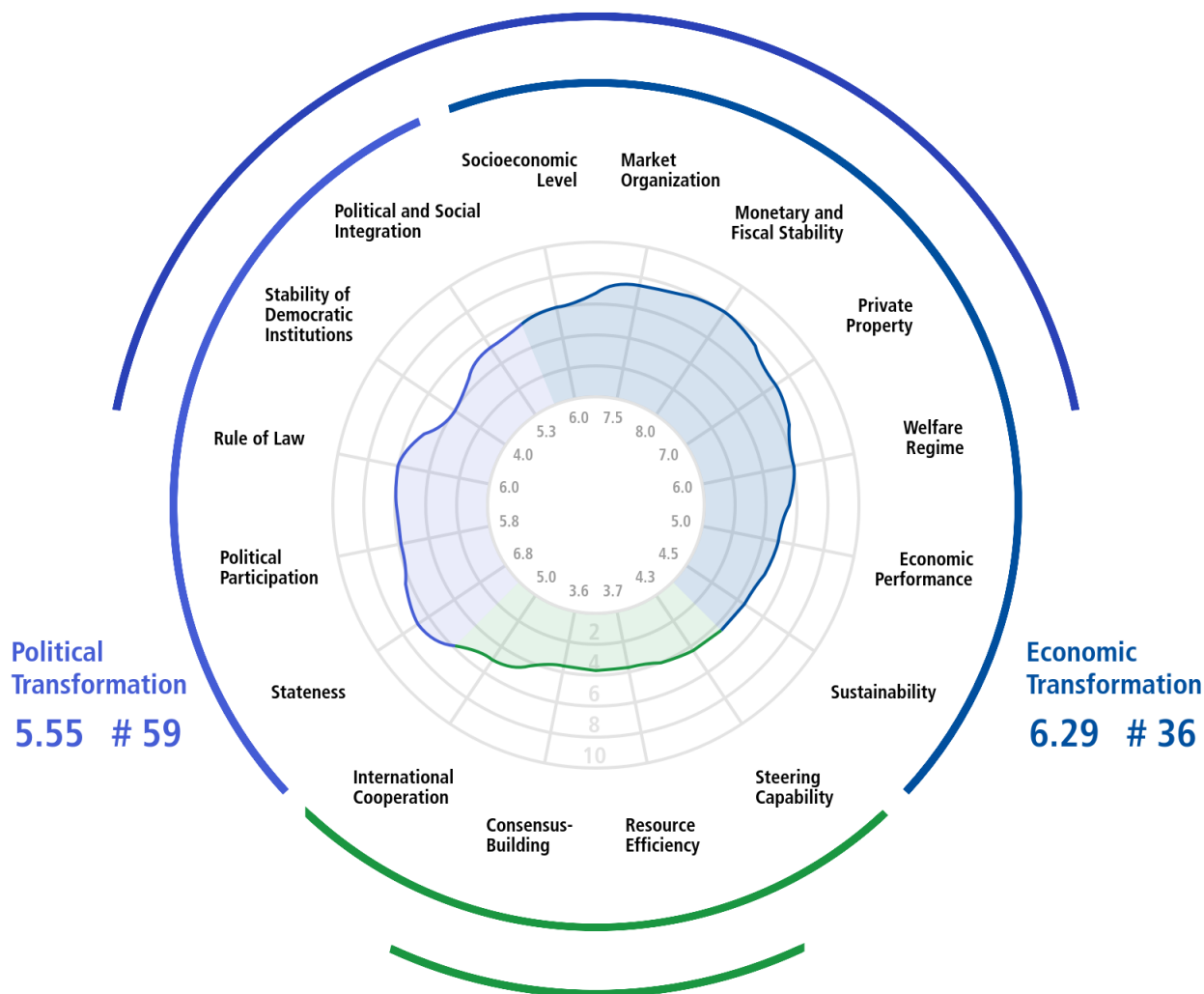


Bosnia and Herzegovina

Status Index

5.92 # 50

on 1-10 scale out of 137



Political Transformation
5.55 # 59

Economic Transformation
6.29 # 36

Governance Index

3.64 # 107

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	3.2	HDI	0.780	GDP p.c., PPP \$	20377
Pop. growth ¹	% p.a.	-1.2	HDI rank of 189	74	Gini Index	33.0
Life expectancy	years	75.3	UN Education Index	0.735	Poverty ³	0.8
Urban population	%	49.8	Gender inequality ²	0.136	Aid per capita \$	174.2

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

During the period under review, Bosnia and Herzegovina (BiH) faced one of its most severe political and institutional crises since the end of the Bosnia war (1992 – 1995), which posed a significant threat to the country’s integrity. This crisis was characterized by continuous actions by ruling elites in the Republika Srpska entity (RS) that undermined the constitutional order and the sovereignty of the state. In parallel, the HDZ (Croatian Democratic Union) posed challenges to the functionality of the state through political and institutional blockades.

This political turmoil had its backdrop in two critical events. First, the appointment of a new High Representative (HR) responsible for overseeing the Dayton peace agreement’s implementation occurred in 2021. Secondly, EU- and U.S.-led political negotiations on electoral reform were ongoing. The situation deteriorated when, 14 months after the October 2018 elections, RS representatives initiated a boycott of all state-level institutions in July 2021. Consequently, both the executive and the legislature operated at minimal capacity throughout this period, resulting in the lowest legislative productivity since the postwar era. Additionally, state institutions relied on temporary financing for three out of the four years of the government’s mandate.

In the summer of 2021, Valentin Inzko, the outgoing HR, took the step of criminalizing the denial and glorification of genocide and war crimes. The RS leadership used this as a pretext to boycott state institutions and, more concerning, passed four sets of conclusions and several laws aimed at stripping the state of its key competencies in areas such as justice, indirect taxation, defense, security and medical control. These decisions, in many cases, violated the Dayton Constitution and the Framework Agreement established in 1995, which set the foundation for peace and constitutional order in Bosnia. Most of these legislative acts were eventually suspended or annulled by the Constitutional Court of Bosnia and Herzegovina, and the implementation of the remaining measures was postponed until 2023.

The HDZ continued to link the functioning of the entity's institutions to electoral reforms designed to further ethnicize the system and consolidate the party's influence over Croat voters. Consequently, the entity operated with a caretaker government for the entire mandate period, and its Constitutional Court faced partial dysfunction. In February 2021, negotiations on electoral reforms, led by the European Union and the United States, began, signaling a willingness to compromise on some of the HDZ's long-standing demands. Unfortunately, these negotiations ultimately failed in the spring of 2022, bolstering the HDZ's determination to pursue its ethno-political objectives. There were threats to create a separate Croat ethnic entity after the October elections and to obstruct parliamentary elections by withholding election funds. However, these were averted due to the intervention of the HR. On the day of the elections, October 2, the HR retrospectively modified the electoral system in the Federation of Bosnia and Herzegovina (FBiH), effectively preventing the HDZ from blocking the elections while conceding to some of their political demands. These changes granted the HDZ greater control over the appointment of the FBiH president and government, virtually ensuring their participation in all future political coalitions.

Despite elections at the state, entity and cantonal levels, there were no significant political changes, except for the leading Bosniak party losing ground to a coalition of smaller Bosniak and multiethnic parties. The election results, combined with the adjustments made to the electoral system, only allowed for the formation of a central government after a three-month delay, leading to new deadlocks at the FBiH level.

In December 2022, the Council of the European Union granted BiH candidate status, primarily influenced by the geopolitical context surrounding the war in Ukraine. This decision was made despite the fact that BiH authorities had implemented very few of the reform conditions outlined in the European Commission's May 2019 opinion.

History and Characteristics of Transformation

The journey toward democracy in Bosnia-Herzegovina (BiH) commenced following the conclusion of a brutal four-year conflict in 1995. Unfortunately, the transition to democracy and a market-based economy in BiH has been significantly hampered by post-conflict complexities. After the war, the country was divided into three zones, effectively operating as quasi-states, each dominated by largely illiberal ethno-national elites from the wartime period. BiH's constitution, known as Annex IV of the Dayton Agreement, was originally intended as a provisional and transitional arrangement. Its primary purpose was to bring an end to the conflict by reconciling the competing visions of state identity, encompassing multi- and mono-ethnic perspectives, and the roles of the country's three constituent groups: the Bosniaks, Serbs and Croats. This constitution established a highly decentralized and fragmented state, characterized by weak central institutions and two sub-state entities: the predominantly Serb, highly centralized Republika Srpska (RS) and the predominantly Bosniak and Croat Federation of BiH, which featured a feeble federal center but strong cantonal entities. While it succeeded in bringing the warring elites to agree on a shared state, it did not prioritize institutional functionality. Instead, it relied heavily on decision-making mechanisms based on ethnic consent and ethnic veto mechanisms.

In the initial decade after the war, a United Nations-mandated High Representative assumed a quasi-protectorate role, wielding extensive executive powers. This authority enabled the removal of public officials and policymakers accused of obstructing peace implementation, the imposition of legislation and changes to entity constitutions, and the creation of additional state-level institutions. Concurrently, a NATO-led military mission restored security across the nation. These efforts ran parallel to initiatives aimed at rebuilding infrastructure, kickstarting economic recovery, facilitating the return of refugees and addressing the social divisions that had emerged in the country. While this international involvement faced criticism for being undemocratic, it laid the groundwork for liberal democracy, fostered political dialogue and compromise, introduced some diversity in the party system and political life, integrated civil society into political processes, established core state functions, and laid the foundations for economic reconstruction and fiscal stability. Starting in 2003, these transformation efforts gradually shifted toward alignment with the European Union.

In 2005/06, the international community decided to end its intervention and fully entrust responsibility to domestic political actors. This transition was driven in part by the belief that domestic political elites were ready to carry on reforms independently within the EU integration framework, but also by diminishing political will among Western governments to sustain the costly postwar engagement. However, this handover did not produce the expected outcomes. The abrupt nature of the transition and the absence of a reformed or replaced constitutional system that could guarantee functionality, democracy and the rule of law led to the revival of the existing ethnic power-sharing framework. This served the interests of all ethnic elites by preserving patronage systems. Since then, Bosnian politicians have shown an inability or unwillingness to reach consensus on forming multiethnic coalition governments, agreeing on fundamental policies, or even adhering to core constitutional principles. Nationalistic rhetoric has surged, particularly in the frequent calls for secession from RS leadership, signifying the rise of Milorad Dodik as a dominant figure in RS and BiH as a whole. Dodik established an autocratic regime in RS, undermining democratic principles, the rule of law and human rights. RS institutions openly engage in actions that challenge the constitutional order and defy state-level decisions, often resorting to illegal means. Meanwhile, Bosnian Croat political elites have radicalized their rhetoric and policies, intensifying demands for ethno-territorial autonomy and representation beyond what is constitutionally guaranteed. Bosniak nationalist parties have faced allegations of widespread corruption, a problem deeply ingrained in the structures of all ethnonationalist political elites. In summary, the performance of these elites has eroded state unity and institutional functionality. All ethnopolitical elites have played a role in systematically undoing the postwar democratic reforms, significantly slowing down the country's path toward EU integration.

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 concept of the state's monopoly on the use of force is theoretically applicable to the entire territory. However, this principle faces limitations due to the decentralized and fragmented nature of the state, as well as the ongoing politicization of security services. The BiH armed forces were established in 2006 by unifying three separate ethnic-based armed forces, a move supported by international state-building efforts. Since 2004, the European Union Force Althea (EUFOR Althea) has been tasked with ensuring a safe and secure environment in BiH. However, the reduction in troop levels to just a few hundred over the past decade has left EUFOR Althea with insufficient on-the-ground presence to directly fulfill its mandate. In the event of a serious threat to national security, it has the capacity to call in reserve forces from an out-of-country Intermediate Reserve Force located in Europe, although this may involve some delay. Notably, in 2022, troop levels were increased to 1,100 due to the political crisis in the country and the broader geopolitical context involving the Ukraine war.

NATO maintains a presence in the country with a mission aimed at enhancing democratic control, transparency and accountability within BiH's defense institutions. This mission also involves combating corruption and promoting core values like democracy, freedom and the rule of law, along with an emphasis on strengthening the role of women in the defense sector. NATO also retains a reserve security mandate.

