



Brussels, 10.11.2015
SWD(2015) 214 final

COMMISSION STAFF WORKING DOCUMENT

**BOSNIA AND HERZEGOVINA
2015 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**

EU Enlargement Strategy

{COM(2015) 611 final}
{SWD(2015) 210 final}
{SWD(2015) 211 final}
{SWD(2015) 212 final}
{SWD(2015) 213 final}
{SWD(2015) 215 final}
{SWD(2015) 216 final}

Table of Contents

1.	INTRODUCTION.....	4
1.1.	Context	4
1.2.	Summary of the report.....	4
2.	POLITICAL CRITERIA.....	6
2.1.	Democracy	6
2.2.	Public administration reform.....	9
2.3.	Rule of law	12
2.4.	Human rights and the protection of minorities.....	20
2.5.	Regional issues and international obligations	26
3.	ECONOMIC CRITERIA	29
3.1.	The existence of a functioning market economy.....	30
3.2.	The capacity to cope with competitive pressure and market forces within the Union.....	35
4.	EUROPEAN STANDARDS.....	37
4.1.	Internal market	37
4.1.1.	Free movement of goods	37
4.1.2.	Movement of persons, services and right of establishment.....	38
4.1.3.	Free movement of capital	40
4.1.4.	Customs and taxation	41
4.1.5.	Competition.....	41
4.1.6.	Public procurement.....	42
4.1.7.	Intellectual property law.....	44
4.1.8.	Employment and social policies, public health policy.....	44
4.1.9.	Education and research.....	46
4.1.10.	WTO issues	48
4.2.	Sectoral policies	48
4.2.1.	Industry and SMEs	48
4.2.2.	Agriculture and fisheries	49
4.2.3.	Environment and climate change	50
4.2.4.	Transport policy	52
4.2.5.	Energy	53
4.2.6.	Information society and media.....	54
4.2.7.	Financial control.....	55
4.2.8.	Statistics.....	57
4.3.	Justice, freedom and security	58
4.3.1.	Visa, border management, asylum and migration.....	59
4.3.2.	Money laundering.....	60
4.3.3.	Drugs	61

4.3.4. Police	61
4.3.5. Fighting organised crime and terrorism	62
4.3.6. Judicial cooperation in civil and criminal matters.....	63
Annex I – Relations between the EU and Bosnia and Herzegovina	64
Annex II – Statistical Annex	67

1. INTRODUCTION¹

1.1. Context

The EU initiated in December 2014 a new approach to Bosnia and Herzegovina, which provides for the re-sequencing of the conditionalities in order for the country to progress towards the EU and address the outstanding socio-economic challenges it faces. This led to the entry into force of the Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina and the EU on 1 June 2015. It replaced the Interim Agreement (IA) which had been in force since 2008. In July, the country adopted a Reform Agenda aimed at tackling the difficult socio-economic situation and advancing the judicial and public administration reforms. Its implementation has started. Meaningful progress in the implementation of the Reform Agenda is necessary for the EU to consider an EU membership application from Bosnia and Herzegovina. Despite these positive developments, the adoption of a decision of the Republika Srpska National Assembly in July to hold a referendum on the Bosnia and Herzegovina state-level judiciary runs against the written commitment signed in February which is the basis for moving ahead on the EU path. Remaining shortcomings in the judiciary need to be addressed in the Structured Dialogue on Justice.

Regular political and economic dialogue took place between the EU and Bosnia and Herzegovina in the framework of the SAA/IA structures. However, Bosnia and Herzegovina has continued to refuse to adapt the trade concessions granted under its SAA/IA to take into account its bilateral traditional trade with Croatia, following the accession of Croatia to the EU. Prolongation of the Autonomous Trade Measures beyond 2015 is conditional on Bosnia and Herzegovina accepting this adaptation of the SAA/IA.

1.2. Summary of the report

As regards to the **political criteria**, the October 2014 general elections were efficiently administered and held in an orderly manner and competitive environment. Bosnia and Herzegovina's Parliamentary Assembly has started to function and deliver on the legislative agenda. The adopted Reform Agenda, which set out major socio-economic reforms to be carried out, was followed by initial progress in its implementation. Cooperation between the State-level, Entity-level and Brčko District parliaments has yet to be improved. Closer cooperation and coordination between all levels of government need to be established, not least to be able to tackle the major socioeconomic challenges.

The country's Constitution established a complex institutional architecture that remains inefficient and is subject to different interpretations. The Constitution remains in breach of the European Convention on Human Rights, as stated in the *Sejdić-Finci* ruling of the European Court of Human Rights, and needs to be amended.

The country is at an early stage in public administration reform, with a high level of politicisation and poor service delivery. Establishing a new strategic framework ensuring appropriate political guidance to public administration reform in the country is needed.

Bosnia and Herzegovina's judicial system has reached some level of preparation. A Judicial Reform Sector Strategy was adopted and now needs to be implemented. In September at a

¹ This report covers the period from October 2014 to September 2015. It is based on input from a variety of sources, including contributions from the government of Bosnia and Herzegovina, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

ministerial meeting in the framework of the Structured Dialogue, the authorities reiterated their commitment to develop jointly key features of the reform of the judiciary.

Bosnia and Herzegovina has some level of preparation in the fight against corruption. A new anti-corruption strategy and action plan covering the years the 2015-2019 were adopted. There was a substantial increase in the confiscation of assets. Corruption continues to be widespread and the political commitment on this issue has not translated into concrete results. The legal and institutional framework remains weak and inadequate. The lack of enforcement of the law negatively affects citizens and institutions. Penalties in force do not constitute a sufficient deterrent against corruption.

Concerning the fight against organised crime, the country also achieved some level of preparation. While there have been a number of successful large-scale joint operations in the past year, some including neighbouring countries, coordination and cooperation between all institutions throughout the country needs to be significantly improved. The number of final convictions remains low. Financial investigations remain under used. The lack of strategic coordination is hampering the effective delivery of police services.

Bosnia and Herzegovina faces many challenges regarding human rights and the protection of minorities. The legal and institutional framework for the observance of human rights requires substantial improvements and the adopted legislation needs to be effectively implemented, notably regarding anti-discrimination aspects. The conditions for the exercise of the freedom of expression have deteriorated over the reporting period. Although there is some level of preparation in this area with legal provisions generally in place, the institutional and political environment is not conducive to creating the conditions for full freedom of expression. The lesbian, gay, bisexual, transgender and intersex community continued to be subject to threats and attacks. Some steps were taken on the registration and housing of the Roma minority, but there was limited action on health, education and employment.

The country continued to participate actively in regional initiatives and has made progress on good neighbourly relations, including signature of a border agreement with Montenegro in August. In May, Bosnia and Herzegovina took over the chairmanship of the Council of Europe's Committee of Ministers.

With regard to the **economic criteria**, Bosnia and Herzegovina is at an early stage in developing a functioning market economy. Some progress has been made on improving the business environment, particularly on easing market entry and the granting of construction permits. Despite the setback from the 2014 floods, economic growth remained resilient. However, difficult labour market conditions have remained largely unchanged, with unemployment at 27.6%, rising to 62.7% among youth. In order to tackle high unemployment and low participation rates the country should reduce labour market rigidities, including a reduction of the tax wedge. The quality and sustainability of public finances have deteriorated. The business environment remained weak, impeding a stronger economic recovery. The government needs to improve the quality of public sector governance, in particular by increasing fiscal space for growth enhancing capital investment. Furthermore, concrete steps are needed to improve its budget management framework, to advance privatisation and to improve the business environment.

Bosnia and Herzegovina is at an early stage in achieving the capacity to cope with competitive pressure and market forces within the Union. Some progress has been made on the liberalisation of energy markets. However, in order to strengthen the country's competitiveness, the authorities should pay particular attention to developing a more strategic approach to tackling deficiencies in its training and education system; simplifying its complex procedure for exports and developing a transport strategy and an energy strategy.

Bosnia and Herzegovina is at an early stage regarding its approximation with **European standards**. There is some level of preparation as regards public procurement and internal market. The country is at an early stage in the transport area, but the adoption of the Transport Policy in July is a positive step forward towards the country benefitting from the connectivity agenda. However, significant efforts are needed in most of the policy areas for the country to further align with the EU *acquis*. This includes financial control as well as statistics where the country is at an early stage and major steps are needed to address outstanding priorities. In this respect, the processing of the 2013 census data and the publication of the results need to be completed. Further sustained efforts are also needed in particular as regards justice, freedom and security matters, the competition area, industry and SMEs, agriculture, environment and climate change policies, energy, and information society and media.

2. POLITICAL CRITERIA

2.1. Democracy

Elections

The 12 October 2014 general elections were assessed as being efficiently administered and held in an orderly manner and competitive environment. The OSCE Office for Democratic Institutions and Human Rights made a number of recommendations to further improve the electoral framework.

General elections were held in Bosnia and Herzegovina on 12 October 2014. The elections took place in a difficult political environment and deteriorating socioeconomic conditions, as witnessed over the last years. The OSCE Office for Democratic Institutions and Human Rights (ODIHR) assessed the elections as having been efficiently administered and held in an orderly manner and competitive environment. The candidates were able to campaign freely and fundamental freedoms of expression, association and assembly were met. The civic monitoring coalition 'Pod Lupom' reached similar overall conclusions. At the same time, OSCE/ODIHR issued a number of recommendations aimed at improving the holding of elections. These include reviewing constituency boundaries to uphold the principle of voting equality, the removal of ethnicity and residency-based limitations on the right to vote and stand as a candidate and reviewing the regulatory framework for campaign finance.

After five years of deadlock the 2010 Constitutional Court decision on Mostar's statute needs to be implemented as a matter of priority to ensure that the citizens of Mostar can exercise their democratic rights.

Parliament

Bosnia and Herzegovina's Parliamentary Assembly has started to function and deliver on the legislative agenda. Cooperation between the State-level, Entity-level and Brčko District parliaments has yet to be improved.

Following the October elections, the two chambers of Bosnia and Herzegovina's Parliamentary Assembly, the House of Representatives and the House of Peoples, were established in the new compositions in December and February respectively. The formation of the parliamentary committees was only completed in June. The new Rules of Procedure for the Parliamentary Assembly entered into force and introduced a fast-track mechanism for EU-related legislation. Cooperation between the State-level, Entity-level and Brčko District parliaments has yet to be improved. Joint meetings of the parliaments did not take place.

The Federation of Bosnia and Herzegovina's House of Representatives and House of Peoples held their constitutive sessions in December and January respectively. The Federation House of Peoples remained short of three Serb delegates, as no more than 14 Serb delegates could be appointed from the cantonal assemblies. Legislative changes preventing this issue from reoccurring are yet to be adopted. The functioning of the Federation Parliament continued to be hampered by the lack of space in its rented premises and insufficient capacity to deal with European integration-related issues. Coordination with cantonal assemblies, in particular on shared powers, remained problematic.

In November, the Republika Srpska National Assembly held its constitutive session. In February, the Republika Srpska National Assembly unanimously adopted a written commitment to undertake the necessary reforms for Bosnia and Herzegovina's European integration. In March, the Department for European Integration and International Cooperation was established within the Parliamentary Secretariat. This body will be in charge of providing support to parliamentarians in Republika Srpska. In July, upon a proposal from the Republika Srpska president, the assembly adopted a decision to hold a referendum on the Bosnia and Herzegovina state-level judiciary and its jurisdiction in Republika Srpska. Such a decision runs against the written commitment signed, in February, by the representatives of all political parties represented in the country's Parliamentary Assembly. Questioning the existence of the court and the prosecutor's office of BiH would go against a number of rulings of the Constitutional Court of Bosnia and Herzegovina, which confirmed that the establishment of the state level judiciary was in line with the constitution.

The work of the Brčko District Assembly committees, including the Committee for European Integration, remains problematic due to frequent lack of quorum at their meetings and limited capacities of the District Assembly's services.

Governance

Bosnia and Herzegovina's institutions made some progress towards addressing the outstanding reform priorities notably with the adoption of the Reform Agenda and the start of its implementation. However, major challenges remain, including the need for closer cooperation and coordination at all levels of government. The Constitution remains in breach of the European Convention on Human Rights (the *Sejdić-Finci* judgment).

The Dayton/Paris Peace Agreement (DPA) put an end to the 1992-1995 war. The country's **Constitution**, which is Annex 4 to the DPA, established a complex institutional architecture that remains inefficient and which is subject to different interpretations. The Constitution prevents citizens who do not declare themselves as one of the country's 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. Constitutional Court decisions have yet to be fully enforced throughout the country.

The new tripartite **Presidency** of Bosnia and Herzegovina initiated a written commitment to undertake reforms and advance the European integration process. The written commitment, whose language fully reflected the conclusions of the EU Foreign Affairs Council of December 2014, was signed by the leaders of all the 14 political parties represented in the Parliamentary Assembly, and endorsed by Bosnia and Herzegovina's Parliament in February.

The new **Council of Ministers** was sworn in at the end of March. In May, the Council of Ministers adopted its 2015 work plan covering the adoption of some 65 laws related to the EU integration agenda. The preparations of the Programme of EU Integration started in May. In July the Council of Ministers adopted the Reform Agenda. The processing of the 2013 census

data and the publication of the results need to be completed without further delay in line with recommendations of the International Monitoring Operation. Country-wide sectoral strategies necessary to fully benefit from EU pre-accession assistance on transport, energy and the environment need to be adopted as a matter of urgency. The role and capacities of the Council of Ministers' Directorate for European Integration (DEI) will need to be enhanced in order to cope with the challenges stemming from the entry into force of the Stabilisation and Association Agreement. The mandate of the DEI Director expired in August 2015 and the vacancy was published.

An effective coordination mechanism has yet to be put in place between the various levels of government for the alignment, implementation and enforcement of EU laws. Such a mechanism is needed to enable the country to interact in an efficient manner with the EU.

In the **Federation of Bosnia and Herzegovina**, a new government was appointed in March and the budget for 2015 adopted. The lack of an agreement on appointments to the supervisory boards of public companies has been detrimental to the work of the Federation Government and led to the break-up of the ruling coalition and a minority government. Negotiations on the formation of a new government are pending. A new labour law was adopted in July, in line with the provisions of the Reform Agenda. The Director of the new Federation Office for European Integration took office in February. However, the Office does not have enough administrative capacity to coordinate EU affairs with the rest of the country and across the different levels of government within the Federation. So far, the Federation Government and the Cantons are not cooperating successfully on EU integration issues.

In **Republika Srpska**, a new government was appointed in December. The government has engaged in economic reforms. In January, it established two working bodies, the board for economic system reform and the board for public sector reform, which were tasked with drawing up legislation in their respective areas.

The **Brčko District** government held several specific sessions on European integration. In October, five sectoral working groups were set up and communication on EU matters was made an official part of the working procedures of the relevant institutions and bodies of the District. In December, a decision was adopted on procedures to harmonise legislation passed by Brčko District with the EU *acquis*.

Entity legislation is largely in line with the European Charter of **Local Self-Government**. However, a lack of clarity remains in the division of powers between the Entities, Cantons and municipalities, with a relatively low level of financial autonomy at municipal level.

The **Ombudsman's** Office continues to be hampered by financial and human resource constraints. The law on the reform of the Ombudsman has yet to be adopted. As of December, the mandate of the three Ombudspersons expired. The joint *ad hoc* committee of the BiH Parliamentary Assembly for appointing the new Ombudspersons was established in April and new rules of procedures regulating the selection process were adopted in July and are in line with the European standards.

Civil society

No progress was made in improving mechanisms for dialogue and cooperation between government and civil society organisations. The legal and financial framework needs to be further improved.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the institutions. There have been no developments towards ensuring formalised policy dialogue between the Council of Ministers and civil society. A

national strategy on civil society has yet to be adopted. The State law on the joint registry of non-governmental organisations which would allow for the establishment of a centralised database has not yet been adopted.

Political activists that emerged during the February protests 2014 remained active at the local level and attempted to organise and establish networks across the country to address pressing socioeconomic issues. Some civil society organisations strived to increase their capacity to monitor the EU integration process and enter into dialogue on the Reform Agenda with the EU and the authorities across the country. However, civil society organisations continue to have limited capacity at grassroots level to participate in policy dialogue.

Public funding for civil society organisations has to be provided in a transparent way following clearly defined criteria. Substantial funding is mostly given to sporting associations and war veterans in a non-transparent and unregulated way. Republika Srpska has adopted initial guidelines on grant management which are obligatory for all ministries. Country wide legislation, for instance tax rules, is not conducive to stimulating private donations to civil society organisations.

Civilian oversight of the security forces

The Joint Parliamentary Committee for Security and Defence was set up in April 2015. Mandated to scrutinise and shape Bosnia and Herzegovina's security and defence policy, the Joint Committee should play an important role in steering the defence reform process. However the Committee held only two sessions and no substantive issues have been discussed so far. The Parliamentary Military Commissioner continued to oversee the protection of human rights and freedoms in the armed forces and Bosnia and Herzegovina's Ministry of Defence. The armed forces made substantial progress in disposing of the most unstable ammunition and building sustainable capacity to manage the rest of the stockpiles. At the same time, the widespread presence of weapons held illegally by the population and the large stockpiles of ammunition and weapons under the responsibility of the armed forces remain issues of concern.

2.2. Public administration reform

Bosnia and Herzegovina is **at an early stage** with the reform of its public administration. **No progress** was achieved in the past year. The lack of broad political support for country-wide reforms and the fragmentation of public service are hampering efforts to carry out institutional and legislative reforms. A systematic approach to policy development and coordination is still largely lacking and the politicisation of the civil service continues to be an issue of concern.

In the coming year, Bosnia and Herzegovina should in particular:

- develop, adopt and start to implement a new country-wide strategic framework for public administration reform and ensure appropriate political leadership and guidance to public administration reform in the country;
- ensure implementation of an effective human resources management system;
- develop a public financial management reform programme, which is clearly linked to the new PAR strategic framework.

Public service and human resources management

The public service in Bosnia and Herzegovina is fragmented, which is not conducive to the emergence of a unified professional civil service. The legal framework is not consistent, with different laws applying to the civil service at different levels of government. Moreover, the laws are all amended over time in an uncoordinated fashion.

The principle of **merit-based recruitment and promotion** is enshrined in law. However, in practice internal competitions and transfers are preferred to external competitions, limiting the potential for merit-based recruitment. Recruitments to senior management positions continue to be influenced by political parties and ethnic considerations, and the separation between politics and public service is not properly reflected in the legislation. The criteria for **dismissals** and disciplinary procedures, including possibility to appeal, are also enshrined in law. In practice the number of dismissals is low. Women are slightly under-represented in senior management: 30% in the institutions of the State, 40% in the Federation, 43% in Republika Srpska and 37% in Brčko District in 2014.

Human Resources Management is fragmented and inefficient. There are four main civil service coordination bodies. The creation of up to 10 new civil service agencies in the Federation is not in line with efficient resource management and will only further risk fragmenting the public service. The human resources management information system and the central civil service registries are in place, but they are not being used to their full potential, either because of legal obstacles on personal data protection or because they do not contain complete information. This is a further hindrance to a unified public service.

The **remuneration system** is based on the job classification of the civil service. The system is not transparent and does not ensure equal pay for equal work because different salary regulations are in force. Public sector salaries in Bosnia and Herzegovina, including the civil service, are almost 40% higher than in the private sector, creating the conditions to attract and retain qualified and competent civil servants. The right for **professional development** of public servants is not fully respected. Funding for training is mainly provided by international donors. Performance appraisals are regulated by law, but practical application remains weak.

Integrity in public service is relatively well addressed through the adoption of anti-corruption policies and action plans, codes of conduct for civil servants, rules on incompatibility of office and the establishment of the anti-corruption agency. There is no legal requirement for public sector employees to make public information on their personal assets and income. There is still no whistle-blower protection legislation in the Entities and Brčko District. Bosnia and Herzegovina's Criminal Code and the relevant laws in the Federation, Republika Srpska and Brčko District do not exempt public sector employees from liability in cases of abuse of authority. However, the number of individuals prosecuted for abuse of authority has been very low.

Policy development and coordination

The **policy-making system** in Bosnia and Herzegovina is very fragmented. The basic institutional structure for a 'whole-of-government' approach and policy-making is enshrined in law but policy coordination is weak as the General Secretariat of the Council of Ministers focuses mainly on procedural issues. The European integration coordination structure is partially in place in the country's institutions, but decision-making and implementation is scattered. The main weakness is the lack of medium-term harmonised planning at country-wide level. Overall, no measures are in place to ensure the financial sustainability of sectoral strategies and programmes. However, a 2014 Decision on Mid-Term planning, monitoring and reporting procedure at the level of institutions of BiH provides for an attempt to link policy planning with medium-term fiscal planning.

Only some aspects of **inclusive and evidence-based policy and legislative development** are in place. Significant challenges remain with regard to developing high-quality policy and legislative proposals. Lack of co-ordination between the State level, the Entities and Brčko District hampers the process of harmonisation with the EU *acquis*. Both inter-ministerial and public consultations are regulated by law, but are not systematically implemented. Regulatory

impact assessments are enshrined in law but are not carried out systematically. Financial impact assessments are carried out for draft legislative proposals but not for strategic documents.

The lack of country-wide medium-term policy planning is a serious obstacle to **public scrutiny of government work**. Government reports that are available to the public do not provide information that would enable them to compare achievements with specific policy objectives. At the State level more transparency is ensured with publicly available reports, publication of government agendas and summaries of decisions.

Accountability of the administration

The overall organisation of the public administration in Bosnia and Herzegovina is not conducive to ensuring clear **lines of accountability**. The structure and powers of the different public administration bodies are regulated by overlapping and unclear legislative framework. This has resulted in blurred accountability and reporting lines, with over 40 institutions reporting directly to the Council of Ministers. There is a lack of procedures ensuring control over the creation of new institutions. With regard to lines of accountability within institutions, managerial accountability is not yet ingrained in the administrative culture. (*See also 4.2.7. Financial control*)

The institutional set-up and resources to protect the **citizens' right to good administration** are fragmented. The Ombudsman is relatively active in issuing recommendations, but the rate at which the public administration implements them is low. (*See under Governance*) The **right to access public information** is regulated at all levels. The laws are mutually consistent and ensure a wide scope of access, but implementation is not uniform in practice. When citizens are refused access to public information, there are no efficient means for them to appeal. There also is no independent supervisory body to review appeals and issue decisions and guidelines.

