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**COMMISSION STAFF WORKING DOCUMENT**

**Bosnia and Herzegovina 2022 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**

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## 1. INTRODUCTION

### 1.1. CONTEXT

Following its application for EU membership in February 2016, Bosnia and Herzegovina has to fulfil 14 key priorities set out in the **Commission Opinion**<sup>1</sup> of May 2019 which covers democracy/functionality, the rule of law, fundamental rights, and public administration reform. This is required for the Commission to recommend opening EU accession negotiations with Bosnia and Herzegovina. On the basis of the December 2019 conclusions of the EU Council, the Commission focuses its annual reports on Bosnia and Herzegovina's implementation of the 14 key priorities<sup>2</sup>.

In June 2022 the European Council expressed its readiness to grant the status of candidate country to Bosnia and Herzegovina and to that aim it invited the Commission to report on the implementation of the 14 key priorities set out in its Opinion with special attention to those which constitute a substantial set of reforms in order for the European Council to revert to decide on the matter. The Commission will continue to monitor Bosnia and Herzegovina's implementation of the 14 key priorities and report based on further progress on the ground (*also see Annex I*).

Bosnia and Herzegovina continues to implement the **Stabilisation and Association Agreement** (SAA) which, together with its Interim Agreement applied since 2008, has enabled progressive trade liberalisation with the EU and mutual duty-free access for most goods.

The **public commitment** of political parties to the strategic goal of **European integration** has been further confirmed in Brussels in June 2022 in a political agreement on principles for ensuring a functional Bosnia and Herzegovina that advances on the European path, in line with the 14 key priorities set out in the Commission Opinion. Yet, for most of the reporting period this commitment was not turned into concrete reform actions. Deep political polarisation and disagreement among the main parties of the ruling coalition led to a standstill in the work of the democratic institutions and on reforms on the EU path. Until spring 2022 political parties based in the *Republika Srpska* entity blocked legislative and executive institutions at state level and adopted initiatives to unilaterally take over state competences at entity level, in breach of the constitutional and legal order; the same parties also obstructed the implementation of EU restrictive measures on Russia with which Bosnia and Herzegovina had formally aligned. Institutions started to return to functioning in Spring 2022, and some steps were taken afterwards to start address the backlog of reforms.

Political parties did not agree on **constitutional and electoral reforms**. Parliament rejected the integrity package on electoral standards, which were later imposed by the OHR. Parliament also rejected **rule of law reforms**, including on conflicts of interest and on integrity in the judiciary, which remain pending and are expected to be adopted following the re-initiation of the legislative procedure by the Ministry of Justice. The High Representative for Bosnia and Herzegovina (OHR) resorted four times to its executive powers, including on electoral standards and financing. The **policy dialogue** with the EU was also blocked until June 2022, as the joint bodies under the SAA could not meet. Bosnia and Herzegovina adopted the **state budget** only in July 2022 after an 18-month delay. In August 2022 the Parliament amended the **public procurement** law, an important step contributing to

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<sup>1</sup> SWD(2019) 222 final, COM(2019) 261 final

<sup>2</sup> <https://www.consilium.europa.eu/en/press/press-releases/2019/12/10/council-conclusions-on-commission-opinion-on-bosnia-and-herzegovina-s-application-for-membership-of-the-european-union/>

addressing key priority 7. Bosnia and Herzegovina joined the Union Civil Protection Mechanism as a full member in September 2022.

Bosnia and Herzegovina received the first instalment of EUR 125 million in favourable **macro-financial assistance** loans from the Commission in October 2021. The disbursement of the second instalment was cancelled in June 2022 because the country did not implement the agreed policy conditions.

The country is the only one in the Western Balkans that did not introduce a countrywide COVID-19 certificate, equivalent to the EU Digital COVID-19 Certificate (EU DCC).

## 1.2. SUMMARY OF THE REPORT<sup>3</sup>

As regards **political criteria**, parties based in the *Republika Srpska* entity blocked state-level legislative and executive institutions until spring 2022, leading to an almost complete standstill in reforms during that period. The Federation entity government remained in office for the full 2018-2022 term in a caretaker capacity. During a significant part of the reporting period, the *Republika Srpska* entity pursued to unilaterally take over state competences (including on taxation, the judiciary, defence and security) and dismantle state institutions, endangering the country's EU accession perspective as set out in the Commission Opinion. Some legislative steps were taken to withdraw the *Republika Srpska* entity from key state bodies and set up parallel bodies at entity level; these laws are suspended and under constitutional review.

Parliamentary parties could not agree on a solution for constitutional and electoral reforms to bring the Constitution in line with the European Convention on Human Rights, complying with the Sejdić-Finci and related rulings, despite an intense facilitation of talks by the EU and US. Amendments to improve electoral standards were rejected in Parliament. A number of Constitutional Court decisions have yet to be fully enforced. The Council of Ministers took no steps to develop a national programme for the adoption of the EU *acquis*. Due to political obstruction, the Ministry of Finance and Treasury hindered the smooth organisation of the October 2022 elections by withholding the required funds. General elections took place on 2 October; according to the preliminary findings of OSCE/ODIHR, they were overall competitive and well organised but marked by mistrust in public institutions and ethnically divisive rhetoric. On the same day, the High Representative imposed significant amendments to the constitution of the Federation entity and to the Bosnia and Herzegovina election law, aimed at addressing a number of functionality issues and the timely formation of authorities. No progress was made in ensuring an enabling environment for civil society. *Republika Srpska* entity authorities and parties advocated for a neutral stance on Russia's aggression against Ukraine, contesting the country's alignment with EU statements and obstructing the full implementation of restrictive measures against Russia. The Presidency ratified several international agreements, including on IPA III, Horizon and Creative Europe, and the Union Civil Protection Mechanism.

Bosnia and Herzegovina is at an early stage of preparation and made limited progress on **public administration reform** (PAR). Notably, positive steps were taken in the area of

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<sup>3</sup> This report covers the period from June 2021 to June 2022. It is based on input from a variety of sources, including contributions from Bosnia and Herzegovina, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. This also includes the results of comparative assessments and indices produced by other stakeholders, in particular in the area of rule of law.

The report uses the following assessment scales to describe the state of play: early stage, some level of preparation, moderately prepared, good level of preparation and well advanced. To describe progress made during the reporting period, it uses the following scale: backsliding, no progress, limited progress, some progress, good progress and very good progress. Where appropriate, also interim steps have been used.

public finance management: (i) a comprehensive and countrywide public finance management (PFM) strategy was adopted, which now needs to be implemented; (ii) each level of government started implementing PFM strategies; (iii) state institutions improved some professional trainings; and (iv) and the Federation entity amended its administrative procedures. However, the lack of a political decision-making body to steer PAR and insufficient implementation of the action plan and capacities to promote the PAR agenda undermine the well-functioning of the public administration across all levels of government. Civil service laws are not harmonised with each other and with merit principles, while monitoring on human resource management does not allow to check on any irregularities. In line with Opinion's key priority 14, the country needs to complete essential steps on public administration reform by ensuring a professional and depoliticised civil service and a coordinated countrywide approach to policy-making, while establishing a political decision-making body to steer PAR.

Bosnia and Herzegovina is at an early stage of preparation as regards its **judiciary**. No progress was made in this area over the reporting period. The independence and impartiality of the judiciary did not improve. Executive and legislative authorities failed to adopt additional safeguards. Inconsistency and overly broad discretion persist in applying the rules on appointment, disciplinary responsibility, career advancement and conflict of interest of judges and prosecutors. The Chief Prosecutor of Bosnia and Herzegovina and the chief prosecutor of *Republika Srpska* were demoted on account of disciplinary offences during the reporting period. The Parliament rejected the amendments on integrity to the law on the High Judicial and Prosecutorial Council (HJPC) that would create a credible and rigorous system for verifying the financial statements of judicial office holders. The *Republika Srpska* entity launched a legislative initiative to set up a separate judicial and prosecutorial council at entity level; if adopted, it would violate the legal and constitutional order. Urgent measures are needed to restore public trust in the judiciary and strengthen its integrity. The lack of political commitment to judicial reform and the poor functioning of the judicial system continued to undermine the citizens' enjoyment of rights and the fight against corruption and organised crime.

Bosnia and Herzegovina is at an early stage/has some level of preparation in the prevention of and **fight against corruption and organised crime**. No progress was made in this area over the reporting period. The Parliament rejected a law on conflict of interest. Political leaders and judicial institutions failed to tackle widespread corruption and actively blocked progress, leading to long-term stalling and increasing signs of political capture. The continued lack of progress at all levels increases the risk of backsliding. Political leaders and judicial institutions need to urgently remedy the situation. Although in the reporting period there have been some indictments pertaining to high-level corruption sentences, the overall track record on preventing and repressing corruption (including at high level) remains insignificant, due to operational inefficiency and political interference. There are systemic shortcomings in the operational cooperation between law enforcement agencies fighting organised crime, due to non-harmonised criminal legislation, weak institutional coordination, and a very limited exchange of intelligence. Criminal organisations operating in the country take advantage of legal and administrative loopholes. The police are vulnerable to political interference. Financial investigations and asset seizures are also largely ineffective. A proactive approach remains fundamental to countering criminal infiltration in the political, legal and economic systems. The contact point for cooperation with Europol is still not operational; preparatory steps are underway. There is no systematic cooperation with Eurojust. Bosnia and Herzegovina needs to continue its efforts in the fight against terrorism and drug trafficking

and increase its capacity to do so. A new law on anti-money laundering and terrorism financing in line with the EU *acquis* needs to be urgently adopted.

While the legislative and institutional framework on **fundamental rights** is largely in place, there is no comprehensive strategic framework. Adopting action plans for the social inclusion of the Roma in April 2022 and on the rights of LGBTIQ persons in July 2022 are positive steps in this regard. Significant reforms are still needed to ensure that all citizens are able to exercise their political rights and to ensure non-discriminatory, inclusive and quality education for all, including by overcoming the practice of ‘two schools under one roof’. No progress was made to guarantee freedom of expression and of the media by protecting journalists from threats and violence and ensuring the financial sustainability of the public broadcasting system. Challenges persist as regards freedom of assembly, particularly in the *Republika Srpska* entity.

Bosnia and Herzegovina has taken significant steps to improve **migration** management. The Ministry of Security continued efforts to improve coordination with local authorities and boosted international cooperation. However, major weaknesses still undermine the provision of necessary assistance. Bosnia and Herzegovina needs to urgently adopt the strategy and action plan on migration, step up efforts to ensure access to asylum, and strengthen border management.

As regards **economic criteria**, Bosnia and Herzegovina is at an early stage of establishing a functioning market economy. Cooperation and coordination of economic policymaking at state level and among the entities have further deteriorated. As a result, the country’s internal market remains fragmented. The country’s Economic Reform Programme does not contain sufficient credible countrywide measures to address the major structural economic challenges. These relate to the business environment, the informal economy, public enterprises, the green and digital transitions and unemployment. Overall, the country’s economic performance remains below its potential, as policymaking is hindered by political stalemate, an overly short-term orientation, and no focus on policy measures to build growth.

Bosnia and Herzegovina remains at an early stage in terms of **capacity to cope with competitive pressure and market forces in the EU** and did not make significant progress in this area. The quality of education has remained low, while insufficient action was taken to improve the transport and energy infrastructure. The trade and transport sectors both grew in terms of their relative economic importance (in value-added terms) as a response to strong external demand, while the size of the public sector in the economy was slightly lower by the same measure.

Bosnia and Herzegovina is at an early stage/has some level of preparation in its ability to take on the **obligations of EU membership**. The country needs to significantly step up alignment with the EU *acquis* and implement and enforce the necessary legislation. Limited to no progress was made on the different EU *acquis* chapters during the reporting period.

Bosnia and Herzegovina has some level of preparation and made some progress in the area of **public procurement** as amendments adopted in August have further aligned the legislation with the EU *acquis*. This is a first important step on the commitments taken on 12 June and contributes to address key priority 7. There was limited progress was made on **statistics**; preparations for the next census have hardly progressed and the production of macroeconomic statistics continues to deviate from the EU *acquis*. Some progress was made on public internal **financial control**, with both entities adopting strategies.

Major steps are needed to align the legal framework across the country with the EU *acquis* on the **internal market** (free movement of goods, workers, services and capital, company law,

intellectual property, competition policy, and financial services, consumer and health protection). Bosnia and Herzegovina made limited or no progress in this cluster. Procedures and legislation that differ between the entities create obstacles to competitiveness and growth. Bosnia and Herzegovina should bolster financial stability by improving coordination among the relevant authorities and setting up a financial stability fund as part of the bank resolution framework. This cluster is key for Bosnia and Herzegovina's preparations to meet the EU single market requirements and is very important for early integration with and the development of the Common Regional Market.

Bosnia and Herzegovina made limited or no progress in most areas of **competitiveness and inclusive growth** (taxation, digital transformation and media, social policy and employment, enterprise and industrial policy, science and research, education and culture) and some progress in the area of customs union. The country showed backsliding in other areas (economic and monetary policy) where it is at an early stage or has some level of preparation. These areas have significant links to the country's Economic Reform Programme. Bosnia and Herzegovina needs to introduce socio-economic reforms to address structural weaknesses (including low competitiveness and high unemployment), and the impact of the COVID-19 pandemic.

Bosnia and Herzegovina made some or limited progress in the **green agenda and sustainable connectivity** cluster, where the country is at an early stage on energy, environment and climate change. The country has some level of preparation in the areas of transport and of trans-European networks. Further steps are needed on connectivity reform measures and in aligning with the Trans-European Transport Network (TEN-T) and Trans-European Networks for Energy (TEN-E) Regulations. The green transition and sustainable connectivity are key to economic integration within the region and with the EU. The implementation of the Economic and Investment Plan<sup>4</sup> and the Green Agenda for the Western Balkans,<sup>5</sup> needs to be accelerated. Bosnia and Herzegovina significantly improved its civil protection system and showed a clear commitment in the area of disaster management; in September 2022 the country joined the Union Civil Protection Mechanism (UCPM) as a full member.

Bosnia and Herzegovina made no progress in the areas of **resources, agriculture and cohesion** (agriculture and rural development, food safety, veterinary and phytosanitary policy, fisheries, and financial and budgetary provisions), where preparation is mostly at an early stage. The country must step up its efforts to prepare and adopt a post-2021 countrywide strategy for rural development, align its legislation on food safety, veterinary and phytosanitary policy and strengthen its administrative capacities. More efforts are also needed to prepare and adopt a countrywide strategy on fisheries and aquaculture and harmonise data collection. Furthermore, Bosnia and Herzegovina should start preparing a countrywide regional development strategy.

Bosnia and Herzegovina has some level of preparation and made some progress in the cluster on **external relations**, in particular by improving its alignment with EU foreign policy statements and restrictive measures, which increased to 81% by end August 2022. The country needs to implement the additional protocols to the Central European Free Trade Agreement (CEFTA) on trade facilitation and trade and services, and swiftly adopt the additional protocol on dispute settlement. Bosnia and Herzegovina continued to actively participate in **regional cooperation** and to maintain good neighbourly relations.

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<sup>4</sup> COM(2020) 641 final

<sup>5</sup> SWD(2020) 223 final

In 2021, Bosnia and Herzegovina benefited from EUR 73 million under the **Instrument for Pre-accession Assistance 2021 – 2027 (IPA III)**, providing support to programmes in migration and border management, the electoral process, energy, transport, employment and social protection, as well as private sector and regional development. This first set of programmes, complemented by a package of multi-country programmes, significant contributes to kick-starting implementation of the **Economic and Investment Plan for the Western Balkans** and the **Green Agenda**. Adopting countrywide sector strategies remains a key requirement for Bosnia and Herzegovina to benefit fully from IPA funding in the future.

## 2. CLUSTER 1: THE FUNDAMENTALS OF THE ACCESSION PROCESS

### 2.1. FUNCTIONING OF DEMOCRATIC INSTITUTIONS AND PUBLIC ADMINISTRATION REFORM

#### 2.1.1 Democracy

During the reporting period, the political environment was marked by deep polarisation and obstructions, which gravely affected the functioning of state institutions and their capacity to adopt the reforms needed to fulfil the Opinion key priorities and advance on the EU path. Institutions started to return to functioning in Spring 2022, but the backlog of reforms has not been addressed. In the political agreement they signed in Brussels on 12 June 2022, party leaders committed to an ambitious agenda of reforms, in line with the 14 key priorities, to advance decisively on its EU path following the 2 October general elections. No state budget was adopted in 2021, and in 2022 the budget was only adopted on 30 June. State institutions have been funded via three-monthly temporary financing decisions for 18 months, during which they have been unable to make investments, since available funds are shrinking in real terms, and to recruit and retain sufficient and qualified personnel.

In July 2021, political parties based in the *Republika Srpska* entity decided not to participate in decision-making at state level, effectively blocking all political institutions (Presidency, Council of Ministers and Parliamentary Assembly) for most of the reporting period.

There was backsliding on key priority 4, which calls among others to ensure legal certainty on the distribution of competences across levels of government. In December 2021, the *Republika Srpska* entity adopted a plan to unilaterally take over state competences, in breach of the constitutional and legal order. In February 2022, the entity adopted a law on immovable property; the High Representative suspended its entry into force in April 2022, pending constitutional review; the entity leadership committed to enforce it anyway, which would endanger legal certainty. An entity law on medicines and medical devices, adopted in October 2021, came into force in late June; its application was suspended by the Constitutional Court in July. A draft law on an entity-level judicial and prosecutorial council, in breach of the constitutional and legal order, is in parliamentary procedure in the *Republika Srpska* entity; its adoption would further jeopardise the independence of the judiciary. In May 2022 the Constitutional Court confirmed that entities have no right to unilaterally withdraw consent from agreements to transfer specific competences to the state level.

The Federation government completed one full additional term in a caretaker capacity.

Women remain under-represented at all levels of participation and decision-making.

