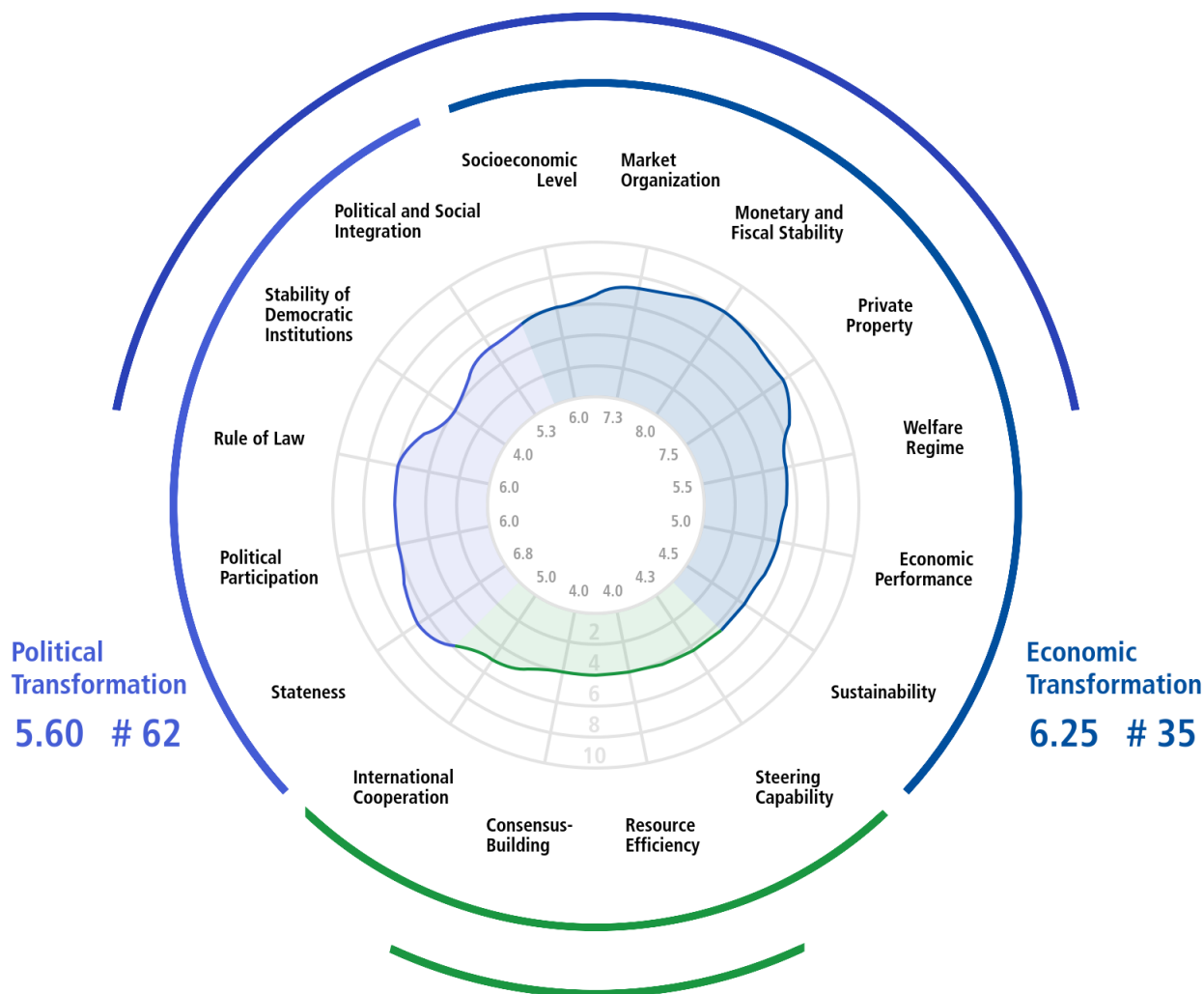


# Bosnia and Herzegovina

## Status Index

**5.93 # 54**

on 1-10 scale out of 137



**Political Transformation**  
**5.60 # 62**

**Economic Transformation**  
**6.25 # 35**

## Governance Index

**3.78 # 106**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>3.3</b>	HDI	<b>0.780</b>	GDP p.c., PPP \$	<b>15612</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.6</b>	HDI rank of 189	<b>73</b>	Gini Index	<b>33.0</b>
Life expectancy	years	<b>77.4</b>	UN Education Index	<b>0.711</b>	Poverty <sup>3</sup>	% <b>0.7</b>
Urban population	%	<b>49.0</b>	Gender inequality <sup>2</sup>	<b>0.149</b>	Aid per capita \$	<b>140.7</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Since 2019, Bosnia and Herzegovina (BiH) has experienced political instability, continuing dysfunctionality with regard to large parts of state and political institutions, and a continuous undermining of democracy and the rule of law. This continuing negative trajectory is based on the continuous denial by the ruling political elites in Republika Srpska (RS) of BiH's constitutional order and statehood. Over the past few years, the ruling Croat party has mirrored those sentiments through challenges to state functionality, the use of veto powers and a denial of legitimacy to legally elected government bodies. A political stalemate over BiH's participation in the NATO Membership Action Plan (MAP), due to resistance from RS leaders, prevented the formation of the state-level government for 14 months following the October 2018 general elections. The breakthrough was only enabled by U.S. and EU mediation. The financing of state institutions based on the last-adopted budget from 2018 ended only in July 2020, when the Parliamentary Assembly of BiH adopted a 2020 budget. The budget delay forced a postponement of the 2020 local elections from October to November.

In the Federation of BiH (FBiH), government formation has been stalled for two years after the last election due to demands by the Croatian Democratic Union (HDZ), the main Croat party, that the BiH election law be changed according to its own narrow nationalist goals. The party has thus held the formation of a government as well as the functioning of the entity's constitutional court hostage, as the FBiH president, an HDZ member, has blocked the nomination of new judges for years. Government formation has also stalled in two of the federation's 10 cantons. Fundamental political disagreements among the main Serb, Croat and Bosniak parties at the state and FBiH level have for years stymied the appointment of key officials and directors of police. The BiH Parliamentary Assembly was effectively suspended until the formation of the state-level government, and both the BiH and FBiH parliaments demonstrated minimal legislative activity in 2020. The long-time RS leader, Milorad Dodik, has used his position as the newly elected Serb member of the three-member BiH Presidency to promote narrow entity-specific interests, at the expense of the interests of the state of BiH as a whole.

The COVID-19 pandemic laid bare the dysfunctionality and structural crisis of the BiH state and politics. It hit the country's weak, fragmented and partly corrupt health care system hard. The economic impact of the pandemic was substantial, as GDP dropped by 5.5% in 2020, fiscal revenues decreased for the first time since 2009, and unemployment increased after several years of decrease (primarily due to mass emigration). Cooperation among the main parties and between political units initially improved; particularly within the BiH, the Presidency and the Council of Ministers worked primarily to mitigate the economic impact of the pandemic. This progress, however, was short-lived. In April – May 2020, the approval and disbursement of hundreds of millions of euros in macro-level financial support from the IMF and the European Union was delayed for weeks due to disagreement over its distribution among entities and cantons. International borrowing secured fiscal stability, despite the stark negative economic trends. Citizens' trust in government management has been undermined by several corruption scandals over the public procurement of medical supplies, with one leading to the indictment of the sitting FBiH prime minister. Some measures introduced in the entities were criticized as a misuse of the pandemic aimed at limiting freedom of expressions and were partly revoked.

Local elections held on November 15, 2020, saw opposition parties in the RS and in parts of the FBiH make surprising inroads. The Alliance of Independent Social Democrats (SNSD), the long-term ruling party of RS, lost several key mayoral races, including in the RS capital Banja Luka, while the Party of Democratic Action (SDA), the main Bosniak party, suffered a historic defeat in most districts of the capital, Sarajevo. A June 2020 agreement facilitated by the EU and the United States paved the way for local elections in Mostar in December, the first that had been held in the city since 2008; in the polling, the HDZ and SDA strengthened their control over the divided city.

In 2019, the European Commission published its opinion on BiH's application for EU membership (Avis), and an expert (Priebe) report on the rule of law. Both contained stark language and negative assessments of the functioning of the state and its democracy, economy and rule of law. The Avis set 14 priorities, including key structural-reform conditions with a focus on the rule of law and constitutional reform, for the EU to open accession negotiations with BiH. Almost no progress has been made on these reforms, given the authorities' focus on managing the pandemic, but a lack of political will has also played a key role.

Finally, the 2017 – 2018 rerouting of the Balkan migrant route via BiH created a permanent migration-management problem, peaking in regular winter crises around preparing adequate shelter for the several thousand asylum-seekers and migrants that become stuck primarily in the Western Bosnian Una-Sana canton. During much of the 2020/21 winter, this left about 3,000 migrants out in the open amidst snow and sub-zero temperatures.

## History and Characteristics of Transformation

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

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

Between 2005 and 2006, the international community abruptly decided to end international intervention and transfer responsibility for further transition to domestic political actors. This was partly motivated by the belief that domestic political elites were ready to continue reforms

on their own within the framework of EU integration process, but also by waning political will among Western governments to continue the costly postwar policy. The handover did not yield the expected results, both because there was little international willingness for a gradual transition and because the international community had not secured a solution for reforming BiH's constitutional system. The Dayton constitution, originally designed for only a few years, remains an almost insurmountable constraint to sustainable democratic and economic transition. BiH politicians have proven unable or unwilling to reach consensus on the formation of multiethnic coalition governments, on basic policy and even on fundamental constitutional rules. Since 2006, levels of nationalistic rhetoric have sharply increased, most evident in calls for secession from the RS leadership. They have marked the rise of Milorad Dodik as the new strongman in RS (and in BiH as a whole), who has established in RS a regime that over the years has become increasingly autocratic as democratic standards were lowered and political opposition weakened. RS institutions engage in acts and decisions that openly undermine the constitutional order and defy the decisions of state-level institutions, in a partly illegal and unconstitutional manner. In parallel, Bosnian Croat elites' rhetoric has radicalized, creating new demands for autonomy and national representation beyond the constitutionally guaranteed rights. The nationalist rhetoric has marginalized the EU reform agenda and other democratizing/liberalizing agendas.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

In Bosnia-Herzegovina (BiH), the state's monopoly on the use of force is, in principle, established across the entire territory but continues to be undermined by poor institutional coordination among the security services and persistent politicization. BiH armed forces were established in 2006 through unification of the three separate ethnic forces supported by the state-building efforts of the international community. However, the armed forces are not mandated to maintain security within BiH. Since 2004, the European Union Force Althea (EUFOR Althea), which succeeded the NATO peacekeeping mission, remains the only international security force in BiH with a statewide mandate to guarantee security. However, the reduction in troop levels to only a few hundred over the last decade meant that EUFOR Althea would not be able to guarantee security in the event of a serious security crisis.