The police forces in BiH are confronted with significant fragmentation and growing politicization. In the Republika Srpska (RS), the police are highly centralized and strongly influenced by the ruling parties. In the Federation of BiH, police competencies are divided between the federal and cantonal levels, with incomplete institutionalization of cooperation among these agencies. Since 2011, there has been a concerted effort by the ruling elites to exert greater political control over police agencies, with the aim of rolling back police reforms that were carried out with

Question
Score

Monopoly on the
use of force

8

'06 '24 10



1

international assistance during the previous decade. These reforms established fundamental aspects of democratic policing and granted autonomy to police agencies. State-level institutions, which were established as part of police reform in 2007, possess a limited mandate and limited operational capabilities. Furthermore, they struggle with poor coordination with agencies at lower levels of government.

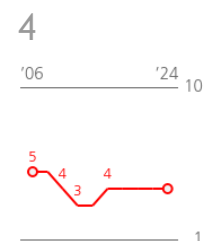
The constitution of Bosnia and Herzegovina (BiH), which is an annex to the Dayton Agreement, doesn't establish a unified state identity. Instead, it incorporates mutually exclusive state concepts, encompassing both multiethnic and monoethnic perspectives. This arrangement significantly undermines the legitimacy of the state. Since the international community shifted from actively promoting state-building in 2006, nationalist political elites have renewed their efforts to undermine the state. They do so by exploiting the fears of other ethnic groups to solidify their own political positions. Specifically, the leadership of Republika Srpska (RS) frequently challenges BiH's integrity. They insist on an unconstitutional right to secession and issue political ultimatums concerning the return of competencies transferred to the state during the first postwar decade.

Croat parties, such as HDZ-BiH, indirectly question the state's integrity by pushing for the formal or de facto (as has been the case for the past decade) creation of a Croat ethno-territorial entity. This is pursued through changes to the electoral system involving ethnic gerrymandering. In recent years, these efforts have become more deliberate and coordinated with the leading parties in the RS. Surveys indicate that top-down nationalism has had an impact on the Serb and Croat populations. However, it's important to note that the Bosniak majority remains committed to a unified state. Additionally, citizens prioritize practical issues like the economy, corruption and social justice over questions related to ethnicity and national status.

Despite being declared unconstitutional by the BiH Constitutional Court in 2015 and criticized by the Venice Commission of the Council of Europe as "discriminatory because it is not in line with the universal values of dialogue, tolerance and understanding," RS authorities continued to celebrate Republika Srpska Day on January 9th. In 2021, RS authorities unlawfully began reversing key state competencies to the entity, posing the most serious threat to the state's integrity since the war. Amid the EU-U.S.-led negotiations on electoral reforms in 2021/22, leading Croat parties indirectly threatened to establish a Croat entity if their ethnopolitical demands were not met.

Furthermore, individuals who do not identify themselves as members of one of the "constituent peoples" (Bosniak, Croat and Serb) are excluded from running for certain key state offices, such as the BiH Presidency and the House of Peoples. Additionally, the Serb member of the Presidency is chosen solely from candidates from the RS, elected by voters residing in the entity alone, with a similar process applying to the election of Bosniak and Croat members from the Federation of BiH. Discriminatory practices also extend to indirect elections of the three ethnic caucuses

State identity



of the House of Peoples of the BiH parliament. While several rulings by the European Court of Human Rights (ECHR) and the Constitutional Court of BiH since 2009 have recognized these provisions as discriminatory based on ethnicity, authorities have failed to implement necessary changes.

Formally, the state and religion are completely separate in BiH. However, in practice, religious communities exert significant influence on public and political affairs, and this influence has had both positive and negative impacts on post-conflict reconciliation. During the disintegration of Yugoslavia, leaders of the Islamic community, the Roman Catholic Church and the Serbian Orthodox Church emerged as key figures within influential informal elite networks. They aligned themselves with the growing ethnonationalist movements and lent legitimacy to policies that involved ethnic cleansing. As a result, these religious communities became semi-integrated into political party structures. This unique development led to an almost complete fusion of ethnic and religious identities, especially among Serbs and Croats. Consequently, religious identity indirectly played a role in the ethnicized nature of the state.

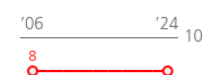
In the 2013 census, 50.7% of BiH citizens identified as Muslims, 30.7% as Orthodox Christians and 15.2% as Catholics. This distribution closely mirrored the country's ethnic breakdown, with Bosniaks, Serbs and Croats, respectively. Religious leaders have continued to play a significant role in shaping political discourse and events, often aligning themselves with the ruling ethnic elites. Their focus tends to emphasize the perceived disadvantages faced by their respective communities rather than promoting tolerance and understanding among different groups. One example of this influence is the merging of the Republika Srpska National Day with an Orthodox holiday. The BiH Constitutional Court has declared this merger discriminatory against the non-Serb, non-Orthodox population in Republika Srpska.

Basic administrative structures are in place, allowing for the provision of essential services. Approximately 96% of the population has access to basic sanitation facilities and water sources. However, the administration in BiH is unusually fragmented across five levels of government: municipal, cantonal, entity, Brčko District and central state levels.

The governments of the two entities, namely the Federation of Bosnia-Herzegovina and the Republika Srpska (RS), are primarily responsible for delivering most public services. Meanwhile, state-level authorities handle matters related to 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. Additionally, the central state has taken on additional responsibilities, such as indirect taxation and regulating police, intelligence, judicial and prosecutorial bodies, following a transfer of responsibilities from the two entities.

No interference of religious dogmas

8



1

Basic administration

7



1

Efforts to enhance the management of public services at the municipal level were strengthened through local self-governance reforms in 2004/2005, including fiscal decentralization. However, the RS leadership's ideological resistance to transferring competencies to the central level, coupled with a reluctance to coordinate or harmonize entity-level policies, significantly hampers the delivery of basic services to citizens. Consequently, the quality of public health care, social protection and education in the country is relatively low. Moreover, the country's infrastructure, such as railways and highways, lags noticeably behind neighboring nations in terms of development.

Regarding the response to the coronavirus, both state and entity-level authorities faced challenges. The fragmented nature of the country's health system, with 13 health ministries but none at the central state level, initially hindered negotiations with vaccine manufacturers in 2021. BiH relied heavily on external donations for vaccines, resulting in only 130,000 doses available in May. By the end of the year, approximately 24% of the population had received at least one vaccine dose. As of the beginning of 2023, this figure had only slightly increased to 25.8%, highlighting the ongoing challenges in effectively protecting citizens against the coronavirus.

2 | Political Participation

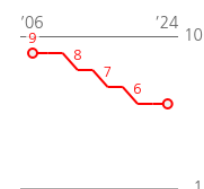
National, entity, canton and local elections are held every four years. Universal suffrage with a secret ballot is ensured. However, the constitution contains provisions that discriminate based on a combination of ethnicity and place of residence, which limits the right to run for office. Specifically, only certain categories of citizens are allowed to run for the Presidency and the Houses/Chamber of Peoples at the state and entity levels. The European Court of Human Rights (ECHR) has ruled that BiH must amend its constitution and election law, as this is a key requirement for EU membership. However, despite this ruling, the ruling parties and leaders have not reached an agreement on moving forward.

The OSCE Office for Democratic Institutions and Human Rights (ODIHR) has made numerous recommendations for electoral reform in BiH, but many of these have remained unimplemented for several years. These recommendations cover a range of issues, including the accuracy of voter registries, measures to prevent the misuse of state resources during campaigns, regulations for campaign financing, political party control over polling station commissions, the effectiveness of resolving election disputes and political pressure on the election administration. These issues seriously hinder the conduct of free and fair elections, leaving room for fraud.

The October 2022 general elections took place under extraordinary circumstances and high political tensions. EU-U.S.-led negotiations with parliamentary parties on electoral reform, which began in February 2021, failed to reach an agreement on implementing ECHR rulings or on addressing the demands of the leading Croat

Free and fair elections

6



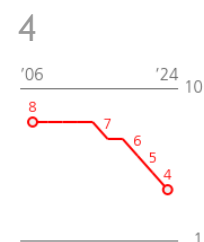
ethnic party, HDZ, to further ethnicize the electoral system. When hopes for progress were dashed, HDZ threatened to block the elections and the subsequent government formation. HDZ had already blocked government formation in the Federation of BiH for the period from 2018 to 2022, leaving the entity with a caretaker government. Funding for the 2022 elections was only secured in June after intervention by the international community's High Representative (HR), following a blockade of funds by HDZ's state finance minister. In July, the HR enforced some of ODIHR's recommendations regarding campaign regulation and the prevention of administrative resource misuse. However, the impact of these changes was limited due to the short timeframe for implementation.

Voter turnout for the 2022 elections was 50%, which was nearly 4% lower than in the previous elections. The Central Election Commission (CEC) ordered recounts at 20% of polling stations due to inaccurate vote counts. In response to opposition allegations of widespread fraud, the CEC conducted a full recount of the Republika Srpska presidential election. However, this recount found only limited evidence of irregularities and fraud, resulting in no change to the victory of the ruling SNSD party leader, Milorad Dodik. After the polls closed on election day, the HR responded to HDZ's threat by making a highly controversial retroactive intervention in the Federation's electoral and constitutional systems. Simultaneously, other changes were made to the second legislative chamber, the House of Peoples, partially meeting the party's demands and further emphasizing the ethnic character of the electoral system. These interventions allowed for the rapid formation of a government at the state level. However, they also provided the largest Bosniak party, the SDA, with new opportunities to obstruct government formation in the Federation, as they had been sidelined in coalition negotiations.

The most powerful veto points in Bosnia and Herzegovina (BiH) are not external but are inherently built into the complex decision-making process itself. The power-sharing system was initially designed to ensure equitable ethnic representation within the central state and Federation of BiH institutions. However, due to the absence of a shared vision among ethno-national elites, the procedures for government formation and voting in the central state parliament and presidency grant veto authority to representatives from each entity and the "constituent peoples." This allows them to obstruct collective decision-making. Similar ethnic veto mechanisms are also in place in the Federation of BiH, albeit to a lesser extent in the Republika Srpska (RS). As external intervention and mediation decrease, these power-sharing systems increasingly fail to foster any meaningful form of shared governance.

Following the October 2018 general elections, the victorious parties have leveraged their de facto veto power to either slow down or hinder government formation at the state level and within the Federation of BiH. The Council of Ministers of BiH took 14 months to form after the elections, resulting in the state operating without a budget for 18 months and effectively suspending the work of the Parliamentary Assembly of

Effective power to govern



BiH in 2019. Additionally, a boycott of state institutions by RS representatives in July 2021 further obstructed all state-level bodies until the spring of 2022 and again left the state without a budget for 18 months. In the Federation, the inability to establish a government resulted in a caretaker government remaining in office throughout the entire four-year mandate period, with two ministerial positions left unfilled and the entity's parliament largely inactive. These developments significantly hindered the government's ability to effectively govern, leading to the lowest legislative output at both the state and federal levels in the entire postwar period.

The constitution guarantees freedom of association and assembly, and the BiH Law on Associations and Foundations outlines the regulations governing these rights. While there is no clear evidence of political interference in granting permission for associations, the registration process is lengthy and burdensome. The consolidation of the country's 18 separate NGO registers was completed in 2018, but the process lacks transparency. NGOs registered at the state level face burdensome employment obligations as they are subject to the state's labor law, essentially equating NGOs with state institutions.

Independent groups, especially in the Republika Srpska (RS), have faced political intimidation and criticism in government-affiliated media. Since 2014, the RS Law on Public Peace and Order has included the internet in its definition of "public space," which hampers freedom of assembly. Despite domestic and international criticism, this law remains in effect.

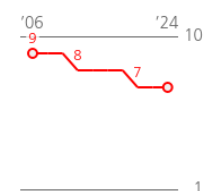
In 2018, civic protests in the RS capital, Banja Luka, triggered by the death of student David Dragičević, were met with police repression and the prosecution of some protesters, ultimately ending later that year. Subsequently, RS authorities have obstructed and, since 2021, completely prevented protesters from exercising their right to assemble, leading to the dissolution of the movement.