#### *Elections*

**No progress** was made towards addressing Opinion key priority 1 on electoral standards. Despite intense facilitation, political parties were unable to agree on reforms to bring the Constitution and electoral framework in line with the European Convention on Human Rights. While the Central Electoral Commission introduced some improvements via by-laws, the

Parliament did not adopt amendments to the election law to address outstanding recommendations by OSCE/ODIHR and GRECO, including as regards transparency of political party financing.

In May 2022 the Central Election Commission announced general elections for October 2022. Due to political obstruction, the Ministry of Finance and Treasury hindered the smooth organisation of the October 2022 elections by withholding the required funds. On 6 June 2022, with executive powers, the High Representative allocated the required budget to the Central Electoral Commission and amended the electoral law and the law on the financing of state institutions to prevent such blockages in the future.

In January and May 2022 the Central Election Commission adopted by-laws addressing some recommendations by OSCE/ODIHR and GRECO, including on transparency on party financing (including on transparency of campaign costs and sanctions for breaches) and integrity of the voter registration process abroad. No steps were taken to harmonise the legislation on the registration of political parties across the country.

The inter-agency working group on electoral reforms (IAWG) was unable to endorse draft amendments to address the recommendations by OSCE/ODIHR and GRECO. A set of amendments, prepared with EU and OSCE/ODIHR support to improve the integrity and transparency of the electoral process, was submitted to parliament in April 2022 but was rejected. On 27 August, the High Representative imposed amendments to the election law with the aim to improve the integrity of the electoral process and strengthen the role of the Central Election Commission.

Between July 2021 and March 2022 the EU and US, with the support of the Venice Commission, facilitated talks among political parties on a package of electoral and constitutional reforms to improve electoral standards, remove ethnic and residence-based discrimination from the Constitution in line with European Court of Human Rights (ECtHR) rulings, provide a new electoral model for the Presidency, and reform the constitution of the Federation entity to improve its functionality. Despite intense facilitation, parties proved unable to find a solution in line with European standards ahead of the 2022 elections.

General elections took place on 2 October; according to the preliminary findings of OSCE/ODIHR, they were overall competitive and well organised but marked by mistrust in public institutions and ethnically divisive rhetoric. On the same day, the High Representative imposed significant amendments to the constitution of the Federation entity and to the Bosnia and Herzegovina election law, aimed at addressing a number of functionality issues and the timely formation of authorities.

A Citizens' Assembly of randomly-selected citizens presented their recommendations for constitutional changes, based on a deliberative democracy approach, in March 2022.

In August 2022, the Court of Bosnia and Herzegovina confirmed in appeal that the parliament had acted in line with the law when appointing members of the Central Election Commission (CEC) in March and May 2020. The CEC needs to strengthen its audit capacity to monitor compliance on political party financing.

As regards internal party democracy, political parties lack democratic internal policies and structures. There are no women among party leaders, and few in other leadership positions.

### *Parliament*

The political blockade by the Members of Parliament elected in *Republika Srpska* brought to a halt all legislative activities for most of the reporting period. Parliamentary oversight over the executive remains weak at all levels of government. No improvement was made on

registration and financing of political parties. The Stabilisation and Association Parliamentary Committee did not meet during the reporting period (Opinion key priority 3).

Members of Parliament (MPs) elected in *Republika Srpska* blocked the work of the Parliamentary Assembly of Bosnia and Herzegovina from July 2021 till March 2022. Coupled with no legislative initiative from the Council of Ministers, this resulted in very poor legislative output, despite the outstanding backlog. The parliament adopted only the law on customs offenses in May 2022, in urgent procedure, and the law on the protection of the right to trial within a reasonable time before the Court of Bosnia and Herzegovina, as well as the amendments to the public procurement law.

The parliamentary oversight of the executive was equally crippled. A positive exception is the interim investigative committee on the state of the judiciary of the House of Representatives which, despite delays due to the political blockage, published its findings in June 2022. There is no parliamentary monitoring of compliance with the recommendations of independent institutions, and of their annual reports.

The Stabilisation and Association Parliamentary Committee (SAPC) did not meet in the reporting period. Bosnia and Herzegovina needs to fully ensure the proper functioning of the SAPC, notably with the adoption of recommendations, in line with Opinion key priority 3.

Entity parliaments met regularly, making large use of urgent procedures. In 2021, the Parliament of the Federation entity adopted 8 laws in urgent and 15 in shortened procedure out of 29 (76%). In 2021, the assembly of the *Republika Srpska* entity adopted 66 laws, of which 41 (62%) in fast-track procedures, including the budget. The Brčko District Assembly adopted 44 laws, of which 7 (16%) in urgent procedure.

There are no specific standing committees on oversight and control of the government in either entity, and the assemblies do not follow up on the work of administrative bodies. Such a committee is in place in the Brčko District.

In May 2022 the *Republika Srpska* assembly started the procedures to replace one judge of the Constitutional Court of Bosnia and Herzegovina whose term expires by end of 2022 due to age limits. The House of Representatives of the Federation entity failed to timely replace a constitutional judge whose term expired in August 2022. The Federation Parliament has not filled the vacancies at the Steering Board of the public broadcaster FTV nor appointed a director of FTV since 2013.

### Governance

The Council of Ministers was dormant for most of the reporting period due to the political blockade. The Presidency was marred by continued lack of consensus on key issues. The government of the Federation entity and of one canton remained in caretaker capacity for the whole 2018-2022 term. The executives have little capacities for coordination and policy planning, including on EU matters. This requires effectively implementing the legislation on coordination of EU matters, including the coordination mechanism, and strengthening the Directorate for European Integration. **No progress** was made on the functioning of the coordination mechanism and on developing and adopting a national programme for the adoption of the EU *acquis* (Opinion key priority 2), nor on the action plan on the 14 key priorities.

The Presidency members continued to take opposite stances, most notably on foreign policy, thus failing to provide a clear political direction to the country. The ‘vital entity interest’ of *Republika Srpska* was raised against Presidency decisions on October 2021, March and June 2022, but the entity assembly did not confirm the veto in March and June. The Presidency

mainly endorsed international and financing agreements, including on IPA III, Horizon Europe and Creative Europe, and the Union Civil Protection Mechanism (UCPM), albeit often after long delays.

The Council of Ministers had a minimal legislative output, adopting only three draft laws (on customs offenses and on the state budget) and a set of amendments (to the law on the High Judicial and Prosecutorial Council). It adopted several strategic documents including the Economic Reform Programme 2022-2024. The Council of Ministers adopted a budget proposal only in June 2022, thus leaving state institutions to rely only on three-monthly temporary financing decisions for 18 months. In October 2021 the parliament did not support the initiative of the Chair of the Council of Ministers to dismiss the Minister of Defence.

Entity and cantonal governments worked regularly in the reporting period. The Federation government completed a four-year additional term in a caretaker capacity, reduced from 16 to 13 ministers and with its prime minister and deputy standing trial for corruption. The Herzegovina-Neretva Canton also completed the 2018-2022 term with a caretaker government.

A number of appointments at state level are pending due to political disagreements. These include the directors of the Directorate for European Integration, the Indirect Taxation Authority, the Civil Service Agency, the Border Police, the Directorate for Coordination of Police bodies and the Intelligence and Security Agency, as well as five members of the governing board of the Central Bank, and seven members of the Board of the Communication Regulatory Agency.

The President and Parliament of the Federation entity have not yet filled the vacancies at the Constitutional Court of the Federation entity, which since 2019 operates with only 5 judges out of 9; this seriously impairs its decision-making, which requires a quorum of five. With only 3 judges out of the 7 required, the court's panel on 'vital national interest' vetoes is not able to function. The members of the securities commission of the Federation entity were only appointed in September 2021, after over a year not functioning.

No steps were taken to develop and implement a common action plan of socio-economic reforms in line with Commission recommendations and with the joint conclusions of the economic and financial dialogue. Formulating and enacting this package of socio-economic reforms requires good coordination among executives at all levels.

There was backsliding in the *coordination on EU matters* due to political obstruction and increased questioning of EU key priorities by the *Republika Srpska* entity.

The policy dialogue with the EU was completely stalled during the reporting period. The joint bodies – whose role is to monitor and provide guidance on the implementation of the SAA and related reforms – did not meet from July 2021 till June 2022, since the Council of Ministers failed to adopt the preparatory documents as required by domestic procedures. This marked backsliding in implementing the SAA. The country submitted its Economic Reform Programme (ERP) only in March 2022, with two months of delay.

Coordination on EU matters, including in the development of countrywide sector strategies, is essential to ensure harmonised alignment with the *acquis* and to access EU financial assistance and EU programmes. This requires effective use of applicable legislation on coordination of EU matters and commitment of the coordination mechanism structures at political level (collegium and ministerial conferences). The requirement of political endorsement by the Council of Ministers of all technical preparatory documents for the meetings SAA has prevented the holding of meetings of SA bodies from June 2021 till June 2022. The Council of Ministers should take measures to facilitate dialogue within the SAA

bodies at all levels, including empowering the Directorate for European Integration (DEI) to directly submit technical preparatory documents to the Commission, and appointing the permanent delegates to sectoral subcommittees.

As a key priority and outstanding obligation under the SAA, Bosnia and Herzegovina needs to develop a *national plan for the adoption of the acquis* (NPAA) / Programme for EU Integration (PI) that reflects the role that all levels of government play in aligning with and enforcing the EU *acquis*. SAA obligations and other EU requirements should be duly included in the NPAA and in the corresponding annual work programmes of all levels of government. Bosnia and Herzegovina needs to develop the NPAA and agree upon it with the Commission.

The action plan on the 14 key priorities is still pending adoption by the Council of Ministers, due to obstruction by the *Republika Srpska* entity. (See also under *Public Administration Reform*)

Authorities across the country have little capacities for coordination and policy planning, including on EU matters. There is no strategy on **local self-government** in either entity. Anti-corruption offices have been established in several cantons and Brčko District.

#### *Civil society*

**No progress** was made in addressing the Opinion key priority 11 on ensuring an enabling environment for civil society, notably by upholding European standards on freedom of association and freedom of assembly. Meaningful and systematic consultations with civil society remain to be ensured as part of an inclusive policy dialogue. The adoption of a framework for the transparent funding of civil society organisations remains outstanding.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by public institutions. While the overall legal and regulatory framework governing establishment and functioning of civil society organisations is broadly in line with the EU *acquis*, much remains to be done for public institutions to ensure an enabling environment for civil society, including on freedom of association and of assembly, in line with Opinion key priority 11. (see also *Chapter 23 – Fundamental Rights*)

The legislation on public consultations is uneven across the country, and meaningful and systematic consultations remain to be ensured. The Council of Ministers needs to enact the 2017 charter on cooperation with civil society organisations. The advisory body of the Council of Ministers for civil society organisations held two working sessions in 2021. (see also under *Public Administration Reform*)

Grassroot organisations proactively advocated for policy changes. Activists dealing with issues perceived as sensitive (anticorruption, women's rights, rights of LGBTIQ persons, migrants, the environment) continued to be subject to threats, abuse and physical attacks.

Civil society organisations also provide services to disadvantaged groups, in substitution to public authorities. These activities were hampered by restrictions of movement during the pandemic, which also affected their financial sustainability. Available public funding decreased during and after the pandemic, and civil society organisations have not been eligible for economic recovery measures reserved to the private sector. A framework for the transparent and impartial distribution of public funds to associations remains needed across the country. There is no state-level legal framework on volunteering, which is regulated by the entities and Brčko District.

#### *Civilian oversight of the security and intelligence sector*

The Parliamentary Assembly's joint committee on defence and security held 3 sessions in 2022 (6 in 2021, 10 in 2020). The joint committee for the oversight of the Intelligence-Security Agency (OSA) only held two sessions since its constitution in January 2020 due to political disagreements on the appointment of the OSA Director and deputies; after he was acquitted in a trial for abuse of power, a new investigation is ongoing against the OSA Director for abuse of office, document forgery, and money laundering. The legislation on the OSA has not been amended yet to address a number of procedural shortcomings identified by the Constitutional Court in June 2017. The Military Commissioner, who oversees the protection of the human rights and freedoms of defence personnel, opened 79 proceedings in 2021, completing 73 of them.

### 2.1.2. Public Administration Reform

Bosnia and Herzegovina is at an **early stage** and made **limited progress** in public administration reform. Notably, positive steps were taken in the area of public finance management: (i) a comprehensive and countrywide public finance management (PFM) strategy was adopted, which now needs to be implemented; (ii) each level of government started implementing PFM strategies; (iii) state institutions improved some professional trainings; and (iv) the Federation entity amended its administrative procedures. However, 4 years after adoption, implementation of the PAR action plan is lagging behind particularly on building a professional civil service capable of effectively delivering services to citizens and businesses. Civil service laws remain not harmonised with each other and merit principles not enshrined in all recruitment procedures, while the monitoring of human resources is not effective to detect irregularities. A political decision-making body to steer PAR still needs to be set up to effectively steer reforms. Therefore, last year's recommendations remain largely valid. In line with Opinion key priority 14, Bosnia and Herzegovina needs to complete essential steps to improve the overall functioning of the public administration by ensuring a professional and depoliticised civil service and a coordinated countrywide approach to policy making.

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

- implement the countrywide strategic framework for public financial management 2021-2025 at state level and extend the validity of the current PAR strategic framework to 2023-2027 at the state level and in the Federation entity, and finalise and adopt e-government strategies at the state level, and in the Federation entity and Brčko District;
- establish a functioning coordination structure with a political decision-making body and improve the capacity of PAR coordinators to steer implementation of public administration reforms across all levels of government;
- ensure a professional civil service system, by amending civil service laws in line with merit principles and establishing a performance-based monitoring for transparent human resource management at all levels of government to detect irregularities;
- foster a user-oriented administration by developing a coherent policy framework on service delivery and related e-signature infrastructure at all government levels in order to simplify and modernise administrative procedures and digitise services for businesses and citizens.

#### *Strategic framework for public administration reform*

The **strategic framework on public administration reform** (PAR SF) 2018-2022, and the related PAR action plan 2020-2022, needs to be extended due to weak implementation in the period of its validity between 2018-2022. Four years after its adoption in 2018, no systematic

implementation of the PAR action plan has started yet, and there is no information on financing gap and no performance-based monitoring. The Federation entity adopted in April 2022 the communication strategy of the public administration reform process and related action plan for the period 2021-2022. Insufficient **political support** continues to hinder the coordinated implementation of reforms by all levels of government. The country has yet to set up a political decision-making body to steer reforms and the capacity of PAR coordinators at a technical level need to be strengthened. A coordination arrangement to ensure such political and technical cooperation needs to be urgently adopted. The **financial sustainability** of the reform is not ensured, and reforms remain mostly donor-driven.

#### *Policy development and coordination*

The **policy-making system** in Bosnia and Herzegovina remains fragmented. The legislative framework on medium-term policy planning is unevenly developed and regulated through different laws. There is no link between sectoral policy priorities and government priorities at all levels. Sectoral costs, while not always reflected in strategies, are not linked to a medium term budgetary framework. A legal basis on strategic planning is in place in both entities but is missing at the state level. There was no progress in developing methodological guidance for countrywide sectoral strategic planning: this requires harmonising central planning documents, framework budgets and countrywide sectoral strategies across levels of government. Some quality criteria for sectoral policies are in place, but they do not contain information on progress and objectives. Publication of government and sectoral monitoring reports is very limited, and quality of costing across sectoral strategies is weak, despite legal obligations set across all levels. Bosnia and Herzegovina did not yet develop its first **National programme for the adoption of the *acquis* (NPAA)**, i.e. programme of EU integration (PI). The country did not meet its own deadline to finalise and adopt the PI by the end of 2021, as set out in the methodology adopted in 2020 (*see more in section 2.1.1 – Governance*).

The legal framework for **inclusive and evidence-based policy development** is in place but inconsistently implemented. Regulatory impact assessments are not used to prioritise policy proposals. Financial implications are still not systematically calculated across sectors, and the collection and use of administrative data for policymaking are not ensured. Although in place, the legal framework on **public consultations** needs to be consistently applied at all levels of government. Line ministries must boost their capacity to conduct regulatory impact assessments and public consultations in legislative planning, and improve the oversight function to ensure their quality. (*see more in the section 2.1.1 – Civil Society*)

The regulatory framework for standards for monitoring and reporting on key government planning documents at all levels has not improved, and this hampers **public scrutiny of government work**. In addition to integrating public consultations in legislative planning, more work is needed to raise awareness about different types of public consultations, and strengthen capacity at all levels of government so that they are used more regularly.

#### *Public financial management*

All levels of government in Bosnia and Herzegovina adopted a comprehensive strategy for the reform of **public financial management (PFM)** in June and July 2022. Each level of government started implementing their own PFM strategy for 2021-2025; PFM monitoring reports for 2021-2022 are being prepared, but have not been published yet. The Federation entity amended and adopted the Law on budgets in March 2022 with the aim to apply programme-based budget model as of 2025. The *Republika Srpska* entity adopted a new Fiscal Law in February 2022 to improve the fiscal system and reduce the informal economy. In December 2021, the *Republika Srpska* entity adopted the 2021-2024 medium term debt management strategy, joining other levels of government, that already have one in place for

2021-2023. More action and high-level political support are needed to improve public investment management at all levels. Line ministries remain significantly under-resourced and understaffed. Institutions at all levels lack suitable and effective internal control systems, especially for public procurement, and monitoring public companies. A functional and regular budget planning cycle is required for an effective public finance system. (See also Chapter 5 and Chapter 32).

Bosnia and Herzegovina has not yet achieved sufficient **budget transparency**, although in 2021 state institutions and entities published their respective citizens' budgets online. The lack of harmonisation of the charts of accounts at state and entity level makes it difficult access to consolidated data. In-year reporting still needs to improve at all levels of government. Available budgetary information remains incomplete and assessing the overall budgetary and fiscal policy is difficult. In addition, budget calendars still need to be adopted. Bosnia and Herzegovina's state institutions relied on 3-monthly temporary financing decisions for 18 months until a state budget was adopted at the end of June 2022.