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

Question  
Score

Monopoly on the  
use of force

8

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8

1

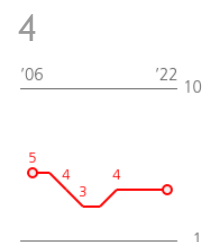
The Bosnia and Herzegovina (BiH) constitution, an annex to the Dayton Agreement, does not refer to a unified state identity, but rather to integrated but mutually exclusive (multi- and mono-ethnic) state concepts that genuinely limit the legitimacy of the state. Since the international community shifted from sponsoring state-building to a more hands-off approach in 2006, nationalist political elites have returned to freely employing deliberate and intensive efforts to undermine the state, using fears of other ethnic groups to entrench their own political positions. The Republika Srpska (RS) leadership, in particular, frequently challenges the integrity of BiH by insisting on statehood for the RS and making claims to an (unconstitutional) right to secede. They have frequently made political ultimatums on the return of competences transferred to the state during the first postwar decade.

The Bosnian Croat national parties (e.g., HDZ-BiH) also frequently question the integrity of the state and condition its survival upon the formation of a Croat ethno-territorial unit – that is, a third entity – either directly or indirectly (via changes to the electoral system). Their efforts have become increasingly deliberate over the past several years, and better coordinated with the efforts of the leading parties in the RS. Polls on citizens’ attitudes toward the state increasingly reflect the impact of top-down nationalism on the Serb and Croat population while the Bosniak majority remains committed to a unified state. However, according to a poll commissioned by the European Union after the outbreak of violent social unrest in February 2014, citizens across the country rated bread-and-butter issues (e.g., the economy, corruption, a lack of social justice) higher than questions of ethnicity and their national status, a result that was mirrored in various public and non-public polls commissioned in 2019 – 2020.

After a decade of threatening to hold a referendum on secession or to challenge state-level institutions, the RS leadership in September 2016 undertook the most serious challenge to the authority of the state since the war: a referendum on the January 9 RS national day, which was declared unconstitutional by the state-level Constitutional Court. The RS leadership organized the referendum on maintaining the holiday, though the court had already banned the referendum as unconstitutional.

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

#### State identity





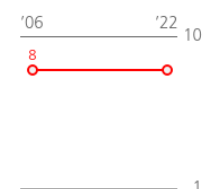
Formally, the state and religion are completely separate in BiH. In practice, religious communities have a rather influential role in public and political life, with mixed effects on post-conflict reconciliation. The leaders of the country's three dominant confessional groups – the Islamic community, and the Roman Catholic and Serb Orthodox churches – became key components of influential informal elite structures during the disintegration of secular Yugoslavia. By siding with the emerging ethno-nationalist movements and lending legitimacy to policies of ethnic cleansing, the three communities semi-integrated into political party structures. An almost complete merger of ethnic and religious identification, particularly among Serbs and Croats, resulted from this alliance.

In the 2013 census, 50.7% of BiH citizens identified themselves as Muslims, 30.7% as Orthodox and 15.2% as Catholic, almost perfectly matching the country's ethnic breakdown (Bosniaks, Serbs, Croats). Religious leaders continue to shape political discourse and events, often emphasizing the perceived disadvantageous position of their own ethno-religious communities rather than preaching tolerance and understanding. The merger of the RS national day with an Orthodox holiday was declared by the BiH Constitutional Court to discriminate against RS's non-Serb, non-Orthodox population.

Basic administrative structures are in place but are unusually fragmented over five levels of government: municipal, cantonal, entity, Brčko District and central state levels. Governments in the two entities – the Federation of Bosnia-Herzegovina and the Republika Srpska (RS) – are responsible for most public services. The state-level authorities have responsibility for foreign policy, trade, defense, customs policy, monetary policy, immigration, refugee and asylum policies, international and inter-entity law enforcement, communications, air traffic control, and international financial obligations. The central state has assumed further responsibilities for indirect taxation and the regulation of police, intelligence, judicial, and prosecutorial bodies, following a transfer of responsibilities from the two entities. This transfer of authority is frequently criticized by the RS government and politicians. The RS leadership's ideologically motivated rejection of any transfer of competences to the central level, combined with a refusal to coordinate or harmonize entity policies, seriously impedes the provision of basic services to citizens. As a result, the quality of public health care, social protection and education is rather low. Countrywide infrastructure like railways and highways remain markedly underdeveloped compared to neighboring countries. The partial lockdowns introduced in 2020 slowed service delivery to citizens, as the working hours of administration offices were reduced and the administration itself was only partly functioning. The state and entity-level bodies underperformed with regard to protecting citizens against the coronavirus, providing adequate health care and preventing the spread of the disease.

No interference of religious dogmas

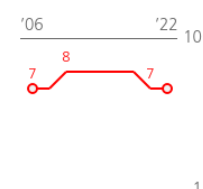
8



1

Basic administration

7



1

## 2 | Political Participation

General elections are held every four years at national, entity, canton and local levels. Universal suffrage with secret ballot is ensured. However, constitutional provisions discriminate on ethnic grounds, limiting the right to stand, given that only certain categories of citizens are permitted to run for the three-member Presidency and to the House of Peoples. In 2009, the European Court of Human Rights ruled in the so-called Sejdić-Finci case that BiH needs to amend its constitution and election law. Even though it is a key EU requirement, the ruling parties and leaders have so far failed to find an agreement to do so. A large number of OSCE Office for Democratic Institutions and Human Rights (ODIHR) recommendations for reform of the electoral system have remained unimplemented for years. The unaddressed shortcomings in the electoral rules seriously impede the conduct of free and fair elections, enabling fraud.

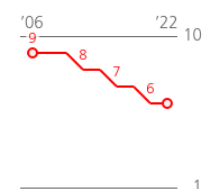
Municipal elections were held on November 15, 2020. The elections had been postponed from October, as the adoption of the state budget, which included the necessary funding for the elections, had been delayed. The budget in turn had been blocked by the main Serb and Croat parties in protest against the parliament's vote on a slate of new members to the Central Election Commission (CEC) that did not include the two parties' preferred candidates. The episode demonstrated that the CEC, an independent state body, has been under substantial political pressure for years. Due to substantial irregularities in the voting process, the CEC ordered elections to be reheld in Srebrenica and Doboj (RS) in February 2022. On December 14, 2020, the first local election in 12 years was held in Mostar (FBiH) after a deal was struck between the main Croat and Bosniak parties, brokered by the European Union, the United States and the United Kingdom. The deal was criticized by opposition civic parties and civil society representatives for leading toward a further ethnic division of the town. Due to irregularities, the CEC ordered two rounds of partial recounts before certifying the election result.

General elections for executives and legislatures at the central state, entity and cantonal levels were last held in October 2018. The formation of the new BiH Council of Ministers took 14 months, finishing in December 2019, while the formation of a FBiH government was still pending fully two years after the elections.

Most importantly, elections took place without a solution to the so-called election law crisis. In November 2016, the BiH Constitutional Court annulled several provisions of the election law. Those related to the way in which members were voted into the three ethnic caucuses of the FBiH House of Peoples. The ruling was highly controversial and potentially politically motivated by HDZ's long-term effort to establish a de facto third Croat entity by changing the electoral system.

Free and fair elections

6



Parliamentary parties failed to agree on a legal amendment to implement the ruling. The CEC prevented a constitutional crisis only by stepping in after the elections with a provisional solution.

The most powerful veto points in the Bosnia-Herzegovina (BiH) governance system come not from outside but are built into the complex decision-making process itself. Procedures for government formation and voting in the central state parliament and Presidency give veto powers to representatives from each entity and each of the three “constituent people,” enabling them to block common decision-making. The power-sharing system was designed to ensure fair ethnic representation in central state institutions. However, given that the country’s three ethno-national elites lack a minimal common vision, veto points are regularly exploited to block decision-making. In addition, with decreasing external intervention and mediation, the power-sharing systems in both entities regularly lead to a lack of any meaningful degree of shared governance.

The winning parties in the October 2018 general elections have used their de facto veto power to slow or prevent government formation at the state level and within the Federation of BiH. The Council of Ministers of BiH was formed only 14 months after the election, and a state-level budget was adopted only in July 2020. The work of the Parliamentary Assembly of BiH was de facto suspended in 2019. In the Federation, the inability to form a government has left a caretaker government in office more than two years after the elections, with two ministerial posts permanently vacant. All these developments seriously impede the effective power to govern.

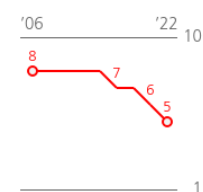
The constitution guarantees freedom of association and assembly, and the BiH Law on Associations and Foundations defines the rules governing assembly and association. Although political interference is not evident in granting permission for association, the procedure for registration is lengthy and cumbersome. The process of unifying the country’s 18 separate NGO registers was completed in 2018 but lacks transparency. NGOs registered at the state level are subject to burdensome employment obligations, as they fall under the state’s labor law.

Independent groups, particularly in the Republika Srpska (RS), have been subjected to political intimidation and criticism in media close to the government. In February 2014, the RS Law on Public Peace and Order was amended to include the internet in the definition of “public space,” a change that impedes freedom of assembly. Despite domestic and international critique, the law remained in place during the review period.

In 2018, citizen protests in the RS capital city, Banja Luka, sparked by the death of student David Dragičević were ended by police repression and the prosecution of some protesters at the end of that year. In 2019 and 2020, the RS authorities continued to seriously hamper or completely prevent protesters from exercising their right to assembly.

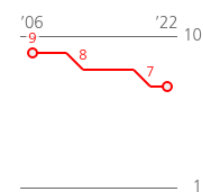
Effective power to govern

5



Association / assembly rights

7



In spring 2020, authorities in both entities imposed a lockdown, including a curfew, to manage the COVID-19 pandemic. The Federation executive order that entirely prohibited freedom of movement was struck down by the Constitutional Court of BiH for insufficient legal argumentation and the lack of a time limitation. There have also been restrictions on assembly, limiting gatherings to 30 people both inside and outside. In FBiH, a night-time curfew was introduced in November 2020.

