



# Bosnia and Herzegovina Country Strategy 2022-2027

Approved by the Board of Directors on 6 April 2022



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## Glossary of Key Terms

<b>ABI</b>	Annual Bank Investment	<b>IMF</b>	International Monetary Fund
<b>ASB</b>	Advice for Small Businesses	<b>IPA</b>	Instrument for Pre-Accession Assistance
<b>ATQ</b>	Assessment of Transition Qualities	<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>BIH</b>	Bosnia and Herzegovina	<b>LCY</b>	Local currency
<b>CPI</b>	Consumer Price Index	<b>M&amp;S</b>	Manufacturing and Services
<b>E&amp;S</b>	Environmental and Social	<b>NDC</b>	Nationally Determined Contributions
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>NECP</b>	National Energy and Climate Plan
<b>EIA</b>	Environmental Impact Assessment	<b>NPL</b>	Non-Performing Loan
<b>ESG</b>	Environmental, Social and Governance	<b>ODA</b>	Official Development Assistance
<b>ESIA</b>	Environmental and Social Impact Assessment	<b>PFI</b>	Partner Financial Institution
<b>ESP</b>	Environmental and Social Policy	<b>PPP</b>	Public Private Partnership
<b>ETI</b>	Expected Transition Impact	<b>PTI</b>	Portfolio Transition Impact
<b>EU</b>	European Union	<b>RS</b>	Republika Srpska
<b>FBiH</b>	Federation of Bosnia and Herzegovina	<b>SIDA</b>	Swedish International Development Cooperation Agency
<b>FDI</b>	Foreign Direct Investment	<b>SME</b>	Small and Medium sized Enterprise
<b>FI</b>	Financial Institution	<b>SEE</b>	South-Eastern Europe
<b>GCAP</b>	Green Cities Action Plan	<b>SOE</b>	State Owned Enterprise
<b>GDP</b>	Gross Domestic Product	<b>TA</b>	Technical Assistance
<b>GEFF</b>	Green Economy Financing Facility	<b>TC</b>	Technical Cooperation
<b>GET</b>	Green Economy Transition	<b>TFP</b>	Trade Facilitation Programme
<b>GHG</b>	Greenhouse gas	<b>TMT</b>	Telecommunications, Media and Technology
<b>H&amp;S</b>	Health and Safety	<b>TPES</b>	Total primary energy supply
<b>HPP</b>	Hydro Power Plant	<b>TPP</b>	Thermal Power Plant
<b>ICA</b>	Industry, Commerce and Agribusiness	<b>WDI</b>	World Development Indicators
<b>ICT</b>	Information and Communications Technology	<b>WEF</b>	World Economic Forum
<b>IEA</b>	International Energy Agency	<b>WEO</b>	World Economic Outlook
<b>IFI</b>	International Financial Institutions	<b>WB</b>	World Bank
<b>IFRS</b>	International Financial Reporting Standards	<b>WBIF</b>	Western Balkans Investment Framework
<b>ILO</b>	International Labour Organisation	<b>WB-5</b>	Western Balkans five (countries)
		<b>WiB</b>	Women in Business programme

Bosnia and Herzegovina's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, although the intricacies of the country's constitutional setup adversely affects the functioning of its democratically elected institutions, as well as civil and political rights of the citizens.

A small Western Balkans economy, Bosnia and Herzegovina is institutionally and economically fragmented, without a common economic space. Over the past decade, GDP growth averaged around 2 per cent, primarily led by domestic consumption, however, falling behind the growth rate of countries at a similar level of development. The country has a relatively strong manufacturing base, but economic activity is largely reliant on the service sector (56 per cent of GDP in 2020). The economy is burdened by an oversized and often inefficient public sector, lack of level playing field between the public and private sector and the lack of single economic space. The country's currency board arrangement, together with prudent fiscal policy, has provided a credible anchor for the stability of the financial system and has helped to maintain low inflation.

Economic growth was already decelerating when the Covid-19 crisis hit the country, causing a 3.2 per cent contraction in 2020. The tourism sector was most severely affected, however manufacturing also declined drastically, while the economy experienced deflation. Recovery is underway, but the environment remains challenging, especially if commodity prices continue increasing. The country needs investments and reforms to entrench recovery, avoid transition backsliding and enhance growth potential.

Bosnia faces material transition gaps in all qualities, obstructing the economy's growth and sustainable income convergence. Legal and administrative complexity and corruption create significant obstacles for doing business in the country, while large and inefficient SOEs impede productivity. The restructuring and privatization of SOEs has stalled and significant reforms have been delayed. While SMEs provide 70 per cent of employment and created 65 per cent of value added, their integration in global value chains is low and they are less competitive than regional peers. FDI inflow remains low and the stock of FDI is one of the lowest in the region. Skills mismatches and emigration are a prominent feature of the labour market, while digital awareness and IT skills need development to support greater competitiveness. The energy sector is dependent on coal and needs urgent attention to address significant air pollution and embark on a well-managed just transition to ensure that the economy is not hit by significant and rising social and economic costs.

EBRD is well placed to support Bosnia and Herzegovina's recovery and help address its outstanding transition challenges in line with reform efforts of the authorities. The Bank aims to strengthen the competitiveness and digital readiness of the private sector, stimulate inclusion and skills upgrades and promote green and sustainable growth models. The EBRD will also continue its support for regional transport connectivity, green municipal infrastructure and the country's overall low carbon transition, including decarbonisation of the energy sector and its transition from coal to cleaner energy sources. Financing efforts will be extended to accelerate structural reforms and provide policy support to reduce transition gaps in governance, inclusion and integration. The Bank will maintain close cooperation with other IFIs and donors, whose co-financing and support are key to successful delivery of the strategy.

The Bank will pursue the following strategic priorities in Bosnia and Herzegovina in 2022-2027:

- i. *Strengthen the private sector role, including through upgrade of skills and digitalisation*
- ii. *Close key infrastructure gaps pursuing governance improvements and further regional integration*
- iii. *Support energy diversification away from coal and promote low carbon transition*

# Bosnia and Herzegovina - EBRD Snapshot

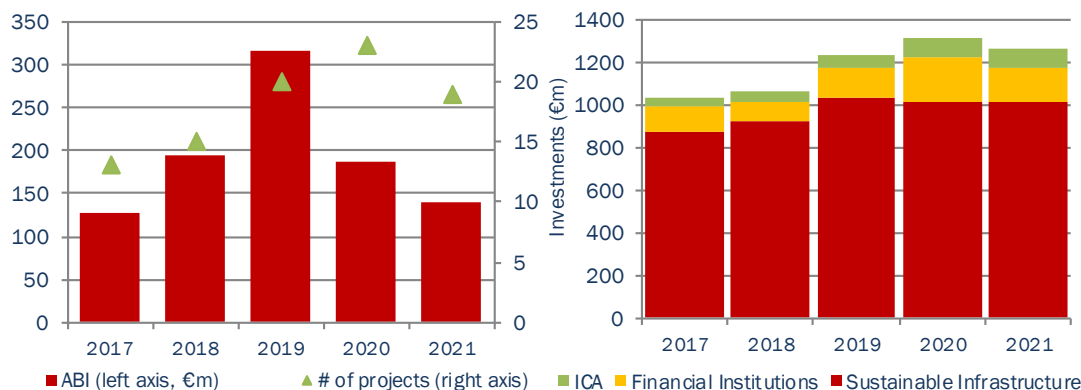


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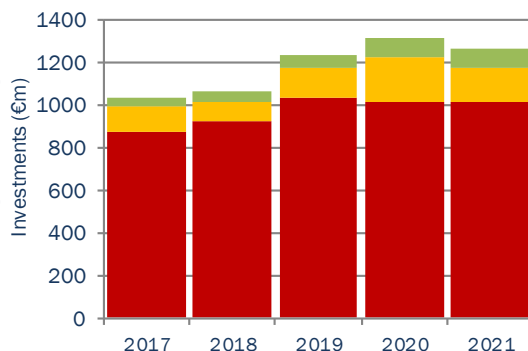
## EBRD Investment Activities (as of February 2022)

Portfolio	€1,247m	Active projects	94
Equity share	3%	Operating assets	€726m
Private sector share <sup>1</sup>	34%	Net cum. investment	€2,833m

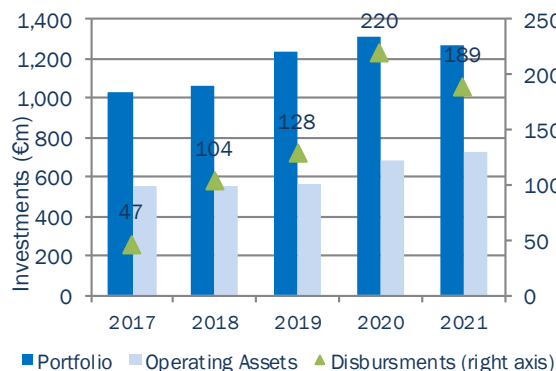
## ABI and Operations



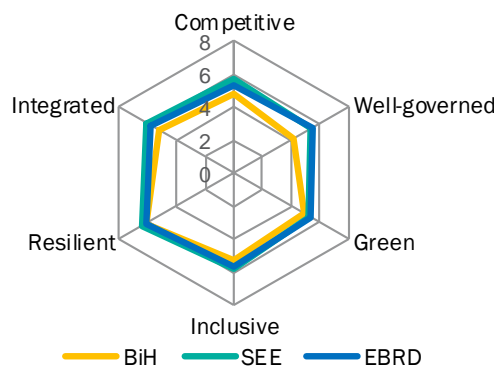
## Portfolio Composition



## Portfolio Dynamics



## Transition Gaps<sup>2</sup>



## Bosnia and Herzegovina Context Figures

	BIH	Comparators
Population (million) <sup>3</sup> (2020)	3.3	Montenegro (0.6) North Macedonia (2.1) Serbia (6.9)
GDP per capita (PPP, USD) <sup>3</sup> (2020)	15,231	Montenegro (19,305) North Macedonia (16,770) Serbia (19,168)
Global Competitiveness Index (WEF) (2019)	92 <sup>nd</sup> (out of 141)	Montenegro (73) North Macedonia (82) Serbia (72)
Unemployment (%) <sup>4</sup> (2020)	15.9	Montenegro (17.9) North Macedonia (17.2) Serbia (9)
Youth unemployment (%) <sup>4</sup> (2020)	36.6	Montenegro (36) North Macedonia (37) Serbia (26.6)
Female labour force participation (%) <sup>4</sup> (2020)	36.7	Montenegro (46.4) North Macedonia (41.8) Serbia (46.5)
Energy intensity (TES/GDP) <sup>5</sup> (2019)	0.4	Montenegro (0.2) North Macedonia (0.3) Serbia (0.3)
Emission intensity/GDP (kgCO2/2015 \$) (2020) <sup>5</sup>	1.2	Montenegro (0.6 as of 2019) North Macedonia (0.7) Serbia (1.0)