#### *Public service and human resources management*

The **merit-based recruitment, promotion and dismissal** of civil servants with objective criteria are not fully ensured, particularly in the entities and the Brčko District. Some cantons such as Tuzla have improved their legislation on the principle of merit. However, in its proposed legislative reforms, the Federation entity needs to ensure the merit principle is applied across all civil service procedures, particularly in recruitment. As civil service reform is a shared competence between the Federation and cantons, their cooperation is key to harmonise civil service legislation; establishing a suitable coordination mechanism for human resources and civil service would support that cooperation.

The recruitment process needs to become more transparent and better ensure the professionalisation of civil service; this has been helped to some extent by digitalisation of state-level recruitment. However, this objective is hampered by the excessive discretion allowed by the civil service laws in the entities and Brčko District, which notably do not prescribe appointing the best candidate to the post, allowing political appointees to influence the recruitment process, particularly at senior positions. As a result candidates are often selected without applying merit principles, and in certain recruitment procedures, particularly at cantonal level, the final selection depends on ethnic background rather than merit. The system needs more improvements to offer the right incentives so that more professional candidates apply for public sector positions, and selection commissions should be free from political influence, to guarantee recruiting the best qualified candidates. Constitutional provisions on the general representation of the population in the public administration should not be interpreted as requiring strict ethnic proportionality in the civil service, and the legislation should make sure that ethnic criteria do not prevail over professional criteria in recruitment.

The criteria for dismissals disciplinary procedures and appeals set out in the legislation are still insufficiently applied. The appeal boards in the Federation entity face a significant backlog as they manage the civil service at entity, cantonal and municipal level and they remain highly inefficient in dealing with civil servants' complaints. There is no systematic promotion of gender equality in the civil service, and the representation of women in top management varies from only 19% in the *Republika Srpska* entity to 41% in the state institutions.

**Human resources management (HRM)** remains highly fragmented. Civil service laws have not yet been amended to provide a clear and comparable scope of the civil service. The laws also do not clarify which institutions are included in the civil service, which positions belong

to civil servants, and what are the senior and middle management categories. These differences undermine mobility of civil servants across government levels. The common HRM development policy has yet to be implemented and there is no coordination among civil service agencies and ministries of justice to set common standards in HRM. Civil service agencies also need to harmonise their approaches to HRM. The Federation entity adopted a new HRM policy, and set up a HRM network to implement it, composed of entity and cantonal representatives. Transparent monitoring of HRM performance is weak across all levels of government and data is also lacking at all levels. Bosnia and Herzegovina needs to revise the State-level civil service law in order to provide a legal basis for the human resource management information systems (HRMIS) and make it functional for the civil service. All levels of government should publish HRM monitoring reports and ensure interoperability of HRMIS with payroll databases.

Civil servant's **remuneration** remains inconsistent across public institutions and lacks transparency. This is due to the differences across the country in salary legislation, job classification, pay grades, and the lack of job evaluations; which hinder fairness. Furthermore, criteria to award salary supplements are unclear, and there is no basic information or statistics on salaries. There is no information published at any level of government on average salary levels by job category. The state budget adopted in June 2022 will lead to an increase in the salary base of state-level civil servants. The lack of a job evaluation system undermines the fairness of job classification and the allocation of basic salaries on which it is based upon.

Civil service agencies need more resources for training and **professional development**. Some progress was made in establishing the legislative and policy framework for training and performance appraisal, particularly in the Federation entity, and providing more trainings at state level, particularly for managers. A performance appraisal system is in place but not used properly and systematically to justify promotions. There was no progress in setting up a coherent system to guarantee civil servants' rights to fair performance appraisal, promotion and training.

There are no systemic and consolidated data on the **integrity of civil servants**. While all levels of government have a code of ethics, the Brčko District still has to align its own with the civil service law. The public's perception of corruption among public officials remains high. The Federation entity still needs to adopt legislation on whistle-blower protection, and the *Republika Srpska* entity's legislation on declaration of assets is also pending; such legislation should be aligned with international standards at all levels of government. Measures to promote integrity in the public service are only partially in place and are not systematically applied.

#### *Accountability of administration*

No progress was made to set out in legislation the different functions of administrative bodies at all levels of government or the conditions for establishing, merging or abolishing them. This leaves excessive discretion to managers to restructure the administration without considering the rationale and cost-effectiveness of such changes. There is still no clear supervision or reporting lines between ministries and subordinated institutions. The political level does not sufficiently delegate decision-making to senior civil servants or middle management. (*see also Chapter 32*)

Recommendations from oversight mechanisms such as parliamentary scrutiny and independent institutions, such as the State Audit Institution and the Human Rights Ombudsman are still poorly implemented. Several institutions do not even respond to recommendations addressed to them; although they are legally obliged to do so. This compromises **citizens' rights to good administration**.

Legislation on the **right to access to information** remains fragmented and not in line with international and European standards. Ruels on data protection and on access to information are still interpreted in a way that protects private interest rather than public interests. The enjoyment of the right to access public information remains inconsistent. The Ombudsman reported a third more complaints on access to information in 2021, and the compliance with their recommendations on access to information increased from 41% in 2020 to 58% in 2021.

The varying efficiency of courts across the country make **citizens' rights to administrative justice** uneven. Effective remedies for the excessive length of judicial proceedings are not yet ensured at all levels of government, although in June 2022, a law to protect the citizen's right to trial within reasonable time was adopted at the state level. There is also no systemic collection of data on the **citizens' right to seek compensation** for damage caused by unlawful actions or omissions of the public administration. (*see also Chapter 23*)

### *Service delivery to citizens and businesses*

The legal framework for a **user-oriented administration** varies substantially across the country. While the PAR strategy includes a policy framework for citizen-oriented service delivery, only the *Republika Srpska* entity has developed a digital service delivery strategy. However, it faces challenges in implementing it due to a lack of financial resources. As there are no institutional functions on service delivery at any level of government, there is no systematic monitoring of service delivery performance and no catalogues of services. Digitalisation has only advanced in taxes and customs, although slowly, and it remains hindered by a lack of interoperability and cumbersome internal procedures. There is still no electronic signature infrastructure for citizens; businesses can obtain a digital certificate for e-signature from the entity tax authorities, but only to deal with taxation. To foster a user-oriented administration, Bosnia and Herzegovina should simplify and modernise administrative procedures for citizens and business in a harmonised way across the country. The Federation entity amended its law on administrative procedure in July 2022. The *Republika Srpska* entity created a one-stop-shop for business registration, but this service is not fully functional because of the delayed introduction of e-signature and e-payments.

## **2.2. RULE OF LAW AND FUNDAMENTAL RIGHTS**

### **2.2.1 Chapter 23: Judiciary and fundamental rights**

*The EU's founding values include the rule of law and respect for human rights. An effective (independent, high-quality and efficient) judicial system and an effective fight against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.*

Bosnia and Herzegovina has **some level of preparation** to implement the EU *acquis* and European standards in the area of judiciary and fundamental rights. **No progress** was made during the reporting period. The authorities and the judiciary have taken limited action to address the findings of the Expert Report on Rule of Law issues ('Priebe Report')<sup>6</sup>. The poor functioning of the judicial system continued to undermine the citizens' enjoyment of rights and the fight against corruption. Corruption indicators further deteriorated and all levels of government show signs of political capture directly affecting the daily life of citizens. Selective and non-transparent prosecution and judicial follow up of corruption cases continued, affecting the public, businesses and investors. As regards fundamental rights, significant reforms are needed to ensure that all citizens are able to effectively exercise their political rights and thus bring the country's constitutional and legislative framework into line

<sup>6</sup> <http://europa.ba/wp-content/uploads/2019/12/ExpertReportonRuleofLawissuesinBosniaandHerzegovina.pdf>

with the *Sejdić-Finci* case-law of the ECtHR.

## Functioning of the judiciary

Bosnia and Herzegovina is at an **early stage/has some level of preparation** in the area of the judiciary. **No progress** was made in addressing Opinion key priority 6 on the functioning of the judiciary. Last year's recommendations remain pending. In May 2022, the Parliament rejected the legislative amendments aimed at establishing a system to verify asset declarations of judges, prosecutors and HJPC members, which highlights a lack of genuine political commitment to the rule of law and to the country's EU path. The interim investigative committee on the state of the judiciary of the House of Representatives, despite delays due to the political blockage, published its findings in June 2022. Persistent and evident signs of deterioration continue to require urgent measures to strengthen integrity and regain the public trust in the judiciary. The Chief Prosecutor of Bosnia and Herzegovina and the chief prosecutor of *Republika Srpska* were demoted on account of disciplinary offences during the reporting period. The legislative initiative to set up a separate HJPC body in the *Republika Srpska* entity would violate the constitutional and legal order and further jeopardise the independence of the judiciary, representing a clear backsliding on the Opinion key priorities; it should be unequivocally abandoned.

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

- adopt a new justice sector reform strategy and implement the revised national war Crimes strategy effectively, notably by appointing the supervisory body;
- urgently re-introduce into parliamentary procedure and adopt the integrity amendments to the Law on the High Judicial and Prosecutorial Council establishing among others a credible and rigorous system of verification of asset declarations of judicial office holders;
- finalise the new draft law on the High Judicial and Prosecutorial Council and on the Courts of Bosnia and Herzegovina, in line with European standards, and request the opinion of the Venice Commission;
- consistently apply merit-based appointment practices, without prevalence of ethnic criteria, and ensure that quality criteria are applied in performance appraisals.

## Strategic documents

Bosnia and Herzegovina still needs to adopt a new Justice Sector Reform Strategy for 2021-2027 and the related action plan. The new strategy must include all key reforms recommended in the Commission Opinion and analytical report, as well as in the Expert's Report on Rule of Law issues in Bosnia and Herzegovina ('Priebe report'). The strategy should be supported by an efficient mechanism of governance, monitoring and reporting on its performance, with the possibility to adopt corrective actions, and it should be supported by adequate budgetary allocations.

## Management body

The High Judicial and Prosecutorial Council (HJPC) is the single judicial self-governance body. Despite targeted action of its leadership to address shortcomings within its remit, public trust in the judiciary remains low. The lack of a common HJPC position in reaction to the initiative of the *Republika Srpska* entity questioning its status as the single countrywide body of self-governance of the judiciary has exposed its fragility. Implementation of the HJPC Reform Program 2021-2023, including the new communication strategy and action plan, achieved little impact on key judicial standards in practice, notably on merit-based appointments, accountability, efficiency and transparency. The HJPC Presidency has to step

up its oversight role and assume responsibility for substantial reforms. More tangible results are expected, notably in the area of fighting corruption and nepotism in the judiciary. The HJPC should increase its own accountability by providing thorough and transparent reasoning of its final decisions, especially on appointments, in line with European standards.

### Independence and impartiality

The **independence** and impartiality of the judiciary did not improve. Executive and legislative authorities failed to adopt additional safeguards. The HJPC, as well as all courts and prosecutor's offices, should undertake more efforts to restore public trust in the independence of the judiciary.

Rules on appointments, disciplinary responsibility, career advancement and conflict of interest of judges and prosecutors continue to be applied inconsistently and with overly broad discretion. Deviations from objective appointment criteria affect trust in the integrity and objectivity of the process. Professional integrity and suitability standards are rarely taken into account in career development, and judicial office holders often get promoted despite having disciplinary or criminal records. This further erodes citizens' trust in an independent and credible judiciary. The HJPC must urgently demonstrate more objectivity in conducting appointment procedures, which must be based on pre-determined, objective and accessible criteria.

In the reporting period, efforts have been made to streamline appointments by issuing fewer calls with a larger number of vacancies. However, the selection procedures are still too long, often to the detriment of staffing needs of courts and prosecutor's offices. A new comprehensive Law on the HJPC should provide for a single annual examination and more stringent appointment criteria. The HJPC has to provide for expedient testing procedures and improve the quality of first access to the judicial career by establishing a preparatory programme in line with the recommendations of the Priebe report.

In the absence of a new law on the HJPC, the rules on conflict of interest for the entire judiciary are still non-binding. The random case allocation system remains vulnerable to abuses, which affects **impartiality**. Deviations have been reported from the automated random allocation of cases, and some even sanctioned. Any re-distribution should only be possible for exceptional reasons and even then only when documented and explicitly justified. Such an exceptional procedure must be precisely and transparently documented to rule out personal and political influence. Court presidents and chief prosecutors in coordination with the HJPC need to take action to increase transparency and provide justification for re-distributing cases manually. Undue external pressures have increased, notably by political leaders who publicly target certain judicial office holders and their decisions. There are no available remedies against actions undermining judicial independence, including threats. The threat reporting mechanism and subsequent public reactions of the HJPC must be reviewed.

### Accountability

There has been no progress towards establishing a robust system to verify **asset declarations** of judges, prosecutors and HJPC members, as legislative amendments providing integrity checks have been rejected in Parliament. Once the Law on the HJPC is amended, the HJPC and its secretariat should ensure that all preconditions are in place for sufficient security standards of files and correspondence of the Integrity Department and its special unit by using the tools provided through EU assistance. A number of judicial office holders published their asset declarations voluntarily, but not all court presidents and chief prosecutors did so.

**Integrity** plans are in place in almost all courts and prosecutor's offices, yet with limited results. There is a need for comprehensive ethics and integrity training, including for newly

appointed judges and prosecutors. The HJPC should introduce an in-depth evaluation of suitability of candidates, notably during promotion procedures.

**Disciplinary procedures** continue to have little dissuasive effect. In 2021 the Office of the Disciplinary Counsel (ODC) registered 925 complaints, out of which 71 ex officio against judicial office holders (28% more than in 2020) and filed 35 disciplinary charges, including 10 against chief prosecutors and court presidents. The Disciplinary Counsel has to be provided with a sufficient degree of separation of premises and infrastructure to enjoy a sufficient degree of autonomy and independence, guarantee the confidentiality of data, and protect staff and witnesses from intimidation risks. The HJPC completed 31 disciplinary proceedings, of which 25 resulted in disciplinary measures, including one demotion and 15 cases of salary reduction. One judge resigned during the proceedings. Some cases pertaining to high-ranking magistrates drew significant attention. In October 2021 the Chief Prosecutor of Bosnia and Herzegovina was demoted on account of disciplinary offences, notably for manipulation of case assignment, while the President of the Court of Bosnia and Herzegovina was acquitted on all disciplinary charges. In May 2022 the Chief Prosecutor of *Republika Srpska* was also demoted following first-instance disciplinary procedure. Disciplinary and criminal convictions or pending disciplinary proceedings have to be taken into account in the procedures for transfer, promotion and performance appraisal. To this aim, the HJPC has to apply consistently the criteria of suitability of candidates for judicial posts, in line with Commission recommendations. Failure to do so should have consequences in terms of non-promotion or insufficient/poor performance appraisal. Disciplinary hearings and decisions need to reach the wider public more effectively.

There has been no progress in addressing the shortcomings concerning the composition and potential conflict of interest in the formation of disciplinary panels. The targeted amendments to the Law on the HJPC would have provided for a special regime of disciplinary liability of all members of the HJPC, including its President; such amendments were rejected in parliament in May 2022. Rules and training on evidence gathering before disciplinary panels should be improved in line with Commission recommendations, as well as the evaluation of ethical standards. Introducing an inspectorate service should be seriously considered.

#### Professionalism and competence

**Appointments** and career advancement of judges and prosecutors are core prerogatives of the HJPC. Although **appointment** rules are based on merit, exceptions based on ethnicity and other considerations continue to prevail. As a consequence, appointments significantly deviate from merit-based ranking, casting doubts over fairness. A new law on the HJPC should introduce judicial review of HJPC decisions; in the meantime, the HJPC has to re-assess its criteria and introduce clear reasoning for each appointment, duly taking into account criminal cases and disciplinary records of candidates. Trust in the appointment system is at its lowest, and immediate resolute action is needed to restore it.

**Performance appraisals** require reform to balance quality and quantity criteria, which should apply equally to all judges and prosecutors throughout the country.

#### Quality of justice

Two investigations of public significance for serious crimes have not been concluded yet. The injured parties have been waiting for justice for too long and are organising rallies, notably in front of the Prosecutor's Office. Effective and prompt investigations and judicial follow-up must be ensured for those cases.

**Training** for judges and prosecutors is handled by the entity-level judicial and prosecutorial training centres, which are coordinated by the HJPC. Significant improvement is needed, both

in terms of budget allocation and quantity/quality of training sessions. Mandatory training is too short, lacks assessment of needs and does not focus on basic skills (conduct, managing caseload, preparation of hearings, ethics, code of procedure). The selection and quality of trainers need to be improved. The impact of training programmes should be evaluated and linked to the evaluation of judges and prosecutors' work. The total budget for training in 2021 amounted to EUR 645 416, with a slight 5% increase compared to 2020.

The national **case management system** (CMS) produces detailed reliable statistics and reports at different levels (judges, courts, national) including on case flow, human resources, and duration of the pending cases. According to the Council of Europe's European Commission for the Efficiency of Justice (CEPEJ), the CMS index for Bosnia and Herzegovina is higher than the Western Balkans average (3.5 for each type of cases, 2.9 for civil, commercial and administrative cases, and 2.8 for criminal cases). Bosnia and Herzegovina timely delivers good quality and reliable judicial data to the CEPEJ Dashboard Western Balkans action. The HJPC needs to step up its oversight on the basis of reliable statistical data on the performance of the judicial system, including on case reallocations.

The justice system still lacks **transparency** but some improvements are visible. On 5 March 2021, an online database of court decisions was opened to the public free of charge, containing over 16 000 entries as of June 2022. The HJPC also adopted a communication strategy and action plan, which remain to be implemented. To improve public trust and increase transparency, adequate training on public communications and media relations for courts and prosecutors' offices are needed. Public appearances and social media use by judicial officials remain to be regulated.

Further steps were taken to increase the **harmonisation of jurisprudence**: in 2021, in coordination with the four highest judicial instances, the HJPC created a case law portal allowing access to over 4 070 judicial stances and selected court decisions. However, the legal status and effectiveness of the judicial panels for harmonising case law in civil, criminal and administrative matters remain unsolved. Ultimately, Bosnia and Herzegovina needs to establish a judicial body capable of ensuring the consistent interpretation of the law and harmonisation of case-law across the country.