Defamation has 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. However, the European Commission noted in its 2020 BiH country report that the CRA “lacks full political and financial independence.” The appointment of the former director of RS broadcaster RTRS, itself a regular violator of CRA rules and regulations, sparked internal outrage at the council.

Politicians routinely try to undermine media and editorial independence. According to IREX, an international non-profit organization that supports independent media, the negative trends continued in 2019 and 2020. The fragile economic conditions for journalists and their media outlets, the substantial role governments play in indirectly and directly funding private media, and regular civil libel suits against media and journalists have bolstered these trends.

Direct intimidation of journalists has increased. In 2019, the Association of BiH Journalists registered nine physical attacks on, and eight death threats received by journalists, by far the highest number in years. In 2019 – 2020, two men who in 2018 physically attacked Vladimir Kovacevic, a correspondent for an oppositional TV station in RS, were convicted.

Public broadcasters in both entities remained open to political influence. In FBiH, parliament failed to amend legislation to ensure a depoliticized selection of the broadcaster’s steering board. In RS, as the European Commission notes, the public broadcaster’s steering board remains politically affiliated and “under the firm political control of the ruling party.” The COVID-19 pandemic posed a challenge to the collection of the radio and TV tax in 2020, affecting the financing of the two entity-level public media services as well as the state public broadcaster.

An April 2020 emergency decree issued by the RS president against the spread of alleged fake news during the pandemic, which led to several opposition figures being fined or summoned by the police, was quickly revoked following a public outcry. In FBiH, the authorities started to monitor social media and initiated several criminal proceedings. The measures were terminated with the lifting of the state of emergency in May. Brčko District also issued an order to criminalize the spread of fake news, citing provisions of the BiH Criminal Code.

Though freedom of information acts are in place, state institutions on all levels continued to limit journalists’ access to information throughout 2020.

Freedom of expression

6

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1

### 3 | Rule of Law

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

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

In March 2020 a state of emergency was declared by the state, FBiH and RS, paving the way for executive decrees aimed at managing the pandemic. This included the temporary imposition of lockdowns and curfews. The measures were subject to legal review that led curfew measures in the FBiH to be partially struck down, as they had not been time-limited. Parliamentary oversight suffered during the state of the emergency with parliaments meeting rarely at best. Legally problematic presidential decrees issued within the framework of the state of emergency in the RS were confirmed by the RS National Assembly only with the May decision to lift the emergency. Renewed lockdown measures introduced in the FBiH at the end of 2020 were struck down by the BiH Constitutional Court, as they had been imposed without any involvement by the government or parliament.

Separation of powers

7

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1

Formally, Bosnia-Herzegovina has a solid legal framework that seeks to ensure the independence of the judiciary and prosecutors. A High Judicial and Prosecutorial Council (HJPC), established in 2006, is responsible for judicial and prosecutorial appointments across the country. The HJPC is also a disciplinary body and responsible for ensuring professional standards, providing training, and proposing and issuing opinions on draft legislation, regulations and other issues affecting the judiciary.

However, the BiH judiciary remains fragmented across the state, two entities and Brčko District, with four separate legal systems in place. At the state level, the nationwide jurisdiction held by the Prosecutor's Office and Court of BiH is limited to war crimes and high-level cases of corruption and organized crime, though they also hold jurisdiction related to state-level institutions.

Since the international community shifted to a more hands-off approach in 2006, attacks by political elites on the independence of judicial bodies and efforts to roll back postwar reforms have intensified. In particular, RS authorities regularly question the authority and competence of the three state-level bodies.

In 2019, the EU opinion on BiH's membership application and a commissioned expert report on the rule of law declared the rule of law to be a top priority in enlargement policy toward BiH, conditioning any consideration of membership on profound structural reform of the judiciary. BiH authorities have made no progress on these reforms. Several corruption allegations led to the resignation of the HJPC president in December 2020, but only after one and a half years in which the accused refused to be held accountable, supported by the majority of the council's members. The scandals have significantly shaken public confidence in the HJPC and the judiciary in general.

Corruption is systemic within the public administration and governments and is regularly reported in the media. Despite the presence of an adequate legal framework, the number of officials investigated and indicted, let alone convicted, is miniscule. According to the European Union, 181 indictments were confirmed countrywide in 2019, with 221 convictions, most of which were suspended. Few high-level corruption cases have ended in a final conviction.

In May 2019, a group of FBiH officials including the prime minister and the head of the Civil Protection Administration were arrested, alleged to have participated in a corrupt scheme to purchase respirators from China during the pandemic. The president of the High Judicial and Prosecutorial Council resigned in December 2020 over several corruption allegations after refusing to be held accountable, supported by most council members, for a year and a half. Among other things, he was accused of meddling in the judicial appointment process.

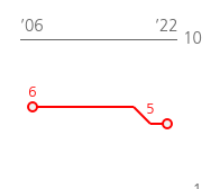
#### Independent judiciary

5



#### Prosecution of office abuse

5



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

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

Overall, equal access to justice is seriously undermined by the fragmentation, politicization and inefficiency of the judicial system. At the end of 2020, the backlog of unresolved civil cases exceeded 2.1 million, 1.9 million of them involving unpaid utility bills. Mechanisms to enforce court orders are ineffective.

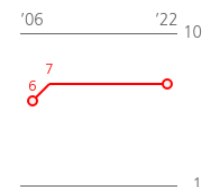
The country’s criminal codes include hate-crime provisions. Nonetheless, individuals who do not belong to one of BiH’s three main ethnic groups are still prevented from running for key public offices, despite a 2009 European Court of Human Rights ruling that requires this restriction to be removed from the constitution. Women continue to be underrepresented in politics, and even more so in the economic sphere, despite existing legislation on equal rights. Legislation on gender-based violence, in particular domestic violence, is inadequate and implementation remains poor. In May 2020, UN Women reported that safe houses in Bosnia and Herzegovina were struggling to provide adequate protection to women survivors of violence and their children, as domestic violence was on the rise due to the COVID-19 crisis.

LGBTI people remain particularly vulnerable. Despite certain improvements in the legislative framework for protecting their human rights, hate speech and discrimination remain widespread, and domestic and peer violence against the LGBTI community continues to grow, with authorities failing to respond adequately. Authorities allowed the organization of BiH’s first gay pride event only in 2019.

Fundamental rights remained protected during the April – May 2020 state of emergency. However, the excessive limits placed on freedoms – ostensibly in response to the pandemic – ultimately restricted political freedoms and civil rights like the freedom of movement and expression.

Civil rights

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#### 4 | Stability of Democratic Institutions

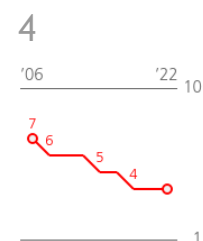
Different levels of government in Bosnia and Herzegovina (BiH) greatly overlap and suffer from poor coordination. Vertically, relations in the asymmetrical governance system are inefficient and ill-defined. Horizontal power-sharing mechanisms, requiring the presence and voting quotas of all three constituent peoples in government, cause additional friction. In the ethnically mostly homogeneous Republika Srpska (RS), power-sharing functions smoothly as the influence of the multiethnic RS Council of Peoples has been deliberately reduced: constitutional rules are misinterpreted to allow the RS Constitutional Court to reject the “vital national interest” claims of Bosniaks and Croats in the entity. However, at the central state level and in the Federation of BiH (FBiH), policymaking is complicated by coalitions of ethno-national parties with sharply diverging interests and agendas and reflected in poor governance. Only at the municipal level are the democratic institutions generally stable and responsive to citizen needs and interests.

Following the 2018 election, it took 14 months to form a governing coalition. State institutions operated under temporary financing until mid-2020. No government had yet been formed in FBiH two years after election.

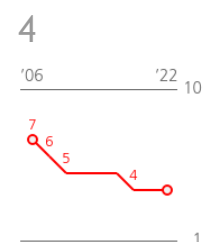
Following the outbreak of the COVID-19 pandemic in spring 2020, governments at the state and entity levels fully focused their activities on managing the public health crisis. However, these efforts too were marred by internal rifts, unstable coalitions, politicization and efforts to take political revenge against opponents. Beyond the issues associated with crisis management, the work of the executives and parliaments at the state and FBiH level was largely obstructed by ideological-nationalist disputes over core political issues, meaning that governments and parliaments ultimately accomplished very little legislative work in 2019 and 2020. Virtually no progress was made in implementing the European Commission’s *Avis*’ on 14 key priorities for reform.

The constitutional set-up of the country is routinely questioned and undermined by politicians, particularly from the Republika Srpska (RS) and main Croat parties. Meanwhile, Bosniak politicians question the legitimacy of RS institutions. The RS leadership continues to advocate independence though no such constitutional right exists. They question the mandate and authority of state-level institutions, most notably those established since the constitution was adopted (e.g., the Court of BiH, Prosecutor’s Office of BiH and the armed forces). They characterize Bosnia and Herzegovina (BiH) as a failed state which can only function as a confederation of its entities. The largest Croat party, the Croatian Democratic Union (HDZ), continues to advocate the division of the Federation of BiH into Bosniak and Croat units. This is strategically supported by the RS president who publicly supported the

Performance of democratic institutions



Commitment to democratic institutions





recreation of the Croat wartime para-state “Herceg Bosna.” Bosniak politicians continue to challenge various aspects of governance in RS on the grounds of wartime atrocities and continuing discrimination against minorities. In January 2019, Bakir Izetbegovic, the president of the Party of Democratic Action (SDA), launched the most serious attack on the mono-ethnic character of the RS so far, questioning the ethnic name of the entity in an appeal to the Constitutional Court. Its 2016 ruling against the RS national day has been ignored by the RS authorities, and the 2016 referendum against the ruling represented the gravest disrespect for democratic institutions in postwar BiH. RS authorities in 2019 – 2020 continued to ignore Constitutional Court rulings that affirmed public property deriving from the Socialist Republic of BiH as state property, instead registering such property as entity property.

## 5 | Political and Social Integration

The party system in Bosnia and Herzegovina (BiH) is almost exclusively divided along ethnic lines between the three constituent peoples, Bosniaks, Croats and Serbs. Political parties are also largely organized in the territory of one entity. A handful of parties – most notably, the Social Democratic Party (SDP), Demokratska Fronta and Nasa Stranka – identify themselves as multiethnic or non-ethnic and maintain a multiethnic leadership; however, most of these political leaders come from one entity – the Federation of BiH (FBiH) – and their electorate is overwhelmingly Bosniak. The main FBiH-based parties, Party of Democratic Action (SDA) and SDP, field candidates in elections in Republika Srpska (RS). Very few RS-based parties field candidates in the FBiH, with little electoral impact.