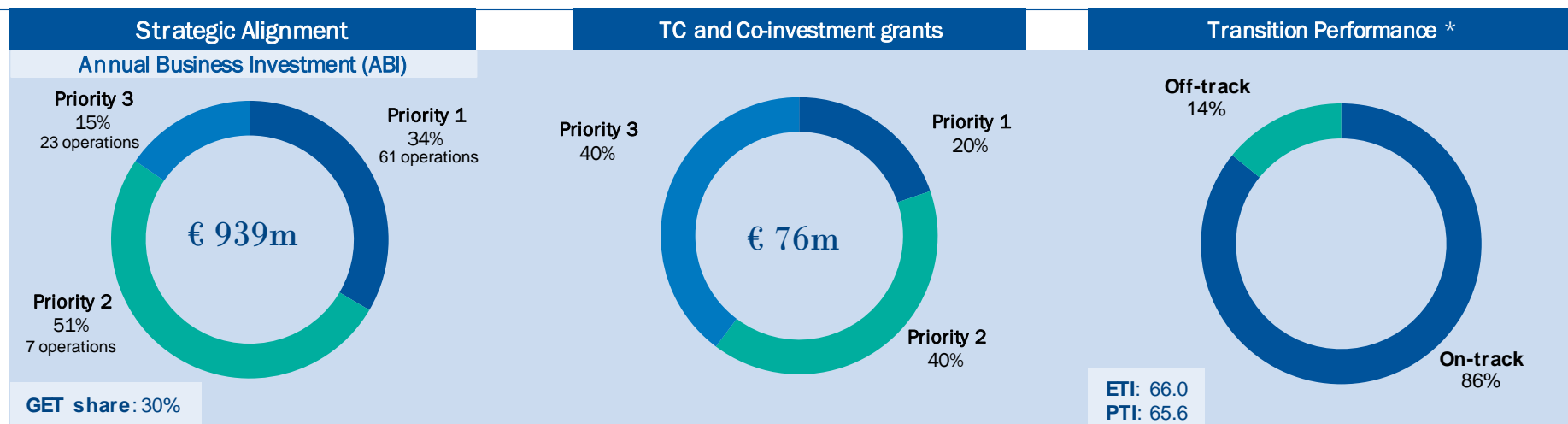
<sup>1</sup> Cumulative Bank Investment: 5 year rolling basis on portfolio. <sup>2</sup> Cf. EBRD Transition Report 2021-2022. <sup>3</sup> IMF WEO. <sup>4</sup> National authorities and International Labour Organisation estimate. <sup>5</sup> IEA's Energy Atlas.

# 1. Implementation of Previous Strategy (2017-2021)

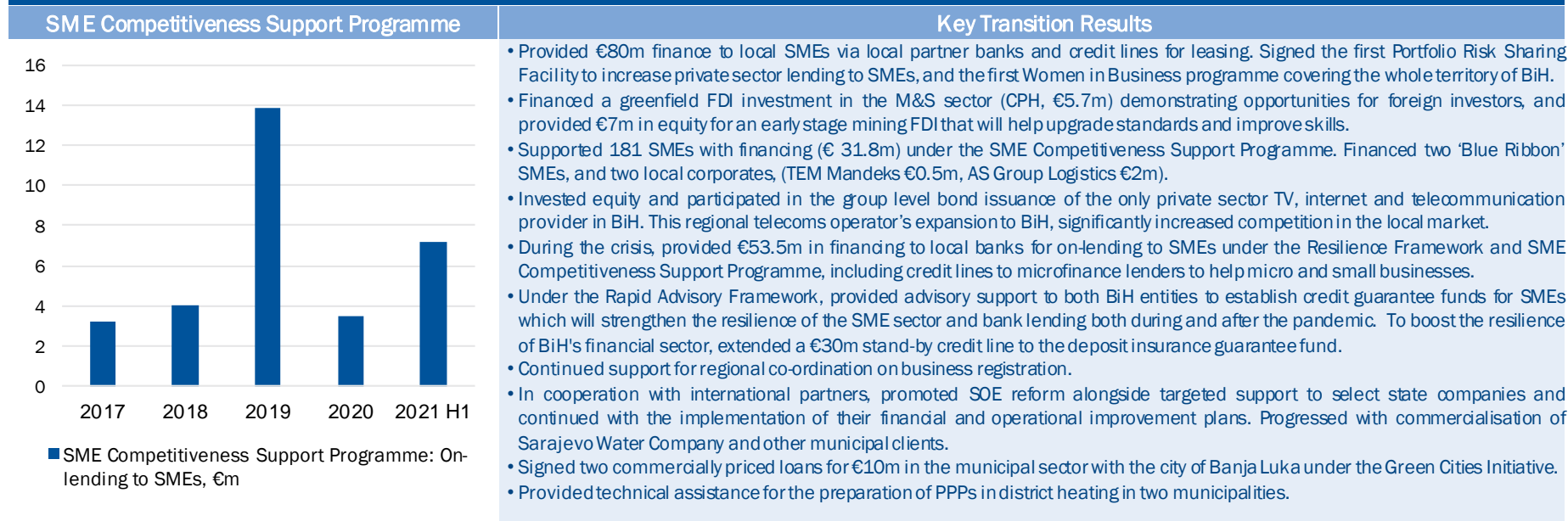


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## 1.1. Key Transition Results



**Priority 1: Enable capacity-building and scaling up of the private sector, while promoting commercialisation of public utilities, and supporting privatisation of viable state-owned enterprises to enhance competitiveness**



\* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

PUBLIC



# 1. Implementation of Previous Strategy (2017-2021)



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## 1.1. Key Transition Results

**Priority 2: Support development of key transport and energy cross-border links with a view to promote integration with the region while enhancing resilience of the economy**

Corridor Vc	Key Transition Results			
	<ul style="list-style-type: none"> <li>As part of our commitment to Corridor Vc, the flagship European transport corridor that will significantly enhance connectivity in BiH, signed new loans for a total of €460m, and continued providing implementation support. Worked on new potential transactions for final sections of Corridor Vc, involving local banks in financing for the first time. Disbursements amounted to €117m in 2020 and €78.6m in 2021 alone, and continue to grow, demonstrating significant progress despite the pandemic.</li> <li>Advanced implementation of the climate resilient FBiH Roads project, which will upgrade and modernise trunk roads.</li> <li>Completed ESIA for Southern Gas Interconnector (BiH to Croatia), with follow-on discussions with stakeholders to support BiH in improving energy security, air quality and advancing on its decarbonisation path.</li> <li>Extended policy dialogue to the Government on decarbonisation and energy sector reform.</li> <li>Launched Gender in Construction Programme with two state-owned motorway companies, including Gender Action Plans.</li> </ul>			
	BH Corridor Vc 2 in FBiH (2015)	Corridor Vc in RS - Part 1 (2017)	Corridor Vc in FBiH - Part 3 (2018)	Corridor Vc – Doboj bypass (2019)
	*Integrated Well governed  Fuel levy increase; Procurement certification (CIPS); Road Safety Standards;	Integrated Well governed  Fuel levy increase; Procurement (CIPS) and ISO 9001 / ISO 14001 certification	Integrated Inclusive  Promotion of inclusive procurement practices; skills and training opportunities for young people	Integrated Resilient  Improvement of planning and execution of maintenance activities

**Priority 3: Support energy efficiency and renewable energy generation, while helping municipalities upgrade quality of services to promote Green Economy**

Green Economy Transition	Key Transition Results	
	<ul style="list-style-type: none"> <li>Three BiH cities joined the Bank's Green City Initiative. GCAPs fully approved in the city of Zenica, Banja Luka and Sarajevo; Mostar and Brcko District expressed interest in preparation of GCAP. Prepared two projects for Energy Efficiency in Public Buildings under the Green Cities Initiative.</li> <li>Invested €18m into the modernisation of an existing industrial combined heat power plant substituting the use of coal and providing reliable and cleaner district heating to the adjacent City of Zenica.</li> <li>Continued support to a private client to successfully implement renewable District Heating services in Banja Luka.</li> <li>Continued implementation of power distribution and system operation investments in the electricity sector to reduce losses and strengthen grid management.</li> <li>Provided €13m through GEFF facilities for residential energy efficiency improvements.</li> <li>Signed a landmark hospital energy efficiency project for €10m in Zenica, including a gasification component.</li> <li>Provided €45m in financing for three separate investments into greener, more efficient public transport in Sarajevo Canton.</li> <li>Strengthened energy efficiency regulations and standards through the Regional Energy Efficiency Programme, ten policy deliverables were completed in total in both entities, and the formal adoption of the secondary legislation is pending broader legislative reforms which are imminent.</li> <li>Signed €10m investment in two loans for the improvement of sustainable water services in Banja Luka, this being also the first commercial loan in the municipal sector.</li> </ul>	

\* Before change to new Transition Qualities

# 1. Implementation of Previous Strategy (2017-2021)



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## 1.2. Implementation Challenges and Key Lessons

### Context for Implementation

The country continues to face unique challenges in terms of its institutional and economic fragmentation, thus making decision-making slow and sub-optimal, and hindering necessary structural reforms. Consequently, economic growth has been stable but below that of regional comparators. During the strategy period there has been little progress in the areas identified by the EU to address for the status of EU candidate country. The state's footprint remains large in the economy, with insufficient progress on depoliticising, reforming, commercialising or restructuring SOEs. Since the start of operations, the EBRD has invested over €2.75bn in 189 private and public sector projects, delivering high transition impact through capacity-building and scaling up of the private sector, developing key transport and energy infrastructure and supporting energy efficiency improvements, while helping municipalities' provision of key services. Donor support has been instrumental for enabling the Bank's delivery along its strategic objectives, particularly for municipal infrastructure projects and credit lines supporting standards and SME competitiveness.