The 2021 **budget** for the judiciary, including the HJPC, is EUR 135.6 million (0,77% of GDP), slightly above 2020 (EUR 132.5 million). In 2021 EUR 103.9 million was allocated to courts and EUR 29.1 million to prosecutors' offices (compared to EUR 101.5 million and EUR 28.4 million in 2020). The budget has increased in the last three years (2018-2021) from EUR 35 to EUR 37.8 per inhabitant and is now the same as the Western Balkans' median<sup>7</sup>. The funds remain insufficient to cover investments and to improve the judicial infrastructure, since over 85% is spent on salaries and compensations. Also, the fragmented system for financing the judicial institutions is highly complex and requires interaction with all levels of government in the process of budget adoption. Consequently, there are significant budget inequalities in the current funding system and difficulties in the process of judicial budget preparation. The HJPC should take a more active role to ensure adequate distribution of funds among judicial institutions.

In 2021, Bosnia and Herzegovina had 998 full-time judges (29 per 100 000 inhabitants<sup>8</sup>) and 361 full-time prosecutors (11 per 100 000 inhabitants), including 80 court presidents and 18 chief prosecutors. According to CEPEJ, the European averages are 21 judges and 12 prosecutors per 100 000 inhabitants. 61% of judges and prosecutors and 51% of managers are

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<sup>7</sup> Source: Council of Europe-Commission for the Efficiency of Justice/ CEPEJ

<sup>8</sup> Based on a total population of 3.281 million inhabitants (Source: World Bank 2020)

women.

### Efficiency

The **length of court proceedings** in first-instance cases (not dealing with utility bills) decreased to 409 days in 2021 (434 in 2020), but still remains very high. The clearance rate increased slightly to 97% in 2021 (96% in 2020). Nevertheless, the still excessive length of proceedings hampers the citizens' right to trial within a reasonable time. A law to protect that right was adopted at state level in June 2022, but is still missing in the Federation entity. Civil and criminal procedural codes have to be revised to make judicial proceedings more efficient. Court presidents and chief prosecutors still manage the procedural discipline on trials poorly, ignoring concrete recommendations issued by the HJPC. They need to take a more active role in managing their institutions under the strategic guidance of the HJPC.

There is a **backlog** of over 2.1 million pending court cases, of which some 1.8 million are cases of unpaid utility bills, which continue to hinder efficiency. Such backlog overburdens first instance courts. The backlog of non-utility cases decreased slightly by 1.3% compared to 2020. Relevant authorities did not follow Commission recommendations to transfer the enforcement of small and uncontested claims from courts to professional bailiffs. Entity-level laws and regulations on enforcement have to be amended urgently in order to increase efficiency. The HJPC attempt to reduce the working time used to calculate the annual performance quotas for judges for all types of cases, if adopted, would result in an annual 9% increase in the backlog, and would risk undoing a decade of hard-fought progress. In order not to undermine efficiency, remedial measures to the judges' quota system should be introduced only after a thorough impact analysis. The HJPC has to finalise the process of reducing the backlog and length of proceedings, including by reviewing the effectiveness of the recently adopted prosecutorial quotas.

### Domestic handling of war crime cases

Bosnia and Herzegovina constructively cooperates with the International Residual Mechanism for Criminal Tribunals (IRMCT-Mechanism). The Prosecutor's Office of Bosnia and Herzegovina and the Office of the Prosecutor of the Mechanism continue to collaborate closely. In 2021, 90% of all requests for assistance from the region to the Mechanism's Prosecutor came from Bosnia and Herzegovina. The number of indictments for war crimes increased in 2021, with 21 indictments against 56 defendants (18 against 45 in 2020).

War crime convictions by the International Criminal Tribunal for the former Yugoslavia and its successors are still not entered into domestic criminal records. Although the Ministry of Justice established a working group in 2020 to address this issue, there has been no progress.

The revised National War Crime Strategy is being implemented, despite the failure of the Council of Ministers to appoint a new supervisory body. Within the scope of its mandate, the HJPC has proactively overseen the work of the prosecutors and courts in implementing the strategy. A supervisory body remains needed to ensure comprehensive oversight, endorse decisions required to improve the processing of war crimes, validate the implementation of the strategy and secure continuous funding. The Council of Ministers should swiftly establish the new supervisory body.

Regional judicial cooperation in processing war crime cases requires further improvements. The bilateral protocols on cooperation related to war crimes, crimes against humanity and genocide between the Prosecutor's Office of Bosnia and Herzegovina and its counterparts of Serbia, Croatia and Montenegro have helped to reduce judicial impunity but have not been used systematically. With the assistance of the Prosecutor of the Mechanism, cooperation with Serbia has led to more transfers of proceedings and indictments being issued in cases

transferred from Bosnia and Herzegovina, but this has only resulted in one conviction so far. Cooperation with Croatia continues to face a number of impediments on judicial assistance, with some investigations ongoing that have not yet led to indictments. The protocol with Montenegro has led to investigations after the transfer of evidence from the Mechanism.

Out of 238 cases by the end of 2021, 94 proceedings (against 100 individuals) are pending due to the unavailability of the indicted persons. Holding multiple citizenships, these individuals are often residing in neighbouring countries. This enables them to escape justice by taking advantage of prohibitions against extradition of own nationals for the criminal offences of genocide, crimes against humanity and war crimes. They also benefit from the lack of progress of neighbouring jurisdictions in addressing the crimes in question. Serbia still fails to enforce the final sentence handed down in Bosnia and Herzegovina in 2014 against Novak Djukić, despite the availability of the basic international judicial cooperation tools. A number of international arrest warrants (Interpol Red Notice) filed by Bosnia and Herzegovina for indicted war criminals remain unimplemented. Similarly, Duško Kornjača indicted for crimes against humanity in 2015 and Tomislav Kovač indicted for genocide in 2018 are freely residing in Serbia.

The ongoing reduction the backlog in *war crime cases* still suffers delays, casting doubts on completing the processing of war crimes by the end of 2023. From an estimated 1 210 cases in July 2013, the unresolved war crime cases have been reduced to 492 (-59.5%) by end 2021; around 311 of these are complex cases (63.5%). An estimated 174 cases against 393 individuals (35.5% of the backlog) are pending due to the unavailability of the suspects. Without reinforced regional cooperation, by end 2023 the backlog of war crimes cases will be primarily composed of suspects unavailable to the judiciary of Bosnia and Herzegovina. In 2021, the number of confirmed indictments (13) and the conviction rates (85%) remained stable in the entities and the Brčko District. While progress were noticeable at state level with 15 indictments confirmed and an 86% conviction rate, there is still room for improvement. The Prosecutor's Office should strengthen efforts to process the most complex cases (it transferred 25 less complex cases to the entities and Brčko District in 2021) and continue to improve the quality of investigations and indictments.

### **Fight against corruption**

Bosnia and Herzegovina is at an **early stage/has some level of preparation** in the fight against corruption. **No progress** was made in addressing Opinion key priority 7, the 2021 recommendations, and the findings of the Expert Report on Rule of Law issues, which remain outstanding. Political leaders and judicial institutions failed to tackle widespread corruption and actively obstructed progress, leading to long-term stagnation and increasing signs of political capture. A state-level law on the prevention of conflict of interest was rejected in Parliament in May 2022, indicating a lack of genuine political commitment to the rule of law and to the EU path of the country. Selective and non-transparent judicial follow-up in corruption cases of public resonance is a cause of significant concern, alongside pressure and intimidation. No action was taken to adopt new strategic documents at state level and in the Federation entity. Legislation is not harmonised across the country, and cooperation and coordination among anti-corruption bodies is poor. Although in the reporting period there have been some indictments pertaining to high-level corruption sentences, the track record on preventing and repressing corruption (including at high level) remains insignificant, due to operational inefficiency and political interference. The number of final convictions in high-level cases remains very low. Unlike in other cantons, the Sarajevo canton authorities continued corruption prevention activities, but efficient follow-up by the prosecution and judiciary was missing. The continued lack of progress at all levels increases the risk of

backsliding. Political leaders and judicial institutions need to urgently remedy the situation. Targeted risk assessments and dedicated measures to address corruption are needed, in particular in the most vulnerable sectors.

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

- Submit into parliamentary procedure and adopt the law on the prevention of conflict of interest at state level, and further harmonise the legislation at entity and Brčko District levels with international standards and best European practices; complete the legal framework and step up implementation on the protection of whistle-blowers; amend the criminal legislation to address the lack of harmonisation and competence conflicts, excessive length of proceedings and weak institutional cooperation in corruption cases;
- Demonstrate progress towards establishing a track record on preventing and repressing high-level corruption; improve cooperation between the police and the prosecutors' offices.
- Adopt a new state-level anticorruption strategy and action plan.

### Track record

Efforts remain insufficient to establish a track record on proactive investigations, prosecutions and final convictions for corruption. In particular, progress in tackling high-level corruption remains insignificant and needs to be seriously stepped up.

In **high-level corruption cases**, in 2021, there were 15 ordered investigations (14 in 2020), 6 suspended investigations, 12 filed indictments (7 in 2020), 3 final verdicts, 2 convictions and 1 acquittal (one conviction with suspended sentence in 2020). This trend shows that there continues to be an alarmingly low number of final convictions in high-profile cases.

In 2021, the **State Investigation and Protection Agency (SIPA)** initiated 193 **investigations** (42 *ex officio* and 151 by order of the competent Prosecutor's office ) into cases of corruption, of which 20 were finalised. 38 reports against 67 individuals were sent to the competent prosecutors' offices. The trend at state level shows that only few investigations have been finalised.

Prosecutors' offices issued 317 orders to conduct investigations into corruption, leading to 229 indictments countrywide. 211 indictments were confirmed, including indictments from the previous period, while the number of convictions was 143, of which, 98 were suspended sentences. 134 persons were convicted based on a plea bargain. The HJPC has adopted criteria for the identification of high-level corruption cases. In 2021 the HJPC enabled automatic access to data on high-level corruption cases in the Case Management System. Sanctions are not sufficiently effective, dissuasive and proportionate. Plea bargain agreements are frequent and sanctions are lenient because of the excessive application of mitigating circumstances, with prison sentences often suspended or even converted into fines with little dissuasive effect. Most of the convictions were for abuse of office or authority.

In the area of **conflicts of interest**, a state-level commission, established in July 2020, remains ineffective and has dealt with a few cases only. The commission determined that three public officials were in conflict of interest and imposed temporary salary reductions in two cases as a sanction. The commission confirmed the conflict of interest of the deputy director of the Agency for Prevention of Corruption of Bosnia and Herzegovina but did not impose a sanction as he was no longer an official. As regards **asset declarations**, about 600 state-level officials are required to submit their financial reports for verification, out of whom only half (291) submitted their financial reports in 2021 (231 in 2020). In 2021, no proceedings for failure to submit declarations or inaccuracies were initiated, no reports were

checked and no sanctions were imposed. In the *Republika Srpska* entity, around 4 000 office holders are obliged to submit financial reports, out of whom only one fourth (990) submitted financial reports in 2021. The commission on conflicts of interest received 85 reports of conflict of interest and in one case acted *ex officio*. It issued seven decisions on established conflict of interest.

Rules on conflicts of interest are not enforced in the Federation entity. The Brčko District adopted a law on preventing conflict of interest in March 2021 and appointed a related commission in June 2021. Asset declarations of elected officials are made available to the public through the Central Election Commission website, although it has no obligation to check their accuracy. In the Sarajevo Canton, office holders' asset declarations are published on the cantonal anti-corruption office website.

In the Sarajevo Canton, the positive trend continued. In 2021, 1 380 asset declarations were submitted to the cantonal Office for the Prevention of Corruption (1 163 in 2020) and 42 office holders who failed to submit declarations were sanctioned with misdemeanour fines, of which nine orders were appealed before minor offences courts. In all cases, the courts finally imposed sanctions lower than the minimum provided by law; such judicial practice must be further scrutinised in light of the principle of dissuasiveness and efficiency of sanctions. In two cases, including one against a mayor, the cantonal anti-corruption office found significant disproportion between assets and legal income. Reports have been submitted to the Sarajevo cantonal prosecutor's office on the suspicion of tax fraud and illegal gain of assets.

The Agency for Prevention of Corruption and Coordination of the Fight against Corruption (APIK) granted administrative protection to **whistle-blowers** in two cases out of three requests in 2021, compared with zero in 2020. In the *Republika Srpska* entity, no request for protection to whistle-blowers was filed in 2021, compared with one request filed and partially upheld in 2020. There is no legislation on whistle-blower protection in the Federation entity. In 2021, the Brčko District established the Office for the prevention of corruption that is also responsible for implementing the 2018 legislation on whistle-blowers protection. Legislation at all levels of government needs to be aligned with the EU *acquis*.

## Institutional framework

### *Corruption Prevention*

The functioning of corruption prevention bodies and their coordination, including with APIK, continued to be ineffective. APIK faces challenges to ensure it is able to function independently. APIK should play a much more proactive role in implementing GRECO recommendations and aligning with international standards. The mandate of the director and deputy director of APIK expired in September 2021; the Parliament appointed their successors only in July 2022. A serious concern is that one member of the parliamentary commission in charge of appointments at APIK has been publicly designated by the U.S. Department of State since September 2018 due to involvement in significant corruption (implying ineligibility for entry to the United States).

The independence of corruption prevention bodies at the entity and cantonal levels and their human and material resources need to be significantly strengthened. The anti-corruption office of the Sarajevo Canton continued to make good progress and remains a good example among cantonal bodies. In 2021, the office processed 919 reports of corruption, most related to corruption in employment, of which 83 reports were sent on to the competent authorities for further investigation and action. 83 reports were referred to the Prosecutor's Office of the Sarajevo Canton. In two cases, the Prosecutor's Office filed an indictment. In 12 cases, there was a decision not to conduct/suspend the investigation. The anticorruption office continued

increasing transparency standards in the Sarajevo Canton, establishing four new publicly accessible registries in 2021 on public procurement, subsidies for agriculture beneficiaries, subsidies for small business development and the transfers to non-profit organisations and individuals. In May 2021, the Tuzla Canton adopted legislation to establish an anticorruption office and in December 2021 a Law on reporting and verification of asset declarations of public officials, following the model of the Sarajevo Canton. In the Brčko District, following the adoption of legislation establishing an anticorruption office in 2018, the authorities finally appointed in October 2021 its director and two deputies. The Una Sana Canton is yet to establish the body that will implement the legislation on reporting and verifying asset declarations of public officials, which entered into force in February 2021.

Bosnia and Herzegovina needs to introduce a comprehensive and effective system for electronic public procurement to foster transparency and reduce the abuse of public resources. An enhanced monitoring and inspection control system remains necessary to tackle corruption and irregularities in public procurement procedures.

The audit department of the Central Election Commission needs more capacity to monitor compliance with political party financing laws.

### *Law enforcement*

Criminal justice policy and the legislative framework throughout the country is largely ineffective and inadequate for the fight against corruption. This is in part due to inadequate law enforcement and penalties that do not ensure sufficient deterrence. Deep legal fragmentation and frequent conflicts of jurisdiction leading to transfers of cases slow down proceedings and reduce efficiency. The police are not proactive in launching investigations and investigations are slow. The highly formalistic manner in which SIPA is enforcing actions aimed at obtaining evidence, including in high-level corruption cases, is cause of serious concern. Systemic shortcomings in the operational cooperation of law enforcement agencies and a very limited exchange of intelligence remains a persistent challenge. In the few high-level corruption cases reported, selective judicial follow-up and legal mistakes, negligence, abuse of procedures, political pressure, questionable court decisions and verbal attacks on the prosecution continued to be observed, including at state level. Pressure and interference, especially in high-level cases, has continued and is a major concern.

In the reporting period, the limited cooperation of law enforcement agencies with the prosecutor's offices and lack of effective monitoring by the prosecutors over the work of police continued to seriously hamper the effectiveness of investigations. The selective unwillingness of the police, including at the state level, to cooperate with prosecutor's offices, notably in high-level corruption cases, is a cause of serious concern questioning their independence and professionalism. Divergences in views with regard to the authority of state-level prosecution offices to issue instructions directed at entity prosecution offices hamper the efficiency of investigations and proceedings in high-level corruption cases. Such conflicting legal views must be remedied immediately. Competent authorities of Bosnia and Herzegovina have not addressed the failure of Serbia to respond to repeated requests of the Prosecutor's Office of Bosnia and Herzegovina for international legal assistance since 2016, in a corruption case involving a high-level politician.

Special anti-corruption departments within prosecution offices were established at the state level and in the *Republika Srpska* entity. However, their effectiveness in fighting corruption remains very weak. These specialised departments must start to deal effectively with high-level corruption cases and their independence must be significantly strengthened. Specialised departments at the Federation entity prosecutor's office and Supreme Court have not yet been set up. Pressure and interference, especially in high-level cases, has continued and is a major

concern.

A trial is ongoing before the Court of Bosnia and Herzegovina against the Prime Minister and the Minister of Finance of the Federation entity, the suspended head of Civil Protection of Federation entity and a private entity (case *Novalić et al.*), related to public procurement fraud of COVID-19 medical equipment. The Court of Bosnia and Herzegovina managed the trial very poorly, resulting in extensive and unjustified delays, which also affected the composition of the court panel, as its president retired. The Prosecutor's Office of Bosnia and Herzegovina initiated two additional related investigations and the Sarajevo Canton Prosecutor's Office one related case. These cases were widely reported in the media and investigations are ongoing. It is essential that prosecution and judicial services ensure an independent, effective and impartial judicial follow-up in these cases, which are of great public resonance and raise concern about the state of corruption in the country.

Prosecutors are expected to demonstrate firm determination to prioritise and efficiently finalise investigations of mid and high-level corruption cases arising out of the SKY ECC communication service tool. Efficient judicial follow up in those cases must be ensured.