In Bosnia and Herzegovina (BiH), freedom of expression is constitutionally guaranteed, and defamation was fully decriminalized in 2002. There is also freedom of information legislation in place. Broadcast media are regulated by an independent Communication Regulatory Agency (CRA) with executive enforcement powers, while print media self-regulates 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 selection of council members is often politicized and can remain blocked for years due to political disagreements among the ruling ethnic parties. The current council members' mandate expired in 2017.

Politicians frequently attempt to undermine media and editorial independence, a trend that continued in 2021 and 2022, according to the International Research & Exchanges Board (IREX). Fragile economic conditions for journalists and their media outlets, significant government involvement in funding private media both indirectly and directly, and regular civil libel suits against media and journalists have contributed to these challenges.

Association / assembly rights

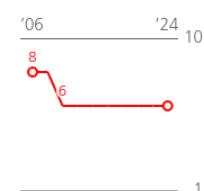
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Freedom of expression

6



1

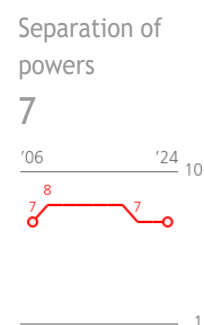
Direct intimidation of journalists remains a serious problem. In 2021, the Association of BiH Journalists recorded three physical attacks and six threats to the life and physical safety of journalists, matching the numbers from previous years. There has been a consistent increase in threats by public officials and politicians, particularly against female journalists, in recent years.

Public broadcasters in both entities and at the national level have been susceptible to varying degrees of political influence, with their operations significantly impacted by the conflicting political agendas of the ruling ethnic elites. In the Republika Srpska (RS), the public broadcaster's steering board remains politically affiliated and is described as being "under the firm political control of the ruling party" by the European Commission. In 2019, the RS began collecting its own RTV tax, diverting it from the state's account, which deprived the national broadcaster of 50% of its funds. In the Federation, the appointment of the governing board of the public broadcaster has been blocked for years due to the leading Croat party HDZ's demand for the establishment of a third ethnic Croat broadcaster. HDZ encouraged Croat citizens to stop paying the tax and instead donate to a regional Croat ethnic TV station. As a result, the national broadcaster accumulated millions of euros in debt over the years, with its bank account blocked several times in 2021 and 2022. Only an ad hoc decision by the federal parliament in April 2022 on financing prevented the broadcaster from going off the air. Additionally, the political blockage has effectively halted the digitalization of public broadcasters.

3 | Rule of Law

Bosnia-Herzegovina (BiH) has a uniquely complex constitutional structure. The state constitution, along with the constitutions of the two highly autonomous entities (FBiH and RS), establish a formal separation of powers among different branches of government. Both the state and the entities function as semi-presidential systems. The three-member Presidency of BiH and the president of RS are directly elected by the people, while the president and two vice presidents of the FBiH are appointed by the FBiH parliament. The judiciary maintains formal independence and is appointed and regulated by an independent High Judicial and Prosecutorial Council. However, it remains significantly fragmented at both the state and entity levels and is increasingly susceptible to undue political interference. Traditional checks and balances are in place, including parliament's authority to pass a vote of no confidence in the government and the government's right to dissolve parliament.

In practice, effective and efficient control is wielded by the dominant ethnic parties through extensive power-sharing mechanisms. Constitutional courts at the state and FBiH levels (though to a lesser extent in the RS) continue to exercise a certain level of independent oversight over the legislative and executive branches. However, political interference has grown over the past decade, and many court decisions go



unimplemented. During the reporting period, the RS persistently disregarded a court ruling that deemed the entity's national day unconstitutional and declared all public property in BiH to be state property. Non-adherence to Constitutional Court rulings has gone unpunished. Parliaments tend to have limited oversight functions, often serving as mere rubber stamps for ruling parties. In the same period, several corruption investigations were initiated against high-ranking judicial officials, leading to suspensions and dismissals from office.

Bosnia-Herzegovina has a formal legal framework in place to safeguard the independence of the judiciary and prosecutors. This framework is overseen by the High Judicial and Prosecutorial Council (HJPC), which holds responsibility for appointing judges and prosecutors throughout the country. The HJPC also functions as a disciplinary body, ensuring professional standards, providing training, and offering opinions on draft legislation, regulations and other matters related to the judiciary.

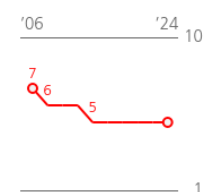
However, the judicial system in Bosnia-Herzegovina remains fragmented, with four separate legal systems operating at the state, entity and Brčko District levels. At the state level, the Prosecutor's Office and Court of BiH have jurisdiction over war crimes, high-level corruption and organized crime cases, as well as matters related to state-level institutions.

Since the international community adopted a more hands-off approach in 2006, political elites have increasingly attacked the independence of the judiciary and sought to reverse postwar reforms. In particular, the RS authorities consistently challenge and undermine the authority and competence of the three state-level bodies. In February 2022, the RS parliament passed a law to reestablish the entity HJPC, marking a significant constitutional violation in the postwar period.

In 2019, the European Union prioritized the rule of law as a key requirement for BiH's accession, making membership contingent on substantial structural reforms within the judiciary. However, BiH authorities have made no progress in implementing these reforms. An amendment to the HJPC law aimed at enhancing the integrity of its members remains stalled in parliament. In July 2021, the Prosecutor of BiH was removed from office due to grave misconduct in a disciplinary procedure. Meanwhile, in the RS, authorities continued to disregard crucial Constitutional Court rulings, including those invalidating laws through which entity authorities claimed state property and declared the RS national day unconstitutional.

Independent
judiciary

5



Corruption is systemic within the public administration and governmental structures, frequently reported in the media, and exposed by investigative journalists. Despite the presence of a comprehensive legal framework, the actual number of officials subjected to investigation, indictment and subsequent conviction remains extremely low. According to the EU, the year 2021 saw a total of 193 indictments issued nationwide, resulting in 143 convictions, the majority of which led to suspended sentences. Notably, only two high-level corruption cases culminated in a final conviction in 2021.

An ongoing court case revolves around allegations of corruption related to the 2019 procurement of respirators from China, linked to the pandemic. Despite being indicted in this case, both the prime minister and finance minister of the Federation remained in their respective positions. Furthermore, in 2021, high-ranking state security officials, including the Minister of Security, faced indictments for corruption-related charges.

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, the continued prosecution of war crimes increasingly fell to domestic courts. In 2013, the European Commission initiated a “decentralization” of war crimes trials, transferring many cases from state-level to entity-level courts and prosecutions with a simultaneous effort to enhance their capacities and expedite proceedings. However, progress in this regard remains limited.

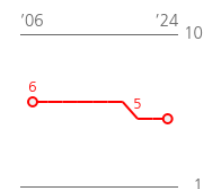
Occasional reports concerning the ill-treatment of suspects in police stations and inmates in prisons or detention facilities continue to be insufficiently addressed by the authorities.

The fragmentation, politicization and inefficiency of the judicial system severely undermine equal access to justice. As of the end of 2022, there were over 2.1 million unresolved civil cases, with 1.8 million involving unpaid utility bills. The enforcement of court orders is hampered by ineffective mechanisms.

The country’s criminal codes include provisions against hate crimes. Nevertheless, individuals who do not belong to one of Bosnia and Herzegovina’s three main ethnic groups are still barred from running for key public offices, despite a 2009 ruling by the European Court of Human Rights. Women continue to be under-represented in politics and the economy, despite existing equal rights legislation. Legislation pertaining to gender-based violence, particularly domestic violence, is inadequate, and its implementation remains subpar. U.N. Women reported in May 2020 that safe houses in the country struggled to provide sufficient protection to women and their children who were survivors of violence, a problem exacerbated by the COVID-19 crisis, which persisted into 2021 and 2022.

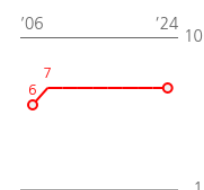
Prosecution of office abuse

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Civil rights

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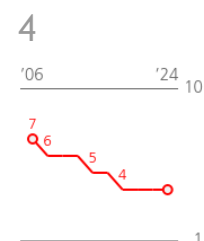
LGBTQ+ individuals remain highly vulnerable. While there have been improvements in the legislative framework to protect their human rights, hate speech and discrimination remain pervasive. Domestic and peer violence against the LGBTQ+ community is on the rise, with authorities failing to respond adequately. Since 2019, BiH authorities have only permitted the annual gay pride event to take place.

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, authoritarian-ruled 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. Frictions appear where municipalities are ruled by opposition parties. 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, which is reflected in poor governance. Only at the municipal level, and particularly in the FBiH, do democratic institutions tend to be stable and responsive to citizen needs and interests.

The performance of governments and parliaments at the state and FBiH levels continued to be extraordinarily ineffective. At the central state level, an almost complete boycott of institutions by representatives from the RS since July 2021 has led to the lowest legislative output in the postwar era. Institutions have operated for 18 months with limited, temporary financing, causing continued budgetary strain and blockages in key appointments to state institutions. In the Federation, political disagreement between the leading parliamentary parties left the caretaker government in office for the entire mandate from 2018 to 2022, leading to an extraordinary inefficiency of both the executive and the legislature. The Constitutional Court’s vital national interest panel ceased to function due to the court lacking four of its nine judges, as the main Croat party held the appointment process hostage to ethno-political demands.

Performance of democratic institutions



The country's constitutional structure is routinely challenged and undermined by politicians, particularly those from the ruling parties in Republika Srpska (RS) and the dominant Croat nationalist parties, which unite around the informal "Croat National Council." Meanwhile, Bosniak politicians question the legitimacy of the RS. The RS leadership continues to advocate independence, or at least some sort of de facto independence within the BiH state, even though no such constitutional right exists. They question the mandate and authority of state-level institutions, especially those established since the Dayton Agreement (e.g., the BiH Court, the BiH Prosecutor's Office and the Armed Forces), and in 2021 began a unilateral, unconstitutional process of "returning" these competencies to the state level. They characterize Bosnia and Herzegovina (BiH) as a failed state that can only function as a loose union of entities and cantons or must be dissolved. The largest Croat party, the Croat Democratic Union (HDZ), continues to boycott key processes and institutions in the BiH Federation, and it is often implied that its long-term political agenda includes the establishment of some kind of Croat entity. These political claims and demands are strategically supported by the RS president.

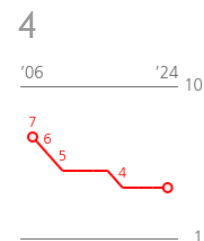
In 2021/2022, the RS authorities continued to ignore Constitutional Court rulings that declared the RS National Day unconstitutional and that confirmed public property inherited from the Socialist Republic of BiH as state property, instead registering such property as entity property. In 2022, the HDZ challenged the holding of elections on the grounds that its political demands for electoral reform had not been met, attempted to prevent the holding of general elections in October 2022 and continued to threaten to block the formation of a government after the elections. Both ruling and opposition parties in the RS questioned the legitimacy of the elections and of the Central Election Commission, particularly in connection with the recount and the results of the RS presidential election.

5 | Political and Social Integration

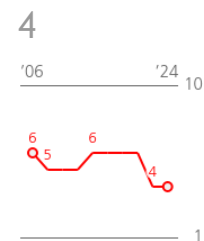
The Bosnian party system is mainly divided along ethnic lines, with some parties operating across ethnic and entity boundaries, such as the Social Democratic Party (SDP), Demokratska Fronta (DF) and Nasa Stranka. Although these parties identify themselves as multiethnic or non-ethnic and maintain multiethnic leadership, most of their political leaders come from one entity, the Federation of Bosnia and Herzegovina (FBiH). The main FBiH-based parties, the Party of Democratic Action (SDA) and SDP, field candidates in elections in Republika Srpska (RS), often in coalitions. Some RS-based parties field candidates in the FBiH, especially in areas that are populated mainly by Serbs.

