



# Bosnia and Herzegovina Progress Report



October 2014

*Enlargement*

*In its Communication 'Enlargement Strategy and Main Challenges 2014-15'<sup>1</sup>,  
the Commission put forward the following  
conclusions and recommendations on Bosnia and Herzegovina:*

The country remains at a standstill in the European integration process. There remains a lack of collective political will on the part of the political leaders to address the reforms necessary for progress on the EU path. There has been very limited progress on political and economic issues and on moving towards European standards. The severe floods which hit the country in May have had a considerable socio-economic impact. The EU provided immediate and substantial rescue and relief efforts and organised a donors' conference in July. Significant pledges were made from the international community for the recovery and reconstruction phase.

Widespread, citizen-led protests in early 2014 underlined the fragility of the socio-economic situation. The Commission has launched three initiatives to shift the focus towards reforms and issues of direct concern to citizens. It has expanded the EU- Bosnia and Herzegovina Structured Dialogue on Justice to additional rule of law matters, in particular the fight against corruption. It has set up a joint EU- Bosnia and Herzegovina Working Group to accelerate the implementation of EU funded projects. It has focused on strengthening economic governance. This included development of a 'Compact for Growth and Jobs' together with key actors including international financial institutions. The Compact will be the yardstick for the necessary economic reform over the coming months. It will also be the basis for the National Economic Reform Programme which the Commission expects the country to develop by end-January 2015.

The lack of any effective coordination mechanism on EU issues continues to negatively affect the country's interaction with the EU. Political tensions within the Council of Ministers related to the division of competences across different levels of government have continued. This has been compounded by the complexity of the institutional arrangements in the country. This has prevented the conduct of three out of the last six subcommittee meetings under the Interim Agreement. Bosnia and Herzegovina also still refuses to adapt this Agreement to take into account its traditional trade with Croatia before it joined the EU. The Commission has undertaken steps to suspend Bosnia and Herzegovina from certain trade benefits if the adaptation process is not finalised by the end of 2015. The Stabilisation and Association Agreement (SAA) signed in 2008 and ratified in 2011 has not yet entered into force as Bosnia and Herzegovina has not yet fulfilled the conditions

The political actors involved have been unable to agree countrywide strategies required for Instrument for Pre-Accession Assistance in sectors such as energy, transport and environment. This has led to a substantial reduction of funding in these areas and a refocusing on assistance that benefits citizens directly. Reaching the necessary agreement will open the way for Bosnia and Herzegovina to benefit fully from the funding available.

Despite intensive facilitation efforts of the Commission to resolve remaining blockages, the Sejdić-Finci ruling of the European Court of Human Rights has not been implemented. The ruling continues to be instrumentalised for narrow party political and ethnic interests and the solution to it linked to other issues.

For Bosnia and Herzegovina to progress on the EU path it is important that all levels of government are rapidly formed after the elections and that concrete reform steps are taken swiftly. The political leadership owes it to Bosnia and Herzegovina's citizens to provide the country with a clear direction. The efficiency and functioning of the political institutions at all levels of government need to improve. This applies in particular to the interaction between

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<sup>1</sup> COM(2014)700 final of 8.10.2014

different levels of government. This requires setting up a well-functioning coordination mechanism on EU matters. Public administration also needs strengthening across the board.

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*Summary of findings of the  
2014 Progress Report on **Bosnia and Herzegovina**<sup>2</sup>*

Once again the country has made very limited progress in addressing the **political criteria**. There has been no tangible progress in establishing functional and sustainable institutions. Likewise, the Parliamentary Assembly of Bosnia and Herzegovina has made very limited progress in adopting EU-related legislation. Disagreements along political and ethnic lines have had a major negative effect on the work of the assemblies at the State level and in the Federation.

Cooperation with civil society at the State, Entity and cantonal levels remains weak. As manifested in the social protests of early 2014, all governments should as a matter of priority focus on addressing socio-economic needs of citizens, in particular on tackling the very high youth unemployment and assisting those in need, also following the heavy floods in May.

Given the political climate, very limited progress has been made in reforming public administration and improving its capacity to fulfil the requirements of EU integration. The fragmentation of the legal administrative framework at different levels of government remains an issue of serious concern, as it highly affects the functionality of the public services system. A new public administration reform strategy after 2014 needs to be developed. The necessary reforms in public financial management need to be addressed in a comprehensive manner.

The area of judicial system reform saw little progress. The Structured Dialogue on Justice remains an important platform to achieve consensus on judicial reforms and has been further broadened to other rule of law related matters. The reform of the State-level judiciary needs to be carried out as a matter of priority. The lack of human resources at all levels to tackle the backlog of war crime cases has been partly addressed, but sustainability still needs to be ensured with proper planning and relevant allocations by competent domestic authorities. The judiciary requires further reinforcement of disciplinary tools and adequate regulations of the conflict of interest.

There was little progress in advancing reforms to reduce corruption, which continues to affect the entire public sector and remains most acute in the areas of service delivery and access to employment. Political patronage networks are widespread and influence all levels of government. Investigation and prosecution in high-profile cases remain insufficient and the overall level of effective investigations, prosecution and convictions is low. There is little political will to move beyond rhetoric and tackle corruption, including investigations and convictions in high-profile cases. There has been overall limited progress tackling organised crime, which remains a serious concern despite some successful joint operations, including through close coordination with neighbouring countries. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The legal and institutional framework for the observance of human rights is in place and the main elements of international human rights laws have been incorporated into the legal system. However, increased political and financial pressure on the media and intimidation and threats against journalists and editors are of serious concern. There needs to be more effort to make schools more inclusive and to address the continuing existence of ‘two schools under one roof’ in the Federation. Effective prevention and investigation of cases of hate speech, violence and discrimination against lesbian, gay, bisexual, transgender and intersex (LGBTI)

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<sup>2</sup> Annex to COM(2014)700 final of 8.10.2014

persons needs to be ensured. While very good progress was made in addressing the housing needs of Roma, efforts in the areas of education, health and employment need to be strengthened. As regards refugees and internally displaced persons, effective implementation of the revised strategy needs to be ensured, in particular its socio-economic aspects. Bosnia and Herzegovina has continued to participate actively in regional cooperation and to maintain good neighbourly relations.

As regards the **economic criteria**, Bosnia and Herzegovina has made little progress towards becoming a functioning market economy. Considerable steps would be needed to tackle persistent structural weaknesses to be able to cope with competitive pressures and market forces within the Union over the long term.

Economic growth has modestly resumed and the current account deficit has narrowed amid persisting external imbalances. The recovery remains fragile due to weak domestic demand and a narrow production base. The heavy flooding in the spring is expected to worsen the short-term economic and fiscal situation. Efforts have been made to improve fiscal coordination in the Federation as well as the collection of indirect taxes.

Bosnia and Herzegovina should pursue further urgent measures to preserve fiscal discipline. In addition, efforts are required to address the significant state presence in the economy and to reduce the level and improve the composition and the targeting of public spending. Moreover, the inefficiency of public enterprises should also be adequately tackled. Better coordination between and within the entities would significantly facilitate and improve economic policy making. High labour market imbalances as reflected by the persistently high unemployment, notably among the youth, as well as the very low participation rate, call for decisive steps to remove disincentives to work and to improve the quality of education. Deficiencies in the legal and business environment, notably lengthy contract enforcement and costly and complex procedures of business entry and exit as well as the underdeveloped infrastructure should be addressed to support private-sector development and attract investment, especially foreign investment. In this context, the informal sector also remains an important challenge. In addition, the high level of non-performing loans needs to be tackled.

Similar to last year the lack of genuine political support for the EU agenda, the absence of a functioning coordination mechanism on EU matters and internal disputes on competencies have resulted in limited progress as regards **approximation to EU laws and standards**. This concerns in particular the areas of movement of persons and labour force, freedom to provide services and right of establishment, the free movement of goods, consumer protection, employment and social policies, education, culture and research, the area of industry and SMEs, environment and climate fields and the area of transport. In a number of areas further progress is hampered by a lack of countrywide strategies.

There was little progress in the fields of agriculture and rural development, food safety, veterinary, phytosanitary policy and fisheries. Lack of alignment with EU requirements in this area continues to prevent exports of goods of animal origin to the EU, a regrettable situation which requires serious and well-coordinated efforts to be overcome. In the field of taxation, Bosnia and Herzegovina adopted a small-brewery tax scheme that is non-compliant with obligations under the Interim Agreement insofar as it discriminates against beer imports. Not much progress was achieved in the energy sector due to the complexity of the administrative structure, disputes on competencies between State level and entities and lack of political will. This has *inter alia* led to a serious and persistent breach of the country's obligations under the Energy Community Treaty in the gas field which needs to be addressed urgently. Progress can be reported *inter alia* in the internal market area with the adoption of the law on public procurement, which enables the country to align with the EU Directives of 2004. Cooperation between statistical bodies at entity and State level has improved particularly in the context of the population and housing census.



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**COMMISSION STAFF WORKING DOCUMENT**

**BOSNIA AND HERZEGOVINA  
2014 PROGRESS REPORT**

*Accompanying the document*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Enlargement Strategy and Main Challenges 2014-2015**

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## **1. INTRODUCTION**

### **1.1. Preface**

The Commission reports regularly to the Council and Parliament on the progress the countries of the Western Balkans region have made towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes relations between Bosnia and Herzegovina and the European Union;
- analyses the situation in Bosnia and Herzegovina in terms of the political criteria for membership;
- analyses the situation in Bosnia and Herzegovina on the basis of the economic criteria for membership;
- reviews Bosnia and Herzegovina's capacity to implement European standards, i.e. to gradually approximate its legislation and policies with the *acquis*, in line with the Interim Agreement/Stabilisation and Association Agreement.

This report covers the period from October 2013 to September 2014. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures that are being prepared or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the EU Member States, European Parliament reports<sup>3</sup> and information from various international and non-governmental organisations. Due to internal disagreements, Bosnia and Herzegovina's government failed to provide the official contribution of the country for this year's report.

The Commission has drawn detailed conclusions regarding Bosnia and Herzegovina in its separate communication on enlargement<sup>4</sup>, based on the technical analysis in this report.

### **1.1. Context**

Bosnia and Herzegovina is a potential candidate for EU membership. The Stabilisation and Association Agreement between Bosnia and Herzegovina and the EU was ratified in 2011, but has not yet entered into force.

The country's Constitution was drawn up as part of the internationally agreed 1995 Dayton/Paris Peace Agreement (DPA). It establishes a complex political structure that provides for governments at State, Entity and District levels. The State level comprises a tripartite rotating Presidency, a Council of Ministers (executive branch) and a bicameral Parliamentary Assembly consisting of a House of Representatives (lower chamber) and a House of Peoples (upper chamber). The judicial branch established by the DPA consists of a State-level Constitutional Court. The High Judicial and Prosecutorial Council, as well as a State Court and Prosecutor's Office, were established later.

An international presence under UN auspices— the Office of the High Representative (OHR) — has been in place in Bosnia and Herzegovina since 1995. The Peace Implementation

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<sup>3</sup> Until 1 July 2014, the rapporteur for Bosnia and Herzegovina was Ms Doris Pack. The current rapporteur is Mr Cristian Dan Preda.

<sup>4</sup> Enlargement Strategy and Main Challenges 2014-2015, COM(2014) 700.



Council Steering Board has set objectives and conditions to be met for the closure of the OHR.<sup>5</sup> In particular, a resolution of the issue of state property and other levels of government and of defence property is still outstanding. This is linked to the implementation of the Constitutional Court's decision regulating property distribution. In April, the House of Representatives of Bosnia and Herzegovina rejected a proposed law on the disposal of immovable military property, as it did not receive support from Republika Srpska delegates.

## **1.2. Relations between the EU and Bosnia and Herzegovina**

Bosnia and Herzegovina participates in the **Stabilisation and Association Process**.

All EU Member States have ratified the **Stabilisation and Association Agreement (SAA)** signed in June 2008, but the Council has refrained from taking a decision on its entering into force, due to the country's failure to implement the Sejdić-Finci ruling of the European Court of Human Rights.<sup>6</sup> Full implementation of the Sejdić-Finci ruling is a key element for Bosnia and Herzegovina's membership application to be considered as credible by the EU.<sup>7</sup>

The Interim Agreement (IA) has been in force since July 2008. Regarding obligations on state aid, the State Aid Council has been established, but it is not yet fully functioning. The country is still in breach of the IA due to the non-implementation of the Sejdić-Finci ruling.

Bosnia and Herzegovina has refused to accept the established methodology for the technical adaptation of the IA/SAA and has therefore not yet adapted the trade concessions granted under its IA/SAA with the EU to take into account its bilateral traditional trade with Croatia. After several rounds of negotiations that led to no result, the Commission initiated a dispute settlement against Bosnia and Herzegovina in an extraordinary meeting of the Interim Committee that took place in November 2013. It is crucial that Bosnia and Herzegovina re-engage in constructive discussions with the EU and reaches an agreement on technical adaptation as a matter of urgency. The Commission adopted a proposal to make the prolongation of the Autonomous Trade Measures for the Western-Balkan countries after 2015 conditional for Bosnia and Herzegovina, until it accepts the adaptation of the IA/SAA with the EU to take into account its bilateral traditional trade with Croatia.

The third meeting of the EU-Bosnia and Herzegovina High Level Dialogue on the Accession Process was held in October 2013. Despite some progress, no final agreement on the implementation of the Sejdić-Finci ruling and establishment of an EU coordination mechanism could be reached. The EU continued its intensive facilitation efforts to assist the country's political representatives to find an agreement on the implementation of the Sejdić-Finci ruling. The Commission held discussions on this matter with the country's political leaders in October in Budapest, and in December in Prague. Given the lack of agreement among the leaders, Commissioner Füle had to end his facilitation efforts in February. The implementation of the Sejdić-Finci ruling remains crucial in order for Bosnia and Herzegovina to meet its international obligations. As a response to the political situation in Bosnia and Herzegovina and demonstrations calling for improvements in the social and economic situation in the country, in February, the Commission announced three new initiatives: broaden the EU-Bosnia and Herzegovina Structured Dialogue on Justice, accelerate the implementation of projects under the Instrument for Pre-accession Assistance (IPA) and strengthen economic governance. Civil society is closely involved in all three initiatives.

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<sup>5</sup> See details on the OHR website ([www.ohr.int](http://www.ohr.int)) under '5+2 Agenda'.

<sup>6</sup> The Sejdic-Finci vs Bosnia and Herzegovina case, December 2009, regarding ethnic discrimination for representation in the institutions of the country for persons not belonging to one of the three constituent peoples (Bosniak, Serb and Croat).

<sup>7</sup> See General Affairs Council conclusions of December 2013.

As regards the first initiative, the Structured Dialogue on Justice, which focuses on the reform of the judiciary and issues related to processing war crimes, has been broadened to additional rule of law matters. A new set of agenda items was identified with the domestic authorities and civil society representatives: anti-corruption, anti-discrimination, prevention of conflict of interest, and measures to strengthen the integrity, accountability and efficiency of police forces within the existing legal framework. The first plenary meeting of the broadened dialogue took place in May.

The second initiative, focusing on strengthening economic governance, consists of assistance in preparing a National Economic Reform Programme and a Competitiveness and Growth Programme. As an immediate response to the socio-economic concerns of the citizens of Bosnia and Herzegovina, in May, the EU launched a Compact for Growth initiative through a Forum on Prosperity and Jobs. The conference and subsequent follow-up events in July identified economic policy measures, the so-called Compact for Growth, that targets key economic issues. These commitments are expected to be taken up by political parties in their election platforms and reflected in the National Economic Reform Programme and the Competitiveness and Growth programme. Bosnia and Herzegovina continues to participate in a multilateral economic dialogue with the Commission and EU Member States to prepare the country for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union.

Regarding the third initiative, a Joint EU-Bosnia and Herzegovina Working Group to accelerate the implementation of projects under the IPA was established in March. The group has made only limited progress, despite involvement at Prime Ministers' level. Following the floods that hit the country at the end of May, after consultation with the country's authorities, the Commission decided to reallocate €42 million from projects under previous IPA national programmes that could not be implemented due to blockages on the side of Bosnia and Herzegovina. In July, the Commission hosted a donors' conference for Bosnia and Herzegovina and Serbia, co-organised with France and Slovenia. Total pledges for Bosnia and Herzegovina amounted to €810 million of grants and soft loans out of which €85 million grants from the EU budget.

The EU Delegation to Bosnia and Herzegovina is responsible for implementing **financial assistance**. The country's authorities have made no progress towards establishing the structure necessary for indirect management of EU funds. Implementation of the 2008-13 national IPA programmes is ongoing. Due to the country's lack of progress in the EU integration process and the absence of countrywide strategies in many sectors, the draft IPA II Country Strategy Paper is restricted to the period 2014-17, as compared to the full period for IPA II 2014-20 and the following sectors: democracy and governance; rule of law and fundamental rights; competitiveness and innovation, local development strategies; education, employment and social policies. The establishment of a coordination mechanism on EU matters and countrywide sector strategies remain key requirements for Bosnia and Herzegovina to benefit fully from IPA funding.

The EU provides guidance to the country's authorities on reform priorities. Progress on these priorities is encouraged and monitored by the joint bodies established by the Interim Agreement. The overall pace of reforms has remained weak. Only three out of the six sub-committee meetings and the Interim Committee meeting have been held since October 2013. Three sub-committee meetings had to be cancelled due to internal disagreements on the composition of working groups and the level of consultation on the written documentation to be submitted.

The enhanced presence of the combined Office of the EU Special Representative and the EU Delegation in Bosnia and Herzegovina has continued to be instrumental in communicating

EU priorities to citizens and in implementing the objectives of the EU agenda in key areas. An inter-parliamentary meeting between members of the European Parliament and members of the Bosnia and Herzegovina Parliamentary Assembly took place in Sarajevo in March. The EU has continued to deploy considerable resources in Bosnia and Herzegovina under the Common Foreign and Security Policy and the Common Security and Defence Policy.

As regards the **Common Foreign and Security Policy (CFSP)**, Bosnia and Herzegovina aligned itself, when invited, with 23 out of 44 relevant EU declarations and Council decisions (52% alignment). Bosnia and Herzegovina did not align itself with Council decisions introducing EU restrictive measures in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine, as there was no consensus within the Presidency of Bosnia and Herzegovina. Bosnia and Herzegovina was absent at the vote on the UN General Assembly Resolution on the territorial integrity of Ukraine.

The EUFOR Althea military operation deployed with over 900 troops in-theatre and additional over-the-horizon reserves. EUFOR troops focused on capacity building and training of the armed forces of Bosnia and Herzegovina, while retaining deterrence capacity to support a safe and secure environment. The UN Security Council has extended EUFOR's mandate until November 2014.

**Visa liberalisation** for citizens of Bosnia and Herzegovina travelling to the Schengen area has been in force since December 2010. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. The next report will be presented by the end of 2014. A visa-waiver suspension mechanism entered into force in January 2014. On this basis, EU Member States can request the Commission, in an emergency situation and as a measure of last resort, to examine the possibility of temporarily suspending the visa waiver for third-country nationals. A **readmission agreement** between the European Union and Bosnia and Herzegovina has been in force since 2008.

Bosnia and Herzegovina participates in the following **EU programmes**: the Seventh research framework programme, Culture and Europe for Citizens. Bosnia and Herzegovina has also recently concluded or is in the process of concluding new agreements for a number of programmes, including: Horizon 2020, Creative Europe, Customs, Fiscalis and Erasmus+.

## 2. **POLITICAL CRITERIA**

This section examines the progress Bosnia and Herzegovina has made towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia.

### 2.1. **Democracy and the rule of law**

#### *Constitution*

The Dayton/Paris Peace Agreement (DPA) put an end to the 1992-1995 war and brought peace to Bosnia and Herzegovina. The country's Constitution, which is Annex 4 to the DPA, established a complex institutional architecture that remains inefficient and is subject to different interpretations.

The complicated decision-making process, lack of shared vision and weak cooperation between the various levels of government have delayed structural reforms and hampered the country's progress towards the EU. In February, the failure of the authorities to address political reforms and citizens' long-standing social and economic concerns led to large demonstrations.

Despite intensive facilitation efforts by the EU, agreement on a definition of an effective coordination mechanism between various levels of government for alignment with the *acquis* could not be reached. The continued use of divisive rhetoric by some political representatives and questioning of Bosnia and Herzegovina's capacity to function as a country had a negative impact on cooperation between the Entities and the functioning of the State.

The Constitution of Bosnia and Herzegovina prevents citizens who do not declare themselves as one of the three constituent peoples from standing as candidates for the Presidency and the House of Peoples of the Parliamentary Assembly. This has been declared in breach of the European Convention on Human Rights in the Sejdić-Finci judgment. The EU has further intensified its facilitation efforts to assist the country's political representatives in finding an agreement on the amendments of the Constitution and the election law required to ensure the implementation of the ruling.

Facilitation efforts carried out under the auspices of Commissioner Füle and supported by the Council of Europe's Venice Commission continued at the third meeting of the EU-Bosnia and Herzegovina High Level Dialogue on the Accession Process in October 2013. Despite significant progress in the talks, no agreement could be reached. In February, the Commission had to end its facilitation efforts.

*Overall*, there has been no tangible progress in establishing functional and sustainable institutions. The efficiency and functioning of the political institutions at all levels of government need to improve. Moreover, the compliance of the country's Constitution with the European Convention on Human Rights as regards the Sejdić-Finci judgment remains to be ensured.

### *Elections*

General elections will take place on 12 October. The official pre-election campaign period started on 12 September and will end on 11 October, when election silence is to be observed until closing of the polling stations. Election preparations have started without major problems. International observers, notably through the OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR), and domestic observers, notably through the civic coalition 'Pod Lupom', are monitoring the election process and will issue after the 12 October their findings and recommendations.

The 2010 Constitutional Court decision on Mostar's statute has not been implemented due to lack of agreement between SDA and HDZ BiH<sup>8</sup> parties and municipal elections in Mostar have not yet taken place. This prevents the citizens of Mostar from exercising their democratic rights. Mostar City Council ceased to function in 2012 and since then, the city has been governed by the Mayor, with no City Council in place to exercise its democratic functions and to respect power-sharing arrangements. Following legal challenges to the results of the 2012 municipal elections in Srebrenica,<sup>9</sup> amendments to the State-level law on residence to improve security and certainty remain to be adopted.

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<sup>8</sup> SDA (Party of Democratic Action), HDZ BiH (Croat Democratic Union of Bosnia and Herzegovina).

<sup>9</sup> The elections were preceded by a campaign asking voters to register their residence in Srebrenica, even if they were not actually living there.

## *Parliament*

In June, both Houses of the Parliamentary Assembly adopted new rules of procedure to increase efficiency and improve legislative procedures. The new rules of procedure introduce a fast-track mechanism for EU-related legislation. Legislative activities have been seriously hampered by political disagreements and the uncertainties of coalition building at State and Entity levels. Both Houses of the Parliamentary Assembly failed to convene regularly, mainly due to walkouts of delegates from the Republika Srpska in the House of Representatives and the lack of a quorum in the House of Peoples in the absence of three Bosniak delegates. The work of the House of Representatives was interrupted for about a month. The House of Peoples resumed its work after almost three months, following the socio-economic protests in February.