### Legal framework

The lack of harmonisation of legislation across the country continued to hamper the fight against corruption. A state-level law on prevention of conflict of interest, in line with international standards and best European practices, was rejected in Parliament in May 2022, indicating a lack of genuine political commitment to the rule of law and to the EU path of the country. A draft law on conflict of interests, aligned with international standards and GRECO recommendations, needs to be submitted into parliamentary procedure, and adopted without further delay. The Federation entity needs to adopt legislation on conflict of interest as well as on the effective protection of whistle-blowers. In March 2021 the Brčko District adopted a new law on the prevention of conflict of interest, which needs to be implemented effectively and further aligned with best European practices. The *Republika Srpska* entity also needs to align its conflict of interest legislation with international standards.

In 2021, both entities adopted strategies for development of the system of internal financial control in the public sector. Lack of transparency seriously hinders the fight against corruption. The legislation on political party financing needs to be urgently aligned with international standards, particularly with pending GRECO recommendations. Legislation on freedom of access to information at state and entity level needs to be aligned with international and European standards. Data protection laws continued to be interpreted in a way that protects private rather than public interests, thus hindering the prevention and repression of corruption (*see also Chapter 23*). There is no legislation to effectively prevent and address corruption in the private sector and no regulation of lobbying. None of the GRECO recommendations have been implemented in their entirety. The authorities need to ensure appropriate legislative and institutional follow-up to fulfil the outstanding recommendations, notably on political party financing and conflict of interest.

### Strategic framework

The state-level strategy on anti-corruption expired in the end of 2019 and no new strategy has been adopted since. The anti-corruption strategies and action plans at all levels of government remain outdated, except in the *Republika Srpska* entity, and effective implementation continue to be lacking, further hampering a harmonised strategic approach across the country. New strategic documents need be adopted, harmonised across the country, and their implementation should start without delay. Adequate funding should be provided and strong monitoring mechanisms set up to ensure their implementation.

## Fundamental rights

The legislative and institutional framework on fundamental rights is largely in place. Limited efforts were made in the reporting period to address Opinion key priorities 5 and 9-13 on fundamental rights, notably by adopting action plans for the social inclusion of the Roma in April 2022 and on the rights of LGBTIQ persons in July 2022. Freedom of assembly remains restricted in the *Republika Srpska* entity. Significant reforms are needed to ensure that all citizens are able to effectively exercise their political rights and thus bring the country's constitutional and legislative framework into line with the *Sejdić-Finci* case-law of the ECtHR. Divided education needs to end in order to ensure non-discriminatory, inclusive and quality education for all, including by overcoming the practice of 'two schools under one roof'. Gender-based violence, ill-treatment of detainees and the protection of minorities, including the Roma<sup>9</sup>, continue to cause concern. The country still needs to develop a comprehensive strategic framework on human rights and on the protection of minorities, including on transitional justice. Recommendations from previous years are pending.

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

- implement court rulings to end divided education;
- designate by law the Human Rights Ombudsman as a preventive mechanism against torture and ill-treatment;
- ensure full respect, protection and promotion of freedom of assembly and expression, and refrain from further actions that adversely impact the exercise of these rights.

Bosnia and Herzegovina has ratified all major European and **international human rights instruments**, most of which are included in its Constitution. The absence of a systematic follow-up means that the country still has to address most of the 204 accepted recommendations from the November 2019 Universal Periodic Review. Despite not having observer status to the EU Agency for Fundamental Rights (FRA), Bosnia and Herzegovina is encouraged to replicate the Agency's data collection methodology.

In the reporting period, the **European Court of Human Rights** (ECtHR) delivered 19 judgments that Bosnia and Herzegovina had violated rights guaranteed by the European Convention on Human Rights (ECHR) in 10 cases. These violations concerned the right to a fair trial, freedom of expression and protection of property. In the reporting period, there were 666 new applications allocated to a decision body of the ECtHR, bringing the total number of applications pending before the Court to 285. The *Sejdić-Finci*, *Zornić*, *Šlaku*, *Pilav* and *Pudarić* ECtHR rulings on electoral rights require constitutional amendments to ensure equality among all citizens; they have still not been implemented and remain under enhanced supervision.

Bosnia and Herzegovina still has not taken any steps in adopting a comprehensive policy framework on the **promotion and enforcement of human rights**, including countrywide strategies on human rights, non-discrimination, and the protection of minorities. Consequently, the protection of human rights continues to be uneven across the country.

Bosnia and Herzegovina still needs to amend the Law on the Human Rights Ombudsman to strengthen the independence and effectiveness of this body and designate it as a national preventive mechanism against torture and ill-treatment – an international obligation of the country. The draft amendments were submitted to the Council of Ministers in December 2021

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<sup>9</sup> In line with the terminology of European institutions the umbrella term 'Roma' is used here to refer to a number of different groups, without denying the specificities of these groups.

and sent for parliamentary procedure only in August 2022. The term of office of the three Ombudsmen expired in November 2021; new members were appointed only in September 2022.

The tripartite composition and consensual decision-making of the Ombudsman institution still needs to be revised in the mid-term to ensure its effective functioning. Its independence needs to be strengthened. The Ombudsman registered 2 946 complaints in 2021, a similar number as in previous years, and issued 315 recommendations, of which 198 were fully implemented. The Ombudsman has not opened any minor offence proceedings for non-compliance with its recommendations in the past 7 years, despite having the power to do so, nor has it initiated or intervened in administrative or judicial proceedings. It issued four special reports in 2021.

As regards **torture and ill-treatment**, Bosnia and Herzegovina needs to ensure compliance with Article 17 of OPCAT. Suspects in police stations and detention facilities face a serious risk of ill-treatment, while reports are processed slowly, cases are not handled carefully, and evidence often gets lost. As a result, only few officers have been punished. The Council of Europe's Committee for the Prevention of Torture visited Bosnia and Herzegovina in September 2021 to examine the treatment of persons deprived of liberty by police agencies, the treatment and conditions of detained remand prisoners, and the effectiveness of investigations into allegations of police ill-treatment.

No steps were taken to adopt a state-level framework law clearly defining countrywide criteria on the rights of civilian victims of war-time torture to meet its pending obligations under the Convention against Torture. Bosnia and Herzegovina still needs to address the August 2019 decision of the UN Committee against Torture (UNCAT) on providing all forms of redress to victims of wartime torture through an effective reparation scheme. The *Republika Srpska* entity government should consider waiving court fees for victims of wartime torture to which statutes of limitations were applied in the past, as in some 200 cases victims faced repossession of property for defaulting on payments, which is a worrying trend.

There is no countrywide strategy on the **prison system**, and no steps were taken to improve detention conditions, starting by harmonising the legislation across the country and bringing it in line with with European and international standards. The Federation entity took no steps to adopt legislation to enable the transfer of prisoners between entities, staff professionalisation and a parole system. Digitalisation, reintegration programmes, and coordination with healthcare and social services need to be improved. The country should further expand the use of alternatives to detention, in particular in the *Republika Srpska* entity. While the new state prison is now working at full capacity, several prison facilities in the country remain in need of infrastructural improvement. Prison regimes also require modernisation. The Ombudsman received 91 complaints from persons deprived of liberty in 2021, mostly concerning healthcare and living conditions, and issued one recommendation.

On **reconciliation**, Bosnia and Herzegovina still lacks a countrywide policy framework for dealing with the legacies of the past, including a countrywide strategy on transitional justice. Political leaders continued to engage in historical revisionism, including genocide denial and glorification of war criminals, also contesting established facts and the independence or impartiality of international and domestic tribunals. The *Republika Srpska* assembly denied validity to the July 2021 executive decision of High Representative Inzko criminalising the denial of genocide and the glorification of war criminals; the Constitutional Court quashed such entity legislation in July 2022. In July 2021, the *Republika Srpska* entity also criminalised describing the entity or its peoples as aggressor or genocidal creation, with detention penalties from 6 months to 5 years; while no cases were reported in the past year, such a criminal designation risks having a chilling effect on freedom of expression.

Bosnia and Herzegovina is expected to act in a sovereign manner to promote an environment conducive to reconciliation in order to overcome the legacies of the war (Opinion key priority 5). The Parliament should discuss and amend the criminal code to regulate genocide denial and glorification of war criminals in line with the 2008 EU Council framework decision on combating racism and xenophobia.

Some positive steps were taken at local level. In November 2021, the City of Sarajevo set up a memorial at Kazani commemorating 17 Serb civilian victims of war. The Brčko District decided to build a joint memorial for all civilian war victims, the second in the whole country, and in July 2022 it adopted a law on civilian war victims. On the other hand, in May 2022, the police forbade a march on the 30<sup>th</sup> anniversary of the ethnic cleansing of Prijedor (“white armbands”).

The continued unresolved issue of *missing persons* is a matter of concern. 7 500 people are still missing as of June 2022 as a result of the conflict, of which 70 were identified in 2021, and 127 more in the first half of 2022. Further efforts are needed on a regional scale to solve the issue. There was no progress in establishing a support fund for the families of missing persons, as provided for by the law, and improving the work of the Missing Persons Institute and the forensic capacities at state level. The law on missing persons remains to be amended.

No progress was made in aligning legislation with the EU *acquis* on **data protection**, including the General Data Protection Regulation. In August 2022, the Presidency ratified Protocol 223 amending the Council of Europe Convention for the protection of individuals with regard to the automatic processing of personal data. No steps were taken to make the Personal Data Protection Agency more independent or to increase its human and financial resources necessary for the effective performance of its tasks and exercise of its powers. The Agency needs to better balance the protection of privacy with objectives of general public interest, notably media freedom, electoral integrity, and the fight against corruption. The Agency conducted 84 procedures *ex officio* in 2021 (101 in 2020). It received 183 complaints, conducted 79 inspections and issued 9 minor offence orders (compared to 168, 36 and 10 in 2020). 19 administrative proceedings against decisions of the Agency were pending before the Court of Bosnia and Herzegovina (17 in 2020). While the state Parliament must consult the Agency on legislative proposals, other legislative assemblies are still not required to do so.

**Freedom of thought, conscience and religion** continue to be generally upheld. Cases of discrimination, hate speech and hate crimes on religious grounds continue to occur. Incidents targeting religious sites also continue, particularly in minority and returnee areas, as highlighted by the 9 January events in the *Republika Srpska* entity. In June 2022, some 700 engraved memorials in Mostar’s partisan cemetery were destroyed in an act of large-scale vandalism.

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## Freedom of expression

There is **some level of preparation** on freedom of expression. The country made **no progress** in addressing Opinion key priority 12 to guarantee freedom of expression and of the media and the protection of journalists. This requires ensuring the appropriate judicial follow-up in cases of threats and violence against journalists and media workers and ensuring the financial sustainability of the public broadcasting system. The legislative framework needs to be aligned with European and international standards and fully enforced. Political influence over public broadcasters persists, and their financial sustainability has not been ensured. The law on the public broadcasting system remains unimplemented and entity-level legislation is still not harmonised with this Law. Political pressure, intimidation and harassment towards

journalists, including physical and verbal attacks, continued during the reporting period, and there was no appropriate institutional follow-up. Last year's recommendations are still valid.

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

- ensure the protection of journalists and a systematic institutional follow-up on threats and violence against them;
- ensure the financial sustainability and political independence of public broadcasters, and harmonise entity legislation with the state-level law on the public broadcasting system;
- adopt legislation on media ownership transparency and criteria on public advertising.

### Intimidation of journalists

There are serious concerns about political pressure, intimidation and threats against journalists. The polarised political climate, constant verbal attacks and nationalist rhetoric have created a hostile environment for media freedom. High-level politicians continued their public attacks and disparaging remarks against journalists, analysts and media workers, particularly against women. The authorities continue to downplay the issue. Official country-wide data collection on threats and attacks against journalists and media workers is still lacking.

The *BH Novinari* journalists' association recorded 70 cases of journalists' rights being violated in 2021 (69 in 2020, 56 in 2019). The Ombudsman received 9 complaints (11 in 2020, 18 in 2019). The Online Media and Press Council received 509 complaints about hate speech against journalists. Authorities are expected to act swiftly and demonstrate zero tolerance for threats or attacks against the media, including by ensuring effective police investigations and judicial prosecution leading to final convictions of the perpetrators.

### Legislative environment

Although defamation has been decriminalised since 2002, politicians and public officials continue to use civil suits to intimidate journalists. To prevent an environment that forces journalists into self-censorship, courts should step up their efforts to ensure an expedient processing of defamation cases and consistency of case-law on damages awarded. Legislation on free access to information and hate speech remains fragmented and is not in line with international and European standards. Legal provisions on data protection and on access to information are still interpreted in a way that protects private rather than public interests. Municipal regulations on public order that threaten administrative fines for online comments (such as the one introduced in Cazin in March 2022) further shrink the space for freedom of expression.

### Implementation of legislation/institutions

The Communications Regulatory Agency (CRA) still lacks full political and financial independence. The procedure to appoint its management must be revised to improve the public's perception of it as a neutral and independent body. The mandate of the CRA Board has expired at the end of 2017; the Parliament has not appointed a new board for the whole 2018-2022 term.

### Public service broadcaster

The state-level public service broadcaster is in serious danger of shutting down. Following years of deprivation of stable funding, *Radiotelevizija Bosne i Hercegovine* (BHRT) is unable to pay salaries and suppliers. The tax authorities temporarily blocked its accounts in March-April 2022 due to an outstanding debt of EUR 9 million. This is the result of the 2003 law on

the public broadcasting system not being enforced, and of the entity laws on broadcasting being inconsistent with it, in particular as concerns the collection of fees. Since 2017, the debt of *Radio Televizija Republike Srpske* (RTRS) towards BHRT (over EUR 31.5 million) has been subject to lengthy litigation in entity courts. These issues pose a serious threat to the financial independence and sustainability of the public broadcasting system.

State and entity public broadcasters remain exposed to political influence, in particular through politically controlled steering boards. There is a worrying trend of self-censorship, heightened in the context of Russia's war of aggression against Ukraine. The Federation Parliament has not filled the vacancies at the Steering Board of the public broadcaster FTV nor appointed a director of FTV since 2013. *Republika Srpska's* RTRS spreads Russian and Serbian disinformation including on Russia's aggression on Ukraine and on Bosnia and Herzegovina's EU accession path. Banja Luka-based provider M-tel continued to carry the signal of the RT and Sputnik channels, despite Bosnia and Herzegovina's alignment with EU sanctions on Russia prohibiting to broadcast content from these Russian state-sponsored media outlets. (See also Chapter 10 – *Digital transformation and media*)

#### Economic factors

No steps were taken to adopt legislation on media ownership transparency (including on the prevention of hidden media concentration), legislation on advertising or criteria for the distribution of subsidies. The advertising practices of publicly owned businesses, such as telecom companies, and advertising agencies linked to political parties continue to harm media integrity. Local broadcasters that receive funding from local authorities remain subject to political pressure and influence. The growing number of strategic lawsuits against public participation (SLAPP) further fuels self-censorship. Two SLAPP cases were reported in 2021, with extremely high compensation claims threatening the financial survival of the media.

The position of female and male journalists is unequal. During the pandemic, female journalists and media professionals were particularly confronted with indirect discrimination and suffered more severe professional consequences: more than 10% of female journalists lost their jobs in this period, and more than 95% of them suffered financially.

#### Freedom of artistic expression

Freedom of artistic expression is guaranteed by legislation and generally respected. No official data on intimidation of artists is collected. Although authorities have not formally introduced restrictions, the environment for reconciliation-related themes is challenging. The 2021 award-winning film “*Quo Vadis, Aida?*” about the Srebrenica genocide was not screened in cinemas in the *Republika Srpska* entity or by the entity's public broadcaster.

#### Internet

Self-regulation of online media has a limited effect, and online platforms continue to be used to spread hate speech and disinformation. The Press and Online Media Council received 1 073 complaints in 2021, almost all related to online content. Criminal prosecution is limited to inciting religious and ethnic hatred on the internet or social networks.

#### Professional organisations and working conditions

Journalism in Bosnia and Herzegovina remains a precarious profession, with low wages and little job security. Labour rights are hardly respected, unionisation is low, and there are no branch collective agreements for media workers. Consequently, many journalists receive a salary significantly lower than average while also working overtime. The Press and Online Media Council's media code remains the basis of self-regulation, but compliance is inconsistent.

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Laws on **freedom of assembly** have yet to be harmonised across the country and brought in line with European standards, in particular on grounds for restriction and responsibility of organisers. The 2020 Brčko District law on freedom of assembly, largely in line with European standards, should be used as a model in other jurisdictions. The third Sarajevo Pride march took place in June 2022. The exercise of freedom of assembly remains restricted in the *Republika Srpska* entity, where in May 2022 local police forbade the “white armbands” march on the 30<sup>th</sup> anniversary of ethnic cleansing in Prijedor.

**Freedom of association** continues to be generally respected. However, human rights defenders dealing with issues perceived as sensitive (e.g. anticorruption, women’s rights, LGBTIQ persons’ rights, migrants, the environment) continue to be subject to threats, harassment, verbal abuse and physical attacks. The authorities have failed to promptly and systematically condemn and properly investigate such attacks. As a key priority, the authorities need to promote a conducive and enabling environment for civil society, and ensure effective consultation on legislative developments on freedom of association.

*Labour and trade union rights issues are covered in Chapter 19 – Social policy and employment.*

Regarding **property rights**, no steps were taken to update and interconnect the entity-level cadastre and land registry databases and no solution was found to pending repossession cases. The Commission for real property claims of displaced persons and refugees is inoperative.

Concerning **non-discrimination policies**, there was no progress in adopting countrywide human rights and anti-discrimination strategies. The 2009 law on the prohibition of discrimination, which aims at full alignment with the EU *acquis*, is still not applied effectively. Discrimination cases have started to be registered separately within the HJPC-managed Case Management System since early 2021, which should allow for data collection on all categories and types of discrimination as provided by the law.