BiH has an unusually large number of political parties for its relatively small population. However, each ethnic group is typically dominated by two or three parties that tend to alternate in government. In areas with a Serb majority, the dominant parties are the Alliance of Independent Social Democrats (SNSD) and the Serb

Commitment to democratic institutions



Party system



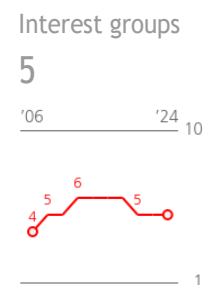
Democratic Party. Croat-majority areas have seen the Croatian Democratic Union of BiH (HDZ-BiH) dominate over the past decade. In Bosniak-majority areas, the SDA's dominant role faces competition from multi- and non-ethnic parties like the SDP and the Democratic Front. The latter gained traction in 2018, and the former made significant gains in the 2022 elections. SDA's dominance among Bosniaks has also been eroded by the emergence of smaller breakaway parties, particularly the People and Justice (NiP) party. Some of these parties managed to form a coalition with opposition parties in Sarajevo Canton in 2018 and made further gains in 2020. Both the SDA and the SNSD witnessed a weakening of their dominant positions in the November 2020 local elections. In the October 2022 general elections, partly due to intervention by the international community's High Representative, the HDZ further solidified its dominant position among the Croat electorate. Simultaneously, the SDA lost the race for the Bosniak member of the state presidency for the first time and was excluded from state-level government formation.

Governing parties rule over deeply entrenched patronage systems that rely on access to administrative resources, particularly employment in public administration and state-owned enterprises. Party membership and activism are primarily driven by material interests, with party programs playing a secondary role in motivating political involvement.

The number of active interest groups is relatively small. Trade unions and employers' associations are established at the entity level, with a weak nationwide trade union confederation. These interest groups remain closely associated with and dependent on the ruling political elites, mainly due to the large public sector and the preferential public employment opportunities based on one's affiliation with the ruling political parties.

Socially marginalized groups are particularly under-represented. Powerful war veterans' associations act as influential lobbies and secure a disproportionate share of public civil society funding for themselves. They also secure social benefits for their members, which make up a significantly inflated segment of the population. These benefits are often provided independently of genuine social needs, at the expense of other, more vulnerable groups.

A basic cross-entity protest movement against the weak rule of law has emerged since 2018. It gained momentum following the tragic death of 21-year-old student David Dragičević in Banja Luka. His death led to several months of citizen protests under the slogan "Justice for David," primarily driven by his parents. These protests were triggered by the Republika Srpska police force's inconsistent and unconvincing attempts to classify the cause of death as suicide. These demonstrations drew parallels with previous protests against a similar case of unprofessional conduct and an alleged cover-up in the murder of another young student, Dzenan Memić, in Sarajevo.



The ethnically divided territory and governance system have given rise to ethno-territorial interest groups and civil society organizations. Unfortunately, cooperation between similar groups across these divisions is rare, primarily because they often have different or opposing agendas.

Bosnia and Herzegovina (BiH) is formally considered a democracy, but it effectively operates as a corrupt power-sharing ethnocracy with elements of state capture. While this situation may impact citizen approval of democracy and contribute to disillusionment with the democratic system, no specific polling data is available on this matter. However, trust in democratic and other public institutions has consistently remained low during the reporting period, even when compared to the already low regional average for Southeastern Europe.

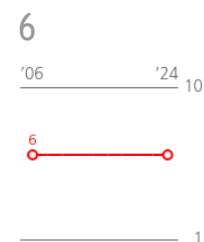
In the 2022 RCC Balkan Barometer, citizens across the country ranked the national government as the least popular institution, with only a 25% approval rate, notably lower than the regional average of 40%. Internationally commissioned polls conducted in 2019 and 2020 revealed similar sentiments among citizens regarding the judiciary, with 75% expressing a lack of trust in this institution. Additionally, a 2021 poll reported that only 10% of respondents were satisfied with the judiciary's performance.

A United Nations poll conducted in 2013 highlighted the dominance of ethnic identification in all aspects of life. More than 90% of Bosniak, Croat and Serb respondents expressed pride in their ethnic identity (94%, 91% and 92%, respectively). However, pride in BiH citizenship and attachment to the state varied significantly: 91% of Bosniaks were proud of their BiH citizenship, compared to 60% of Croats and 46% of Serbs. Nonetheless, an overwhelming majority of individuals from all ethnic groups expressed pride in their regional or town identity (nearly 90%) and their religious identity (over 90%).

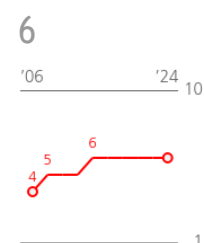
Levels of trust in Bosnia are similar to those in neighboring countries and considerably lower than those in the European Union and other Western societies. According to a 2019 European Values Study (EVS), a striking 90.6% of respondents in Bosnia expressed caution in dealing with people, indicating a prevalent sense of social distrust. Another survey conducted in 2019, which is methodologically comparable but not publicly available, revealed nearly identical and consistently low levels of social trust. According to the EVS methodology, Bosnian citizens exhibit the lowest levels of trust in individuals from a different ethnicity (5.7%) or religion (5.9%) than their own.

Additionally, 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 actively involved in at least one civil society organization.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

According to the 2021 Human Development Index, Bosnia and Herzegovina (BiH) achieved a high level of human development, ranking 74th out of 191 countries. Its score, at 0.78, was slightly below the regional average for Europe and Central Asia and was the third lowest in Southeast Europe, surpassed only by North Macedonia and Kosovo.

In 2021, inequality contributed to a total HDI loss of 13.2%. Ethnic minorities face heightened vulnerability to exclusion, while internally displaced persons are at a high risk of poverty. Other groups at elevated risk of poverty and social exclusion encompass the elderly, young people, individuals with disabilities and the Roma community. Women also bear a disproportionate burden of social exclusion and poverty. In the UNDP's 2021 Gender Inequality Index, BiH ranked 38th out of 169 countries. The Gini coefficient for BiH, last assessed in 2011, stood at 33.

The challenges of poverty and inequality were further exacerbated during the pandemic, notably in terms of uneven access to health care and essential services. It is estimated that the number of individuals living in poverty increased from an estimated 600,000 to 700,000 before the pandemic to approximately 800,000 in 2021.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	20482.6	20226.0	23649.6	24527.5
GDP growth	%	2.9	-3.0	7.4	3.9
Inflation (CPI)	%	0.6	-1.1	2.0	14.0
Unemployment	%	15.7	15.3	14.9	14.1
Foreign direct investment	% of GDP	2.2	2.1	2.7	2.6
Export growth	%	0.5	-15.8	24.6	23.9
Import growth	%	1.3	-13.4	20.5	24.0
Current account balance	\$ M	-531.9	-658.6	-557.9	-1101.2

Question
Score

Socioeconomic
barriers

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Economic indicators		2019	2020	2021	2022
Public debt	% of GDP	32.1	36.0	34.6	29.7
External debt	\$ M	12702.6	13865.9	12986.2	-
Total debt service	\$ M	1093.4	829.7	1458.3	-
Net lending/borrowing	% of GDP	1.4	-5.2	-1.2	0.1
Tax revenue	% of GDP	19.8	18.8	19.1	-
Government consumption	% of GDP	19.4	20.8	19.4	19.0
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	6.2	6.8	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	0.8	0.8	0.9	0.8

Sources (as of December 2023): 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 European Commission's 2022 Country Report, Bosnia and Herzegovina (BiH) is still in the early stages of establishing a functional market economy, and significant structural reforms are required for the country to effectively navigate competitive pressures and market dynamics.

While BiH has made some progress in modernizing labor laws, addressing vulnerabilities in the banking sector and enhancing the business environment, these advancements have been limited in scope. These efforts were part of the EU- and IMF-supported reform agenda for the period from 2015 to 2018. However, the fundamental patronage systems in the country have remained largely untouched, and no comparable follow-up reform program has been agreed upon since.

Consequently, substantial administrative barriers to the development of the private sector persist. The presence of a large public sector, which accounted for 42% of GDP in 2021 (with the actual figure likely even higher, considering state-owned enterprises and the public sector's size relative to the population and economy), hinders the functioning of market mechanisms. Additionally, the investment climate is deemed risky for significant foreign investment, despite the absence of legal discrimination against foreign investors compared to BiH citizens and entities. The public sector, with its high salaries and other privileges, often outcompetes the private sector, leading to labor market distortions.

Market organization

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BiH lacks a unified economic space due to the fragmented nature of the state and nationalist-secessionist policies. This necessitates companies to register in both entities to operate nationwide. The weak rule of law, inconsistent tax regulations and parafiscal fees pose significant obstacles to business activities. According to the European Commission, the political crisis that occurred in 2021/22 and the obstruction of state-level institutions contributed to regressions in these areas.

Network industries have yet to undergo liberalization, and the state maintains influence over the economy through state-owned monopolies and opaque public procurement processes. Despite repeated calls from the EU, a new public procurement law remains pending.

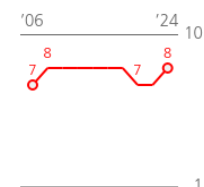
The informal sector, estimated by various economists to contribute 30% of GDP in 2018 and account for 20.7% of total employment, distorts both market-based competition and official unemployment statistics. In summary, extensive state intervention in the economy and semi-formal/informal control by political elites over the informal sector mean that only a very limited segment of the private sector, primarily in the Federation of BiH, operates primarily within a market-based framework.

The Law on Competition and its bylaws have been harmonized with EU regulations. The Competition Council and the Market Surveillance Agency are both operational throughout the country. The Market Surveillance Agency has inspection bodies at the entity level and is responsible for coordinating and conducting proactive and reactive surveillance activities. In the year 2021, the Competition Council issued a total of 22 decisions, consisting of seven related to prohibited agreements, five pertaining to the abuse of dominant positions and 10 authorizing business mergers. Despite facing challenges such as limited administrative resources and a low level of enforcement activities, the council, a member of the International Competition Network, functions efficiently, as noted by the European Commission. However, the council's political independence is compromised by a cumbersome nomination procedure for the chairperson and the ethnicity-based veto rights held by its members.

The recorded levels of state aid are relatively low, accounting for 1.3% of GDP in 2019. Nevertheless, exceptional state assistance was extended to numerous companies as part of the pandemic support package during 2020/21. However, control mechanisms for state aid remain inadequate. Although there is a State Aid Law, its alignment with EU regulations is only partial, even though this alignment was supposed to be completed by 2012. Enforcement of state aid rules is inconsistent. There is a State Aid Council in place to ensure the consistent application of the law, but its competencies and administrative capacities remain limited.

Competition policy

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Foreign trade in Bosnia and Herzegovina (BiH) operates under liberalized conditions, featuring uniform and low tariffs and minimal state intervention in free trade, in accordance with the Stabilization and Association Agreement (SAA) and an earlier Interim Agreement established in 2008. As of 2019, the average most-favored nation tariff rate stood at 6.3%.

The European Union reinstated trade benefits for certain BiH agricultural products in 2016, resulting in a significant increase in exports to the European Union in subsequent years. From €3.4 billion in 2016, exports to the European Union surged to €6.8 billion by 2021. The European Union continues to be the most vital trading partner for BiH. In 2020, approximately 72% of exports and 61% of imports were conducted with the EU, with Germany, Italy and Croatia alone accounting for 40% of exports. However, non-tariff barriers, such as sanitary standards, continue to pose challenges for BiH product exports to the EU, particularly in the agriculture sector.

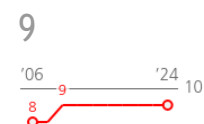
BiH has established preferential trade agreements with members of the Central European Free Trade Agreement. Although BiH is not yet a member of the World Trade Organization (WTO), accession negotiations have been in the final stages for an extended period, with the country falling behind its self-imposed target of completing accession by 2016. Bilateral negotiations for market access with three WTO members (Brazil, Russia and Ukraine) were initiated but not concluded as planned during the reporting period, and discussions continued.

