with the EU and planned reductions of custom tariffs are underway.

Liberalization of
foreign trade

9

The banking sector dominates the financial system of Bosnia and Herzegovina (BiH), with an 83% share of total assets in 2011. A banking system in line with international standards is largely in place. The central bank, currency board and Agency for the Security of Deposits perform functional banking supervision. BiH's bank capital-to-assets ratio is 8.0. The share of non-performing loans in total loans was 11.8% in 2011 and increased to 14.9% in March 2014. The continued impact of the May 2014 flooding was expected to cause a further growth of nonperforming loans. According to a 2014 report by the IMF, the ratio of tier 1 capital to risk-weighted assets increased from 12.4% (2009) to 15.5% (2014).

Banking system

8

The central bank was able to mitigate the effects of the global financial crisis, effectively preserving financial and monetary stability. This can partly be attributed to the country's currency board system. During the period under review, governments in both entities were preparing new banking laws aimed at improving banking supervision, crisis management and resolution procedures.

8 | Currency and Price Stability

Inflation fell in 2013, with consumer price inflation decreasing from 2% in 2012 to -0.1 % in 2013. Consumer prices declined by 1.4% between January and July 2014. The Central Bank is exclusively responsible for monetary policy and coordinates the entity banking agencies which license and supervise banks in the two entities. The independence of the Central Bank is enshrined in law and has not been questioned by political actors. The exchange rate is pegged to the euro under a currency board arrangement. According to a European Commission report on BiH, the currency board enjoys a high level of confidence and credibility.

Anti-inflation /
forex policy

9

The BiH economy experienced a fragile recovery of 2.5% growth in 2013, slowly emerging from recession. However, the short-term outlook worsened following the May 2014 floods, resulting in significant damage – estimated at 5% to 10% of GDP – and an overall slowdown of economic activity. Revised expectations point to modest economic growth in 2014. Inflation remains at a low level, but high unemployment, particularly youth unemployment, and slow credit growth contribute to stagnant domestic demand.

Macrostability

7

External imbalances narrowed in 2013, with the current account deficit almost halved to 5.5% of GDP in 2013, mainly resulting from a marked improvement of the trade deficit, which decreased from 33.6% in 2012 to 30.5% in 2013. Exports continued to lead the recovery, supported by growing external demand, especially from EU countries, despite a decline in exports to Croatia, one of BiH's largest trading partners, due to unresolved trade issues following Croatia's EU accession. This trend was reversed in the first half of 2014: BiH's external position deteriorated. The current account deficit increased to 6.1% of GDP in the four quarters leading up to March 2014. Foreign direct investments continued a declining trend during 2013 and the first half of 2014. Net borrowing increased by some €140 million during the first half of 2014.

Despite some fiscal consolidation measures in 2013, such as a freeze of public sector wages and employment restrictions, the general government deficit remained broadly unchanged at 2.2% of GDP. Expenditures on social benefits remained high at 17% of GDP, while capital expenditures remained low, less than 7% of GDP in 2013. The fiscal situation deteriorated further in the first half of 2014 as a result of severe flooding and a temporary stalemate in the implementation of the IMF's Stand-By Arrangement, while external debt servicing needs remained high. This led to budget rebalancing in both entities.

9 | Private Property

The ease with which property can be registered in Bosnia and Herzegovina (BiH) has significantly improved in recent years, but started from an extremely low post-war base. BiH is ranked 93rd of 185 countries on ease of registering property. According to the World Bank, 24 days and 7 procedures are required to register property in BiH. This represents a massive reduction compared to the 331 days that were required in 2008. However, the country still underperformed compared to the regional average for Eastern Europe and Central Asia but performs better than most other countries in the Western Balkans.

As regards reclaiming property confiscated during the war, a high proportion of property repossession requests have been resolved. The Commission for Real Property Claims of Displaced Persons and Refugees (CRPC) ceased working in 2009. As of 2014, it is estimated that there were approximately 180 cases pending before the Court of Bosnia and Herzegovina. Political representatives have been unable to agree on a resolution of state and defense property, a condition required to close 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 EU and international rules. While state agencies have more frequently acted against violations of copyright provisions, the enforcement of property rights is still deficient.

The World Bank's 2015 Doing Business survey ranks Bosnia and Herzegovina (BiH) 170th out of 189 countries on the ease of starting a business. Starting a business in BiH requires 11 procedures, 37 days, costs 14.9% of income per capita and requires paid-in minimum capital of 29.1% of income per capita. BiH performs significantly worse than neighboring countries in the Western Balkans (Macedonia is ranked at 30th, Montenegro at 36th, Croatia at 65th, Kosovo at 75th and Serbia at 91st). Companies are still required to register in both entities before they can do business in the whole country, further discouraging BiH-wide business start-ups and foreign direct investment.