Discrimination continues to be under-reported, particularly at the workplace, and judicial practice has shown a lack of uniform application of burden of proof, excessive length and non-enforcement of final decisions. The Ombudsman registered 173 cases in 2021 (288 in 2020, 206 in 2019). The ECtHR *Sejdić-Finci* case law has yet to be implemented. Disputes over education continue, whilst systemic solutions for ensuring inclusive and non-discriminatory education are not in place. The common core curriculum is not completed or applied throughout the country, and the availability of teaching in the national groups of subjects remains limited. No progress was made in eliminating the practice of ‘two schools under one roof’, which is in breach of a 2014 ruling by the Federation entity Supreme Court. Following a ruling of the Constitutional Court in July, in August 2021 the Federation entity Supreme Court established discrimination also concerning the ‘two schools under one roof’ practice in the Central Bosnia Canton. The name of the Bosnian language is not recognised in schools in the *Republika Srpska* entity, leading to recurrent school boycotts; the related Constitutional Court decisions have yet to be implemented.

Legislation on *hate crimes* is harmonised across the four criminal codes in the country. Entity-level legislation criminalises *hate speech* only when causing national, racial and religious hatred and it still needs to be aligned with the EU *acquis*. Failure to identify acts as hate crimes and the high burden of proof still makes it difficult to establish intent, leading to few indictments and convictions. 134 ethnic-related hate incidents were recorded in 2021, and 8 convictions were handed down in 2021 (119 and 3 in 2020, 131 and 1 in 2019). 13 trials are ongoing. The case law on hate crimes is not consistent. The authorities need to take concrete

measures to counter hate speech, particularly in official discourse. The authorities do not monitor or enforce the prohibition of hate speech in online media. 70 reports were filed and 11 rulings, of which 8 convictions, were handed down for hate speech in 2021, compared to 41 reports and 2 convictions in 2020. The Council of Europe Convention on cybercrime and its additional protocol is only partially implemented.

Legislation on **gender equality** remains to be harmonised across the country and effectively enforced. The country has a 2018-2022 Gender Action Plan, which has been implemented as planned with regard to addressing domestic violence. Greater involvement and political commitment needs to be ensured however in its implementation with clearly defined steps and milestones, tasks, and responsibilities. An action plan on women, peace and security is also in place and significant efforts were made across the country in order to create an environment supportive of greater participation of women in the police and in the army. While their share increases steadily, women are underrepresented in higher ranks. More participation of women in decision-making and in security and peace institutions, an effective mechanism of monitoring and accountability systems, and adequate funding from the budget for implementing the Action Plan remain priorities. Women are under-represented in politics and public life. Gender impact assessments are not carried out as required by law. The gender pay gap remains significant at around 25%. The treatment of maternity, paternity and family leave continues to differ between entities and among cantons. The institutional response to gender-based violence needs to be improved, including on protective measures, victim support, legal aid and safe accommodation. Bosnia and Herzegovina needs to accelerate the prosecution of crimes of sexual violence, provide reparation to women victims of war crimes, and secure witness protection. Data collection needs to be improved to enable the development of sound policies targeting key gender gaps, and provide relevant data on gender-based violence. The pandemic had the most negative effects on the economic wellbeing of women and girls. (*Also see Chapters 19 and 28; on women victims of trafficking in human beings, see Chapter 24*)

As regards the **rights of the child**, Bosnia and Herzegovina still needs to develop and adopt a new action plan on child protection to replace the one for 2015-2018. In 2021, the Ombudsman received 190 complaints on children's rights (190 in 2020, 198 in 2019). There were 1 103 children without parental care in 2020 (1 623 in 2019), many of which are children with disabilities. Transition towards community-based care continues to progress at a slow pace. In order to ensure the best interest of the child and avoid institutionalisation, measures are required to prevent family separation and provide foster care and alternative solutions, as well as support to children leaving care institutions at the age of 18. Child exploitation and child begging remain a serious concern and need to be addressed urgently. Underreporting of cases of violence against children is a concern. Some children remain without compulsory health insurance. Marginalised groups, such as the Roma, face multiple forms of discrimination; this affects girls and women in a particular way. The authorities need to step up efforts to collect precise and consistent data on violence against children and on child poverty. Unaccompanied migrant children face specific challenges, such as accessing safe accommodation and asylum procedures. 1 878 unaccompanied migrant children were identified in 2021 (351 in 2020, 533 in 2019). 817 were appointed a legal guardian, as provided for by law (987 in 2020, 304 in 2019). Alternatives must urgently be found to the detention of irregular migrant families with children, and the registration of births of children of undocumented migrants must be prioritised.

Bosnia and Herzegovina needs to strengthen the implementation of child-friendly justice including for children belonging to minorities, migrant children and children with disabilities. Entity-level laws on **juvenile justice** have not been fully implemented or harmonised with each other. The absence of separate units for juveniles during pre-trial

detention and in police stations remains a serious breach of international standards. Use of alternative measures needs to be stepped up to ensure detention is only used as a measure of last resort. Only limited reintegration measures are available to juveniles upon release from detention. By July 2022, there were 29 minors in prisons (22 by September 2021, 39 by December 2021).

**Persons with disabilities** remain among the most vulnerable groups and there was no progress in addressing the concerns previously identified, including as regards deprivation of legal capacities, status-based discrimination, accessibility. Both entities adopted strategic frameworks for persons with disabilities. The law continues to allow persons with disabilities to be deprived of their legal capacity through a judicial process – in violation of international conventions. The country needs to move from a status-based approach (with war veterans and civilian victims of war enjoying priority) to one based on needs, with a uniform definition of disability, and harmonised eligibility criteria, rights and standards of social protection across the country. Persons with disabilities continue to face hurdles to access education, healthcare and social assistance. The issue of accessibility to public buildings needs to be addressed in a systematic manner. The Council for Persons with Disabilities needs to be further engaged in all relevant processes. The authorities also need to improve data collection, including gender-disaggregated data.

Children with disabilities remain one of the most marginalised and excluded groups, facing stigma and discrimination, and inadequate services, especially in health and education. Many continue to be placed in residential institutions – a severe violation of their rights and international conventions. Institutionalisation of children negatively impacts their development and participation in society and exposes them to mistreatment and abuse. There is still no strategy on deinstitutionalisation that would enable multisectoral support to children and adults including the capacity building and strengthening of human resources of public services. (*see also Chapter 19 – Social policy and employment*)

In July 2022, the Council of Ministers adopted the action plan on the **rights of lesbian, gay, bisexual, transgender, intersex and queer (LGBTIQ) persons** which had been developed in 2020. Active and persistent engagement is needed in order to achieve its objectives. While legislation is harmonised and includes provision on hate crimes on grounds of sexual orientation and gender identity, the effective application of the criminal code provisions through prosecution of hate crimes and hate speech against LGBTIQ persons remains insufficient. Same-sex couples' social and economic rights, including the right to a family life, are not recognised. The report identifying the necessary legislative amendments to address this issue is still pending adoption by the Federation entity government since April 2021. The social inclusion of intersex and transgender persons, who are particularly marginalised, has yet to improve. In April 2022, the Municipal Court in Sarajevo issued a first instance judgement recognising for the first time a violation of the antidiscrimination law against LGBTIQ persons in a case concerning online hate speech by an elected cantonal representative. The third Sarajevo Pride march took place on 25 June 2022. The Sarajevo Open Centre documented 14 hate incidents against LGBTIQ persons in 2021, including cases of domestic violence.

The **procedural rights** of suspects, accused persons, witnesses and victims are generally upheld, although access remains uneven across the country. The four criminal procedure codes are yet to be further harmonised, and their enforcement is inconsistent. The right to immediate access to a lawyer while in police detention is essential to the procedural rights and Bosnia and Herzegovina needs to take efficient measures to ensure it. Laws to protect the right to trial within a reasonable time are pending adoption at the state level and in the Federation entity. This is key to address systemic violations and ensure the right to an

effective remedy, in line with Constitutional Court rulings.

Without comprehensive coverage and clear minimum common standards, the right to legal aid continues to be upheld unevenly, to the detriment of the most vulnerable. The legal framework needs to be completed by adopting laws in the Federation entity and the Central Bosnia Canton. A needs assessment is required to identify and address the main gaps and ensure effective equal access to justice for all, irrespective of the place of residence. Bosnia and Herzegovina has the highest legal aid budget and number of cases per inhabitant in the region with 712 cases in 2020, double the Western Balkan median of 306, albeit decreasing from 876 in 2018.

The participation in political and public life of members of national **minorities** remains low. No progress was made towards adopting a countrywide strategy on national minorities. Inter-ethnic relations in the country remain fragile. The recommendations of the 4th Framework Convention for the Protection of National Minorities review cycle from November 2017 for the authorities to condemn statements of politicians and public figures inciting ethnic hatred and to take measures promoting intercultural dialogue and understanding remain. A national minorities' council in the Brčko district was established in May 2022. The national minorities' councils should become more active in developing practical, political and legislative initiatives. In 2021, the Ombudsman received 3 complaints concerning minority rights (compared to 3 in 2020 and 7 in 2019) and issued one recommendation.

The **Roma** are the most vulnerable and disadvantaged minority. Anti-Roma stereotypes and prejudices, discrimination and anti-gypsyism still hinder their social inclusion.

Roma women in particular face multiple forms of discrimination. They often lack resources, access to services, awareness about their rights and information on protection mechanisms. Roma women's rights are also violated in cases of domestic violence, early marriages, trafficking in human beings and labour exploitation of children.

As one of the 17 officially recognised national minorities, the Roma are protected by the antidiscrimination law. In April 2022, the Council of Ministers adopted a countrywide action plan for the social inclusion of Roma men and women 2021-2025, encompassing antidiscrimination and combatting anti-gypsyism, housing, employment, education and healthcare. Its strategic goals and measures are largely harmonised with the Poznan Declaration. The implementation of the Action Plan will require appropriate funding from all levels of government, reversing the declining trend, as well as constant monitoring, including by the Roma Advisory Board (Roma Committee). 12 local communities started revising their local Roma action plans.

Upon completion of the mapping, 26 cities and municipalities identified issues related to informal settlements and housing units. No progress was made in developing a methodology for data collection nor in developing a policy for the legalisation of informal economy practices concerning the Roma. Discrimination in employment remains rampant, with very high unemployment rates. Compulsory education enrolment rates have increased, but the number of school drop-outs is still very high. While classes or schools are not segregated, there is no teaching in and of the Romani language, and the awareness of Roma culture among the rest of the population is very limited. Around two thirds of Roma have access to healthcare; children outside education and elderly Roma face the biggest hurdles. The process of civil registration is well advanced; a roadmap to end statelessness has been developed. No step was taken to remove administrative obstacles, including residence requirements for birth registration and for access to healthcare and education, and to recognise documents for children born abroad. The authorities acted during the pandemic to support the most vulnerable, however the grants allocated for the social inclusion of the Roma were halved.

Bosnia and Herzegovina hosts around 100 000 **refugees and internally displaced persons**, following the conflict in the 1990s, of which 1 099 families (2 810 persons) still live in collective centres and alternative accommodation. Minority returnees are among the most common targets of ethnically driven hate speech and hate crimes, as highlighted during the 9 January events in the *Republika Srpska* entity. The 2010 revised strategy for the implementation of Annex VII to the Dayton Peace Agreements has not yet been fully implemented. To complete the process of return and fulfil its obligations to allow closure of Annex VII, Bosnia and Herzegovina should ensure full cooperation among all levels of government in order to ensure the enjoyment of the rights of returnees and harmonise their access to services and resources. The country also needs to provide adequate humanitarian assistance and protection (including shelter, food and medical assistance) and effective access to the asylum procedure to the asylum seekers and migrants present on its territory since 2018. Arbitrary limitations to the human rights of foreigners, including restrictions of movement introduced during the pandemic, should be removed, and the respect of the *non-refoulement* principle should be ensured. (See also Chapter 24)

### 2.2.2 Chapter 24: Justice, freedom and security

*The EU has common rules for border control, visas, residence and work permits, external migration and asylum. Schengen cooperation entails lifting border controls inside the EU. Member States also cooperate with Bosnia and Herzegovina in the fight against organised crime and terrorism, and on judicial, police and custom matters, all with the support of the EU justice and home affairs agencies.*

Bosnia and Herzegovina has achieved **some level of preparation** to implement the EU *acquis* in this area. **Limited progress** was made in this chapter, in particular on Opinion key priority 8 on managing migration and asylum. Further significant steps have been taken towards establishing a sustainable migration management system. The Ministry of Security has continued efforts to improve coordination and take over responsibility for managing migration, which should be supported by all levels of government. Last year's recommendations remain pending. The country has several strategies in place, and legislation in some areas is broadly aligned with the EU *acquis*. However, legislation is not harmonised across the country, and institutional cooperation and coordination remain weak. As a result, implementation is often uneven and unsatisfactory.

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

- adopt and implement a strategy for preventing and combating terrorism and violent extremism (2021-2026), and urgently adopt and start implementing legislation on anti-money laundering and combating the financing of terrorism (AML/CFT) in line with the EU *acquis*, to avoid facing the possibility of being again “greylisted”, i.e. listed as a jurisdiction under increased monitoring for strategic AML/CFT deficiencies by the international standard setting body the Financial Action Task Force (FATF) after evaluation of the regional body, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL);
- urgently adopt and implement the strategy and action plan on migration; ensure effective coordination of border management and migration management capacity, including the fair distribution of reception capacity among all entities and cantons; and guarantee more efficient access to asylum procedures;
- adopt the action plan on drugs; improve civilian oversight mechanisms over police, at all levels; consistently appoint police directors on a merit basis; fully align with the EU list of visa-required third countries.

## Fight against organised crime

Bosnia and Herzegovina is at an early stage/has some level of preparation in the fight against organised crime. No progress was made in addressing Opinion key priority 7 on the fight against organised crime and last year's recommendations, which are still valid. The country has several strategies in place, notably on trafficking in human beings and integrated border management. However, the legal framework is not harmonised across the country. There are systemic shortcomings in the operational cooperation of law enforcement agencies, due to non-harmonised criminal legislation, weak institutional coordination, and a very limited exchange of intelligence. Criminal organisations operating in the country take advantage of legal and administrative loopholes. The police are vulnerable to political interference. Financial investigations and asset seizures are largely ineffective. A proactive approach is essential to stop criminal infiltration in the political, legal and economic systems. The country also needs to step up cooperation with Eurojust and Europol. Bosnia and Herzegovina appointed a national coordinator for the European Multidisciplinary Platform Against Criminal Threats (EMPACT).

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

- adopt and implement a strategy and action plan for the fight against organised crime, based on the newly adopted serious and organised crime threat assessment (SOCTA); implement the national strategy on trafficking in human beings and improve referral to adequate support to victims;
- strengthen institutional cooperation among law enforcement agencies as well as with prosecutors' offices and courts, notably by establishing specialised multi-agency investigation teams for complex cases; improving mutual / standardised access to databases and the secure / timely exchange of information; strengthening financial investigations; and adopting standard operating procedures to run financial investigations;
- finalise the establishment of a fully-functional national contact point for cooperation with Europol, sign an agreement on operational cooperation with Eurojust, and establish a firearms focal point;

### Institutional set-up and legal alignment

There are multiple law enforcement agencies in the country, out of which 15 have investigative powers. The police in Bosnia and Herzegovina has 438 police officers per 100 000 inhabitants in 2021, compared with an EU average of 333 (Eurostat, 2018-2020).

There was limited improvement and harmonisation of **police legislation** at all levels, which hampers effective police accountability, integrity and cooperation. The professionalism and accountability of law enforcement agencies needs to be significantly improved. There was limited progress in ensuring merit-based and transparent appointments and promotions by independent boards, free of political interference, notably for key managerial positions as well as for parliamentary independent board members. Political interference remains a concern. Women are still under-represented in positions of command. Failure to comply with the rule of law and democratic principles, including political influence, remain a major concern. Amendments adopted to the law on internal affairs and the law on police officials in the Herzegovina-Neretva Canton raised concerns. These amendments lead to ethnic criteria prevailing over professional criteria for the selection of police, which may affect the independence and professionalism of the police administration.

The legal framework on the **fight against organised crime** is only partially aligned with the EU *acquis*. It is of particular concern that, since 2010, despite several legislative initiatives,

Bosnia and Herzegovina has not developed capacity for asset management at the state level. Extended and third-party confiscations are possible, but they are rarely used. In 2021 extended confiscation was proposed in 7 cases and 1 first-instance decision and no second-instance decision were delivered by courts. Confiscation of property from third parties was proposed in 10 cases, and 3 first-instance court decisions and 2 second-instance court decisions were delivered. The country should establish or designate an asset recovery office in charge of identifying and tracing criminal assets to improve effectiveness and facilitate operational cooperation with EU Member States. The country should also step up the fight against transnational organised crime networks.

The legislation on **trafficking in human beings** needs to be further aligned with the EU *acquis*, notably on sanctions. A 2020-2023 strategy is in place and being implemented. Bosnia and Herzegovina should step up its efforts to prevent and combat trafficking in human beings. It should improve the early identification of victims and their referral to adequate support, assistance and protection services.

Bosnia and Herzegovina needs to further align its legislation on **cybercrime** with the EU *acquis*. The country is party to the Budapest Convention on Cybercrime, and it should sign its Second Additional Protocol on enhanced co-operation and disclosure of electronic evidence, which was opened for signature in May 2022. Bosnia and Herzegovina aligned with the EU position in negotiations on the United Nations Convention on Cybercrime. The country needs to complete the strategic framework on fighting cybercrime; a strategy is only in place in the *Republika Srpska* entity.

Legislation on the **possession of weapons by civilians** needs to be harmonised and further aligned with the EU *acquis*. New legislation should be modeled on the Una-Sana Canton's 2021 law on weapons, which is broadly in line with the EU *acquis*. The legislative framework on explosives for civil use and the transport of dangerous goods remains fragmented and needs to be completed and aligned with the EU *acquis* across the country, including on marking and deactivation standards.

Legislation on **anti-money laundering** and **counter terrorism financing** aligned with the fourth and fifth EU directives on anti-money laundering and countering financing of terrorism (AML/CFT) should urgently be adopted. An updated risk assessment needs to be prepared, followed by an action plan. Its absence hampers the country's capacity to combat terrorism and prevent violent extremism, among other objectives. If these necessary steps are not taken, there is a real possibility that Bosnia and Herzegovina will again be listed as a jurisdiction under increased monitoring for strategic AML/CFT deficiencies by the international standard-setting body, the Financial Action Task Force, after evaluation by the regional body MONEYVAL.