On the **right to administrative justice**, the judicial review of administrative acts is decentralised and handled by general courts. Public trust in the courts is generally low. There are a number of laws governing the public's **right to seek compensation** in cases of wrongdoing, but in the absence of a specific law on public liability, practical implementation is inconsistent.

Public financial management

A budget management information system is in use throughout the different levels of the public administration. Budget preparation processes improved in 2014 and budgets were adopted on time. However, this trend did not continue in 2015 due to delays over the formation of governments following the 2014 elections.

Bosnia and Herzegovina has so far addressed public finances on a sub-system basis, without explicitly linking different areas and reform measures under a **public financial management reform programme**. A public expenditure and financial accountability assessment and other relevant assessments were carried out in 2014 and 2015, providing a basis for developing the reform programme. Bosnia and Herzegovina has not yet achieved sufficient **budget transparency**. An annual financial report is published by the Ministry of Finance and Treasury and audited by the Supreme Audit Institution. Similar provisions also apply in the Entities and in Brčko District. Information on debt and guarantees is also included. In the Entities and in Brčko District parliamentary approval is not required for spending by the extra budgetary funds.

Service delivery to citizens and businesses

There is no consistent policy on **user-oriented administration**, as the responsibilities for service delivery are highly decentralised. Citizen satisfaction with government services is not generally measured. Equal access to services is not yet ensured. There is potential for e-services as over two thirds of citizens have internet access. However, further development is held back by the lack of a country-wide approach and differences in how the State, the Entities and Brčko District apply the legal framework for e-signatures, develop e-government portals and implement the interoperability framework.

The current legal framework provides for **simplification of administrative procedures** at State level, in the Entities and in Brčko District, but the pieces of legislation regulating the special administrative procedures would need to be reviewed and revised, as relevant, to determine the actual level of implementation.

Strategic framework for public administration reform

Bosnia and Herzegovina does not have a comprehensive **public administration reform strategy** in place, since the latest strategy expired in 2014. There has been no progress on preparing a new strategy, mainly due to lack of broad **political support** and strategic guidance. Despite the expiry of the strategy and its action plan, its monitoring and reporting structure continues to operate and some actions are being implemented. No political body oversees reforms country-wide, but the Public Administration Reform Coordinator's Office coordinates the process within its limited functions. The new State-level PAR Co-ordinator was appointed in August. Coordinators and supervisory teams are also operational at Entity level. The current monitoring framework has major weaknesses due to the lack of concrete performance indicators that would allow evaluating whether reform objectives had been implemented. The previous strategy did not include any costing, and **financial sustainability** has not so far been ensured.

2.3. Rule of law

Functioning of the judiciary

Bosnia and Herzegovina's justice system has achieved **some level of preparation**. **Some progress** was achieved in the last year, notably through the adoption of a justice sector reform strategy. In September at a ministerial meeting in the framework of the Structured Dialogue, the authorities reiterated their commitment to develop jointly key features of the reform of the judiciary.

However, politically motivated attacks against the judiciary continued, measures to ensure full accountability of judges and prosecutors remain to be adopted, there remains a need to develop specialised training and the efficiency of parts of the system is seriously hampered by a backlog and excessively lengthy proceedings.

In addressing the shortcomings outlined below, in the coming year Bosnia and Herzegovina should in particular:

- adopt an action plan with result indicators and budgeted activities to implement the 2014-2018 justice sector reform strategy;
- strengthen accountability and integrity mechanisms, particularly through a more deterrent disciplinary system and by adopting measures to prevent conflicts of interest;
- adopt a backlog reduction plan for utility-related cases;
- modernise the training and provide full access to court decisions.

Strategic documents

An updated and country-wide **justice sector reform strategy** for the 2014-2018 period was adopted in September 2015. The accompanying **action plan** that includes a comprehensive set of concrete actions together with completion indicators and financial resources has still to be adopted. In order to fill the gaps caused by the delayed adoption of the new strategy, the institutions responsible for implementing it need to achieve tangible results with consistent efforts and due pace.

Management bodies

The **High Judicial and Prosecutorial Council (HJPC)** is the key institution administrating the judiciary throughout the country. It enjoys institutional independence and of its 15 members, 11 are appointed from among fellow judges and prosecutors. The four remaining members are appointed by the Council of Ministers, the Parliamentary Assembly and one per each bar association in the Entities.

The HJPC manages the entry of judges and prosecutors into judicial careers and is also responsible for overseeing appraisals and career development. While the HJPC is generally allocated a budget commensurate with its immediate priorities, its secretariat needs to be given adequate resources.

Judicial scrutiny of most of the HJPC's decisions on appointments or dismissals does not exist as it is possible only for violation of constitutional and human rights as result of disciplinary proceedings. The HJPC is only required to produce and publish on its website the annual activity reports it submits to the executive and legislative branches. In 2015 the HJPC decided to open its sessions to the public, though there are some restrictions.

There remain shortcomings in the legal framework governing the HJPC. These need to be addressed based on the opinion of the Venice Commission and relevant recommendations issued by the European Commission as part of the EU-Bosnia and Herzegovina Structured Dialogue on Justice.

Independence and impartiality

The principles of **judicial independence and prosecutorial autonomy** are set out in the legislation at all levels and enshrined in Entity Constitutions but not in the State Constitution. While external and internal independence and autonomy have a legal basis, there is no effective oversight for their implementation. There are no formal procedures carrying penalties against undue influence or threats to judicial independence. The HJPC can only issue public statements or provide a non-binding opinion if a judge or prosecutor complains or if a threat contains elements of a criminal offence. As a result, unlawful and politically motivated attacks against the judiciary continue without proper legal or constitutional protection. The new Law on the HJPC should also address these problems, in the absence of constitutional guarantees for judicial independence at State level.

Legal safeguards exist in case of transfer of judges or prosecutors without their consent. These are laid down mainly in the rules on disciplinary proceedings. Appeals for a final disciplinary decision of the HJPC on transfer are possible only where there are violations of human or constitutional rights. As regards the principle of **immovability**, over the reporting period, the HJPC decided in only one case to apply a transfer without consent, as an alternative to the removal requested by the Office of the Disciplinary Prosecutor. The 'case management system' performs **random allocation** of incoming cases to judges, while court presidents decide on parameters for case distribution. Regarding the **withdrawal of cases from judges**, despite the existence of an automated case allocation system, court presidents are entitled to reassign a case in order to guarantee impartiality. In such cases, the HJPC monitors the rationale behind each reassignment. Impartiality is also protected by exemption and

disqualification mechanisms under the procedural laws in force. If judges fail to disqualify themselves in such situations this constitutes grounds for disciplinary action. Several judges have been sanctioned on this basis.

Accountability

Although the Office of the Disciplinary Prosecutor is an autonomous body, it is functionally dependent on the HJPC. The two-instance **disciplinary procedure** guaranteed by the law is also subject to final scrutiny by the HJPC, which has the right to revoke the disciplinary penalty imposed at second instance. However, the number of serious disciplinary penalties remains low. **Codes of ethics** for judges and prosecutors exist, but there is no formal enforcement mechanism. An ethics committee established within the HJPC has the power to issue consultative opinions and oversee implementation of the codes but has no power to initiate disciplinary cases. A breach of a code of ethics does not constitute a formal reason to initiate disciplinary action. Moreover, decisions of the Disciplinary Prosecutor cannot be appealed against.

Other aspects of accountability are at an early stage or do not exist. The integrity of legal practitioners is only checked when candidates apply for judicial vacancies. **Declarations of assets** are required for all judges and prosecutors, but no institution verifies their accuracy. The issue of conflicts of interest in the judiciary has raised additional concerns regarding integrity and accountability. The rulebook on conflicts of interest for the members of HJPC, which has introduced a clear set of safeguards to prevent situations of conflict of interest, should be extended to the functioning of the entire judiciary. The new law on HJPC should work on providing clear rules that can be applied to the functioning of the entire judiciary.

Professionalism and competence

Procedures regulating entry or advancement in judicial careers based on merit and promotion are in place, with the focus on candidates' professionalism and competencies, which are assessed against objective indicators. For **appointments** to any position in the judiciary that would represent a **promotion** for a judge or prosecutor, candidates are evaluated in accordance with the criteria stipulated in the Law on the HJPC i.e. job performance in the lower-level position or results in the entrance exam and written test (for candidates from outside the judiciary). However, there is no effective and systematic application of objective criteria for final appointments to posts of judicial office holders and management-level positions. Dismissal is also regulated by objective criteria under the Law on the HJPC, although very few dismissals have actually occurred.

Quality of justice

Training for judges and prosecutors in Bosnia and Herzegovina is provided through the judicial and prosecutorial training centres in the Entities. These centres also provide induction training for new members of the judiciary when they are appointed. Training standards, methodology and delivery need upgrading, particularly on building specific capacities to handle complex cases, such as in cases of human trafficking, financial and organised crimes. Management training and training for specialised judicial or prosecutorial functions are not systematically provided. The country has observer status in the European Judicial Training Network.

Monitoring of the day-to-day activities of courts and prosecutors' offices takes place through the 'case management system', which includes an individual and institutional quota system. In addition to biannual and annual statistical reports submitted to the HJPC, all courts and prosecutors' offices produce an annual activity report, which is submitted to their respective Ministry of Justice and to the HJPC. The **budget allocated to courts and prosecutors'**

offices and the HJPC amounts to 119 million euros, i.e. 0.85% of GDP of Bosnia and Herzegovina.

Since the introduction in 2010 of the 'Online Access to Court Cases' web service, lawyers and parties in court proceedings across the country can access relevant information online. The system recorded more than 100 000 entries over the reporting period. The working of the courts has become significantly more transparent, though general access to court decisions remains limited to interested parties and requires payment of a fee. Selected decisions are available **electronically** and are easily accessible for judges and prosecutors. More work is needed to ensure that the working of the courts is fully transparent. This should include improving the availability of decisions while respecting data protection legislation and improving conditions for recording court proceedings.

In the absence of a State-level supreme court, **consistency of jurisprudence** is ensured only within the Entities and Brčko District, but not across the various levels of authority. Regular meetings are held of joint panels of the highest-level courts throughout the country. These have helped to achieve better harmonisation of case law in civil matters but not yet in administrative or criminal law. Public access to online jurisprudence is limited to the information published by the courts themselves on their web pages, while judicial professionals wanting to access full case law have to request a specific access code and pay a subscription fee.

On **availability of alternative dispute resolution methods**, commercial arbitration and judicial conciliation are regularly used, while the use of in-court and out-of-court mediation needs to be further promoted. Mediation is rarely promoted by judges. Only five cases went to mediation in the reporting period compared with 5 418 cases adjudicated using judicial conciliation, thus amounting to barely 1% of cases solved through alternative dispute resolution methods. Aligning Bosnia and Herzegovina legislative framework with the relevant EU legislation and achieving a more significant reduction in case backlog through the use of mediation needs to be further enhanced.

Efficiency

The average **length of proceedings** in 2014 was just over seven years for all courts across the country. In 2014, there were 428 701 incoming cases and 472 213 solved cases in all courts across the country. This gives a **clearance rate** (i.e. the ratio of solved cases to newly filed cases) of 110%. With the bulk of the backlog consisting of 1 700 000 unpaid utility bills cases, the HJPC and legislative bodies in the Entities are aiming to reduce this by providing support for the introduction of alternative solutions to courts, such as private bailiffs or enforcement officers on special assignment. However, these have not yet produced significant results in reducing the backlog.

The package of reforms provided by the HJPC and other relevant stakeholders to improve the efficiency of justice has helped to bring about a progressive reduction in the **backlog** of cases. This included solving the oldest cases through the implementation of 'plans to resolve old cases in courts' and the Rulebook on orientation measurements for the work of judges and legal assistants of the courts in Bosnia and Herzegovina. The backlog of non-utility-related cases in the last two years was decreased by more than 40 000 cases out of a total of 406 227 old cases, which is a direct result of actions by the HJPC to improve judicial efficiency. During 2014, the average duration of unresolved non-utility-related civil cases before courts of first instance in Bosnia and Herzegovina, measured in days, was also reduced by 27 days compared with 2012. The courts solved 85 941 old cases in 2014, achieving 80% of their target, 7% more than in 2013.

Fight against corruption

Bosnia and Herzegovina has **some level of preparation** in the fight against corruption. **Some progress** has been achieved in the past year. However, the legal and institutional framework remains weak and inadequate. The lack of enforcement of the law negatively affects citizens and institutions. As a general pattern, the penalties in force are not enough of a deterrent against corruption.

Corruption continues to be widespread and the political commitment on this subject has not translated into concrete results. In the coming year, Bosnia and Herzegovina should pay particular attention to:

- ensuring that sufficient funds from the budget are allocated to the anti-corruption strategy and implementing its action plan;
- establishing outstanding prevention and monitoring bodies at the relevant levels of government and ensuring their functioning, under the coordination of the Agency for the Coordination of the Fight against Corruption and Prevention of Corruption;
- improving the legislative framework, particularly for political party financing, asset declarations and protection of whistle-blowers;
- bringing in tougher penalties on the prevention and combat of corruption in order to achieve more of a deterrent effect.

Track record

In 2014, there were a total of 158 **investigations** at State level into financial crimes and corruption, out of which 103 (65%) have been closed, and 53 sent to the Prosecutor's Office of Bosnia and Herzegovina. There has been no final conviction in high profile cases in the reporting period. From 1 October 2014 to 31 July 2015 there were a total of 304 **confirmed indictments** country-wide, resulting in 209 **convictions**. Most of the convictions related to the offence of embezzlement in office.

Audit reports and tax administration reports are not used in a systemic way to fight corruption. Cases are often leaked to the press, at which point they then tend to become politicised. The political authorities should ensure that law enforcement bodies are fully empowered to act effectively and impartially when investigating corruption allegations. **Financial investigations** are not yet systematically launched in cases of corruption and organised crime. Since the creation in 2010 of the only agency dedicated to **asset confiscation** in the Republika Srpska, in 16 cases an amount of around 7 775 000 euros was confiscated. 2014 alone saw the confiscation of assets worth around 7 325 000 euros.

There is no track record of effective control of **political party and electoral campaign financing** and relevant GRECO (Group of states against corruption) recommendations still need to be addressed on this point. **Asset declarations** are governed by separate and uncoordinated pieces of legislation, making their implementation ineffective, including the penalties imposed.

Amendments to the State law on **conflicts of interest** established a new parliamentary commission to decide on conflict of interest cases. There were no cases at State level or in Brčko District. In Republika Srpska, 116 cases were processed, and in 10 cases a conflict of interest was found.

Different laws govern **access to information**, but common flaws were reported, including the lack of automated statistical information. 218 access to information complaints were referred to the Ombudsman in 2014. Following the entry into force of the law on whistle-blowers in

2014, two individuals were granted the status of **whistle-blowers**. However, the law covers only the State-level public sector.

Institutional framework

Although the anti-corruption agency's mandate is essentially focused on **prevention** and coordination, recent amendments entrusted the agency with new powers on whistle-blower protection and conflicts of interest. Its budget has constantly increased since inception in 2009 and the staffing is at a satisfactory level. At entity level, the Republika Srpska has appointed in April 2015 a dedicated body. The mandate of the prevention body within the Federation needs to be reconfirmed. Cantons, where most of the areas at risk are, have limited or no legislation and no bodies dedicated to preventing corruption. Moreover, there is no policy in place to prevent corruption in the private sector.

On **law enforcement**, the capacity to investigate economic, financial and public procurement-related crimes remains weak. Relations between the police and the prosecution services in combating corruption still need to be improved. Greater specialisation is needed within the police and judiciary in order to fight corruption. The law establishing specialised departments within the Federation's Prosecutor's Office and the Supreme Court of the Federation to prosecute corruption and organised crime cases entered into force in February. However, these bodies are not yet in place while the cantons have ceased to prosecute corruption cases above a certain threshold, thus creating a legal vacuum. There is still no effective criminal justice policy, including as regards penalties which are not deterrent.

Rules on personal data protection by the police are not sufficient and generally not implemented, while penalties for breaches are not dissuasive. Rules on the immunity of members of parliaments in criminal procedure and procedures governing the lifting of immunity are in place.

Legal framework

Passive and active corruption are criminalised under the criminal codes at all levels. However, a number of GRECO recommendations on improving the legal framework have not received any attention. Bosnia and Herzegovina is party to the **UN Convention against corruption**, but has chosen not to criminalise illicit enrichment. The country ratified the Council of Europe Anti-corruption Conventions but has not ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Amendments to the State law on conflicts of interest are still not in line with international standards because there are no independent bodies in charge of processing conflict of interest cases. In Brčko District, the authorities have entrusted the task of deciding on conflict of interest cases to the Brčko District Election Commission. The Federation has not yet amended the law to determine the body that will decide in conflict of interest cases.

The verification of declared assets is not effective and penalties are not serving as a deterrent. The law on financing of political parties and electoral campaigns has not been adjusted in line with GRECO recommendations. The country has no legislation governing lobbying and rules on the protection of whistle-blowers are at a very early stage.

Strategic framework

A new Bosnia and Herzegovina **anti-corruption strategy and action plan** covering the 2015-2019 period was adopted in April. However, no specific budget has been allocated for its implementation. Provision has been made for regular revision of the action plan, which should enable it to undergo adjustments. Similar documents for the 2013-2017 period have also been adopted in Republika Srpska. To overcome the fragmentation of powers and the

various administrative layers, the fight against and the prevention of corruption require the identification of dedicated and specialised structures at all levels of government with appropriate coordination channels and a holistic vision. Strategic documents need to be improved by including notably a solid risk assessment and clear identification of benchmarks. Monitoring and implementation in most of the cases remain weak.

Fight against organised crime

The fight against organised crime has reached **some level of preparation**. **Some progress** has been made over the past year.

Coordination and cooperation between all institutions throughout the country needs to be significantly improved. The number of final convictions remains low. Financial investigations remain under used. The lack of strategic coordination is hampering the effective delivery of police services. To remedy the systemic shortcomings, Bosnia and Herzegovina should pay particular attention in the coming year to:

→ strengthening the framework for inter-agency cooperation among law enforcement bodies to allow for the establishment of specialised multi-agency investigation teams for complex cases involving organised crime, economic crime and corruption and to make it possible to dismantle criminal networks;

→ regulating mutual access to databases and the exchange of information between law enforcement agencies and prosecutors' offices;

→ developing effective asset confiscation and recovery systems at all levels.

Track record

The number of first instance convictions for organised crime is 22. Even though the number of cases concerning fighting human trafficking in the reporting period increased, the number of final convictions for organised crime remains low. The country remains a source, transit and destination country for trafficking, mostly of women and children, for various types of exploitation.

The number of convictions for **money laundering** decreased. Anti-money laundering legislation still needs to be implemented in an effective way by all relevant institutions, including financial and non-financial sector and supervisory bodies.

There is no policy for carrying out serious **financial investigations** on a systematic basis and the precautionary **freezing of assets** during the early phase of investigations is not often applied. There are frequent leaks to the press, violating the confidentiality of investigations. The joint counter terrorism task force is not functioning properly and its capacity has to be further strengthened.

Institutional and operational capacity

Bosnia and Herzegovina has 16 531 police officers, or 4.3 per 100 000 inhabitants. A major reform of the police was carried out in 2008 and new institutions still need further consolidation. Undue political influence over police top managers and overlapping competences hamper the proper delivery of police services in some areas. **Command structures** remain opaque, with overlapping powers, partly due to the country's complex administrative set-up. While clear criteria for the recruitment, evaluation and promotion of police officers are in place, they are not yet being implemented in a fair and transparent way, particularly for the appointment of senior police officials. Curricula for initial and in-service training are being developed by police academies and training institutions. Their capacity to

provide specialised training is, however, limited. A working arrangement between Bosnia and Herzegovina and the European Police College (CEPOL) was signed in November.

Specialised anti-terrorism, human trafficking, drugs, cybercrime and financial investigations units are broadly in place at State and Entity level, though with limited or insufficient capacities. A Financial Investigation Unit remains to be set up in the Federation. The interoperability of the police equipment notably radio communication systems need to be improved.

Relations between prosecutors' offices and the police require structural improvements to guarantee a more effective judicial follow-up. The system for electronic data exchange of police and prosecution registries is operational, although some technical aspects of the system are being updated and improved. Better regulation continues to be needed on determining access rights to data and databases. Provisions governing personal data protection in the police sector are not sufficient and generally not implemented, while sanctions for breaches are not deterrent. Operational inter-agency cooperation takes place on a case-by-case basis and still needs to be improved. Negotiations with Europol on an Operational Agreement were concluded in December 2014 but the Agreement has not yet been signed.

Statistics on investigations, prosecutions and convictions for criminal offences are collected from the judiciary throughout the country in an automated fashion and centralised using the HJPC's case management system. However, the qualitative analysis of cases has yet to be introduced. There is no operational country-wide DNA database and the DNA profiling capacity remains limited, while the swift exchange of forensic data with other countries does not exist.

Joint minimum standards on **civil possession and the carrying of weapons** were adopted in July with a view to harmonise laws within the country and with existing EU and international standards. Capacity to combat money laundering is weak.

On **human trafficking**, the country still needs a victim approach and a multidisciplinary and comprehensive strategy. This would be mainly based on improved police-prosecution cooperation, data exchange and investigations. There are serious delays in the Federation's implementation of its assets seizure legislation because its Agency for Management of Seized Assets is not operational.

Legal framework

The legal framework is fairly well developed, but legal loopholes and lack of implementation limit its efficiency. The country's four Criminal Codes are largely in line with the *acquis*, although the penalties imposed are not enough of a deterrent. A number of shortcomings in criminal investigations need to be addressed, including through strategic guidance and operational priority-setting mechanisms to ensure that special investigative means are used efficiently and through rules on how to implement them, where these are missing. The legislation on the confiscation of criminal assets is partially aligned with the *acquis*. However, provisions on minimum standards governing asset seizure have yet to be consistently incorporated into legislation across the country. Recommendations by the Financial Action Task Force on Money Laundering (FATF) are partially reflected in anti-money laundering legislation, but the implementation of this legislation remains insufficient. In June an action plan for addressing deficiencies in the system to combat money laundering and terrorism financing was adopted.