### Implementation Challenges

- No serious progress on key reforms, including towards EU candidacy status, as a result of the general political stalemate in the country, as well as significant delay in the formation of the government during the strategy period
- Large infrastructure financing needs combined with low efficiency and low implementation capacity of SOEs, including municipal companies who are in charge of most public services
- No significant progress on privatisations, improving the business environment or creating a single market, which could attract FDI or increase private investment
- No progress on renewable energy regulatory reforms which would open the market for private investors

### Key Lessons & Way Forward

- Continued co-ordination of activities with EU, IFIs and donors.
- Focus on project specific governance reforms in the public sector (transport, municipal infrastructure) and capacity building
- Promotion of state and entity level SOE reform and corporate governance improvements where opportunities arise, and alongside the EU, IMF, IFIs and donors
- Provide clients implementation support for key infrastructure projects
- Support small pockets of reform efforts and regional economic cooperation
- Focus on private sector green initiatives and energy efficiency
- Large challenges in the energy sector require multiple policy approaches, e.g. advocacy for comprehensive sector reform, Just Transition, increased energy efficiency and decarbonisation

## 2. Economic Context

### 2.1 . Macroeconomic Context and Outlook for Strategy Period



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#### Bosnia and Herzegovina - Main macroeconomic indicators

	2016	2017	2018	2019	2020
GDP growth (% y-o-y)	3.1	3.2	3.7	2.8	-3.2
CPI inflation (% avg.)	-1.1	1.2	1.4	0.6	-1.1
Government balance (% of GDP)	0.3	1.8	1.7	1.4	-4.1
Current account balance (% of GDP)	-4.8	-4.8	-3.3	-2.8	-3.8
Net FDI (% of GDP) [neg. sign = inflow]	-1.8	-2.3	-2.9	-1.5	-1.7
External debt (% of GDP)	63.8	72.0	64.4	64.3	69.5
Gross reserves (% of GDP)	31.9	33.6	34.8	35.7	40.5
General government gross debt (% of GDP)	44.1	39.2	34.3	32.5	36.7
Unemployment (% pop)	25.4	20.5	18.4	15.7	15.9
Nominal GDP (\$bn)	16.9	18.1	20.2	20.2	19.8

Source: National authorities, IMF and EBRD calculations

- **Relatively slow growth over the past decade was led by domestic demand.** Over the period of 2010-2019, real GDP grew at around 2 per cent annually driven by consumption and investment. Net exports affected the growth only marginally positively as the positive contribution of exports was largely neutralised by imports growth.
- **After a recession in 2020, economic activity is recovering.** The economy contracted by 3.2 per cent in 2020 on the back of falling exports, consumption and investment. The tourism sector was severely affected, while the manufacturing output fell by 4.4 per cent. The economy returned to growth in 2021, on the back of strong recovery in external markets and expansion of domestic private consumption. In the first three quarters of 2021, industrial output and goods exports increased strongly and tourism sector was also doing significantly better. Still, the number of overnight stays remains significantly below the level in 2019. Inflation pressures increased in 2021 on the back of elevated energy and food prices.
- **Public debt is at a moderate level.** As a consequence of increased financing needs of the governments to respond to the crisis, public debt rose to around 37 per cent of GDP at the end of 2020. The talks between the country's authorities and the IMF on a three-year Extended Fund Facility worth €750 million failed in December 2020. Discussions about a new program have not restarted.
- **A recovery is underway.** GDP is forecast to grow by 4.5 per cent in 2021, followed by a 3.0 per cent in 2022 (EBRD REP, November 2021). Main risks to the outlook are connected to the rising commodity prices, potential slowdown in the main economic partners and increasingly volatile external environment. Lack of impetus to undertake structural reforms and increase investor confidence dampens the longer term growth prospects.



# ATQs in detail (1)

## Key Transition Challenges



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### Competitive (4.8)

- Weakest quality of the business and regulatory environment in the region. Complex institutional and regulatory framework is burdensome for companies.
- Labour productivity somewhat above the regional average but lagging behind new EU member states
- High emigration depleting human capital
- Large informal economy
- More economically complex than an average WB economy, but significantly less than the new EU member states
- At an early stage of knowledge economy development

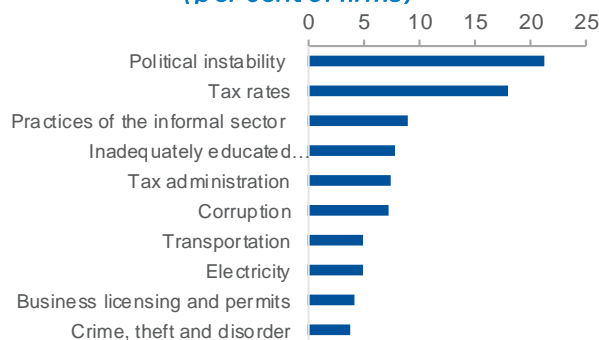
### Well-governed (4.1)

- Scores below the WB-5 average on all six World Bank world governance indicators, lagging behind the most on government effectiveness
- Convoluted institutional setting aggravated by low public administration capacity
- Rule of law and judiciary weaknesses
- High perception of corruption and weak progress in anticorruption fight
- Public procurement characterised by complex procedures which facilitate corruption and preference for domestic suppliers
- Corporate governance framework is weak, especially for SOEs which are often not sufficiently transparent, fiscally sustainable or efficient

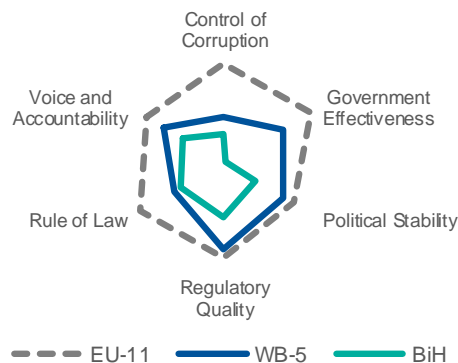
### Green (5.0)

- Prevalence of coal: majority of the country's electricity and significant share of heating coming from antiquated coal-fired power plants and combined heat and power plants, some of which are expected to close in the next few years
- Air pollution as a serious problem
- High reliance on hydro within the renewables sector; ample wind and solar potential
- Highest energy intensity in the region, four times the EU average
- Lacks an adequate waste management system
- Climate change risks: floods

**Biggest obstacles to doing business  
(per cent of firms)**



**Governance indicators**



**Energy intensity 2019\*  
(kgoe per EUR 1,000 of GDP)**



\* Except for Montenegro (2018) and Albania (2017)

# ATQs in detail (2)

## Key Transition Challenges

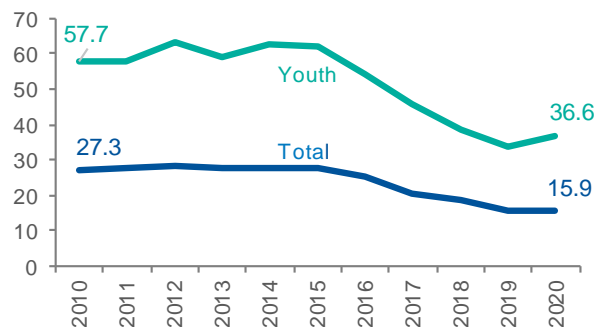


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### Inclusive (5.3)

- High unemployment rate, especially for youth, skills mismatches, and lack of good job opportunities contributing to significant emigration and brain drain
- Low labour force participation rate with a prominent gap between male and female participation; more than half of females are economically inactive
- One of the lowest female employment rates in the Balkans, with less than one in three women being employed (vs around one half of men)
- Undeclared work at around one third of total
- Informal employment affecting mostly people in rural areas, less educated, older individuals

Unemployment rate  
(per cent)



Source: National authorities

### Resilient (6.1)

- Well-capitalised banking sector, with the NPL ratio at 5.5 per cent in Q3 2021
- Microfinance institutions present as well
- Under-developed capital markets; two stock exchanges but not an important funding source for companies
- Country so far unable to adopt and properly implement the requirements of the Third Energy Package at the state level for both gas and electricity
- Two parallel gas markets
- Electricity generation in HPPs fluctuating with hydrological conditions

Electricity sector reform implementation  
(%)

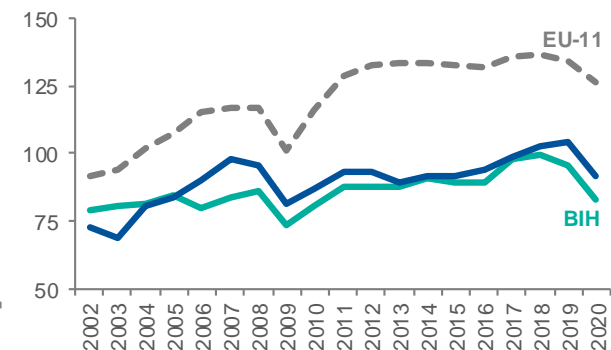


Source: Energy Community (as of November 2021)

### Integrated (5.3)

- Increasing trade openness, but still below the regional average
- One of the lowest FDI stocks in the region, with one half of FDI going into financial services, telecommunications and trade
- Inadequate transport infrastructure; ranks low on road connectivity and non-road transport infrastructure
- Performing marginally better than an average WB-5 country on cost of trading across borders
- Electricity network: still high distribution losses
- ICT performance (internet users, 3G coverage) broadly comparable to other WB and EU-11 countries

Trade openness  
(per cent of GDP)



Source: WB WDI

# 3. Government Priorities and Stakeholder Engagement

## 3.1. Government Reform Priorities

The country applied for EU membership in 2016 and aims to fulfil the 14 key priorities necessary for opening the EU accession negotiations. The process identifies a comprehensive roadmap for deep reforms in the areas of democracy/functionality, the rule of law, fundamental rights and public administration reform.