Despite the country's poor position, there has been progress in recent years on improving the climate for doing business. The time required to register a business in BiH was reduced from 69 days in 2010 to 37 days in 2014. However, the length of time compares very unfavorably to neighboring countries (15 days in Croatia, 12 days in Serbia, 10 days in Montenegro, five days in Albania and two days in Macedonia). Authorities in the Republika Srpska (RS) established "one stop shops" for business registration in 2013, reducing the number of procedures and business start-up costs. There were also efforts in the Federation to expedite and simplify business registration.

Property rights
8

Private enterprise
7

Privatization of state companies is resisted in some sectors, particularly in the Federation. The private sector's share in GDP is estimated to have remained stable, at around 60% of GDP in 2014. In the RS, 69% of the initial stock of state-owned capital intended for privatization had been sold by September 2012. In the Federation, privatization strategies were adopted in 2013 and 2014, but around two-thirds of the initial stock of state-owned capital intended for privatization remained state-owned.

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 BiH and the system financially unsustainable. The EU estimated in 2014 that the ratio of those working in the formal sector who pay social contributions to those who are entitled to health care is around one to five in BiH. The pensions system also has a low ratio of contributors to beneficiaries and is unevenly targeted.

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

Life expectancy at birth was 76.1 years in 2012, according to World Bank. Some 7% of GDP was spent on health services in 2012.

Social safety nets

7

The UNDP's 2009 National Human Development Report for Bosnia and Herzegovina (BiH) documented manifestations of "exclusive social capital" in BiH institutions, including nepotism and clientelism that perpetuate exclusion and deny basic human rights to many citizens. Ethnic minorities are particularly vulnerable to exclusion, while internally displaced people are at a high risk of poverty. Other groups at a high risk of poverty and social exclusion include the elderly (of whom over 65 years are ineligible to receive a pension), youth, those with disabilities, the Roma population and women. In 2014, women comprised 38.8% of the total labor force in BiH, a level of participation in the labor market that is among the lowest in Europe.

Equal opportunity
5

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

11 | Economic Performance

In 2013, the slow economic recovery continued at a moderate pace with real GDP growth accelerating from -1.2% in 2012 to 2.5%. Average annual inflation fell to -0.1% in 2013. According to the ILO, unemployment stood at 27% in 2013. External imbalances narrowed in 2013, with the current account deficit almost halved to 5.5% of GDP in 2013, mainly resulting from a marked improvement of the trade deficit, which decreased from 33.6% in 2012 to 30.5% in 2013. Exports continued to lead the recovery, supported by growing external demand, especially from EU countries, despite a decline in exports to Croatia, one of BiH's largest trading partners (due to unresolved trade issues following Croatia's EU accession). The IMF concludes that fiscal consolidation was largely on track in 2013, with public debt declining. The overall government budget deficit was reduced to 1.9% of GDP in 2013, compared to 2.7% in 2012. The public debt-to-GDP ratio fell for the first time in several years, from almost 45% in 2012 to 43% in 2013. However, revenue collection lagged, with a shortfall in indirect revenues in 2013.

Output strength
5

However, the short-term outlook worsened following the May 2014 floods, resulting in significant damage – estimated between 5% and 10% of GDP – and an overall slowdown of economic activity. Revised expectations point to modest economic growth in 2014. Inflation remains at a low level, but high unemployment, particularly

youth unemployment, and slow credit growth contribute to stagnant domestic demand. BiH's external position deteriorated in the first half of 2014. The current account deficit increased to 6.1% of GDP in the four quarters leading up to March 2014. Foreign direct investments continued a declining trend during 2013 and the first half of 2014. The foreign investment rate was 1.9% of GDP in 2013, among the lowest in the region. Borrowing increased by some €140 million during the first half of 2014.

12 | Sustainability

The idea of environmentally compatible growth is barely taken into consideration in macroeconomic terms in Bosnia and Herzegovina (BiH), and no specific governmental policies have been adopted in microeconomic terms. A state-level environmental law creating a country-wide framework for harmonized environmental protection remains to be adopted, and no state-level environment agency has been established to monitor compliance. Entity governments adopted laws on waste management, but have not actually implemented plans to manage solid waste. 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.