Due to political turmoil and inter-ethnic divergences, the legislative work of the Parliamentary Assembly and its committees was slow and ineffective. Only four new laws and 21 amendments, including those required for harmonisation with the *acquis*, have been adopted. Legislation was often introduced in urgent procedure, thereby limiting consultations and amendments from members of parliament. This has led to motions for protection of Vital National Interests and rejections of laws. The lack of consensus and a number of reshuffles of the Council of Ministers have had a negative effect on cooperation between the Council of Ministers and the Parliamentary Assembly.

At Entity level, the absence of a clear parliamentary majority in the Federation has made the decision-making process very difficult. The unsuccessful attempt to reshuffle the Federation Government came to an end in December and resulted in the resignation of the Speaker of the Federation House of Representatives. A new Speaker was appointed at the end of April. These political turbulences further worsened cooperation between the Federation Parliament, Government and Cantonal legislators, which also had a negative impact on the adoption of EU-related legislation. The work of parliamentary committees continued to be affected by a frequent lack of quorum and weak advisory services.

In the Republika Srpska National Assembly, the EU Integration Committee continued to cooperate closely with the government in assessing the level of compliance of proposed legislation with the *acquis*.

Cooperation between the State and Entity parliaments and Brcko Assembly continued at staff and committees level but lacked support from the parliamentary leadership. The State and Entity-level parliamentary committees for European integration have last met in June 2014 to discuss use of the IPA funds in Bosnia and Herzegovina. The State and Entity-level parliamentary committees for European integration have not met since September 2013.

*Overall*, the Parliamentary Assembly of Bosnia and Herzegovina has made very limited progress in adopting EU-related legislation. Disagreements along political and ethnic lines have had a major negative effect on the work of the assemblies at State level and in the Federation. Cooperation between the State and Entity parliaments and the Brcko Assembly needs to be better institutionalised to improve countrywide legislative planning.

## *Government*

The tripartite Presidency of Bosnia and Herzegovina has continued to meet regularly. The formulation of foreign policy has remained subject to divergent positions within the Presidency.

In December, the new parliamentary majority at State level endorsed the reshuffling of the State-level Council of Ministers by appointing a new Minister for Foreign Trade and Economic Relations and two deputy ministers. Following street protests, the Minister of

Security was dismissed by the Parliamentary Assembly in April. His dismissal was followed by the resignation of the Deputy Minister of Finance in May.

The Council of Ministers continued to convene on a regular basis, except for February, when its work was suspended following street protests. The legislative output of the Council fell short of expectations. The Council held one thematic session on EU integration. It could not reach an agreement on an EU coordination mechanism. Political tensions within the Council of Ministers concerning the division of competencies across different levels of government prevented the provision of material needed to conduct a number of sub-committee meetings under the Interim Agreement.

The Council of Ministers could not reach agreement to prepare countrywide strategies for key sectors of economy. Crucial investment sectors such as agriculture and rural development, energy, environment and transport have therefore not been included in the country strategy paper 2014-20 and in IPA II programming in 2014. Lack of agreement between the State and Entities has led to the cancellation of rural development projects needed for future preparations for IPARD funds and resulted in loss of substantial EU assistance to farmers.

The development strategy and the social inclusion strategy at State level and in Republika Srpska have not yet been adopted. The first population and household census since 1991 was successfully conducted in October 2013. Preliminary results were published in November. Statistical data collected through the census aim at contributing to better socio-economic planning.

The role of the Directorate for European Integration to guide the EU integration process and the transposition of the *acquis* at different levels of government has been further weakened due to disagreements within the Council of Ministers on the EU coordination mechanism. As a number of sub-committee meetings under the Interim Agreement did not take place and preparations of the National Plan for the Adoption of the *Acquis* were stalled, the Directorate's coordinating role has further declined. Coordination of activities and the exchange of information between the Directorate and the Entities and the Brcko District need to be strengthened.

The Government of Republika Srpska remains engaged in the approximation of draft legislation with the *acquis*. Its administrative capacity to monitor EU-related legislation remained good, but there was little coordination and cooperation with the State-level Council of Ministers and the Federation Government.

In the Federation, the reshuffling of the government initiated in June 2012 has not been completed. The activities of the government were hampered by the pending no-confidence vote that was passed by simple majority in both houses of the Federation Parliament and was blocked by the Vital National Interests of the Bosniak Caucus. The case is still pending before the Vital National Interests Panel of the Federation Constitutional Court. The absence of a parliamentary majority hampers the government's ability to address urgent socio-economic grievances, which were explicitly expressed during the demonstrations in February.

In January, the Federation faced a major political and financial crisis when the Entity's President dismissed the Minister of Finance. The dismissal took place with immediate effect in the absence of legal provisions providing for a signatory of budget payment transactions, including foreign debt payments. This has also had an impact on Bosnia and Herzegovina's obligations towards creditors and affected the implementation of the stand-by arrangement with the International Monetary Fund. After the Federation Prime Minister addressed the Entity's Constitutional Court, the Court adopted a decision on interim measures. In April, the Federation Parliament adopted amendments to the law on execution of the budget of the Federation, according to which a member of the Federation Government or an authorised civil

servant of the Ministry of Finance can sign payment orders in the absence of a Federation Finance Minister.

The socio-economic protests in February resulted in the resignation of four Cantonal governments. The Tuzla Canton appointed a new non-partisan expert government in March. In the Zenica-Doboj, Sarajevo and Una Sana Cantons, the governments resigned and are acting in a caretaker capacity.

In October 2013, the Federation Government adopted a decision on the Office for European Integration. The selection process for the director is ongoing. No progress was made in implementing the agreement on cooperation on EU integration issues between the Federation Government and the Cantons. Meetings between EU affairs coordinators in line ministries are held only on an ad hoc basis. Legislative offices of different governments in the Federation do not cooperate systemically to harmonise legislation or to approximate it to the *acquis*.

In the Brcko District, the Office for European Integration within its government was institutionally reinforced, but remains understaffed. The government and the assembly cooperated closely with the Entities on EU-related legislation. The District Assembly's Committee for EU integration held two meetings. At the same time, Brcko District Government held a thematic session dedicated to the EU integration process in July.

Entity legislation is largely in line with the European Charter on *Local Self-Government*. However, there remains a lack of clarity in the apportionment of powers between the Entities, Cantons and municipalities, with a relatively low level of financial autonomy at municipal level. The National Assembly of the Republika Srpska has adopted amendments to the law on local self-government that decreased the power of municipal councils. The Cantons have started harmonising their legislation with Federation law on the principles of local self-government, but progress is slow.

*Overall*, no progress has been made by Bosnia and Herzegovina in improving the functionality and efficiency of all levels of government. Governments need as a matter of priority to focus on addressing socio-economic grievances and further assisting those in need following the floods. Countrywide strategies for key sectors of economy need to be adopted.

#### *Public administration*

The overarching public administration reform strategy of Bosnia and Herzegovina, adopted in 2006, and the revised 2011 action plan provide the **strategic framework for public administration reform** till the end of 2014. The Public Administration Reform Coordinator's Office (PARCO) has continued to carry out its coordination tasks effectively at technical level and in close cooperation with its counterparts at the Entities level and in Brcko District. However, the monitoring capacity of PARCO remains weak, due to the lack of adequate performance indicators to measure progress in the implementation of objectives set in the PAR strategy. The reform process lacks the necessary political support. No formal political discussion has as yet taken place on the future of reform beyond 2014, after the expiry of the current strategy and action plan. The pace of public administration reform, in particular at Cantonal level, remains slow and shows weaknesses in various areas, including policy development, budget processes, human resources management, transparency and vertical coordination.

There has been no progress with regard to **policy development and coordination**. Adequate planning of actual costs and sources of financing for implementation of the current public administration reform strategy is required.

Concerning **public service and human resources management**, Brcko District has made some progress in improving its civil service legislation. However, at other levels, there has

been no improvement in recruitment procedures that would ensure the application of objective and merit-based criteria, transparency and prompt appointments to vacant positions. Fragmentation of the legislation regulating the civil service at Federation and Cantonal level continues to have a negative effect on the functionality of the civil service system. There are still weaknesses in the capacity of the civil service for legal harmonisation and implementation of the *acquis* or for commitments arising from the Interim Agreement and the Stabilisation and Association Agreement. The country's administrative structures need to be strengthened substantially to be able to respond effectively to the requirements of the EU accession process.

As regards **accountability and service delivery**, the lack of a harmonised and modernised legal administrative framework negatively affects the quality of public services delivery at all administrative levels. The development and implementation of coherent standards and common administrative practices across the entire public administration body still need to be addressed.

Bosnia and Herzegovina does not yet have in place a comprehensive **public financial management** reform programme that would set the basis for prioritising and sequencing reforms necessary in different parts of the public financial management system. However, a public expenditure and financial accountability assessment is underway and could be used as a starting point for preparing a reform programme.

The reform programme could help to address existing weaknesses, such as the lack of a medium-term budgetary framework with medium-term targets, and the lack of long-term planning on capital investment and further development of programme-based budgeting. Also, there is no consolidation of the budgets of State, Entities and other public sector bodies that would provide information as defined by EU requirements. The non-inclusion of extra-budgetary funds in particular prevents a clear view of the entire fiscal position. The budget process also lacks democratic legitimacy, as budgets are usually adopted in urgent procedure. Entity budgets frequently tend to undergo rebalancing over the year, which, given limited human resource capacity, leaves little time to improve the reporting process. This leaves the system vulnerable to abuse for political purposes. On a positive note, debt has been actively managed to avoid defaults on loans and to ensure that principal and interest payments are made on time, but there is no published debt management strategy to guide policy. Financial reporting also needs to be reformed.

*Overall*, very limited progress has been made in reforming public administration and improving its capacity to fulfil the requirements of EU integration. The dysfunctionalities of public administration at, and between, its different levels remain an issue of serious concern. A new public administration reform strategy after 2014 needs to be developed. The reforms necessary in public financial management need to be addressed in a more comprehensive manner.

#### *Ombudsman*

Some progress has been made in increasing public awareness about the role of the Ombudsman Institution of Bosnia and Herzegovina. The Ombudsman Institution continues to face financial and human resource constraints that have a negative impact on its activities, in particular as regards the implementation of anti-discrimination law. Political support for the work of the Ombudsman Institution remains weak and the implementation of its recommendations continues to be low.

#### *Civil society*

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. Civil society has become more active



following the widespread socio-economic protests that took place across the country in February, calling on the governments to improve the social and economic situation in the country. Citizens' assemblies, called plenums, were established in several cities in the Federation. The plenums put forward a number of socio-economic demands and addressed them to the Entity and Cantonal authorities. These demands relate in particular to measures to tackle unemployment, corruption, privileges of elected officials, and improvements in healthcare and social protection. The response from the authorities has been very limited.

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

Representatives of civil society in Bosnia and Herzegovina have been closely involved in the preparation of the Progress report, of the draft IPA II Country Strategy Paper as well as in the EU's three new initiatives (*see also 1.3 – Relations between the EU and Bosnia and Herzegovina*).

#### *Judicial system*

The Structured Dialogue on Justice, broadened to other rule of law matters, remained a sustained confidence-building process, delivering some positive results in the area of regional cooperation, the processing of war crimes, professionalism and the efficiency of the judiciary. The implementation of the Justice Sector Reform Strategy (JSRS) 2009-2013 was completed in part, while the follow-up strategy 2014-2018 and action plan are still in the process of receiving final political endorsement. The State-level Ministry of Justice has finalised a draft law on the High Judicial and Prosecutorial Council (HJPC) that was reviewed by the Council of Europe's Venice Commission with an opinion adopted in March 2014. The politicisation of the appointment procedures for the Council's members and that of the Chief Prosecutors at all levels, through involvement of executive and legislative branches, remains problematic. The final adoption of amendments to the law on the Courts of Republika Srpska, which harmonises the law with the HJPC's existing prerogatives, is still pending. The draft Law on the Courts of Bosnia and Herzegovina, providing for the establishment of a separate State-level Appellate Court, and the draft law on the Prosecutor's Office of Bosnia and Herzegovina have been finalised by the Ministry of Justice. Following the earlier Venice Commission opinion and relevant Structured Dialogue recommendations, this reform needs to be achieved with the largest possible political consensus as a matter of priority. There was some progress in enhancing the harmonisation and consistency in applying substantive criminal law at the State-level judiciary and other instances throughout the country.

There are persistent flaws in the **independence** and **impartiality** of the judiciary. Political interference has continued. In particular, the political establishment has applied pressure on issues related to processing war crimes, including the enforcement of the European Court for Human Rights judgment in the case of Maktouf and Damjanović vs Bosnia and Herzegovina.

Sources of budgeting for judiciary and prosecution services in Bosnia and Herzegovina continue to be highly fragmented, particularly in the Federation, and capacities for planning within the 14 budgetary institutions remain weak. Streamlining budgetary responsibilities, necessary to increase efficiency in resource allocation and the overall independence of the sector, remains a key structural objective. The total adopted budget for 2013 was €110 million, representing 0.82% of the country's GDP.

Due to budgetary restrictions, 13% of positions for regular and reserve judges, as well as prosecutors, cannot be filled across the country. In an effort to examine the current situation, the HJPC is undertaking a comprehensive analysis to facilitate reaching optimal numbers.

On **accountability**, the number of complaints submitted regarding judicial office holders, particularly prosecutors, has increased at the Office of the Disciplinary Council. The overall trend has been to reduce the number of pending cases, as well as to shorten processing time. The number of disciplinary cases opened *ex officio* due to the elapse of the statute of limitation has increased, totalling 50% of all disciplinary proceedings. Out of 18 disciplinary proceedings, 17 were completed and sanctions disposed. Due to the current legal framework, there is a lack of adequate disciplinary sanctions against wrongdoing judicial office holders. A rulebook on conflict of interest for members of the HJPC has been adopted.

As regards **efficiency**, there has been progress on the package of measures and technical reforms provided by the HJPC as well as other relevant stakeholders, reducing the backlog of cases. Each court has developed a backlog reduction plan complying with the judicial quotas adopted. In 2013, seven courts reached the target of bringing their caseload up to date. The rise in of unpaid utility bills cases continues to be a significant burden on the judiciary and represents 79% of unresolved cases (total: 1.709 million). Productivity in courts rose by 9% in 2013 compared to 2012, partly thanks to the implementation of a rulebook with suggested quotas for the work of judges and judicial associates in courts. As recommended by the Structured Dialogue on Justice, cooperation with Entity notary chambers was established to relieve the pressure on first-instance courts by transferring certain court competencies to public notaries.

The judicial information and communication system is fully functional throughout the country. The case management system in courts and prosecutors' offices covers over 3.9 million cases and now produces automated reports on judicial performances that contribute to policy and strategic planning decisions. In January 2014, a tool was introduced to enable all parties in proceedings to receive information on the predicted duration of their cases in court.

Access to the judicial web portal has improved substantially. The Judicial Documentation Centre has also registered a significant rise in online visits. The number of visits to this site has increased by 35%. New electronic services such as a web calculator for court fees and a web address book listing lawyers are available on this portal.

A uniform human resources management information system for courts and prosecutors' offices has been established, improving efficiency in the appointment, management and planning of such resources.

The physical conditions in several courts in the Entities have improved, particularly regarding witness protection measures. Several Entity prosecutors' offices have benefited from renovations to improve their working conditions. Technical preconditions for more efficient processing of war and organised crime cases, as well as application of witness protection measures, have been met in a number of courts and prosecutor's offices by introducing digital audio and video. Use of these systems will have a positive impact on reducing the costs/duration of proceedings and the quality of witness protection measures. Further improvements to the judicial and prosecutorial infrastructure are still required.

As regards **professionalism**, training for the judiciary is provided by the Judicial and Prosecutorial Training Centres of the two Entities. It is based on the three-year mid-term strategy for induction and continuous training adopted by the HJPC. Each training centre prepares an annual curriculum, which includes distance learning modules comprising 30% of the training modules available. Although most judicial staff holders comply with the compulsory minimum days of training per year, institutional reforms of the training centres

are necessary to improve both the delivery and substance of training. The HJPC successfully completed the test phase for new procedures regulating access to judicial careers. A new system of competitive written examinations for all candidates entering judicial careers and the systematisation of structured interviews for all applicants, including internal promotions, is expected to increase the objectivity and transparency of recruitment, based on merit and qualifications.

Progress has continued on tackling the large backlog of **domestic war crimes cases**. The implementation of the national war crimes strategy continues, although at an unsatisfactory pace, and the body in charge of its supervision requires additional support from all authorities. The State-level judiciary continues the referral of war crimes cases. The capacities of prosecutors' offices throughout the country were improved through recruiting more staff, and material conditions were significantly improved through international assistance. Appropriate financing of adequate staffing levels in prosecutors' offices and courts remains an issue to be addressed urgently to ensure timely and effective processing of the backlog. The competent authorities failed to allocate the funds needed to complete the support infrastructure.

Discussion on the lack of harmonisation of case-law through application of different criminal codes was re-launched following the European Court of Human Rights judgment in the case *Maktouf and Damjanović vs Bosnia and Herzegovina*. New jurisprudence in cases of war crimes against civilians and genocide was enforced. The court's earlier jurisprudence on crimes against humanity was confirmed. The institutionalisation of regular consultations among the highest judicial institutions led to the establishment of three fully functioning panels of the highest judicial instances in charge of ensuring harmonisation in criminal, civil and administration-related matters. The Criminal Codes Implementation and Assessment Team that had provided a forum for expert discussion was dissolved.

The prosecution of war crimes cases involving sexual violence further improved, and there is genuine commitment on the part of the authorities to delivering justice to survivors of sexual violence. However, efforts to investigate and prosecute these crimes need to be stepped up further, as the overall number of indictments for sexual violence is low in comparison to the prevalence of such crimes during the conflict. The low number of suspects and lack of evidence hampers the progress of investigation. A comprehensive approach to improving the status of victims of rape and sexual violence has still to be achieved. The adoption of a State-level programme to improve the status of victims of war crimes involving sexual violence is pending.

Steady progress on witness protection measures is primarily due to international financial support, particularly regarding psychosocial witness support in the Entities. Refurbishing of some court rooms for protected witness testimony and provision of adequate equipment has been completed in the majority of Cantonal/district courts. Recruitment of non-judicial witness support staff in courts and prosecutors' offices is ongoing, but a comprehensive witness protection system before and after proceedings is still not in place. The draft law on witness protection programme was adopted.

**Access to justice** has moderately improved, but equality in relation to rights, criteria and procedures is not uniformly guaranteed. Concerning free legal aid, the risk of discrimination continues to be of serious concern as a consequence of a fragmented and non-harmonised system. A free legal aid agency has been established in one more Canton of the Federation, bringing the total to eight. However, the free legal aid system is still unregulated in two Cantons and in the Federation. The adoption of a State-level law on free legal aid is still pending. Civil society organisations actively continue to provide free legal aid, particularly in civil cases, but their role is not consistently recognised or even regulated in the country. The Free Legal Aid Network has made steady progress, with additional training, strengthened

cooperation between these organisations and governmental agencies, increased awareness and reinforced monitoring.

*Overall*, there was little progress in the area of judicial system reform. The Structured Dialogue on Justice remains an important platform to consolidate consensus on judicial reforms and has been further broadened to other rule of law-related matters. The reform of the State-level judiciary remains a priority. A new Justice Sector Reform Strategy has been prepared, but final political endorsement is still pending. Measures to reduce the backlog of cases have successfully started, but the backlog remains high, with a large number of unpaid utility bills cases that need to be addressed with structural solutions as a matter of urgency. The lack of human resources at all levels to tackle the backlog of war crime cases has been partly addressed, but sustainability still needs to be ensured with proper planning and relevant funding from competent domestic authorities. There was no progress on reducing the budgetary fragmentation of the judiciary, which also undermines independence. The judiciary requires further reinforcement of disciplinary tools and adequate regulations of conflict of interest. The law on the courts of Republika Srpska requires amendments in line with the recommendations of the Structured Dialogue on Justice.

#### *Fight against corruption*

Political patronage networks are widespread and influence all levels of government. The Agency for Prevention of Corruption and Coordination of the Fight against Corruption is operational, with adequate premises and an initial level of staffing. Five additional advisors were recruited and started working. The Agency received opinions of all relevant bodies to amend its rulebook on internal organisation, to create 20 new positions, which would bring the total number of staff to 49. The revised rulebook remains to be adopted. Activities to draft a new anti-corruption strategy for 2015-2020 were initiated with the establishment of a working group including representative of all relevant institutions.

At Entity level, Republika Srpska adopted a new strategy for the fight against corruption and an action plan for the period 2013-17. The monitoring commission and operational team remain to be appointed. The Team for Monitoring in the Federation developed action plans for institutions. The Brcko District and Cantons have not yet designated their monitoring bodies, despite their legal obligation to do so.

Amendments to the law on conflicts of interest at State level have been adopted. The implementation of the law is entrusted to a commission composed mainly of parliamentarians, while expert tasks will be performed by the office of the anti-corruption agency. The amendments do not guarantee impartiality and effective prevention of conflict of interest. As a result of the amendments, the Central Election Commission is no longer competent to implement the law and to monitor its application in the Federation and Brcko District. The legislation on declaration of assets is fragmented. There are four laws concerning different forms of declaration, overlapping in terms of relevant officials and data to declare. The existing framework does not provide efficient review mechanisms that would enable proper verification of assets. The law on political party financing does not comply with the recommendations issued by the Council of Europe's Group of States against corruption (GRECO). In line with art 20 of the United Nations' Convention Against Corruption, country Bosnia and Herzegovina should consider criminalising inexplicable wealth.

Changes to the law on access to information are pending the appointment of a new Working Group by the Council of Ministers. Amendments to the Criminal Procedure Code to improve the legal framework for the use of special investigative measures were withdrawn from parliamentary procedure.

As regards protection of whistle-blowers, a State-level law was adopted, entrusting the anti-corruption agency with the protection of persons who report on corruption. A draft law on protection of whistle-blowers passed the public debate phase in the Federation.

The track record of investigation and prosecution in high profile cases remains unsatisfactory and the overall level of effective investigations, prosecution and convictions is low. The capacity to investigate economic, financial and public procurement-related crimes is weak. There is a strong case for introducing specialisation within the police and judiciary to fight corruption. The proposed law to establish specialised departments within the Prosecutor's Office and Supreme Court of Federation to prosecute corruption and organised crime cases was adopted by the Federation's parliament. There is still no effective criminal justice policy, and sanctions for corruption are no deterrent.