The Economic Reform Programme 2020-2022 outlines the following medium-term objectives:

**Fiscal stability** – strengthening fiscal stability and its sustainability as the main factor of overall macroeconomic stability.

**Reform of public enterprises** – de-politicisation, increased sustainability and efficiency of public enterprises, reform of public administration through digitalisation.

**Tax reforms** – reducing the tax burden on labour, lowering the contribution rate, extending the taxable income base, and shifting the tax burden to higher income taxpayers. Improvement of the tax system's administrative and institutional framework to reduce tax evasion.

**Grey economy** – increasing supervision and stronger taxpayers' control to reduce the unfair competition from the grey economy, and enforcing stronger tax discipline.

**Energy and transport market reform** – adopting the necessary legislative framework, harmonised with EU Directives, for the development of a retail and wholesale energy market and its inclusion in the regional and international markets. Fulfilment of obligations assumed under the SEE Energy Community Treaty.

**Agriculture** – improving the sustainability and competitiveness of agricultural production, and enhancing the institutional systems and capacities to harmonise the legal framework in the field of agriculture and rural development.

**Business environment** – developing a quality infrastructure system, including domestic conformity assessment bodies, to grow the internal market of BiH, and strengthen the competitiveness of export-oriented companies, as well as pursue an overall improvement of the business environment.

**Health System Reform** – establishing a fiscally viable system that will enable a more efficient provision of health care services.

**Research, Development, Innovation and the Digital Economy** – putting science and technology in the forefront of economic recovery, supporting the private sector's expansion of innovative capacities, and competitiveness of enterprises.

**Education and skills** – reforming the education system to increase its links with the labour market. Promoting vocational training, higher education, and inclusion in the labour market, as well as the development of key competences for lifelong learning at all levels of education with a focus on entrepreneurial and digital competence.

## 3.2. Reform Areas Broadly Agreed with Authorities

- Promote digitalization as key enabler for private sector development and efficiency gains in the banking sector.
- Focus on increasing opportunities for youth to counter emigration.
- Promote and support FDI into the Bosnian economy and help the development of a business friendly environment.
- Finance infrastructure projects and improve SOEs' efficiency, including through the mobilization of private sector investments.
- Support municipal infrastructure projects in the field of wastewater and waste management.
- Support BiH's transition towards a greener economy, including through investments in energy efficiency as well as increasing the share of renewable energy sources.

## 3.3. Key Messages from Civil Society to EBRD

- CSOs endorsed the Bank's BiH strategy priority of strengthening the private sector role, including through upgrade of skills and digitalisation. In particular, CSOs consider that EBRD should support digitalisation targeted at both SMEs and digital skills literacy for the population at large. In addition, economic and social inclusion, especially of young people, is key to the country's development.
- Civil society representatives further endorsed the Bank's focus on supporting key public infrastructure investments, including through governance improvements. According to CSOs, the EBRD should pay particular attention to issues related to governance and corruption and take into account the political instability in BiH.
- Civil society organisations moreover welcomed the Bank's support for energy diversification away from coal and low carbon transition. They highlighted that energy poverty is an area of concern that the Bank could address more. CSOs would also like to see support for Just Transition and investments in green infrastructure.

# 4. Defining EBRD Country Strategy Priorities

What needs to change ? (Country Diagnostic)	Can it be changed ? (Political Economy)	What can the Bank do ? (Institutional Capabilities)	Strategic Priorities (2022-2027)	What We Want to see (Key Objectives)
<ul style="list-style-type: none"> <li>No single economic space. High decentralisation with different business regulations and procedures across the two entities.</li> <li>Low SME productivity, including due to the lack of know-how and skills. Focus on basic digital technologies. Lack of awareness and IT skills.</li> <li>One of the most challenging labour market situations in the region, including high emigration and poor inclusion of women and youth.</li> <li>Limited forward and backward linkages. Focus on low value added activities in global value chains.</li> <li>Low efficiency of SOEs and weak capacity at local level.</li> <li>Large, inefficient SOEs with weak corporate governance due to complex and fragmented governance framework, inadequate responsibilities of the supervisory boards, and weak internal audit frameworks.</li> <li>Inadequate transport infrastructure; ranks low on road connectivity and non-road transport infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the rule of law and aligning laws and regulations to those in the EU is needed to facilitate the EU accession process.</li> <li>Increased awareness and better IT skills based on existing strengths could lead to enhanced digitalisation.</li> <li>Large and expanding diaspora may support know-how and skill transfers.</li> <li>Thanks to industrial heritage, the country has relatively strong manufacturing base.</li> <li>Weak financial performance of many SOEs could eventually be an impetus for SOE reform and governance improvements.</li> <li>Satisfaction with public services and transport infrastructure is low, supporting reforms linked to infrastructure improvements needed to align with EU transport acquis.</li> <li>Completion of Corridor Vc motorway continues to be top local and regional transport priority.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on supporting the private sector directly or indirectly through the combination of investment, policy engagement to enhance the environment for business and technical assistance, including finance and advice for SMEs.</li> <li>Support for the access to skills and employment.</li> <li>Comprehensive approach to strengthening digital transition.</li> <li>Extensive experience with support for privatisations and SOEs reforms, including corporate governance improvements and public procurement reform.</li> <li>Focus on regional integration</li> <li>Close cooperation with the EU and other IFI on reform agenda, governance reforms and infrastructure investments.</li> </ul>	<p><b>Strengthen the private sector role, including through upgrade of skills and digitalisation</b></p>	<ul style="list-style-type: none"> <li>Enhance private sector competitiveness and access to finance, including support for digitalisation and adoption of improved products and processes</li> <li>Improve business skills, standards and business sophistication; Enhance vocational, digital and green skills development and equal opportunities</li> <li>Support business and capital markets environment, FDI investment and integration of local companies into value chains</li> </ul>
<ul style="list-style-type: none"> <li>Highest energy intensity in the region, four times the EU average.</li> <li>Around 60 per cent of electricity is generated from coal (lignite). High level of air pollution.</li> <li>No bankable market-based support mechanism for new renewable projects.</li> <li>Significant climate change vulnerabilities and high risk of flooding.</li> </ul>	<ul style="list-style-type: none"> <li>EU and Energy Community Treaty obligations require changes to the energy system</li> <li>Potential carbon border tax adjustment could significantly hurt industry and manufacturing sector</li> <li>Adopted an updated enhanced NDC; need to deliver comprehensive and Paris-aligned NECP and Just Transition approach, that also addresses socio-economic risks.</li> </ul>	<ul style="list-style-type: none"> <li>Systematic and innovative approach to identifying and investing in sustainable (municipal) infrastructure (Green Cities).</li> <li>Support for the transition to a green, low carbon and climate resilient economy and NECP implementation through the new GET Approach.</li> <li>Emphasis on a reduction in energy intensity and the level of carbon emissions while managing adjustment costs (Just Transition).</li> </ul>	<p><b>Close key infrastructure gaps pursuing governance improvements and further regional integration</b></p>	<ul style="list-style-type: none"> <li>Strengthen corporate and economic governance practices; increase efficiency of SOE including at local level; enhance legal, regulatory and institutional frameworks</li> <li>Improve quality and connectivity of key infrastructure for economic efficiency</li> </ul>
			<p><b>Support energy diversification away from coal and promote low carbon transition</b></p>	<ul style="list-style-type: none"> <li>Increase energy and resource efficiency</li> <li>Reduce GHG emissions, promote climate resilience the gradual energy transition; reinforce networks to promote energy resilience</li> </ul>

# 5. Activities and Results Framework



**European Bank**  
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## Priority 1: Strengthen the private sector role, including through upgrade of skills and digitalisation