BiH has an unusually large number of political parties given its small population. However, each ethnic group is dominated by two or three parties that tend to alternate in government. The dominant parties in Serb-majority areas are the Alliance of Independent Social Democrats (SNSD) and Serb Democratic Party. In Croat-majority areas, the Croatian Democratic Union of BiH (HDZ-BiH) has been dominant over the last decade. In Bosniak-majority areas, the SDA dominates, but two newer parties, the Union for a Better Future (formed by an influential media tycoon) and Democratic Front (formed by the former SDP member of the BiH Presidency) made inroads in the 2018 elections. The dominant role of the SDA among Bosniaks has recently further eroded following the breakaway of several party officials, who have in turn formed new parties. Some of these parties managed to form a coalition in Sarajevo Canton with opposition parties, posing a challenge to SDA’s dominance in FBiH. They also made gains in the local elections in 2020. The SDA and the SNSD saw their dominant positions weaken in the November 2020 local elections, with the SDA losing in Sarajevo for the first time, and the SNSD losing important towns in the RS, including the entity capital of Banja Luka, once again for the first time.

Party system



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

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

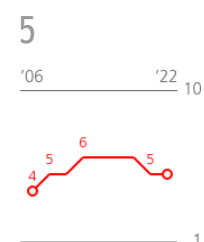
Socially marginalized groups are particularly poorly represented. War veterans' associations are powerful lobbies and secure disproportionate social benefits for this (vastly inflated) segment of the population, independent of real social needs, at the expense of other, more vulnerable groups.

A rudimentary cross-entity protest movement against the weak rule of law has emerged since 2018. The death of 21-year-old student David Dragičević in Banja Luka sparked several months of citizen protests under the slogan "Justice for David," spearheaded by his parents. The activity was provoked by the Republika Srpska police force's contradictory and unconvincing attempts to define the cause of death as suicide. The protests echoed previous demonstrations against a similar instance of unprofessional conduct in the case of the murder of a young student, Dzenan Memic, in Sarajevo.

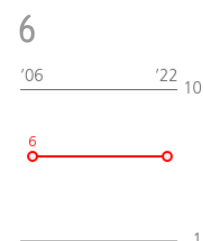
The country's ethnically divided territory and governance system have spawned ethno-territorial interest groups and civil society organizations. Cooperation between similar groups across the divides is uncommon, particularly as they can have different or opposing agendas.

Bosnia and Herzegovina (BiH) is formally a democracy, but in reality functions as a corrupt power-sharing ethnocracy. This has seriously affected citizen approval for democracy, though no polling data is available. Levels of trust in democratic and other public institutions have been and remained low during the reporting period even compared to a low regional average for Southeastern Europe. In the 2012 Gallup Balkan Monitor survey, public approval ratings were lowest for the country's leadership, at just 16% (compared to a regional average of 29%). In the 2020 RCC Balkan Barometer, citizens across the country ranked the national government as the least popular institution (20% approval, compared to a regional average of 33%). Two internationally commissioned polls in 2019 and 2020 provided similar insight into citizens' perceptions of the judiciary, showing that 75% have no trust in the judiciary. This demonstrates that the pandemic had no impact on the high pre-existing levels of mistrust in BiH's democratic and other public institutions.

Interest groups



Approval of democracy



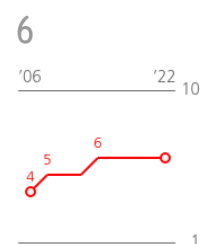
A 2013 United Nations poll demonstrated that ethnic identification dominates all spheres of life. Over 90% of Bosniak, Croat and Serb respondents expressed pride in their ethnic identity (94%, 91% and 92%, respectively). Pride in BiH citizenship and attachment to the state varies significantly: 91% of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

General levels of trust in Bosnia are comparable to those in neighboring countries and are dramatically lower than those in the European Union and other Western societies. According to a 2019 European Values Study (EVS), 90.6% of BiH respondents believe that you cannot be too careful in dealing with people, thus demonstrating a general level of social distrust. A 2009 UNDP survey on social capital demonstrated that the social trust of BiH citizens hardly reaches beyond one's own community, widely excluding even one's own ethnic group. High levels of trust included family members, close friends and neighbors, at 83%, 61%, and 38%, respectively. Trust in one's own ethnic group was expressed by a mere 21% of respondents. A non-public but methodologically comparable survey conducted in 2019 showed almost identical, unchanged low levels of social trust. As per the EVS methodology, BiH citizens show the least amount of trust in people of a different ethnicity (5.7%) or religion (5.9%) than themselves.

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

Self-organization became more difficult during the pandemic, and social distancing necessarily reduced the intensity of this type of interaction.

Social capital



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

According to the 2019 Human Development Index, Bosnia and Herzegovina (BiH) had a high level of human development, ranked 73rd out of 189 countries. Its score (0.78) was slightly below the average for Europe and Central Asia and was the lowest in Southeast Europe after North Macedonia and Kosovo. The Gini coefficient for BiH was 32.7 in 2015.

According to the World Bank, the share of employed people in the adult population (35.5% in 2019) was Southeast Europe's second lowest, above only Kosovo. The unemployment rate stood at 15.7% (2019, ILO), while the youth unemployment rate reached 33.7%. This was a substantial decline from around 60% in 2015, but the fall was primarily the result of mass emigration. In a household budget survey conducted in 2015, the Agency for Statistics of BiH found that 16.9% of the population lived on less than €213 per month (adjusted for household size). The overall percentage decline in the HDI score due to inequality in 2018 was 14.5%.

Ethnic minorities are particularly vulnerable to exclusion, while internally displaced people are at a high risk of poverty. Other groups at high risk of poverty and social exclusion include the elderly, youth, people with disabilities and the Roma. Women, too, disproportionately suffer from social exclusion and poverty. The UNDP's 2019 Gender Inequality Index ranked BiH at 38th place out of 62 countries.

Poverty and inequality were further exacerbated during the pandemic, manifesting particularly in the form of uneven access to health care and services. Data for 2020 were not yet available as of the time of writing. However, the IMF has not forecast significant long-term economic damage from the pandemic.

Question  
Score

Socioeconomic  
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	18080.1	20183.5	20202.5	<b>19788.4</b>
GDP growth	%	3.2	3.7	2.8	<b>-4.3</b>
Inflation (CPI)	%	0.8	1.4	0.6	<b>-1.1</b>
Unemployment	%	20.5	18.4	15.7	<b>16.9</b>
Foreign direct investment	% of GDP	2.8	3.0	2.2	-
Export growth	%	11.7	7.2	0.4	<b>-16.6</b>
Import growth	%	7.7	4.0	1.3	<b>-14.3</b>
Current account balance	\$ M	-875.8	-676.5	-623.9	<b>-634.6</b>
Public debt	% of GDP	39.2	34.3	32.5	<b>36.7</b>
External debt	\$ M	13028.5	13253.9	13231.1	<b>14263.5</b>
Total debt service	\$ M	1352.0	2040.5	1544.6	<b>1667.5</b>
Net lending/borrowing	% of GDP	2.6	2.0	1.8	-
Tax revenue	% of GDP	20.3	20.4	20.1	-
Government consumption	% of GDP	20.3	19.8	19.4	<b>20.9</b>
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	6.3	6.2	-	-
R&D expenditure	% of GDP	0.2	0.2	-	-
Military expenditure	% of GDP	0.9	0.9	0.8	<b>0.9</b>

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

According to the 2020 European Commission country report, Bosnia and Herzegovina (BiH) remains at an early stage in establishing a functioning market economy, and major structural reforms are required to enable the country to cope with competitive pressure and market forces over the long term. BiH substantially strengthened its commitment to market-economic reforms by agreeing with the European Union on the 2015 – 2018 Reform Agenda as well as with the IMF on a three-year reform program in support of the agenda. Some improvements were made with regard to modernizing labor legislation, addressing weaknesses in the banking system and improving the business environment. However, implementation of the agenda broke down almost completely in 2017 – 2018, and major structural reforms, which could have strengthened the market economy by undermining patronage systems, remained untouched. Thus, BiH still ranked 184th out of 190 countries in the “starting a business” sub-index of the World Bank’s 2020 Doing Business report. It takes 13 procedures and 80 days, and costs 13.7% of GNI per capita with starting capital of 10.2% of GNI per capita to start a business. In addition, the new labor legislation has been criticized for not incorporating the social dimension.

Significant administrative barriers remain for private sector development. The functioning of market mechanisms remains hampered by the large government sector. Public expenditure remains close to 50% of GDP, with the true figure even higher, considering the large number of state-owned enterprises. This crowds out the private sector, and the general business environment discourages investment and expansion. The public sector often prices out the private sector with high salaries and other privileges, distorting the labor market.

The lack of a single economic space within BiH remains a serious impediment to business activity. According to the European Commission, network industries still need to be liberalized, and the state continues to influence the economy through state-owned monopolies and nontransparent public procurement procedures. A new law on public procurement, required by the European Union for membership candidate status, remains pending.

The informal sector (estimated to account for 30% – 50% of GDP) provides a vast number of unregistered jobs and heavily distorts market-based competition as well as official unemployment data. Overall, the extensive state intervention in the economy and the semi-formal/informal control that political elites exert via the huge informal sector means that only a very limited segment of the private sector (mostly in the Federation of BiH) functions primarily on a market-economic basis.



The Law on Competition and its by-laws are harmonized with EU regulations. The Bosnia and Herzegovina Competition Council and Market Surveillance Agency are operational across the whole country. The latter has functioning inspection bodies at the entity level and implements and coordinates proactive and reactive surveillance activities. In 2020, the Competition Council adopted 21 decisions, including two on prohibited agreements, six on abuse of dominant position and 12 on authorizing concentrations. The European Commission notes that the council's efficient functioning persists despite limited administrative capacities, low level of enforcement activities, a cumbersome nomination procedure for the chairperson and the ethnicity-based veto rights of the six council members.

A State Aid Law is in force but continues to only partially in line with EU regulations, though alignment should have been completed in 2012. A State Aid Council is in place to ensure the consistent application of the state aid system law. Though all eight council members have been appointed, the European Commission notes that the secretariat is still not fully staffed, and the council's works is hampered considerably by inadequate funding, as Republika Srpska has withheld its share of the budget.