*Overall*, Bosnia and Herzegovina has made little progress in advancing reforms to reduce corruption, which continues to affect the entire public sector and remains most acute in the areas of service delivery and access to employment. There is little political will to move beyond rhetoric and to tackle corruption, including effective investigations and convictions in high profile cases. While the legal framework is largely in place, the implementation of laws is weak and inconsistent. Some key pieces of legislation fail to comply with international standards.

#### *Fight against organised crime*

Efforts by law enforcement agencies have led to a number of successful large-scale joint operations, some also through close coordination with neighbouring countries. Strategic coordination among police forces throughout Bosnia and Herzegovina remains to be further developed. Effective judicial follow-up remains an issue, and cooperation between police and prosecutors' offices needs to be further strengthened.

Domestic and transnational criminal networks have continued to operate throughout the territory of Bosnia and Herzegovina. The fight against arms trafficking requires additional targeted efforts. Bosnia and Herzegovina also remains a country of origin, transit and destination for the trafficking of human beings for the purpose of labour exploitation, sexual exploitation, begging and forced marriages. Although production of drugs remains limited, and is mostly limited to marijuana cultivation, the territory of Bosnia and Herzegovina continues to be used for transit and storage purposes. Organised crime remains an issue of serious concern.

For a detailed analysis of developments in the fight against organised crime, *see 4.3 — Justice, Freedom and Security*.

## **2.2. Human rights and the protection of minorities**

As regards **international human rights instruments**, Bosnia and Herzegovina has ratified all major UN and international human rights conventions. The principles of the European Convention on Human Rights are entrenched in the Constitution, which also guarantees the supremacy of this Convention over national legislation.

During the reporting period, the **European Court of Human Rights** delivered 12 judgments finding that Bosnia and Herzegovina had violated the European Convention on Human Rights. The total number of pending applications decreased from 1662 in October 2013 to 1228 as of September 2014. The remaining cases relate mainly to the impossibility to withdraw foreign currency savings deposited before the dissolution of former Yugoslavia, the non-possibility of resolving cases related to re-possession of occupancy rights, missing persons and discrimination on the grounds of ethnicity. While some further progress in

implementing the Court's judgments has been made, the judgment in the Sejdić-Finci case has yet to be implemented.

As regards the **promotion and enforcement of human rights**, since October some 393 judges, prosecutors and legal associates throughout the country have taken part in training on anti-discrimination, gender equality, domestic violence, anti-defamation and freedom of expression.

The **death penalty** is prohibited by the Constitution of Bosnia and Herzegovina and by the Constitution of the Federation. Although there is a moratorium, the death penalty provision in the Constitution of Republika Srpska remains in place. The relevant Article 11(2) of the Constitution of Republika Srpska has to be repealed in line with the *acquis*.

The legal framework on the **prevention of torture and ill-treatment** and the fight against impunity is in place and is generally respected. Bosnia and Herzegovina has appointed its representative to the Council of Europe's Committee on the Prevention of Torture. Effective investigation needs to be ensured and preventive measures taken as regards ill-treatment of suspects by police officers in some police stations and of prisoners by prison staff in some detention facilities. Legislation on the rights of victims of torture remains to be adopted.

Regarding the **prison system**, there was some improvement in conditions for vulnerable prisoners. After long delays, the construction of a high-security State prison started in August. There remains a large backlog in the execution of criminal sanctions, particularly in the Federation. A new law on the execution of criminal sanctions needs to be adopted in the Federation to ensure harmonisation with State-level law and with international standards. Prison inspections need to be improved, particularly through the delivery of a harmonised training curriculum and programmes for inspectors. An effective coordination mechanism among the country's 15 prison administrations is lacking.

Legal provisions guaranteeing **freedom of expression** are in place. However, political and financial pressure on the media has increased. Intimidation and threats against journalists and editors and polarisation of the media along political and ethnic lines intensified prior to the October general elections. There were a number of attacks on the media by politicians, mostly from the Republika Srpska, as well as alleged wiretapping of journalists. Cases of intimidation of journalists by law enforcement officers were recorded during the socio-economic protests in February. The follow-up by the authorities to such threats has been insufficient. The violent attack on a university professor in Mostar that occurred in June was swiftly investigated and the perpetrators brought to justice. There were only few judicial cases regarding defamation.

The new Council of the Communication Regulatory Agency was elected. It completed a procedure for overturning the decision of the previous Council to reduce advertising time during public service broadcasters' programmes. The new Council finalised in March a procedure for the selection of the agency's Director General whose appointment is still pending. The political, institutional and financial independence of the agency remains to be secured.

The independence of the three public broadcasters within the country's public broadcasting system remains to be ensured. The two Entity broadcasters were exposed to further political influence. The Federation Parliament failed to appoint members to the Steering Board of the Federation of BiH Radio and Television. At the same time, the Director General of the RTV FBiH remained in a technical mandate.

The Steering Board of the Republika Srpska public service broadcasters (the RTRS) was elected in accordance with legislative amendments adopted in October 2013. These amendments introduced a selection and appointment procedure for the steering board without

any involvement of the Communication Regulatory Agency. This increased political control over RTRS and thus undermines editorial independence. The amendments also opened a possibility for RTRS to be co-financed from the Republika Srpska government budget, opening the door to further political influence. The newly elected steering board appointed the new acting Director General of RTRS, who previously worked at the Office of Republika Srpska's Prime Minister.

Entity laws on public broadcasting services remain to be harmonised with State-level law. The procedure for amending the statute of the public service broadcaster BHRT failed. The adoption of the Public Broadcasting Corporation's statute is pending and Public Broadcasting System reform has not been completed.

All types of broadcasting are licensed by the Communications Regulatory Agency, under the provisions of the Communications Law of BiH.

The transparency of media ownership is limited. It is partly assured through the process of court registration of business entities, but the full information is not easily accessible due to problematic legal provisions hampering a systematic insight into the ownership structure. This is especially problematic regarding online media, which are often not registered as media businesses. There have been no major initiatives to regulate ownership, privatisation and public funding, or to create a supportive economic environment for the work of independent and financially viable media.

Government financing of media raises concerns. Public broadcasters that are not part of the public broadcasting system are financed from municipal and Cantonal budgets and remain under strong political influence. At Entity level the Government of the Republika Srpska is funding both public and private media. Lack of transparency and clear criteria in the distribution of subsidies are a serious concern. In addition, the advertising practices of public companies controlled by political parties also affect media integrity. The advertising money in some cases follows political party affiliations and influence editorial policies.

The BiH Journalists' Association has been leading civil society efforts in the country aiming at securing freedom of expression and freedom of media, protection of journalists and media integrity. The Press Council of Bosnia and Herzegovina continued to intervene with print and online media outlets on behalf of readers, with the aim of strengthening professional reporting. The implementation of the Freedom of Access of Information Act remains uneven among public institutions.

With regard to **freedom of assembly and association**, there have been some cases of intimidation and violence against human rights defenders. Effective investigation and prosecution of all cases needs to be ensured.

The constitutional and legal guarantees of **freedom of thought, conscience and religion** are generally respected. Cases of discrimination on religious grounds continue to be reported. Incidents targeting religious symbols, clerics, believers and property have been reported and particularly affect religious minorities in certain communities.

Legal provisions guaranteeing **women's rights and gender equality** are in place. A new Action Plan for the Implementation of the UN Security Council Resolution 1325 for the period 2014-2016 was adopted in July. Cooperation between the State Agency and Entity Centres for Gender Equality has been good. Gender focal points were appointed in the State-level ministries of defence and security. A Gender Equality Committee was established in the Brcko District Assembly. Women's political participation across the country remains low. Participation of women in the workforce is low and there is still maternity-related discrimination in employment.

Concerning domestic violence, coordination between the State and Entity levels has been improved. There is still discord in legislative and policy frameworks between various levels of governance, particularly in the Federation. A study on the prevalence of violence against women in Bosnia and Herzegovina carried out by the Gender Equality Agency, the Entity Gender Centres and the Institutes for Statistics, concludes that almost half of the women surveyed have experienced at least one form of violence from the age of 15. There is no data collection mechanism for monitoring domestic violence. A strategy for the implementation of the Council of Europe's Convention on preventing and combating violence against women and domestic violence has still to be adopted.

As regards **children's rights**, the first session of the Council for Children was held in December and since then the Council has been meeting regularly. The law on a single reference number, important to ensure access to health and social benefits and travel documents for newborn children, was adopted in November. The adoption of the first report on the guidelines for the identification of socially excluded children has brought some improvements in data collection. The Parliament of the Federation adopted a strategy for 2013-17 to improve early childhood development. Services for young children, including home visits to reach marginalised families, started to expand through health centres, reaching 10% of municipalities across the country. Some progress was made in reducing the number of children in institutions, mainly in Tuzla Canton. The number of children with disabilities in institutions remains high. Use of foster care needs to be further promoted. Domestic violence against children continues to be widespread. The percentage of children immunised against preventable diseases has increased slightly, but is still low.

The continued existence of divided schools ('two schools under one roof') in some Cantons of the Federation and mono-ethnic schools across the country do not foster the development of an inclusive multi-cultural society. In October 2013, the Travnik Municipal Court rejected on procedural grounds a lawsuit filed by a non-governmental organisation that claimed that the existence of 'two schools under one roof' was discriminatory. *De facto* ethnic-based separation and discrimination in some public schools in the Federation remain of concern.

The start of the 2013-14 school year was marked by school boycotts in several locations in the Republika Srpska. In two schools, Bosniak parents boycotted education over the failure of the authorities to meet their demands regarding *inter alia* the introduction of the Bosniak national curriculum, and the lack of Bosniak teachers and school support staff. Some parents and their children publicly protested in Sarajevo. The situation is not legally resolved and some pupils missed the first semester of the official school year. Some parents have filed lawsuits against the school authorities and the Republika Srpska Ministry of Education referring to the anti-discrimination law and unequal treatment when exercising the right to education. The ministry submitted requests to initiate minor offence proceedings against parents whose children did not attend school during the year 2013-14.

A law on juvenile justice was adopted in the Federation. Orasje juvenile institution became operational. The lack of separate units for juveniles in prisons and police stations across the country still raises concerns. There has been steady progress on enforcement of the Brcko District and Republika Srpska's juvenile justice laws' requirements, with adequate training for judicial and non-judicial actors and designations of suitably qualified prosecutors. Several technical obligations remain insufficiently implemented, with almost no establishment of specialised departments for juveniles in prosecutors' offices and courts, and no recruitment of expert advisers such as psychologists. The lack of capacity to implement alternative measures for juveniles has not been addressed. The pace of legal proceedings involving juvenile suspects remains insufficient throughout the country, while such proceedings have decreased



in number. The legal framework in place is still not harmonised. A national strategy on youth in conflict with the law needs to be adopted.

As regards the **socially vulnerable and/or persons with disabilities**, entitlement to rights and benefits for the disabled is based on status and not on needs. As a result, some categories of persons with disabilities do not receive adequate benefits. Implementation of the social protection legislative framework needs to be stepped up.

An **anti-discrimination** law is in place, but the exclusion of age and disability as categories on the grounds of which there should not be discrimination has not been addressed. Other legislation, such as labour law and laws on higher education, need to be harmonised with the anti-discrimination law. The application of the law by judges remains very limited and its interpretation is uneven across the country. Awareness about the anti-discrimination law remains low among the general public but also by law enforcement agencies and legal professionals. The technical capacity of the Ombudsman to contribute to effective implementation of the anti-discrimination law needs to be strengthened (*see also 2.1. Democracy and the rule of law — Ombudsman*). An anti-discrimination strategy at State level has yet to be adopted. There is no comprehensive collection of data on discrimination.

Concerning rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the anti-discrimination law does not include a clear definition of gender identity and sexual orientation and refers to sexual expression and/or orientation as grounds of discrimination. Sexual orientation and gender identity are not included as grounds for hate crime in the criminal law of the Federation. In the Sarajevo Canton, 19 police officers have been trained on LGBTI rights.

Discrimination against LGBTI people remains widespread. Hate speech, hate crimes and violent attacks against LGBTI people and human rights defenders have increased along with the higher visibility of the LGBTI community. The number of complaints on discrimination and violence officially registered with the police and the Ombudsman remains low. Awareness on LGBTI rights remains very low among the judiciary, law enforcement agencies and the general public. Participants in the LGBTI film festival Merlinka in Sarajevo in February were attacked and two were injured. Police did not intervene promptly to ensure protection. Hate speech and hate crime remain an issue of concern.

With regard to **labour and trade union rights**, the legal framework for social benefits and pension rights remains fragmented. The labour laws are still not harmonised between the Entities and within the Federation. A State-level Economic and Social Council has yet to be established. Provisions for the recognition of social partners at State level have not yet been established (*see also 4.1.8 Employment and social policies, public health policy*).

As regards **property rights**, little additional progress has been made to resolve outstanding cases. There are a total of 183 cases before the State Court in which the Commission for Real Property Claims of Displaced Persons and Refugees is the respondent party in administrative dispute procedures. From this number 129 cases have been archived, 19 cases are pending to be resolved by a judge and 35 which are still in the preparatory phase. Although the new members of the Commission were appointed, the Commission has not yet started to function. A database on outstanding claims and property registers has not been established.

*Overall*, the legal and institutional framework for the observance of human rights is in place and the main elements of international human rights laws have been incorporated into the legal system. The implementation of the judgment in the Sejdić-Finci case remains essential (*See 2.1 — Constitution*). The death penalty provision in the Constitution of Republika Srpska needs to be deleted. Rising political and financial pressure on the media and intimidation and threats against journalists and editors are of serious concern. Media ownership issues need to

be addressed. There needs to be more effort to make schools more inclusive and to address the continuing existence of ‘two schools under one roof’ in the Federation and to ensure children’s right to education throughout the country. The anti-discrimination law needs to be amended to include additional categories on the grounds of which there should not be discrimination. Effective prevention and investigation of cases of hate speech, violence and discrimination against in particular LGBTI persons need to be ensured.

#### *Respect for and protection of minorities, cultural rights*

The legal framework for the protection of **minorities** is largely in place, but implementation needs to improve. The National Minorities’ Councils are operational, but their advisory role remains weak. Implementation of the European Charter for Regional and Minority Languages remains weak. As the Sejdić-Finci ruling has not yet been implemented, minorities continue to be excluded from representation in the House of Peoples and the Presidency of Bosnia and Herzegovina (*see 2.1 — Constitution*). Cultural rights need to be strengthened, including those affecting the participation of national minorities in public life.

Bosnia and Herzegovina holds the chairmanship of the **Roma** Decade in the second semester of 2014. There are two action plans under the Roma strategy — an action plan on educational needs of Roma and an action plan on employment, housing and healthcare 2013-16. The latter has been revised to reflect recommendations from the Roma Inclusion Seminar held in July 2011. The defined objectives are now more realistic, with deadlines and clearer division of responsibility among stakeholders.

Very good progress was made in addressing the housing needs of Roma through building new housing units and upgrading existing Roma settlements. The percentage of Roma children vaccinated against preventable diseases remains very low. The mortality rate under one year of age is three times higher for Roma children than for the overall population.

There has been a rise in the enrolment of Roma children in pre-school education in the Sarajevo and Zenica-Doboj Cantons. Countrywide, the enrolment rate of Roma children in pre-school education is only 1.5 %, compared to 13 % for the overall population. Only two out of three Roma children attend primary school and only about 23 % attend secondary school. In 2012-13, no funding was allocated at State level to support the implementation of the action plan on educational needs. Budgets allocated at Entity level are not sufficient. State-level guidelines on improving the situation of Roma children and social inclusion were adopted in October 2013. Poverty, change of residence and lack of support from families continue to be barriers to access to education for Roma children.

As regards access to civil registration, the overall number of persons at risk of statelessness, the vast majority of whom are Roma, decreased from an estimated 4 500 in January 2012 to an estimated 792 in April 2014. There have been some improvements with regard to discrimination against Roma. Over 50 primary schools in the Federation in the Tuzla Canton and in Republika Srpska integrated an inclusive approach through school development plans based on an index for inclusiveness methodology to promote respect for diversity and tolerance. However, discrimination against the Roma minority remains widespread. Discrimination cases against the Roma population have been reported in the context of the heavy floods in May.

With regard to **refugees and internally displaced persons** (IDPs), there are still 84 500 IDPs and 6 853 refugees in Bosnia and Herzegovina. In March, the Parliament of the Federation adopted a law allowing returnees from the Republika Srpska to access pension benefits and healthcare in the Federation. Access to social rights for returnees remains an issue of concern. Transparent and non-discriminatory criteria for allocating return assistance have yet to be established, despite the fact that the State Commission for Refugees and Displaced Persons

became operational in 2012 and has met regularly. The Revised Strategy for the Implementation of Annex VII of the Dayton/Paris Peace Agreement still lacks coordinated implementation and appropriate allocation of resources. There are problems related to the lack of infrastructure. In particular, electricity and comprehensive de-mining activities continue to limit access to basic services for returnees, displaced persons and refugees. Over 8 600 persons are still living in difficult conditions in collective centres. As regards landmines from the 1992-95 conflict, implementation of the mine action strategy has been slow. Potentially mined areas currently cover 2.4% of the country's surface. Since September 2013, six people have been killed and nine injured in landmine accidents. The adoption of the law on anti-mines actions still needs to be adopted. There is still no comprehensive approach to address the remaining challenges of clearing the country of mines by 2019.

*Overall*, some progress has been achieved in improving housing conditions for Roma and as regards civil registration. Roma remain the most vulnerable minority in Bosnia and Herzegovina. The implementation of Roma action plans needs to be stepped up and allocation of sufficient budgets ensured. As regards refugees and internally displaced persons, effective implementation of the revised strategy needs to be ensured, in particular its socio-economic aspects.

### **2.3. Regional issues and international obligations**

Bosnia and Herzegovina has appointed representatives to a number of Council of Europe advisory bodies where it was not represented. The country has yet to select and appoint the chairperson of its delegation to the Council of Europe's Parliamentary Assembly. Implementation of requirements stemming from the Council of Europe Conventions remains uneven.

Implementation of the **Dayton/Paris Peace Agreement** continued. In May, Serbian Prime Minister Vucic reiterated his support for the Agreement and for the sovereignty and territorial integrity of Bosnia and Herzegovina during his visit to Sarajevo. Under the Agreement on Special Parallel Relations between Serbia and Republika Srpska, joint sessions of the governments were held in October and December, with emphasis on joint efforts to fight organised crime and corruption and on economic cooperation.

Cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)** continues to be satisfactory in most areas. Serious, consistent efforts are, however, still required to complete the handling of all category II war crimes cases,<sup>10</sup> which were transferred from the Tribunal to Bosnia and Herzegovina. For developments related to the processing of domestic war crimes cases, *see above — Judicial system*.

There have been significant steps to improve regional cooperation and the fight against impunity. Regional cooperation between courts and prosecutors' offices in Bosnia and Herzegovina, Serbia and Croatia continued within the existing legal framework. Bilateral extradition agreements (excluding war crimes) with Serbia and the former Yugoslav Republic of Macedonia have entered into force. Further agreements with the former Yugoslav Republic of Macedonia on legal assistance in civil and criminal matters and on mutual execution of court decisions in criminal matters have been ratified in March. The Bosnia and Herzegovina Prosecutor's Office and Montenegro Supreme State Prosecutor's Office have signed a protocol on cooperation in prosecution of perpetrators of war crimes, crimes against humanity and genocide.

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<sup>10</sup> Cases for which evidence was collected during the investigations by the Tribunal's Office of the Prosecutor and was subsequently transferred to the national prosecutor's office of countries of former Yugoslavia for further investigation and possible prosecution.

Bosnia and Herzegovina still maintains a 2003 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. In doing so, it is not complying with the EU Common Positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Bosnia and Herzegovina needs to align with the EU position.

Bosnia and Herzegovina, along with Croatia, Montenegro and Serbia, have continued to cooperate closely in the framework of the **Sarajevo Declaration Process**, which aims to find sustainable solutions for people who became refugees and displaced persons as a result of the armed conflicts in ex-Yugoslavia during the 1990s. In March, the UN High Commissioner for Refugees (UNHCR) recommended that UN member states terminate refugee status for refugees originating from Croatia, at the latest by the end of 2017.

Implementation of the regional housing programme, expected to provide sustainable housing solutions for some 14000 people in Bosnia and Herzegovina, has started. Two housing projects, targeting about 900 beneficiaries, have been approved. Two Entity and one second-instance commissions for the selection of beneficiaries have been appointed and started working in October 2013. However, lengthy, complex procedures to select beneficiaries and lack of capacity within the lead institution continue to cause delays in the implementation of the programme in Bosnia and Herzegovina. The selection of returnees, in particular, is advancing at a very slow pace due to the high number of applications and their so far inefficient processing. Good overall cooperation between the partner countries on the process and its housing programme needs to continue.

The unresolved fate of **missing persons** from the conflicts in the 1990s remains a humanitarian concern in the Western Balkans. As of August, a total of 11 155 persons were still missing according to the International Committee of the Red Cross (ICRC). Of these, 7 282 cases relate to the conflict in Bosnia and Herzegovina, 2 163 to the conflict in Croatia and 1 710 to the conflict in Kosovo\*. Ascertaining the fate of missing persons remains vital for reconciliation and stability in the region. Greater political commitment and renewed efforts are needed.

Serbia, Bosnia and Herzegovina, Croatia and Montenegro signed in August a Declaration on the role of the state in addressing the issue of persons missing as a consequence of armed conflict and human rights. A review of non-identified bodies stored in 11 mortuaries has started. Over 260 cases from the Mostar and Nevesinje morgues have been re-examined, resulting in 30 new identifications. In all, 684 remains were exhumed over the reporting period, resulting in 576 new identifications.

The Missing Persons Institute continues to be subject to political pressure. No progress was made on implementing the provisions of the law on missing persons regarding the establishment of a fund to provide financial support to families of missing persons. Lack of local forensic capacity is hampering the process of identifying missing persons, especially in the Federation.

**Regional cooperation and good neighbourly relations** form an essential part of Bosnia and Herzegovina's process of moving towards the EU. The country has continued to actively participate in regional initiatives, including the South-East European Cooperation Process, the Regional Cooperation Council and the Energy Community Treaty. Bosnia and Herzegovina successfully concluded its one-year term as Chair of the Central European Free Trade Agreement at the end of 2013. Bosnia and Herzegovina continues to actively support the

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\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

Coalition for Reconciliation Commission (RECOM) and Igman initiatives on regional reconciliation.

In December, Bosnia and Herzegovina, Montenegro and Serbia signed a protocol to establish a joint centre for police cooperation in Trebinje (Bosnia and Herzegovina), which opened officially in March. On 29 September 2014, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro and Serbia signed an agreement on reducing the prices of roaming services on public mobile communications networks.

Bosnia and Herzegovina has further developed its **bilateral relations with other enlargement countries and neighbouring EU Member States**.

A treaty on cooperation with *Albania* in the veterinary field was ratified in March. A bilateral agreement on mutual protection of classified information was signed in May.

An Agreement on double taxation with *the former Yugoslav Republic of Macedonia* was ratified in March, and amendments to a number of other agreements were ratified.