Environmental
policy
5

Levels of public expenditure on education in Bosnia and Herzegovina (BiH) are not available via the Human Development Index (HDI), and there is a general lack of reliable data on the education system in BiH. A 2006 World Bank expenditure and institutional review estimated total public spending on education at 4.3% of GDP in 2005, higher than many other countries in the Western Balkans but below the EU average. According to the 2011 HDI, the population has a mean of 8.7 years of education, though the current average expected years of schooling is 13. According to the most recent World Bank data, the literacy rate was 97.8% in 2008. In 2011, the gross enrollment ratio for primary school was 90%, secondary school 89%, and tertiary education 38%, according to World Bank statistics.

Education policy /
R&D
5

Expenditures for research and development in BiH are extremely low, some 0.02% of GDP. This is significantly below the OECD/EU mean of 2% of GDP and is also low compared to other countries in the region. BiH is associated with the Seventh EC Framework Program for Research and Development, but its access to funds is constrained by the country's very limited research capacities.

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

different speeds of implementation of laws and reforms within the country and the lack of mechanisms to enforce the implementation of state-level laws. In the Federation, Croat-majority cantons reject the authority of the Federation Ministry of Education, three of these cantons have yet to align with BiH legislation on pre-school.

Discrimination in the education system continues to be highlighted by international organizations, such as the Council of Europe. In November 2014, the Federation Supreme Court upheld a lower court decision which ruled that schools in the Federation that educate pupils separately according to ethnicity are discriminatory (so-called two schools under one roof). Tensions over the provision of education for minorities in the Republika Srpska escalated in two schools, where Bosniak parents objected to the curriculum and education in their mother tongue. In one case, protests from parents led to their children being bused to school in the Federation.

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

Transformation Management

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. However, BiH makes more limited progress on democracy, governance and other reforms in comparison to neighboring countries. The country's constitutional future remains contested and the least stable in a volatile region.

Structural
constraints

6

A degree of system functionality was previously maintained by strong external intervention. Until 2006, executive civilian and military powers were deployed to enforce peace implementation and ensure the minimal functionality of common power-sharing institutions. The substantial levels of intervention that characterized the 10 years after the close of the war began to decline in 2006, based on an impression abroad that the country had progressed to the point that its reforms were irreversible and a desire to "normalize" the international presence in the country. However, in the absence of sustained and consistent international pressure, the system frequently comes to a standstill.

Heavy rainfalls, severe flooding and landslides in May 2014 affected almost one quarter of the population and caused damage amounting to an estimated 5% to 10% of BiH's GDP.

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, and civil society organizations (CSOs) are concentrated in urban centers such as Sarajevo, Banja Luka and Tuzla. Anti-war CSOs protested against the nationalist mobilization prior to 1992, but they were marginalized by nationalist parties. CSO efforts have been significantly undermined by an environment in which political dialogue is dislocated into informal, but influential non-institutional circles.

Civil society
traditions

5

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

Direct-democracy citizen groups (“plenums”) were formed in parts of the country following protests in February 2014. These groups presented a list of demands to government, including the resignation of local authorities, cutting officials’ salaries and benefits, audits of privatizations, and improvements in health care and social protection. In four cantons in the Federation, local governments resigned as a result of citizens’ demands. However, other demands were not met, and the plenums were not sustained, illustrating the weakness of civil society in BiH. In the Republika Srpska, in particular, NGOs critical of the government came under pressure in the face of government plans to restrict the work of the NGO sector.

Cooperation with civil society at the federal, entity and canton levels remains weak. Institutional mechanisms for cooperation with civil society are still not fully operational at the entity level and are lacking at federal level. A national strategy for civil society has not yet been adopted. Civil society organizations often face administrative restrictions during the registration process. Transparency in the allocation of funds for civil society organizations needs to improve.

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

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

Conflict intensity
5

II. Management Performance

14 | Steering Capability

Question
Score

During the review period, political elites showed little capacity to move beyond immediate concerns of electoral competition and gaining access to government positions. In this climate of political crisis and stalemate, strategic priorities and other pressing governance issues were ignored or sidelined. Multiethnic coalitions at the state and federation levels lacked basic common direction, and policy was reduced to lowest common-denominator issues. The country's strategic goal of integration with the EU was entirely sidelined by political infighting over the composition of governing coalitions and attempts to use EU conditions to rework constitutional arrangements.