In 2017, a special arrangement for the export of BiH products led to a substantial but short-term increase in exports to Türkiye by 10% and to Russia by 33%. However, these figures experienced a notable decline in 2018, followed by fluctuations in subsequent years, with a 12.8% drop in exports to Türkiye and a 7.5% drop in exports to Russia recorded in 2022.

The banking system in Bosnia and Herzegovina (BiH) is dominated by foreign-owned banks, which account for 90% of its assets, and the system is generally in line with international standards. The sector maintains a reasonable level of liquidity and is adequately capitalized. In 2022, the capital adequacy ratio stood at 19.4%, while the percentage of non-performing loans decreased from 15% in 2013 to 5.2% at the beginning of 2022. However, there are areas of vulnerability, particularly among domestically owned banks, which face challenges related to low liquidity and a relatively high proportion of non-performing loans.

The supervision of the banking sector is carried out by several entities, including the Central Bank of BiH (CBBH), the Deposit Insurance Agency (DIA) and the banking agencies at the entity level. However, the effectiveness of this supervision is hindered by institutional fragmentation, including resistance from the leadership of Republika Srpska (RS) against the strengthening of state-level institutions, as well as limited cooperation among regulators. For instance, RS officials have long opposed the establishment of a nationwide registry for banking accounts.

Liberalization of foreign trade



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Banking system



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Under the framework of the reform agenda (2015 – 2018), efforts were made to enhance the regulation of the banking sector. These initiatives included conducting stress tests for all banks in BiH and asset quality reviews specifically in Republika Srpska, as well as modernizing banking laws and laws related to banking agencies.

During the coronavirus pandemic, the banking sector managed to maintain its liquidity and sufficient capitalization, partly due to the introduction of loan moratoriums in April 2020. However, it's worth noting that the appointment of a new Board of Directors for the CBBH, which includes the Governor, was blocked in 2021/22 by Milorad Dodik, the Serb member of the BiH Presidency. Consequently, the board operated in a caretaker capacity for the first time since the establishment of the bank in 1997.

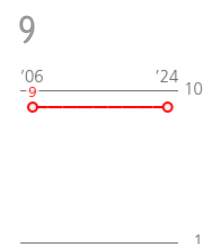
8 | Monetary and fiscal stability

Inflation fell steadily 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. In the context of the pandemic and, particularly, the Ukraine war, inflation surged to 2.0% in 2021, followed by a significant jump to 14.1% in 2022. The responsibility for monetary policy in BiH falls exclusively under the purview of the central bank. The country's currency, the Bosnian Mark (BAM), is pegged to the euro through a currency board arrangement. An assessment by the European Commission underscores that this currency board arrangement enjoys a high level of confidence and credibility. The central bank's independence is legally protected. In 2016, as part of the IMF reform program, BiH authorities reaffirmed their commitment to maintaining the central bank's independence and refrained from using its foreign reserves for budgetary or public investment purposes. Since 2020, despite pressure from ruling political elites, the central bank has staunchly resisted calls to tap into international reserves for fiscal purposes as part of the pandemic management program. This decision played a key role in preserving financial and overall macroeconomic stability.

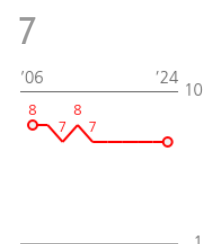
One of the primary threats to macroeconomic and social stability in Bosnia and Herzegovina (BiH) since the international community transferred full ownership to domestic political elites in 2006 has been the failure to maintain fiscal control over public spending. Over the subsequent decade, government spending increased significantly, driven by extensive public sector employment and non-needs-based social transfer payments, both integral components of the country's patronage system.

Measures undertaken as part of the reform agenda (2015 – 2018), supported by the IMF, effectively brought public expenditures under control and also strengthened the revenue side of the equation. By 2019, the previous general government deficit had transformed into a surplus of 1.9%. There was a steady reduction in the current

Monetary stability



Fiscal stability



account deficit to \$565.5 million, partially due to a continuous decrease in total government expenditures to 40.5% of GDP. The total public debt had also decreased over five years by more than 10%, reaching 32.5%. External debt, encompassing both the public and private sectors, accounted for 65.5% of GDP in 2019.

However, the economic impact of the pandemic, coupled with additional government measures implemented in 2020, temporarily interrupted the fiscal consolidation achieved in recent years, although fiscal stability remained intact. GDP contracted by 3.2%, while revenues declined by 7.5%, primarily due to reduced collections from indirect taxes. Government spending increased by 7% due to fiscal response measures, totaling 420 million euros or 2.5% of GDP. This resulted in a rise in total government expenditures to 46.6% of GDP. The current account deficit also increased to \$751.7 million. Although total public debt increased to 38.3% of GDP, it remained relatively low, while external debt, including both the public and private sectors, rose to 76.0%. The government secured a €250 million loan as macro-financial assistance from the European Union (only half of which was disbursed due to non-compliance with conditions) and an additional 330 million euros from the IMF through the Rapid Financing Instrument. Remarkably, fiscal consolidation rebounded more swiftly than initially anticipated. In 2021, GDP surged by 7.5%, followed by a 2.5% increase in 2022. Revenues also increased by 12.3% in 2021. The current account deficit dropped to \$484.7 million, falling below the 2019 level, and total public debt decreased to 35.4%.

9 | Private Property

Bosnia and Herzegovina (BiH) has a legal framework that adequately safeguards property rights. However, the enforcement of these rights through the judicial system can be extremely slow. Efforts to modernize and digitize the antiquated and non-harmonized land registry and cadaster systems, which have impeded property rights execution in postwar BiH, have been initiated and continued during the reporting period. These steps aim to streamline property registration processes.

The issue of defense and state property has remained unresolved for nearly two decades due to deep-seated political disputes rooted in the secessionist policies of the Republika Srpska (RS) leadership. Over the years, the Constitutional Court has issued several rulings that have expanded the definition of state property, designating the state as the sole proprietor. This includes national resources and infrastructure. The court has also mandated the creation of a state-level law to govern the division of this property among various governance levels. In 2005, the High Representative issued a ban on the disposal of such properties. However, the RS authorities persistently disregard these legally binding decisions. They have continued to dispose of state property within their entity's borders and initiated infrastructure projects, such as

Property rights

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hydropower plants, without regard for the authority of state institutions. In both 2021 and 2022, the RS National Assembly passed nearly identical laws concerning immovable property, attempting to illegitimately legitimize the seizure of state property.

BiH has enacted laws to protect intellectual property rights in accordance with EU and international standards. A state-level Institute for Intellectual Property is in operation, albeit constrained by limited administrative and financial resources. The management of copyright and related rights is fragmented across six organizations, resulting in a lack of a unified system for data collection, analysis and exchange. The existing intellectual property strategy has not been effectively implemented during the reporting period, and the new strategy for the period from 2022 to 2026 remains pending adoption. Consequently, the enforcement of intellectual property rights continues to face challenges.

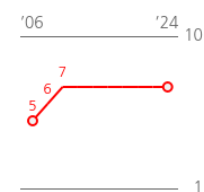
The legal framework necessary for a functioning private sector is generally in place. However, both domestic and foreign private companies continue to face significant challenges, including high administrative barriers and inconsistent regulations that are susceptible to political interference and corruption. In October 2021, the Federation introduced one-stop-shops and electronic business registration systems, which have since been implemented. Despite these improvements, a nationwide strategic framework to encourage foreign direct investment is still lacking. While both entities adopted SME development strategies for the period from 2021 to 2027, there is a need for a harmonized country-wide strategy.

The issue of privatization remains a complex and politically charged topic, given the large, inefficient and reportedly loss-making state sector. This is especially true in the Federation of Bosnia and Herzegovina (FBiH), where approximately two-thirds of the initial capital intended for privatization remains under state ownership. In contrast, in Republika Srpska (RS), only a small number of large companies are still state-owned. Critical sectors such as transportation, energy and telecommunications (in the FBiH) continue to be dominated by state-owned companies. Past privatization processes were influenced more by the country's patronage system than by market principles.

Government initiatives, including wage subsidies and tax relief measures implemented in 2020 and 2021, have played a role in mitigating the impact of the COVID-19 pandemic on private businesses.

Private enterprise

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10 | Welfare Regime

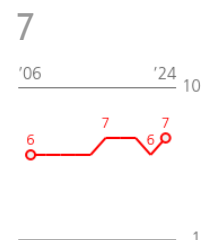
Social protection in Bosnia and Herzegovina (BiH) is organized with some fragmentation. It is regulated at the entity level in Republika Srpska (RS), while competencies are shared between the entity and canton governments in the Federation. The system includes both contributory (retirement and health care insurance) and non-contributory schemes in both entities. Social security in BiH covers a wide range of areas, including social insurance, social assistance, family and child assistance, and support for war veterans. Within the social insurance scheme, there are components such as pension and disability insurance, health insurance, health protection and unemployment insurance.

International financial organizations have observed that social contributions in BiH are relatively high, while the benefits provided are comparatively low. Previous reforms in both entities aimed to stabilize the pension systems for the current decade by strengthening the connection between contributions and benefits, reducing early retirement and disability pensions, and ensuring budgetary funding to cover deficits. However, due to BiH's overall demographics, a significant portion of beneficiaries (60%) receive only the minimum pension. The health care system in BiH, which is fragmented, is even less efficient. Despite being mandatory, in 2020, 13% of citizens in the Federation and 26% in the RS did not have health insurance coverage. Public spending on health care reached 6.8% in 2020, one of the highest levels in the region. Nevertheless, the quality of health care services remains considerably below EU standards, and citizens bear almost 30% of health costs out of their pockets, contributing significantly to social inequality.

Social assistance programs are still inadequate, especially from the perspective of the most vulnerable groups in society, despite accounting for 2.9% of GDP in 2020, one of the highest levels in Europe. This inadequacy can be attributed to the traditional lack of effective targeting and needs-based orientation in these programs. Additionally, the high level of support provided to war veterans, including privileged pensions and non-insurance transfer payments, has been a significant obstacle to reform efforts, as war veterans exert substantial influence.

During the election year in 2022, the RS government provided four one-off payments to veterans and one to pensioners. In the Federation, similar one-time payments were made to pensioners, veterans, the disabled and the unemployed. Moreover, pensions were increased by a total of 15% in the Federation during this period.

Social safety nets



Equality of opportunity remains only partially realized in Bosnia and Herzegovina (BiH). Women and individuals belonging to ethnic, religious and other minority groups face significant barriers when it comes to accessing education, public office and employment opportunities. The persistence of nepotism and clientelism within BiH institutions perpetuates this exclusion and violates the basic human rights of many citizens, with ethnic minorities being especially vulnerable to such discrimination.

There are other groups in BiH that are at an increased risk of poverty and social exclusion, including the elderly, youth, individuals with disabilities and the Roma population. While there are laws in place to protect equal rights and prevent discrimination, and gender quotas are established for party lists in elections, women continue to be under-represented in high-ranking positions in both the private and public sectors. In 2021, the labor force participation rate for women stood at 40.6%, compared to 61.7% for men. Moreover, there exists a gender pay gap estimated to range between 15% and 25%. When it comes to education, 82.7% of women have attained at least some secondary education, in contrast to 94.0% of men.

Despite the legal guarantees of the right to education and employment for migrants and asylum-seekers, particularly the latter right often faces obstacles imposed by authorities at all levels.

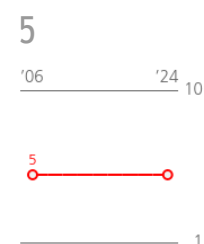
11 | Economic Performance

Bosnia and Herzegovina (BiH) has experienced modest yet consistent economic growth since the mid-2010s, with only a brief disruption due to the pandemic in 2020. GDP growth, which reached 2.8% in 2019, saw a temporary decline of 5.5% in 2020 but rebounded strongly by 7.7% in 2021. Per capita GDP, which was at \$15,898 in 2019, dipped slightly in 2020 but increased to \$17,493 in 2021, still representing only 41% of the average GDP in the EU. This growth has been driven by domestic demand, particularly resilient private consumption, and increased industrial production, partly due to growing external demand. Foreign direct investment (FDI) rose to 1.9% in 2019, dropped to 1.7% in 2020 but then increased again to 2.1% in 2021.