A protocol on cooperation in the area of forensic examinations and expertise with *Montenegro* was signed in December. The protocol on cooperation in the prosecution of perpetrators of war crimes, mentioned above, was signed in April. A bilateral border agreement was initialled in May.

Relations with *Serbia* remained good. The new Serbian Prime Minister Vučić made his first official foreign visit to Sarajevo and focused on improving economic and trade cooperation and resolving remaining bilateral issues. There were several other high-level reciprocal visits. The Serbian leadership took a constructive approach during the socio-economic protests in Bosnia and Herzegovina, calling for restraint and moderation by the political representatives of the Republika Srpska. An agreement on readmission of persons whose entry or stay is illegal and its implementing protocol were ratified in December. Border demarcation remains to be addressed.

There are no official relations with *Kosovo*, as Bosnia and Herzegovina has not recognised Kosovo as an independent state. The Ministry of Foreign Affairs of Bosnia and Herzegovina is issuing individual short-term visas to citizens of Kosovo only by invitation from foreign diplomatic missions and international organisations accredited in Bosnia and Herzegovina, or for humanitarian reasons. An amendment to normalise visa procedure for all citizens of Kosovo is pending. In January, Kosovo introduced visas for citizens of Bosnia and Herzegovina.

An agreement on cooperation in the defence industry and on military training was ratified with *Turkey* in December. The Turkish Foreign Minister visited Bosnia and Herzegovina in February and the Chairman of the Presidency of Bosnia and Herzegovina Izetbegovic paid an official visit to Turkey in May.

Relations with *Croatia* remained good. A number of Croatian officials, including the President, government members and parliament representatives visited Bosnia and Herzegovina. Regarding the transit of goods through the Neum corridor, in October 2013 the Indirect Taxation Authority of Bosnia and Herzegovina introduced systematic customs controls of shipments of goods by way of tracking shipments and copying transport documents, on top of controls carried out by Croatia, on behalf of the EU, at the EU's external border. These controls are an impediment to the smooth flow of mainly domestic Croatian goods. Both parties are working towards a practical solution on a bilateral basis. No additional progress has been made in resolving outstanding bilateral issues, including property issues and border demarcation.

*Overall*, Bosnia and Herzegovina has continued to participate actively in regional cooperation and to maintain good neighbourly relations. Remaining border and property issues with neighbouring countries need to be addressed.

### **3. ECONOMIC CRITERIA**

In examining economic developments in Bosnia and Herzegovina, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the European Union requires the existence of a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union.

Monitoring of the economic criteria needs to be seen in the context of the increased role of economic governance in the enlargement process, as welcomed by the General Affairs Council of 17 December 2013. To this end, Bosnia and Herzegovina engaged in high-level policy dialogue with the Commission, the Member States and the European Central Bank, based on its Economic and Fiscal Programme.

Economic structural reforms were put at the centre of the Compact for Growth initiative launched by the EU in May 2014, which identified key economic policy issues.

#### **3.1. The existence of a functioning market economy**

Macroeconomic stability was broadly maintained but the export-led recovery remains fragile. Despite a shrinking current account deficit, external imbalances remain large, reflecting limited output- and export diversification and a generally low degree of competitiveness. A significant state presence in the economy as well as considerable weaknesses in the business environment continue to negatively affect private sector development. No progress has been made towards creating a single economic space within the country. Some measures to improve public finances sustainability have been adopted in both Entities but the quality of public finances remains low and fiscal discipline and expenditure control have to be strengthened. The stalled privatisation process and the unfavourable composition of public expenditures continue to significantly undermine the growth potential of the economy. Unemployment remains persistently high.

##### *Economic policy*

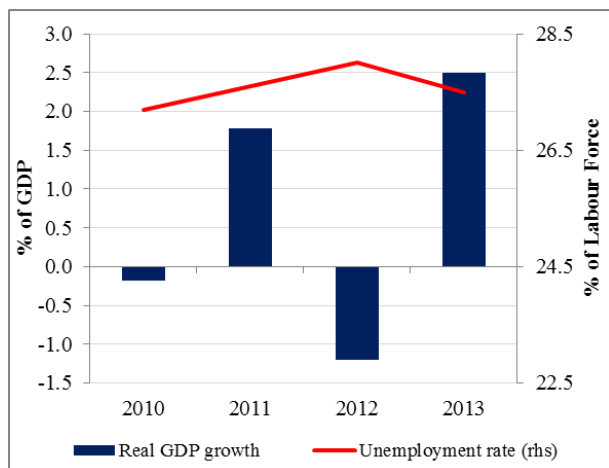
Consensus between the authorities at different government levels led to an agreement on a medium-term countrywide fiscal strategy -the Global Frameworks on Fiscal Balance and Policies for 2014-2016 and 2015-2017- were adopted, albeit with some delay. Consensus was also reached regarding some adjustments in excises along with several reform steps aimed to improve fiscal sustainability. However, significant efforts are still needed to develop further the medium-term fiscal strategy in order to strengthen its role as a fiscal coordination tool. In January 2014, the authorities submitted their Economic and Fiscal Programme (EFP) for 2014-2016. It foresees a gradual economic recovery based on strengthening of domestic demand, but at the same time remains silent on pressing structural reforms, in particular beyond 2014, and faces non-negligible implementation risks. A nine-month extension of the Stand-By Arrangement (SBA) with the IMF, totalling € 153.6 million was granted in January 2014. Following a temporary stalemate in early 2014, the combined sixth and seventh review of the SBA was completed in June 2014. To meet the country's urgent balance of payments needs caused by the severe flooding in May 2014, the programme was at the same time augmented by about €95.7 million. Budgetary support from the World Bank, which had already been delayed and temporarily suspended, is expected to be disbursed by the end of 2014. The country needs to step up its efforts on fiscal consolidation and improving public spending composition and targeting, address the high burden of non-performing loans in the

banking sector, improve the business environment, and reduce labour market rigidities, in line with targeted policy guidance as outlined by the European Commission in the framework of the EFP dialogue in June 2014. **Overall, despite some slight improvement, the consensus on economic and fiscal policy essentials remained weak and significant efforts are needed to pursue reforms already envisaged.**

#### Macroeconomic stability

The economy recovered somewhat in 2013 but this recovery is fragile. Output growth reached 2.5% in 2013 and accelerated to 2.7% in the first quarter of 2014, compared to a drop by

**Figure 1 GDP growth and unemployment**

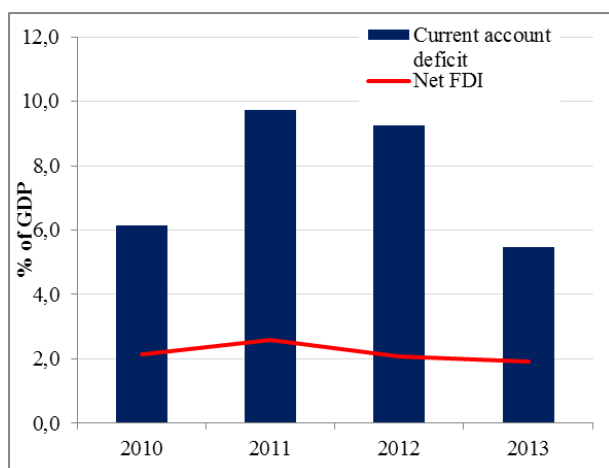


1.2% in 2012. *Per capita* GDP in purchasing power standards remained at 29% of the EU-28 average in 2013. Net exports were the main drivers of economic growth, a result of declining imports coupled with buoyant export activity. Despite a modest growth of real wages and broadly unchanged remittances, domestic demand in 2013 was held back by a stagnating private consumption on the back of a slowing credit growth and persistently high unemployment. At the same time, investment activity posted a meagre growth thanks to foreign-financed public investments, while private investments were stagnant. Signs of fragility are becoming

evident in 2014. Partly due to base effects export growth came to a halt in the first five months in 2014 but showed signs of modest recovery afterwards, while imports reversed their negative trend. Heavy floods in the spring severely damaged transport- and energy infrastructure as well as production and are expected to result in a drag on short-term GDP growth. **Overall, the economy is slowly emerging from recession but economic growth remains fragile and the short-term outlook has deteriorated due to the spring floods.**

External imbalances narrowed substantially in 2013 on the back of stagnating private consumption and imports coupled with a solid export performance, but started to widen again in the first half of 2014. The current account deficit nearly halved to 5.5% of GDP in 2013 from well above 9% of GDP in the previous two years, mainly linked to a strong

**Figure 2: External position**



improvement of the trade deficit to 30.5% of GDP from 33.6% of GDP in 2012. At the same time, the contribution of current transfers, although slightly declining from last year, amounted to some 10% of GDP. The trend for a narrowing trade deficit reversed in the first seven months of 2014 when merchandise exports expanded at a slower pace (1% in annual terms), while imports of goods picked up by some 6%. The current account deficit increased to 6.1% of GDP in the four quarters to March 2014. Net foreign direct investment (FDI) inflows, which accounted for only one-third of the current account deficit financing, continued their declining trend and

amounted to a meagre 1.9% of GDP in 2013 even narrowing further in the first quarter of 2014. Net foreign exchange reserves steadily increased in the course of 2013 and the first half of 2014 and covered more than five months' worth of imports, boosted partly by financial assistance under the IMF Stand-By Arrangement. **Overall, the external imbalances have narrowed but remain a source of vulnerability, especially in view of the potential adverse impact of the volatile environment on FDI inflows.**

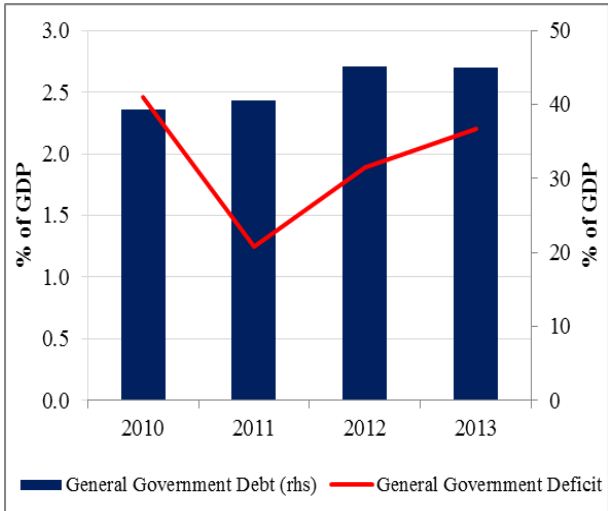
Labour market conditions improved somewhat during 2013 despite continuous adverse developments in some sectors (e.g. construction). Notwithstanding a slight rise of employment in the manufacturing sector, the public sector still accounts for the largest share in the workforce (27%) in 2013. The unemployment rate (ILO methodology) dropped by half a percentage point to 27.5% of the workforce in 2013 and remained unchanged in 2014. At the same time, the already low employment and activity rates of the population aged 15 years and older also slightly declined further to 31.6% and 43.6%, respectively. The structural nature of unemployment is reflected by the high share of long-term unemployment accounting for around four fifths of total job-seekers, while youth unemployment remains close to 60%. A significant difference between the registered and survey-based labour figures points towards the existence of a fairly large informal labour market. **Overall, labour market conditions have remained difficult and structural rigidities continued to hamper job creation, including for youth, calling for urgent measures to reduce disincentives to hiring, enhance flexibility of the labour market, and increase participation rates.**

Inflationary pressures abated in the course of 2013 bringing consumer price inflation from 2% in 2012 down to -0.2% in 2013. The deflationary trend started in August 2013 and continued in the first half of 2014. Consumer prices declined by 1.4% in the period January-July 2014. Monetary policy of the central bank continued to be conducted under a currency board arrangement—with the euro as anchor currency—enjoying a high level of confidence and credibility. **Overall, the currency board has continued to function well, but feeble domestic demand and persistent deflation are growing causes for concern.**

Despite some fiscal consolidation measures in 2013 such as the freeze of public sector wages and restrictive employment policy in both Entities and the central government, as well as

additional measures including the one-off cut of salaries in Republika Srpska, the general government deficit remained broadly unchanged at 2.2% of GDP. In particular, public expenditures in 2013 declined by 1 percentage point to 45.6% of GDP and are heavily biased towards current expenditures. The public wage bill still accounts for a large share of expenditures although marginally decreasing to 12.5% of GDP, while expenditures on social benefits remained unchanged at some 17% of GDP. At the same time, capital expenditures increased slightly to 6.8% of GDP. Expenditure consolidation was coupled with some underperformance of revenues dropping to 43.4% of GDP in 2013 partly due to the decline of net indirect taxes, in

**Figure 3: Fiscal developments**



particular because of high VAT refunds. In the first half of 2014, the fiscal situation deteriorated again as a result of the spring floods and the temporary stalemate of the Stand-By Arrangement with the IMF against the backdrop of elevated debt servicing needs in 2014,



thus prompting a rebalancing of the Entities' budgets. In particular, the emergency financing needs to tackle the consequences of the spring floods are likely to double the target of the consolidated fiscal deficit for 2014 to close to 3% of GDP. ***Overall, the fiscal situation improved slightly in 2013 but worsened again in early 2014 amid a persistently low quality of public finances. Further efforts are needed to address the composition of public spending.***

The management of public finances appears to have strengthened in 2013-2014 with the adoption in due time of the State and Entity budgets, although the Global Frameworks for Fiscal Policies 2014-2016 and 2015-2017 were adopted with some delay. To improve the long-term sustainability of the Entity's public finances, in September 2013 the Federation government endorsed a strategy for a contributory pension system reform. A new Law on Budgets in the Federation entered in force in January 2014 aiming to enhance the coordination with lower levels of government i.e. Cantons and municipalities. However, the quality of fiscal reporting remains low, undermining public scrutiny, proper analysis and policy design. ***Overall, important steps towards improving the sustainability of fiscal policy have been taken, but significant further efforts are required, notably with a view to strengthening expenditure controls and fiscal discipline.***

General government debt (domestic and external), although still below the statutory ceilings of the Entities, has been steadily increasing in recent years to reach 46.2% of GDP in 2013 according to national data. This was mainly due to an increase of external borrowing reaching 28.2% of GDP at end-2013, however, with an average favourable interest rate of 1.44%. At the same time, both Entities issued short-term treasury bills and long-term government bonds in 2013 securing relatively favourable conditions due to high demand. The issuance of government securities intensified in the first half of 2014 linked to the temporary stalemate of the programme with the IMF and elevated refinancing needs estimated to increase to 4.5% of GDP in 2014. In addition, the spring flooding is putting further pressure on public finances. ***Overall, despite a still moderate level, the upward trend of public debt and the elevated servicing needs are a source of macro-financial vulnerability.***

#### *Interplay of market forces*

The share of the private sector continues to account for about 60% of GDP while the government's influence over economic activity has remained significant as reflected in the share of GDP of public expenditures and the off-budget expenditures for state-owned firms. Despite the adoption of privatisation strategies in 2013 and 2014, the privatisation process in the Federation continued to suffer setbacks. The unsuccessful attempts to sell 11 companies in 2013, mostly with minority stakes of the state, left the initial stock of state-owned capital for privatisation unchanged at some two-thirds. In Republika Srpska, about 2/3 of the enterprises intended for privatisation had been sold prior to the crisis, while other companies previously offered for sale were forced to declare bankruptcy. Most prices are liberalised and a number of regulated prices remain (e.g. utilities). ***Overall, the long-stalled privatisation process needs to be re-started again.***

#### *Market entry and exit*

In spite of some recent improvement, the business registration and start-up process remains cumbersome and costly. The lack of harmonisation of registration procedures across Entities still requires entrepreneurs to register in both Entities before they can do business in the whole country. The implementation of the ambitious business environment reform in Republika Srpska continued in 2013 and early 2014 with the establishment of one-stop-shops for business registration as of December 2013, the reduction of the number of required procedures (from 11 to 5) and of business start-up costs (from €500-750 to €200). In the Federation, the adoption of amendments to the Law on Business Registration as well as the

Law on Companies and Inspections also aimed to simplify and shorten business registration. Despite the acceleration in economic activity in 2013, the number of newly registered companies decreased significantly by 14.1 % from a year earlier. Slow contract enforcement, limited access to financing and political instability remained key disruptive factors for doing business in the country. No progress was made in easing market exit or bankruptcy procedures. ***Overall, the simplification of business registration has continued, albeit slowly, but significant administrative barriers for private-sector development still remain.***

#### *The legal system*

No substantial improvements can be reported as regards the business legal system in Bosnia and Herzegovina, which remains complex and challenging. The implementation of laws is often poor due to weak institutional enforcement capacity. The judicial system still frequently does not function efficiently and in particular struggles to cope with commercial dispute settlements. The enforcement of commercial contracts remains a lengthy process, which involves 37 procedures and still takes an average of 595 days. A weak rule of law and unreliable contract enforcement procedures continue to hamper the business environment. ***Overall, lengthy contract enforcement procedures and weaknesses in the rule of law continue to be detrimental to the business environment.***

#### *Financial sector development*

The banking sector continued to dominate the financial system in 2013, accounting for 84.6 % of all financial system assets and some 84 % of GDP. The number of banks operating in the country at end-2013 decreased to twenty-seven following revocation of one bank licence in June 2013. The banking sector remains highly concentrated and is dominated by foreign capital holding slightly below 90 % of total banking assets. There are only two majority state-owned banks while the rest are privately-owned.

The banking system remained well capitalised and liquid in 2013 and in the first quarter of 2014. The capital adequacy ratio decreased slightly to 17.3 % in the second quarter of 2014 compared to 17.8 % as of end-2013. In 2013 the maximum coverage level within the deposit guarantee scheme was increased to €25000 from previously €18000, with twenty-six banks participating. The liquidity of the system improved and the ratio of liquid assets to total assets as of end December 2013 rose slightly to 26.4 %. However, financial stability pressures have somewhat increased. Banking sector profitability ratios continued their downward trend and turned temporarily negative as of end 2013. Moreover, banks' exposure to credit risk has increased as the ratio of non-performing loans (NPLs) rose to 15.5 % of total loans in the second quarter of 2014 compared to 14.3 % a year earlier, with a further increase likely to result from the spring flooding. So far, the deterioration has been mitigated by an increase in loan loss provisioning.

Although credit growth remained positive, it decreased substantially to 2.8 % in 2013, mainly on the back of a deceleration of corporate lending. However, there were signs of recovery of corporate lending in the first half of 2014. At the same time, retail lending increased substantially throughout the period and rose on annual basis by 6.5 % in June 2014. The magnitude of potential crowding out of private investment by the public sector is likely to be limited given the relatively low share of the government sector in total credits. The importance of deposits as a source of bank financing continued to increase with deposit growth accelerating to 7.8 % in June 2014 after a growth of 6.9 % in 2013. The trend of stronger deposit growth in the corporate sector started in mid-2013 and continued through the first half of 2014, swelling by 12.7 % on average, while households increased their savings by 8.8 %. However, on the back of the acceleration in credit growth, the loans-to-deposits ratio slightly rose to 116 % in June 2014. ***Overall, the banking system remains well capitalised and liquid. However, the increasing share of non-performing loans is a cause for concern.***

The capital market in Bosnia and Herzegovina remains small and the turnover concentrates on a few privatised companies and government financing instruments. The combined stock market capitalisation increased marginally to 34% of GDP largely due to government bonds and bills that account for around 75% of total market capitalisation. In 2013, twenty-five companies were operating in the insurance sector in the country. ***Overall, financial intermediation by the non-banking sector remained shallow.***

### **3.2. The capacity to cope with competitive pressure and market forces within the Union**

#### *Human and physical capital*

Information and statistics on human capital remain scattered. The overall progress in the area of education continues to be very limited, despite the increase of gross enrolment rates for higher education. The educational reform agreed in 2012 remains ineffective, though some progress has been made in the area of accreditation of higher education institutions. The significant number of unemployed with university degrees possibly reflects inefficiencies in the higher education system. Unemployment among youth (age group 15-24) stands at close to 60% and is the worst among all age groups. However, necessary reforms of the labour legislation to decrease labour market rigidities are still pending, while labour market programmes in place do not effectively address long-term and youth unemployment. ***Overall, significant efforts are needed to improve the quality and efficiency of the education system and support a proper functioning of the labour market.***

The unfavourable business environment coupled with low shares of public capital expenditures in recent years put a drag on the improvement of physical infrastructure. The floods in May 2014 have impaired large parts of the country's infrastructure and the reconstruction needs completely overstrains the thin public capital budget. However, the investment-to-GDP ratio in 2013, which remained broadly unchanged at the relatively modest level of 17.8% of GDP, is likely to increase in view of international aid-supported reconstructions following the floods. Due to the stalled privatisation process and unsupportive business environment, net FDI flows in 2013 continued their downward trend reaching 1.9% of GDP, targeting the energy sector and infrastructure projects. Investments in the energy sector were directed mainly towards hydro and coal-burned power plants, while investments in infrastructure were mainly driven by construction works on the highway of Pan-European Corridor Vc but with slow progress. In total, inward FDI stock reached €5.9 bn or 44% of GDP by end-2013. ***Overall, there is a need to rebuild fiscal space for growth-enhancing public investments and to enhance the business environment to attract private investment, in particular FDI, both of which are crucial for improving the underdeveloped infrastructure which was furthermore damaged by the floods.***

#### *Sector and enterprise structure*

Limited progress has been achieved in unbundling electricity networks as well as towards a competitive telecommunications market. The three incumbent operators continue to act in their geographical areas as *de facto* monopolies over fixed voice telephony. The number of new registrations in the internet services and network operators market continued its upward trend in 2013. The penetration rate of internet users reached 65.4% at the end of 2013, while the rate of broadband internet access increased marginally to a still relatively low level of 13.5%. ***Overall, limited progress was achieved on the liberalisation of network industries.***

According to the Statistical Business Register from end-June 2014 only 56.7% of enterprises are active. The majority (75.1%) are micro-enterprises with less than 10 employees operating mainly in the wholesale and retail sale sector. The economy continues to be dominated by the services sector, which accounted for around 62% of gross value added (GVA) in 2013,

followed by industry (20%) and agriculture (8.1%). The contribution of the construction sector to GVA contracted further to 4.6%, while the traditionally high share of public administration, education and health protection remained broadly unchanged at 18.8%. The informal sector fuelled by poor law enforcement and the inadequate fight against corruption represents a major obstacle for industry development and imposes significant risks and costs on the overall economy. ***Overall, there have been no major changes in the structure of the economy and the need to address the informal sector remains.***

#### *State influence on competitiveness*

No major progress has been made in reducing the state's influence on the economy. In addition, hardly any measures to decrease para-fiscal charges have been implemented, thus putting an additional brake on private sector development. Direct budget subsidies to industry and agriculture at consolidated level decreased to around 1% of GDP in 2013 partly due to consolidation efforts during the year. Similarly to previous years, the Entity governments provided loan guarantees worth 6.3% of GDP to several companies in the infrastructure sectors. The State aid authority remains to become fully operational and its financing issue is yet to be resolved. Bosnia and Herzegovina still needs to improve the consolidated state aid inventory reporting and address the issue of transparency of all directly granted state aid. ***Overall, state aid remains significant and the state-owned monopolies are an enduring drain on public resources.***

#### *Economic integration with the EU*

The openness of the economy measured as the sum of total imports and exports of goods and services marginally fell to 80% of GDP in 2013 as compared to 81% in 2012, mainly on account of shrinking imports even though exports slightly increased to 30% of GDP. The overall coverage of import by export increased to 58.7% up from 54.5% in 2012. The EU remains Bosnia and Herzegovina's main trading partner, increasing its weight further with Croatia's EU accession as of 1 July 2013. Accordingly, the share of exports to the EU increased to 73.5%, while imports from the EU came slightly down to 60% of total imports. The most important EU trade partners are Germany and Croatia, although the pending adoption of quality standards required by the accession of Croatia to the EU puts downward pressure on the share of both Croatian imports and exports. CEFTA countries remained the second single most important trading partner and accounted for some 16% of merchandise exports and 11% of imports of goods. ***Overall, the already high level of trade integration with the EU remained broadly unchanged.***

## **4. EUROPEAN STANDARDS**

This section examines Bosnia and Herzegovina's capacity gradually to approximate its legislation and policies with the *acquis* in the areas of the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement (SAA). It also analyses Bosnia and Herzegovina's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period, and summarises the country's overall level of preparation.