Key Objectives	Activities	Tracking Indicators (Outcomes)
Enhance private sector competitiveness and access to finance, including support for digitalisation and adoption of improved products and processes	<ul style="list-style-type: none"> <li>Finance private companies through funded and unfunded facilities, including risk sharing as well as directly across all sectors.</li> <li>Provide dedicated financing and advisory to support the economic inclusion of women and greater labour force participation. Promote entrepreneurship and skills upgrades including in digitalisation.</li> <li>Strengthen the competitiveness, automation, digital readiness and resilience to shocks of MSMEs through dedicated credit lines combined with targeted advisory services.</li> <li>Support PFIs and credit guarantee funds, including through technical assistance, to build a stable and accessible financial sector and unlock lending to the private sector. Promote digitalisation of the financial sector and anti-corruption efforts.</li> <li>Investigate potential for improvement of NPLs regulatory frameworks, and policy engagement with local regulators to work on resolution funds and related financial sector regulatory framework, and consider potential financing.</li> <li>Continue to explore activities and policies that enhance and harmonise the business environment, including regional initiatives that promote regional economic integration and business restructuring tools, and digitalization to help tackling informality and corruption.</li> </ul>	<ul style="list-style-type: none"> <li>Number of corporate and SME clients financed</li> <li>Number/volume of loans extended to MSMEs by partner financial institutions (including to target groups)</li> <li>Legal and regulatory improvements in the business environment (including regional initiatives and business tools)</li> </ul>
Improve business skills, standards and business sophistication; Enhance vocational, digital and green skills development and equal opportunities	<ul style="list-style-type: none"> <li>Continue providing financing and advisory services to improve business skills, standards and business sophistication. Increase awareness of digitalisation benefits.</li> <li>Engage in policy activities for improving human capital resilience and strengthening relevant Vocational Education and Training, including in target sectors such as tourism, metals and wood processing. Support increased opportunities for young people.</li> <li>Explore potential for establishing digital/green/vocational skills platforms.</li> <li>Explore means of enhancing female labour market participation through investments in the care economy.</li> </ul>	<ul style="list-style-type: none"> <li>Number of clients reporting increased exports and/or productivity</li> <li>Number of individuals in target group enhancing skills as a result of training</li> <li>Number of clients improving equal opportunity practices</li> </ul>
Support business and capital markets environment, FDI investment and integration of local companies into value chains	<ul style="list-style-type: none"> <li>Support potential FDI investments and more sophisticated investors using all available financing instruments.</li> <li>Explore potential for further capital markets / financial sector development, in particular bonds.</li> <li>Support integration into local markets. Support value chain deepening and backwards linkages to local and regional suppliers.</li> <li>Explore opportunities in urban regeneration and tourism support. Promote the efficiency of economic governance institutions, including through enhancing business inspections practices.</li> </ul>	<ul style="list-style-type: none"> <li>Legal or regulatory reform or enhanced practices (capital market development / financial sector, supervision, business inspections)</li> </ul>

**Impact Indicators:** Economic Complexity Index, Percentage difference in labour force participation rate of men and women

PUBLIC

Competitive



Inclusive





## 5. Activities and Results Framework



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### Priority 2: Close key infrastructure gaps pursuing governance improvements and further regional integration

Key Objectives	Activities	Tracking Indicators (Outcomes)
Strengthen corporate and economic governance practices; increase efficiency of SOE including at local level; enhance legal, regulatory and institutional frameworks	<ul style="list-style-type: none"> <li>Support commercialisation and restructuring of selected SOEs (including at local level) in infrastructure, energy, (public) transport and water/waste water; improving their corporate governance, business practices, digitalisation, HR policies and (inclusive) procurement.</li> <li>Engage in policy dialogue on entity level oversight of SOEs and progress on state ownership policies aiming at further commercialization and/or enhanced participation of the private sector, including potential privatisations, and SOE monitoring frameworks.</li> <li>Support sector specific policy reforms to improve financial viability of key infrastructure (e.g. road maintenance, debt management, service level agreement).</li> </ul>	<ul style="list-style-type: none"> <li>Legal, institutional or regulatory frameworks in target areas improved (e.g. road maintenance, debt management, service level agreement, state ownership policies, SOE oversight)</li> <li>Corporate governance improved (commercial practices in supported SOEs)</li> </ul>
Improve quality and connectivity of key infrastructure for economic efficiency	<ul style="list-style-type: none"> <li>Finance key infrastructure (incl. Corridor Vc, roads, railways, ports, airports), ensuring inclusive access to services, while promoting green and Paris-aligned sustainable connectivity. Alongside, support the strengthening of infrastructure related governance, institutional frameworks, procurement practices and implementation capacity, including infrastructure project preparation.</li> <li>Finance green and sustainable (regional) connectivity, together with other stakeholders and in line with EU Economic Investment Plan for the Western Balkans and promote alternative fuel infrastructure and smart mobility.</li> <li>Explore potential to finance tourism enabling infrastructure, commercialise and decrease the state footprint.</li> <li>Explore potential to expand digital infrastructure (e.g. broadband access) and digitalisation of infrastructure (e.g. smart municipal infrastructure as green enabler) ensuring inclusion gaps are bridged.</li> </ul>	<ul style="list-style-type: none"> <li>Transport or energy network capacity improved or increased through Bank-assisted projects</li> <li>Number of individuals with improved access to services (e.g. IT, public transport and municipal services)</li> </ul>



# 5. Activities and Results Framework



**European Bank**  
for Reconstruction and Development

## Priority 3: Support energy diversification away from coal and promote low carbon transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increase energy and resource efficiency	<ul style="list-style-type: none"> <li>Continue and expand engagement with municipalities, including through the Green Cities initiative (e.g. water, wastewater, district heating, public transport). Support capacity building and provide technical assistance to assist implementation of green investments by municipalities.</li> <li>Continue investing in energy efficiency and support the renovation wave (e.g. residential and public buildings, commercial property, regeneration, biomass/gas for agribusinesses), including through intermediated products (e.g. GEFF, mortgage credit lines) and advisory services.</li> <li>Engage in policy dialogue, provide technical assistance and finance waste reduction and waste management improvements (e.g. recycling), circular economy, and remediation of polluted sites.</li> </ul>	<ul style="list-style-type: none"> <li>Primary energy saved (GJ/yr)</li> <li>Waters saved (million m<sup>3</sup>/yr)</li> <li>Materials reduced/recycled (tonnes/yr)</li> <li>Number of Environmental and Social Action Plans or Green Cities Action Plans implemented as targeted</li> <li>Number/Volume of GEFF/SEFF loans</li> </ul>
Reduce GHG emissions, promote climate resilience and the gradual energy transition; reinforce networks to promote energy resilience	<ul style="list-style-type: none"> <li>Pursue policy engagement and advocacy to enable market based solutions to increase renewable energy in the fuel mix and the energy transition. Address issues highlighted by a carbon border adjustment mechanism, and extend related advisory services where appropriate.</li> <li>Support investment in energy transmission, distribution and generation to enable expansion of renewable energy sources and deepen market liberalisation and unbundling in line with the EU Third Energy Package and other relevant policies and activities (e.g. EU Green Deal).</li> <li>Explore potential to finance and support Just Transition, with a focus on coal regions and the state-owned electricity companies and mines, including through advisory and policy engagement, and addressing risks of economic exclusion through upskilling/ reskilling.</li> <li>Support BiH plans to achieve its Nationally Determined Contributions, National Energy and Climate Plan and align with the Paris Agreement, including in the area of diversification of power and heat supply away from coal, including through financing renewables and selected gas infrastructure.</li> <li>Support and finance private sector energy transition, and promote green and climate related disclosure, including in SOEs to enhance climate resilience .</li> </ul>	<ul style="list-style-type: none"> <li>Legal, institutional or regulatory framework for renewables improved</li> <li>Renewable energy capacity installed (MW, heat capacity)</li> <li>CO<sub>2</sub>e emissions reduced/ avoided (tonnes/yr)</li> </ul>



# 6. Mapping of International Partners' Complementarity in EBRD Business Areas

EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative average annual investments/ grants (€m, 2017-2020)		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank Financial Institutions	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
EIB	222							€	€			€		€
World Bank	91			€			P	€	€		€	€P		
EU 1	75	€	€	€P			€	€			€	€		€
KfW	44						€P	€	€		€			€
EBRD	195	€P	€P					€*	€		€*	€P	€P	€P

€	Area of significant investments	●	Focus mostly on private sector
P	Area of significant policy engagement	○	Focus mostly on public sector
*	Signed MoU		

## Potential Areas of Cooperation



### Competitive

Continue support to strengthen competitiveness and digitalisation of SMEs supported by EU grant co-finance and cooperation on better institutions for innovation.



### Green

Pursue green municipal investment supported by EU IPA III/REEP, SIDA and Austrian funding, as well as with other donors. Cooperate on decarbonisation and just transition advisory and dialogue with international stakeholders.



### Integrated

Pursue financing and joint policy advisory with the EU, WBI and EIB to advance and further integrate and connect sustainable transport infrastructure (rail and road).



### Resilient

Coordinate on NPL resolution and capital market policy support to strengthen the resilience of the economy post Covid 19. Cooperate with Western Balkans Platforms and investment vehicles.



### Well-Governed

Coordinate with international partners to advance the socio-economic reform agenda, in particular SOE reforms.



### Inclusive

Continue participation in the technical and vocational training initiative and coordinate interventions with international partners.