Foreign trade is liberalized, with uniform, low tariffs, and no fundamental state intervention in free trade, in line with the Stabilization and Association Agreement (SAA) and an earlier Interim Agreement from 2008. In 2019, the simple average most favored nation tariff rate stood at 6.3%.

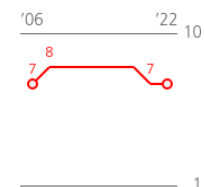
The European Union reinstated trade benefits for some BiH agricultural products in 2016, and exports to the European Union consequently rose substantially in subsequent years, from €3.4 billion in 2016 to €5 billion in 2019. The European Union continues to be BiH's main trading partner. In 2018, 65% of the country's external trade was with the European Union; more than a third of total exports were directed to Germany, Italy or Croatia. Non-tariff barriers such as sanitary standards continue to hamper the export of BiH products to the European Union, especially in the field of agriculture.

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

A special arrangement for the export of BiH products led to a substantial but short-term rise in exports to Turkey by 10% and to Russia by 33% in 2017. However, these figures respectively declined in 2018 by 25% and 10%. In 2019, exports to Turkey and Russia stabilized at 2017 levels.

## Competition policy

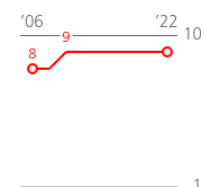
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## Liberalization of foreign trade

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The banking system is dominated by foreign-owned banks (90% of assets) and is largely aligned to international standards. The sector remains reasonably liquid and well-capitalized. The capital adequacy ratio stood at 18% in 2020 according to the Banking Agency of the Federation of Bosnia-Herzegovina (FBiH). The share of non-performing loans has decreased, falling from 15% in 2013 to 6.6% at the beginning of 2020. Pockets of vulnerability remain, especially among domestically owned banks, which suffer from low liquidity and a relative high share of non-performing loans. In the 2015 – 2016 period, the IMF conducted a stress test of all BiH banks, and had auditors conduct asset quality reviews for six domestically owned banks in the Republika Srpska (RS). One private and one state-owned bank in the entity had to close due to insolvency.

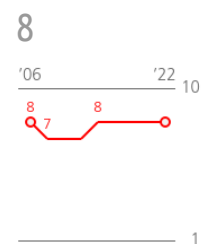
Despite the coronavirus pandemic, the banking sector has remained liquid and adequately capitalized, partly due to loan moratoria introduced in April 2020.

The central bank of BiH, the Deposit Insurance Agency (DIA) and the entity-level banking agencies supervise the banking sector. However, supervision is obstructed by institutional fragmentation, and insufficient cooperation and coordination among regulators. As part of the 2016 – 2019 IMF reform program for BiH, the oversight function of the central bank of BiH has been reaffirmed. The central bank of BiH, the DIA and the banking agencies have signed a memorandum of understanding providing for the regular exchange of information. Both entities passed new banking laws and amended their banking agency laws, and RS undertook initial steps to strengthen the independence of its development bank.

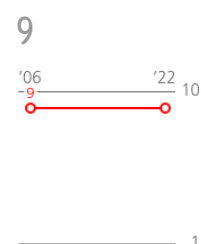
## 8 | Monetary and fiscal stability

Inflation steadily fell between 2011 and 2017, with consumer price deflation reaching -1.1% in 2016. However, the trend had reversed by 2018, when the inflation rate rose to 1.4%, before dropping again to 0.6% in 2019. The central bank is exclusively responsible for monetary policy. The exchange rate is pegged to the euro under a currency board arrangement. According to a European Commission report on Bosnia and Herzegovina (BiH), the currency board enjoys a high level of confidence and credibility. The independence of the central bank is enshrined in law. As part of the IMF reform program, BiH authorities in 2016 recommitted to the bank's independence and to not use the central bank's foreign reserves for budgetary or public investment purposes. In 2020, the central bank strongly resisted calls by the ruling political elites to mobilize international reserves for fiscal purposes as part of the pandemic-management program; this decision contributed to maintaining financial and overall macroeconomic stability. The inflation rate decreased to -0.8%.

### Banking system



### Monetary stability





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

Within the 2015 – 2018 Reform Agenda, BiH authorities committed themselves for the first time to a comprehensive policy of fiscal sustainability. Governments at the state and entity levels introduced a freeze of public wage bills and moratorium on new hiring in public administration. Governments at all levels began to identify the overall public wage bill, supported by the World Bank. Budgets were adopted on time. The BiH Council of Ministers adopted a debt management strategy. Tax authorities began to exchange tax data between state, entities and Brčko District. Measures to control spending by cantons and municipalities were introduced in both entities. Several fiscal laws were adopted designed to broaden the tax base and reduce tax exemptions.

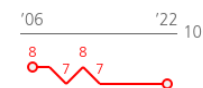
The combined measures yielded certain results. The 2014 general government deficit of 2.9% in 2014 turned into a surplus of 2.6% of GDP in 2017, and of 1.6% in 2018. This was partly due to a decrease in total government expenditures from 45.8% of GDP in 2014 to 41.4% in 2018. Total public debt fell from 44.7% of GDP in 2015 to 32.4% in 2019. External (public and private) debt amounted to 61.1% of GDP in 2017, down from 63.8% in 2016.

In 2016, the IMF agreed on a three-year credit arrangement with BiH authorities of €553.5 million designed to support structural economic reform. With the total breakdown of the reform process in 2018, however, the extended fund facility (EFF) ended largely unimplemented, and only the first two tranches were paid out.

The economic impact of the pandemic along with the additional government measures implemented in 2020 brought the fiscal consolidation of recent years to a temporary halt but did not undermine fiscal stability. Revenues declined by 7.5%, mainly due to lower indirect tax collection. Government expenditure rose by 7% due to fiscal response measures totaling €420 million (2.5% of GDP, leading to a rise in total government expenditures to 46.6% of GDP). These measures included substantial health-sector support, compensation/solidarity funds for companies, budget support for cantons and municipalities, and off-budget loan guarantees. Total public debt increased to 38.3% of GDP and thus remains relatively low, while external (public and private) debt rose to 76.0%. The government was approved for €250 million in macro-financial assistance in the form of a loan from the European Union and secured a further €330 million from the IMF under the Rapid Financing Instrument. The IMF expects BiH to return to a course of fiscal consolidation in the medium term.

## Fiscal stability

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## 9 | Private Property

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

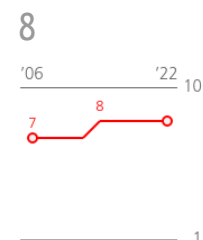
As regards reclaiming property confiscated during the war, a high proportion of property repossession requests have been resolved. Regarding the restitution of private property confiscated during and after World War II, efforts by the BiH Council of Ministers undertaken in 2005 failed. A draft law on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

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

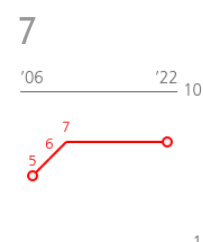
While Bosnia and Herzegovina (BiH) performs significantly worse than all neighboring countries in the Western Balkans in the World Bank's Doing Business survey, there has been some progress in recent years. As part of the Reform Agenda's goal to improve the business climate, the Federation of BiH (FBiH)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

Privatization remains a challenging political and economic issue, as the state sector is large, inefficient and reportedly loss-making. This is particularly true in the FBiH, where around two-thirds of the initial stock of capital intended for privatization remains state-owned. In RS, only a small number of large companies remain under state ownership. Strategic sectors such as transportation, energy and telecommunications (in the FBiH) remain dominated by state-owned companies. Under the framework of the Reform Agenda, the FBiH government screened all

Property rights



Private enterprise



public companies in cooperation with the World Bank, and initially sold minority shares in several privatized companies, while the RS government had its entity railroad company screened. Ruling elites have blocked restructuring and privatization of state-owned enterprises (SOEs) in the Federation since 2017, while in the RS, only the restructuring of the railroad company continues. Over the last two years, no relevant progress has been made, nor have there been further improvements in the legal framework for private enterprises in BiH.

As part of the government measures to mitigate the impact of the COVID-19 pandemic, the various governments mobilized hundreds of million euros in 2020 to subsidize social security contributions and minimum wages for workers in affected sectors (hospitality, catering, transport), and authorities introduced loan moratoria for companies on a case-by-case basis.

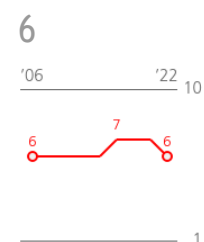
## 10 | Welfare Regime

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

International financial organizations conclude that the level of social contributions is prohibitively high in Bosnia and Herzegovina (BiH), and that the system is financially unsustainable. The ratio of those working in the formal sector who pay social contributions to those who are entitled to health care remains low (about 1:5 in BiH, World Bank 2010). The pension systems in both entities consist of public old-age and disability funds. They traditionally suffer from being financially unsustainable due to a low ratio of contributors to beneficiaries (almost 1:1), strong incentives for early retirement, and special privileged pensions for war veterans. Structural reforms of the pension, health care and social welfare systems were agreed to by the entity governments as part of the Reform Agenda. In RS, the 2016 pension reform introduced a voluntary pension fund and a public pension fund at the entity's treasury. In 2018, the Federation improved transparency at the public pension fund, introduced measures to discourage early retirement, established a fund at the treasury (commencing in April 2020) and created a voluntary pension fund. Despite these reforms, the structural problems of the financial unsustainability of the public pension funds and of low average old-age pensions, many of which lie below the poverty line, remain unsolved.

The World Bank and others point out that the social assistance provided to the most vulnerable groups in society is inadequate, in large part because it is traditionally

### Social safety nets



neither well targeted, nor needs-base oriented, and because war veterans continue to obtain the highest levels of protections (e.g., so-called privileged pensions and non-insurance transfer payments) and constitute a powerful lobby against reform.

Authorities in 2020 failed to introduce relevant additional social policy measures to mitigate the hardships exacerbated by the pandemic; for instance, no effort was made to target the informal sector.

Equality of opportunity is only partially achieved. Women and members of ethnic, religious and other minority groups have limited access to education, public office and employment. Nepotism and clientelism in Bosnia and Herzegovina (BiH) institutions perpetuate exclusion and deny basic human rights to many citizens. Ethnic minorities are particularly vulnerable to exclusion, while internally displaced people are at a high risk of poverty.