Strategic framework

The 2014-2016 **strategy on the combat of organised crime** is in place. However, its action plans have still be adopted and implemented. Inspired by the Europol methodology, a Serious and Organised Crime threat Assessment is in place, providing a strategic picture of organised crime in the country. However, its findings have not yet been translated into a coherent national security policy based on clear priorities.

A strategy for the prevention and fight against terrorism for the 2015-2020 period was adopted in July but an action plan implementing the strategy has yet to be adopted. The strategy to combat money laundering and drug abuse and its accompanying action plan have expired, and the new strategic framework has not yet been adopted. Bosnia and Herzegovina lacks a comprehensive overall strategic approach to address the issue of **cybercrime** and cyber security threats. Existing capacities to combat cybercrime and respond to cyber security threats need to be strengthened.

Fight against terrorism

Bosnia and Herzegovina has been seriously affected by the phenomenon of foreign fighters and radicalisation. In April, the police station in Zvornik was attacked by a lone gunman, resulting in one police officer being killed and another two injured. The attacker was killed in the exchange of fire. The reason for the attack is being investigated by the State Prosecutor's Office. In July, Bosnia and Herzegovina's Council of Ministers adopted its 2015-2020 strategy for the prevention and fight against terrorism for the period. The strategy follows the model of the EU's counter terrorism strategy and is structured around four major principles: prevention, protection, pursuit and response. Action plans remain to be developed. Cases of hate speech need to be addressed more forcefully. The phenomenon of foreign fighters needs a dedicated approach by the intelligence and law enforcement community and a coherent judicial policy towards offenders.

2.4. Human rights and the protection of minorities

The legal and institutional framework for the observance of human rights requires substantial improvements. **No progress** was achieved over the past year in addressing country wide reforms conducive to creating the conditions for the effective exercise of some human rights. Conditions for the exercise of the freedom of expression have deteriorated.

Shortcomings particularly affect the following areas:

- Effective protection of human rights is undermined by the uneven implementation of the anti-discrimination legislation and the absence of a country-wide anti-discrimination strategy.
- The country is still missing an effective free legal aid system to guarantee efficient access to justice.
- The lesbian, gay, bisexual, transgender and intersex community continued to be subject to threats and attacks.
- Socio-economic integration of the Roma minority continues to be undermined by limited action on health, education and employment.

Bosnia and Herzegovina (BiH) has ratified all major European and **international human rights instruments**. The UN Human Rights Council Universal Periodic Review took place in November, with Bosnia and Herzegovina receiving 167 recommendations. However, the country has not yet implemented recommendations from the previous cycle, including those

on anti-discrimination, inclusive education, gender-based violence, harmonisation of law and policy at all Entity levels and criminal code reform on war crimes.

Since September 2014, the **European Court of Human Rights** (ECtHR) has found that the country violated the European Convention on Human Rights (ECHR) in one case relating to the right to a fair trial and protection of property. A total of 842 new applications have been allocated to a decision-making body, bringing the number of pending applications to 808. The remaining outstanding cases relate mainly to re-possession of occupancy rights, missing persons and discrimination on the ethnic grounds of ethnicity. Some progress has been made in implementing the Court's judgments, while action plans foreseeing preparatory steps for the implementation of the *Sejdić-Finci* and *Zornic* cases were adopted by the Council of Ministers in September.

On the **promotion and enforcement of human rights**, the Ombudsman continues to be affected by a lack of adequate human and financial resources to perform its functions as national human rights institution. In 2015 training related to the ECHR and ECtHR case law for judges, prosecutors, legal associates and advisers of the Constitutional Court and the Court of Bosnia and Herzegovina focused in particular on the right to a fair trial.

On the **right to life**, the provision on death penalty in the Constitution of Republika Srpska needs to be repealed.

On the **prevention of torture and ill treatment**, Bosnia and Herzegovina has still not put in place an independent national preventive mechanism against torture aligned with the procedures of the Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (OPCAT). There has been no progress on the adoption of legislation on the rights of civilian victims of torture during the war. There are reports of ill treatment of suspects in some police stations and of prisoners in some detention facilities. Such cases need to be properly investigated and preventive measures taken.

Legislation on the **prison system** is partially harmonised throughout the country. In November, the psychiatric institution in Sokolac, intended to provide mandatory psychiatric treatment requested during criminal proceedings was opened. There is no overall strategy for correctional systems as responsibility for the execution of criminal sentences is a shared competence between the State and the Entities. The adoption of a new law on execution of criminal sanctions in the Federation to ensure harmonisation with State-level law and international standards is still pending. The continuous backlog in the execution of criminal sanctions in the Federation remains a matter of concern. Existing penitentiary legislation needs to be aligned with European including Council of Europe standards and effectively implemented. No official coordination mechanism has been set up between the country's prison administrations. The quality of healthcare services in prisons remains deficient and continues to be affected by insufficient resources and medical staff.

Protection of personal data in Bosnia and Herzegovina is partially harmonised with the European standards. Staffing of the Agency for Personal Data Protection needs to be strengthened. The number of complaints that were addressed by the agency increased from 107 in 2013 to 140 in 2014. It continued training civil servants at State and Entities level. However, there were attempts to alter the general personal data protection regime by introducing contradictory provisions in the special laws. There is no legal obligation to consult the agency on draft laws that include provisions on personal data.

The constitutional and legal guarantees on the **freedom of thought, conscience and religion** are generally fulfilled. However, cases of discrimination on religious grounds continue to be

reported. There have been incidents targeting religious symbols, clerics, believers and religious property.

Freedom of expression

There is **some level of preparation** on the right to freedom of expression. However, the country has been **backsliding** in this area. Although the legal provisions are generally in place, the institutional and political environment is not conducive to creating the conditions for full freedom of expression. The financial stability of the system of public service broadcasting remains to be addressed. Political pressure and intimidation towards journalists continued during the reporting period. Transparency on media ownership continues to be lacking. Recent legislative developments in Republika Srpska raise concerns over possible limitation of online freedom of expression.

In the coming year, Bosnia and Herzegovina should particularly pay attention to:

- ensuring proper follow-up on cases of threats to journalists;
- securing depoliticisation, financial and institutional stability and editorial independence for the Public Service Broadcasters;
- finalising the reform of the broadcasting system and harmonising relevant entity legislation with legislation at State level.

Intimidation of journalists

Political and financial pressure on the media continued in the reporting period. Intimidation and threats against journalists and editors and polarisation of the media along political and ethnic lines continued during and after the October general elections. Cases were recorded of political statements putting pressure on journalists and police raids on media outlets. In December 2014, the police of Republika Srpska and the Sarajevo Canton raided the offices of a news portal over a criminal investigation involving the Prime Minister of Republika Srpska. The courts subsequently ruled that the raid was unlawful and in violation of both the European Convention on Human Rights and national law. The follow-up by the authorities to threats to media freedom and journalists has been insufficient. Cases were reported of verbal attacks by politicians towards journalists.

Legislative environment

Legal provisions guaranteeing freedom of expression are in place. However, there are serious concerns that the implementation of the newly adopted Republika Srpska Law on Public Peace and Order may limit the freedom of expression online and possibly affect freedom of assembly and association. The implementation of the Freedom of Access of Information Act remains uneven and is frequently limited by the right to privacy and the protection of the commercial interests of companies dealing with governments, without running the test of public interest.

Implementation of legislation/institutions

The appointment of the new Director General of the Communications regulatory agency is pending. The political, institutional and financial independence of the agency remains to be secured.

Bosnia and Herzegovina's Communications Regulatory Agency adopted in 2012 rules requiring internet service providers to apply appropriate technical measures to disable access to internet addresses that were found to be harmful or illegal and would pose threats to safe

internet use. Criminal offences listed in the Additional Protocol to the international Convention on Cybercrime have yet to be incorporated into the criminal codes.

Republika Srpska's Law on Public Peace and Order, adopted in February, raises concerns about the potential for arbitrary implementation of certain of its provisions related to online social networks. The law opens up the possibility for potential abuses through vague provisions related to minor offences committed on the internet and the setting of a low standard of proof in proceedings for minor offences.

Public Service Broadcaster

The independence of the three public broadcasters within the country's public broadcasting system remains to be ensured. The public broadcasters in the two Entities were exposed to political influence through political appointments to managerial positions.

The Federation Parliament failed to appoint members to the steering committee of Radio-Television of the Federation of Bosnia and Herzegovina (RTVFBiH). The Director General of RTV FBiH remained in a caretaker role, which opened the door to political influence.

The steering committee of Republika Srpska's public service broadcaster Radio Televizija Republike Srpske (RTRS) remained politically affiliated, which increased political control over RTRS and undermined editorial independence. Entity laws on public broadcasting services are not harmonised with State-level law.

The statute of the State-level public service broadcaster Radio and Television of Bosnia-Herzegovina (BHRT) has yet to be amended. The adoption of the public broadcasting corporation's statute is pending and public broadcasting system reform has yet to be completed. All types of broadcasting are licensed by the Communications Regulatory Agency in accordance with the law on communications. The financial sustainability of the public service broadcasting system remains to be ensured.

Economic factors

The transparency of media ownership remains limited and is partly ensured through the court registration of businesses that own the media. Full information is not easily accessible due to problematic legal provisions hampering systematic insight into the ownership structure. This is especially problematic for online media, which are often not registered as media businesses. There is a lack of rules governing government financing of the media. Public broadcasters that are not part of the public broadcasting system are financed from municipal and canton budgets and remain under strong political influence. At Entity level, the Government of Republika Srpska funds both public and private media. Lack of transparency and clear criteria in the distribution of subsidies are a serious concern. In addition, media integrity is also harmed by the advertising practices of public companies controlled by political parties.

Professional organisations, Professional conditions

The Bosnia and Herzegovina Journalists' Association has continued to lead civil society efforts in the country to secure freedom of expression and freedom of the media, the protection of journalists and media integrity. The complaint commission of the Press Council of Bosnia and Herzegovina continued to work and mediate between the readers and the media, securing that readers' complaints are addressed by the editors.

An increased level of unity and solidarity among journalists across the country over the protection of journalists' rights and privileges was noted after the December police raid on a news portal.

On the **freedom of assembly and association**, cases of attacks and intimidation against human rights activists continue to be reported. Such cases are often not adequately investigated and prosecuted by the authorities.

On **property rights**, there are 72 ongoing administrative disputes before the Court of Bosnia and Herzegovina in which the Commission for real property claims of displaced persons and refugees is a respondent party.

On **non-discrimination** policies, no steps were taken to develop an anti-discrimination strategy at State level. The anti-discrimination law has not been amended to include age and disability as grounds for discrimination, nor have its provisions been adequately reflected or transposed into labour law or higher education. A working group, co-ordinated by the Ministry of Human Rights and Refugees and tasked with the revision of the anti-discrimination law was formed in August. Implementation of the 2009 anti-discrimination law is hampered by procedural hurdles and low levels of knowledge of the law. A total of 144 judicial cases of discrimination were pending as of August. Hate crime and hate speech are not covered by the Federation's criminal law. Most hate incidents targeted returnees, LGBTI persons or were ethnically motivated. Information about hate crime acts is not systematically collected or tracked.

The Sejdić-Finci ruling of the European Court of Human Rights has still not been implemented, meaning that people not belonging to one of the three constituent peoples are still not allowed to stand for in the House of Peoples and the Presidency of Bosnia and Herzegovina. The Supreme Court of Federation passed two judgments and the Supreme Court of the Republika Srpska rendered one judgement in cases of discrimination in 2015. There is still a lack of consistent and comprehensive collection of data on discrimination.

Legal provisions providing **equality between women and men** are broadly in place but are not being implemented in an effective manner. Cooperation between the State Agency and Entity Centres for Gender Equality remained good. Implementation of gender policies in Bosnia and Herzegovina is hampered by the fragmentation of powers and the multiple institutional bodies, as well as by limited budgetary resources. To date, financing is not in place to continue running the 2009-2014 Financial Mechanism for Implementation of the Gender action plan of Bosnia and Herzegovina.

A strategy for implementing the Council of Europe Convention on preventing and combating violence against women and domestic violence for the period 2015-2018 was adopted in July. Legislation on safe houses is not adequately implemented and lacks sufficient funding, undermining protection and assistance to women victims of violence. There is no comprehensive State-level legal framework on sexual assault and rape and no appropriate compensation mechanism in place for victims. There is no effective data collection mechanism for monitoring domestic violence and no specialised police units. Women's political participation across the country has slightly improved. In the 2014 general elections, 19.03 % of candidates elected at all levels were women.

On the **rights of the child**, Bosnia and Herzegovina's Council of Ministers adopted in June the 2015-2018 action plan for children, which provides a mechanism for the overall protection of children and complies with the UN Convention on the rights of the child. Institutionalisation of children with disabilities remains high and only a very low proportion of them are in pre-school education. Use of foster care and alternative solutions needs to be further promoted. The exploitation of children and child begging remain issues of concern and violence against children continues to be widespread. Reporting of violence against children remains weak, resulting in few cases being brought before the courts and no such specific

cases were reported to the Ombudsperson. Data collection on violence against children remains weak. No awareness-raising activities on rights of the child were organised.

A national strategy against juvenile offending has yet to be adopted. The legal framework on juvenile justice is in place but has still not been harmonised across the country. The Federation law on protection and treatment of children and juveniles in criminal proceedings entered into force in February 2015 but pre-conditions for its full implementation including relevant by-laws are not in place. Separate units for juveniles exist in prisons and juvenile educational-correctional facilities, but the absence of separate units during pre-trial detention and in police stations across the country continues to be a serious concern. The alternatives to juvenile detention laid down by law continue to be underused and there is insufficient coordination between the responsible authorities. The Orašje educational-correctional facility, while ready for immediate use, is not running due to problems with its electricity supply. Child-friendly proceedings in civil and administrative cases are still not ensured in a harmonised and non-discriminatory way and measures for child victims and witnesses, while in place, are not systematically applied.

On the **integration of people with disabilities**, no steps were taken to change the entitlement system for rights and benefits to base it on needs instead of status. Inequalities remain in the level of rights granted by the different Entities and implementation of the legislative framework for social protection remains limited.

On the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the 2015 LGBTI Merlinka festival was held with no incidents and with appropriate police protection. Bosnia and Herzegovina was one of the signatories of the Joint Statement of Ministers of the region at the 2015 IDAHO (International Day against Homophobia) forum. The anti-discrimination law needs to be amended as it does not include a clear definition of gender identity and sexual orientation and refers to sexual expression and/or orientation as grounds of discrimination. The Republika Srpska and Brčko District criminal codes need to be amended to include gender identity and sexual orientation as grounds for hate speech.

Despite an increase in violence, attacks and threats towards LGBTI persons and human rights defenders, only a limited number of cases are reported to the police. In September, Bosnia and Herzegovina's Constitutional Court ruled on a violation of the freedom of assembly in the case of the October 2008 Queer Sarajevo Festival when a dozen individuals were attacked, but there has been no criminal prosecution of the attack on the 2014 Merlinka Queer Film Festival. Transgender persons are a particularly marginalised group and no measures are planned for legal gender recognition.

On **labour and trade union rights**, the fragmentation of the legal framework and the absence of a harmonised approach to social allowances hamper effective exercise of social rights across the country.

On **procedural rights**, the legal and institutional framework for free legal aid remains incomplete, un-harmonised and discriminatory, as basic pre-conditions for free legal aid do not exist at all levels, including the State level. Minimum common standards for free legal aid should be harmonised between the various levels of authority and incorporated into the legal framework, where missing. Non-governmental organisations continued to actively provide free legal aid without any harmonised country-wide regulation. The Free Legal Aid Network, a platform for cooperation between civil society and government agencies, helped to provide specialised training and awareness-raising on free legal aid. Communication between prosecutors' offices and victims' associations improved. In the absence of a national transitional justice strategy, compensation for wartime gross human rights violations is

achieved through civil actions. As a result, the right to compensation continues to be upheld in an uneven manner.

The legal framework for the protection of **minorities** is largely in place and in line with the Council of Europe Framework Convention for the Protection of National Minorities. However, the lack of coordination between the State and Entity levels continued to hamper implementation of the law on national minorities.

The presence and participation of national minorities in public debates and the media remain low. The effectiveness and impact of national minority councils at State and Entity level is hindered by insufficient resources and lack of political leverage in decision-making. Politicised appointment procedures also undermine the legitimacy and ability of the councils to operate properly. In November, the Federation Supreme Court confirmed the 2012 first instance verdict that the 'two schools under one roof' in Stolac constitutes ethnic segregation of pupils. Progress in eliminating the 'two schools under one roof' phenomenon continues to be slow and the number of mono-ethnic schools has not decreased. The common core curriculum is not yet applied throughout the country.

Bosnia and Herzegovina held the most recent chairmanship of the Decade for **Roma** Inclusion, which concluded in September 2015. The third Roma inclusion seminar, held in Sarajevo in June 2015, adopted specific recommendations in all five key policy priority areas. Significant progress was achieved towards completing the civil registration process. As of September, only 77 identified persons at risk of statelessness remained to be registered. On education, free textbooks for Roma children in primary school continued to be provided to some Roma pupils. The drop-out rate has slightly decreased, but the number of Roma children included in the education system needs to be significantly increased. Further housing was provided to Roma in need in 60 municipalities. The assistance provided included co-financing by local authorities, including for those affected by the May 2014 floods. However, access to infrastructure is not provided to all rebuilt housing.

Roma remain the country's most vulnerable and disadvantaged minority. The lack of reliable data hampers effective policy-making. A more comprehensive and integrated approach needs to be adopted for the social inclusion of Roma. The action plans on health and employment have not yet been fully implemented. Health insurance coverage for Roma needs to improve significantly. The number of unemployed Roma remained high and their access to the labour market remains hampered by the lack of suitable qualifications.

According to the Ministry for Human Rights and Refugees, as of September, there are still 84 500 **internally displaced persons** and 6 795 **refugees** in Bosnia and Herzegovina. Some action was taken to tackle the issue of sustainable return, particularly in connection with employment, education, social protection and healthcare at local level through the initiative of the ministry. The revised strategy for the implementation of Annex VII to the Dayton/Paris Peace Agreement still lacks coordinated implementation and appropriate allocation of resources. The lack of infrastructure, particularly for electricity, needs to be addressed. Returnees continue to face obstacles in access to healthcare and their sustainable return continues to be hampered by the lack of employment opportunities. Over 7 500 people are still accommodated in 45 collective centres across the country.

2.5. Regional issues and international obligations

The implementation of the **Dayton/Paris Peace Agreement** continued. The government of the entity Republika Srpska continued to hold joint sessions with the Government of the Republic of Serbia under the framework of the Special and Parallel Relations agreement. The

two governments committed themselves to several joint infrastructural projects and planned to further strengthen their cooperation across all sectors.

Bosnia and Herzegovina's cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)** continued to be assessed as satisfactory in most areas. However, the Office of the Chief Prosecutor of the ICTY has expressed concern that the State Prosecutor's Office did not sufficiently follow up on repeated requests to complete the processing of war crimes cases partly investigated by the Tribunal and transferred to the jurisdiction of Bosnia and Herzegovina in 2008 for further investigation and possible prosecution (the 'Category II' cases),

Concerning the **domestic prosecution of war crimes**, further progress was registered in tackling the large backlog of war crimes cases, in particular following the launch of the European Union's extraordinary budget support to judiciaries at all levels of the country, under the guidance of the Supervisory Body for Monitoring the Implementation of the National War Crimes Strategy. The number of indictments increased, with 98 confirmed indictments against 177 suspects in 2014. In the first half of 2015, courts in BiH confirmed 44 indictments against 86 suspects. The reduction in the backlog was achieved as planned, but the State-level authorities failed to allocate regular public funds complementing EU assistance. The adoption of the country-wide justice sector reform strategy for the 2014-2018 period in September 2015 allows Bosnia and Herzegovina to meet the condition for the release of the second tranche of the EU direct budget support.

Improvements were noticeable in the prosecution of cases of **wartime sexual violence**, due to an increased specialisation by prosecutors, judges, police investigators and witness support staff. The courts completed 6 war crimes cases involving sexual violence over the reporting period. However, more efforts are needed to end impunity particularly against the backdrop of a large number of potential cases. A comprehensive legal and policy framework to improve the status of victims of rape and sexual violence has still to be achieved. A State-level programme to improve the status of victims of war crimes involving sexual violence has yet to be adopted.

Further progress on providing in-court **victims and witnesses support** remained possible primarily thanks to international financial support. The long-term sustainability of the system was called into question by the obvious lack of domestic budget support. Psychological support to victims and witnesses before, during and after war crimes trials remained insufficient.

The implementation of the national war crimes strategy objectives continued. This involved in particular the reallocation of cases by the State judiciary to other judicial levels, and the State judiciary taking over 40 complex cases from other jurisdictions. However, the initial deadline to have the most complex cases solved by 2015 has not been met. Additional efforts by authorities at all levels remain necessary in order for the strategy to be successfully implemented. Conclusions issued by the strategy's supervisory body have yet to be consistently implemented by the authorities.

The 2003 Bosnia and Herzegovina-US bilateral immunity agreement granting exemptions from the jurisdiction of the **International Criminal Court** continued to be in force. The agreement is not compliant with the EU Common Positions on the integrity of the Rome Statute or the related EU guiding principles on bilateral immunity agreements. Bosnia and Herzegovina still needs to align with the EU position on this issue.

Bosnia and Herzegovina, Serbia, Croatia and Montenegro have continued to closely cooperate under the **Sarajevo Declaration Process**, which aims to find sustainable solutions for 74.000

people who became refugees and displaced persons as a result of the armed conflicts in the former Yugoslavia during the 1990s. All countries need to further step up efforts to deliver on the implementation of the agreed housing solutions. Bosnia and Herzegovina made some progress on implementing the regional housing programme with the delivery of 19 housing solutions out of the 1,868 approved so far. Efforts are needed to further ensure a quality beneficiary selection process conducive to a speedy implementation of the housing projects.

The unresolved fate of **missing persons** from the conflicts of the 1990s remains a humanitarian concern in the Western Balkans. As of February 2015, a total of 10 814 persons were still missing according to the International Committee of the Red Cross. Of these, 7 019 cases relate to the conflict in Bosnia and Herzegovina. Ascertaining the fate of missing persons remains vital for reconciliation and stability in the region. Bosnia and Herzegovina's Missing Persons Institute continued to lack sufficient support from the authorities and was subject to further reductions in its budget and political pressures. A reform of the institute is pending. A support fund for the families of missing persons, which is provided for by the Law on Missing Persons, has still not been established. The lack of local forensic capacity, especially in the Federation, continued to hamper the process of identifying missing persons.