# 7. Implementation Risks, Environmental and Social Implications



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Risks to Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> <li>Absence of reforms that could attract FDI or increase private investment</li> <li>No progress in advancing renewable energy regulatory reform</li> <li>No progress towards EU candidacy as a result of political stalemate and the pandemic</li> <li>Continued stalemate in SOE reform</li> <li>Decrease in donor support hindering EBRD activities reliant on concessional co-financing</li> <li>Low competitiveness on pricing of private sector loans, compared to a liquid domestic banking sector, hampering the Bank's ability to deliver Transition Impact through private sector projects.</li> </ul>			<ul style="list-style-type: none"> <li><b>Assessment and Management of E&amp;S Impacts:</b> Ensure that direct, indirect, cumulative and transboundary E&amp;S impacts of projects are appropriately assessed and mitigated in accordance with the EU EIA Directive and EBRD ESP and Performance Requirements (PRs). TC support to clients with the implementation of E&amp;S management systems and contractor management according to international standards may be required.</li> <li><b>Labour and Working Conditions:</b> Ensure that clients' labour practices comply with EBRD PR2, particularly in respect of labour rights and working conditions; contractor management and primary supply chain, as well as prevention of gender-based violence and harassment (GBVH) and sexual exploitation and abuse (SEA).</li> <li><b>Resource Efficiency and Pollution Prevention and Control:</b> Challenges remain in waste &amp; wastewater collection and treatment and air pollution. Support clients to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with BAT as part of GET mandate. Develop circular economy and resource efficiency projects and transition to a low carbon economy through renewable energy projects, and strengthen resilience and adaptation to climate change.</li> <li><b>Health, Safety and Security:</b> Assist in improvement of occupational and community health and safety inter alia infrastructure and energy projects. TC funds may be required to improve road and rail safety.</li> <li><b>Land Acquisition, Involuntary Resettlement and Economic Displacement:</b> Ensure that any projects requiring acquisition of land, either permanently or temporarily, comply with compensation and livelihood restoration requirements of the Bank, and impacted stakeholders including vulnerable groups are meaningfully engaged and consulted.</li> <li><b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Challenges remain concerning the need to adequately consider the potential risks and impacts of project related activities to sensitive and/or legally protected and internationally recognised areas of biodiversity value. Ensure that species and habitats of conservation importance are protected particularly where projects encroach upon protected areas, Emerald sites, IBA and/or Key Biodiversity Areas. TC funds for robust biodiversity assessments and/or implementation of particular biodiversity mitigation plans may be required.</li> <li><b>Cultural Heritage:</b> Work with clients to ensure appropriate assessment processes and mitigation plans are in place to protect tangible and intangible cultural heritage and to identify and consult with key stakeholders.</li> <li><b>Financial Intermediaries:</b> Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li><b>Stakeholder Engagement:</b> Support clients in developing and implementing stakeholder engagement plans to ensure meaningful consultation and public disclosure are carried out effectively throughout the project lifecycle.</li> </ul>

# 8. Donor Co-Financing Assessment



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## 8.1. Needs Assessment for the New Country Strategy Period

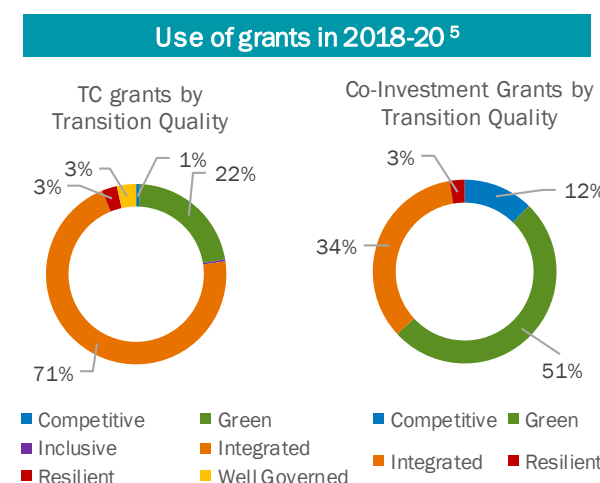
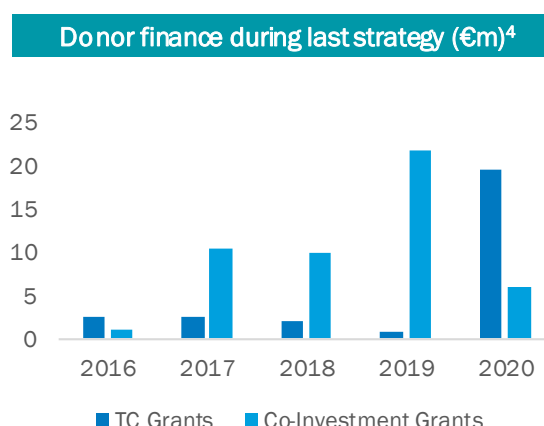
Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including for:

- Credit lines combined with targeted advisory services to enhance competitiveness and support digitalisation of SMEs.
- Finance and policy engagement to promote vocational education and skills training, including target sectors such as tourism, metals and wood processing.
- Concessional finance to support selected FDI investments and enable the integration of local and regional suppliers into value chains.
- Regulatory and legal reforms to improve restructuring of selected SOEs in energy, (public) transport and water/waste water, and to support their corporate governance and business practices.
- Concessional finance and grants to promote cross-border connectivity, transport linkages, tourism and upgrade digital infrastructure.

## 8.2. Potential Sources of Donor Funds

- The **Western Balkans Investment Framework**, including EU and bilateral donor funds, will finance regional priorities of the EU's **Economic and Investment Plan** in the energy, environment, social, transport, and digital infrastructure sectors as well as energy efficiency (REEP) and private sector development activities.
- The **EU and other donors** will also provide **bilateral funds** for investments in municipal infrastructure, advisory programmes and the competitiveness and digital transformation of SMEs.
- As part of the **Green Economy Financing Facility (GEFF)** programmes, funding could be provided to support technical assistance and investments in green and renewable energy.
- Additional support from **Multi-Donor Accounts** will also be explored.
- The **SSF Work Plan 2021-2022** prioritises work in the principal areas of the EBRD's Strategic and Capital Framework – green, equality of opportunity, digitalisation, key sectors of operations and economic governance. Funding for projects in Bosnia will be considered from the **Western Balkans Regional Allocation of the Work Plan** and the **Innovation and Transformation Pool** within the Work Plan, specifically for projects which are innovative/transformational which EBRD has not implemented before.

Selected Affordability Indicators		
		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current. \$) <sup>2</sup>	15,611.80	46th
ODA Country <sup>3</sup>	Yes	N/A
ODA as share of Gross National Income (%) <sup>2</sup>	2.3	52th
ODA per capita (\$ - current prices) <sup>2</sup>	141	68th



1. Simple percentile rank reported as the share of EBRD economies that are represented below Bosnia and Herzegovina.

2. Source: WDI (2019)

3. Source: OECD (2020)

4. 2016-2020 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings.

5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2018, 2019, and 2020.



# Annexes



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# Annex 1 – Political Assessment in the Context of Article 1

*Bosnia and Herzegovina's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, although the intricacy of the country's constitutional setup adversely affects the functioning of its democratically elected institutions, as well as civil and political rights of the citizens.*

The constitutional and legislative framework for a pluralistic parliamentary democracy, the separation of powers and checks and balances in the political system, the guarantees for fundamental rights and for the meaningful role of civil society are in place in B&H and are largely in line with international and European standards. However, the functioning of the state in general, and of its democratically elected institutions in particular, is affected by the specifics of the country's constitutional setup. The 1995 Dayton Accords, which ended the war in B&H and paved the way to the country's stability, created a uniquely complex institutional structure and a fragmented policy-making apparatus. At the central level, decision-making is based on a complex system of checks and balances, which were designed to protect the interests of the three 'constituent' peoples and which de-facto encourage their representatives to demonstrate their commitment to their ethnic constituency rather than to the State. While there is no consensus in sight between the country's ethnic leaders regarding the optimal internal organisation of B&H, without it further progress towards a more efficient and democratic state may be difficult to achieve.

While political crises in B&H are frequent, 2021 saw a particularly deep crisis. Since July 2021, ethnic Serb representatives in the central institutions have suspended their participation, triggered by the amendments to the Criminal Code, which had been imposed by the international High Representative. At the end of 2021, the parliament of RS adopted a package of declarations and conclusions regarding the transfer of competences from the central level to RS and RS's withdrawal, in particular, from the state-level army, judiciary bodies and the indirect tax authority, authorising the government of RS to prepare respective bills within six months.

Many of weaknesses common to other Western Balkan countries – such as overall institutional weakness, relatively low capacity of public administration, excessive politicisation and lack of meritocracy in the civil service, weak judiciary, and difficult business environment – have been multiplied in B&H. This is one of the main reasons the country often ranks among the worst in the region in various ranking tables related to the business environment.

The specifics of the constitutional set up also affect human rights. Some parts of the existing B&H legislation are not in compliance with international standards, including the European Convention of Human Rights. In 2009, the European Court of Human Rights (ECHR) issued a verdict to stop discrimination against ethnic minorities in B&H, whose representatives are prevented by law from running for the highest public offices. This verdict of the ECHR has not been implemented yet. The Resolution of the Parliamentary Assembly of the Council of Europe (PACE) on B&H noted that this “hampers the completion of much needed reforms in key sectors, such as democratic institutions, the rule of law and human rights”.<sup>1</sup> The European Parliament, in its resolution on B&H adopted in June 2021, deplored the fact that the country “remains in breach of the European Convention of Human Rights by not complying with anti-discrimination rulings of the European Court of Human Rights cases on ensuring the democratic equality of citizens in the country's election process” and called for the implementation of the rulings of the ECHR and the Constitutional Court of B&H without further delay.<sup>2</sup>

<sup>1</sup> Parliamentary Assembly of the Council of Europe (PACE), Resolution 1855 on “The functioning of democratic institutions in Bosnia and Herzegovina” (adopted in Plenary on 9 January 2012)

<sup>2</sup> European Parliament resolution of 24 June 2021 on Bosnia and Herzegovina (P9\_TA(2021)0317)

The state of affairs in democratic reforms directly affects the country's prospects in EU approximation. B&H submitted a formal application for the membership in the EU in 2016. In May 2019, the EC issued the Opinion on the application, which was subsequently endorsed by the Council. The Opinion identified 14 key priorities for the country to fulfil in order to be recommended for the status of EU candidate country. These priorities lie in the areas of democracy and functionality of institutions, rule of law, fundamental rights and public administration reform. The Commission encouraged the authorities to agree and implement socio-economic reform measures and to continue engaging in regional cooperation and strengthening bilateral relations with neighbouring countries. Internal consensus on electoral reform will be important ahead of the 2022 elections.