The country lacks a strategic framework for fighting **serious and organised crime**. It should adopt a new strategy and action plan based on the recently adopted **serious and organised crime threat assessment** (SOCTA) in line with Europol methodology.

Bosnia and Herzegovina should demonstrate results in implementing the 2021-2024 strategy and action plan for the control of **small arms and light weapons**, as well as the roadmap for a sustainable solution to arms control in the Western Balkans (WB SALW Control Roadmap).

#### Implementation and enforcement capacity

In 2021, there were 53 investigations into **organised crime** with 735 suspects, 28 indictments with 190 accused, 22 convictions with 134 convicted, and 23 acquittals. This represents an increase compared with 2020 (359 suspects, 22 indictments with 103 accused and 7 sentences with 54 convicted). In 8 cases, plea bargain agreements were concluded with 90 individuals (4

and 27 in 2020). There were 181 orders to conduct investigations against 198 individuals for cybercrime including for online child sexual abuse in 2021, (125 investigations against 129 individuals in 2020), with 54 indictments against 65 individuals (45 and 41 in 2020). The number of convictions in 2021 is still very low, with 43 convictions for 51 individuals (26 and 31 in 2020) of which 25 convictions for 27 individuals resulted in suspended sentences (58%).

The capacity to effectively dismantle criminal organisations is seriously hampered by the lack of harmonised criminal legislation in the country, which is exacerbated by weak institutional coordination. While there is some progress in carrying out joint operations tackling serious crimes, there is still a systematic lack of operational cooperation and limited exchange of intelligence at some levels. Some progress was made in the cooperation and exchange of criminal data between law enforcement agencies in Bosnia and Herzegovina and counterparts in the region. The absence of a register of beneficial owners, which competent authorities may access without restriction, contributes to these shortcomings.

There is no overall policy for carrying out timely and systematic **financial investigations** and, where conducted, results have been insignificant. The High Judicial and Prosecutorial Council issued guidelines for chief prosecutors on the mandatory launch of financial investigations in corruption, organised crime and money laundering cases. These need to be followed up and implemented effectively. In 2021, there were 61 investigations into money laundering (134 in 2020) involving 222 individuals, 49 confirmed indictments against 66 suspects (125 in 2020), and 55 convictions against 70 defendants (respectively 120 and 123 in 2020). There were 7 prison sentences against 15 individuals, and 48 fines against 55 individuals.

The Financial Investigation Unit within the **State Investigation and Protection Agency (SIPA)** needs to fulfil its responsibilities more efficiently. In 2021, SIPA submitted 12 reports against 25 individuals and eight legal entities to the prosecutors' offices on suspicion of financial crimes, including money laundering, in the amount of EUR 5.5 million. For money laundering as a stand-alone crime, in 2021 there were 33 investigations against 36 individuals, 34 confirmed indictments against 35 individuals, 41 convictions against 42 individuals, out of which only one was sentenced to prison.

The tools for **freezing, managing and confiscating criminal assets** are not effective enough. Confiscating criminal assets needs to become a strategic priority in the fight against organised crime, terrorism and high-level corruption. Criminal assets need to be systematically frozen, and their management need to be improved. Law enforcement authorities need to collect and analyse data on asset seizure and confiscation as a tool to improve the effectiveness of these sanctions. The value of asset confiscations pursuant to first-instance and final court verdicts in 2021 amounted to over EUR 4 million compared with over EUR 11.5 million in 2020.

Proactive investigations that start with **intelligence-led policing** remain rare, compared with those from received reports. The insufficient systematic cooperation between law enforcement agencies continues to seriously affects the quality of investigations, albeit some progress was achieved with multi-agency police operations targeting serious crime.

Arrangements for practical **cooperation between prosecutors' offices and the police** are in place, but require structural improvements to guarantee more effective judicial follow-up, prevent procedural delays, and introduce good practices. Ineffective cooperation between police and prosecutors have hindered trials, including a corruption case involving a high-level politician. The quality of reports, the collection, analysis and sharing of data, and capacities of specialised joint teams should be improved. Further efforts should be made on communication, coordination and sharing of information.

The electronic data exchange system from the records of police authorities and prosecutor's

offices needs to be fully functional and ready for use by all signatories of the 2009 agreement. Forensic capacity remains fragmented. There is no operational countrywide DNA database, and DNA-profiling capacity is limited. There is no swift exchange of forensic data with other countries. The creation of a new automated fingerprint information system (AFIS) is long overdue. Although required by law, there is no effective, coordinated and consistent countrywide approach to using undercover investigators. The use of special investigative measures need to improved; suitable equipment and staff are also needed.

The March 2017 agreement on operational and strategic cooperation with **Europol** is not yet fully implemented; the contact point is not yet operational, although efforts are ongoing. As a result, exchange of information with Europol is still taking place through a unit in the Directorate for Coordination of Police Bodies of Bosnia and Herzegovina, whose mandate has expired, and with which the *Republika Srpska* entity has suspended operational cooperation. Making the Europol contact point fully operational will enable resuming direct cooperation between Europol and all police bodies in the country, allowing the latter to make use of Europol's services and operational tools. In April 2022, the Council of Ministers also approved deploying a liaison officer to Europol in the Hague; this is still subject to the full establishment of the contact point. Messages were exchanged through the Secure Information Exchange Network Application (SIENA) system. The roll-out of SIENA across the country should continue. Bosnia and Herzegovina has no access to SIENA on counter-terrorism. In 2021, the number of new cases opened based on cooperation with Europol decreased to 1 022 (1 112 cases in 2020). Bosnia and Herzegovina's participation in Europol's analysis projects has been put on hold and the use of Europol products and services has been very limited.

Bosnia and Herzegovina participates in the European Multidisciplinary Platform against Criminal Threats (EMPACT). In 2022, the country committed to participate in 9 operational actions in 5 of the 15 EMPACT operational action plans (16 in 2021). Bosnia and Herzegovina also appointed a national EMPACT coordinator.

Bosnia and Herzegovina continued to participate actively in the EMPACT joint action days (JADs). These included (i) the JAD South East Europe 2021, promoting closer cooperation to tackle firearms trafficking, migrants smuggling and drugs trafficking; (ii) the JAD Mobile 4, targeting motor vehicle crimes including smuggling stolen vehicles and spare parts via external borders, and associated document fraud; and (iii) the JAD Danube 6, focused on combating migrants smuggling, trafficking in human beings and document fraud.

Bosnia and Herzegovina has not yet signed the agreement between the parties to the Police Cooperation Convention for Southeast Europe on the automated exchange of DNA, dactyloscopic and vehicle registration data, nor its implementing agreement.

Legislation on **trafficking in human beings** needs to be further aligned with EU *acquis*, especially on sanctions. In 2021, 56 potential victims of trafficking in human beings were detected (49 children and 7 adults, compared with 70 and 34 in 2020). There were 26 perpetrators convicted in 2021, and 50 investigation orders were issued against 60 individuals. Bosnia and Herzegovina still has no fully functional referral mechanism for trafficking victims. Coordination improved thanks to the work of a task force against trafficking, established by the Council of Ministers, and the regional monitoring teams at entity and cantonal level. Participation of the *Republika Srpska* entity representatives in the coordination teams remains limited. The authorities should better detect and identify victims and perpetrators by standardising and improving evidentiary proceedings and further training practitioners. The country still needs to introduce an appropriate compensation scheme for victims of crime, in particular victims of trafficking in human beings.

The **witness protection programme** improved significantly, notably out-of-process

protection. Specialised and regular witness protection training is required for new staff. The authorities' capacity to effectively tackle **cybercrime**, including online child sexual abuse, and respond to cybersecurity threats remains inadequate.

On **arms control**, a total of 1 396 weapons, 14,009 pieces of ammunition and 1 mine were seized in 2021 (against 1 316, 20 343 and 18 in 2020), and 1,972 pieces of weapons and weapons parts were destroyed (compared to 1 864 in 2020, 3 479 in 2019). In 2021, there were 317 orders to investigate firearms-related criminal offences (illegal production, possession, and trafficking) with 340 suspects, 276 indictments with 298 accused and 223 convictions (23 prison sentences, 32 fines and 168 suspended sentences) with 239 convicted. Bosnia and Herzegovina still needs to establish a focal point for firearms. The criminal codes are not yet aligned with the UN Firearms Protocol. Bosnia and Herzegovina stands out with the relatively high number of voluntarily surrendered firearms. According to the Armed Violence Reporting Platform of the South Eastern and Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC), in 2021 there was an increase of firearms-related incidents resulting in deaths and bodily injury, compared with the previous year.

Cooperation between Bosnia and Herzegovina and the EU Agency for Law Enforcement Training (CEPOL) is well established and based on a working arrangement. A dedicated contact point is in place. Bosnia and Herzegovina has full access to the CEPOL exchange programme as well as to the free of charge electronic learning system of CEPOL.

## **Cooperation in the field of drugs**

### Institutional set-up and legal alignment

The legal framework is only partly in line with the EU *acquis*, notably on minimum rules on drug-related criminal offences and sanctions. The legislation provides for the entire quantity of drugs seized to be preserved as material evidence for court proceedings, rather than just a sample, which creates risks. Bosnia and Herzegovina cooperates with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) and should designate by law a correspondent for cooperation. The country should establish a national drug observatory to provide factual, objective, reliable and comparable information on drugs, drug addiction and their consequences. It should improve coordination among the competent agencies and align data reporting on epidemiological trends with the EMCDDA treatment indicators. Bosnia and Herzegovina should also adopt legislation on new psychoactive substances, establish a focal point for drug issues for the entire country and introduce an early warning system.

Bosnia and Herzegovina has a 2018-2023 strategy on supervision over narcotic drugs, prevention and suppression of the abuse of narcotic drugs, but there is no action plan to implement it. A new action plan for 2023 and beyond, in line with EU standards, should be adopted. The *Republika Srpska* entity has its own strategy and action plan on drugs. Although the Council of Ministers re-activated a commission for the suppression of the abuse of narcotic drugs in September 2020, composed of members of both entities at political level, not a single meeting has taken place since.

### Implementation and enforcement capacity

In 2021, there were a total of 2 451 reported crimes related to drug abuse and 2 171 orders issued to conduct an investigation. There were 1 409 indictments filed, 2 023 confirmed, 587 indictments with a criminal warrant and 6 indictments with plea agreement. There were 33 acquittals, 6 judgments rejecting charges and 1 967 convictions, of which 89 fines; 24 court reprimands; 1 304 suspended sentences; and 550 prison sentences.

Bosnia and Herzegovina is still a transit country and a final destination for drugs. The Council of Ministers has not updated the list of criminalised psychoactive substances since 2011, in line with the recommendations of the Commission for the suppression of abuse of narcotic drugs. As a result, several psychoactive substances circulate freely. A more flexible mechanism is needed to regularly update this list. Professional capacity and cooperation with civil society needs to be improved. More funds are needed for harm reduction programmes and the social reintegration of addicted persons. In 2021, 1 700 kg of drugs were destroyed, mostly marijuana, amphetamines and heroin. The lack of secure storage before destruction is still a concern.

## **Fight against terrorism**

### Institutional set-up and legal alignment

Anti-terrorism legislation is mostly aligned with the EU *acquis* and international law. Criminal legislation needs to be amended to ensure stricter sanctions for the offence of training and travelling abroad for terrorist purposes as well as for publishing and sharing terrorist content online. A new law on anti-money laundering and terrorism financing in line with the EU *acquis* (fourth and fifth AML/CTF directives) needs to be urgently adopted. Laws on the protection of critical infrastructure (only present so far in the *Republika Srpska* entity) should be developed and adopted at all levels of government.

The strategy and action plan against terrorism expired in 2020. A new strategy should be adopted in line with EU policy, including on preventing and countering violent extremism. The strategy should cover all forms of radicalisation and violent extremism (political, ethno-nationalist and religious) and address them in field activities on preventing / countering violent extremism (P/CVE). The EU is supporting Bosnia and Herzegovina in revising its strategy through the Radicalisation Awareness Network (RAN) policy support.

The capacity and effectiveness of the counter terrorism task force and the counter-terrorism section of the state-level prosecutor's office need to be significantly strengthened. The policy dialogue on counter-terrorism between the EU and Bosnia and Herzegovina takes place regularly.

### Implementation and enforcement capacity

Shortcomings still exist in implementing counter-terrorism laws, and cooperation between security agencies at all levels of government needs to become more structured and efficient. The high-security state prison is fully functional. Very limited assistance is available, in prison or upon release, for disengaging from violent extremism. Much more work is needed to prepare inmates for release, including former foreign terrorist fighters. Around 140 citizens of Bosnia and Herzegovina, including women and children, are estimated to remain in Syria and Iraq. In the reporting period, Bosnia and Herzegovina did not repatriate any of them. In August 2022, Bosnia and Herzegovina adopted a plan for the repatriation, reintegration rehabilitation and resocialisation of its citizens in Syria and Iraq. This plan extends an existing reintegration programme for former foreign fighters and their family members that continues to be implemented.

Three investigations have been initiated against citizens of Bosnia and Herzegovina suspected of having served in para-military or para-police units in Ukraine. One case resulted in an acquittal in first instance, and criminal charges against another individual were later dropped.

Lenient sentences combined with no probation service or systematic disengagement assistance could still represent a security risk. Efforts are being made to better manage the execution of criminal sanctions imposed on terrorist offenders. Authorities should improve

preparations for the release of inmates, in coordination with local authorities and law enforcement. A multi-disciplinary mobile team of experts is supporting local authorities to handle challenges posed by citizens who have returned from foreign conflict zones and by ongoing radicalisation tendencies.

The country's capacity to investigate and prosecute the financing of terrorism and to counter terrorist content online needs to be further developed. An asset recovery office and a beneficial ownership register of legal persons have yet to be established. Coordination, cooperation and intelligence sharing between security agencies need to be improved, e.g. on identifying a firearms focal point, or collaborating with the EU internet referral unit (IRU) at Europol to deal with terrorist content online. To facilitate cooperation and exchange information on terrorism, the agreement with Europol needs to be put into practice. This requires setting up an operational contact point, which is long-overdue.

Civil society and the institutions responsible for labour, social welfare, education, youth and health at various levels of government need to be more effectively included in preventive efforts. Bosnia and Herzegovina is participating in implementing the Western Balkan counter terrorism initiative (WBCTi), as part of the umbrella of the integrative internal security governance (IISG).

### **Judicial cooperation in civil and criminal matters**

The legislative framework for mutual legal assistance in civil and criminal matters is in place but not always applied effectively. The number of requests for judicial cooperation increased substantially. In 2021, the Ministry of Justice recorded a total of 3 203 requests for judicial cooperation in civil matters, 50% of them from EU Member States (mainly Croatia, Austria and Germany). In 2021, there were 3 546 requests for judicial cooperation in criminal matters, 64% from EU Member States (mainly Croatia, Slovenia, Austria and Germany). The statistics on enforcement of foreign judgments in criminal matters (transferring convicted persons and taking over enforcement of criminal sentences) have remained stable. There were 72 requests in 2021, of which 5 were granted (61 in 2020). Of these, 35 came from EU Member States, and the average completion rate was between three months and one year.

The country needs to accede to certain instruments developed within the framework of the Hague conference on private international law. These include the Convention of 19 October 1996 on jurisdiction, applicable law, recognition, enforcement and co-operation in respect of parental responsibility and measures for the protection of children, as well as the Protocol of 23 November 2007 on the law applicable to maintenance obligations.

Regarding judicial cooperation in criminal matters, Bosnia and Herzegovina does not have a cooperation agreement with Eurojust. It has four contact points for relations with Eurojust. In 2021, the country was involved in 22 cooperation cases with Eurojust. In 2021 the EU Council adopted a mandate for the Commission to negotiate an international agreement with Bosnia and Herzegovina on judicial cooperation in criminal matters with Eurojust. As a prerequisite for the future agreement to enter into force, Bosnia and Herzegovina needs to align its legislation on personal data protection with the EU *acquis* and strengthen the operational capacity of the Personal Data Protection Agency. Moreover, the Prosecutor's Office needs to adopt by-laws, notably to better set out how the parties to a case can access their personal data via the Prosecutor's Office website.

Bosnia and Herzegovina still needs to establish cooperative relations with the European Public Prosecutor's Office (EPPO). The country was involved in one EPPO case in the first seven months of operational activities of the office (June-December 2021).

### **Legal and irregular migration**

### Institutional set-up and legal alignment

The legal framework on migration, including the Law on Foreigners, is broadly aligned with the EU *acquis*. The principle of *non-refoulement* remains to be fully ensured, including in the new version of the law being drafted. The Council of Ministers urgently needs to adopt a new **strategy and action plan** on migration and asylum for 2021-2025.

Bosnia and Herzegovina has concluded **readmission agreements** with the EU and with Schengen associated countries, as well as implementation protocols to the EU Readmission Agreement with 16 EU Member States. Their implementation is satisfactory overall. Accelerated readmission procedures with neighbouring countries are still to be fully and effectively implemented. Bosnia and Herzegovina has also concluded readmission agreements with all the Western Balkan countries, Türkiye, Russia, Moldova and Pakistan, as well as implementation protocols with 16 EU Member States. The readmission agreement with Pakistan has been in force since July 2021. The implementation of the agreement needs to improve and Bosnia and Herzegovina has taken necessary steps in this regard.

### Implementation and enforcement capacity

In 2021, the numbers of persons irregularly entering Bosnia and Herzegovina was comparable to 2020 and much lower than in 2018 and 2019. In 2021, the authorities detected 15 740 arrivals (16 150 in 2020). 14 688 persons expressed their intention to seek asylum (15 170 in 2020). The top three declared countries of origin were Afghanistan, Pakistan and Bangladesh. In August 2022, some 2 000 migrants were registered as staying in four EU-funded **temporary reception centres** in the Una-Sana and Sarajevo cantons, with 743 more estimated as staying outside the centres as of July. Less than half of the places in reception capacity are occupied.