Regional cooperation and good neighbourly relations form an essential part of Bosnia and Herzegovina's process of moving towards the EU. The country continued to participate actively in regional initiatives, including the South-East European Cooperation Process, the Regional Cooperation Council, the 'Western Balkans Six' initiative and the Energy Community Agreement. In May 2015, Bosnia and Herzegovina took over the chairmanship of the Council of Europe Committee of Ministers. It continued to actively support the RECOM (Coalition for Reconciliation Commission) and Igman initiatives on regional reconciliation.

A fresh impetus has been given to regional cooperation through the '**Berlin process**' and the Western Balkan Six initiative notably regarding the EU's **connectivity agenda**. In April, the Western Balkan Six countries reached an agreement on the core transport network and in June 2015 on extending three Trans-European Transport Networks core corridors to the Western Balkans. They also identified the priority projects to be implemented by 2020. The countries agreed to implement before the next summit in Paris a number of 'soft' measures such as aligning and simplifying border crossing procedures, road safety and maintenance schemes.

On **regional judicial cooperation**, the fight against impunity in the area of war crimes resulted in its first arrests and issuing of indictments in line with the Protocol of the Prosecutor's Office of Bosnia and Herzegovina and the Office of the War Crimes Prosecutor of the Republic of Serbia on Cooperation in Prosecution of Perpetrators of War Crimes, Crimes against Humanity and Genocide. Similar Protocols signed with the Croatian and Montenegrin Prosecutor's Offices are yet to produce concrete results.

In March 2015, Bosnia and Herzegovina ratified an agreement on the exchange and mutual protection of classified information with **Albania**. In July an agreement allowing their citizens to travel between the two countries with ID cards only was signed.

An agreement on the exchange and mutual protection of classified information was ratified with the **former Yugoslav Republic of Macedonia** in March. Overall relations continue to develop.

An Agreement on cooperation in consular protection and visa issues with **Montenegro** was ratified in March 2015. A bilateral border agreement with Montenegro was signed in August which largely improved bilateral relations.

Relations with **Serbia** remained good. The chair of Bosnia and Herzegovina's Presidency visited Belgrade and the Serbian Prime Minister visited Sarajevo in May. Serbian Prime

Minister was attacked during the Srebrenica genocide commemoration in July by some participants and investigations are ongoing to find the perpetrators. A few days later, the three members of the Presidency travelled to Belgrade upon the invitation of the Serbian Prime Minister.

There are no official relations with **Kosovo**, as Bosnia and Herzegovina does not recognise Kosovo as an independent state. The Ministry of Foreign Affairs maintained its practice of issuing individual short-term visas to citizens of Kosovo only if they have an invitation from a foreign diplomatic mission or international organisation accredited in Bosnia and Herzegovina, or for humanitarian reasons. An amendment to normalise the visa procedure for all citizens of Kosovo remained pending.

Bilateral relations with **Turkey** are good. An agreement on military financial cooperation and its implementing protocol were ratified in June 2015. Member of the Presidency Bakir Izetbegovic paid an official visit to Turkey in March 2015. A visit to Bosnia and Herzegovina by the Turkish President took place in May 2015.

Relations with **Croatia** remained good. Members of the Presidency of Bosnia and Herzegovina took part in the inauguration of the Croatian President, who subsequently paid her first visit abroad to Bosnia and Herzegovina. The Croatian Prime Minister visited Bosnia and Herzegovina in December 2014. The agreement signed by Bosnia and Herzegovina with Croatia in June 2015 in Brussels on border crossings, border traffic and free transit together with the joint statement should enable the smooth transport of goods from Croatia in transit through the Neum corridor in accordance with the applicable *acquis*. No progress was made towards resolving further outstanding bilateral issues, including property issues and border demarcation.

3. ECONOMIC CRITERIA

Key economic figures	2013	2014
Gross domestic product per capita (% of EU28 in PPS)	29	28
GDP growth (%)	2.5	1.1
Unemployment rate (female; male) (%)	27.6 (29.1; 26.7)	27.6 (31.2; 25.3)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	58.7 (45.1; 72.1)	59.2 (46.0; 72.4)
Current account balance (% of GDP)	-5.7	-7.6
Foreign direct investment (FDI) (% of GDP)	1.6	3

Source: Eurostat

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

The monitoring of these economic criteria should now be seen in the context of the increased importance of economic governance in the enlargement process. In order to improve their economic governance, in 2015 the enlargement countries were asked to prepare Economic

Reform Programmes (ERPs), which set out a medium-term macro-fiscal policy framework together with key structural reforms aimed at supporting the framework and boosting competitiveness. The ERPs were the basis for country-specific recommendations jointly adopted by the EU and the Western Balkans and Turkey in the Economic and Financial Dialogue meeting on 12 May 2015.

3.1. The existence of a functioning market economy

Bosnia and Herzegovina is **at an early stage in developing a functioning market economy, although some progress** has been made. In particular, steps have been taken to strengthen policy coordination and to improve the business environment, particularly on the ease of market entry and the granting of construction permits. Despite the setback from the spring floods, economic growth remained positive.

However, stronger and sustainable economic growth will require the development of a more dynamic private sector. This requires strong political support and the timely implementation of much-needed structural reforms.

In line with the ERP recommendations and the Reform Agenda and in order to support long-term growth, in the coming year Bosnia and Herzegovina should pay particular attention to:

- increasing the quality of public finance, for example by providing for more fiscal space, in particular for capital investment;
- improving its budget management framework;
- taking steps to advance restructuring and privatisation and to improve the business environment.

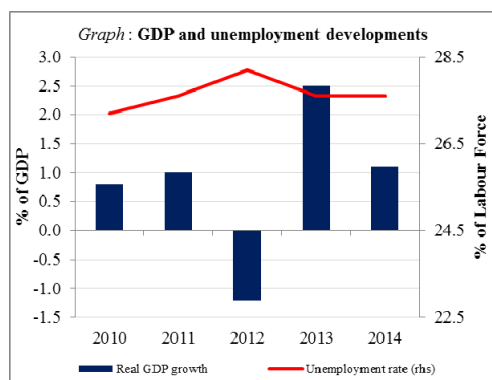
Economic policy essentials

The consensus on economic policy essentials has increased. A broad agreement has been reached on economic reforms, but the government now needs to show strong reform commitment by starting to implement the planned reforms. The consensus between the authorities at different levels of government on the economic policy essentials has broadly gained momentum with the adoption of the global framework for fiscal policies and balances 2016-2018 by the Fiscal Council.

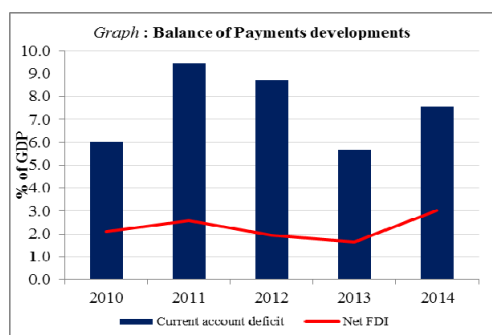
In February 2015, Bosnia and Herzegovina submitted its Economic Reform Programme covering the 2015-2017 period. The programme sets out an overly ambitious fiscal strategy based on reductions in expenditure but lacks initiatives that would stimulate growth. In addition, although some major obstacles for growth were identified, the structural reform strategy is vague on medium-term measures beyond 2015. There is ample room for improvement in terms of policy coordination. Following the adoption of the Reform Agenda in July, Bosnia and Herzegovina is encouraged to take further steps towards its implementation, including with the help of the ERP recommendations set out below, which reflect Reform Agenda priorities

The IMF Stand-By Arrangement (SBA), agreed in 2012, expired on 30 June 2015 but the last loan tranche disbursement was made in July 2014. The programme went off-track due to delays in implementation of previously agreed structural reforms. Negotiations for a new IMF programme have been ongoing.

Macroeconomic stability



Economic growth remained resilient in spite of external shocks. However, the short-term outlook will heavily depend on the implementation of structural reforms. After GDP growth of 2.4 % in 2013, substantial flood damages in mid-2014 reduced output growth to around 1 % in 2014. In contrast to 2013, it was domestic demand rather than net exports that drove GDP growth in 2014. Investment was stimulated by disbursements under the flood recovery programme (2.2 % of GDP by the end of 2014) and could remain important for economic growth in 2015. Investment in the private sector, however, continued to be stagnant. Private consumption growth remained subdued in 2014, reflecting persistently high unemployment and declining wages. Industrial production remained largely unchanged in 2014 but showed signs of increased activity from the second quarter 2015 onwards. However, a drought hit agricultural production in mid-2015 and could negatively impact on growth in 2015. Overall, data since early this year point to strengthening economic dynamics. Per capita GDP² reached only 28 % of the EU average in 2014, largely unchanged since 2011.



External imbalances have declined recently. In 2014, strong import growth, partly resulting from reconstruction following the spring floods, pushed the current account deficit up from 5.7 % of GDP in 2013 to 7.6 % in 2014. However, strengthening exports since autumn 2014 and the fading out of reconstruction-related imports helped to bring the current account deficit back to 6.2 % of GDP in the first quarter of 2015. The substantial trade deficits of around 25 % of GDP are primarily financed by

inflows of transfers, such as remittances, which increased to slightly above 11 % of GDP, and by service exports. Net foreign direct investments (FDI) rose from 1.7 % of GDP in 2013 to around 3 % of GDP in 2014. Partly boosted by IMF financial assistance, net foreign exchange reserves reached a level of some 30 % of GDP in mid-2015, covering more than six months' worth of imports.

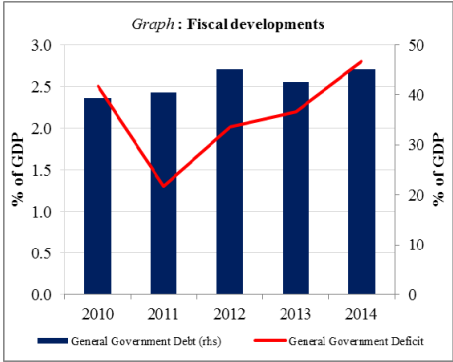
Improvements in the labour market remained subdued so far. The difficult labour market conditions remained broadly unchanged. Employment in the public sector continued to account for the largest proportion of employment (32 %). At the same time, employment and activity rates remained at low levels of 43 % and 59 % respectively. The average rate of registered unemployment slightly decreased from 44.5 % in 2013 to 43 % in mid-2015, while results from the annual labour force survey (using ILO methodology) indicate that unemployment stood at 27.6 % in 2014 for a second consecutive year. The significant difference between the registered and survey-based labour figures points to a fairly large informal labour market. The structural nature of unemployment

ERP recommendation 5: 'Reduce labour market rigidities by addressing disincentives to hiring, including taking further steps towards a reduction of the tax wedge while ensuring budget neutrality.'

² Expressed in purchasing power standards.

is reflected by the high proportion of long-term unemployment, accounting for around four-fifths of jobseekers. In addition, the already high youth unemployment figure increased to 63 % in 2014, as compared with 59 % in 2013. Furthermore, the enduring large differences between female and male participation rates (46 % and 72 % in 2014) suggest that labour market conditions remain especially adverse for women.

Monetary policy remained in line with the overall economic development. Monetary policy continued to be conducted under a currency board arrangement with the euro as anchor currency and enjoys a high level of confidence and credibility. This approach has served the economy well so far. However, it also implies that the burden of adjustment to external shocks has to be accommodated by other policy areas, including fiscal policy. This requires a more responsible fiscal policy, necessitating the building-up of sufficient fiscal buffers and a stronger emphasis on medium-term stability. The overall price level continued to decline, although at a slower pace. In the first eight months of 2015, the overall index of consumer prices was 0.6 % lower than a year before. In July 2014, the decline had been -1.3 %. However, the main reason for the drop in the overall index was a marked decline in a limited number of commodities while prices for housing, health and education rose by some 1-2 %. Planned increases of energy prices in Republika Srpska in the second half of 2015 and stronger domestic demand are expected to lead to a higher overall price level.



The budget deficit increased in 2014 amid the persistently low quality of public finances. The suspension of disbursements of the last tranches under the IMF SBA and the emergency financing for the areas hit by flooding put heavy pressure on public finances in 2014, resulting in short-term financing solutions. The fiscal deficit in 2014 is estimated to have surged to close to 3 % of GDP, nearly tripling the target of 1.1 % of GDP set in the 2015-2017 framework for fiscal balance and policies. Public expenditure remained broadly flat at 46 % of GDP in 2014 and consisted mostly of current

expenditure. Capital expenditure reached only around 4 % of GDP and is projected to decline to below 3 % in the coming years, contrary to ERP recommendation 2. Despite the adverse economic effects of the spring floods, revenues from indirect taxes showed positive growth in 2014. Measures to improve tax compliance, coupled with increases in excise duties on beer and tobacco contributed to stronger revenues. As a result, consolidated revenues are estimated to have remained broadly unchanged at 43 % of GDP in 2014.

ERP recommendation 2: ‘Improve the composition of public spending to increase the fiscal space for capital investments by containing current expenditures through curbing the public sector wage bill and more efficiently allocating staff in the civil service at all levels of government. Take steps to better target social expenditures through extensive audits and finalisation of the establishment of the Single Registry of Beneficiaries of Cash Payments without Contribution in the Federation’.

Although important legal steps have been taken to improve the sustainability of fiscal policy, Bosnia and Herzegovina needs to do more to put these into practice, in line with ERP recommendation 1. The 2015 budgets of the Federation and the State government were adopted with considerable delay. Fiscal discipline in the Federation and its lower levels of government improved following the entry into force of the Law on Budgets in January 2014. However, so far the law is not implemented efficiently. In mid-September, the Republika Srpska adopted a law on fiscal responsibility, including establishment of an independent Fiscal Council and a fiscal rule limiting government expenditures and deficits.

ERP recommendation 1: ‘Improve the budget management framework by adopting and implementing the Law on Fiscal Responsibility in Republika Srpska, especially including the establishment of a Fiscal Council and the adoption of a fiscal rule. Take steps to address obstacles to an efficient implementation of the Law on Budgets in the Federation, in particular the functioning of the Fiscal Coordination body. Continue with the improvement of expenditure controls, fiscal discipline, budget reporting methods and the efficiency of tax authorities of lower levels of government.’

The rapidly increasing public debt and related refinancing risks are sources of macroeconomic vulnerability.

General government debt has steadily increased in recent years, reaching 45.1 % of GDP by the end of 2014. The repayment schedule for public debt is concentrated in the next few years, posing additional risk to fiscal sustainability given the tight fiscal space and lack of access to international capital markets. Debt service payments in 2014 soared to 5 % of GDP on the back of intensified issuing of short-term government securities to make up for the non-disbursement of tranches under the IMF SBA.

Interplay of market forces

Privatisation remained largely an unfinished task. The direct state influence on the economy has remained significant, with a total spending-to-GDP ratio of close to 45 % of GDP. The problem is less severe in Republika Srpska, where only a few large publicly owned companies remain. The privatisation process in the Federation, started in 1999, continued to suffer setbacks despite the adoption of privatisation strategies in 2014 and 2015. Attempts to sell 14 companies in 2014 were largely unsuccessful. This left the assets still to be privatised at two-thirds of the initial stock of state-owned capital for privatisation, underscoring the pressing need for an initial restructuring to kick-start the privatisation process, as underlined in ERP recommendation 3.

ERP recommendation 3: ‘Take steps to advance restructuring and privatisation and improve the efficiency and corporate governance of companies with state ownership, notably in the Federation, to relieve the substantial burden on public finances.’

Market entry and exit

Some progress was made to ease market entry and to facilitate the issuing of construction permits. However, progress has been uneven and uncoordinated across the entities. In 2013 and 2014, Republika Srpska carried out an ambitious set of reforms to reduce business registration time and costs. The Republika Srpska authorities also started a single registry for companies.

ERP recommendation 4: ‘Take steps to continue with the set-up of registry of para-fiscal fees to relieve burden on businesses without endangering the sustainability of public finances. Continue to reduce costs of business entry and exit and simplify the regulatory framework for the issuance of construction permits, especially in the Federation.’

In the Federation, the adoption of amendments to the law on the default interest rate created conditions for companies to address arrears more effectively. In addition, both Entities announced the set-up of a registry of non-tax charges for end-2015, in accordance with ERP recommendation 4. Limited access to financing, slow contract enforcement and the high tax burden on labour have been identified as major disruptive factors for doing business in Bosnia and Herzegovina. No progress was made on the creation of a single economic space (ERP recommendation 7), nor on mutual recognition of business registration by the Entities (ERP recommendation 8).

ERP recommendation 7: ‘Take steps toward the establishment of a single economic space by addressing the lack of internal coordination across all government levels.’

ERP recommendation 8: ‘Improve the business environment and support private sector development, including through the mutual recognition of business registration. Develop measures to provide targeted support for SMEs and to widen their access to finance. Tackle all forms of corruption, fraud and money laundering and informalities in the economy.’

The legal system

Strengthening the rule of law, simplifying contract enforcement procedures and fighting corruption remain essential if Bosnia and Herzegovina’s business environment is to improve. Although a few steps have been taken to improve the legal rules governing business, the situation remains complex and problematic. The country has a lack of institutional capacity and a poor track record, especially on settling commercial disputes. The enforcement of commercial contracts still takes a long time, involving 37 procedures, taking on average 595 days and costing 34 % of the claim value.

Financial sector development

The banking system is liquid and well-capitalised but burdened with a high level of non-performing loans (NPLs). The financial system continues to be dominated by the banking sector, which accounted for 87 % of total financial assets.

The number of banks declined to 26 after one bank filed bankruptcy proceedings in 2014; this increased the proportion of foreign-owned assets in the banking sector to over 90 %. There were only two majority state-owned banks, accounting for less than 3 % of the sector's assets. The rest is privately owned.

The capital adequacy ratio declined slightly to 16.3 %, remaining well above the regulatory minimum of 12 % at the end of 2014. Banking sector profitability recovered in 2014 after recording losses in 2013. Nevertheless, the credit risk indicators for the banking system raise concerns as the proportion of NPLs in total loans remained slightly above 14 % in the second quarter of 2015. Despite some recent progress, legislative changes to facilitate loan restructuring and NPL resolutions are still not in place. In order to strengthen the sector's resilience, Bosnia and Herzegovina needs to markedly step-up its efforts to encourage the clean-up of banks’ balance sheets, as requested in ERP recommendation 6. Furthermore, the Central Bank's analytical capacities need to be strengthened. Credit growth remained feeble despite greater liquidity in the banking sector. The size of the non-banking sector, chiefly investment funds and insurance companies,

ERP recommendation 6: ‘Finalise the development of a financial restructuring framework including to address the high burden of non-performing loans on bank balance sheets from both a stock and a flow perspective and thus help remove potential supply- and demand-side obstacles to credit extension. In this context, a strengthening of the crisis resolution framework would also appear warranted.’

increased somewhat: its assets increased slightly to 13 % of GDP in 2014, still below half of the pre-crisis period.

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

Bosnia and Herzegovina is **at an early stage in achieving the capacity to cope with competitive pressure and market forces within the Union, although some progress** has been made, in particular on the liberalisation of energy markets. There were however no positive developments in the quality of education (a key driver of competitiveness). State influence on the economy remains significant and puts a persistent burden on public finances.

In line with the ERP recommendations and in order to support long-term growth, in the coming year Bosnia and Herzegovina should pay particular attention to:

- developing a more strategic approach to tackling deficiencies in its training and education system; improving teacher training and, in turn, the basic and transversal skills of students.
- simplifying its complex procedure for exports;
- developing a transport strategy and an energy strategy.

Human and physical capital

Significant efforts are needed to improve the efficiency of the education system, in line with ERP recommendation 9. Education policy is not decided on at national level but at Entity level in the Republika Srpska and at cantonal level in the Federation. Despite recent efforts to increase coordination, the system remains very fragmented. Public expenditure for education is nearly 3.5 % of GDP, slightly below the regional average. The inefficient use of education spending leaves ample room for improvement. The low enrolment rates for tertiary education, despite an upward trend, are far below the regional average. The country should use its upcoming membership in the Advisory Group on European Qualifications Framework to develop and finalise its National Qualification Framework.

ERP recommendation 9: ‘Develop a more strategic approach to tackle the deficiencies in the training and education system by effectively prioritising measures based on a mapping of the skills gap taking into account the needs of industry, especially SMEs. Harmonise legislation and standards related to education and training at state and entity level, as well as at cantonal level, since the competence on education in the Federation is at cantonal level.’

There is a pressing need to attract private investment, in particular FDI, and to increase public spending on investments that stimulate growth. The spring floods in May 2014 affected large parts of the country, causing losses and damage of up to 15 % of GDP. Reconstruction advanced at a slow pace and only 20 % of the reconstruction funds pledged for the Floods Recovery Programme had been disbursed by March 2015. The investment-to-GDP ratio in 2014 remained relatively modest at 18 % of GDP. In addition, low public capital expenditure (below 4 % of GDP) is holding back improvements to physical infrastructure. On a positive note, net FDI inflows reversed their downward trend and increased to 3 % of GDP in 2014. The development of public-private partnerships and lending schemes to SMEs could further boost private investments.

Some progress has been achieved on unbundling electricity networks. Starting from 2015, Bosnia and Herzegovina formally liberalised its electricity market. However, legislative changes to the regulatory framework are still to be passed. On the other hand, hardly any progress has been achieved towards a more competitive telecommunications market. The three incumbent operators continue to act as *de facto* monopolies over fixed voice telephony in their geographical areas. The number of new registrations in the internet services and network operators market continued its upward trend in 2014. The energy and transport sectors need country-wide energy and transport strategies to help unlock their large potential in line with ERP recommendation 10.

ERP recommendation 10: ‘Develop a transport policy and strategy and an energy strategy at each level of government according to competencies, and embed them with the regional agenda on connectivity, including through the establishment of a credible planning of prioritised reforms with a timeline and funding mechanism (single project pipeline). The energy strategy should also consider substantial investments in a diversified power generation and on an effective distribution network.’