Other groups at an elevated risk of poverty and social exclusion include the elderly, youth, those with disabilities, Roma people and women. In 2019, the rate of labor force participation for women was 37.4% in BiH compared to a rate of 58.1.5% among men, which is among the lowest rates in Europe. In addition, 74.0% of women had at least some secondary education as compared to 89.3% of the male population. The literacy rate among women was 94.9% in 2013, as compared to 99.2% among men. Despite the legally guaranteed right to education and employment for migrants and asylum-seekers, the exercise of the latter right in particular is often blocked by authorities at all levels.

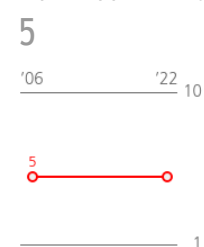
## 11 | Economic Performance

The economic recovery following the setback after the 2014 May floods continued in 2017. Real GDP growth was 3.7% in 2018 (after just 1.1% in 2014) but declined to 2.8% in 2019. The drivers of growth were domestic demand, particularly resilient private consumption and increased industrial production, partly reflecting growing external demand. After a sharp decrease to less than 2% of GDP in 2016, foreign direct investment (FDI) rose again in 2017 to 3.4% of GDP but fell again to 2.9% in 2018 and only 1.9% in 2019.

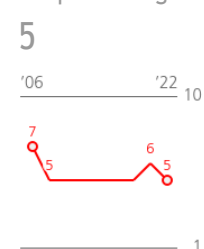
Per capita GDP was only 31% of the EU average in 2018 – one of the lowest such ratios in the Western Balkans. Inflation remained negative until 2017, increased to 1.4% in 2018, but dropped again in 2019 to 0.6%. The unemployment rate decreased substantially from 27.7% in 2015 to 15.7% in 2019, helped by increased labor migration to the EU.

The economy relies on export sectors, such as wood processing and metal, chemical and weapons production. Industrial production increased by 3.1% in 2017, compared to 4.0% in 2015, but decreased by 0.6% in 2019. The steady growth in tourism continued between 2017 and 2019.

### Equal opportunity



### Output strength



Public finances showed initial signs of improvement due to a medium-term fiscal consolidation policy. The first general government surplus in years was achieved in 2017 (2.6% of GDP) and stood at 2.1% in 2019. This was helped by tax revenues that rose from 21.9% of GDP in 2014 to 23.0% in 2019. The current account deficit dropped from 5.2% in 2017 to 3.1% in 2019. This was partly due to a reduced trade deficit, which declined from 29.7% of GDP in 2014 to 22.5% in 2018 – the lowest since the Bosnian War.

The outbreak of the COVID-19 pandemic in 2020 had a negative but limited impact on the economy. GDP growth was negative for first time in six years, posting a decline of 5.5%. Foreign direct investment also decreased to 1.4% of GDP, but industrial production increased by 2.8% compared to 2019. Amidst shrinking tax revenues and increased spending for health care and economic support, public finances deteriorated from the previous surplus to a deficit equivalent to 5.5% of GDP.

## 12 | Sustainability

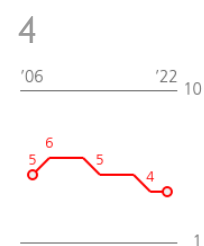
The idea of environmentally sustainable economic growth is barely taken into consideration in Bosnia and Herzegovina (BiH), and no specific government policies have been adopted. A state-level environmental law creating a countrywide framework for harmonized environmental protection remains to be adopted,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

The current, statewide framework energy strategy for BiH, which runs until 2035, has been criticized by experts and civil society for lacking a consistent strategy for preventing climate change and reducing greenhouse gas emissions. For example, the document fails to outline any initiatives that would substantially reduce BiH's dependence on coal for energy production.

Some local protest movements and NGOs have sought to mobilize the public against certain industrial plants or projects such as hydropower plants, citing their negative environmental impact.

In Canton Sarajevo, steps have been taken to address air quality, with the help of the donor community. However, the implementation of the projects has been hampered by two changes of government in the canton.

Environmental  
policy



Bosnia and Herzegovina's (BiH) system of education and training remains fragmented, operated and coordinated by 14 ministries across four levels of governance. As a consequence, there is a general lack of reliable data on the education system in BiH. A 2013 report estimated total public spending on education at 4.3% of GDP in 2016, comparable to most other countries in the Western Balkans, but below the EU average of 5.3%. The literacy rate was 99.6%. In 2011, the gross enrollment ratio for primary school was 97.6%, secondary school 91.8% and tertiary education 38%. According to the 2019 Human Development Index (HDI), the population had a mean of 9.8 years of education and an average expected 13.8 years of schooling in 2019. In the UNDP's Education Index, BiH scored 0.711 in 2019.

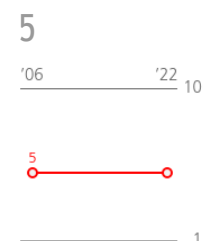
Reform efforts have been made over the last 15 years to reduce ethnic segregation in schools and liberalize and improve ethnically based curricula. Framework laws on primary, secondary and higher education are in place, yet in the absence of enforcement mechanisms at the state level, cooperation and coordination across the various government levels remains difficult and harmonization of educational standards insufficient. In the Federation of BiH (FBiH), Croat-majority cantons continue to reject the authority of the FBiH Ministry of Education.

Discrimination in the education system persists. In 2014, the FBiH Supreme Court ruled that separation of pupils by ethnicity within schools is discriminatory; however, the political will to implement the ruling remains absent.

The education sector shifted to online learning through most of 2020 due to the pandemic. There has been a lack of support for pupils who lack the infrastructure for online learning, as well as for the training of teachers.

R&D expenditures are extremely low (0.2% of GDP in 2018). This is significantly below the OECD/EU mean (2%) and is low compared to other countries in the region. BiH managed to be associated to the European Union's Horizon 2020 program, but participation has remained limited due to limited research capacities.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

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

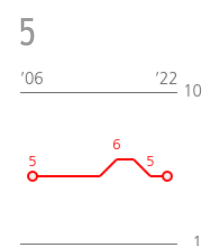
The existing constitution keeps in place a dysfunctional institutional system. Governments in BiH continue to face a multitude of structural constraints inherited from the war and postwar period. These include a technologically antiquated economy dominated by heavy industries (some of which suffered physical destruction during the war); a labor force structurally unfit for a 21st century economy; accelerating mass emigration among working-age citizens, largely to the European Union (in 2019 alone, an estimated 60,000 people emigrated); high levels of long-term and youth unemployment; obsolete infrastructure (e.g., economically unsustainable railways and a lack of motorways); and an outdated education system, particularly vocational training, which has not responded to the needs of the labor market.

The COVID-19 pandemic added additional, though limited, constraints. GDP declined by 5.5%. This decline was greater than that experienced during the 2009 global economic and financial crisis. Yet the fiscal stabilization trend of the last few years persisted, and the country is expected to overcome the pandemic's economic impact by 2023. With a total of 4,000 deaths and 110,000 infections by mid-January 2021, the overall disruptive impact of the pandemic on society remained limited.

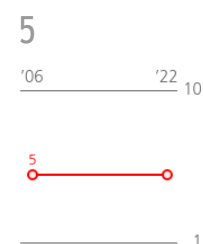
Civil society as an integral part of democratic processes does not have long tradition in Bosnia and Herzegovina (BiH). Civil society traditions were weaker in Bosnia than in most other republics of the former Yugoslavia. Anti-war civil society organizations (CSOs) protested against the nationalist mobilization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

Since 1995, the most vocal liberal civil society organizations have drawn most, if not all, of their funding (and political support) from international sources. A small number of prominent NGOs frequently and forcefully expose government inefficiencies and other transgressions. However, their activities are not typical of

Structural  
constraints



Civil society  
traditions



the sector, which remains dominated by organizations that de facto deliver services to citizens in a way that often substitutes the role of the dysfunctional state. At the same time, there exist strong civil society elements that are illiberal and/or anti-reform and are funded by government sources (particularly the war veterans' associations) in a nontransparent way. CSOs in general suffer from low organizational capacities and a lack of financial sustainability due to the lack of domestic philanthropy and an almost complete dependence on foreign funding. Registration is spread across central state and entity levels with different legal regulations.

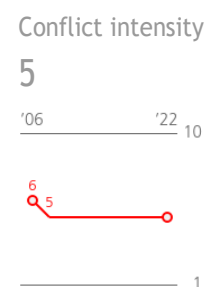
As the most important improvement in civil society-government relations, CSOs and the BiH Council of Ministers in 2017 signed a memorandum on civil society-government cooperation. An incomplete BiH-wide registry of CSOs registered 27,000 active organizations by the beginning of 2021. During 2020, the Council of Ministers of BiH established an advisory body for cooperation with the non-governmental sector, one of the requirements listed among the 14 key priorities from the EC's opinion on BiH's membership application.

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

Political elites in Bosnia and Herzegovina (BiH) continue to be highly polarized along ethnic lines and instrumentalize interethnic polarization for their own political and material interests. As a consequence, citizens in BiH identify strongly with their ethnic group. Identification with the BiH state as a whole is high among Bosniaks, lower among Croats and very low among Serbs.

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

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





The nationalist political elite have continued to exploit ethnic divisions and tried to openly mobilize sections of society along ethnic cleavages. In 2019 and 2020, political leaders on all sides provoked other ethnic groups, thus renewing public debate on the possibility of a new violent conflict. This was supported by the nationalist campaign for the 2020 local elections and discussions about an ethno-territorial division in the framework of the Kosovo-Serbia negotiations. Initial efforts by the authorities to jointly manage the challenging COVID-19 pandemic have had no lasting impact with regard to reducing the confrontational nature of ethno-politics.

## II. Governance Performance

### 14 | Steering Capability

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

In this respect, the years 2015 – 2018 marked a contrast from previous practice with the adoption and initial implementation of the Reform Agenda 2015 to 2018, a broad agenda for socioeconomic reform, and the subsequent adoption of central state and entity-level action plans. The change, however, took only place upon the initiative of the European Union, supported by international financial institutions, and underpinned by strict financial conditions. And in the end, BiH's ruling elites chose a negative prioritization, implementing only those elements that did not endanger the patronage system. In 2020, the management of the COVID-19 pandemic had a certain impact in terms of short-term prioritization. Authorities were very slow in transforming the May 2019 European Commission Opinion's reform conditionalities into policy priorities.

Question  
Score

Prioritization

4

'06 '22 10



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The complexity of the horizontal and vertical division of competences in Bosnia and Herzegovina (BiH) significantly hampers the ability of governments to effectively implement policies. Ruling ethnic elites largely serve as defenders of the status quo. In this respect, the 2015 – 2016 differed from the traditional pattern in terms of a certain amount of implementation of the 2015 – 2018 agenda for broad socioeconomic reform. However, after the European Union forwarded BiH's membership application to the European Commission in September 2016, reform pressure eased, and implementation stopped almost completely in 2017 and 2018, leaving most structural-reform aims unmet.