### **4.1. Internal market**

#### *4.1.1. Free movement of goods*

In the area of **standardisation**, the Institute for Standardisation of Bosnia and Herzegovina (the BAS), adopted 81.4% of the European standards (ENs) required for membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). The BAS adopted 1862 European standards

(ENs) as national standards, bringing the total to 16 705 ENs. Two new technical committees, BAS/TC 55 (Social Responsibility) and BAS/TC 58 (Eurocodes) were established, bringing the total to 51. The BAS actively works on raising public awareness about the importance of standardisation and improving the technical competence of BAS personnel. No conflicting ex-Yugoslav mandatory standards were withdrawn.

On **conformity assessment**, Republika Srpska is developing its own legislation separately. The Federation and the Brčko District of Bosnia and Herzegovina continue to implement the BiH conformity assessment law.

As regards **accreditation**, the Institute for Accreditation of Bosnia and Herzegovina (the BATA) accredited a total of 62 conformity assessment bodies. BATA's representatives regularly took part in the work of European and international accreditation organisations and its personnel upgraded their expertise with specialised training. The law on accreditation still needs to be amended to bring it in line with the *acquis*. The role of accreditation in authorising conformity assessment bodies at both State and Entity levels still needs to be ensured.

In the field of **metrology**, representatives from the Institute of Metrology of Bosnia and Herzegovina (IMBiH) participated in the work of technical committees on metrology (EURAMET, WELMEC, BIPM, IOML, COOMET and GULFMET). The IMBiH also participated in 28 inter-comparisons. The Laboratory for Precious Metals (the national reference laboratory responsible for quality control of articles made of precious metals) has been accredited according to standard BAS EN ISO/IEC 17025:2006 for testing laboratories. IMBiH declared a national standard in the field of mass, which serves as the basis for determining the value of all other standard units of measure for mass. The IMBiH carried out a fourth annual supervisory check on its quality management system. IMBiH personnel improved their expertise by participating in European development programmes and cooperating with EU Metrology Institutes. A development strategy for the metrology system, the new law on metrology which merges the existing legislative framework and lays the foundation for implementation of the *acquis* have yet to be adopted. Cooperation and coordination between the IMBiH and the metrology institutes of the Entities need further improvement.

In the area of **market surveillance**, the Market Surveillance Agency and the inspection bodies of the Entities and of Brčko District have initiated, implemented and coordinated proactive and reactive market surveillance activities. In all, 15 projects were implemented as part of the proactive surveillance and 33 cases were initiated on reactive surveillance. As a result of 233 inspection controls, 4612 unsafe products were withdrawn from the market and 2935 unsafe products were destroyed.

Businesses have harmonised 208 636 pieces of products with safety requirements by order of inspections. The agency has given eight training courses for inspectors of the Entities and the Brčko District. Coordination and cooperation between the agency and inspections in the Entities and Brčko District continues to develop through the regular work of the coordination board. The agency published 48 notifications with descriptions of risk and instructions for consumers and 49 weekly RAPEX notifications about dangerous products found on the EU market. It has published brochures in several key areas to inform the public about unsafe products on the market. The agency also adopted a communication strategy for the period 2014-16.

The market surveillance system remains largely based on mandatory standards and pre-market control. Full alignment of the law on market surveillance with the *acquis* remains to be achieved and cooperation between the agency and inspections of the Entities and Brčko District needs to be improved.

Although the ‘New and Global Approach’ product legislation is regulated at State level, Republika Srpska is adopting its own legislation (separately from State, Federation and Brčko District). The division of responsibilities for alignment with ‘Old Approach’ *acquis* remains to be clarified.

The report on the execution of the 2013 State-level annual **consumer protection** programme and the 2014 State-level annual consumer protection programme have yet to be adopted.

The Ombudsman’s Office for Consumer Protection continues to be fully staffed. In 2013, the Ombudsman resolved 255 cases. The Ombudsman delivered 10 expert opinions, provided 588 pieces of legal advice and answered 950 requests for information. The Ombudsman issued recommendations and guidelines in the communal electricity, heating and water supply sectors.

*Overall*, there has been limited progress on free movement of goods in the areas of standardisation, accreditation and metrology and on consumer protection. Legal alignment and related capacity building remain a priority, as is coordination between the relevant institutions and repealing conflicting legislation. Major steps still need to be taken to achieve a fully functioning single economic area.

#### 4.1.2. *Movement of persons, services and right of establishment*

The **movement of persons** and the mobility of the labour force within the country remain a concern. The Agreement between the Council of Ministers of Bosnia and Herzegovina and the Government of the Republic of Slovenia on Employment of Citizens and the Protocol on the Implementation of the Agreement resulted in the issuing of 661 work permits and 624 vacancy notices published for 1 456 jobs in 2013. The decision on determination of the annual quota of work permits for foreigners in Bosnia and Herzegovina for 2014 sets an annual quota of 1 949 work permits, of which 950 relate to the Federation of Bosnia and Herzegovina, 800 to Republika Srpska and 199 to Brčko District. Of these annual quotas, 679 work permits concern new jobs for foreigners in Bosnia and Herzegovina. (*see also 4.1.8 — Employment and social policies, public health policy*)

As regards the **freedom to provide services**, preparations for aligning with the Services Directive have not yet started. Implementation of the *acquis* on *recognition of qualifications* is sought, but is undermined by the lack of harmonisation between the Entities and State level.

In the field of *postal services*, a total of 16 postal service providers have been licensed by the Bosnia and Herzegovina Agency for Postal Traffic. Three of these are public and 13 are private. There is no State-level strategy for postal services and the State-level law on postal services aiming to achieve further harmonisation with the *acquis* and to ensure consistency of the regulatory framework among the Entities has yet to be adopted. The lack of harmonisation between the Entities and the State level regarding the scope of universal and reserved services continues to undermine legal certainty. Administrative capacities at State level remain weak.

On **financial services**, both Entities are in the process of drafting a new law on banks. Both Entities’ banking agencies passed numerous decisions related to minimum standards for banks’ capital management, fees for members of supervisory and steering boards, reporting standards and conditions for conducting payment transactions abroad. Banking agencies are carrying out stress tests on a regular basis, as a result of which five out of 27 banks were identified as currently undercapitalised. The process of recapitalisation is underway. Due to a massive loss at one commercial bank, in 2013 the banking sector ended up with a negative financial result of BAM 380 million.

The law on the protection of consumers of financial services in the Federation was adopted by parliament in March 2014. Despite the existing legal framework, the Ombudsman for financial services is not yet operational in the Federation.

In the field of *insurance services*, the Insurance Agency has strengthened its coordinating role in the preparation of draft legislation by the Entities, which also introduced a system for the exchange of draft by-laws related to protection funds.

The regulatory and enforcement powers of the Insurance Agency still remain to be reinforced and clarified. The draft law on insurance was adopted by the Federation House of Representatives in March 2014

Both Entities prepared draft laws in the field of third party motor vehicle insurance. In December 2013, Republika Srpska adopted three by-laws in the field of insurance against civil liability in respect of the use of motor vehicles.

The Entities adopted regulations that set conditions for the operation of insurance companies and brokerage firms to improve client protection. The Federation adopted a rulebook on conditions for investments by insurance companies and decisions on voting and temporary funding of the protection fund. Republika Srpska adopted a decision on conditions for the use of assets for the coverage of technical reserves by insurance companies. The Federation introduced amendments to the legislation on insurance companies and on intermediaries into parliamentary procedure to harmonise legislation between the Entities.

Operations of insurance companies across Entities improved. Overall, the insurance market remained steady while the premiums for life insurance continued to rise, which indicates a diversification of portfolios in favour of life insurance, notably in Republika Srpska.

On *capital markets*, the Federation prepared a draft Law on takeovers of joint stock companies to align it with the Directive on Takeover Bids, while Republika Srpska drafted a law on amendments to the Law on investment funds to align it with the Undertakings for the collective investment in transferable securities — Investment Funds (UCITS) Directive.

In the area of **company law**, the Federation amended the law on companies so as to allow the establishment of subsidiaries of both domestic and foreign companies. A new law on companies has also been drafted and submitted to the parliamentary procedure but has not yet been adopted. Legislation on *corporate accounting* and *auditing* is broadly aligned with the *acquis* (but not yet fully in line with latest EU legislative developments) and almost fully harmonised between the Entities. In November 2013, the Federation Chamber of Auditors was established as an expert organisation for audit companies and auditors. The Committee for Public Control, supervising the Chamber of Auditors, was also set up.

*Overall*, there was very limited progress regarding movement of persons, services and right of establishment. A State-level strategy for postal services and a State-level law on postal services still remain to be adopted. Preparations have been initiated to strengthen countrywide coordination in harmonising legislation on insurance and insurance supervision. Some measures have been taken towards standardising conditions for operations of insurance companies. Harmonisation with the *acquis* and alignment with the Solvency II Directive throughout the country have yet to be addressed.

#### 4.1.3. *Free movement of capital*

As regards **movement of capital**, Bosnia and Herzegovina remains relatively liberal in terms of inward capital flows. The legal framework has yet to be aligned with the *acquis*. There are legal limitations in both Entities on the amount that non-residents may transfer without bureaucratic burdens. As for foreign investment, the lack of coordination for designing and implementing regulatory reforms at country level remains. Capital markets continue to suffer

from challenging economic conditions and operate at relatively low levels. The securities market is the main driving force of growth since both Entities secure an increasing share of funds through local capital markets. The creation of a single economic space would make the country considerably more attractive to foreign investors. Restrictions on foreign direct investment (FDI) continue to apply in the media sector, where a 49 % limit on foreign-owned capital remains in place.

Bosnia and Herzegovina has a modern **payment system** within its central bank for giro account clearing and real-time gross settlement operations, which runs smoothly. In 2013, the value of transactions in these two categories fell by 6 % compared to 2012, although the number of transactions was slightly higher.

Regarding the **fight against money laundering**, the Law on Prevention of Money Laundering and Counter Terrorism Financing has been adopted in 2014, but amendments to the Criminal Code that regulate money laundering and terrorism financing crimes still need to be adopted to make it compliant with international standards. The relevant strategic framework and action plan expired in 2013; no activities were undertaken to define new ones.

The country remains subject to Moneyval Compliance Enhancing Procedures. Moneyval issued in September a public statement, calling on states and territories evaluated by Moneyval and other countries to advise their financial institutions to pay special attention by applying enhanced due diligence measures to transactions with persons and financial institutions from or in Bosnia and Herzegovina, in order to address the money laundering and financing of terrorism risks.

The number of reports on transactions and suspicious transactions increased. In 2013, the Financial Intelligence Department (FID) within the State Investigation and Protection Agency received 350 000 reports on transactions (300 000 in 2012), and there have been 193 reports on suspicious transactions (148 in 2012). Most of the reports are submitted by the banking sector. Notaries, lawyers, accountants and other professions are only obliged to report on suspicious transactions. FID temporarily suspended transactions in four cases, worth a total of around € 1.5 million (*see also 4.3.2 — Money laundering*)

*Overall*, there has been no progress in the area of free movement of capital. Preparations in the area of free movement of capital remain moderately advanced. There needs to be further alignment with the *acquis* to ensure countrywide harmonisation and the creation of a single economic space.

#### **4.1.4. Customs and taxation**

A new **customs** policy law and its implementing regulation were adopted by the Council of Ministers of Bosnia and Herzegovina in July 2013. Their adoption is a first step towards further improvements in this area, such as introduction of Authorised Economic Operator status, implementation of the New Computerised Transit System (NCTS), and further improvements to simplified customs procedures.

Certain simplified customs procedures, e.g. local clearance, became operational and are being used by a number of economic operators to speed up clearance on imports and exports.

Bosnia and Herzegovina ratified the regional Convention on Pan-Euro-Med Preferential Rules of Origin in May. It is an observer to the Common Transit Convention and has started preparations for a new computerised transit system.

The customs tariff was updated in line with the 2014 version of the EU Combined Nomenclature.



The Indirect Taxation Authority (ITA) of Bosnia and Herzegovina has begun the implementation of 'Asycuda World', a new customs declaration processing system that is expected to improve, simplify and speed up customs clearance.

With regard to **taxation**, the value added tax (VAT) Book of Rules was amended to allow VAT refunds to taxable persons who are not established in Bosnia and Herzegovina. A new IT application to support this process is in place. ITA, assisted by its 'twinning' adviser, is developing a web-based IT application/portal for the submission of VAT returns.

Regarding excises, the government has adopted a small brewery tax scheme that differs from that in the *acquis* and discriminates against beer imports. The government has also raised taxes on cigarettes. The amendments to the Law on Excise Duties introducing increased rates on fine cut tobacco have been adopted and entered into force as of 1 August.

The law on indirect taxation procedure was amended to enable the ITA to share data with the Agency for Statistics of Bosnia and Herzegovina and to publish a list of its biggest tax debtors.

A special team was established to intensify the fight against tax evasion. The team will work with the Special Department for organised crime, economic crime and corruption of the Prosecutor's office of Bosnia and Herzegovina, to detect and prosecute tax crimes.

The Federation and the Republika Srpska governments have drafted new laws that should approximate their respective corporate income tax systems.

ITA's operational and administrative capacity is improving more slowly than planned because some key departments, such as Risk Management and Internal Audit, are still not fully staffed. On the other hand, a new training unit became operational, a training strategy is in place and in-house training of customs and tax officials is improving.

*Overall*, there were positive developments in the customs legislation and in the operational capacity of the Indirect Tax Administration.

#### 4.1.5. *Competition*

In the area of **anti-trust and mergers**, the competition law remains to be fully aligned with the *acquis*. The Competition Council focused on cases of mergers and abuses of dominant market positions. The council issued 23 anti-trust decisions, 20 merger decisions and 24 expert opinions. It imposed fines totalling about €580000 on companies that infringed competition rules. The council's administrative capacity, with a total of 26 staff, appears insufficient to carry out the tasks assigned proactively, especially as the number of cases it hears is going up steadily. The council's staff requires further training to increase the authority's investigative capacity.

As regards **state aid**, the State Aid Council was established and the Head of Secretariat was appointed. The Council has eight members and it has held 15 sessions until now, mostly on technical and organisational issues. The Council of Ministers of Bosnia and Herzegovina adopted the Annual Report on State Aid for the years 2011 and 2012. The regulation on the criteria for state aid compatibility verification is in the process of being adopted at all levels (it was adopted at Entity level but is still pending adoption in Brčko District and at State level), while the regulation on procedures, state aid applications and notification forms was adopted at State and Entity level. Both the regulation on the criteria for State aid compatibility verification and the regulation on procedures, state aid application and notification form will need to be amended in order to ensure the full compliance of Bosnia and Herzegovina's State aid legislation with the EU *acquis*. Financing the operation of the Council and Secretariat is challenging, as Republika Srpska did not contribute its entire share. The Secretariat is not yet fully operational. The inventory of aid schemes carried out before the establishment of the

State Aid Council has been completed. The schemes have not yet been aligned with the EU's competition rules. Transparency of all state aid granted in the country has not yet been ensured.

*Overall*, some progress was made in the area of competition. Further efforts have to be made to improve the current anti-trust legislation and to improve the administrative capacity of the Competition Council. To comply with the Interim Agreement, the country must fully implement state aid legislation and set up the institutional framework for effective control of all state aid granted in the country. Preparations in this area remain at an early stage.

#### *4.1.6. Public procurement*

In the area of the public procurement, a new law aiming to transpose EU Directives 2004/17 and 2004/18 was adopted on 28 April 2014 and will come into force on 1 December 2014. Earlier amendments to the law also provide for the establishment of branch offices of the Procurement Review Body in Banja Luka and Mostar, which have not yet been established. The new members of the Procurement Review Body (PRB) in Sarajevo were appointed in June 2014. Preparations for resuming the online publication of PRB decisions have been stepped up.

Bosnia and Herzegovina did not take measures to ensure competitive and transparent procedures or the independent reviews required by the *acquis* in the area of public-private partnerships. The same applies to services and works concessions. The regulation of the concessions system is still fragmented and its administrative set-up has no formal channels for cooperation. This maintains legal uncertainty and high administrative costs, and fragments the envisaged single economic space.

*Overall*, there has been some progress in the area of public procurement, albeit slow. Implementation of the new Public Procurement Law, including through adoption of by-laws, is necessary and the legislation on concessions still need to be aligned with the *acquis*. The work of the competent institutions needs to be more transparent, internal operations need to be improved, and the capacity of contracting authorities across the country strengthened.

#### *4.1.7. Intellectual property law*

There were further improvements in the functioning of the Institute for Intellectual Property. Intensive training for staff continued. The Institute published two editions of its Official Gazette and continued to raise awareness on the importance of intellectual property rights. The IT system improved.

With regard to the **copyright and neighbouring rights**, 28 copyright works and related rights entered the Institute's records and certificates of deposit and registration were issued.

In the area of **industrial property rights**, the International Convention for the Protection of New Varieties of Plants (the UPOV Convention) and the European Patent Convention have yet to be ratified. The Institute for Intellectual Property received 36 (national) and 160 (extension) patent applications and processed 212, including some from previous years. Regarding trademarks, the Institute received 472 applications and processed 547, including some from previous years. The Institute received 14 industrial design applications and issued 21 decisions granting industrial designs. Four applications for protection of geographical indications were received. The Board of Appeal of the Institute received seven new applications and completed nine appeal proceedings.

Regarding **enforcement**, the holders of intellectual property rights filed 41 requests for customs measures based on protected trademarks. Decisions were issued in relation to 39 requests whereby customs measures were approved in accordance with the provisions of the trademark law, and two requests were suspended. A total of 17 decisions were issued on

temporary retention of goods. Training for the Indirect Taxation Authority staff continued. The State Investigation and Protection Agency (SIPA) and Entity Inspectorates intensified their work in the field on intellectual property rights. From March 2013 to January 2014, SIPA seized counterfeit goods valued at about €125 000. It submitted 26 reports on criminal activities to the relevant Prosecutors' Office.

Entities' market inspectors continue to conduct inspections on the protection of intellectual property according to their annual plan. The market inspectors of Republika Srpska conducted 79 inspections on the protection of intellectual property, of which 67 were regular inspections and 12 extraordinary controls. Irregularities were detected in 30 cases and the business entities were issued with 21 decisions to remedy these. Goods were seized in one case and four banning measures were imposed. Five minor offence warrants were issued, worth a total of €6 000, and three minor offence reports were filed. The Federation market inspectors conducted 31 inspections related to the protection of copyrights and related rights (software licences and music broadcasting in restaurants and cafes). Six offence warrants were issued, worth a total of €6 000. Workshops were held on intellectual property rights enforcement for about 100 persons from market inspectorates, courts, customs and police.

However, a reliable system for collecting, analysing and exchanging data among the various institutions involved is still lacking. An enforcement strategy is still not in place and enforcement, as well as coordination among enforcement bodies at various levels, needs to be improved.

*Overall*, although preparations in the area of copyright and neighbouring rights, and industrial property rights have advanced, further efforts are required, in particular to improve enforcement and coordination.

#### 4.1.8. *Employment and social policies, public health policy*

Both Entity governments and the Brčko District adopted annual **employment** action plans. The Federation's employment strategy expired in 2013 and has been replaced by a strategy on mediation in employment. Labour market participation further decreased from already low levels, especially regarding the female labour force, and stood at 43.6% in 2013. The employment rate also declined to 31.6% in 2013. Job creation remained modest. Unemployment dropped slightly to 27.5% in 2013. About 80% of those are long-term unemployed. Youth unemployment remains at alarming levels (at close to 60% in 2013). More than 40% of the unemployed are not active job-seekers. Labour market challenges remain considerable. The Entity governments and public employment services lack both administrative and financial capacity to implement active labour market measures. Passive labour market measures prevail over active labour market measures.

As regards **social policies**, there is still no possibility to develop a *labour law* or health and safety legislation at State level. Labour laws and *health and safety* legislation at the level of Entities, Brčko District, and Cantons are not harmonised and not aligned with the EU *acquis*. Employees' social contributions remain non-harmonised and their percentages differ between Entities and the Brčko District, as well as among Cantons in the Federation. Labour inspectorates remained understaffed and are unable to perform their tasks properly. In the field of *social dialogue*, the State Economic and Social Council have not been established, due to the lack of a legal framework for the recognition of social partners at the State level. There are Economic and Social Councils at Entity level, as well as in some Cantons in the Federation. The Councils at Entity level perform their work satisfactorily.

*Social protection* in Bosnia and Herzegovina remains fragmented. This also has a negative impact on the internal mobility of the labour force, due to fragmented labour legislation and social security systems. The Agreement on exercise of rights to unemployment benefits

between the Federation Employment Institute, the Republika Srpska Employment Institute and the Brčko District Employment Institute remains to be fully implemented. Social protection is predominantly determined based on status as opposed to need, and there are still inequalities in the provision of rights in different areas. This means that social protection systems remain largely inefficient, despite a relatively high level of public expenditure compared to neighbouring countries. Pension systems have been facing financial difficulties, as they were coping with privileged pensions for persons based on status (mostly war veterans). As a consequence, permanent social assistance benefits continued to be below the poverty line as determined by the World Bank.

Serious financial limitations at all levels of government also hinder the application of social protection rights currently prescribed by already limited social protection laws. In some Cantons in the Federation and some municipalities of Republika Srpska, due to financial constraints, some rights are not paid, or not paid in full.

Policies for *social inclusion* are not harmonised across Entities and neither are provisions for citizens. Regarding *anti-discrimination*, vulnerable groups including children, Roma, returnees and internally displaced persons, disabled persons, etc. are not adequately protected, whether at State, Entity, Brčko District or Cantonal levels.