Inflation was at 0.6% in 2019, turned negative at -1.1% in 2020 and then increased to 2.0% in 2021. The unemployment rate decreased significantly from 27.7% in 2015 to 14.9% in 2021, partly due to demographic factors and a substantial increase in labor migration to the EU.

BiH's economy relies on export sectors such as wood processing, metal, chemicals and weapons production. Industrial production experienced steady growth, with a 3.1% increase in 2017, a slight decrease in 2019 and 2020, and a substantial rise of 10.7% in 2021.

Equal opportunity



Output strength



Public finances have shown gradual improvement thanks to a medium-term fiscal consolidation policy. The country achieved its first general government surplus in years in 2017, which reached 2.1% in 2019. However, due to declining tax revenues and increased spending on health care and economic support during the COVID-19 pandemic, public finances deteriorated in 2020, resulting in a deficit equivalent to 3.8% of GDP. In 2021, they rebounded to a surplus of 1.8%. Public debt, which had peaked at 46% of GDP in 2014, steadily declined to 32.1% in 2019 but saw a sharp increase in 2020 to 36.0% before dropping again in 2021 to 34.4%.

12 | Sustainability

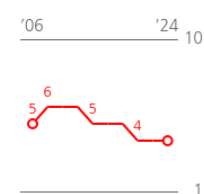
Bosnia and Herzegovina faces severe environmental challenges primarily due to its heavy reliance on coal and wood for heating, as well as coal for approximately half of its electricity generation. Notably, the country lacks a carbon pricing system. A significant portion of its energy is generated by seven coal-fired plants and one using heavy fuel oil. During the winter months, the capital, Sarajevo, experiences some of the world's worst air pollution. The country has the fifth-highest mortality rate globally, with an estimated 3,300 premature deaths annually, accounting for 9% of all deaths.

Despite these alarming environmental issues, the concept of environmentally sustainable economic growth was largely neglected in Bosnia and Herzegovina (BiH) until recent years. It has gained attention primarily in the context of EU integration and the 2020 EU Green Agenda for the Western Balkans, which aims to align the region with the European Union's target of climate neutrality by 2050. However, progress has been minimal due to the country's fragmented nature. BiH has yet to adopt a state-level environmental law that would establish a nationwide framework for coordinated environmental protection. Moreover, no state-level environmental agency has been created to oversee compliance, and environmental inspections are conducted at the entity and cantonal levels without coordination. Overall, the administrative capacity in the environmental sector remains weak.

Presently, EU donors collaborate with BiH authorities at the state, entity and Brčko district levels to develop integrated environmental strategies and action plans. The Federation government adopted its entity-specific documents in August 2022. However, entity authorities have violated their commitments under the National Emission Reduction Plan (NERP). In 2022, sulfur dioxide emissions from power plants exceeded allowable levels by eightfold, and the Federation parliament unlawfully extended the operational period of two coal-fired units in the same year.

Environmental policy

4



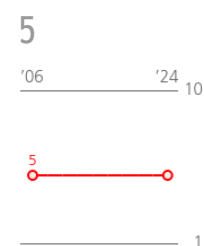
Civil initiatives, such as “The Women of Kruščice,” and non-governmental organizations have achieved some success in halting various mini-hydropower plant projects that pose potential harm to the environment, as seen in the Kasindol Valley.

Bosnia and Herzegovina’s (BiH) system of education and training remains fragmented. It is operated and coordinated by 14 ministries across four levels of governance. Consequently, there is a dearth of reliable data on the country’s education system. In 2019, total public spending on education amounted to 4.0% of GDP, a figure comparable to most other Western Balkan countries but falling below the EU average of 5.3%. The literacy rate was reported at 98.5%. In 2011, the gross enrollment ratio for primary school was 97.6%, 91.8% for secondary school and 38% for tertiary education. According to the 2022 Human Development Index (HDI), the population had an average of 10.5 years of education and an expected 13.8 years of schooling in 2021. In the UNDP’s Education Index, BiH scored 0.711 in 2019.

Efforts have been made over the last 15 years to reduce ethnic segregation in schools and enhance ethnically based curricula. While framework laws on primary, secondary and higher education are in place, the absence of enforcement mechanisms at the state level hinders cooperation and coordination across various government levels. Moreover, the harmonization of educational standards remains inadequate. In the Federation of BiH (FBiH), cantons with a Croat majority continue to dispute the authority of the FBiH Ministry of Education.

Discrimination within the education system persists. In 2014, the FBiH Supreme Court ruled that segregating pupils by ethnicity within schools is discriminatory. However, the political will to implement this ruling has been lacking. Research and development (R&D) expenditures are exceedingly low, accounting for only 0.19% of GDP in 2021. This figure is significantly below the OECD/EU average of 2% and falls behind other countries in the region. While BiH is associated with the EU’s Horizon 2020 program, its participation remains limited due to constrained research capacities.

Education policy /
R&D



Governance

I. Level of Difficulty

Postwar Bosnia and Herzegovina (BiH) is navigating a complex transition on multiple fronts. First, it is moving from conflict to peace, simultaneously transitioning from communism to democracy and a market economy. Furthermore, it is transitioning from being part of a federation to independent statehood. However, the legacy of the war significantly complicates BiH's transition when compared to neighboring countries. While the security situation has largely normalized and physical war scars have mostly disappeared, this progress owes much to the international community's support.

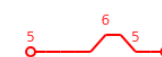
The existing constitution maintains a complex and unwieldy institutional system, which results in numerous blockades and functional issues. BiH's governments grapple with a range of structural challenges inherited from the war and the postwar period. These challenges encompass an incomplete shift from a socialist economy dominated by heavy industries (some of which were physically damaged during the war), a workforce not adequately prepared for a 21st-century economy, significant emigration of working-age citizens to the European Union (with an estimated 50,000 people leaving annually over the past five years), high levels of long-term and youth unemployment, outdated infrastructure, such as economically unsustainable railways and a lack of motorways as well as an antiquated, ethnically divided education system, particularly in vocational training, that does not align with the labor market's demands.

The COVID-19 pandemic introduced additional constraints, albeit limited ones. GDP contracted by 3.1%. Nevertheless, the trend of fiscal stabilization observed in recent years persisted, and the country is expected to recover from the pandemic's economic impact by 2023. In 2021, the GDP rebounded, growing by 7.5%, and it expanded by 2.3% in 2022.

Structural
constraints

5

'06 _____ '24 10



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Civil society as an integral part of democratic processes does not have a long tradition in Bosnia and Herzegovina (BiH). Civil society traditions were weaker in Bosnia than in most other republics of the former Yugoslavia. Although anti-war civil society organizations did emerge before 1992 and voiced opposition to nationalist mobilization, they were largely marginalized by nationalist political parties.

Since 1995, the most vocal liberal civil society organizations have relied heavily on international funding and political support. A select few prominent NGOs have consistently exposed government inefficiencies and other wrongdoings. However, these activities are not representative of the sector as a whole. The civil society landscape in BiH is primarily composed of organizations that provide services to citizens, often stepping in to fill gaps left by the dysfunctional state, particularly in the social sector. Concurrently, there are illiberal and anti-reform elements within civil society, funded by government sources, particularly war veterans' associations, often with limited transparency.

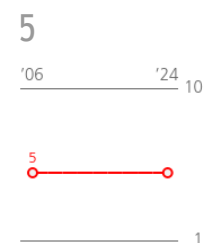
Overall, civil society organizations in BiH face challenges such as low organizational capacity and financial sustainability, largely due to their heavy reliance on foreign funding. Registration requirements vary between the central state and entity levels, leading to different legal regulations. By the start of 2023, an incomplete BiH-wide registry counted 27,400 active organizations. Limited improvements in relations between civil society and the government occurred with the signing of a memorandum on civil society-government cooperation by the BiH Council of Ministers in 2017 and the establishment of an advisory body for cooperation with the non-governmental sector in 2020.

It's important to note that citizen protests and grassroots groups, such as those stemming from the 2014 social protests or the 2018 Republika Srpska "Justice for David" protests, often operate independently of formal CSOs. This reflects a lack of public trust in civil society organizations and highlights the disconnect between donor-driven professional civil society organizations and the everyday concerns and interests of ordinary citizens.

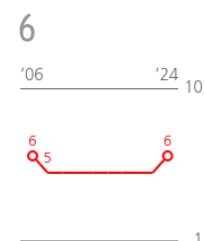
Political elites in Bosnia and Herzegovina (BiH) remain deeply divided along ethnic lines and often use this ethnic polarization to further their own political and personal interests. Consequently, many citizens in BiH strongly identify with their ethnic group, and there is a varying degree of identification with the broader BiH state. While Bosniaks generally have a strong sense of identity with BiH as a whole, Croats have a lower level of identification, and Serbs exhibit very low identification with the state.

The system of interethnic power-sharing in BiH is marked by a confrontational style of politics, which is further exacerbated by the reduction in international presence and external influence on political elites since 2006. This decline in international involvement has coincided with an increase in nationalist political rhetoric and a

Civil society traditions



Conflict intensity



growing obstruction of power-sharing mechanisms. The country's patronage systems, as highlighted by the violent social protests in 2014, contribute to stark social divisions and polarization. In such a volatile social environment, there is a risk that social frustrations could escalate into violent social unrest. The existing ethnopolitical confrontations and social polarization create a potentially dangerous sociopolitical mix. The complexity of the political-institutional system also makes it extremely challenging to translate social protests into meaningful social change. Over the past several years, mass emigration driven by social frustrations has somewhat reduced the potential for conflict.

The nationalist political elite continues to exploit ethnic divisions and openly attempt to mobilize segments of society along ethnic lines. In 2021 and 2022, political leaders from various sides engaged in provocations, with RS leaders threatening state dissolution and taking secessionist actions, while Croat leaders made threats related to the organization and implementation of the 2022 general elections. Additionally, discussions about the formation of a Croat entity reignited public debate about the possibility of a new violent conflict.

II. Governance Performance

14 | Steering Capability

The political system in Bosnia and Herzegovina (BiH) is characterized by a policy of interethnic fear and patronage, particularly from the perspective of the ruling political elites. Within this context, the structural dysfunctionality of state institutions, their low output, and the poor quality of service delivery are viewed as integral parts of the system rather than as structural deficiencies that need to be addressed. Consequently, there is minimal interest among the ruling elite in setting strategic developmental goals, both at a general level and specifically within central state institutions. This is the case despite their public declarations of commitment to democracy, a market economy and EU integration. While policy strategies do exist, they do not genuinely reflect a serious commitment to strategic policy development. Moreover, these strategies are hindered by the fragmented nature of the governance system in BiH. There is a partial exception in the Republika Srpska (RS) region.

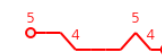
An important departure from this traditional approach occurred with the adoption and initial implementation of the reform agenda (2015 – 2018), a comprehensive plan for socioeconomic reforms. However, this shift was primarily driven by the EU, supported by international financial institutions and enforced through stringent financial conditions. As external pressure diminished, the implementation of the reform agenda collapsed. Subsequent efforts to prioritize EU integration remained largely declarative, with notable delays in responding to the European Commission's

Question
Score

Prioritization

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questionnaire on the country's application for candidate status. Additionally, the reform conditionalities outlined in the European Commission's May 2019 opinion were not translated into an action plan by 2021 and 2022. Furthermore, while there was a short-term focus on managing the COVID-19 pandemic in 2020, this priority quickly waned, and the procurement of vaccines in 2021 failed to become a government priority at the state level.

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. The ruling ethnic elites tend to act as staunch defenders of the existing system. However, there was a departure from this traditional pattern during the years 2015 and 2016 when some progress was made in implementing the reform agenda (2015 – 2018). This progress was primarily a result of external pressure exerted by the European Union and international financial institutions.

In contrast, in 2020/21, short-term government measures aimed at mitigating the impact of the pandemic and its economic repercussions were implemented relatively efficiently. Nevertheless, the implementation of reform conditions and recommendations outlined in the European Commission's May 2019 Avis and the December Priebe report on rule of law reforms showed minimal progress by the end of 2022. Furthermore, a near-complete governmental standstill at both the state and Federation levels in 2021 and 2022 significantly impeded the progress of existing policies.