Prioritization
4

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

The complexity of the horizontal and vertical division of competences in BiH significantly hampers the ability of governments to implement policy effectively. In the reporting period, policy development and implementation were additionally hampered by shifting coalitions and attempts to reshuffle governments, particularly at the federal level as well as in the Federation. Only 14 new pieces of legislation were adopted by the federal parliament during its 2010 to 2014 mandate, while 71 existing laws were amended. This represents a sharp decrease in legislative activity compared to the previous two mandates and illustrates a lack of common vision among BiH's politicians as well as a collective lukewarm attitude towards the requirements of EU integration. Governance in the Republika Srpska is more straightforward, as all coalition partners are Serb parties and the entity is highly centralized. However, implementation rates in the entity are still low.

Implementation
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There is little evidence of institutionalized or ad hoc policy learning in Bosnia and Herzegovina (BiH). Assessment mechanisms are rare. The country's multiple layers of government reduce opportunities for policy learning. There is a dearth of mechanisms to monitor policy implementation or to enforce the decisions of the federal center (at state and federation levels) at lower levels of government. For example, the political actors failed to negotiate a constitutional reform that would have transformed BiH into a functioning state and enabled the international community to end its supervisory role.

Policy learning
4

15 | Resource Efficiency

The multiple levels of government in Bosnia and Herzegovina (BiH) are extremely costly and inefficient. Attempts to streamline government have been stymied by lack of political will, particularly as the public administration serves as a rich patronage arena for governing parties. The number of employees in the already bloated public administration continued to rise in 2013 and the first half of 2014. Public sector employment makes up some 27% of total employment. Civil service laws exist at all levels of government, but implementation of merit-based provisions is hampered by political interference. A report produced by the OECD and European Union's Support for Improvement in Governance and Management (SIGMA) program concludes that ethnicity is the "cornerstone" of the country's administrative and civil service systems; as political parties are organized on the basis of ethnicity, ethnicity is thus used to cover up political patronage and nepotism. The 2014 European Commission progress report notes that almost no progress has been made toward the development of a professional and depoliticized civil service.

Efficient use of
assets
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This European Commission progress report also concludes that the country does not have a comprehensive public financial management reform program that would set the basis for prioritizing and sequencing reforms necessary in different parts of the public financial management system. However, a public expenditure and financial accountability assessment is underway and could be used as a starting point for preparing a reform program. The public audit function is in place at all levels of government and is generally assessed to be sufficiently independent. However, governments often fail to act on audit findings.

The 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

Policy
coordination
4

and its ten cantons is also poor and politicized, and, during the period under review, contributed to the cancellation of a series of important meetings with EU officials – the so-called sub-committee meetings under the Interim Agreement with the EU. BiH authorities could not reach agreement on their collective position or division of competences.

To align with EU legislation, the EU required the BiH government to establish an effective coordination mechanism between the various levels of government. However, agreement could not be found on a coordination model. Preparation of a National Plan for adopting EU legislation was effectively stopped during the reporting period. BiH also failed to adopt countrywide strategies for important sectors, such as agriculture and rural development, energy, the environment, and transport. As a result, EU funding for the development of these sectors was withheld from the country. The EU assesses the role of the Directorate for European Integration as weak and declining.

As with many other reform areas, anti-corruption efforts in Bosnia and Herzegovina (BiH) are poorly implemented due to lack of political will to enforce legislative and institutional frameworks. The legislative framework is adequate but the 2014 European Commission progress report concludes that “the track record of investigation and prosecution in high profile cases remains unsatisfactory and the overall level of effective investigations, prosecution and convictions is low.” The EU notes that this failure stems from several factors, including undue political influence on operational policing, patronage and corruption, and insufficient cooperation between law enforcement agencies and prosecution services. Prosecutions for corruption are low and rarely involve senior officials. Politicians directly and indirectly discourage the investigation of corruption. In 2009, Republika Srpska (RS) leaders successfully lobbied for the removal of international prosecutors from the organized crime and corruption section of the state prosecutor’s office. As the International Crisis Group concludes, removing this power from the state would in effect immunize senior RS officials from prosecution, since no RS court has ever convicted a powerful senior government figure.

Anti-corruption
policy
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A new Agency for Prevention of Corruption and Coordination of the Fight against Corruption became operational in 2014. The agency is coordinating the development of an anti-corruption strategy for the period from 2015 to 2020. The agency is also responsible for protecting whistle-blowers under new legislation adopted in 2014. The RS adopted a new anti-corruption strategy and action plan for the period from 2013 to 2017. Action plans have also been developed in the Federation, though monitoring bodies do not yet exist in the cantons and Brcko District. The Federation authorities adopted legislation to establish specialized anti-corruption and organized crime departments in the Prosecutor’s Office and Supreme Court of Federation.