Regarding **public health policy**, a reporting system on National Health Accounts in line with World Health Organisation and Eurostat requirements was introduced and a first Report on National Health Accounts for BiH, for 2009-2011 was drafted, providing information on public and private expenditure in healthcare in comparison with EU countries. Challenges persist, with an inadequate system for early detection of children with developmental delays and inadequate intervention to manage their care, low levels of immunisation (68% overall and 4% for Roma) as well as a weak immunisation surveillance system, and equity gaps in under-five and infant mortality and malnutrition. The implementation of Entity health strategies is slow. In some parts of the Federation, a system for electronic health records has been introduced. The Federation's government adopted a strategy for rare diseases.

In the field of *communicable diseases*, the Technical Report of Implementation of International Health Regulations (IHR) in Bosnia and Herzegovina was adopted by the Ministers of Health. Ministers of Health also adopted implementing procedures for a national Early Warning System (case definitions, critical values, standard operating procedures) for Bosnia and Herzegovina. Standard operating procedures define a system for managing outbreak epidemiology. A WHO EURO self-assessment survey on antimicrobial resistance was conducted. A programme for tuberculosis control was adopted in the Republika Srpska and the Federation. International Health Regulations core capacities on the dynamics of infectious diseases in Bosnia and Herzegovina were developed. Both Entities developed action plans for improving their immunisation programmes.

In the field of *blood, tissues, cells and organs* 14 rulebooks were adopted to implement the law on transplantation of organs and tissues and cells for the purpose of medical treatment in the Federation.

On *pharmaceuticals*, in November 2013, the Council of Ministers of Bosnia and Herzegovina established a multi-sectoral working group tasked with developing an operational plan for accession of Bosnia and Herzegovina to the Council of Europe's Medicrime Convention, which aims to fight counterfeit medicines. In 2013, Republika Srpska approved amendments on the law on pharmacy practice. In addition, the Ministry of Health and Social Welfare of Republika Srpska adopted a pharmaceuticals programme 2013-20, as well as amendments on the rule book on prescribing and dispensing medicines.

In the area of *mental health*, the Federation adopted an implementing rule on healthcare standards applying to compulsory health insurance in centres for mental health, in community centres for physical rehabilitation, preventive healthcare for young people in schools and universities, and specific healthcare for athletes.

In the area of *nutrition*, Entity Ministries of Health and Education, along with Public Health Institutes developed Guidance for Infant and Young Child Feeding and launched an initiative called ‘Nutrition Friendly Kindergartens’ to promote adequate dietary intake and prevent non-communicable diseases among pre-school children. The strategy for control of diabetes 2014-24 was adopted in the Federation.

*Overall*, there was very limited progress in the area of employment and social policies. Unemployment is largely structural and has continued to rise. A large share of the working age population is inactive. Policies, capacities and financial resources are lacking to support their activation. The social protection system in Bosnia and Herzegovina remains fragmented and there are no signs of harmonising existing labour and health and safety at work laws and on aligning them with the EU *acquis* or with international human rights standards. There was little progress in public health. The public health workforce needs more staff and more expertise, especially at primary health care level in the regions, to ensure adequate epidemiological surveillance.

#### 4.1.9. *Education and research*

As regards **education**, Bosnia and Herzegovina signed an agreement with the EU in June 2014 establishing its partial participation in Erasmus+. The country actively participates in the Western Balkans Platform on Education and Training.

The Conference of Ministers of Education, to be held every other month, met only once in the reporting period. In the Federation there are still two coordination bodies acting in parallel, with the Federation Coordination of Ministers of Education coordinating ministries in only six Cantons. The inter-sectoral commission for the preparation of the action plan for the implementation of the Baseline Qualifications Framework submitted the document to the Council of Ministers. The mandate of the Commission expired in February.

The ‘two schools under one roof’ phenomenon still exists in 34 schools in the Federation but otherwise there are mono-ethnic schools in the whole country. This year’s protests of returnee parents and children from Konjevic Polje (Bratunac) and Vrbanjci (Kotor Varos) highlighted alleged discriminatory practices in schools in the Republika Srpska, whereby children are not schooled in their mother tongue (Bosnian), despite guarantees in the federal Constitution.

There are still three Cantons (Central-Bosnia, West-Herzegovina and Herzegovina-Neretva) that have not aligned their legislation on pre-school education with the framework law. The legislation for vocational education and training has yet to be adopted by four Cantons.

In all, 69% of Roma children were attending primary school and 22.6% were attending secondary school (versus 91.8% of non-Roma). Bosnia and Herzegovina has not participated in the last round of PISA testing and is encouraged to do so in the future.

Principles and standards on higher education were adopted by the Council of Ministers. Five accredited higher education institutions have been registered at federal level. In the Cantons, documents and procedures for accreditation have not been harmonised.

The agencies for statistics in Bosnia and Herzegovina have started to report on statistics in education according to the requirements set by OECD/ILO and Eurostat, using the ISCED 2011 classification.

While there are plans to modernise and reform teacher education in each Entity, a common approach and the development of national standards would be to the benefit of all. Work on developing a National Qualifications Framework has not progressed.

The Youth in Action programme involved an increased number of young people from Bosnia and Herzegovina in international youth activities.

In the field of **culture**, the agreement between the EU and Bosnia and Herzegovina on participating in the Creative Europe programme was signed in June 2014.

In the absence of political agreement on the recognition of the status and the budgetary financing of the seven national institutions of culture, the government of the Federation adopted a decision on temporary financing of five institutions of culture. While the Federation government also secured additional funds for the financing of, some national institutions, the National Museum of Bosnia and Herzegovina remained closed.

In the area of **research and innovation**, Bosnia and Herzegovina has adopted the framework law on science and the strategy for science development aimed at stimulating research and innovation. There was no increase in the level of participation to the EU framework programme for research (FP7). The overall success rate is 12.3% compared to the EU average of 21.6%. The agreement associating Bosnia and Herzegovina to the new EU research and innovation programme Horizon 2020 (covering 2014-2020) was signed in July 2014, allowing for retro-active participation of Entities from the country as from 1 January 2014. The first necessary administrative measures for participation have been put in place (nomination of national contact points and representatives in the programme committees).

As to the integration into the European Research Area, no new actions were implemented and the level of investment in research, a key EU target, is still very low (less than 0.20% of GDP). Bosnia and Herzegovina did nominate a representative in the European Research Area Committee. With respect to the Innovation Union, the Framework Law on Science and the Strategy for Science Development aims at stimulating cooperation between private and public sector but no concrete actions have yet been adopted. Bosnia and Herzegovina has been active in cooperating at regional level and co-signed the Western Balkan Regional R&D Strategy for Innovation adopted in October 2013.

*Overall*, there was little progress on education and significant efforts are needed to improve the system. The complex structure makes coordination difficult and good governance almost impossible. Further strengthening of the newly established State-level institutions remains a challenge to be addressed. The policy-dialogue amongst the Ministries of Education and the Department for Education in the Brčko district needs to be improved to reduce the fragmentation of the education system. The existence of mono-ethnic schools and a divided education system are still problems. Further efforts are needed to support VET policy. Other key issues include entrepreneurial learning, improving adult training, as well as the effective implementation of the Qualifications Framework. All Cantons should regulate the accreditation procedure for higher education institutions. There was little progress regarding culture; however, Bosnia and Herzegovina continues to participate in the MEDIA strand (as well as the Culture strand) of the Creative Europe programme. There has been limited progress in the area of research and innovation, but signature of the association agreement on Horizon 2020 was an important step.

#### *4.1.10. WTO issues*

Progress was made in negotiations for accession to the World Trade Organisation.

Bilateral market access negotiations are underway, based on revised offers in goods and services. Multilateral work is proceeding, as the rulebook on monitoring the use of genetically

modified organisms (GMOs) and amendments of the Federation law on internal trade still remain to be adopted. Bilateral negotiations have been completed with the US, Ecuador and Panama, while they are still ongoing with Brazil and Ukraine. Final, revised offers have been submitted to Brazil. Bosnia and Herzegovina has offered to start the procedure for the conclusion of a Free Trade Agreement with Ukraine.

## **4.2. Sectoral policies**

### *4.2.1. Industry and SMEs*

Preparations in the area of **industrial policy** are still at an early stage for harmonised implementation of the policy measures by the Entities. The Federation adopted amendments to the action plan for industrial policy development in January 2014 and introduced new strategies for competitive sectors.

In the field of **SME** policy, in January the Council of Ministers mandated the Ministry of Foreign Trade and Economic Relations to prepare a State level SME strategy for the period 2014-2020. The strategy will provide for countrywide harmonisation of definitions, coordination and SME development priorities in accordance with the Small Business Act and EU recommendations. Negotiations between Bosnia and Herzegovina and the European Commission on a draft agreement for the country's participation in the EU Competitiveness of Enterprise and Small and Medium-sized Enterprises programme started in June 2014.

Regarding business environment, there was progress on reforms in the area of business registration. After the adoption of a set of laws in Republika Srpska, a one-stop-shop system for business registration has been implemented since December 2013. It provides for the streamlining of procedures and enables businesses to register within three days, at a cost of one BAM. The Federation adopted legislation on business entities and amendments to the law on registration of business entities in June 2014. The issue of double registration countrywide has not been resolved.

Support to business infrastructure has improved across the country. The Federation provided €767 000 to local administrations for establishment of entrepreneurial zones. To consolidate policy planning with Cantons, the Federation continues to implement an integrated information system, which has now been extended to incorporate data on female and youth entrepreneurship and on crafts. Republika Srpska has adopted new criteria for entrepreneurial support to stimulate innovations, new technologies and quality standards. Brčko District is implementing a system of interest rate subsidies through guarantee funds for SMEs.

Some efforts have been made at local level to improve the business environment through business certification of municipalities across Entities as part of a non-governmental regional initiative ('Business Friendly Certification in South-East Europe') which started in December 2011.

Little progress has been achieved in the field of *tourism*. The Government of Republika Srpska in July 2014 adopted amendments to the law on consumer protection to approximate with the *acquis* on timeshare and long-term holiday products.

*Overall*, there has been little progress in the area of industrial and SMEs policies and there is still no countrywide strategy. The Entities accelerated their activities to tackle the issues of competitiveness in strategic sectors and initiated improvements in the business environment through business registration reforms. However, countrywide coordination and implementation remains to be addressed. Policy actions for business support remain patchy and entrepreneurs still face considerable obstacles to conduct business across the Entities' borders.

#### 4.2.2. Agriculture and fisheries

In the area of **agriculture and rural development policy** Bosnia and Herzegovina still needs to adopt State-level laws on wine and on organic production as well as a countrywide rural development strategy.

The design of a State-level strategic plan for rural development and implementation of the harmonisation programme for agriculture, food and rural development did not advance. Progress in implementing the Entities' strategies and action plans remain uneven. The administrative capacities and coordination structures within the sector policy, including support measures, remain to be strengthened. Building up capacities at State, Entities and Brčko District levels remains uneven, and the number of staff has yet to be increased.

Regarding preparations for the Instrument for Pre-accession Assistance for Rural Development, an agreement on institutional structures for decentralised management of IPA funds related to this policy area is still pending. Following a lack of political agreement on such structures, relevant IPA projects had to be cancelled. Inter-sectoral coordination and the participation of the non-governmental sector remain weak. The sectoral analyses on the forestry and aquaculture sectors have been extended to January 2015, so completion is expected during 2015.

Improvements in productivity and competitiveness remain hampered by the lack of an efficient administration and effective rural credit schemes. The adoption of Bosnia and Herzegovina's agricultural information strategy is still pending. Preparations for an agricultural census are at an early stage. Improvements in agricultural statistics and the agricultural information system remain insufficient. There is still no harmonisation of land registration systems country wide, and land management remains to be strengthened. The lack of consolidated statistics hampers the development of agricultural policy.

As regards **food safety**, there has been little progress. The chain of command and the official food and feed control system do not yet match European standards to allow for exports of goods of animal origin to the EU market.

In January 2014, the Commission's audit service (the Food and Veterinary Office) carried out a mission to assess Bosnia and Herzegovina's production and processing of dairy products and found that the country is not yet ready to export to the EU. Capacities to implement official controls and ensure an efficient exchange of information within the control chain need further improvements.

The Protocol *'on the establishment of a chain of command meeting the requirements for export of milk and dairy products originating from Bosnia and Herzegovina to the EU'* (Milk Protocol), signed by the competent authorities of Bosnia and Herzegovina in 2013, still remains to be fully implemented. The Milk Protocol is a provisional solution, pending the adoption of the new Bosnia and Herzegovina laws regulating this area, i.e. the veterinary law, the law on food safety and the law on agriculture and rural development. The action plan on the establishment of a horizontal official control framework for the feed and food chain in accordance with Regulation (EC) 882/2004 has not yet been fully implemented.

A central database for the official control system has not yet been established. A strategy on laboratory capacity to cover analysis of samples in line with official controls on food and feed chains remains to be drawn up.

The Hygiene Package remains to be fully implemented in a harmonised manner countrywide. The same applies for both Entities for those involved in the production of food of animal origin, irrespective of the size of the operators. Training in legal and EU standards requirements, in the field of food hygiene, were conducted for staff of relevant authorities and



inspectories, but more needs to be done. There also needs to be more training for food business operators to ensure they comply with relevant EU quality control standards. Checks and registration of milk farms remain to be improved to ensure compliance with EU requirements. The regulatory framework for the control of imports of food of non-animal origin remains to be upgraded.

In the **veterinary** sector, Bosnia and Herzegovina continued with the adoption of implementing legislation governing control, prevention and eradication of certain communicable animal diseases. The implementation of animal control measures for communicable and parasitic animal diseases continued, including bovine brucellosis and bovine tuberculosis controls. The implementation of vaccinations against brucellosis and rabies continued, including monitoring and coordination activities. The new Animal Disease Notification and Outbreak Information Management System is now operational. The system is used to monitor and eradicate animal disease outbreaks and is in line with EU and national legal requirements. Strengthening of capacities of laboratories continued. The legal framework for animal health needs further upgrading. Deficiencies in the existing animal identification and movement control systems need to be remedied to allow efficient planning and implementation of animal health measures. There was a rise in the number of accredited laboratories, as well as in the number of accredited laboratory methods for diagnostics of animal diseases, microbiological analyses and control of residues of veterinary medicines. Bosnia and Herzegovina continued to implement a residue monitoring plan.

The national system for the management of animal by-products is in need of further improvements to comply with EU requirements. More work is required in the veterinary sector to implement measures to meet EU import requirements.

In the **phytosanitary** sector, Bosnia and Herzegovina continued harmonising relevant legislation with the *acquis*.

The amendments of the law on protection of new plant varieties in Bosnia and Herzegovina were adopted. Implementation of the programme of special surveillance and quarantine of harmful organisms on potatoes continued throughout the country. Rulebooks were adopted on the phytosanitary register and plant passports, on the list of harmful organisms, the list of plants, plant products, and regulated objects. A general operating action plan in case of emergency occurrences of organisms harmful to plants and plant products was endorsed. Registration of producers, processors, importers and distributors of plants, plant products and regulated objects has begun in phyto registries in the country, and a single phyto registry is to be managed by the Plant Health Protection Administration of Bosnia and Herzegovina.

A Food and Veterinary Office mission to evaluate plant health controls applied in the potato sector was conducted in April. Official controls and the situation as regards the main harmful organisms affecting potatoes were assessed as generally positive. The legal framework, work of diagnostic laboratories, and control at border inspection points are generally harmonised with the EU *acquis*. Certain insufficiencies have yet to be remedied to enable the export of ware potatoes to the EU.

Administrative capacity needs further strengthening and training needs to continue for agricultural producers in the use of plant protection products and the application of maximum residue limits, among others. The phytosanitary sector needs to continue with efforts to expand the application of principles of integrated pest management.

Regarding **genetically modified organisms (GMOs)**, Bosnia and Herzegovina continued with the adoption of implementing legal acts on monitoring the impact of GMOs and products that contain or originate from GMOs, sampling, traceability and market access of GMO-related products.

Regarding **fisheries**, harmonisation of relevant laws that regulate this area needs to be further stepped up. Implementation of legislation is uneven throughout the country. More efforts are needed to implement the *acquis* in this sector to facilitate more exports of fish and fishery products to the EU.

*Overall*, there was little progress in the fields of agriculture and rural development, food safety, veterinary, phytosanitary policy and fisheries. A countrywide rural development strategy and the designation of the central competent authority remain pending. State level capacity for coordination and harmonisation throughout the country needs to be strengthened. The country's capacity for official controls and the chain of command need to be upgraded. Preparations in these areas of the *acquis* need to be stepped up.

#### 4.2.3. *Environment and climate change*

In the field of **environment**, there were no significant developments concerning *horizontal legislation*. The State of the Environment Report for Bosnia and Herzegovina is pending adoption by the Council of Ministers. Steps were taken towards preparing the Implementation Plan for the Convention on Environmental Impact Assessment (EIA) and the Protocol on Strategic Environmental Assessment. Alignment with Strategic Environmental Assessment and Public Participation Directives still needs to be improved in both Entities.

As regards *air quality*, Republika Srpska adopted implementing legislation on monitoring, zones and agglomerations, and air quality values. Implementation of the relevant *acquis* is at an early stage. Air quality planning and monitoring systems need upgrading. A countrywide air monitoring network has not yet been established.

On *waste management*, there have been no efforts to implement solid waste management plans prepared with EU support for selected regions. Countrywide strategic planning of investments in this sector has yet to be completed. The Federation adopted implementing legislation on the management of plastic bags. Republika Srpska has adopted a new Law on Waste management. Republika Srpska and the Federation have started implementing a packaging and packaging waste management system. Economic instruments to promote recycling and prevention of waste generation remain limited. There have been no new investments to improve waste sorting and recycling. Capacity to manage industrial and hazardous waste remains to be strengthened.

Regarding *water quality*, the country still lacks a consistent and harmonised approach to water management at State level. This includes implementing water laws, monitoring and river-basin management plans. The water policy at State level remains to be adopted, while alignment with and implementation of the *acquis* significantly slowed down. Some steps were taken in drawing up river-basin management plans for the rivers Neretva-Trebinjica and Sava. The country's capacities to implement water-related EU Directives remain insufficient. Access to drinking water, untreated discharges of wastewater and flood management remain to be addressed.

As regards *nature protection*, Republika Srpska adopted a law on nature protection advancing towards alignment with the Birds and the Habitats Directives. The country took steps to identify an initial list of 95 potential NATURA 2000 ecological areas that account for approximately 20% of its territory. Regulations implementing the nature conservation *acquis* have been drafted in consultation with the responsible ministries of both Entities and the Brčko District, but remains to be adopted.

A law on *chemicals* is in parliamentary procedure in the Federation. Republika Srpska continued to adopt implementing legislation advancing alignment with the EU *acquis* on classification, labelling and packaging of substances and mixtures. The European Chemicals

Agency carried out a successful first mission to Bosnia and Herzegovina in 2013. Significant efforts are needed in the areas of *industrial pollution control* and *noise*.

In the area of **civil protection**, given the impact of disasters in the country, disaster risk reduction and disaster management need to be treated as a matter of priority, particularly in the light of the recent severe floods. In July, Bosnia and Herzegovina expressed its interest in becoming a member of the EU Civil Protection Mechanism. A memorandum of understanding on cooperation between the relevant civil protection bodies of the Entities was signed.

Regarding **climate change**, the country adopted a strategy for adaptation to climate change adaptation and low emissions development strategy. Efforts should be made to streamline this strategy into sectoral policies and strategies. Bosnia and Herzegovina regularly associated itself with EU positions in the international context. A second National Communication was submitted to the United Nations Framework Convention on Climate Change and the biennial update report on greenhouse gasses is under preparation. The country has not yet put forward a mitigation commitment by 2020 in the context of the Copenhagen Accord and the low-emission development strategy adopted does not include any mitigation commitment. The country needs to put forward by the first quarter of 2015 its intended nationally determined contribution to the 2015 Climate Agreement, consistent with those of the EU and its Member States. The country needs to develop a comprehensive countrywide climate policy and strategy in line with the expected EU 2030 policy framework on climate and energy.

The country is at a very early stage in aligning with the EU climate *acquis*. At State level, the adoption and implementation of management plans to phase out ozone-depleting substances is advancing. The country's capacities for monitoring, reporting and verification in this area remain weak and should be considerably strengthened. Significant efforts are still needed to raise awareness at all levels of society, and to promote cooperation between all relevant stakeholders. The country participated regularly in the Environment and Climate Regional Accession Network (ECRAN) project.

**Administrative capacity** in the environment and climate sectors remains weak. A mechanism for comprehensive alignment with EU legislation across the country is lacking, as is countrywide strategic planning. Monitoring and reporting on the state of the environment at country level is not yet carried out in a coherent and consistent manner. Integration of environmental and climate concerns in other sectors remains to be addressed at Entity and State level. There has been some progress in the reorganisation of the Republika Srpska Hydro-Meteorological Institute, to deal with the greenhouse gas inventory. The administrative structure and the interinstitutional cooperation and coordination mechanism on climate change needs to be considerably strengthened to address the need to step up climate action in a sustainable manner, beyond the current project-by-project basis. Capacity building is required to address significant capacity, cooperation and coordination needs. Public consultations with civil society need to be strengthened.

*Overall*, there was little progress in the fields of environment and climate change. The priorities remain the establishment of a harmonised legal framework for environmental protection and climate action, adequate administrative capacity and functioning monitoring systems. Improvements have to be made to horizontal and vertical interinstitutional coordination on environment and climate change issues among all authorities. Strategic planning and implementation of the environment and climate *acquis* are necessary. The country needs to put forward by the first quarter of 2015 its intended contribution to the 2015 Climate Agreement. Preparations in the fields of environment and climate change are still at an early stage.

#### 4.2.4. *Transport policy*

In the transport sector, a State-level transport policy remains to be adopted. The key strategic documents for transport in general and all transport sub-sectors also need to be drafted and adopted. Following the acceleration of support under IPA funds, a working group to advance on these issues, consisting of both government officials and parliamentarians, was established. Legislation pertaining to rail, road, maritime, inland waterway transport and intermodal transport has not yet been aligned with the *acquis*. The general transport infrastructure in Bosnia and Herzegovina is in great need of upgrades in line with the agreed comprehensive network of the South-east Europe Transport Observatory Network (SEETO).

Regarding **trans-European transport networks** the general transport infrastructure in Bosnia and Herzegovina is in great need of upgrades in line with the indicative extension of the TEN-T to the Western Balkans region. Bosnia and Herzegovina need to focus on the development and prioritisation of projects on the routes defined in the comprehensive network of the South-east Europe Transport Observatory Network (SEETO). Active cooperation in SEETO should be reinforced.

As regards **road transport**, Bosnia and Herzegovina has one of the highest road fatality rates in Europe, and road safety remains a major concern. A road safety strategy and action plan remains to be adopted. There has been little progress in further alignment with the road transport *acquis*, which is at an early stage.