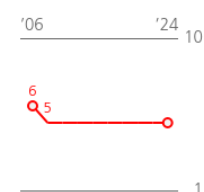
There is little evidence of either institutionalized or ad hoc policy learning in Bosnia and Herzegovina. Assessment mechanisms are rarely utilized, and the presence of multiple layers of government diminishes opportunities for policy learning. Moreover, there is a lack of mechanisms to monitor policy implementation and enforce decisions at both the state and lower levels of government. The use of external consultancies for this purpose is infrequent, and data from external monitoring organizations seldom inform policymaking.

While the implementation of the reform agenda did foster some exchange and learning of best practices between the entities, this was confined to a small circle of advisers to prime ministers and did not extend beyond the agenda's implementation period. As the core components of the reform agenda remained unimplemented when it expired at the end of 2018, it cannot be considered a genuine learning process, given the ruling elites' apparent disinterest in policy learning.

The focus on pandemic management in 2020/21 did not indicate a newfound willingness to engage in policy learning, as demonstrated by the subpar performance in vaccine procurement. For instance, the procurement of oxygen for a hospital in the Republika Srpska (RS) in 2021 did not lead to policy learning regarding the fragmented nature of BiH's health care sector. Instead, it fueled secessionist political interests, resulting in the enactment of a law to establish the Agency for Medicines and Medical Devices. This move unconstitutionally undermined the role of the state-level agency rather than promoting policy learning.

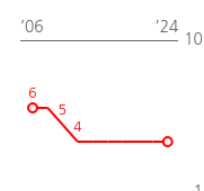
Implementation

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Policy learning

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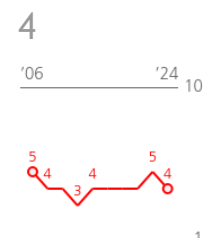
15 | Resource Efficiency

The multiple levels of government in Bosnia and Herzegovina (BiH) are extremely costly and inefficient, and attempts to streamline the government have been stymied by a lack of political will. Public employment continues to rely on political party membership and nepotism rather than a merit-based system. A 2022 SIGMA monitoring report highlighted ongoing political recruitment in public administration and an opaque and unfair salary structure. Consequently, aside from health care and pension systems, public wage bills consume a significant portion of state and entity budgets, leaving minimal room for capital investments. The health care system, in particular, bears a disproportionate burden of non-medical staff, making it one of the costliest in Europe, despite comparatively low output. The absence of a budget for 18 months in 2021/22, which left state institutions relying on temporary financing, significantly hindered the efficient allocation of funds.

Since 2000, BiH has undergone a protracted process of public administration reform (PAR), but rather than improving, the state of public administration has deteriorated. The PAR strategy (2006 – 2014), although extended, achieved only 75% implementation by 2018. Although PAR was a central component of the 2015 reform agenda, it wasn't until 2018 that the BiH Council of Ministers and the Federation of BiH governments adopted a new PAR strategy for the period from 2018 to 2022, with the action plan for 2020 to 2022 only endorsed in December 2020. At the close of 2022, the European Commission called for an extension of the state-level strategy and action plan, highlighting that “no systematic implementation of the PAR action plan has started.” In 2022, governments at the state and entity levels introduced new strategies for public finance management. However, as noted in the 2022 EC report on BiH, “Institutions at all levels lack suitable and effective internal control systems, especially for public procurement, and monitoring public companies.” The 2022 SIGMA report identified limited progress in transparent budget planning and reliable execution.

During 2020/21, entity governments redirected certain financial resources to mitigate the economic consequences of the pandemic and lockdowns, as well as to cover additional health care sector expenses. Disputes over the allocation of funds between the two entities reduced the efficiency of using international financial support.

Efficient use of assets



The uniquely complex and fragmented division of government functions gives rise to duplicated services and inefficiencies, which are compounded by inadequate coordination and cooperation among various government levels, both in the formulation and execution of policies. State-level institutions frequently face impediments in the form of political discord, obstruction, and debates about the legitimacy and authority of these shared bodies. Even basic information sharing often falls short between different government tiers. Coordination between the Federation of BiH and its 10 cantons, particularly the Croat-majority ones, is similarly lacking and influenced by politics. Over the past decade, the RS leadership and the major Croat ethnic party, HDZ-BiH, have repeatedly obstructed policy decisions, insisting on an institutional approach that places entities and cantons on equal footing with the state, which goes against the constitution.

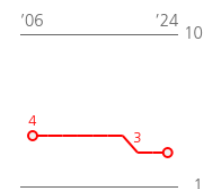
In the review period, BiH authorities and political leaders managed to agree on only a limited number of nationwide strategies, such as those related to public finance management reform.

A coordination system for EU integration purposes was established in 2016, with decision-making procedures mirroring the veto powers of entities and cantons within the regular BiH governance system. Consequently, BiH authorities took an unprecedented 18 months from 2017 to 2018 to draft coordinated responses to the European Commission's questionnaire and follow-up inquiries. Due to the persistent political and institutional crisis, the coordination mechanism was effectively suspended in 2021/22, resulting in no progress in implementing EU reforms. One of the most notable instances of policy coordination failure during the review period pertained to migration management, a recurring issue since the so-called Balkan route expanded to include BiH in 2018. Tens of thousands of migrants passed through BiH annually, with 4,000 to 8,000 temporarily residing in the country. Each winter since 2018/19 has escalated into a crisis as BiH authorities struggled to accommodate the thousands stranded, primarily in the Western Bosnian Una-Sana canton. The recurring crisis was attributed to poor policy coordination among the central state, entities, cantonal and municipal levels of government, often marked by blame-shifting and reluctance to assume responsibility. A resolution to the crisis during the winter of 2021/22 was primarily achieved through the intervention of international organizations, with the responsibility largely shifting to them.

During the COVID-19 pandemic, policy coordination failed to address the fragmentation of the health sector, particularly in terms of joint procurement of adequate vaccine quantities.

Policy coordination

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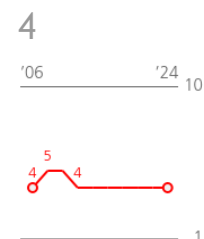


Just as in many other areas of reform, anti-corruption efforts in Bosnia and Herzegovina (BiH) suffer from poor implementation due to a lack of political will driven by the entrenched patronage interests of the ruling political elite. According to the European Commission's 2022 BiH report, corruption remains prevalent, with all levels of government displaying signs of political influence, and the country is still in the early stages of combating corruption. The report concluded that no progress had been made during the 2021/22 period on the relevant priorities outlined in the 2019 EC Opinion or on the recommendations from the Priebe report.

A state-level Agency for Prevention of Corruption and Coordination of the Fight against Corruption (APIK) commenced operations in 2014 and played a role in coordinating the adoption of a state anti-corruption strategy spanning from 2015 to 2019. However, strategies at the state and entity levels suffer from a lack of coordination, harmonization and slow implementation. A new anti-corruption strategy covering the period from 2020 to 2025 was drafted in 2020 but remained unadopted as of the beginning of 2023.

Corruption continues to have a significant impact on public procurement, and the adoption of a new public procurement law in line with international standards, a key requirement in the European Commission's 2019 Opinion, remained politically blocked in 2021 and 2022. The enforcement of conflict of interest legislation has essentially come to a standstill since 2013, when amendments to the state law shifted responsibility from the independent Central Election Commission of BiH to a newly established parliamentary commission. In October 2015, the FBiH parliament introduced an amendment to the FBiH Conflict of Interest Law, assigning the state-level commission responsibility for enforcing the entity law as well. Despite strong pressure from the EU, the BiH parliament failed to pass a new BiH conflict of interest law in May 2022. Public auditors' reports have not led to improvements in public spending practices. Recommendations from the Office for Democratic Institutions and Human Rights (ODIHR) regarding the regulation of party and campaign financing have remained unaddressed for years. A 2014 FBiH law aimed at establishing special departments within FBiH-level courts and prosecutorial bodies for combating corruption and organized crime remained unimplemented during the review period, effectively suspending judicial efforts to combat organized crime and corruption in FBiH. In the RS, the work of the special prosecutorial body on corruption, established in June 2016, yielded limited results in 2021 and 2022. In the same period, the RS National Assembly reduced penalties for disciplinary violations through an amendment to the Law on Civil Servants passed in June 2016. Notable progress in the fight against corruption has only been observed in the Sarajevo canton, where opposition parties assumed control of the government following the 2018 elections.

Anti-corruption policy



16 | Consensus-Building

While all major political actors in Bosnia and Herzegovina (BiH) formally express their commitment to the country's integration into the EU, which involves continuing and intensifying democratic and market economy reforms, in practice, politicians spanning the political spectrum seem more interested in solidifying their positions and display little willingness to undertake challenging structural reforms, whether they pertain to the economy, politics, or the constitution. Reform-minded politicians face constraints within multiethnic coalitions formed out of convenience, with no underlying policy consensus. Unlike Central and Eastern European countries, where a high level of consensus among political elites was achieved during the EU integration process and was necessary to convince often reluctant populations to accept difficult reforms, BiH is unlikely to witness such a consensus. This is especially evident in Republika Srpska, where increased political pressures on the media and civil society organizations demonstrate that the commitment to democracy exists only on paper.

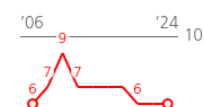
As an illustration of the genuine disagreement among political elites regarding EU integration, it took BiH authorities and political leaders an unprecedented 14 months (compared to the two to five months required by neighboring countries) to provide responses to the European Commission's 3,242 questions. They then took another record four months to address several hundred follow-up questions, which formed the foundation of the European Commission's May 2019 Opinion outlining the conditions for granting EU candidate status to BiH. In 2021 and 2022, representatives of the leading Serb and Croat parties, who are part of the state-level government, continued to publicly reject some of the conditions outlined in the EC's Opinion.

Republika Srpska (RS) opposes NATO membership, as evidenced by a legally binding decision made years ago. In 2022, Serb representatives in the Presidency of BiH and other state institutions disagreed on the state policy of aligning BiH's foreign policy on the Ukraine conflict, specifically regarding sanctions against Russia, with that of the EU.

BiH's transition to a market economy remains incomplete, and political actors tend to implement challenging socioeconomic reforms primarily when international macro-financial assistance requires it. Consensus-building among various government entities in BiH improved during the initial phase of the reform agenda from 2015 to 2016, focusing on structural economic reforms. This consensus was made possible by a strong new EU initiative and a policy of imposing strict financial conditions by international financial institutions. There was a limited, short-lived consensus among state and entity ruling elites concerning the management of the fiscal and economic impact of the COVID-19 pandemic in 2020/21.

Consensus on goals

6



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Reform-minded politicians in Bosnia and Herzegovina (BiH) find themselves marginalized, with limited room to maneuver within the government. The most influential actors in BiH, particularly political parties advocating for the dissolution of the state, hold significant veto positions in the constitutional framework of power-sharing and policymaking. Constitutional rules are frequently disregarded and violated by senior government members, evident in their exclusion of opponents from multiethnic coalitions or their boycott of power-sharing institutions. Consequently, the distinctions between reformist and nationalist politicians, as well as between ethnonationalist and multiethnic, pro-European, and pro-democracy parties, become less significant.

Furthermore, individuals with close ties to political parties continue to wield substantial influence over policymaking, using their positions to safeguard their interests, businesses and corrupt networks. Ethnonationalist political actors were emboldened in 2021/22 by international actors through EU-U.S.-led negotiations on electoral reform, which effectively legitimized their anti-democratic objectives.

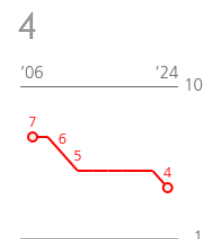
The suppression of larger-scale citizen protests, such as the “Justice for David” initiative in Republika Srpska, which was forcibly disbanded through police intervention at the end of 2018 and continued to be stifled in 2021 and 2022, highlights the diminishing space available for democratic civic engagement.