## Free Elections and Representative Government

### *Free, fair and competitive elections*

The existing legal framework, even if complex and suffering from the lack of harmonisation (citizens vote in six distinct contests), enables democratic elections. Elections are generally conducted in line with the Organization for Security and Co-operation in Europe (OSCE) and Council of Europe commitments, as assessed by these two institutions. The 2001 Election Law forms the basis of the electoral legal framework, which has undergone substantive and positive changes over the years. In 2016, some changes were undertaken to implement the recommendations of OSCE regarding increasing gender quota, campaign financing and strengthening punishments for the violation of the election process.

However, there is one area where the legal framework fundamentally fails in terms of both active and passive suffrage rights: existing ethnic-based and residence-based limitations to the right to run in elections do not comply with the European Convention on Human Rights and run counter to the OSCE Copenhagen document and other international standards. PACE, OSCE and the European Parliament have repeatedly requested B&H authorities to amend its Constitution and electoral legislation in order to end discrimination against ethnic minorities. On 22 December 2009, the ECHR issued a legally binding verdict providing that ethnicity-based ineligibility is incompatible with the general principles of the European Convention. In 2011, an Interim Joint Parliamentary Committee was set up in order to draft amendments to the Constitution and electoral law in order to comply with the ECHR verdict, but no changes have been agreed so far by the key stakeholders. ECHR has subsequently made further verdicts related to ethnicity and residence-based limitations of electoral rights (Zornic v B&H, Pilav v B&H etc). In May 2021, an Inter Agency Working Group was set up to propose changes to the electoral legislation ahead of the forthcoming elections due in October 2022.

In 2016, the Constitutional Court declared unconstitutional several provisions of the Election Law on the election of delegates to the FB&H House of Peoples (upper chamber of the entity parliament, FB&H HoP) by the cantonal assemblies. The state parliament failed to amend the law.

Due to a lack of political agreement, the basic rights of citizens to vote in local elections had been undermined for many years on the local level in the ethnically divided city of Mostar, where the verdict of the Constitutional Court had not been implemented and elections had not taken place. A breakthrough political agreement and subsequent amendments to the Electoral Law allowed Mostar citizens to vote in the 2020 local elections for the first time since 2008.

# Annex 1 – Political Assessment in the Context of Article 1

The elections broadly allow for competition between different political parties and free choice for voters. Candidates are able to campaign freely and without hindrance from the authorities. The Central Election Commission (CEC) is an independent permanent body appointed by a special Commission for Selection and Nomination. Municipal election commissions are permanent bodies appointed by the municipal authorities and approved by the CEC. The media provide voters with diverse and extensive coverage of the electoral campaign. The Electoral Code provides for domestic and international election observation at all levels of election administration.

Specifics of the country's constitutional set up and remaining ethnic divisions lead to the political parties reaching out mostly to their own ethnic constituencies, although there are a few parties that pursue a more multi-ethnic approach. B&H has held regular democratic and competitive elections at both central and municipal levels since the end of the 1992-1995 war. In the past, elections had effectively been organised by the OSCE. The last four general elections (2006, 2010, 2014 and 2018) and municipal elections (2008, 2012, 2016 and 2020) were fully administered by the B&H authorities. The last general elections were assessed by the OSCE/ODIHR Election Observation Mission as administered broadly efficiently, especially by the upper levels of the elections administration. The electoral campaign was “genuinely competitive” and freedoms of expression were respected. The elections went in relatively peaceful atmosphere, even if marred by the inflammatory rhetoric of some contestants. At the same time, ODIHR noted that most of its prior recommendations remains unaddressed, including on introducing effective provisions on the prevention of abuse of state resources, campaign finance and its oversight, and electoral dispute resolution.<sup>3</sup>

## *Separation of powers and effective checks and balances*

The constitutional and legislative framework for a parliamentary democracy, underpinned by the separation of powers and checks and balances in the political system, independent legislature and procedures of legislative oversight in prescribed domains of decision-making, is in place in B&H. The uniquely complex governance architecture of B&H stems from the provisions of the Dayton Peace Accords, and has an elaborate system of checks and balances. They were largely designed to protect the interests of the three ‘constituent’ peoples. In reality, they encourage political representatives to demonstrate their commitment to their entity and their ethnic constituency rather than to the State. The Constitution grants limited powers to the state-level institutions, while vesting most of them in two Entities: Federation of B&H (FB&H) and Republika Srpska (RS).

## *Effective power to govern of elected officials*

B&H has established institutional, legal, and financial arrangements for elected officials to exercise their power to govern and they are not constrained by internal non-democratic veto powers or other undue influences. As in many other transition countries, there has long been a close relationship between business and political elites. However, this does not compromise the powers of elected officials to govern the country.

The Dayton Accords established the Office of the High Representative (OHR) under the United Nations (UN) auspices. The High Representative (HR), who reports to the Peace Implementation Council (PIC), a group of 55 countries and international organisations that “sponsor and direct the peace implementation process”, has the final authority on the ground to interpret the implementation of the Dayton Accords and can issue decisions that have legislative power. In 1997, PIC provided the HR with additional powers (the so-called Bonn powers) to remove any officials,

<sup>3</sup> The OSCE Office for Democratic Institutions and Human Rights (ODIHR), General Elections of 7 October 2018, Election Observation Mission, Final Report, 25 January 2019

including elected officials, who obstruct the Dayton peace process, and impose laws as he sees fit. Although the use of the Bonn powers in practice has decreased over the years, the HR continues to use them occasionally. The last time the Bonn powers were used was the HR's decision, on 23 July 2021, to enact amendments to the Criminal Code of B&H stipulating imprisonment for up to five years for the denial or justification of the genocide and war crimes (the 1992-1995 conflict) in B&H.

In the past, the HR served also as the European Union Special Representative in B&H (EUSR). Since the decoupling of these two mandates, the EU has reinforced its role in B&H, including the combined presence of the EUSR and the EU Delegation. The EU has deployed considerable resources in B&H under the Common Foreign and Security Policy and is a key international stakeholder there. B&H has an EU-led foreign military presence – EUFOR Althea, which, in accordance with a relevant UNSCR resolutions, has a mandate to support a safe and secure environment in the country. Over the last few years, EUFOR has been reconfigured and the number of troops reduced.

## Civil Society, Media and Participation

### *Scale and independence of civil society*

There is a satisfactory legal framework for civil society organisations. The Law on Associations and Foundations provides legal guidelines and grants civil society organisations (CSOs) various rights. CSOs can register at different levels (at any of the eighteen administrative offices), although while CSOs that have registered at the state level are free to operate nationwide, this does not apply to local CSOs, which face a number of legal obstacles. While the estimated number of CSOs in the two Entities is around 27,000 (including both associations and foundations), only one third are presumed to be active. Many CSOs are project-based, and relatively narrowly specialised, often with limited financial viability and strategic planning capacity. The Council of Ministers' Rules on Consultation in Legislative Drafting (Consultation Law) allows CSOs to have a voice in shaping laws. However, the legislation on public consultations is uneven across the country and the consultation process with civil society is not sufficiently robust. In general, public participation in decision-making in B&H needs further improvement and there is no strategic framework for cooperation with civil society. The Council of Ministers needs to enact the 2017 charter on cooperation with civil society organisations, notably by developing regular cooperation and consultations.

The right to form trade unions is enshrined in the law. However, trade unions in general lack stable finances and labour rights and social dialogue need further strengthening. No steps have been taken so far to establish a state-level Economic and Social Council.

### *Independence and pluralism of media operating without censorship*

The Constitution of B&H guarantees the freedom of the press. Media operate broadly freely and without censorship. The legal framework is largely in place and in line with international standards, prohibiting the incitement of racial, ethnic or religious hatred. The Press Council, which is a self-regulatory body for the print and internet media outlets, helps to promote freedom of speech and the respect of journalistic ethics, and supervises the application of the B&H press code; however it has no power to fine, suspend or close down any outlet. Broadcast media in both entities are monitored by the Communications Regulatory Agency (CRA), which operates on the state level and its mandate is defined by the Law on



Communications of B&H. The Agency's Director General must be approved by B&H's Council of Ministers. The existing legislation provides legal safeguards to ensure the independence of the CRA, but attempts to undermine the latter persist.

The media landscape is diverse and complex and includes some 200 broadcasters, including three public broadcasting services (one operating at the state level and one in each Entity), and more than 100 periodicals. The internet penetration rate is growing steadily with 73 per cent of citizens having web access in 2020 compared to 43 per cent in 2010.<sup>4</sup>

At the same time, according to reports by OSCE, the level of media freedom has been decreasing lately in B&H, despite the appropriate legislation. Verbal attacks, especially online, against journalists are common, as are physical attacks and other forms of pressure on journalists. There is a widespread perception among citizens that the media are over-politicised and subject to political influence. The OSCE Representative on Freedom of the Media underlined that "the negative rhetoric being used against the media must end, in order to prevent further ... attacks against journalists".<sup>5</sup>

## *Multiple channels of civic and political participation*

Multiple channels of civic and political participation are in place. However, the public participation in policy making needs improvement.

## *Freedom to form political parties and existence of organised opposition*

The freedom to form political parties is both guaranteed by the Constitution and implemented in practice, as highlighted by the existence of considerable number of parties and a significant opposition able to campaign freely and oppose government initiatives. 22 political parties and six coalitions competed in the last general elections for the seats in B&H's HoR (23 parties in FB&H's HoR and 21 parties in RS's NA).

## **Rule of Law and Access to Justice**

### *Supremacy of the law*

Necessary legislative and institutional safeguards for the supremacy of the law are in place. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention.