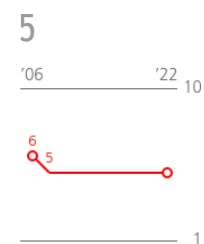
In 2020, short-term government measures to mitigate the pandemic and its negative economic impact were rather efficiently implemented, though disagreement among the various levels of governments substantially slowed the use of the international financial assistance granted. Under the cover of the pandemic, the 2019 – 2020 period saw virtually no implementation of the reform conditions and recommendations included in the EC May 2019 Avis, or the December Priebe report on rule-of-law reforms.

There is little evidence of institutionalized or ad hoc policy learning in Bosnia and Herzegovina. Assessment mechanisms are rare. The country's multiple layers of government reduce opportunities for policy learning. There is a dearth of mechanisms to monitor policy implementation and enforce the decisions of the state and lower levels of government. External consultancies are rarely employed for this purpose, and data from external monitoring organizations are rarely used for policymaking purposes.

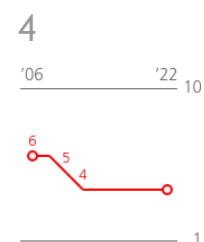
Implementation of the Reform Agenda has led to some level of exchange and best practice learning between the entities, but this remained limited to a narrow circle of prime ministers' advisers. Key reforms were designed by the international community, with little reliance on capacities within the domestic civil service. The governments excluded whole sections of society from the process, leaving no room for social dialogue on the proposed measures and adopting the majority of legislation through urgent procedures. Lower levels of government were excluded from the process of designing reform packages, and as a consequence, their priorities were not included. With the core components of the Reform Agenda remaining unimplemented when the agenda expired at the end of 2018, one cannot even speak about a learning process, as the ruling elites have demonstrated a lack of interest in policy learning.

The 2020 focus on pandemic management has demonstrated no new willingness to engage in policy learning. The pandemic washed across a highly fragmented, highly inefficient and highly wasteful health sector, with no sign that any post-epidemic reforms are in the offing.

#### Implementation



#### Policy learning



## 15 | Resource Efficiency

The multiple levels of government in Bosnia and Herzegovina (BiH) are extremely costly and inefficient and attempts to streamline government have been stymied by a lack of political will. Public employment remains based on political party membership and nepotism rather than a merit-based system. As a consequence, apart from health care and pension systems, public wage bills make up the major share of state and entity budgets, leaving little space for capital investments. In the health care system, the disproportionate share of non-medical staff, contributes to a system that is one of Europe's costliest, while the system's output is comparably very low.

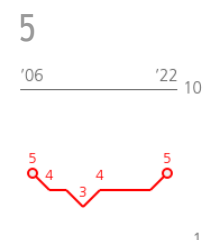
Since 2000, BiH has gone through a lengthy public administration reform (PAR) process, but the state of public administration has not improved but rather worsened. The 2006 – 2014 PAR strategy expired in 2014; though extended, it ended up being implemented by only 75% by 2018.

In 2015, governments at the state and entity levels adopted freezes on public wage bills and public employment as part of efforts toward fiscal sustainability undertaken in the framework of the Reform Agenda. PAR formed one of the agenda's seven core reform areas, but it was only in 2018 that the BiH Council of Ministers and the Federation of BiH government adopted PAR strategies for 2018 to 2022. Two years later, in June 2020, the Republika Srpska also adopted the strategy.

By the end of the reporting period, the FBiH and RS governments had adopted no new strategies for the management of public finances or methodologies for the management of human resources. Structures for coordinating implementation of the strategic PAR framework among different levels of government are still lacking. Eleven laws on the civil service have not yet been harmonized, and unified standards for the development of strategic plans are still lacking. Implementation of the 2020 – 2022 PAR action plan is significantly behind schedule.

During 2020, entity governments redirected certain financial resources to mitigate the economic consequences of the pandemic and the lockdown, and to finance extra costs in the health care sector. The efficiency of the use of international financial support was diminished by conflicts over the division of funds between the two entities.

Efficient use of assets



The uniquely complex and fragmented division of government functions leads to overlapping services, and inefficiencies are exacerbated by poor coordination and even poorer cooperation between different levels of government at both the policymaking and implementation stages. The functioning of state-level bodies is frequently stymied by political disagreement, obstruction, and questions as to the authority and legitimacy of these common bodies. Even basic information sharing is often lacking between different levels of government. Coordination between the Federation of BiH and its 10 cantons, especially its Croat-majority cantons, is also poor and politicized. Over the last decade, the RS leadership and biggest Croat ethnic party HDZ-BiH have time and again blocked policy decisions, making them conditional on an institutional approach that puts entities and cantons on par with the state, which is unconstitutional.

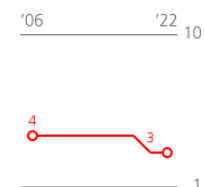
In the review period, Bosnia and Herzegovina (BiH) authorities and political leaders managed to agree on only a limited number of countrywide strategies – for example, on a framework for public administration reform and on war-crimes prosecution. However, these agreements were struck only after substantial EU pressure and with substantial delays.

A system of coordination for the purposes of EU integration was established in 2016. This relies on complex decision-making procedures that mirror the entities and cantons' veto powers within the regular system of BiH governance. As a result, it took BiH authorities an unprecedented 18 months in 2017 – 2018 to draft coordinated answers to the European Commission's questionnaire and follow-up questions. The most prominent failure of policy coordination during the review period related to the management of migration, a constant problem since the so-called Balkan route shifted to include BiH in 2018. Since 2018, several tens of thousands of migrants have annually transited through BiH, with 4,000 to 8,000 temporarily residing in the country. The situation presents a serious challenge to BiH authorities, and each winter (2018/19, 2019/20) turns into a crisis, as BiH authorities prove unable to accommodate the few thousand people who have entered BiH and become stuck mostly in the Western Bosnian Una-Sana canton. The perpetual crisis results from failures in policy coordination between the central state, entity, cantonal and municipal levels of governance – typically manifesting as a mutual shifting of blame and refusal to take on responsibility.

Despite the additional need imposed by the pandemic, no marked improvement in policy coordination was evident in 2020.

Policy  
coordination

3



As with many other reform areas, anti-corruption efforts in Bosnia and Herzegovina (BiH) are poorly implemented due to a lack of political will based on entrenched patronage interests of the ruling political elite. The European Commission's 2020 BiH report noted that corruption remained widespread, and all levels of government showing signs of political capture, and that the country was at an early stage in the fight against corruption. It concluded that "no progress" had been made in the 2019 – 2020 period on the relevant priorities of the 2019 EC Opinion nor on the Priebe report recommendations.

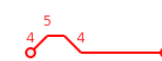
A state-level Agency for Prevention of Corruption and Coordination of the Fight against Corruption (APIK) began operations in 2014 and coordinated the adoption of a state anti-corruption strategy for the period from 2015 to 2020. However, state and entity-level strategies suffer from a lack of coordination and harmonization, and slow implementation. A new anti-corruption strategy for 2020 – 2025 was drafted in 2020 but had not yet been adopted as of the time of writing.

Public procurement remains one of the main areas affected by corruption; a new public procurement law strongly promoted by the European Union failed to be adopted in 2020. Implementation of conflict-of-interest legislation has de facto stalled since 2013, when amendments to the state law transferred responsibility from the independent Central Election Commission of BiH to a newly formed parliamentary commission. In October 2015, the FBiH parliament adopted an amendment to the FBiH Conflict of Interest Law placing the state-level commission also in charge of implementation of the entity law. No new BiH conflict-of-interest law was adopted in 2020, despite strong pressure from the EU. Public auditors' reports do not lead to improvements in public spending patterns. ODIHR recommendations on regulating party and campaign financing have remained unaddressed for years. A 2014 FBiH law on the establishment of special departments for the fight against corruption and organized crime within FBiH-level courts and prosecutorial bodies remained unimplemented during the review period, leaving the judicial fight against organized crime and corruption in FBiH more or less suspended. In the RS, results of the work of the special prosecutorial body on corruption established in 2007 remained limited. In June 2016, the RS National Assembly amended the Law on Civil Servants, reducing penalties for disciplinary violations.

Anti-corruption  
policy

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## 16 | Consensus-Building

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

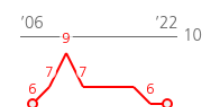
As a reflection of political elites' genuine disagreement over the goal of EU integration, it took BiH authorities and political leaders a record 14 months (compared to two to five months for neighboring countries) to provide answers to the European Commission's 3,242 questions, and another record four months to answer several hundred follow-up questions, which together formed the basis for the European Commission's May 2019 Opinion recommending conditions for granting EU candidate status to BiH. Even after this length of time, BiH state and entity-level governments in some cases failed to provide joint instead of separate answers to the European Commission's questions.

As the RS opposes the aim of NATO membership, as reflected in a legally binding decision from years back, formation of the Council of Ministers remained blocked for 14 months following the October 2018 elections. The compromise that unblocked government formation did not eliminate the disagreement on the goal of NATO membership.

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

Consensus on goals

6



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Reform-minded politicians in Bosnia and Herzegovina (BiH) are marginalized, and their room for maneuver is significantly constrained in government. The most significant veto actors in BiH, the political parties favoring a disintegration of the state, control veto positions within the constitutional system of power-sharing and policymaking. Constitutional rules are ignored and flouted by senior government members, most obviously through the exclusion of opponents from multiethnic coalitions or their boycott of power-sharing institutions. As a result, distinctions between reformist and nationalist politicians, between ethno-nationalist and multiethnic, pro-European and pro-democracy parties becomes secondary.

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

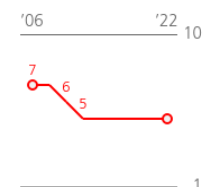
The repression of larger-scale citizen protests like the “Justice for David” initiative in Republika Srpska, which was ended through police intervention at the end of 2018 and continued to be suppressed in 2019 and 2020, demonstrated that the space available for democratic civic engagement was shrinking.