Sectoral and enterprise structure

The structure of the economy is dominated by services, while agriculture's share in the economy is the lowest in the region. The economy continued to be dominated by the services sector, which accounted for 67 % of gross value added in 2014. Industry accounted for the second largest share at 21 %, broadly unchanged over the last four years. Agriculture occupies the lowest share in value added by regional comparison (7.1 %), while the contribution of the construction sector remained around 4.5 %.

Micro-enterprises play a significant role in the economy. According to end of September 2014 figures from the Statistical Business Register, only 56.7 % of enterprises in Bosnia and Herzegovina were active. The majority (75.1 %) were micro-enterprises with less than 10 employees, operating mainly in wholesale and retail sales. The informal sector, which flourishes in the context of poor law enforcement and insufficient anti-corruption measures, is a major obstacle for industrial development and continues to impose significant costs on the overall economy.

State influence on competitiveness

State subsidies and guarantees remain significant and put a heavy burden on public finances. Limited progress has been achieved on reducing the state's influence on the economy. A large proportion of subsidies were granted to agriculture, while state guarantees were granted primarily to public enterprises in the infrastructure sector to keep them afloat. Budget subsidies to industry and agriculture decreased somewhat in 2014 to slightly below 1 % of GDP. Loan guarantees and transfers provided by the Entities to bankrupt public enterprises reached 7 % of GDP.

Economic integration with the EU

Trade integration with the EU fell slightly as a result of declining exports. Trade openness increased somewhat in 2014 to 91 % of GDP but still remains relatively low. The EU is by far Bosnia and Herzegovina's largest trading partner, accounting for 72.1 % of goods exports and 58.9 % of goods imports. The main export categories include low- to medium-tech manufactured goods, such as textiles and raw materials. The share of the EU-28 in total exports fell in 2014 due to a 20 % slump in exports to Croatia and a stagnation of exports to Germany, Bosnia and Herzegovina's main EU trade partner accounting for one-quarter of its total goods exports. Over the same period, imports from the EU increased by 4.8 %, mainly from Italy (+20 %) and Austria (+10 %).

The EU is also the major investor in Bosnia and Herzegovina, accounting for nearly 63 % of total FDI, with Austria and Slovenia accounting for the largest FDI stocks in 2013. Non-tariff barriers to trade with the EU remain a significant problem and require structural and regulatory reforms. Some positive regulatory steps were taken toward stimulating exports to the EU, in line with ERP recommendation 11. In June 2015, the EU Food and Veterinary Office approved all actions proposed by Bosnia and Herzegovina to meet standards for the production and processing of dairy products intended for export to the EU.

ERP recommendation 11: ‘Simplify the complex procedures for exports, ensure coordinated border controls and improve the border infrastructure system. Develop a comprehensive and strategic approach in the field of EU food safety and sanitary and phytosanitary standards to receive accreditation for exporting agricultural and food products to the EU.’

4. EUROPEAN STANDARDS

4.1. Internal market

4.1.1. *Free movement of goods*

The country is at an **early stage** of preparation in the area of free movement of goods. There has been **some progress**, notably in the areas of standardisation, accreditation, metrology and consumer protection. In the coming year, Bosnia and Herzegovina should in particular:

- improve coordination between the relevant institutions;
- repeal conflicting legislation within the country;
- adopt a country-wide strategy for quality infrastructure.

A country-wide strategy for quality infrastructure is still not in place, and cross-cutting coordination in this field between the relevant institutions at different levels of government remains insufficient.

On **horizontal measures**, in the area of **standardisation** the Institute for Standardisation of Bosnia and Herzegovina (BAS) adopted 85 % of the European standards required for membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). The institute adopted 1 500 European standards as national standards, bringing the total to 17 341 European standards. A new technical committee, BAS/TC 59 (Social Security and Protection), was established, bringing the total to 52. No conflicting ex-Yugoslav mandatory standards have been withdrawn yet.

On **conformity assessment**, Republika Srpska continued to develop and implement its own legislation. The Federation and the Brčko District continued to implement the Law on Technical Requirements for Products and Conformity Assessment of Bosnia and Herzegovina. The country needs to provide for even application of conformity assessment procedures throughout the whole territory.

The Institute for **Accreditation** of Bosnia and Herzegovina has accredited 77 conformity assessment bodies, comprising 54 testing laboratories, 1 medical laboratory, 9 calibration laboratories, 1 product certification body and 12 inspection bodies. The law on accreditation is not yet fully in line with the *acquis* and should be amended. There is a need for a clear policy on the role of accreditation in authorising conformity assessment bodies at both State and Entities levels.

In September 2014, the Institute for Metrology of Bosnia and Herzegovina (IMBiH) adopted 14 regulations, including eight rulebooks related to instruments used in medicine, and the Federation of Bosnia and Herzegovina adopted, in September 2014 and January 2015, ten regulations in the area of precious metals. The secondary standard dosimetry laboratory was opened in Banja Luka in September 2014. Representatives from the IMBiH regularly participated in the work of technical committees on metrology. The institute also participated in two inter-comparisons. A decision on the appointment of the Metrology Council's members by the Council of Ministers is still pending. The country's strategy for developing the metrology system has yet to be adopted, as has the new law on metrology which would merge the existing legislative framework and lay the foundation for implementing the *acquis*. Cooperation and coordination between the institute and the metrology institutes of the Entities requires strengthening.

The **Market Surveillance** Agency and the inspection bodies of the Entities and of the Brčko District have initiated, implemented and coordinated proactive and reactive market surveillance activities. During the reporting period sixteen activities were implemented as part of the proactive surveillance and 14 cases were initiated on reactive surveillance. As a result of 370 inspection controls 18066 unsafe products were withdrawn from the market and 11475 unsafe products were destroyed. The agency published 70 notifications with descriptions of risk and instructions for consumers and followed-up in the Bosnia and Herzegovina market 47 alerts on dangerous products published on the public website of the EU Rapid Alert System on dangerous non-food products (RAPEX) detected in the EU market. The Council of Ministers of Bosnia and Herzegovina adopted the Strategic Development Plan on the Market Surveillance Agency for the period 2014 – 2016 in July.

The market surveillance system is still largely based on mandatory standards and pre-market checks. Cooperation between the agency and inspections carried out by the Entities and the Brčko District needs further improvement.

Although the '**New and Global Approach**' product legislation is regulated at State level, Republika Srpska is adopting its own legislation (separately from the State, Federation and the Brčko District). The division of responsibilities for aligning with the '**Old Approach**' *acquis* has yet to be clarified. Republika Srpska should re-engage in the work of technical committees.

The report on the execution of the 2014 State-level annual **consumer protection** programme and the 2015 State-level annual consumer protection programme were adopted in May and July 2015 respectively.

The Ombudsman's Office for Consumer Protection is fully staffed. The Ombudsman resolved all 295 cases received and delivered 20 expert opinions. Furthermore, the Ombudsman issued recommendations in the telecommunications sector and continued to raise awareness and further educate consumers, including through publication and distribution of two brochures.

4.1.2. Movement of persons, services and right of establishment

The country is at an **early stage** of preparations in the area of movement of persons, services and right of establishment. **Some progress** was made in this field. A legal framework for providing universal postal services across the country has yet to be established.

In the coming year, Bosnia and Herzegovina should in particular:

→ strengthen the Insurance Agency of Bosnia and Herzegovina, whose role in the legislative process needs to be respected by the Entities as set out in the law.

- prepare updated transposition tables to map the level of harmonisation of national legislation with the European banking legislation.
- make further efforts to align with the latest accounting and auditing *acquis*.

The **movement of persons** and the mobility of the labour force within the country remain a concern: the absence of harmonisation in employment and labour legislation, of rights based on employment (i.e. health, pension, social and unemployment insurance) and other related taxation issues effectively prevent mobility inside the country. An Agreement on the Employment of Citizens between Bosnia and Herzegovina and the Republic of Slovenia has entered into force. (*see also 4.1.8 — Employment and social policies, public health policy*).

There were no developments on the **right of establishment and freedom to provide services**. Preparations for aligning with the Services Directive have not yet started.

A total of 13 **postal service** providers have been licensed by the Bosnia and Herzegovina Agency for Postal Traffic. Three of these are public and 11 private. There is still no State-level strategy for postal services. The State-level law on postal services, which aims to achieve further harmonisation with the *acquis* and to ensure the regulatory framework is consistent between the Entities, has yet to be adopted. The lack of harmonisation between the Entities and the State level on the scope of universal and reserved services continues to undermine legal certainty. Administrative capacity at State level remains weak.

Implementing the decision on the costs of issuing licences and the fees for providing postal services removed discriminatory treatment of postal service operators as it sets the costs of licences for both public and private operators as a fixed percentage of their respective revenues. The Agency for Postal Traffic also began implementing the amended rulebook on licensing postal services.

The country has yet to align its national legislation on the **mutual recognition of professional qualifications** with the *acquis*. The Brčko District adopted the law governing recognition of professional qualifications in January but this is not fully aligned with the *acquis*. Implementation of the *acquis* on the recognition of professional qualifications is undermined by the lack of harmonisation between the Entities and the State level.

On **financial services**, both Entities are in the process of finalising the draft law on banks. Banking agencies carry out stress tests on a regular basis, as a result of which in the baseline scenario 5 out of 26 banks were identified as potentially being undercapitalised by end-2015.

The Standing Financial Stability Committee adopted a ‘comprehensive plan for reaction to crisis situations’. The strategy for implementing Basel II was revised into a strategy for introducing Basel III, and all activities envisaged in 2014 were successfully implemented. Updated transposition tables to map the level of harmonisation of national legislation with the EU banking *acquis* are still lacking.

The Ombudsman for financial services became operational in the Federation, and the implementing legislation governing its work was adopted.

Some progress was made towards creating a single economic area for insurance services. The Administrative Board of the Insurance Agency of Bosnia and Herzegovina is operational but the Entities still need to allow it to work properly.

Legislation on third party motor vehicle insurance has yet to be harmonised at State level and between the Entities. The State level guidelines on prevention of money laundering and financing of terrorism were adopted at the State level in January, based on which the Federation adopted harmonised implementing guidelines in March.

The three insurance supervision agencies signed a cooperation agreement with Croatia in March to ensure that insurance institutions and other relevant stakeholders receive regular education.

The Federation adopted an amendment to the rulebook on handling claims for non-life insurance which strengthens the authorities' supervisory role. An integrated information system for supervising compulsory insurance policies and claims was adopted. To improve the way the Ombudsman functions and promote implementation of the law on insurance companies, Republika Srpska adopted the rulebook on handling customers' complaints and guidelines on improved reporting and collection of statistics by insurance companies.

The mechanism for harmonising laws between the Entities and with the *acquis* in the insurance sector is operational under the Insurance Agency of Bosnia and Herzegovina. The latter's role needs to be strengthened to ensure that this process is permanent.

On capital markets, the Entities' legislative frameworks are neither fully aligned with the *acquis* nor fully harmonised with each other. The Federation and the Brčko District have adopted a new law on takeovers of joint stock companies. Participants in the securities market with their head office in one Entity still need to obtain a licence to operate in the other.

The Federation of Bosnia and Herzegovina adopted its new **company law**, further aligning it with the *acquis* but has not yet published it in the Official Gazette.

Legislation on **corporate accounting and auditing** is almost fully harmonised between the Entities. Further efforts should be made to align it with the latest accounting and auditing *acquis*. Progress was achieved regarding the quality assurance system. In December, the Federation Chamber of Auditors adopted a rulebook to strengthen internal organisation. The Committee for Public (audit) Control should have adequate resources to carry out its work as the competent authority for public audit oversight.

4.1.3. *Free movement of capital*

Bosnia and Herzegovina remains moderately prepared in the area of free movement of capital, but there was no progress in this area. Further alignment with the <i>acquis</i> is needed to provide for country-wide harmonisation and to create a single economic area,
--

As regards **movement of capital**, Bosnia and Herzegovina continues to apply relatively liberal rules on inward capital flows. The legal framework is not harmonised with the *acquis*. In both Entities, the legislation limits the amount that non-residents may transfer without bureaucratic burdens.

On foreign investment, there is a persistent lack of coordination across the country in designing and implementing legal reforms. Restrictions on foreign direct investment continue to apply in the media sector, where a 49 % limit on foreign-owned capital remains in place.

Capital markets continue to suffer from challenging economic conditions and operate at relatively low levels. The securities market remains dominant in terms of capital market growth since both Entities continue to secure both short-term and long-term financing through local capital markets.

Bosnia and Herzegovina has a **payment system** for giro clearing and real-time gross settlement operations within the Central Bank. In 2014, the value of transactions in these two categories increased by 8.7 % compared with 2013.

4.1.4. Customs and taxation

Bosnia and Herzegovina is **moderately prepared** in the areas of customs and taxation. **Some progress** was made in these fields, particularly on adopting the new customs policy law, improving protection of intellectual property rights and the overall operational capacity of the Indirect Tax Administration (ITA). In the coming year, Bosnia and Herzegovina should in particular:

- adopt implementing rules to enable the implementation of the new customs policy law;
- improve cooperation between ITA and the tax administrations of the Entities, including through joint audits;
- modify the Law on Excise Duties to align its definition of small breweries with that of the *acquis*.

The new **customs** policy law was adopted in July. The new law provides for additional simplified customs procedures such as the Authorised Economic Operator status, and for introducing a new computerised transit system and will require the adoption of implementing rules. In December the customs tariff was updated in line with the 2015 version of the EU Combined Nomenclature. The regional Convention on Pan-Euro-Med Preferential Rules of Origin entered into force in November.

There was progress in terms of registration and follow-up procedures for customs cases against violations of intellectual property rights which increased from 73 in 2013 to over 200 in 2014.

Implementation of Asycuda World, the new customs declaration processing system that will support implementation of the new customs policy law, is continuing.

Bosnia and Herzegovina has yet to finalise procedures to ratify its participation in the EU's Customs 2020 and Fiscalis programmes.

In the area of **taxation**, legislation has to be adopted further aligning value added tax (VAT) with the *acquis*. IT applications for electronic submission of VAT returns and for VAT refunds to non-established taxable persons are not yet operational. The Law on the Amendments to the Law on Excise Duties in Bosnia and Herzegovina which introduces differentiated excise duties for beer became applicable in September. It is not in line with the *acquis* and discriminates against imported beer.

ITA is conducting a pilot E-audit project with a small number of big taxpayers with a view to improving tax compliance. In exchange for real time access to tax relevant information it provides them with specific contact points and increased taxpayer assistance.

The Entities need to continue aligning legislation with the *acquis* and step up their efforts to improve mutual cooperation and to strengthen their administrative capacity on direct taxation.

4.1.5. Competition

The country has **some level of preparation** on competition. **No progress** was made in this area. In the coming year, Bosnia and Herzegovina should in particular:

- fully implement the State aid legislation and set up the institutional framework needed to control all State aid effectively, in order to comply with the SAA;
- further align with the EU *acquis* on competition and ensure the Competition Council functions efficiently.

On **antitrust and mergers policy**, the Competition Council issued 14 opinions. It is fully staffed under the existing rulebook and personnel received training to strengthen its capacity to conduct investigations. However, short procedural deadlines often lead to automatic adoption of decisions. This raises concerns, particularly when combined with ethnicity-based veto rights of Competition Council members. Complex procedures for the formal appointment of the chairperson have prevented the Competition Council from functioning properly.

The **State Aid** Council, has issued 21 decisions so far. The regulation on the criteria for verifying the compatibility of State aid has yet to be adopted by the Brčko District and at State level. The regulations on this issue and on procedures, State aid applications and the notification form will need to be aligned with EU *acquis*. The alignment of existing State aid schemes in accordance with obligations arising from the SAA and EU State aid rules has not yet started. Bosnia and Herzegovina still needs to improve the consolidated State aid inventory reporting and address the issue of transparency.

The technical competence of all stakeholders in the State aid system has been improved by specialised training. Financing the operations of the State Aid Council and its secretariat remains an issue as Republika Srpska again did not contribute its full share. The secretariat is not yet fully operational. Further efforts are needed to ensure that all State aid measures are notified to and approved by the Council before being granted. The transparency of all State aid granted in Bosnia and Herzegovina has yet to be assured.

4.1.6. *Public procurement*

Bosnia and Herzegovina has **some level of preparation** in this area. Procurement is an area particularly vulnerable to corruption and more efforts are needed to prevent corruption during the procurement cycle. **Good progress** was achieved in the past year, especially through the entry into force of the new law on public procurement. However, the country is still at an early stage of harmonising with the *acquis* on public-private partnerships and concessions. In the coming year, Bosnia and Herzegovina should in particular:

- adopt remaining secondary legislation;
- strengthen the monitoring role of the Public Procurement Agency and make the procurement process more transparent;
- establish a specialised procurement function within contracting authorities.

Institutional set-up and legal alignment

In terms of the institutional set up and **legal framework**, the new public procurement law came into force in December. It is broadly in line with the EU legislation from 2004. The law ensures respect for the principles of the Treaty on the Functioning of the EU, such as value for money, free competition, transparency and equal treatment, but Bosnia and Herzegovina maintains a system of domestic preferences which will be gradually phased out. Most of the implementing legislation was adopted on time, except for some secondary legislation and decisions. The country will need to align with EU legislation from 2014 in this area.

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

The **Public Procurement Agency** of Bosnia and Herzegovina (PPA), the body mandated by law to initiate, implement and monitor public procurement reform in all sectors, has sufficient administrative capacity to fulfil its core tasks. The PPA implements the public procurement systems reform strategy. The **strategy** is outdated, however, and should be renewed in line with the provisions of the new public procurement law.

Implementation and enforcement capacity

The **public procurement** market was worth 8.14% of GDP in 2014. The average number of bidders per tender ranged from one to four, depending on the type of procurement (goods, works or services) and the procurement procedure. Only 50 % of tenders had a prior notice published and 44% of the total procurement value was attributed through the use of less transparent award procedures, albeit under the previous procurement rules.

The administration needs to be strengthened including through trainings, in order to provide for the **monitoring** of procurement procedures.

Regarding implementation and enforcement **capacities to manage public procurement processes**, the new public procurement law calls for more detailed planning, preparation and publication of public procurement activities. Specialised procurement functions still need to be established in each contracting authority and staffed with officials who have relevant skills and capabilities.

The PPA also maintains the central procurement portal where tender and contract notices and other important information and guidance are published. The e-procurement information system was developed and brought into use at the end of 2014 but e-procurement is still at a very early stage.

The statistics collected from contracting authorities and published by the PPA provide a solid tool for monitoring the use of procurement procedures, including the less competitive ones. However, the PPA's monitoring role is limited and should be strengthened to enable it to identify potential weaknesses and irregularities.

Improvements were made to the regulation of **integrity and conflict of interest** in public procurement procedures.

Efficient remedies system

The **right to legal remedy** is stipulated in the Constitution and in the Law on Public Procurement. The legislation on review procedures is broadly in line with the relevant EU Directive and general EU Treaty principles. The decisions of the Procurement Review Body (PRB) can be challenged in the Court of Bosnia and Herzegovina. The submission of an objection suspends the procurement procedure.

In 2014, the PRB upheld complaints in half of the cases it reviewed (i.e. 355 of the 696 cases resolved in 2014. A further 436 cases were rejected, dismissed or suspended). Over the same period, the Court of Bosnia and Herzegovina delivered eight judgments in cases brought against PRB decisions, ruling against it in six cases.

The procurement legislation does not lay down the institutional arrangements for handling complaints about concessions award procedures. While the composition of the PRB's board was renewed in March, its **implementation capacity**, especially to deal with the complexity and high number of procurement-related appeals, needs to be strengthened. Publication of decisions by the PRB and by the Court of Bosnia and Herzegovina has resumed, which should allow for better transparency, but it does not cover decisions taken before 2015.

Bosnia and Herzegovina should strengthen the review and remedies system, including at branch offices, to provide for speedy, effective and competent handling and resolution of complaints and penalties. This would give businesses easier access to the system at lower cost, and would help regain public trust.

4.1.7. *Intellectual property law*

Bosnia and Herzegovina is **moderately prepared** in the area of intellectual property law. **Some progress** was made in this area. Further efforts are required, in particular to improve enforcement and coordination.

In the coming year, Bosnia and Herzegovina should in particular:

→ adopt a strategy of intellectual property rights (IPR) enforcement;

→ set-up an inter-ministerial body for the coordination of enforcement of intellectual property rights.

The Institute for Intellectual Property continues to function well but needs to further increase its staff to fulfil the tasks related to granting of intellectual property rights set out in its development strategy for 2008-2015. The Memorandum of Understanding between the Office for Harmonization in the Internal Market of the EU (OHIM) and the Institute for Intellectual Property of Bosnia and Herzegovina was signed in December 2014.

On **copyright and neighbouring rights**, 25 copyright works and related rights entered the institute's records and certificates of deposit and registration were issued accordingly.

Regarding **industrial property rights**, the International Convention for the Protection of New Varieties of Plants and the European Patent Convention have yet to be ratified.

On **enforcement**, the Indirect Taxation Authority issued 257 decisions, of which 170 are in the procedure of temporary retention and seizure of goods. The State Investigation and Protection Agency seized counterfeit goods valued at about EUR 470 000. The enforcement of IPR remains to be improved. An inter-ministerial body for the coordination of enforcement of IPR is still to be set-up. The monitoring system should be improved so that information and statistics on civil proceedings before the Court on enforcement of IPR are accessible.

Knowledge of IPR significantly increased among Bosnia and Herzegovina's enforcement institutions. However, the institutions' capacities need to be strengthened and their cooperation needs to improve. The country has yet to adopt the intellectual property enforcement strategy for 2015-2020. A reliable system for collecting, analysing and exchanging data among the various institutions has yet to be set up.

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

Preparations remain at an **early stage**. There has been **no progress** in the area of employment and social policies. Unemployment is still largely structural and remained high overall, while unemployment among women and young people rose. There has been some progress on public health. In the coming year, Bosnia and Herzegovina should in particular:

→ develop autonomous social dialogue, modernise labour and health and safety laws and harmonise them between the Entities;

→ urgently address high unemployment, notably youth unemployment, and provide effective support to job seekers;

→ implement public health reforms and provide for cooperation between the Entities.

On **employment policy**, labour laws throughout the country need to be modernised and harmonised with each other. Challenges in relation to the labour market remain considerable. Some programmes exist to support the employment of Roma and other target groups, notably in Republika Srpska. There is an urgent need to strengthen the financial and administrative capacity to implement active labour market measures both at the level of Entity governments and public employment services.