### *Independence of the judiciary*

The independence of the judiciary is guaranteed and key safeguards are in place to ensure its impartiality, although enforcement is uneven. The main challenges stem from the specifics of B&H's constitutional setup. Independence is affected by the lack of coordination and harmonisation between the State level and Entity levels, and budgetary fragmentation. Strengthening the independence and efficiency of the judiciary was one of the main objectives of the EU's Structured Dialogue on Justice, which was discontinued in 2017. Recent progress report by EC noted "signs of deterioration" in integrity of judiciary, including due to the "obstructions to judicial reforms from political actors and from within the judiciary". According to the EC, "lack of impartiality" and conflicts of interest are displayed by courts, particularly at the state level.<sup>6</sup> Some CSOs complain that their access to justice is limited by the narrow interpretation of "interested parties".

<sup>4</sup> International Telecommunication Union (ITU) Statistics, "Percentage of Individuals Using the Internet".

<sup>5</sup> OSCE RFoM statement, 27 August 2018.

<sup>6</sup> European Commission, 2020 Communication on EU Enlargement Policy, B&H 2020 Report, 6 October 2020.

# Annex 1 – Political Assessment in the Context of Article 1

## *Government and citizens equally subject to the law*

The principles of equality of government and citizens in the eyes of the law are guaranteed by the laws of Bosnia and Herzegovina.

## *Effective policies and institutions to prevent corruption*

According to the 2020 Transparency International Corruption Perception Index (CPI), the country's score has been declining in recent years and it currently ranks 111th out of 180 countries and territories.<sup>7</sup> This is among the worst positions in South Eastern Europe. Corruption is widely perceived by citizens in B&H as one of the most serious problems.

According to the latest report of the Third Evaluation Round on “Transparency of Party Funding” by the Council of Europe's Group of States against Corruption (GRECO), B&H has not made progress since the Second Compliance Report of December 2018. In total, only 10 out of 22 recommendations have been implemented satisfactorily. Eight recommendations remain partly implemented and four remain not implemented.<sup>8</sup> In the Second Compliance Report of the Fourth Evaluation Round on “corruption prevention in respect of members of parliament, judges and prosecutors”, GRECO noted that B&H has implemented satisfactorily none of the 15 recommendations of the report; 11 have been partly implemented and four not implemented.<sup>9</sup>

According to the EC, “corruption...is a serious concern, with all levels of government showing signs of political capture directly affecting the daily life of citizens”.<sup>10</sup>

## **Civil and Political Rights**

### *Freedom of speech, information, religion, conscience, movement, association, assembly and private property*

B&H has a legal and institutional basis for the protection of fundamental rights and freedoms, which are enshrined in its Constitution. B&H has ratified all major UN human rights conventions. The Constitution lists 15 international human rights instruments and explicitly stipulates that the European Convention for the Protection of Human Rights and Fundamental Freedoms and its Protocols apply directly and supersede national law. While the necessary framework is in place, the implementation of human rights standards remains uneven.

The latest assessment of the track record of B&H in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in 2019. B&H accepted 204 out of 207 recommendations received during this cycle (an increase of over 20 per cent from the previous cycle). With respect to the United Nations Sustainable Development Goals (SDGs), 38 per cent of the recommendations were on Peace, Justice and Strong Institutions; 21 per cent on Inequalities; and 14 per cent on Gender Equality.<sup>11</sup> There has been no systematic follow-up to the accepted recommendations from the 2019 UPR.

<sup>7</sup> Transparency International, 2020

<sup>8</sup> Council of Europe, Group of States against Corruption (GRECO), Third Evaluation Round, Addendum to the Second Compliance Report on Bosnia and Herzegovina, adopted on 25 September 2020, published on 16 December 2020.

<sup>9</sup> Council of Europe, Group of States against Corruption (GRECO), Fourth Evaluation Round, Second Compliance Report on Bosnia and Herzegovina, adopted on 25 September, published on 16 December 2020.

<sup>10</sup> European Commission, 2020 Communication on EU Enlargement Policy, B&H 2020 Report, 6 October 2020.

<sup>11</sup> United Nations, Universal Periodic Review (UPR), Bosnia & Herzegovina, UPR Info Statistics and country infographic.

# Annex 1 – Political Assessment in the Context of Article 1

The constitutional guarantees for freedom of assembly and association, speech, thought, conscience, and religion are broadly respected. At the same time, the Council of Europe and EU reports pointed to remaining weaknesses in the area of the freedom of expression (protection against, and prosecution of, physical attacks against journalists and human rights advocates). Discrimination against LGBTI people remains widespread. On a positive side, in 2019 the first ever LGBTI pride march took place in Sarajevo. Subsequent marches were organised in 2020-2021. Although antidiscrimination law is in place, it needs to be effectively applied and enforcement mechanisms need to be improved. In general, public awareness of the legal remedies provided by the anti-discrimination law remains low. Property rights are respected, and the vast majority of cases of property repossession requests have been resolved, although there is still no reliable database on outstanding claims.

There are still more than 100,000 internally displaced persons in B&H. Despite steps taken to implement the revised Strategy for the Implementation of Annex 7 to the Dayton Accords, mainly regarding housing, B&H still lacks a coordinated mechanism to address legislative gaps hampering sustainable returns and local integration.

The Constitution provides citizens with the right to refer violations of their rights and freedoms guaranteed by the Constitution to the Constitutional Court. When its decisions are not enforced, citizens can lodge cases before the European Court of Human Rights (ECHR). There is also the institution of the Ombudsperson in place, which has issued several reports and recommendations to the Parliament.

## *Political inclusiveness for women, ethnic and other minorities*

Due to a history of armed inter-ethnic conflict, the issues related to the rights of ethnic communities in B&H are particularly sensitive. For 22 years, from 1991 to 2013, there was no census of the population in B&H. The first post-conflict census was eventually conducted in 2013, and it included questions on ethnic affiliation. The publication of the results of the 2013 census was delayed, however, due to disagreements between the Entities on the methodological issues. When they were published on 1 July 2016, one of the two Entities, the Republika Srpska, did not fully recognise the results.

The Constitution established the category of “constituent peoples” – de facto tier one - which includes Bosniaks, Croats, and Serbs. The next tier is “minorities”. 18 groups are officially recognised as national minorities in B&H (Albanians, Montenegrins, Czechs, Italians, Jews, Hungarians, Macedonians, Germans, Poles, Roma, Romanians, Russians, Rusins, Slovaks, Slovenians, Turks, Ukrainians, and, most recently, Austrians, whose representative was accepted in the National Minority Council). “Others” designate members of the above-mentioned national minorities as well as those who do not recognise themselves as either members of these communities or of the constituent peoples.

Although the legal and institutional framework for the protection of minorities, including the above-mentioned law, the Anti-Discrimination Law, and the National Minority Councils, are largely in place, implementation remains uneven. The most severe, and unique problem as regards inclusiveness of ethnic minorities, however, is related to the specifics of the constitutional set up. In B&H citizens who do not identify themselves as part of one of the three “constituent peoples” are legally barred from running for the B&H Presidency and in the House of Peoples chamber of the national parliament. Furthermore, there are discriminatory restrictions based on residency: a citizen registered in the “wrong” Entity (a Bosniak or Croat in RS or a Serb in FB&H) cannot run for the B&H presidency either; RS voters can only vote for a Serb candidate, while voters in FB&H

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may only vote for a Bosniak or Croat candidates. All these discriminatory provisions are not in compliance with ECHR verdicts, and run counter to the OSCE Copenhagen document and other international standards. On 22 December 2009, the ECHR issued a legally binding decision providing that the ethnicity-based ineligibility rule is “incompatible with the general principles of the European Convention”. Nevertheless so far the key stakeholders in B&H have failed to reach an agreement on the implementation of the ruling of ECHR. Besides excluding national minorities, the constitutionally enshrined ethnic key to representation erodes the concept of citizenship and civic-based participation in the political process.

The Roma minority, which is arguably the largest minority in the country (estimated at 58,000, which is several times more than the official data from the 2013 census), continues to be the most vulnerable in B&H. Some progress was made to provide the Roma with personal documents, as well as improve their housing conditions. B&H participates in the Roma Decade of Inclusion, and various Action Plans under the Roma Strategy are in place. Work has started on the revising the action plans on housing, employment and healthcare. However, little progress has been made in improving the situation of Roma women and children, who continue to suffer from discrimination and domestic violence.

The key legislative elements for gender equality are in place in B&H. The country has committed itself to respecting gender equality through several international instruments that are listed in the Constitution, including the UN Convention on Elimination of All Forms of Discrimination against Women. B&H has continued to implement the Action Plan on UNSCR 1325 regarding Women, Peace, and Security.

The Gender Action Plan for B&H identified the increase in the participation of women in political life and decision-making as one of key priorities. Nevertheless, the participation of women in political life remains low. Legal requirements regarding gender balance on party lists are generally respected during the elections. However, the total number of women elected to the State-level parliament has decreased to 16 per cent, which is lower than in the previous elections and in fact the lowest result since 2006. Discriminatory customs and stereotypes are still present in the rural areas, undermining women’s basic rights. Domestic violence is a concern, while a harmonised system for monitoring such cases does not exist. On a positive side, Republika Srpska entity has recently further aligned its legislation on protection against family violence with the Istanbul convention; it entered into force on 1 January 2020.

## *Freedom from harassment, intimidation and torture*

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe’s European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited B&H in 2019. According to its latest report on the visit, published in 2021, CPT received numerous allegations of physical and psychological ill-treatment of detained persons by law enforcement officials within the FB&H. With regard to RS, the CPT delegation received a few allegations of physical and psychological ill-treatment of criminal suspects by police authorities; however it is noted that the situation there was found to have improved considerably since the previous visits in 2012 and 2015.<sup>12</sup>

<sup>12</sup> Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Visit to Bosnia and Herzegovina from 11 to 29 June 2019, published on 14 September 2021.