Ethno-national cleavages in Bosnia and Herzegovina (BiH) are substantial and are evident in its political and party systems. Politicians often exploit these interethnic tensions and the lack of trust among ethnic groups to gain electoral advantages. This heightened rhetoric was notably prevalent during the campaign for the 2022 general elections.

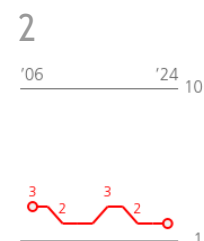
Throughout 2021 and 2022, the Republika Srpska (RS) leadership, led by President Milorad Dodik, escalated its traditional expressions of support for RS secession and its criticism of the viability of the Bosnian state into concrete steps toward secession or the dissolution of the state. Dodik utilized highly inflammatory language to challenge the legitimacy of the state and question the possibility of a harmonious coexistence among BiH’s entities and diverse ethnic groups. This was often framed in response to allegations of corruption and mismanagement of public funds, positioning Dodik as the defender of Serb interests against what he perceived as a centralizing state and biased international community.

Croat politicians have increasingly claimed that systematic discrimination against Croats is occurring in the Federation of BiH through the electoral system. They have called for the establishment of Croat self-government, making this demand a focal point of policy negotiations for the past decade. This issue played a central role in EU-U.S.-led negotiations on electoral reform. The Bosnian Croat political leadership’s insistence on changes to the electoral system, which would essentially

Anti-democratic actors



Cleavage / conflict management



lead to the creation of a de facto Croat third entity without constitutional amendments, resulted in a caretaker government for the entire mandate period from 2018 to 2022 in the Federation of BiH, as the government formation process remained deadlocked.

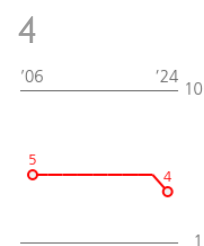
The leading Bosniak party in Bosniak-majority areas has also frequently engaged in heightened conflict rhetoric as part of its political struggle.

While there are some provisions in place that allow for institutional cooperation between the government and civil society in Bosnia and Herzegovina (BiH), the actual connections between the political system and civil society organizations remain weak, except for those organizations directly or indirectly linked to ruling elites. Typically, civil society is not consulted during agenda-setting or policy formulation processes, and when such contact occurs, it is usually initiated by civil society itself. International organizations and donor projects in BiH play a role in facilitating and supporting cooperation between civil society and the government, but there are rarely guarantees that civil society positions will be integrated into the final policies. Consequently, civil society tends to be more involved in monitoring government activities and reporting on their performance. The presence of general apathy in society and low expectations of politics and politicians exacerbates this situation, as does the complicated and often opaque multilayered system of government.

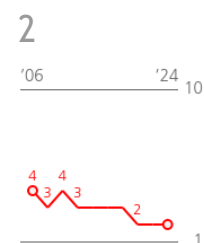
During the review period, there was limited progress in agenda-setting and policy formulation overall, and civil society participation was even scarcer. This was primarily due to prolonged and sometimes incomplete government formation processes and institutional blockages. There were no efforts by the authorities to actively engage civil society in managing the COVID-19 pandemic. Additionally, key policy negotiations in 2021/22, particularly those related to electoral reform, were conducted in a highly secretive and nontransparent manner, completely excluding civil society from the process.

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 resulted only in the trial of a fraction of overall war criminals, though including the most high-level officials indicted) 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.

Public consultation



Reconciliation



No reconciliation efforts were undertaken by political actors in 2021 and 2022. In 2018, the RS government repealed its 2004 landmark Srebrenica report that acknowledged the 1995 Srebrenica mass murder events and commissioned a new report, presented in June 2021, that insisted no genocide had been committed in Srebrenica, a further step in historic revisionism. A July 2021 decision by the outgoing High Representative Valentin Inzko to criminalize genocide and war crimes denial and glorification was rejected by the RS authorities, passing a law on the non-applicability of the decision on the territory of the RS, an unconstitutional act, and another law, an amendment to the RS criminal code sanctioning acts that disparage the name or reputation of the RS or the Serb people.

In July 2020, the U.N. Committee on the Elimination of Discrimination against Women (CEDAW) rendered its historical first decision against BiH, recognizing wartime sexual violence as “a form of discrimination and torture,” calling on the state to provide immediate support to survivors. No further action has been taken by BiH authorities since.

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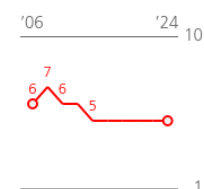
Although governments annually submit Economic Reform Programs to the European Commission and, in 2019, entity governments tentatively agreed on a follow-up program to the largely unimplemented reform agenda (2015 – 2018), the ruling ethnic political elites in Bosnia and Herzegovina (BiH) do not exhibit a genuine interest in long-term socioeconomic developmental policies. Their primary aim is to maintain the country’s patronage systems. Generally, government departments and officials are indifferent or even antagonistic toward certain forms of international assistance, particularly when tangible benefits are not immediately apparent. Acceptance of international support by BiH officials and political leaders has often been geared toward short-term stabilization of domestic budgets while simultaneously attempting to avoid the implementation of conditions related to structural reform.

Consequently, several credit arrangements with the IMF over the past decade were either terminated prematurely or only partially implemented. This includes the 2016 Extended Facility Fund, which expired in 2019 with only the first two tranches paid out. Since then, no subsequent arrangement has been agreed upon, except for €333 million in emergency assistance related to the COVID-19 pandemic in 2020, aimed at meeting urgent balance-of-payments needs without requiring a full-fledged economic program.

In the past, BiH lost significant shares of available funds from the European Union provided through the Instrument for Pre-Accession Assistance (IPA) programs and IPARD funds intended for the country’s agriculture sector. This was due to the Republika Srpska (RS) leadership’s ideological rejection of conditions that would

Effective use of support

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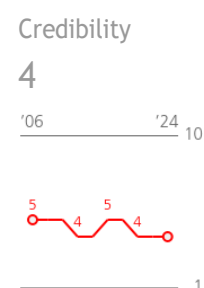


have required establishing additional state-level bodies or transferring even minimal entity competencies to the state level. In 2021, a first tranche of €73 million for BiH was allocated under the Instrument for Pre-accession Assistance (IPA III 2021 – 2027).

The only other notable international financial support received by the BiH government during the reporting period was €250 million in macro-financial assistance from the European Union in the form of a loan secured in 2020. However, disbursement of the first tranche of €125 million was delayed until October 2021 due to political disagreements regarding the allocation of funds between the two entities, and payment of the second tranche was canceled in 2022 as reform conditions had not been met.

The international community has long regarded the authorities in Bosnia and Herzegovina (BiH) as lacking credibility and commitment to reform. Despite its aspirations to become an EU member state, BiH faced a nearly decade-long blockade on its path to EU membership, which was finally lifted in 2016. Over the past decade, BiH has failed to implement several rulings from the European Court of Human Rights, including the Sejdić-Finci case. Additionally, the reform agenda (2015 – 2018), agreed upon with the international community, was only partially implemented, as were obligations established by international financial institutions. These failures further eroded the credibility of BiH authorities. However, some reforms were sufficient to unblock BiH's path to EU membership. In May 2019, BiH received the European Commission's opinion on its membership application, which outlined 14 sets of reform conditions or priorities. There was minimal progress in implementing these reforms until the end of 2022. Nevertheless, in December 2022, BiH was granted candidate status by the EU, largely due to the geopolitical context of the Ukraine war.

BiH's pending NATO membership application was unblocked in December 2018 when NATO decided to initiate the next step in BiH's accession, known as the Membership Action Plan (MAP). However, this progress was only possible because NATO dropped a previous condition that BiH authorities continued to disagree on. The activation of MAP was immediately questioned by Republika Srpska authorities, who oppose the country's NATO membership and advocate for adopting Serbia's position of military neutrality. After the October 2018 general elections, RS's resistance to providing NATO with an annual reform program led to a 14-month deadlock in government formation at the state level. As part of the Berlin process, BiH signed three agreements on regional cooperation in October 2022, but their ratification has since been blocked by the RS leadership.



Regional dialogue mainly takes place through the regional Cooperation Council, which is based in Bosnia and Herzegovina (BiH). Despite declarations of support for bilateral cooperation, Croatia and Serbia have continued their traditional interference in BiH's affairs, which has often destabilized the situation. Collaboration between relevant prosecutorial bodies for prosecuting war crimes remains insufficient, even though memoranda of understanding exist.

The atmosphere between BiH's state leaders and neighboring countries has somewhat improved since the initiation of the Berlin Process in 2014. BiH participates in various regional projects, such as the EU's Connectivity Agenda and the Regional Youth Cooperation Office (RYCO), although progress slowed down in the latter part of the last decade.

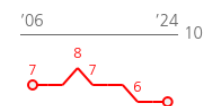
Bilateral relations with Serbia and Croatia have deteriorated. Serbian President Aleksandar Vučić's alignment with the Republika Srpska (RS) leadership and the RS's support for Vučić's advocacy of a land swap deal for Kosovo have strained relations with Bosniak political leaders since 2018.

Relations with Croatia worsened due to the increasing support of the HDZ-led government in Zagreb for the ethno-political constitutional demands of Croat political parties in BiH, such as HDZ-BiH, related to electoral system reforms. Tensions escalated after Željko Komšić replaced HDZ-BiH leader Dragan Čović as the Croat member of the State Presidency following the October 2018 general elections. Bosniak politicians have accused Croatian government officials of meddling in BiH's domestic political affairs. Relations deteriorated further in 2021/22, when Croatia lobbied the European Union in favor of HDZ-BiH's interests during Union-led negotiations on electoral law reform.

These bilateral disputes highlight that BiH lacks a unified regional cooperation policy, with ethnic elites aligning themselves with the political leadership of neighboring countries and pursuing ethnonationalist interests rather than the interests of the BiH state. Additionally, Serb elites' refusal to recognize Kosovo limits bilateral cooperation, including the recent blockage of an October 2022 Berlin Process summit agreement on granting visa-free travel for Kosovo citizens in BiH by the ruling Serb party.

Regional cooperation

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Strategic Outlook

The year 2023 will be crucial in shaping the future of Bosnia and Herzegovina, especially in its journey toward EU accession. Following the general elections on October 2, 2022 and due to the High Representative's intervention in the electoral and constitutional systems, a significant institutional-constitutional crisis was temporarily averted. However, this crisis resolution did not lead to any functional improvements. A coalition comprised of eight Bosniak and multiethnic parties, along with the leading Croat party HDZ and the leading Serb party SNSD, was formed at the state level in a record three months. Nevertheless, with the HR intervention providing the main Bosniak party SDA with new tools to obstruct government formation in the Federation, there's still a possibility of a severe institutional crisis that could hinder the work of governments in FBiH and potentially at the state level as well.

Even if a crisis is avoided, it remains uncertain whether the new ruling coalition will genuinely commit to a reform policy, primarily defined by the conditions set by the European Union in its December 2022 decision to grant candidate status to BiH. Three potential scenarios are likely: first, the coalition partners may set aside their core policy differences, focusing on crucial reforms that stabilize the political situation and bring BiH closer to initiating EU accession negotiations; second, disagreements over HDZ and SNSD's ethnonationalist and divisive policies could lead to the de facto collapse of the new ruling coalition, resulting in a renewed reform deadlock; and third, the coalition of the eight parties might capitulate to HDZ-SNSD political demands, particularly regarding electoral reform and state and defense property, pushing the country further toward ethnic division and disintegration.

In Republika Srpska, the government has escalated its pressure on civil society and free media while encouraging hatred toward anyone openly critical of them. This situation is likely to deteriorate, creating extremely challenging conditions for the expression of free speech and opinions in public.

The trend of high emigration, especially among the young and educated population, is expected to continue.

Regarding economic development, the post-pandemic recovery that began in 2021/22 is projected to continue in 2023. The IMF anticipates a GDP growth of 2.3% and a fiscal surplus of 1.3%. International financial institutions also expect further growth in external trade and foreign direct investment. Inflation began to decrease in 2023, reaching 14.1% in January. However, these forecasts could be missed if a severe political-institutional crisis erupts again. Additionally, the unfolding situation in the war in Ukraine and its impact on the European and global economies could disrupt growth expectations.