Labour market participation marginally increased in 2014 to 59.2 %, with both male and female participation rates growing slightly. The employment rate also rose somewhat to 43.2 % in 2014, but female employment dropped marginally from 32.2 % to 31.9 %. Job creation remained modest and the overall unemployment rate remained unchanged at 27.5 % in 2014. However, the male unemployment rate fell to 25.2 % and the slight increase in the female participation rate was hence entirely reflected in a somewhat higher unemployment rate for women, which increased to 31.2 %. Unemployment among young people (15-24 years old) further increased to 63 % in 2014. Overall, more than 80 % of unemployment remains long-term (i.e. unemployed for one year or more).

With regard to **social policies**, the outdated **labour law** remains in place in the Entities, and hiring and dismissal procedures are extremely complex and burdensome for employers. Social contributions differ between cantons, the Entities and the Brčko District. In July the Federation adopted a revised labour law which was met with protests by trade unions. **Health and safety at work** legislation at the level of Entities, cantons and the Brčko District is not harmonised with the *acquis* nor across Entities. Labour inspectorates remain understaffed and are unable to perform their tasks properly.

On **social dialogue**, no steps have been taken to establish the State Economic and Social Council due to the continued lack of State-level legal provisions for recognising social partners. However, such councils exist at Entities level, as well as in some cantons in the Federation. Following the adoption of the Federation's new Labour Code, social partners should renegotiate collective agreements. Social dialogue remains weak at all levels.

Implementation of the legislative framework on **social protection** remains low. Due to the financial constraints at all levels of government, the social protection benefits prescribed by social protection laws are not implemented in practice, with some benefits not being paid or amounts reduced according to available funding.

Participation of women in the workforce is low and there is still maternity-related discrimination in employment. Employed mothers or fathers enjoy full salary compensation for 12 months for parental leave in Republika Srpska. In the Federation, the situation is fragmented and can vary among cantons. The same goes for child allowances for low-income families.

Social inclusion policies are still not harmonised across the Entities and neither are provisions for individuals. In June a State-level Action Plan for Children 2015–2018 was adopted focusing on social protection and healthcare for children, pregnant women and childbearing women. In general, vulnerable groups including children, Roma, returnees, internally displaced persons and disabled people are not adequately protected by the State, the Entities, the Brčko District or the cantons.

In the field of **public health policy**, in May Bosnia and Herzegovina ratified the Additional Protocol to the Convention for the Protection of Human Rights and Dignity of the Human Being with regard to the Application of Biology and Medicine, on the Prohibition of Cloning Human Beings. Republika Srpska made some progress in implementing the e-health strategy. A web application was developed for family medicine teams and installed in 48 health

centres. Overall cooperation between the Entities' ministries in implementing health sector reforms needs to be strengthened.

Projects to limit tobacco and alcohol consumption, improve diet and increase physical activity are being implemented with World Bank support, but efforts in the area of *tobacco control* overall need to be reinforced

In the field of **communicable diseases**, the multi-drug resistance and infection control plan and the framework plan for tuberculosis prevention and control in healthcare facilities — which form part of the national tuberculosis programme — were updated. State-level coordination of the harmonisation of legislation in the Entities and the Brčko District and of the international reporting of epidemic data should be strengthened.

On **blood, tissues, cells and organs**, Republika Srpska adopted the Law on Transfusion Activities, regulating transfusion activities, the quality system for such activities and the supply of blood and blood components to residents in June. The Federation adopted a rulebook on the specific technical requirements for blood and blood components.

The Federation also established the Centre for Transplantation and adopted by-laws on transplantation. Further efforts are needed to avoid duplication, establish a more efficient and less fragmented technical and administrative system for substances of human origin and bring it into line with the quality and safety requirements of the *acquis*.

In Republika Srpska, early childhood development activities have continued. They are based on the adopted policy for improving early childhood development, the policy for improving the nutrition of children under five and the guidelines on nutrition for infants and pre-school and school children.

Republika Srpska adopted the rare diseases strategy for 2014-2020 in December.

A country overview of the situation on drugs and drug addiction was submitted to the European Monitoring Centre for Drugs and Drug Addiction and published in November.

On **pharmaceuticals**, the Agency for Medicinal Products and Medical Devices published rulebooks on the manner of and procedure for classifying medicinal products and on conditions for manufacturing a medicinal product.

4.1.9. Education and research

Preparations on education and research and innovation policy are at an **early stage**. There was **no progress** in these sectors but Bosnia and Herzegovina actively participated in different cultural programmes as well as research networks and activities.

In the coming year, the country should in particular:

- step up coordination and harmonisation of the legal framework on education;
- strengthen the capacity of State-level education agencies to develop EU standards, including for quality assurance in education;
- step up efforts to strengthen the research and innovation capacity.

On **education**, the action plan for implementing the 'baseline qualifications framework' was adopted in October. Some elements of the qualification framework for higher education were developed (qualification and occupational standards for study programmes dealing with agriculture, food processing and ICT, as well as teacher education, mechanical engineering and management). There are 46 higher education institutions registered in Bosnia and Herzegovina, of which 16 are accredited and 16 are in the process of being accredited. Bosnia and Herzegovina's strategic development platform for adult education in the context

of lifelong learning for 2014-2020 was adopted in October 2014. Four cantons (Zenica-Doboj, Una-Sana, Podrinje and Tuzla) adopted laws on adult education. Further efforts should be deployed to establish national educational statistics. The education sector remains a high-risk area for corruption.

Coordination between bodies responsible for quality assurance is weak at the level of pre-school, primary and secondary education due to the relevant agency's lack of capacity. Bosnia and Herzegovina still does not participate in the Programme for International Student Assessment (PISA). BiH participation is important as PISA results are an EU benchmark and an internationally accepted assessment of the basic skills of 15 year old children. The national pre-school enrolment rate for children aged 3-6 is still very low at 14% and far from the EU target of 95% by 2020. Increasing this rate requires both infrastructure and teacher training.

Some cantons have yet to adopt legislation on pre-school education and vocational education which would further develop legal frameworks across the country as well as fully harmonise them, including with the State-level framework law. An effective coordination mechanism has not been established in the Federation of Bosnia and Herzegovina and the two existing coordination bodies are still acting in parallel.

Bosnia and Herzegovina participates actively in the Western Balkans Platform on Education and Training. Bosnia and Herzegovina continues to participate in Erasmus+ and the Western Balkans Youth Window. In view of the very high youth unemployment rate in Bosnia and Herzegovina it is all the more important that the country uses Erasmus+ Youth in Action to foster young people's non-formal learning at international level so as to enhance their competences, skills and employability.

As regards **culture** and media, in May a Creative Europe Desk was established, and Bosnia and Herzegovina participates actively in both sub-programmes (Culture and MEDIA). Ratification of the UNESCO Convention for the Protection and Promotion of the Diversity of Cultural Expressions was followed by the adoption and implementation of the Culture for Development Indicator Suite in May 2015.

On **research and innovation** policy, following Bosnia and Herzegovina's association to the EU's 'Horizon 2020' programme, a Network of National Contact Points (NCPs) was established and representatives in the Horizon 2020 Programme Committees were nominated. Bosnia and Herzegovina also organised several workshops and information days on Horizon 2020 but based on initial statistics, successful participation is limited. Further efforts are needed to increase the country's participation in particular on research and innovation actions on societal challenges and on participation of SMEs as well as on scientific excellence in general.

Bosnia and Herzegovina continues to show good participation in COST, the framework supporting trans-national cooperation among researchers, engineers and scholars across Europe, but the country's participation in Eureka is less successful. Bosnia and Herzegovina cooperates at regional level as co-signatory of the Regional Strategy on Research for Innovation, with the Central European Initiative (CEI) and with UNESCO.

At policy level, some progress was made on human capital building as more universities and institutes signed the European Charter for Researchers and a Code of Conduct for the Recruitment of Researchers. Bosnia and Herzegovina participates regularly in the European Research Area Committee (ERAC) and related advisory bodies and in regional networks and initiatives. According to statistical data from Bosnia and Herzegovina, the total expenditure on research (both public and private investment) amounted to less than 69.6 EUR million or 0.27% of its GDP in 2012.

4.1.10. WTO issues

The country's preparations are at an **early stage**. **No progress** was made in the negotiations for accession to the World Trade Organisation.

Concerning bilateral market access for goods and services, Bosnia and Herzegovina still needs to conclude longstanding negotiations with Brazil and Ukraine and recently received requests to also enter into negotiations with the Russian Federation and the Republic of Indonesia. Furthermore, Bosnia and Herzegovina has been asked by WTO members to enact and deposit three pieces of legislation on trading rights, anti-dumping/countervailing duties and sanitary and phytosanitary measures (a by-law on genetically modified organisms), as well as to finalise two commitment paragraphs on trading rights and agricultural policies in the draft Working Party Report.

4.2. Sectoral policies

4.2.1. Industry and SMEs

Bosnia and Herzegovina is at an **early stage** in the area of industry and SMEs. **No progress** was made in this field. In the coming year, Bosnia and Herzegovina should in particular:

- address the lack of a single economic area by harmonising or coordinating industrial and SME policies;
- address outstanding issues harming the business environment. These include weak competitiveness, high barriers to business entry and exit, and an opaque and complex legal and regulatory framework.

On **industrial policy in May** the Federation, adopted a report on implementation of the industrial policy action plan for 2014 and tasked the line ministry to prepare a new action plan for 2016-2019.

Regarding **SME policy**, a national coordinator for the Small Business Act Assessment was appointed in January. This should now bring a more active coordination role that is required at State level. A single Entity registry of business operators in Republika Srpska became operational in February. Republika Srpska also adopted an amendment to the rulebook on craft entrepreneurs in November to finalise the establishment of a crafts business registry.

However, the lack of a State-level SME strategy and SME definition hampers policy harmonisation and assessment of how the Small Business Act is being implemented country-wide. The double registration requirement in both Entities for business registration has yet to be resolved, possibly through mutual recognition. The lack of a unified, country-wide economic area and shortcomings in the regulatory environment continue to hurt the business environment. Barriers include high costs of compliance with regulatory burdens; gaps in implementing laws and regulations at Entities and sub-Entities level, with sometimes contradictory regulations; lack of targeted support for SMEs; and lack of coherent and high-quality infrastructure covering the whole country.

Bosnia and Herzegovina's participation in the EU's COSME programme for the competitiveness of enterprises and small and medium-sized enterprises is still under negotiation. Participation in COSME is necessary for the two Entities' consortia to become part of the Enterprise Europe Network (EEN) for 2015-2020.

4.2.2. *Agriculture and fisheries*

Preparations in these areas are at an **early stage**. **Some progress** was made in the field of food safety and veterinary policy. In the coming year, Bosnia and Herzegovina should in particular:

- align the official veterinary and phytosanitary control system with European standards;
- strengthen its administrative capacity, in particular in inspection services and laboratories;
- draw up a State-level strategic plan for rural development and establish the national structures for pre-accession assistance to the agricultural sector through the Instrument for Pre-accession Assistance for Rural Development.

In the area of **agriculture and rural development policy**, sectoral analyses on the forestry and aquaculture sectors were completed in January. The Entities' policy framework was improved by adoption of the Federation's Medium-term Development Strategy of the Agricultural Sector for 2015–2019 in June and of the Strategic plan for development of agricultural and rural areas of Republika Srpska for 2016-2020 in May.. Progress is needed in establishing the necessary institutional structures that would allow the use of the Instrument for Pre-accession Assistance for Rural Development (IPARD). Bosnia and Herzegovina has not yet drawn up a State-level strategic plan for rural development. A revised harmonisation programme for agriculture, food and rural development has yet to be adopted, as has State-level legislation on wine and organic production. The administrative capacities and coordination structures within the agriculture and rural development sector including support measures, still need to be strengthened.

Improvements in productivity and competitiveness remain hampered by the lack of an efficient administration and effective rural credit schemes. Adoption of a national agricultural information strategy is still pending. The agricultural census has not taken place yet as the legal framework has not been agreed. Agricultural statistics and the agricultural information system still need to be improved. The land registration systems need to be harmonised country-wide, and land management needs to be strengthened.

On **food safety**, following recommendations from the EU Food and Veterinary Office the Bosnia and Herzegovina authorities drew up an action plan for controls on the production and processing of dairy products for export to the EU. This was accepted in June 2015. In July 2015 the country proposed to the European Commission a list of establishments that could be allowed to export to the EU, and four dairy establishments were authorised to export heat treated products to the EU in September 2015.

However, the chain of command and the official food and feed control system can be further improved in order to become more efficient and the country is still not allowed to export most goods of animal origin to the EU market. It has yet to amend veterinary, food safety, agriculture and rural development legislation to create an EU-compliant official food and feed control system. Institutional and administrative capacity — including inspections, particularly at designated border inspection posts — need to be further strengthened so that the relevant bodies can perform the tasks such a system demands. These include carrying out controls on genetically modified food and feed, in particular implementing the import control system and internal market controls in accordance with EU legislation. The Hygiene Package has yet to be fully implemented in a harmonised manner country-wide.

Administrative capacities in the food safety sector were improved through additional training. Bosnia and Herzegovina continued to play its full part in the European Commission's rapid alert system for food and feed. In total, 8 notifications were received through the system.

These were appropriately followed up with inspections and the results reported back to the Commission. None of the cases posed a risk to consumer health and safety. Nonetheless, further training is needed, in particular for inspection services and food businesses. A central database for the official control system is not yet fully operational. A State-level strategy for laboratory testing of samples as required by the official controls on the food and feed chains has yet to be drawn up.

In July the authorities of Bosnia and Herzegovina introduced a practice of stopping trucks transporting bottled drinks from an EU Member State at the border in order to gather samples for laboratory testing. This caused unjustified delays and damage to EU exporters. After complaints from the EU, the practice ended in mid-August

On **veterinary** issues, Bosnia and Herzegovina adopted further implementing legislation on controlling, preventing and eradicating communicable animal diseases. It continued implementing animal control measures, among other things for brucellosis and tuberculosis in cattle. Vaccination against brucellosis and rabies continues, as do related monitoring and coordination activities. The new animal disease notification and outbreak information management system which became operational in 2014 needs to be further strengthened in order to become fully functional. The strengthening of laboratories' capacities continues. The country is also continuing to implement a residue monitoring plan. The legal framework on animal health still needs to be strengthened further. A country-wide strategic framework for managing animal by-products needs to be established in line with the *acquis*. The animal identification and movement control systems have yet to be upgraded.

Further implementing legislation was also adopted in the **phytosanitary** sector. In July, Bosnia and Herzegovina was recognised to be free from potato ring rot and allowed to start exporting potatoes to the EU. Institutional capacities need to be further strengthened and the network of Plant Health Protection Administration regional offices has yet to become fully operational. The work of official diagnostic laboratories and controls at border inspection points are generally harmonised with the *acquis*. Surveillance and quarantine of harmful organisms continues to be undertaken country-wide. Registration of relevant producers, importers, exporters and distributors in a single phyto registry is carried out on an ongoing basis.

Implementing legislation on **genetically modified organisms** needs to be further harmonised to provide for uniform operating procedures across the country.

On **fisheries**, the sectoral analysis on aquaculture in Bosnia and Herzegovina contributed to improving the country's policies. Legislation in this sector needs to be harmonised across the country, and greater efforts are needed to facilitate exports of fish and fishery products to the EU.

4.2.3. *Environment and climate change*

Preparations in these areas are at an **early stage** but there was **some progress**. In the coming year, Bosnia and Herzegovina should in particular:

- put forward and start implementing the country's contribution to the expected 2015 UN Climate Agreement;
- establish a harmonised legal framework for environmental protection and climate action, strengthen strategic planning and implementation of the *acquis* in these fields;
- strengthen administrative capacity and monitoring systems and improve inter-institutional coordination among all authorities.

Concerning **horizontal legislation**, several strategic documents fostering approximation with the EU environmental *acquis* have yet to be adopted. They include the environmental approximation strategy and its implementing documents, specific implementation plans for selected environmental directives, and environment policy documents. Implementation plans on environmental impact assessment, the protocol on strategic environmental assessment and the Basel Convention on hazardous waste have yet to be adopted, as does an environmental monitoring data management and reporting strategy. Public participation has yet to be improved in both Entities. New Federation of Bosnia and Herzegovina legislation on environmental protection has yet to be adopted. The same goes for the Brčko District's strategy in this area.

Implementation of the *acquis* on **air quality** is at an early stage. Air quality planning and monitoring systems need upgrading. A country-wide air monitoring network has not yet been established. Bosnia and Herzegovina missed the Energy Community deadline for implementing the 1999 Directive on sulphur content in fuels. The State and Entities' legislation is not in line with relevant *acquis*.

A country-wide **waste** management strategy and strategic planning of related investments have yet to be prepared. The municipal waste management plans have been drawn up but have yet to be implemented. The Federation of Bosnia and Herzegovina is implementing the waste management strategy and waste management plan. An implementing legislation for waste from electrical and electronic equipment has been adopted. In Republika Srpska a new waste management strategy is in preparation and implementing legislation on waste storage, treatment and disposal has been adopted. Economic instruments to promote recycling and prevention of waste generation remain limited. The capacity to manage industrial and hazardous waste needs to be strengthened.

Regarding **water** quality, the country still lacks a consistent and harmonised State-level policy on water management that would include implementing legislation, monitoring and river-basin management plans. In Republika Srpska the strategy for integrated water management for 2015-2024 is awaiting adoption. The water management strategy in the Federation of Bosnia and Herzegovina for 2010-2022 is in the process of being implemented. In the Brčko District the water law transposing the Water Framework Directive is awaiting adoption. Acts are being drafted to enact the EU water directives but the country's capacities to implement the water *acquis* remain insufficient. The drafting of the river-basin management plan for the Neretva-Trebišnjica rivers has been completed but has yet to be adopted. Preparation of a plan for the River Sava is under way. Investment in infrastructure has brought some improvements in access to drinking water and also in wastewater discharges. An action plan for flood protection and river management in Bosnia and Herzegovina for 2014-2017 has been adopted. A project to draw up flood risk and hazard maps is in preparation.

On **nature protection**, initial steps have been taken to develop the Natura 2000 network in Bosnia and Herzegovina. A list of potential Natura 2000 sites has yet to be adopted, as has legislation to align with the *acquis* on protection of wild birds and habitats. Investments in hydropower projects need to ensure that EIA, water legislation and nature protection obligations are respected, especially in national protected areas and areas of high natural value that could potentially become Natura 2000 sites.

The law on **chemicals** in the Federation has yet to be adopted. A national plan for implementing the Stockholm Convention on Persistent Organic Pollutants has been drafted but has yet to be adopted.

Regarding **industrial pollution** control and risk management, Bosnia and Herzegovina is working on developing a national emissions reduction plan.

Significant further efforts are needed on **noise**.

On **civil protection**, disaster risk reduction and management need to be addressed as a matter of priority, particularly in the light of the severe 2014 floods. Bosnia and Herzegovina expressed its interest in becoming a member of the EU Civil Protection Mechanism in 2014 and concluded a protocol on cooperation and establishment of a point of contact with the mechanism. The point of contact, a prerequisite for joining the mechanism, should ensure country-wide outreach and coordination. Further coordination and cooperation efforts and further preparations for joining the mechanism are needed.

The country is at a very early stage in aligning with the EU *acquis* on **climate change**. Some limited measures and activities were taken on adaptation to climate change. Implementation of the strategy for adapting to climate change and low emissions development needs to be ensured. Further development of the country's climate policy and strategy is required and needs to be consistent with the EU 2030 framework. Significant efforts are also needed to integrate climate action into relevant sectoral policies and strategies. Bosnia and Herzegovina submitted in March the First Biennial Update Report on greenhouse gases to the United Nations Framework Convention on Climate Change (UNFCCC). Three Nationally Appropriate Mitigation Actions projects were finalised. Bosnia and Herzegovina's capacities for monitoring, reporting and verification in this area remain weak and should be considerably strengthened. As a priority, significant efforts are needed to align with the EU Monitoring Mechanism Regulation and ensure that the country's capacity to implement the expected 2015 Paris Climate Agreement is enhanced. The **administrative capacity** in the environment and climate sectors remains weak. No progress has been made on country-wide strategic planning or on a mechanism for comprehensively aligning with EU legislation. Capacity building is required to address the significant needs for greater capacity, cooperation and coordination. Further efforts are needed to raise awareness on environmental protection and need for climate action at all levels of the country.

4.2.4. *Transport policy*

Preparations in the transport area are at an **early stage**. **Some progress** was made in the past year. In the coming year, Bosnia and Herzegovina should in particular:

- adopt country-wide transport strategies for all sub-sectors;
- strengthen the regulatory framework, coordination and administrative capacities, to help ensure that the country will be able to benefit fully from the connectivity agenda.

The State-level framework transport policy for 2015-2030 was adopted in July. The key strategic documents for the transport sector and its sub-sectors, at all administrative levels in Bosnia and Herzegovina, remain to be drafted and adopted. Legislation on rail, road, maritime, inland waterway transport and intermodal transport has not yet been fully aligned with the *acquis*. The general transport infrastructure in Bosnia and Herzegovina requires significant upgrades.

On **trans-European transport networks**, Bosnia and Herzegovina continued to participate in the South-East Europe Transport Observatory (SEETO) and to implement the memorandum of understanding on developing the South-East Europe Core Regional Transport Network. The country played an active role in the Western Balkans 6 connectivity agenda by endorsing the agreement on the regional core transport network in Brussels in April, and the agreement, in Riga in June on the core network corridors and on the list of projects to be implemented by 2020. There has been progress in both the road and rail networks, however, at the same time, financing of remaining activities remains a challenge.

Road transport safety is a major concern. A road safety strategy and related action plan have yet to be adopted.

Regarding **rail transport** operations, renovation of railway tracks continued. The two Entities' vertically integrated railway companies are both in critical financial situations. Both have yet to fully separate operational functions from infrastructure management as the *acquis* requires.

Concerning **inland waterways**, no activities are currently under way to restore the River Sava in Bosnia and Herzegovina, Croatia or Serbia. This is due to the cancellation of the loan agreement with the World Bank and the subsequent cancellation of EU assistance.