No progress has been achieved regarding **rail transport**. The two Entities' vertically integrated railway companies are in critical financial situations. In both companies, the separation of operational functions from infrastructure management, as provided for by Package I of the EU Railway Directives, has not yet been implemented in full. The opening of the rail market is at an early stage. The safety authority has prepared instructions, such as on interoperability, on maintenance and on the transport of dangerous goods by rail, and has published these in the Official Gazette. The railway institutions lack competent staff, despite the high level of overemployment in railway companies. Rehabilitation works on rail tracks continued

As regards **inland waterways**, some preparatory activities have been undertaken. Demining and rehabilitation of the River Sava waterway was shelved before it could start, due to Republika Srpska's cancellation of a loan agreement with the World Bank. Introduction of a river information system has been further delayed. Relevant inland navigation regulations should be issued and aligned with the *acquis*. Planned activities regarding rehabilitation and development of transport and navigation on the Sava river waterway, as well as those related to the port of Brčko, have been terminated, following the cancellation of a loan agreement with the World Bank.

Regarding **intermodal transport** the country needs to recognise the development of a balanced intermodal environmentally-friendly and competitive transport and mobility system as a priority. Special attention should be given to better understand and to better evaluate the potential role of sea modes in inter-modality, hinterland connection of ports, developing missing links and further catalyst actions for de-carbonising the economy. The bottleneck at Ivan Tunnel and Bradina ramp, which prevents the transit of Ro-La trains and 40ft containers from the Port of Ploče, is hampering the development of combined transport.

Concerning **air transport**, there has been little progress towards further transposition of the European Common Aviation Agreement (ECAA) requirements that mainly concern the economic and social regulations area. A number of pieces of ECAA legislation remain to be transposed in respect of consumer and social protection. Further work to ensure conformity

with ECAA requirements also has to be carried out in other areas before Bosnia Herzegovina can achieve Phase 1 completion in respect of economic regulations and aviation safety.

On 1 January 2014, following years of delays, the BH Air Navigations Systems Agency (BHANSA) took over all responsibilities and staff formerly under the Entity-based civil aviation authorities. However, BHANSA is currently under its certification procedure and should not initiate the provision of air navigation services until completion of the procedure. Since June 2013, a multilateral transition team (Bosnia and Herzegovina, Serbia and Croatia) has been negotiating the technicalities and modalities for the transfer of control of airspace in accordance with the agreed subdivision of the Functional Airspace Bloc for Central Europe. These negotiations have not yet been concluded. This continues to pose challenges to putting air traffic management equipment in function and as regards the takeover of flight control operations by Bosnia and Herzegovina operators.

The selection of the management board of BHANSA has been pending since June 2010. While the work programmes and financial plans for 2012, 2013 and 2014 have still not been passed by the BiH Council of Ministers, on 7 November, EUROCONTROL agreed on both documents for 2014, thereby making Bosnia and Herzegovina internationally obliged to adhere to them.

Regarding **maritime transport**, Bosnia and Herzegovina is not a party to any of the most important International Maritime Organisation conventions such as the Convention on Facilitation of International Maritime Traffic, the International Convention for the Safety of Life at Sea, including the International Ship and Port Facility Security Code, the International Convention for the Prevention of Pollution from Ships, and the International Convention on Standards of Training, Certification and Watch keeping for Seafarers.

*Overall*, little progress has been made in the area of transport. A State-level legislation on transport as well as a transport strategy and its action plan still remain to be adopted. Coordination and administrative capacities need to be improved in order to ensure the preparation and finalisation of the necessary technical documentation.

#### 4.2.5. Energy

Bosnia and Herzegovina has not invested any significant effort to develop a countrywide energy strategy. The Entities' strategic plans are not harmonised, addressing priorities relevant only for the respective territory, without a coordinated approach to **security of supply** of oil, gas and a comprehensive strategy for future investments. There is no legislation at national level dealing with emergency stock holdings and no such stocks are currently held in the country. Bosnia and Herzegovina has contributed to the energy security stress test carried out by the European Commission in the framework of the European Energy Security Strategy.

The existing legislative framework relevant to the **internal energy market** at all levels needs to be brought into full compliance with the *acquis*, as it hampers development of a countrywide wholesale and retail market. The country's authorities need to address complicated tender procedures and insufficient transparency.

Progress has been made in ensuring the future viability of the State-level electricity transmission company (TRANSCO). TRANSCO shareholders appointed new management structures, approved audited financial plans, adopted a three-year investment plan and agreed on the list of priority facilities to be included in the Long-Term Transmission Network Development Plan. Measurable progress in terms of development and reinforcement of the transmission system and strengthening of the state company is still lacking, apart from some maintenance work. At a TRANSCO shareholders meeting in July 2014 it was decided to distribute a further part of the net income between the two Entities, which constitutes a breach

of the agreement reached in Brussels in January 2014 not to distribute more than 100 million BAM before a 10 year transmission network development plan has been adopted by the Shareholders' General Assembly and approved by Regulatory Authority (SERC). The law establishing the company for transmission of electricity in Bosnia and Herzegovina has been amended, allowing shareholders to receive profit and accumulated profit. The adopted changes and amendments do not include sufficient safeguards to prevent shareholders from gaining access to TRANSCO's revenues in future.

Existing relevant electricity laws at State level and the level of the Entities are not compliant with the EU *acquis* and insufficient action is taken to remedy the situation. The draft electricity legislative framework at State, Entity and Brčko District level was drafted and aligned with the *acquis*, specifically with the Third EU Energy Package, to enable the country to meet its obligations as a contracting party of the Energy Community Treaty. Regrettably, the draft primary and secondary legislative acts remain to be reviewed and adopted. The electricity market in Bosnia and Herzegovina is significantly underdeveloped, with no genuine platform to determine market prices. The electricity sectors in the Entities are inadequately regulated.

Bosnia and Herzegovina has not made any progress in fulfilling requirements needed to develop gas sector legislation that is aligned with the *acquis* at all levels. At the Ministerial Council of the Energy Community, Bosnia and Herzegovina's failures in this area were condemned as a 'serious and persistent breach' of its commitments as a signatory of the Energy Community Treaty. Should Bosnia and Herzegovina fail to address this in the next 12 months, the Energy Community will apply sanctions. Republika Srpska law on gas also requires additional changes to be in line with the *acquis*. The draft gas law of the Federation is still pending adoption. The proposed draft Intergovernmental Agreement with the Russian Federation on South Stream is not in compliance with the Energy Community *acquis* and should not be concluded unless this is remedied.

As regards the **renewable energy** sector, Bosnia and Herzegovina's national target for the share of energy from renewable sources in gross final consumption of energy in 2020 is 40%. On the basis of laws adopted on exploitation of renewable energy sources and on efficient co-generation, both Entities proceeded with development and adoption of relevant by-laws. There is still no comprehensive countrywide promotion and development of the renewable energy sector. Bosnia and Herzegovina continues to operate without a national renewable energy action plan, as required by the Energy Community Treaty. There are no competences laid down in the relevant legislative framework. Energy Laws to enforce such a plan once adopted by the State authorities, and the public responsibilities for ensuring that the plan is devised in such a way that the national renewable energy target is reflected in the laws are unclear. The improved legislative framework at Entity level, along with incentives introduced, has resulted in ongoing promotion of renewable energy sources. In the Federation designated quotas regarding electricity generating facilities powered by renewable energy sources are nearly filled, which may lead to stagnation of the sector. A smaller number of electricity generating facilities powered by renewable energy sources has been developed in Republika Srpska, which may enable more development of these facilities on the territory of this Entity.

Regarding **energy efficiency** in Bosnia and Herzegovina, there are significant delays in meeting the commitment to transpose and implement the 2006 energy end-use efficiency and energy services Directive. Republika Srpska is developing relevant by-laws, whereas the law on energy efficiency of Federation of Bosnia and Herzegovina still remains to be adopted by parliament. Bosnia and Herzegovina has not developed its national energy efficiency plan nor does it have a consistent roadmap for transposition of the *acquis* under the Energy

Community Treaty. Various forms of support to initiatives for promotion of energy efficiency in the form of pilot projects are widely available throughout the country.

As regards **nuclear safety and radiation protection**, the law on liability for nuclear damage has been adopted, as well as the regulation on safety of nuclear material and radioactive sources. A strategy for radioactive waste management has been adopted, whereas a national emergency plan remains to be adopted.

*Overall*, limited progress has been made in the energy sector. The complexity of the administrative structure, divisions of jurisdictions within the sector, along with the lack of political will are likely to result in the country's failure to meet its commitments under the Energy Community Treaty. Cooperation and coordination between the Entities to solve the stalemate in the operation of TRANSCO led to some progress, but genuine commitment geared toward reinforcing and developing the country's electricity transmission system is needed. Similar commitment is required in other areas of the energy sector, particularly with regard to alignment of electricity legislation with the Third EU Energy Package, and development of legislation at State level for renewable energy sources and energy efficiency. As a matter of urgency, Bosnia and Herzegovina should address the serious and persistent breaches in its gas legislation identified by the Energy Community.

#### *4.2.6. Information society and media*

With regard to **electronic communications and information and communications technologies**, no further developments can be reported on legislative alignment. No updated action plan on digital switchover has been adopted by the Council of Ministers. A decision on the use of the digital dividend is yet to be made.

Regarding **information society services**, a State-level Law on the Agency for the Development of the Information Society has yet to be adopted. State-level legislation on electronic documents has been adopted. There was no alignment with the E-Commerce Directive or with the implementing legislation related to conditional access services. The State-level e-commerce law as well as the State-level e-signature law remain unimplemented due to the lack of a supervisory body for accreditation. Administrative capacity in the Ministry of Transport and Communications remains insufficient.

As regards **audiovisual policy**, the digitalisation of the Public Broadcasting System (PBS) is jeopardised due to the non-existence of the PBS Corporation which would need to assist the digitalisation of the entire system of public broadcasting in Bosnia and Herzegovina. The reform of the PBS in Bosnia and Herzegovina has not yet been finalised and adoption of the Statute of the Public Broadcasting Corporation is still pending. The financial stability and sustainability of the entire PBS has been seriously affected in the reporting period, as the RTV tax collection rate has been dropping steadily. The current lack of legal certainty has a negative impact on the RTV tax collection which has been so far attached to the bill for fixed phone lines and collected via dominant telecom operators.

Piracy is prohibited under the law on communications of Bosnia and Herzegovina and is dealt with by the Communication Regulatory Agency.

As for the digital switchover, a tender for acquiring digital equipment for the three public service broadcasters was completed. The first phase of the digitalisation process related to securing the equipment and digital linking of the five technical centres in a system of digital links and transmitters for the digital coverage of Sarajevo, Banja Luka and Mostar has started. The second phase of the digitalisation process is scheduled to start by September 2014.

New appointments of members of the Council of the Communication Regulatory Agency, responsible for both electronic communications and audiovisual media, were approved in

November 2013, but are considered to have political affiliations. The institutional framework does not ensure adequate financial and operational independence of the regulator, which undermines certainty for the sector and raises concerns over its efficiency.

*Overall*, progress in the field of information society and media is limited. Considerable efforts are needed to develop electronic communication and the information society. The Statute of the PBS Corporation should be adopted and an effective model of RTV tax collection should be decided to secure a stable, legally viable source of PBS public funding. The process of digitalisation is seriously hampered by politisation resulting in non-implementation of the Law on PBS of Bosnia and Herzegovina. The responsible authorities need to significantly increase their efforts.

#### 4.2.7. *Financial control*

In the area of **public internal financial control** (PIFC), the Central Harmonisation Units (CHUs) in the Ministries of Finance of the State and the Entities have prepared implementing legislation such as the framework financial management and control manuals, and internal control standards. They have also agreed a recommendations paper on an internal audit certification scheme. Staffing of the Federation CHU has been strengthened. Brčko District administration has embarked on developing its own PIFC policy paper to improve strategic planning, financial responsibility and fiscal accountability at local level. Pilot audits and training on internal audit risk assessment and training for newly-appointed auditors have been undertaken.

The coordination board of the CHUs has not reconvened to coordinate the development of legislation and methodologies. As a result, the State, the Federation and Republika Srpska have developed different approaches to internal control. At State level, the accountability of budget user heads is covered through relevant articles in the Bosnia and Herzegovina Law on Financing. In the Federation, it is covered through implementing legislation and in Republika Srpska through a draft law. The Federation law on financial management and control remains to be adopted.

In the area of **external audit**, the coordination board of the supreme audit institutions (SAIs) has not convened. The functional capacity of the four SAIs is satisfactory, but their financial independence remains an issue.

*Overall*, there has been little progress in the area of financial control. Significant further efforts are needed to implement PIFC at all levels. Progress in implementation of PIFC and International Organisation of Supreme Audit Institutions (INTOSAI) standards would significantly benefit from active Coordination Boards. Preparations are at an early stage and have yet to be started in the area of the protection of the EU's financial interests.

#### 4.2.8. *Statistics*

As regards **statistical infrastructure**, cooperation between the Agency of Statistics of Bosnia and Herzegovina (the BHAS) and the Entity institutes for statistics has improved during the field enumeration of the population and housing census. The Indirect Taxation Authority (ITA) has started to provide data to the BHAS, but the data exchange between ITA and the statistical offices and the content necessary to produce statistics and update the statistical business register still needs to be defined. The strategy 2020 for the development of statistics in Bosnia and Herzegovina has been adopted by BHAS and the Entity institutes for statistics. A metadata strategy and dissemination strategy have been adopted. The mandates of the director and deputies of the BHAS have expired and recruitment is pending.

As regards **classifications and registers**, the statistical business register (SBR) requires further improvement, as data from relevant administrative sources is still missing. A five-year



development plan for the register was agreed. BHAS continued to produce business statistics and national accounts according to NACE rev.2 on a regular basis. Bosnia and Herzegovina is in breach of the Interim Agreement, as GDP per capita figures harmonised at NUTS level 2 were not provided to the EU on 1 July 2013, an obligation under the agreement. A working group established to draft a classification of territorial units for statistics in the country has agreed on NUTS level 1 and NUTS level 2 proposals. Further progress on this issue is pending final results of the population and housing census.

Regarding **sectoral statistics**, BHAS and the Entity institutions for statistics conducted the population and housing census from 1-15 October 2013. Census field enumeration has been assessed by the International Monitoring Operation as successful. The data processing phase started in January 2014 and remains to be completed and results published. As regards macroeconomic statistics, national accounts need further development. Some progress was made on business statistics, in particular with regard to structural business statistics and some indicators in short-term business statistics.

Relevant legislation for an agricultural census remains to be agreed and adopted.

*Overall*, there was some progress in the area of statistics, in particular regarding implementation of the population and housing census and data processing, as well as in some areas of business statistics. Sectoral statistics such as national accounts, and business and agricultural statistics need to be further improved. Cooperation, coordination and decision-making processes need to be further improved to develop the national statistical system and key statistical areas.

### **4.3. Justice, freedom and security**

#### *4.3.1. Visa, border management, asylum and migration*

As regards **visa policy**, in 2013, 93 visas were issued at the border, a decrease of almost 38 % (150 in 2012). In the first half of 2014, 24 visas were issued at the border, a decrease of 51 % compared with the same period of 2013.

Implementation of the visa-free regime with the EU continued smoothly overall. Although most travellers to the Schengen area are *bona fide*, a persistent number of Bosnia and Herzegovina nationals have continued to abuse the visa-free regime by lodging manifestly unfounded asylum applications. As in previous reporting periods, seasonal peaks of asylum-seekers were registered by some EU Member States and Schengen associated countries. The number of asylum applicants from Bosnia and Herzegovina grew by 22 % between 2012 and 2013. The extremely low recognition rate confirms the unfounded nature of these claims. Short and long-term measures to counter this negative phenomenon continue to be relevant: authorities in Bosnia and Herzegovina must take immediate action in the framework of the Post-Visa Liberalisation Monitoring Mechanism to address asylum abuses through continued public campaigns, intensified investigations on facilitators, and implementation of adequate policies to improve social and economic inclusion of the most vulnerable groups of the population most likely to migrate, including Roma. Efforts in these areas need to continue systematically and through proper allocation of resources. In September 2014, the German Parliament adopted amendments to the national asylum legislation for the inclusion of Bosnia and Herzegovina in the safe country of origin list.

Regarding **border management**, most legislation related to integrated border management (IBM), including the law on border control, is mainly based on the *acquis*. Amendments to the law were adopted by the Parliament in June 2014. Revision of the IBM strategy and action plan is underway. It will entail revision of the institutional set-up for monitoring strategy implementation. The Joint Risk Analysis Centre adopted a manual for risk analysis methodology.

Amendments to the rulebook on the internal organisation of border police were adopted. It provided for an increase in the number of police officers, which is relevant for changes in the border regime with Croatia after its accession to the EU.

A joint centre for police cooperation between Bosnia and Herzegovina, Montenegro and Serbia was established in Trebinje, Bosnia and Herzegovina. The establishment of the centre is expected to improve regional capacities to counter cross border crimes and illegal migration. The cooperation arrangement provides for future inclusion of other countries.

Infrastructural and technical upgrade at border posts continued. The new border crossing points Neum I, Neum II and Bijaca are now connected to the border police information system. A joint contact centre with Croatia was established at the international border crossing Bijacá/Nova Sela.

The upgraded integrated system of control of state border crossings (CSBC) provided for better results in detection of invalid documents. More than 40 million entries and exits at the Bosnia and Herzegovina border were registered in the CSBC system. Around 40% of those were citizens of Bosnia and Herzegovina, while 60% were foreigners. Based on new agreements on border crossing points and local border traffic between Bosnia and Herzegovina and Croatia, a mechanism for issuance of local border traffic permits is in place and is operational. From the accession of Croatia to the EU to 31 December 2013, the authorities of Bosnia and Herzegovina issued 415 of such permits.

The closure of unauthorised border crossing points on the border with Serbia remains pending. Frequent joint border patrols with neighbouring countries continued resulting in increased seizures of smuggled goods, while detection of illegal migrants decreased from 389 in 2012 to 228 in 2013.

Practical cooperation with Frontex in the joint risk analysis is consolidated and largely conducted in the context of the Western Balkans Risk Analysis Network (WB-RAN). Bosnia and Herzegovina authorities regularly provide both agreed statistical and qualitative information.

As regards **asylum**, most of the relevant legislation is based mainly on the *acquis*. The migration and asylum strategy and action plan for 2012-15 is being implemented with the financial assistance of international donors. A coordination body for monitoring the implementation of the new asylum and migration strategy is functioning well. The asylum sector in the Ministry of Security is almost fully staffed. The permanent asylum centre in Trnovo, with 154 beds, became operational in September 2014. Until then the temporary asylum centre in Kiseljak was operational.

The number of asylum applications in 2013 rose: 73 asylum applications involving 100 people were submitted, compared with 40 involving 53 people in 2012. Syria was the biggest single source of asylum-seekers. The Council of Ministers extended a decision granting one year of temporary residence for people from Syria, based on humanitarian grounds. In 2013, the Ministry of Security rejected 16 asylum applications. Since the beginning of 2014, 22 new asylum applications involving 22 persons were submitted. All asylum-seekers from Kosovo, whose temporary protection status expired in 2007, received first-instance decisions from the asylum sector. In 2013, court proceedings for two persons were completed.

With regard to **migration**, a centre for temporary detention of irregular immigrants is in operation, employing 53 staff and with capacity for 120 immigrants. In 2013, a total of 236 foreign nationals were accommodated, a decrease of 48% in comparison to 2012, when 453 foreigners were accommodated in the centre. In addition, 38 persons were put under surveillance in their place of residence. In all, 277 foreign nationals were returned to their country of origin (159 voluntarily, 117 returned through readmission agreements and one

forcefully repatriated). No irregular migrants were registered for the assisted voluntary return programme via IOM during 2013, due to lack of financial resources. The provision on the maximum period of detention at the Immigration Centre still needs to be brought in line with the relevant *acquis*.

Implementation of readmission between the EU and Bosnia and Herzegovina continued to be satisfactory. Most readmission cases are carried out under the agreement with Croatia (196 in 2013, compared to 236 in 2012). Of these, 75 were foreign nationals and 119 citizens of Bosnia and Herzegovina. In accordance with readmission agreements with the EU and Switzerland, Bosnia and Herzegovina accepted readmission of 397 of its citizens in 2013, compared to 319 in 2012. In the first half of 2014, 35 citizens were readmitted, an increase of 34.65 % compared to the same period of 2013.

The sixth country migration profile was published. Implementation of the strategy for the reintegration of returnees remains a challenge. Difficulties with economic reintegration, access to healthcare, social protection, pensions and the employment of minority returnees are obstacles to sustainable return and local integration (*see 2.2 — Human rights and the protection of minorities*).

The number of interceptions of attempts to cross the border unlawfully decreased. In 2013, a total of 228 people were intercepted trying to enter or leave the country illegally, compared to 389 in 2012. In the first half of 2014, 87 people were intercepted, a decrease of around 33 % compared to the same period in 2013.

The Service for Foreigners' Affairs (SFA) makes full use of Migration Information System (MIS) databases, also accessible to other relevant agencies. In 2013, the SFA issued 9953 permits for temporary stays, a 13 % increase in comparison with 2012 (8383). In 2013, 713 permits for permanent stays were issued, a 78 % increase compared to 2012 (401). The SFA issued 279 expulsion decisions in 2013, a 50 % decrease compared to 2012 (562). In the first half of 2014, the SFA issued 2.105 permits for temporary stays and 346 for permanent stays. 155 expulsion decisions were taken.

*Overall*, Bosnia and Herzegovina has continued to make progress in the areas of visa policy, border management, asylum and migration. The provision in the Law on movement and stay of aliens and asylum- on the maximum period of detention at the Immigration Centre remains to be harmonised with the *acquis*. The infrastructure, surveillance and equipment at border crossing points have improved but require further efforts. A permanent asylum centre in Trnovo is now functional. Overall, the migration, asylum and international protection system in Bosnia and Herzegovina is functioning and is adequate for current inflows.

#### 4.3.2. Money laundering

There has been a modest increase in the number of reports filed at prosecutors' offices throughout Bosnia and Herzegovina on cases involving **money laundering**. In all, 108 cases were reported in 2013 compared to 59 in 2012. The number of confirmed indictments and final verdicts remains low. Most international cooperation is carried out through the EGMONT group. Cooperation is especially good with financial intelligence units from the region. The investigation section also cooperates with INTERPOL.

Bosnia and Herzegovina still has no effective system in place to confiscate and manage criminal assets. The prevailing model is confiscation of illegally acquired property under the provisions of the Criminal Code and Criminal Procedure Code.

Agreement has been reached on a joint set of minimum standards, which should be incorporated in legislation within all four legal systems in Bosnia and Herzegovina. The standards reflect all major EU and other international requirements regulating the field of

confiscation of proceeds of crime translated in the context of the criminal justice multi-level system.