The legislative and institutional framework also requires improvement. The Group of States against Corruption (GRECO) has identified various deficiencies in the legal framework to fight corruption. Rather than making changes to improve the legislation, the BiH parliament adopted legislative amendments in 2012 that weaken the definition of conflict of interest and sanctions against public officials. The 2014 European Commission Progress Report for BiH notes inadequate legislation related to asset declaration and political party financing.

16 | Consensus-Building

All major political actors in Bosnia and Herzegovina (BiH) are formally committed to the country's integration into the European Union, which entails the continuation and intensification of democratic and market economy reforms. However, in practice, politicians from across the political spectrum are keen to entrench their positions, and show little readiness to undertake painful structural reforms, whether economic or constitutional. Reform-minded politicians are 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.

Consensus on goals

7

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

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. Protests in early 2014 underlined the fragility of the socioeconomic situation in the country. Many of the protesters can be labelled as transition losers, including a large number of workers from now insolvent or bankrupt formerly state-owned enterprises.

Reform-minded politicians in Bosnia and Herzegovina (BiH) are increasingly marginalized and their room for maneuver is significantly constrained in government. Partly as a result, distinctions between reformists and nationalist politicians (who question and undermine constitutional rules) are becoming less clear. 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.

Anti-democratic
actors

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Ethno-national cleavages in Bosnia and Herzegovina (BiH) are significant and are reflected in the party system. Politicians play on interethnic tensions and lack of trust for electoral gain. The Republika Srpska (RS) leadership continued to express support for RS secession, labelling the Bosnian state an unnatural and unworkable entity. The RS leadership, in particular President Milorad Dodik, employed highly charged rhetoric to question the legitimacy of the state and the possibility of a harmonious common future between BiH's entities and various ethnic groups. In the face of allegations of corruption and mismanagement of public funds, Dodik has styled himself as the protector of Serb interests against an allegedly centralizing state and prejudiced international community. The High Representative has described this rhetoric at its worst as "hate speech."

Cleavage /
conflict
management

3

Croat politicians, excluded from government, called for the establishment of Croat self-government. Bosniak politicians are least likely to question the country's constitutional order, partly because their electorate favors a united BiH. However, the Bosniak-dominated Social Democratic Party (SDP), which led coalitions in the period under review at the federal level and in the Federation, antagonized the largest Croat parties by undermining the spirit, if not the letter, of interethnic power-sharing rules. For example, the SDP ran a Croat member of the three-seat BiH presidency in two successive mandates; this person won largely on votes from Bosniak-majority areas.

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.

Civil society
participation

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During the reporting period, NGOs critical of RS authorities came under pressure, with the arrest of some government critics and other reports of harassment. In 2014, the ruling RS party, the Alliance of Social Democrats Party (SNSD), published a dossier alleging that a network of foreign funded NGOs were planning to undermine the “constitutional order” of the RS.

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. In June 2013, the RS National Assembly adopted a declaration of the 1992 to 1995 war which criticized the war crimes trials in the International Criminal Tribunal for the former Yugoslavia (ICTY) and the BiH Court. In addition, this declaration characterized the cause of the war as aggression against Serbs. This provoked condemnation from Bosniak politicians. During the election campaign in 2014, Dodik announced his intention to name a newly opened, publicly funded student residence building after indicted war criminal Radovan Karadzic.

Reconciliation
3

17 | International Cooperation

Governments in Bosnia and Herzegovina (BiH) have experienced a sharp change in their relations with international organizations since 2006. In the 10 years following the adoption of the 1995 peace agreement, the country was highly dependent on international aid, and international organizations, most notably the executive power-wielding Office of the High Representative, formulated policy and legislation on a wide range of areas, much of which had little in common with the interests and priorities of the country’s political class.

There remains a rather passive attitude toward international assistance in many quarters. Officials are not proactive and may be indifferent or even antagonistic toward certain forms of external support, particularly if tangible benefits are not immediately forthcoming. A substantial share of the EU’s Instrument for Pre-Accession Assistance (IPA) funds were withheld from BiH in 2014, following the authorities’ failure to meet certain conditions. This illustrated a continuing lack of common political and economic reform priorities in BiH, and politicians’ reluctance to reconcile different priorities in the interests of compromise. The European Union

Effective use of
support
5

underlined that strengthening coordination mechanisms on programming is an urgent priority, but political leaders continue to pursue separate agendas. The European Union also reports that BiH has done little to set up a structure for decentralized management of EU funds.