On **intermodal transport**, the railway bottleneck at the Ivan Tunnel and Bradina ramp is preventing the transit of Ro-La trains (trucks on train) and 40 feet containers from the port of Ploče. Together with a dysfunctional navigation route on the River Sava, it is also preventing an increase in combined transport volumes.

Regarding **air transport**, the Bosnia and Herzegovina Air Navigation Services Agency has — in full coordination with EUROCONTROL — taken over control of the lower level of the country's airspace from Serbian and Croatian air traffic control service providers. Bosnia and Herzegovina participates as an observer in the Joint Service Provision Area Initiative.

On **maritime transport**, Bosnia and Herzegovina is not a party to the main International Maritime Organisation conventions.

4.2.5. Energy

Bosnia and Herzegovina is at an **early stage** of preparations in the area of energy. **Some progress** was made in the past year. The country continues to fall behind in fulfilling its international commitments stemming from the Energy Community. In the coming year, Bosnia and Herzegovina should in particular:

→ adopt a country-wide energy strategy;

→ strengthen coordination and cooperation at all relevant levels of governance to improve strategic planning, facilitate a comprehensive investment policy and allow for efficient implementation;

→ urgently adopt the law on gas in order to comply with Energy Community Treaty obligations.

Bosnia and Herzegovina continues to operate without a single country-wide energy strategy. The lack of country-wide strategic planning prevents it from adequately addressing issues of **security of supply** in particular of oil and gas. The two Entities, through their respective legislative frameworks, introduced measures to establish oil stocks. However, a comprehensive and coordinated system at State level is not in place. There is no information on the level of the country's oil stocks..

On the **internal energy market**, Bosnia and Herzegovina formally liberalised its electricity market. In May, the State Electricity Regulatory Commission adopted new rules to improve the market principles in this area. The legislative and regulatory framework needs to comply fully with the *acquis* at all levels as it does not allow country-wide wholesale and retail markets to develop. The independence of the regulatory commissions, particularly in the Republika Srpska, needs to be strengthened and fully provided for. Bosnia and Herzegovina, did not meet its obligation under the Energy Community (EnC) to align its legislative framework on electricity with the *acquis*, and specifically with the Third EU Energy package.

The country remains in serious and persistent breach of its commitments under the EnC Treaty in the gas sector. The law on gas must be adopted as a matter of urgency in this area. Changes to Republika Srpska's gas law are needed to bring it into line with the *acquis*, whereas the gas law of the Federation of Bosnia and Herzegovina has yet to be adopted.

The legislative framework on **renewable energy** still does not comply with the EnC requirements. In May, the EnC submitted a reasoned request over the country's failure to submit the national renewable energy action plan. Submitting the plan must be treated as a priority, together with ensuring that Bosnia and Herzegovina's renewable energy targets are met by developing a State-level framework to supplement the framework at Entities level. On biofuels, the Entities' respective authorities took no action to address sustainability criteria or set up appropriate certification. Any further development of hydropower should take place in conformity with EU environmental legislation

Secondary legislation on **energy efficiency** was adopted at various governance levels, particularly in Republika Srpska. However, there was no progress in developing the legislative and institutional frameworks required at the State level. Bosnia and Herzegovina missed its EnC deadline to align with the 2006 Directive on Energy End-Use Efficiency and Energy Services. Due to limited coordination between authorities at State and Entities levels, the country did not develop and adopt a national energy efficiency plan or a consistent roadmap for enacting the *acquis* under the EnC Treaty.

On **nuclear safety and radiation protection**, the State Regulatory Agency for Radiation and Nuclear Safety Law adopted a number of regulations to strengthen and improve its regulatory function, including a rule book on monitoring radiation in the environment. The agency continues to receive bilateral and international assistance to strengthen its technical capacities. In May, the BiH Parliament adopted an Action Plan on emergency cases aimed to protect the population from ionizing radiation in case nuclear accidents or incidents.

4.2.6. *Information society and media*

Preparations in the field of information society and media are at an **early stage**. There has been **backsliding** over the last year. In the coming year, Bosnia and Herzegovina should in particular:

→ adopt a plan to ensure the financial stability and political independence of public service broadcasting;

→ implement, as a matter of urgency, the digital switchover.

In the field of **electronic communications and information and communications technologies**, the electronic communications law is still largely based on the 1998 EU regulatory framework. A general authorisation system, replacing individual licences for the provision of electronic communications has yet to be introduced. The institutional framework does not ensure political independence or adequate financial and operational independence of the regulator which undermines certainty for the sector and raises concerns over its efficiency. No further steps have been taken to introduce the European emergency number 112.

The Communication and Regulatory Agency (CRA) continued to further implement competitive safeguards as well as to implement the last phase of rebalancing of the fixed telephony retail tariffs. However, effective implementation of the market regulation - and thereby new entrants' access to the market - remains a concern. While the three incumbent operators are subject to regulatory obligations, they continue to operate as *de facto* monopolies in fixed voice telephony in their geographical areas, whereas competition is

emerging in the fixed broadband market. The overall fixed broadband penetration rate increased modestly to 11.9 %.

The agreement of September 2014 signed by the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Montenegro and Serbia on reducing the prices of mobile roaming services came into force in July.

On **information society services**, the e-commerce and e-signature laws at State level remain unimplemented due to the absence of a supervisory body for accreditation. Administrative capacity in the Ministry of Transport and Communications remains insufficient.

On **audiovisual policy**, the country missed the 17 June 2015 international deadline for the digital switchover. Only the first phase of the digitalisation process has been completed, and only in the territory of the Federation of Bosnia and Herzegovina as Republika Srpska did not allow the equipment to be installed.

The process is jeopardised by the non-existence of the corporation which was supposed to coordinate technical aspects of digitalisation under the relevant law. The financial stability and sustainability of the entire public broadcasting system is still seriously affected, as the collection rate of the RTV tax (license fee) is continuously dropping. The current model for tax collection expired on 26 April and the authorities have not agreed yet on a new model.

4.2.7. *Financial control*

Bosnia and Herzegovina is at an **early stage** of its preparations in the area of financial control. **Some progress** was recorded with the establishment of internal audit units and the adoption of the public internal financial control (PIFC) strategy by the Federation and by Brčko District. However, the absence of a coordinated approach hampers introduction of credible reforms. Further efforts should be especially devoted to completing the strategy and legal framework at Entities level. In the coming year Bosnia and Herzegovina should in particular:

- complete the legal framework on financial management and control at Entities level;
- update, adopt and start implementation of PIFC strategies at State level and in the Republika Srpska;
- reconvene the regular meetings of the Central Harmonisation Unit Coordination Board and ensure systematic co-ordination among the SAIs.

Public internal financial control

The individual PIFC **strategies and action plans** of the institutions of Bosnia and Herzegovina and Republika Srpska need to be renewed. The Federation and Brčko District adopted strategy papers on PIFC respectively in September and in December. A formal mechanism to monitor and report on implementation of action plans is still lacking.

The **central harmonisation units (CHU)** have been established at State and Entities levels but not yet in the Brčko District. CHU staffing is well below the authorised staffing levels, in particular at the Entities level where there are six staff altogether. The CHUs act independently of each other and have not convened the CHU Coordination Board since 2011 even though it is a legal requirement. They prepare and submit annual consolidated reports to their respective governments. The annual report of the Republika Srpska CHU makes reference to developments in the financial management and control framework but the equivalent documents for the State level and the Federation deal only with internal audit. The CHUs are active in organising training. They are mainly subsidised by external assistance.

The concept of **financial management and control** is still at a very early stage of development. Legislation on this needs to be adopted at the Entities level. Delegation and accountability arrangements, the distribution of management information, and the risk management and financial management of public enterprises are insufficiently regulated. A centralised budget inspection function has not yet been established at any governance level.

The legal framework for **internal audit** is in place at all levels except in the Brčko District and is largely consistent with international standards. The criteria for establishing internal audit units have been fixed at all levels, but they are not consistent with each other. Internal audit capacity remains low. An internal audit charter is in place or being prepared by an increasing number of institutions.

External audit

Regarding the **constitutional and legal framework**, the functional, operational and financial independence of each of the four supreme audit institutions (SAIs) — for Bosnia and Herzegovina institutions, the Federation, Republika Srpska and the Brčko District — is provided for by respective laws on external audit at the State and Entities level and in the Brčko District. These are in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI). However, none of the SAIs are anchored in the Constitutions or in the Brčko District's Statute. The State-level SAI is a full member of INTOSAI and EUROSAI. The independence of the heads of the SAIs and the deputies is sufficiently legally protected and their mandates provide for a full range of financial, regularity and performance audits of all public financial operations.

Concerning **institutional capacity**, the SAIs of the Bosnia and Herzegovina institutions and Republika Srpska have sufficient staff while the SAIs of the Brčko District and especially of the Federation lack capacity to cover the wide scope of external audit. The SAIs of the State and the Entities have adopted strategic development plans for 2014-2020.

To improve the **quality of audit work**, the Coordination Board of Supreme Audit Institutions in Bosnia and Herzegovina published amendments to the decision on transposition and application of the framework of International Standards of Supreme Audit Institutions in the country. However, cooperation among the SAIs in the Coordination Board is not systematic and needs to be improved. The four SAIs have adopted procedures that cover financial audit, performance audit and quality control, and they ensure that audit work undertaken conforms to these standards and procedures. The head of each SAI monitors the execution of the annual audit plan and submits annual activity reports to the respective parliament. Increased use of information technology and sampling methodologies has improved the efficiency of audit processes.

In Republika Srpska a department for quality control and compliance with international audit standards is operational. At the end of 2014 the Audit Office of the Institutions of Bosnia and Herzegovina established a new sector for development, methodology and quality management.

Concerning the **impact of audit work**, the annual reports are submitted to the legislatures regularly, are published online and receive wide media and public attention. The time allowed for the parliamentary committees to assess and discuss the reports is shorter than optimal but they are usually discussed in the presence of the SAIs. The implementation of audit recommendations is formally monitored by the SAIs at the time of the next audit. The SAI of Republika Srpska has set up an online database of recommendations available to the general public. The SAIs and CHUs should strengthen their cooperation to improve the internal control environment.

Protection of the EU's financial interests

Legislation is not **aligned** with the *acquis*, and no national **anti-fraud coordination service (AFCOS)** has been set up. Fraud prevention and repression are addressed under the national anti-corruption strategy. Initial steps have been taken to ensure **cooperation with the European Commission** investigators during their on-the-spot missions.

Protection of euro against counterfeiting

The country is addressing counterfeiting-related issues under its strategy for fighting organised crime. Legislation is not **aligned** with the *acquis* as it does not define counterfeiting or identify the competent authorities and procedures to deal with counterfeit money. Medals and tokens similar to euro coins are not yet regulated. The country is a party to the 1929 International Convention for the Suppression of Counterfeiting Currency since 2009. **Technical analysis** of counterfeit money, including euro banknotes and coins, is performed by the Central Bank of Bosnia and Herzegovina, which has a dedicated department with three staff. Some of the cantonal ministries of interior also have experts and equipment for undertaking technical analysis of counterfeit banknotes only. No **cooperation agreements** have been concluded yet with the Commission and the European Central Bank.

4.2.8. *Statistics*

Preparations in the area of statistics are **at an early stage** for many sectors, whereas for a limited number of sectors some level of preparation is visible. **Some progress** was achieved in the past year, notably in harmonising the statistical methodology with EU standards.

Significant efforts are needed across the board, especially to provide for the alignment of statistics with the EU *acquis*. In addressing the shortcomings outlined below, in the coming year Bosnia and Herzegovina should in particular:

- further align statistics with the European System of Accounts (ESA) 2010, in particular regarding national accounts;
- further improve cooperation, coordination and decision-making processes to develop the national statistical system in key statistical areas;
- urgently complete the processing of the census data and publish its results, in line with the International Monitoring Operation recommendations.

As regards **statistical infrastructure**, the law on Statistics of Bosnia and Herzegovina remains to be fully aligned with the principles of the European statistics Code of Practice. The position as Director of the Agency for Statistics of Bosnia and Herzegovina (BHAS) is still vacant. However, a recruitment procedure has been initiated. Cooperation in the national statistical system between BHAS and other producers and providers of statistics needs to be enhanced as well as cooperation between BHAS and the entity offices, particularly in view of applying European methodology in a harmonized way. Exchange of data between the Indirect Taxation Authority and the Agency for Statistics of Bosnia and Herzegovina (BHAS) requires further improvement BHAS is partially using Eurostat's electronic Dataflow Administration and Management Information System to send data to **Eurostat**.

Significant efforts are necessary to align **macro-economic statistics** with the European System of Accounts (ESA) 2010. The same goes for annual and quarterly National Accounts. Preparation of sector accounts has still not been completed, so annual and quarterly sector accounts are not available. Supply and use tables are not compiled regularly, nor are input-output tables produced. Fiscal notifications in line with ESA 2010 and financial accounts are not produced. Government finance statistics (GFS) are mainly produced in line with the

relevant IMF manual from 2001; introduction of the 2014 manual is under way. Government finance statistics are also not produced in accordance with ESA methodology and the Central Bank has introduced bridge tables to convert them to ESA. Accrual accounting is applied for expenditures only. Bosnia and Herzegovina needs to compile a harmonised index of consumer prices (HICP).

Structural **business statistics** and short-term statistics are produced but with limited scope. Four annexes of the Regulation on structural business statistics are being implemented and data for several of the remaining annexes is under development. Some short-term business statistics was produced but further improvement remains necessary for industry, construction and services statistics. On tourism statistics, Bosnia and Herzegovina produces accommodation statistics but this statistical area needs to be improved further. Production of transport statistics is at an early stage. R&D statistics, innovation statistics and statistics on information and communication technology (ICT) should be produced on a regular basis.

As regards **social statistics**, a severe limitation is the lack of up to date population figures. Publication of the census results are delayed as the statistical offices did not fully agree on the methodology. The State level Minister of Civil Affairs was appointed by the Council of Minister as the Census co-ordinator in August. The provision of data under the European system of integrated social protection statistics is in the development phase. The labour force survey (LFS) is conducted annually. The Structure of Earnings survey and statistics on job vacancies are not implemented. Labour cost statistics are being compiled and provided to Eurostat. Bosnia and Herzegovina started producing National Health Accounts and submitted data to Eurostat in May 2015. Production of statistics on external migration and asylum is in development and a memorandum of understanding (MoU) needs to be signed between BHAS and the Ministry of Security of Bosnia and Herzegovina. Basic statistics on education are produced on a regular basis. However, significant efforts are needed to develop education statistics further, especially for financial indicators. For crime statistics, BHAS submits data to Eurostat but further improvements are required.

In the area of **agricultural statistics**, relevant legislation on an agricultural census has yet to be adopted. The data from the census is the basic precondition for developing the country's agricultural statistics. Since no agricultural census has been undertaken for more than 50 years, Bosnia and Herzegovina produces only a very limited number of statistical indicators on agriculture and provides some experimental estimates.

As regards **energy statistics**, structural statistics are available for all energy sources produced except renewable energy. Some short-term statistics are available, including for electricity, gas and coal. Energy balances are produced for all energy sources except renewable energy. In the area of **environment statistics**, waste and water statistics are compiled on an annual basis. Air emission accounts and statistics on environmental taxes by economic activity are not produced, and neither are statistics on environmental protection expenditures. Material flow balances are not produced.

4.3. Justice, freedom and security

Bosnia and Herzegovina has **some level of preparation** for implementing the *acquis* in this area. **Some progress** was made. The migration and asylum systems are being strengthened and are adequate for current inflows. Infrastructure, surveillance and equipment at border crossing points have improved. Implementation of the Law on Prevention of Money Laundering and Terrorism Financing started and amendments to the criminal code regulating money laundering were adopted, even though some further legislative changes are still necessary to meet international standards. The capabilities of individual law enforcement

agencies to identify and disrupt drug trafficking operations have improved. In the coming year, Bosnia and Herzegovina should in particular:

→ step up efforts to prevent radicalisation and to address the phenomenon of foreign terrorist fighters;

→ address remaining deficiencies in the legal framework concerning anti-money laundering, as well as adopt and implement a new strategy and action plan to combat money laundering;

→ ensure policies to reduce drug demand are implemented effectively and drugs seized are destroyed. Strengthen institutions' capacity to coordinate and implement the policies.

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

Regarding **visa policy**, in 2014, 58 visas were issued at the border, a reduction of 37.6 % (93 issued in 2013). In the first half of 2015, 32 visas were issued at the border, an increase of 33% compared to the same period of 2014. Implementation of the visa-free regime with the EU continued smoothly overall. Although most travellers to the Schengen area are *bona fide*, a number of Bosnia and Herzegovina nationals have persistently abused 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 54 % between 2013 and 2014. The extremely low recognition rate confirms the unfounded nature of these claims. Short and long-term measures to counter this phenomenon are needed: authorities in Bosnia and Herzegovina must take immediate action under the post-visa liberalisation monitoring mechanism to address asylum abuses. They should do so by continuing public information campaigns, intensifying investigations into facilitators and implementing policies to improve the social and economic inclusion of the most vulnerable population groups that are most likely to migrate, including Roma. Efforts in these areas need to continue systematically and be properly resourced. In September 2014, Germany included Bosnia and Herzegovina in its list of safe countries of origin.

Legislation related to integrated **border management**, including the law on border control, is aligned with the relevant EU *acquis*. A new strategy and action plan on integrated border management has not yet been adopted. The upgraded integrated system for controlling State border crossings should be more effective in detecting invalid documents. A mechanism for issuing local border traffic permits is in place and operational. The Joint Centre for Police Cooperation between Bosnia and Herzegovina, Montenegro and Serbia, located in Trebinje, continued to function with liaison officers from Bosnia and Herzegovina and Montenegro. It aims to strengthen regional capacities to counter cross-border crimes and illegal migration. Following the signing of a memorandum of understanding with Serbia in March, action has started to close the unauthorised border crossing points on the border with Serbia. The higher number of joint border patrols with neighbouring countries led to more people being charged with smuggling. Joint risk analysis is undertaken with Frontex, mainly in the Western Balkans Risk Analysis Network. Bosnia and Herzegovina authorities regularly provide agreed statistical and qualitative information.

The migration and **asylum** strategy and action plan for 2012-2015 are being implemented. A coordination body for monitoring implementation of the strategy is functioning well. The asylum sector in the Ministry of Security is almost fully staffed. The permanent asylum centre in Trnovo functions adequately. Detention procedures have to be brought into line with the *acquis*. A new asylum law that aims to align more closely with the *acquis* has yet to be adopted. The number of asylum applications fell in 2014: 45 applications involving 45 people were submitted, compared with 73 involving 100 people in 2013. Afghans comprised the

biggest group of asylum-seekers in 2014. In 2014, the Ministry of Security rejected 7 asylum applications. In the first half of 2015, 19 new asylum applications involving 20 people were submitted.

Regarding **migration**, a centre for temporary detention of irregular immigrants is in operation, employing 53 staff and with capacity for 120 immigrants. In 2014, 218 foreign nationals were accommodated in the centre, down from 236 in 2013. In the first half of 2015, a total of 93 people were accommodated in the centre, a decrease in comparison to the same period of 2014 when there were 121 people. A total of 238 foreign nationals were returned to their country of origin in 2014. For the same purpose, in the first half of 2015 a total of 101 foreign citizens were returned to their countries of origin, a decrease of 27% compared with the same period of 2014. In 2014, 169 irregular migrants were registered for the assisted voluntary return programme for special purposes, compared to 83 in the first half of 2015. The number of irregular migrants intercepted at the border fell to 189 in 2014 from 228 in 2013. In the first half of 2015, 75 people were intercepted, a reduction of around 13 from the same period in 2014.

The seventh country migration profile was adopted in May. A new law on migration, which would further align with the EU *acquis*, among other things on the maximum period of detention at the immigration centre, has yet to be adopted. In September 2014 Bosnia and Herzegovina extended a decision granting Syrian nationals one year of temporary residence on humanitarian grounds.

Readmission agreements between Bosnia and Herzegovina, the EU and other countries continued to be implemented satisfactorily. Most of the 140 readmission cases in 2014 were carried out under the agreement with Croatia (194 in 2013). Bosnia and Herzegovina accepted readmission of 573 of its citizens in 2014 (against 397 in 2013). In the first half of 2015, 498 citizens were readmitted, an increase of 90% compared to the same period of 2014 when there were 262 citizens readmitted. Implementing the strategy for reintegrating returnees remains a challenge. Obstacles to lasting return and local integration include difficulties with economic reintegration, access to healthcare, social protection, pensions and the employment of minority returnees (*see 2.2 — Human rights and the protection of minorities*).

4.3.2. *Money laundering*

Moneyval issued a revised Public Statement in April stressing outstanding deficiencies in the legal framework and calling for action. Implementing legislation for the Law on Prevention of Money Laundering and Terrorism Financing was adopted in May. Amendments to the Criminal Code of Bosnia and Herzegovina changing the definition of the crime of money laundering and financing of terrorism activities were adopted in March and May, respectively. The supervisory bodies established by the law have yet to fully exercise their functions. In June 2015, Bosnia and Herzegovina made a high-level political commitment to work with the FATF and MONEYVAL to address remaining strategic deficiencies in the area of criminalisation of money laundering and terrorist financing, freezing terrorist assets under UNSCR 1373, effective supervision, non-profit sector, cross-border currency controls and confiscation of assets.

The Council of Ministers adopted the Action Plan for removal of deficiencies in the anti-money laundering system, as required by FATF. The number of confirmed indictments and verdicts remains low.

The memoranda of understanding with 12 foreign financial intelligence units allowed for continued electronic exchanges of information with all other members of the Egmont Group. Training sessions were organised for people subject to reporting obligations under the new

law. The Financial Intelligence Directorate is adequately staffed but its technical capabilities to conduct complex analyses are limited. There was a reduction in the number of reports of money laundering filed at prosecutors' offices across Bosnia and Herzegovina. One report of financing of terrorism activities was filed. In total, 78 people were reported in 2014, compared with 108 in 2013.

4.3.3. Drugs

Bosnia and Herzegovina continues to be used for transit and storage of drugs. Production of drugs remains small and mostly limited to marijuana cultivation. Domestic demand for drugs increased slightly, especially for synthetic drugs.

There is currently no national strategy and action plan for the suppression of drugs. The Republika Srpska Government adopted its Strategy for Supervision and Suppression of Narcotic Drugs. The BiH Commission for Suppression of Abuse of Narcotic Drugs is not functioning due to a lack of political will. Legislation to prevent and suppress the abuse of narcotic drugs, which would establish a focal point for drug issues at national level, is awaiting adoption.