In April 2014 Bosnia and Herzegovina Ministry of Justice appointed a new working group to draft the new law on confiscation of assets, in line with a set of joint minimum standards. In Republika Srpska, the Ministry of Justice has appointed a working group to draft changes and amendments to the existing legislation. A new law on confiscation of illegally gained assets through criminal offence was adopted by the Parliament of the Federation, incorporating a set of joint minimum standard. The law though awaits a ruling on constitutionality by the Federation Constitutional Court. At the level of Brčko District, a working group was established to draft the new law on confiscation of assets, in line with a set of joint minimum standards.

The total amount of assets seized in 2013 was around €4.3 million in 126 cases before the various judicial institutions throughout Bosnia and Herzegovina. In 2014, final court decisions were rendered in Republika Srpska for the permanent confiscation around €10 million that were previously seized by the Entity Asset Recovery Office applying the Republika Srpska law on asset seizure.

*Overall*, Bosnia and Herzegovina has made some progress in the area of fight against money laundering, but a lot remains to be done. The draft Law on prevention of money laundering and counter terrorism financing has been adopted, but amendments to the criminal code that regulate money laundering and financing of terrorism still need to be adopted to be compliant with international standards. A number of activities to improve systems of asset seizure are being undertaken (*see also 4.1.3 — Free movement of capital*).

#### 4.3.3. *Drugs*

With regard to the **fight against drugs**, the territory of Bosnia and Herzegovina continues to be used for transit and storage purposes. Production of drugs remains small, and mostly limited to marijuana cultivation. There are indications that domestic demand for drugs increased slightly in 2013, especially for synthetic drugs.

The national drugs strategy and action plan (2009-12) has expired. The implementation of such a strategic framework remained inadequate. The Commission for Suppression of Abuse of Narcotic Drugs, though appointed by the Council of Ministers, is not functioning. A draft Law on Prevention and Suppression of the Abuse of Narcotic Drugs, establishing a focal point for drugs issues at Bosnia and Herzegovina level remains to be adopted. The Commission for Drugs Destruction was reappointed.

The number of crimes related to drugs abuse increased. The number of criminal reports on trafficking and possession of drugs in 2013 decreased to 1480, compared to 1629 in 2012. The number of confirmed indictments decreased from 1184 in 2012 to 1039 in 2013 and number of convictions decreased from 1072 to 1050. Predominant crimes are possession and enabling use of narcotics. Drugs confiscated are mostly cannabis, heroin or synthetic drugs. As a result of successful operations by law enforcement agencies, 31000 litres of chemical precursors were confiscated and destroyed. A large quantity of drugs seized by order of different courts throughout Bosnia and Herzegovina is still awaiting destruction. Coordination of operational activities remains on a case-by-case basis. Several police operations were conducted, resulting in the arrest of perpetrators and the confiscation of drugs. State-level agencies, the Federation Police Administration and Cantons are using a database of perpetrators. Republika Srpska is not connected to this database.

With regard to international cooperation, Bosnia and Herzegovina reports regularly to International Narcotics Control Board. Cooperation with the European Monitoring Centre for Drugs and Drug Addiction is ongoing. The provisional National Correspondent for

EMCDDA works in the Ministry of Security. Bosnia and Herzegovina is preparing its second annual report on the situation of drugs in the country.

*Overall*, Bosnia and Herzegovina made some progress on the fight against drug trafficking and demand reduction policies. The capabilities of individual law enforcement agencies to identify and disrupt drug trafficking operations have improved. However, a new strategic framework remains to be defined, as well as further measures to consolidate institutional capacity for policy coordination and implementation.

#### 4.3.4. *Police*

The institutional framework for **police** matters has continued to consolidate functions and capacities. However, conflicting interpretations of the 2008 police reform laws prevent the development of an effective institutional setting at State level, which is also hampered at other levels of policing due to flaws in the structure of law enforcement agencies. Lack of institutionalised coordination and cooperation between State and Entity/Cantonal police bodies hampered the effective delivery of police services. The lack of efficient policing was again proven in February 2014, when police forces faced serious difficulties in handling violent street protests that resulted in several millions euros worth of physical damage and hundreds of people injured.

Staffing of the Directorate for Coordination of Police Bodies is at 70%. A new director and two deputies of the Directorate were appointed, as well as the director and deputy of the border police and the deputy director of SIPA. The laboratories of the Agency for Forensic and Expert Examination are being equipped, but its human resource capacity has remained at 50%. The Police Support Agency formalised its cooperation with other State-level police agencies and begun performing its core mandate regarding procurement. The Agency for Education and Advanced Training has reached 70% of staffing. It has begun the second stage of construction of its training facilities. The State Investigation and Protection Agency remained at 73% of its target staffing level. The System for Electronic Data Exchange of Police and Prosecutor registries is operational, although some technical aspects in the system require revision, including the fact that the Directorate for Police Coordination has still not been granted access to databases.

Amendments to the Bosnia and Herzegovina law on police officials were adopted by the Council of Ministers and remain to be adopted by parliament. Amendments to the Republika Srpska law on police officials and the law on internal affairs were adopted. The Federation and Cantons have launched initiatives to align their respective laws on police officials. Provisions governing personal data protection remain below EU standards in all police bodies. The law on internal affairs in the Federation was adopted in July 2014. The law reiterates the principles of operational and financial independence of police was designed to serve as a model for Cantons when changing their respective laws on internal affairs.

The Management Board of Europol authorised the beginning of negotiations on operational agreement with Bosnia and Herzegovina. The Council of Ministers of Bosnia and Herzegovina adopted a temporary decision on cooperation with Europol but has not yet adopted a decision on the negotiating team.

Bosnia and Herzegovina has established a mechanism for the cooperation with CEPOL through a memorandum of understanding signed by the relevant ministers at State and Entities levels in June.

*Overall*, some progress was made in the area of policing. Lack of coordination and cooperation and lack of appropriate training and equipment are preventing the effective delivery of police services, as evidenced during the social unrest in February. Coordination and cooperation among agencies remains mainly informal. There are indications of undue

political influence along ethnic lines. The legislative framework on governing policing remains to be improved to achieve higher level of professionalism, transparency and accountability throughout the country.

#### 4.3.5. *Fighting organised crime and terrorism*

In the fight against **organised crime**, a number of successful large-scale joint police operations have taken place, some of them through close coordination with neighbouring countries. However, cooperation between police and prosecutors' offices within Bosnia and Herzegovina requires structural improvements to guarantee more effective judicial follow-up. A new strategy on combating organised crime for the period 2014-2016 and the first Organised Crime Threat Assessment (OCTA) for Bosnia and Herzegovina were adopted. The OCTA was prepared using the Europol methodology and was jointly developed by all law enforcement agencies throughout Bosnia and Herzegovina. The action plan related to the strategy remains to be developed.

Entity level regulations on arms still have to be harmonised with international standards. Many illegal weapons and ammunition are in civilian possession. A new coordination board for the oversight of the implementation of strategy on control of small arms and light weapons, covering the period from 2013 to 2016, was established by a Council of Ministers decision. A Framework Law on amnesty at the Federation level was adopted. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

In the area of judicial cooperation in criminal matters, there has been progress in preparations for concluding a cooperation agreement with Eurojust. In May 2014, a Eurojust delegation carried out a fact-finding mission to Bosnia and Herzegovina, aimed at identifying common goal for enhanced cooperation in criminal matters and possibly concluding a cooperation agreement in the future. Changes to the law on the protection of classified information, bringing it into line with the relevant EU standards and providing for implementation of bilateral security agreements, remain to be adopted.

On combating **trafficking in human beings**, the implementation of the strategy and action plan for 2013-15 is ongoing. Implementation of projects in the action plan is financed mainly by donors. Provisions on trafficking in human beings in the criminal codes at State and Federation level are in parliamentary procedure. National legislation, especially in relation to penalties, remains to be aligned with the EU *acquis*, notably Directive 2011/36/EU. Regional monitoring teams continue to meet regularly and improve their capacity through training. A training manual for social workers dealing with trafficking has been developed. Further strengthening of cooperation between the four regional monitoring teams and the State-level strike force is needed to ensure that investigations are properly coordinated and assistance provided to victims. Further training on addressing THB issues should be carried out for representatives from relevant law enforcement agencies, including the border police in particular.

In 2013 there was a decrease in the number of trafficking victims identified, with 16 victims acknowledged, compared to an average of 30 in previous years. However, in the first six months of 2014, 29 victims of trafficking were identified. A comprehensive, multidisciplinary and victim-oriented approach to trafficking still needs to be developed and identification of victims needs to be improved. Trafficking detected was for the purpose of labour exploitation, sexual exploitation, begging and forced marriages. Bosnia and Herzegovina continues to be a country of origin, transit and destination for trafficking. Bosnia and Herzegovina lacks a comprehensive system to identify the overall trends and challenges in addressing trafficking in human beings.

The Department for Combating Trafficking in Human Beings within the national coordinator's office and the database on victims are not fully operational. A European resource centre for the prevention of trafficking and other forms of exploitation was opened in Sarajevo. Bosnia and Herzegovina has yet to further align its anti-trafficking system with the set of recommendations included in the latest report by the group of experts on action against trafficking (GRETA).

Bosnia and Herzegovina still lacks a comprehensive overall strategic approach to address the issue of **cybercrime** and cyber security threats. An action plan to set up a Bosnia and Herzegovina computer emergency response/readiness team (CERT) is pending adoption by the Council of Ministers. Crime reports prepared by law enforcement agencies do not refer to cybercrimes. Digital forensics and other technical means of combating cybercrime at national and international level are limited and insufficient. Republika Srpska has established a system to combat cybercrime and demonstrated readiness to investigate computer crimes and to respond to cyber security threats and risks.

Concerning the **fight against terrorism**, Bosnia and Herzegovina continued to implement its strategy for preventing and fighting terrorism 2010-14. A working group for preparation of the national counter-terrorism strategy 2014-2017 remains to be established.

The joint counter-terrorism task force is functioning and its capacity has been further strengthened. The operational part of the task force is still awaiting regulation of its financing and confirmation of the formal status of its members. The authorities of Bosnia and Herzegovina need to step up their overall capacities to prevent radicalisation, including through the development of adequate measures to address the phenomenon of foreign fighters. In this regard, amendments to the criminal code that introduced sanctions on citizens joining paramilitary and para-police forces abroad were adopted and represent a positive step.

*Overall*, Bosnia and Herzegovina has made some progress in the fight against organised crime and terrorism. The new organised crime strategy and a threat assessment are in place. Counter terrorism efforts have been strengthened by introducing sanctions against 'foreign fighters' in the criminal code. Efforts to strengthen the system for assets confiscation are ongoing. Bosnia and Herzegovina needs a comprehensive system to identify overall trends and the challenges of trafficking of human beings.

#### 4.3.6. *Protection of personal data*

Regarding personal data protection, the independence of the agency was strengthened by amending the law on salaries and providing the agency with the same rights as other independent regulatory agencies in November 2013.

The budget and staffing level of the agency remained the same, while the number of complaints that were addressed by the agency and of inspections increased. In 2013, the agency carried out 111 monitoring inspections and dealt with 107 complaints. It carried out 34 *ex officio* procedures and issued seven penalties.

The agency continued training activities throughout the public sector to increase personal data protection capacities within the public administration and the police.

A road map for the implementation of measures to improve personal data protection in police agencies has been developed. There is as yet no implementing legislation in the law enforcement sector in compliance with personal data protection.

*Overall*, preparations for personal data protection are still at an early stage.

## STATISTICAL ANNEX

### STATISTICAL DATA

#### Bosnia and Herzegovina

<b>Basic data</b>	Note	2001	2009	2010	2011	2012	2013
Population (thousand)	1)	3 790e	3 843e	3 843e	3 840e	3 836e	3 832e
Total area of the country (km <sup>2</sup> )		51 209	51 209	51 209	51 209	51 209	51 209

<b>National accounts</b>		2001	2009	2010	2011	2012	2013
Gross domestic product (GDP) (million national currency)	2)	12 678	24 307	24 879	25 772	25 734	26 297
Gross domestic product (GDP) (million euro)		6 482	12 428	12 720	13 177	13 158	13 446
GDP (euro per capita)		1 707	3 234	3 310	3 432	3 430	3 509
GDP (in Purchasing Power Standards (PPS) per capita)	3)	:	6 900e	7 000e	7 300e	7 500	7 600
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)	3)	:	29	28	29	29	29
Real GDP growth rate: change on previous year of GDP volume (%)		2.4	-2.7	0.8	1.0	-1.2	2.5
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		:	8.0	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
<b>Gross value added by main sectors</b>							
Agriculture, forestry and fisheries (%)		:	8.4	8.2	8.1	7.7	8.2
Industry (%)		:	20.8	21.5	21.5	21.1	21.7
Construction (%)		:	6.2	5.2	4.9	4.9	4.5
Services (%)		:	64.6	65.1	65.6	66.8	65.6
Final consumption expenditure, as a share of GDP (%)	4)	:	104.2s	105.6s	105.1s	104.8s	102.8
Gross fixed capital formation, as a share of GDP (%)	4)	:	18.6s	16.6s	17.9s	17.5s	16.8
Changes in inventories, as a share of GDP (%)	4)	:	-0.1s	-1.0s	0.2s	0.5s	0.2
Exports of goods and services, relative to GDP (%)	4)	:	23.3s	28.0s	29.9s	29.1s	30.0
Imports of goods and services, relative to GDP (%)	4)	:	46.1s	49.1s	53.2s	52.0s	49.8

<b>Industry</b>	Note	2001	2009	2010	2011	2012	2013
Industrial production volume index (2010 = 100)		:	95.8	100.0	102.4	98.4	103.4

<b>Inflation rate and house prices</b>	Note	2001	2009	2010	2011	2012	2013
Consumer price index (CPI), change relative to the previous year (%)	5)	3.1	-0.4b	2.1	3.7	2.0	-0.2s



**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:
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<b>Balance of payments</b>	Note	2001	2009	2010	2011	2012	2013
Balance of payments: current account total (million euro)	6)	-833	-812	-781	-1 284	-1 218	-734
Balance of payments current account: trade balance (million euro)	6)	-3 308	-3 981	-3 901	-4 267	-4 318	-3 989
Balance of payments current account: net services (million euro)	6)	255	973	1 104	1 082	1 118	1 153
Balance of payments current account: net income (million euro)	6)	595	488	211	110	119	262
Balance of payments current account: net current transfers (million euro)	6)	1 626	1 708	1 805	1 792	1 862	1 840
of which government transfers (million euro)	6)	450	80	76	45	55	64
**3 year backward moving average of the current account balance relative to GDP (%)	6)	:	-10.0	-8.9	-7.5	-8.4	-8.2
**Five year change in share of world exports of goods and services (%)		:	:	:	:	:	:
Net inward foreign direct investment (FDI) (million euro)	6)	133.0	176.0	272.2	342.3	273.2	259.3
Foreign direct investment (FDI) abroad (million euro)	6)	0.0	-68.5	58.8	-4.0	-0.3	-14.9
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	6)	133.0	107.5	331.0	338.3	272.9	244.4
of which FDI of the EU-28 countries in the reporting economy (million euro)		:	154.4	147.7	195.4	174.1	:
**Net international investment position, relative to GDP (%)	6)	:	-56.0	-57.4	-58.9	-61.4	:

<b>Public finance</b>	Note	2001	2009	2010	2011	2012	2013
General government deficit / surplus, relative to GDP (%)		:	-4.4	-2.5	-1.3	-2.0	-2.2
General government gross debt relative to GDP (%)	7)	:	:	:	:	:	:

<b>Financial indicators</b>	Note	2001	2009	2010	2011	2012	2013
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	8)	1 377	2 836b	3 017	3 163	3 141	3 423
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	8)	2 387	6 498	6 968	7 372	7 624	8 229
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)	8)	1 707	7 184	7 436	7 828	8 151	8 391
**Annual change in financial sector liabilities (%)		24.8	-2.6b	-0.1	1.3	1.3	4.6
**Private credit flow, consolidated, relative to GDP (%)	9)	2.5	-2.0	1.7	2.3	1.6	1.5p
**Private debt, consolidated, relative to GDP (%)	9)	25.9	56.1	56.5	56.8	58.5	59.1p

Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	10)	:	7.93	7.89	7.43	6.87	6.99
Deposit interest rate (one year), per annum (%)	11)	:	0.28	0.19	0.12	0.08	0.13
euro exchange rates: average of period (1 euro = ... national currency)		1.956	1.956	1.956	1.956	1.956	1.956
Trade-weighted effective exchange rate index (2005 = 100)	12)	:	102.7	101.9	101.9	101.2	99.7
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	13)	1 385	3 176b	3 302	3 284	3 328	3 614

<b>External trade in goods</b>	Note	2001	2009	2010	2011	2012	2013
Value of imports: all goods, all partners (million euro)		:	5 996	6 957	7 939	7 798	7 752
Value of exports: all goods, all partners (million euro)		:	2 835	3 623	4 203	4 018	4 282
Trade balance: all goods, all partners (million euro)		:	-3 162	-3 334	-3 736	-3 781	-3 469
Terms of trade (export price index / import price index * 100) (number)	14)	:	:	100	99p	97p	98p
Share of exports to EU-28 countries in value of total exports (%)		:	71.0	69.5	70.3	72.7	73.5
Share of imports from EU-28 countries in value of total imports (%)		:	64.1	61.0	59.7	61.4	60.0

<b>Demography</b>	Note	2001	2009	2010	2011	2012	2013
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		1.9	-0.1	-0.4	-0.8	-0.9	-1.3p
Infant mortality rate deaths of children under one year of age (per thousand live births)		7.6	6.5	6.4	5.8	5.4	5.2p
Life expectancy at birth: male (years)		71.3	72.4e	72.4e	73.7e	73.7e	73.7e
Life expectancy at birth: female (years)		76.7	77.7e	77.7e	78.8e	78.8e	78.8e

<b>Labour market</b>	Note	2001	2009	2010	2011	2012	2013
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	:	:	:	:	:
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	:	:	:	:	:
Male employment rate for persons aged 20–64 (%)		:	:	:	:	:	:
Female employment rate for persons aged 20–64 (%)		:	:	:	:	:	:
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		:	34.0p	33.3p	33.6p	27.2b	27.7
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	:	:	:	20.5	18.9
Industry (%)		:	:	:	:	21.5	22.2
Construction (%)		:	:	:	:	8.9	7.7
Services (%)		:	:	:	:	49.0	51.3
Unemployment rate: proportion of the labour force that is unemployed (%)	15)	40.0	24.1b	27.2	27.6	28.0	27.5

Male unemployment rate (%)		:	23.1	25.6	26.5	26.4	26.5
Female unemployment rate (%)		:	25.6	29.9	30.5	30.7	29.0
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		:	48.7	57.5	57.9	63.1	59.1
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		:	20.0	22.3	22.3	23.0	22.8

<b>Social cohesion</b>	Note	2001	2009	2010	2011	2012	2013
Average nominal monthly wages and salaries (national currency)	16)	408	790	798	816	826	827
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		:	:	:	:	:	:
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	:	7.9	8.0	7.9	6.7

<b>Standard of living</b>	Note	2001	2009	2010	2011	2012	2013
Number of passenger cars relative to population size (number per thousand population)	17)	:	180.6e	188.6e	191.4e	159.6e	177.5e
Number of mobile phone subscriptions relative to population size (number per thousand population)		92.6e	830.7e	784.3e	825.8e	873.2e	910.4e

<b>Infrastructure</b>	Note	2001	2009	2010	2011	2012	2013
Density of railway network (lines in operation per thousand km <sup>2</sup> )		:	19.9	20.1	20.0	20.1	:
Length of motorways (kilometres)		:	35	35	35	48	:

<b>Innovation and research</b>	Note	2001	2009	2010	2011	2012	2013
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		:	:	:	:	0.27	:
Percentage of households who have internet access at home (%)		:	:	:	29.8	:	:

<b>Environment</b>	Note	2001	2009	2010	2011	2012	2013
*Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)	18)	16	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2000 constant prices)		:	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	:	:	:
Road share of inland freight transport (based on tonne-km) (%)		51	63	62	64	66	68

<b>Energy</b>	Note	2001	2009	2010	2011	2012	2013
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)		:	3 629p	3 476	4 086	3 933b	:

Primary production of natural gas (thousand TOE)		:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:
Electricity generation (thousand GWh)		:	15.7	17.1	15.3	14.1	:

<b>Agriculture</b>	Note	2001	2009	2010	2011	2012	2013
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		:	:	:	:	:	:
Utilised agricultural area (thousand hectares)	19)	:	1 656	1 649	1 675	1 680	1 670
Livestock numbers: live bovine animals (thousand heads, end of period)		:	458	462	455	446	447
Livestock numbers: live swine (thousand heads, end of period)	20)	:	529	590	577	539	530
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	1 125	1 110	1 086	1 070	1 089
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		:	734	693	688	674	688
Harvested crop production: cereals (including rice) (thousand tonnes)	21)	1 139	1 392	1 104	1 119	906	1 224
Harvested crop production: sugar beet (thousand tonnes)		:	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)	22)	190	295	286	287	265	319

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

\* = Europe 2020 indicator

\*\* = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) Mid-year population.
- 2) Production approach.
- 3) Source: Eurostat.
- 4) GDP calculated by the expenditure approach is higher than GDP calculated by the production approach.
- 5) 2001: retail price index.
- 6) Based on IMF balance of payments manual, sixth edition.  
Only external debt of General government sector is available. The data have been omitted here because they are not comparable with other countries.
- 7)
- 8) Since 2006: based on IMF monetary and financial statistics manual, 2000.  
Data for MFIs. 2013: based on the Central Bank of Bosnia and Herzegovina's estimates for GDP (production approach) for 2013; preliminary until the official GDP statistics are published by the BH Agency of Statistics.
- 9) preliminary until the official GDP statistics are published by the BH Agency of Statistics.
- 10) Short-term lending rates in national currency to non-financial corporations (weighted average).
- 11) Demand deposit rates in national currency of households (weighted average).
- 12) Real effective exchange rate.
- 13) 2001: excluding gold.
- 14) Based on Paasche export and import unit value indices in BAM (2010 = 100).
- 15) 2001: not calculated using the ILO methodology; taken from the Bureau for Employment; excluding data from Brčko District.
- 16) Net salary. 2001: excluding data from Brčko District.
- 17) 2009: excluding data from Brčko District.  
Source: UNDP - IPCC Indirect GHG sources and Initial UNFCCC BiH Communication, 2009. Unit is CO2 eq. in million tons.
- 18) Agency for Statistics was not involved in compiling this report.  
The utilised agricultural area consists of arable land, kitchen garden, permanent crops and permanent grassland as cadastral data (not as UAA).
- 19) 2010–11: related to the Government Decision (all levels in BiH) about repurchase of all quantities of pig meat on the market by large industrial processors.
- 20)
- 21) 2009: including triticale and buckwheat.
- 22) 2001: including dried pulses. 2009: including lettuce and strawberries.