Ethno-national cleavages in Bosnia and Herzegovina (BiH) are significant and reflected in the party system. Politicians play on interethnic tensions and lack of trust for electoral gain. Throughout 2019 and 2020, the Republika Srpska (RS) leadership continued to express support for RS secession, labeling the Bosnian state an unnatural and unworkable entity. The RS leadership, in particular President Milorad Dodik, employed highly charged rhetoric to question the legitimacy of the state and the possibility of a harmonious common future between BiH’s entities and various ethnic groups. In the face of allegations of corruption and mismanagement of public funds, Dodik has styled himself as the protector of Serb interests against an allegedly centralizing state and prejudiced international community.

Croat politicians have increasingly alleged that systematic discrimination against Croats is taking place in the Federation of BiH and have called for the establishment of Croat self-government. This claim has become the centerpiece of all policy negotiations for the past decade. During the review period, the Croat Bosnian political leadership held the post-2018 government formation in the Federation of BiH hostage, seeking changes to the electoral system that would move the country toward establishing a de facto Croat third entity, though without constitutional change. The political struggle of the leading Bosniak party in Bosniak-majority areas has traditionally been characterized by heightened conflict rhetoric.

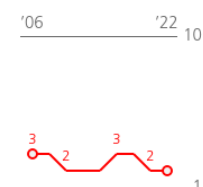
Anti-democratic actors

5



Cleavage / conflict management

2



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 during agenda setting or policy formulation. Where contact occurs, it is usually initiated by civil society itself. International organizations and donor projects in Bosnia and Herzegovina (BiH) facilitate and support such cooperation, but there are rarely guarantees that civil society positions will be integrated into final policy. Civil society is thus involved more in monitoring government activities and reporting on their performance. General levels of apathy in society and low expectations of politics and politicians exacerbate the situation, as does the complicated and often opaque multilayered system of government.

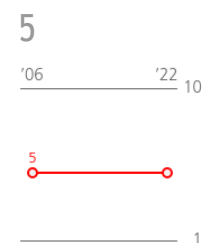
During the review period, due to the protracted and partly still incomplete processes of government formation, there was limited agenda setting and policy formulation in general, and even less civil society participation. There were no attempts by the authorities to actively involve civil society in the management of the COVID-19 pandemic.

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 internationally led prosecution of war crimes (which has so far resulted only in the trial of a small fraction of war criminals) has not been accompanied by a formal reconciliation process. Politicians present sharply different versions of wartime events, often instrumentalizing war crimes and victims as a means of fanning interethnic fears for political gain. With some exceptions, many moderate politicians also shy away from addressing wartime events. Republika Srpska (RS) President Dodik has continued to use wartime events to shore up his nationalist credentials. Dodik and many politicians from the RS continue to deny the genocide in Srebrenica and other war crimes. Convicted war criminals continue to enjoy financial support provided by the RS government and are invited to public events by government officials on a regular basis.

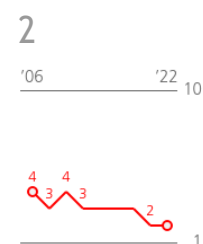
No reconciliation efforts were undertaken by political actors in 2019 and 2020. In August 2018, the RS government repealed its 2004 landmark Srebrenica report that acknowledged the 1995 Srebrenica mass murder events, and in February 2019 commissioned a new report that is expected to present a further step in historic revisionism. Serb BiH Presidency member Milorad Dodik prevented then-Chair Sefik Dzaferovic from inviting foreign dignitaries to the 25th commemoration of the Srebrenica genocide in July 2020. In November 2020, high-level officials from the main Croat party, the Croat Democratic Union (HDZ-BiH), including a cantonal prime minister and interior minister, participated at the commemoration of Bosnian Croat Marko Radic, a convicted war criminal.

In July 2020, the U.N. Committee on the Elimination of Discrimination against Women (CEDAW) rendered its historical first decision against BiH, recognizing

#### Civil society participation



#### Reconciliation





wartime sexual violence as “a form of discrimination and torture,” calling on the state to provide immediate support to survivors. However, no further action has been taken by BiH authorities.

## 17 | International Cooperation

Though governments provide annual Economic Reform Programs to the European Commission, and entity governments in 2019 agreed on a follow-up program to the largely unimplemented 2015 – 2018 Reform Agenda, the ruling ethnic political elites show no genuine interest in long-term socioeconomic developmental policies beyond the primary aim of maintaining the country’s patronage systems. Government departments and officials in general show indifference or even antagonism toward certain forms of international assistance, particularly if tangible benefits are not immediately forthcoming. Acceptance of international support on the part of officials and political leaders in Bosnia and Herzegovina (BiH) has regularly been aimed at short-term stabilization of domestic budgets, while at the same time trying to circumvent the implementation of structural-reform conditions.

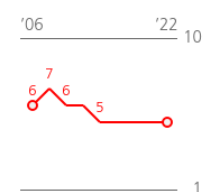
As a consequence, several credit arrangements with the IMF over the last decade were either terminated prematurely or only partly implemented, including the 2016 Extended Facility Fund, which expired in 2019 with only the first two tranches paid out. No subsequent arrangement was agreed on in the reporting period.

In the past, too, BiH lost substantial shares of available funds from the EU provided through the Instrument for Pre-Accession Assistance (IPA) programs and IPARD funds for the country’s agriculture sector. The reason was the Republika Srpska (RS) leadership’s ideologically motivated rejection of conditions requiring the establishment of any additional state-level bodies, or the transfer of even minimal entity competences to the state level. For the 2018 – 2020 period, €314.9 million in IPA II funds out of an overall €552.1 million for BiH were indicated for allocation.

The only relevant international financial support received by the BiH government during the reporting period was €250 million in macro-financial assistance from the EU in the form of a loan, and a further €330 million from the IMF under the Rapid Financing Instrument, both secured in 2020. However, both loans were intended to finance short-term pandemic relief measures rather than longer-term development policies. The use of EU support was delayed for several months over political disagreements regarding the division of the funds among the two entities.

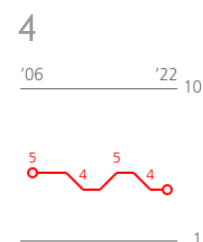
Effective use of support

5



The international community has long viewed the authorities in Bosnia and Herzegovina (BiH) as lacking either credibility or a commitment to reform. BiH is aspiring to become an EU member state, but its progress on the EU membership path was blocked for almost a decade until 2016. For the last decade, BiH has failed to implement half a dozen rulings of the European Court of Human Rights, including the Sejdić-Finci case. The 2015 – 2018 Reform Agenda agreed upon with the international community has only partly been implemented, as have obligations established by international financial institutions. This contributed to a further erosion of the BiH authorities' credibility. Still, reforms were sufficient to unblock BiH's path to EU membership, and in May 2019, BiH received the European Commission's Opinion on its membership application, which included 14 priorities or sets of reform conditions. There was minimal work on implementing these reforms in 2019 and 2020.

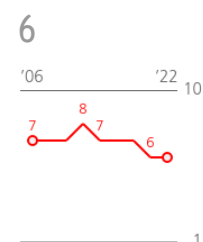
#### Credibility



BiH's pending NATO membership application was unblocked in December 2018 when NATO decided to initiate the next step in BiH's accession, the so-called Membership Action Plan (MAP). However, this progress was only enabled by NATO dropping a previous condition over which BiH authorities continue to disagree. Activation of MAP was immediately called into question by Republika Srpska authorities, which are opposed to the country's NATO membership and insist on adopting Serbia's attitude of military neutrality. Following the October 2018 general elections, RS resistance to providing NATO with an annual reform program blocked government formation at the state level for 14 months.

Modest regional cooperation takes place within the framework of various initiatives (e.g., the South East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement, the Migration, Asylum and Refugees Regional Initiative). Croatia and Serbia's traditional destabilizing interference in Bosnia and Herzegovinian (BiH) affairs has continued despite declarations of support for bilateral cooperation. Cooperation between the relevant prosecutorial bodies of BiH, Croatia and Serbia on prosecuting war crimes remains insufficient, despite memoranda of understanding in place.

#### Regional cooperation



The atmosphere between BiH state leaders and the leaders of neighboring countries somewhat improved in the context of the Berlin process initiated in 2014 by German Chancellor Angela Merkel. BiH participates in various regional projects initiated since the launch of the process, such as the EU's Connectivity Agenda and the Regional Youth Cooperation Office (RYCO).

Nevertheless, BiH's bilateral relations with neighboring Serbia and Croatia worsened during the review period. A stronger alignment of Serbian President Aleksandar Vucic with the Republika Srpska leadership and the support of the RS leadership for the Serbian president's advocacy of a land swap deal in EU-led negotiations with Kosovo led to a deterioration in relations with Bosniak political leaders.

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

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

## Strategic Outlook

The year 2021 will be a decisive one for sociopolitical and democratic reform in Bosnia and Herzegovina for two reasons. First, 2019 and 2020 were largely lost years due to the delayed government formation and the need to engage in COVID-19 pandemic management, and 2022 is an election year, which traditionally provides little or no maneuvering space for serious reforms. Second, 2021 will offer the last chance for the governing coalitions to create and implement key reforms and protect the population from the threats of the pandemic.

During 2021, BiH authorities will have a chance to take important reform steps toward obtaining EU candidate status in the foreseeable future. Much will depend on the EU-U.S.-led negotiations on the changes to the Election Law of BiH. This will be conditioned by the HDZ's contentious political demands. If no agreement is reached, there is a high likelihood that the October 2022 elections will be held with the FBiH still operating under a caretaker administration.

The German government's initiative to nominate a candidate for a new High Representative for BiH, prepared for months but made public only in December 2020, irritated some Western capitals, including Washington, as it had proceeded preceding the change in the U.S. administration. At the same time, it drew extraordinary international attention to the small Western Balkan country, and led to extensive communication between Berlin and Washington D.C. Should this result in a newly defined, more dynamic transatlantic policy toward BiH, it could lead to a new reform dynamic in the country in the near future.

As the migration crisis at the Western border to Croatia has by and large been inflicted on BiH by the reluctance of the European Union and its member states to act, and a lack of a joint asylum and migration policy, there is little chance that the crisis will be solved in the coming years.

The long-term impact of the COVID-19 pandemic on democratic and economic transformation will depend on whether BiH authorities manage to control the spread of infections and prevent further deaths. To a large degree, this will in turn depend on whether authorities manage to develop sufficient coordination capacities for procuring enough vaccines. International agencies like the IMF foresee the beginning of economic stabilization and recovery in 2021, with a return to GDP growth estimated at 3.5%. Tax revenues are also expected to rise, but remain below the pre-pandemic level, leaving a fiscal deficit of 4.5% for the year. The economy is expected to reach its pre-pandemic levels only in 2022.