The governments in BiH failed to take full advantage of other forms of international financial assistance in the review period. There were delays in the implementation of the IMF Stand-by arrangement due to the authorities' failure to carry out structural reforms, especially in the pre-election period.

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

Credibility

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The abrupt reduction in the use and credibility of the High Representative's powers and the transition to more domestic ownership of reform agendas has not significantly increased international confidence in the governments of BiH. During the review period, numerous international organizations, most notably the European Commission in reports in 2013 and 2014, report meager or no progress on meeting international obligations and reform priorities.

BiH is aspiring to become an EU member, but its progress on the EU membership path is effectively at a standstill. All EU member states ratified the Stabilisation and Association Agreement (SAA) signed in June 2008, but the agreement has not entered into force because BiH has failed to implement the Sejdić-Finci ruling of the European Court of Human Rights. Implementation of that ruling is also a key component for the country's membership application to be considered credible by the EU. An Interim Agreement (IA) with the EU has been in force since 2008. However, BiH is in violation of this agreement, as it has not yet adapted the trade concessions granted under the IA/SAA to take into account its traditional bilateral trade with neighboring new EU member-state Croatia.

BiH's chaotic governance structures and the unwieldy coalitions of convenience they produce have hampered the country's ability to meet international obligations, particularly when these have required harmonized action at the federal-level. During the period under review, a number of important meetings between the BiH authorities and EU had to be cancelled (sub-committee meetings and the Interim Committee meeting) due to internal disagreements on the composition of working groups and the level of consultation on the written documentation to be submitted. The country also failed to meet international obligations related to money laundering and the

financing of terrorism as well as the energy sector. Lack of agreement in the BiH presidency as regards foreign policy reduced BiH's alignment with EU policy in several cases, including on EU reactive measures in the context of events in Crimea and Ukraine.

There have been significant improvements in fragile post-conflict regional relations since 2000. Modest regional cooperation takes place within the framework of various initiatives (such as the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Migration, Asylum and Refugees Regional Initiative (MARRI)). Croatia and Serbia's previously destabilizing interference in BiH affairs has been replaced with better bilateral cooperation, as both Zagreb and Belgrade turned their agendas towards the requirements of EU integration. Croatia acceded to the EU in July 2013 and Serbia began negotiations on accession to the EU in January 2014.

In April 2014, the State Prosecutor's Office signed a 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.

Regional
cooperation
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Strategic Outlook

Political elites in Bosnia and Herzegovina (BiH) were unable or unwilling to overcome institutional constraints and diverging political agendas to form stable governments and implement reforms to promote economic growth and accelerate the country's shaky and unsure crawl towards EU membership. The continued exploitation of national issues for political gain, particularly in the Republika Srpska (RS), and continuing attempts to reshuffle federal and Federation governments, highlight the failure of political elites to deal with the country's structural problems and international obligations. There is little evidence that even minimal political consensus on policy objectives was achieved by the country's weak coalitions of convenience. The main political actors differ sharply on the country's future constitutional structure and some profit from promoting continued political and constitutional uncertainty.

While some in the governing parties favor BiH's integration into the EU and NATO, other important political players directly and indirectly question these strategic goals. The EU changed its approach to BiH at the end of 2014, deciding to postpone a key requirement related to representation and power-sharing rules (which the parties had been unable to fulfil). The Stabilisation and Association Agreement with the EU will now enter into force if BiH leaders commit to implementing pressing socioeconomic reforms. BiH's EU membership application will then be considered on the basis of its implementation of this commitment. The aim of this new approach seems to be to lock BiH into a negotiation process with the EU as soon as possible, and then to address issues of governance and functionality through the more structured and rigorous process of the negotiations. It remains to be seen whether this altered approach will make BiH's political elites more or less determined to find consensus on future EU demands.

Progress towards EU membership on the part of BiH's neighbors is likely to pull the country along to some extent. Croatia's accession to the EU, though, has had a mixed effect. Continuing economic problems in Croatia have inspired a degree of Euroscepticism. Croatia's accession has also led to a degree of protectionism in BiH, with some BiH goods excluded from the Croatian market.

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

most significant external actor in the region, holding the significant “carrot” of future EU membership, a more creative approach is required. At key stages, EU institutions and member states should condition BiH’s integration process on democracy and governance reforms that will improve the functionality of her institutions. These reforms would place BiH in a better position to tackle a number of economic and financial challenges, including the consequences of the economic crisis.