The number of reported crimes related to drug abuse decreased. Criminal reports on trafficking and possession of drugs in 2014 fell to 1344 from 1480 in 2013. The number of confirmed indictments declined to 985 in 2014 from 1039 in 2013 and convictions fell to 968 from 1050. In May, the Commission for Drugs Destruction destroyed 550 kg of various drugs. However, a large quantity of drugs seized by order of various courts across the country is still awaiting destruction. Operational activities continue to be coordinated case-by-case.

Cooperation with the European Monitoring Centre for Drugs and Drug Addiction continued. BiH became a member of the Co-operation Group to Combat Drug Abuse and Illicit Trafficking in Drugs - Pompidou Group of the Council of Europe as of January 2015. In November 2014 Bosnia and Herzegovina produced a national report on the national drug situation which describes drugs policy, prevention, drug related treatment, social correlates and social integration as well as data on drug related crimes and drug market.

4.3.4. Police

Police agencies across the country continued to build up their capacities. The system for electronic data exchange of police and prosecution registries is operational and some technical aspects of the system are being updated and improved. However, some legislative provisions prevent the development of an effective institutional framework at State level. The general lack of coordination and cooperation between law enforcement agencies hampers the ability of the police to deliver a full range of services. Legislation which would improve the legal framework on policing has yet to be adopted. While the legislation provides for independent and transparent oversight of the police, including public complaints mechanisms, its implementation in practice is often flawed. More efforts are therefore needed to limit undue influence, particularly in the appointment of senior police officials, ambiguous rules and a general lack of cooperation and coordination between police agencies and bodies. A regulation setting out access rights to data and databases needs to be adopted. Staffing in various law enforcement bodies and agencies needs to be strengthened.

4.3.5. *Fighting organised crime and terrorism*

Track record

There have been 22 first instance convictions for **organised crime**. Some large scale operations took place, including in cooperation with EU Member States. In 2015 criminal assets worth 550 000 euros were subject to confiscation orders in a total of 36 cases.

In 2014, the number of victims of **trafficking of human beings** identified increased, with 49 victims acknowledged, up from an average of 30 in previous years. In the first six months of 2015, ten victims of trafficking were identified. The trafficking detected was for the purpose of labour exploitation, sexual exploitation, begging and forced marriages.

In the **fight against terrorism** Bosnia and Herzegovina has been seriously affected by the phenomenon of foreign terrorist fighters and radicalisation. Pockets of radicalisation have been identified across the country, in particular in the Wahhabi community. In April, the police station in Zvornik was attacked by a lone gunman who killed one police officer killed and wounded two others. The attacker was killed in the exchange of fire. Two suspects allegedly linked to the attack were apprehended and subsequently released from custody, with restrictive measures. The reason for the attack is being investigated by the Bosnia and Herzegovina State Prosecutor's Office. Provisions in the State criminal code on sanctions against 'foreign fighters' have started to be used in criminal proceedings. Cases of hate speech need to be addressed more forcefully.

Institutional and operational capacity

In the area of **fight against organised crime**, the Federation faces serious delays in applying the legislation on seizures since the agency responsible for managing seized assets is not yet operational.

Concerning **trafficking in human beings**, regional monitoring teams continue to meet regularly and improve their capacity through training. International cooperation by law enforcement agencies in Bosnia and Herzegovina, primarily State Investigation and Protection Agency, through joint investigation teams, joint activities and use of the international legal assistance mechanism is satisfactory but requires further improvement. Training of law enforcement agencies, especially border police, on human trafficking issues has continued. Police academies' official 2014 curricula now include subjects related to human trafficking based on the EU *acquis* and best EU practices. The prosecution of perpetrators and the identification and proactive protection of victims need to be further improved. Cooperation between the four regional monitoring teams and the Task Force for combating human trafficking needs to be strengthened further to ensure investigations are properly coordinated and assistance provided to victims. Neither the Department for Combating Trafficking in Human Beings within the national coordinator's office nor the database on victims are fully operational.

The capacities of the Counter **Terrorism** Task Force have yet to be significantly strengthened. The Task Force's operational component is still awaiting regulation of its financing and confirmation of the formal status of its members. The counter-terrorism capacity of the Bosnia and Herzegovina's Prosecutor's Office remains insufficient. The phenomenon of foreign terrorist fighters needs a dedicated approach by the intelligence and law enforcement community and a consistent judicial policy towards offenders. Efforts need to be enhanced to identify, prevent and disrupt the flow of foreign terrorist fighters traveling to conflict areas such as Iraq and Syria.

Legal framework

As regards the **fight against organised crime**, minimum standards for asset seizures have yet to be consistently incorporated into legislation across the country. The legislation on the confiscation of criminal assets is partially aligned with the *acquis*. Alignment is still required at the State level, in Republika Srpska and the Brčko District.

As regards **trafficking in human beings**, there is still no legislation in this area at Federation level. At the same time, national legislation, especially on penalties, has yet to be aligned with the *acquis*.

Strategic framework

A **strategy on combating organised crime** for 2014-2016 is in place. However, its implementation is fragmented due to the high number of action plans by the various law enforcement agencies across the country. Activities to implement the country's 2013-2016 strategy for controlling small arms and light weapons continued. Joint minimum standards on the possession and carrying of weapons by civilians were adopted in June and acknowledged by the Council of Ministers in July, to harmonise laws within the country and with EU and international standards. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

An **agreement on operational and strategic co-operation with Europol** is pending.

Bosnia and Herzegovina continues to be a country of origin, transit and destination for **trafficking in human beings**. Implementation of the strategy and action plan for 2013-2015 is continuing. A comprehensive, multidisciplinary and victim-oriented approach to trafficking still needs to be developed and identification of victims needs to be improved. The country lacks a comprehensive system to identify the overall trends and challenges in addressing human trafficking.

Bosnia and Herzegovina still lacks a comprehensive overall strategic approach to address **cybercrime and cybersecurity**.

In July the Bosnia and Herzegovina Council of Ministers adopted a 2015-2020 strategy to prevent and combat **terrorism**. It follows the model of the EU counter-terrorism strategy and is structured around four major principles: prevention, protection, pursuit and protect. However, an action plan based on the strategy has yet to be adopted at State level or at other levels of governance in the country.

(See also under 2.3: 'fight against organised crime'.)

4.3.6. Judicial cooperation in civil and criminal matters

There was no further development regarding the conclusion of a cooperation agreement with Eurojust. Relevant jurisdictions need to agree on who should be the partner of Eurojust for the negotiation and execution of the future cooperation agreement.

Annex I – Relations between the EU and Bosnia and Herzegovina

Stabilisation and Association Process

Bosnia and Herzegovina participates to the Stabilisation and Association Process and is a potential candidate for EU membership. Meaningful progress in the implementation of the Reform Agenda adopted in July 2015 by the country authorities is necessary for the EU to consider an EU membership application from Bosnia and Herzegovina.

The country's Constitution was drawn up as part of the internationally agreed 1995 Dayton/Paris Peace Agreement (DPA). It established 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 Council Steering Board has set objectives and conditions to be met for the closure of the OHR. 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.

Stabilisation and Association Agreement

The Stabilisation and Association Agreement between Bosnia and Herzegovina and the EU entered into force on 1 June 2015, thus replacing the Interim Agreement (IA) which had been in force since July 2008. Some progress was recorded regarding the level of approximation of the EU *acquis*, mainly in the areas of public procurement, intellectual, industrial and commercial property rights (IPR), internal market, customs and taxation as well as Roma inclusion. Bosnia and Herzegovina has continued refused to accept the established methodology for the technical adaptation of the SAA/IA and has therefore not yet adapted the trade concessions granted under its SAA/IA with the EU to take into account its bilateral traditional trade with Croatia. Bosnia and Herzegovina needs to reach an agreement on technical adaptation as a matter of urgency. Prolongation of the Autonomous Trade Measures beyond 2015 is conditional for Bosnia and Herzegovina accepting the adaptation of the IA/SAA with the EU to take into account its bilateral traditional trade with Croatia.

The EU provides guidance to the country's authorities on reform priorities on the country's EU membership path. Regular political and economic dialogue took place between the EU and Bosnia and Herzegovina in the framework of the SAA/IA structures. Under the 7th cycle of sub-committee meetings, with the exception of one sub-committee which had to be postponed, all the other five meetings as well as the Structural Dialogue on Justice took place as planned.

The EU-BiH Inter Parliamentary Meeting took place in May in Strasbourg. The European Parliament adopted a Resolution on the Commission Progress report on Bosnia and Herzegovina in April.

A **Reform Agenda** was adopted by the country authorities in July aimed at tackling the difficult socio-economic situation, advancing the judicial and public administration reforms, as well as further advancing the country on its EU membership path. Its implementation has started. Meaningful progress in the implementation of the Reform Agenda is necessary for the EU to consider an EU membership application from Bosnia and Herzegovina.

The **Structured Dialogue on Justice** has been refocused in July following an agreement reached with state and entities' authorities in order to specifically address the outstanding institutional issues related to the functioning of the judiciary. In September at a ministerial meeting in the framework of the Structured Dialogue relevant representatives of executive authorities reiterated their commitment to develop jointly key features of the reform of the judiciary,

As regards the **Common Foreign and Security Policy (CFSP)**, Bosnia and Herzegovina aligned itself, when invited, with 18 out of 29 relevant EU declarations and Council decisions (62% 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. A Framework Agreement on the participation of Bosnia and Herzegovina in EU crisis management operations was signed in September.

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. 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.

The EUFOR *Althea* military operation deployed with over 600 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 in line with the strategic intent expressed by the BiH defence leadership to develop operational capabilities of dual use in support of civil authorities for removing physical remnants of war or disaster relief and deployment in peace support operations overseas. At the same time, EUFOR retained deterrence capacity to support a safe and secure environment. The UN Security Council has extended EUFOR's mandate until November 2015.

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, including with regard to corruption. A Senior Official meeting in the framework of the Post-Visa Liberalisation Monitoring Mechanism was held in Sarajevo in November 2014. The monitoring activities also include 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 Council. The latest report was issued in April 2015. A **readmission agreement** between the European Union and Bosnia and Herzegovina has been in force since 2008.

The EU Delegation to Bosnia and Herzegovina is responsible for implementing **financial assistance** as well as ensuring coordination of assistance with the Member States. The country's authorities have yet to establish the structure necessary for indirect management of EU funds. Implementation of the 2008-13 national IPA programmes continued. A new framework programme under IPA II, covering for 2014-2017 period and providing for some €160 million as well as over €40 million for further flood recovery measures was adopted in December 2014 and ratified by Bosnia and Herzegovina in August. In the absence of

countrywide strategies in many sectors, the 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.

Bosnia and Herzegovina participates in the following **EU programmes**: Horizon 2020, Creative Europe (which brings together the former Culture and MEDIA programmes), Fiscalis 2020 and Customs 2020. The country is in the last phase of joining the Europe for Citizens programme. Bosnia and Herzegovina also expressed interest in becoming a member of COSME programme and activities are ongoing regarding the conclusion of the international agreement with the view of joining the programme as of 2015.

Annex II – Statistical Annex

STATISTICAL DATA (as of 7.09.2015)

Bosnia and Herzegovina

Basic data	Note	2002	2010	2011	2012	2013	2014
Population (thousand)	1)	3 828e	3 843e	3 840e	3 836e	3 832e	3 827e
Total area of the country (km ²)		51 209	51 209	51 209	51 209	51 209	51 209

National accounts	Note	2002	2010	2011	2012	2013	2014
Gross domestic product (GDP) (million national currency)		13 982	24 879	25 772	25 734	26 743	27 259
Gross domestic product (GDP) (million euro)		7 149	12 720	13 177	13 158	13 674	13 937
GDP (euro per capita)		1 868	3 310	3 432	3 430	3 569	3 641
GDP (in Purchasing Power Standards (PPS) per capita)		:	7 000e	7 300e	7 500	7 700	7 800
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)	2)	:	27	28	28	29	28
Real GDP growth rate: change on previous year of GDP volume (%)		5.0	0.8	1.0	-1.2	2.5	1.1
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		:	8.2	8.1	7.7	8.0	7.1
Industry (%)		:	21.5	21.5	21.1	21.6	21.3
Construction (%)		:	5.2	4.9	4.9	4.5	4.7
Services (%)		:	65.1	65.6	66.8	65.9	66.9
Final consumption expenditure, as a share of GDP (%)	3)	:	105.6	105.1	104.9	102.8	:
Gross fixed capital formation, as a share of GDP (%)	3)	:	16.6	17.9	17.5	16.8	:
Changes in inventories, as a share of GDP (%)	3)	:	-1.0	0.2	0.5	0.2	:
Exports of goods and services, relative to GDP (%)	3)	:	28.0	29.9	29.1	30.0	:
Imports of goods and services, relative to GDP (%)	3)	:	49.1	53.2	52.0	49.8	:

Business	Note	2002	2010	2011	2012	2013	2014
Industrial production volume index (2010 = 100)	4)	:	100.0	102.4	98.4	103.4	103.6
Number of active enterprises (number)		:	:	:	:	:	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	:	:	:	:	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	:	:	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)	5)	:	:	:	66.4	66.0	:
Value added by SMEs (in the non-financial business economy) (EUR million)	5)	:	:	:	3 715	3 513	:
Total value added (in the non-financial business economy) (EUR million)	5)	:	:	:	6 023	5 847	:

Inflation rate	Note	2002	2010	2011	2012	2013	2014
Consumer price index (CPI), change relative to the previous year (%)	6)	0.4	2.1b	3.7	2.0	-0.2s	:

Balance of payments	Note	2002	2010	2011	2012	2013	2014
Balance of payments: current account total (million euro)	7)	-1 253	-783	-1 270	-1 168	-773	-1 057
Balance of payments current account: trade balance (million euro)	7)	-3 524	-3 797	-4 131	-4 091	-3 741	-4 142
Balance of payments current account: net services (million euro)	7)	232	998	944	921	923	932
Balance of payments current account: net income (million euro)	7)	540	211	108	122	169	160
Balance of payments current account: net current transfers (million euro)	7)	1 500	1 805	1 810	1 881	1 876	1 993
of which government transfers (million euro)	7)	347	76	45	55	62	81
**3 year backward moving average of the current account balance relative to GDP (%)	7)	-12.5	-8.9	-7.4	-8.2	-8.1	-7.4
Net inward foreign direct investment (FDI) (million euro)	7)	282.0	272.2	344.6	260.3	224.7	422.4
Foreign direct investment (FDI) abroad (million euro)	7)	0.0	58.8	-4.1	1.1	16.3	-3.4
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	7)	282.0	331.0	340.4	261.4	241.0	418.9
of which FDI of the EU-28 countries in the reporting economy (million euro)		:	147.7	196.5	157.3	146.7	:
**Net international investment position, relative to GDP (%)	7)	:	-57.7	-59.5	-61.6	-56.9	:
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		:	:	:	:	:	:

Public finance	Note	2002	2010	2011	2012	2013	2014
***General government deficit / surplus, relative to GDP (%)		:	-2.5	-1.3	-2.0	-2.2	:
***General government gross debt relative to GDP (%)		:	:	:	:	:	:
Total government revenues, as a percentage of GDP (%)		:	43.7	44.1	44.5	43.4	:
Total government expenditure, as a percentage of GDP (%)		:	46.1	45.3	46.6	45.6	:

Financial indicators	Note	2002	2010	2011	2012	2013	2014
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)	1 538	3 017b	3 163	3 141	3 423	3 738
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	8)	2 593	6 968	7 372	7 624	8 229	8 830
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)	8)	2 189	7 436	7 828	8 151	8 388	8 635
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	10)	12.64	7.89	7.43	6.87	6.99	6.64
Deposit interest rate (one year), per annum (%)	11)	1.45	0.19	0.12	0.08	0.13	0.10
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)	:	100.0	100.4	99.6	97.8	98.1
Value of reserve assets (including gold) (million euro)	13)	1 270	3 302b	3 284	3 328	3 614	4 001

External trade in goods	Note	2002	2010	2011	2012	2013	2014
Value of imports: all goods, all partners (million euro)		:	6 962	7 938	7 799	7 756	8 283
Value of exports: all goods, all partners (million euro)		:	3 628	4 204	4 018	4 285	4 440
Trade balance: all goods, all partners (million euro)		:	-3 334	-3 734	-3 781	-3 472	-3 843
Terms of trade (export price index / import price index * 100) (number)	14)	:	100	99p	97p	98p	100p
Share of exports to EU-28 countries in value of total exports (%)		:	69.5	70.3	72.7	73.5	72.1
Share of imports from EU-28 countries in value of total imports (%)		:	61.0	59.7	61.4	60.0	58.9

Demography	Note	2002	2010	2011	2012	2013	2014
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		1.4	-0.4	-0.8	-0.9	-1.3	-1.5p
Infant mortality rate deaths of children under one year of age (per thousand live births)		9.4	6.4	5.8	5.4	5.9	4.8p
Life expectancy at birth: male (years)		71.3e	72.4e	73.7e	73.7e	73.7e	73.7e
Life expectancy at birth: female (years)		76.7e	77.7e	78.8e	78.8e	78.8e	78.8e

Labour market	Note	2002	2010	2011	2012	2013	2014
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	58.4	58.3	58.7	58.7	59.2
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	42.8	42.5	42.5	42.8	43.2
Male employment rate for persons aged 20–64 (%)		:	54.6	53.7	54.2	53.3	54.6
Female employment rate for persons aged 20–64 (%)		:	31.2	31.4	31.1	32.2	31.9
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		:	26.8	27.0	27.2	27.7	28.5
Employment by main sectors							
Agriculture, forestry and fisheries (%)	15)	:	:	:	20.6	18.9	17.1
Industry (%)	15)	:	:	:	21.5	22.2	22.1
Construction (%)	15)	:	:	:	8.9	7.7	7.9
Services (%)	15)	:	:	:	48.9	51.0	52.7
People employed in the public sector as a share of total employment, persons aged 20–64 (%)	16)	:	31.3	32.5	30.0	32.7	31.9
People employed in the private sector as a share of total employment, persons aged 20–64 (%)	16)	:	63.5	62.1	65.3	62.5	63.1
Unemployment rate: proportion of the labour force that is unemployed (%)	17)	41.1	27.3b	27.6	28.2	27.6	27.6
Male unemployment rate (%)		:	25.6	26.1	26.5	26.7	25.3
Female unemployment rate (%)		:	29.9	30.0	30.8	29.1	31.2
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		:	57.5	57.9	63.1	59.1	62.7
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		:	22.3	22.3	23.1	22.9	23.4
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)		:	28.2	29.1	26.8	28.0	31.6
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)		:	13.2	13.5	15.5	15.7	17.2

Social cohesion	Note	2002	2010	2011	2012	2013	2014
Average nominal monthly wages and salaries (national currency)	18)	446	798	816	826	827	830
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		:	:	:	:	:	:
GINI coefficient — see definitions		:	:	:	:	:	:
Poverty gap		:	:	:	:	:	:
*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 (%)		:	31.8	29.9	30.3	25.9	25.2

Standard of living	Note	2002	2010	2011	2012	2013	2014
Number of passenger cars relative to population size (number per thousand population)		:	188.6e	191.4e	195.9e	202.6e	211.3e
Number of mobile phone subscriptions relative to population size (number per thousand population)		175.5e	784.3e	825.8e	873.2e	910.4e	920.7

Infrastructure	Note	2002	2010	2011	2012	2013	2014
Density of railway network (lines in operation per thousand km ²)		19.7	20.1	20.0	20.1	20.0	:
Length of motorways (kilometres)		:	35	35	48	50	:

Innovation and research	Note	2002	2010	2011	2012	2013	2014
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		:	:	:	0.27	0.33	:
Percentage of households who have internet access at home (%)		:	:	29.8	:	:	:

Environment	Note	2002	2010	2011	2012	2013	2014
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2005 constant prices)		:	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	:	:	:	:	:
Road share of inland freight transport (based on tonne-km) (%)		:	62.0	64.0	65.9	68.1	70.3

Energy	Note	2002	2010	2011	2012	2013	2014
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)		:	3 476	4 086	3 933b	3 515	:
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)		:	17.1	15.3	14.1	17.5	:

Agriculture	Note	2002	2010	2011	2012	2013	2014
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		:	:	:	:	:	:
Utilised agricultural area (thousand hectares)	19)	1 697	1 649	1 675	1 680	1 670	1 652
Livestock numbers: live bovine animals (thousand heads, end of period)		:	462	455	446	447	444
Livestock numbers: live swine (thousand heads, end of period)	20)	:	581	577	539	530	533
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	1 110	1 086	1 070	1 089	1 099
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		:	693	688	674	688	686
Harvested crop production: cereals (including rice) (thousand tonnes)		1 309	1 104	1 119	906	1 224	1 081
Harvested crop production: sugar beet (thousand tonnes)		0	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)	21)	247	286	287	265	319	238

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

*** = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes:

- 1) Mid-year population.
- 2) Source: Eurostat.
- 3) GDP calculated by the expenditure approach is higher than GDP calculated by the production approach.
- 4) Gross index.
- 5) Excluding natural persons (entrepreneurs).
- 6) 2002: retail price index.
- 7) 2010–14: based on IMF balance of payments manual, sixth edition.
- 8) 2010–14: based on IMF monetary and financial statistics manual, 2000.
- 9) Data for MFIs. 2013: based on the Central Bank of Bosnia and Herzegovina's estimates for GDP (production approach) for 2013.
- 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) 2002: excluding gold.
- 14) Based on Paasche export and import unit value indices in BAM (2010 = 100).
- 15) The analysis of employment by sector does not sum to 100% because Section U is not included.
- 16) The analysis of employment between public and private sector does not sum to 100% as some types of ownership are excluded.
- 17) 2002: not calculated using the ILO methodology; taken from the Bureau for Employment; excluding data from Brčko District.
- 18) Net salary. 2002: excluding data from Brčko District.
- 19) The utilised agricultural area consists of arable land, kitchen garden, permanent crops and permanent grassland as cadastral data (not as UAA).
- 20) 2010–11: related to the Government Decision (all levels in Bosnia and Herzegovina) about repurchase of all quantities of pig meat on the market by large industrial processors.
- 21) 2002: including dried pulses.