The Ministry of Security has continued to step up efforts to improve migration management. Relations with local authorities have generally improved. However, its competent agencies, including the Sector for Immigration and the Service for Foreigners' Affairs remain significantly understaffed and partly underequipped, which hampers their efficiency. Bosnia and Herzegovina has still not taken over full ownership and responsibility for migration management and of all reception centres. Only limited public funding is available to manage migration; this also impacts the state's effectiveness in developing a policy. Authorities failed to ensure that the Service for Foreigners' Affairs and the Border Police have sufficient and competent personnel. Improved **information exchange** is needed, including biometric data exchange between those in migration management policy. Bosnia and Herzegovina failed to adopt or assign a **budget** for migration management.

Despite constant EU advocacy and support, the authorities at all levels of government have failed to improve coordination and share the responsibility in hosting asylum seekers and migrants across the entire country. Significant institutional and coordination weaknesses in migration management remain. The lack of political responsibility make it difficult for the authorities to provide the necessary assistance. Bosnia and Herzegovina should become fully responsible for managing reception centres. Most of the responsibilities continue to fall upon the Una-Sana and Sarajevo cantons. The task of managing migration should be more fairly shared among all entities and cantons, under the full responsibility of state authorities. The Ministry of Security has continued efforts to improve coordination among the state and local levels and take over responsibility for managing migration, which should be supported by all levels of government. The Ministry of Security has also taken the lead to boost regional and international cooperation on migration, hosting conferences to this aim in November 2021 and September 2022.

Bosnia and Herzegovina demonstrated a limited level of organisation and coordination in managing the influx of **Ukrainian refugees**, present in low fluctuating numbers. The country set out their legal status and the rights they would enjoy when entering the country. In April 2022, the Council of Ministers simplified their entry and stay, granting temporary residence on humanitarian grounds for 6 months with a further extension possible.

In November 2021, the authorities of Bosnia and Herzegovina, with extensive support of the EU and implementing partners, established the multi-purpose **reception and identification centre** in **Lipa**, near Biháč. The reception centre, managed by the Service for Foreigners' Affairs, has a capacity of 1 500 places. Bosnia and Herzegovina must strengthen capacity and take all necessary measures to effectively manage the centre, fully respecting fundamental rights, domestic legislation and international standards, including for screening and registration, the protection of vulnerable persons and detention.

Despite shortage of staff, the Service for Foreigners' Affairs has shown overall satisfactory management and coordination capacities, further improving access to rights and protection. As additional reception places became available, the authorities intensified efforts to relocate migrants from informal settlements to these reception centres. There was good coordination between the Service for Foreigners' Affairs, local police and other partners. In May 2022, the Una Sana cantonal authorities closed the reception centre in Miral. Cantonal authorities are encouraged to identify suitable alternative locations to accommodate migrants, including those in informal settlements outside urban areas.

The Una-Sana Canton continues to prohibit migrants from using public transport and restrict the maximum number of migrants in the canton. Humanitarian partners should be unconditionally provided crucial access to vulnerable persons. The Ministry of Security has taken steps to coordinate access and facilitate the provision of assistance.

The crisis response during the COVID-19 outbreak was satisfactory overall, and it prevented a wider spread of the virus and more severe consequences for migrants. Humanitarian partners continued to provide key assistance and to ensure respect for international standards.

There has been some progress in providing essential services to refugees and migrants, in cooperation with humanitarian partners. In 2021, the authorities showed limited progress in providing protection and access to rights to vulnerable persons, especially minors. Bosnia and Herzegovina must step up efforts to better protect their human rights. A long-term response in the provision of protection and humanitarian assistance to refugees and migrants remains essential. The most vulnerable persons, such as unaccompanied and separated children, pregnant women, single parents, persons with disabilities, sick persons and victims of violence, need to be identified and referred to adequate assistance in line with international standards. Only the Una-Sana and Sarajevo cantonal authorities provide access to legal guardianship and facilitate access to education for unaccompanied children. An additional shelter for unaccompanied minors was opened in Duje with adequate accommodation, protection and living conditions. Providing legal guardianship and access to education for all unaccompanied minors in the country remains a challenge. In 2021, the authorities registered 109 unaccompanied minors in the country (351 in 2020).

On **voluntary and forced return**, the return of persons not in need of international protection needs to be improved in both legal framework and implementation procedures. There was an improvement in the mechanisms for collecting, sharing and analysing **statistics** on migration in the information system for migration. However, collecting biometric data requires further improvements. Cooperation with neighbouring countries is necessary to ensure the efficient management of the external borders, in line with the respect for fundamental rights and international obligations.

Bosnia and Herzegovina should increase efforts to establish readmission agreements with countries of origin and further improve the mechanisms for assisted voluntary return and reintegration. Ensuring return and readmission remains challenging, since neighbouring countries have limited accelerated readmission procedures due to the pandemic. In 2021, 89 foreigners were returned to neighbouring countries following readmission agreements (66 to Serbia, 21 to Montenegro and 2 to Croatia), compared with 195 in 2020. The number of third-country nationals returned to Bosnia and Herzegovina in 2021 under various readmission agreements amounted to 570, compared with 686 in 2020 and 783 in 2019. In 2021, 206 foreigners returned to their countries of origin via assisted voluntary return with support from the EU and the International Organisation for Migration (IOM), compared with 232 in 2020 and 837 in 2019. In 2021, four minors, who were potential victims of trafficking of human beings, were repatriated from Bosnia and Herzegovina, in line with their wishes, and following the required security and humanitarian risk assessment. Bosnia and Herzegovina did not carry out any forced returns in 2021, whilst in 2022 the Service for Foreigners' Affairs returned two persons to Pakistan based on the readmission agreement and implementation protocol.

Bosnia and Herzegovina has one **immigration detention centre** in East Sarajevo (Lukavica) for those awaiting expulsion from the country, with a maximum capacity for 120 persons. Representatives of the UNHCR and non-governmental organisations are granted access to the detainees on a regular basis to ensure that their rights are respected.

## **Asylum**

### Institutional set-up and legal alignment

The institutional framework and legislation on asylum are broadly in line with the EU *acquis* and international standards. Further alignment is needed in particular on procedural safeguards to ensure standardised procedures for examining applications for international protection and systematic access to procedural guarantees. This refers to interview techniques, evidence assessment, guarantees for vulnerable groups and unaccompanied minors, access to rights and legal aid, and the definition of asylum-seekers and refugees. Authorities are encouraged to follow up and take into account the requested advice provided by the EU Agency for Asylum (EUAA) as part of the 2020-2021 roadmap for cooperation with EASO on strengthening the asylum and reception systems in line with the common European asylum system (CEAS) and EU standards. Inter-agency cooperation and coordination needs to be further improved, particularly in the exchange of biometric data.

### Implementation and enforcement capacity

Obstacles remain to ensure an effective access to asylum procedures. More efficient access to asylum and inter-agency cooperation and coordination remains to be ensured. The processing of asylum cases continues to be too lengthy, with an average of over 450 days to reach a decision, reduced to 350 days in the first half of 2022. The Service for Foreigners' Affairs and the Border Police do not have enough staff and facilities to register asylum intents made upon entry in the country. This has been an issue since 2018.

The Sector for Asylum of the Ministry of Security has very limited **human resources** and operational capacity, with only five staff registering and assessing asylum claims for the entire country, which is clearly insufficient to ensure access to asylum. There are not enough interviewers or registration sites. Providing more staff, including interpreters and cultural mediators, is needed so as not to only rely on international support. The overall capacity of the Sector for Asylum should be further strengthened.

Asylum legislation needs to be better implemented, in particular to improve efficiency and the

systematic compliance with procedural guarantees for asylum seekers. Asylum seekers are not guaranteed the same rights evenly across the country, as their access to services varies depending on where the reception centres are located. Access to asylum procedures and mechanisms should be strengthened to ensure faster processing of their claims and ensure that people in need of international protection may receive it. As the authorities have not yet fully taken over the legal responsibility for all reception centres in the Una-Sana Canton, these centres are not recognised as valid residential addresses for asylum applications; applicants thus fall in a legal limbo, which increases their vulnerability. The authorities should ensure access to information, which is so far largely provided by international organisations and NGOs. The system for collecting and storing biometric identifiers requires additional improvements, especially for inter-agency information exchange. In 2021, out of 14 688 persons who expressed their intention to claim asylum in Bosnia and Herzegovina, 167 applied for international protection, while 154 asylum requests were pending from 2021. Of them, 5 persons were granted refugee status, 28 persons were granted subsidiary protection, 41 individual applications were rejected on merit and 109 asylum applications of 179 persons were closed as the applicants left or attempted to leave the country or failed to show up for an interview. From January to March 2022, 39 persons filed an asylum application in Bosnia and Herzegovina, with 32 requests completed, compared with 91 in the same period in 2021.

The **asylum centre** in Delijaš near Sarajevo, which provides decent reception conditions and adequate access to rights, has 154 beds (which can be expanded to 300) but its use is very limited, mainly due to its remote location. In July 2022, it hosted around 8 asylum seekers.

Bosnia and Herzegovina needs to extend the validity of its 2020-2021 roadmap for cooperation with EUAA on strengthening the asylum and reception systems in line with the common European asylum system (CEAS) and EU standards. Cooperation with EUAA should continue and intensify.

### Visa policy

Legislation on visas is broadly aligned with the EU *acquis* and needs to be fully aligned as regards the list of countries whose nationals require an entry visa. Bosnia and Herzegovina continues to meet the visa liberalisation criteria and retains a visa-free regime with the EU. Bosnia and Herzegovina maintains visa-free regimes with Azerbaijan, Bahrain, Kuwait, Oman, Qatar, Türkiye, Russia and China. Bosnia and Herzegovina maintains a policy not to issue visas on the state border. In 2021, a total of seven visas were issued at international border crossings. To ensure a well-managed migration and security environment, the country needs to be fully aligned with the EU's visa policy.

The security features of visas and travel documents are aligned with EU standards. Bosnia and Herzegovina must adopt legislative amendments to resolve issues on the **procurement** and **manufacturing** of biometric travel documents, notably biometric passports.

The IT infrastructure of the consular network abroad needs to be improved, as Bosnia and Herzegovina has no technical capacity for collecting biometric data from visa applicants.

The **visa-free regime** with the EU continued to be smoothly implemented. In 2021, 4 995 citizens of Bosnia and Herzegovina were refused entry in the Schengen area (8 145 in 2020, 4 270 in 2019), while 4 200 were found irregularly staying in the EU (3 595 in 2020, 4 290 in 2019). First-time asylum applications increased to 1 565 (1 030 in 2020, 1 570 in 2019); 605 applications were lodged in the first five months of 2022 (1 070 in the same period in 2021). The asylum recognition rate in the EU further halved to 1.1% (2.2% in 2020, 5.1% in 2019), excluding humanitarian protection (5.5% in 2021, compared with 4.1% in 2020).

Bosnia and Herzegovina continued good cooperation on readmission of its own and third-

country nationals on the basis of the readmission agreement with the EU and implementing protocols. There were 825 citizens of the country who returned from Member States in 2020, out of 2 740 ordered to leave (a return rate of 30%, compared with 34% in 2020). 410 were effectively returned in the first half of 2022, out of 1 105 ordered to leave (return rate of 37%). Attention should continue to be paid to the successful reintegration of returnees. The Commission's fourth report under the visa suspension mechanism of August 2021 concluded that Bosnia and Herzegovina continues to meet the visa liberalisation benchmarks<sup>10</sup>.

## **Schengen and external borders**

### Institutional set-up and legal alignment

The state-level **Border Police** is responsible for managing the state border. The **legal framework** for border control is partly aligned with the EU/Schengen *acquis* and is implemented smoothly. A new law on border control, aiming to make integrated border management more efficient, has not been adopted yet.

The **integrated border management (IBM)** strategy and its action plan for 2019-2023, are broadly aligned with the EU *acquis*. Bosnia and Herzegovina has yet to establish a national coordination centre in line with the EU/Schengen *acquis* and implement best practices for information sharing and coordination among all relevant law enforcement agencies. Risk analysis for data exchange was improved.

Training was improved to align it more with the common core curriculum of the European Border and Coast Guard Agency (Frontex). The Border Police, despite its limited resources, showed adequate operational flexibility in border management operations with the support of other law enforcement agencies.

### Implementation and enforcement capacity

Following the increased influx of refugees and migrants since 2018, the authorities have redeployed available border guards. However, the response remains inadequate despite inter-agency redeployments of staff and support. The Border Police remains understaffed and operated with almost 15% less personnel than two years ago. Specialised training is regularly provided to improve the quality of border checks and other operations in the field but further improvements are needed.

The new **integrated border management strategy** for 2019-2023 is in place. Its implementation should be further improved, in particular in the area of border surveillance, inter-agency cooperation and capacity management. Setting up the advanced passenger information / passenger name record (API/PNR) systems is at an early stage.

The Border Police and the Service for Foreigners' Affairs further improved their risk analysis capacity by certifying trainers using Frontex risk analysis methodologies. The Joint Risk Analysis Centre based their analytical documents on the most recent common integrated risk analysis model (CIRAM). It demonstrated satisfactory risk analysis capabilities. Data exchange with neighbouring countries and between border guard agencies improved. Suitable risk analysis training is required. Further improvements of **infrastructure and equipment** are needed at border crossing points. More resources are needed for **border surveillance**, as current ones are limited. Supervision of green borders (outside the border crossing points) is not effective. Despite the falling number of migrants entering Bosnia and Herzegovina, there

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<sup>10</sup> COM(2021) 602 final and SWD(2021)206 final.

are not enough border patrols, given the length of the border. Risk analysis-led border surveillance must be further improved.

**Inter-agency law enforcement cooperation** was satisfactory overall. Cooperation at border crossing points requires further improvement, especially in the fight against smuggling of migrants and trafficking of human beings, migration response, and migration contingency planning. The **central investigation office** of the Border Police has executive powers across the country. Investigation improved in fighting cross-border organised crime, in particular human smuggling. The combined efforts of the Border Police and other agencies in fighting smuggling of migrants resulted in higher detection rates. In 2020, the Border Police detected 7 cases of smuggling of migrants and raised 6 charges against 12 suspected perpetrators. In 2021, the Border Police detected 26 cases of smuggling of migrants, compared to 40 cases in 2020. In the first semester of 2022, it detected 24 cases, demonstrating improvement in operational capacities. There is limited cooperation with Europol's European Migrant Smuggling Centre, notably on data exchange and involvement of law enforcement agencies.

On **international cooperation**, the country is a signatory to a number of agreements with neighbouring countries. The Border Police cooperates satisfactorily with Frontex and Interpol. Bosnia and Herzegovina initialled a **status agreement** with the EU in January 2019. This would enable Frontex to deploy its standing corps at the country's border with the EU, and carry out operational activities with the Border Police. This text was never signed nor ratified. With the adoption of the new EBCG Regulation and model status agreement,<sup>11</sup> a new status agreement will need to be negotiated; this would notably allow Frontex to deploy to both Bosnia and Herzegovina's EU and non-EU borders. Bosnia and Herzegovina participates in the Western Balkan Risk Analysis Network led by Frontex.

Bosnia and Herzegovina should sign border agreements with Croatia and Serbia and demarcate the border with Montenegro. The joint police cooperation centre in Trebinje improved information exchange, despite limited capacity. Local border traffic agreements with neighbouring countries are satisfactorily implemented. Joint patrols with neighbouring countries have been restored to a limited extent, after being suspended due to the pandemic.

*All aspects of customs cooperation are covered under Chapter 29 – Customs union.*

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<sup>11</sup> Regulation (EU) 1896/2019; COM(2021) 829 final

## 2.3. ECONOMIC CRITERIA

<i>Table 6.1:</i>	2013-18	2019	2020	2021
<b>Bosnia and Herzegovina - Key economic figures</b>	average			
<b>GDP per capita</b> (% of EU-27 in PPS) <sup>1)</sup>	31	32	33	33
<b>Real GDP growth</b>	2.8	2.8	-3.2	7.5
<b>Economic activity rate of the population aged 15-64 (%)</b> , total	54.2	55.5	58.2	59.1
<i>female</i>	42.1	44.4	46.1	46.7
<i>male</i>	66.1	66.4	70.4	71.4
<b>Unemployment rate of the population aged 15-64 (%)</b> , total	25.0	16.4	16.2	17.5
<i>female</i>	28.0	19.7	19.0	22.2
<i>male</i>	23.1	14.2	14.4	14.5
<b>Employment of total population</b> (annual growth %) <sup>*</sup>	2.8	2.5	-1.2	0.9
<b>Nominal wages</b> (annual growth %)	0.9	4.3	4.0	4.4
<b>Consumer price index</b> (annual growth %)	-0.1	0.6	-1.1	2.0
<b>Exchange rate against EUR</b>	1.96	1.96	1.96	1.96
<b>Current account balance</b> (% of GDP)	-5.1	-2.8	-3.8	-2.1
<b>Net foreign direct investment, FDI</b> (% of GDP)	2.2	1.5	1.7	2.1
<b>General government balance</b> (% of GDP)	0.5	1.9	-5.3	-0.3
<b>General government debt</b> (% of GDP)	37.8	32.8	36.6	35.5

*Notes :*

1) Eurostat

\* There is no comparable time series for the age group 15-64

Source: Eurostat, national sources

*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.*

*Economic governance has become even more central in the enlargement process in recent years. The Commission's monitoring takes place in two processes: the Economic Reform Programme exercise and the below assessment of compliance with the economic criteria for accession. Each enlargement country prepares an Economic Reform Programme (ERP) annually, which sets out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the Western Balkans and Türkiye at ministerial level in May each year.*

### 2.3.1. The existence of a functioning market economy

Bosnia and Herzegovina is at an **early stage** of establishing a functioning market economy and there was **backsliding** in some areas. Higher foreign demand and government support measures helped the economy to rebound in 2021. This also benefitted the labour market, though unemployment remains high and structural problems persist. The financial sector remained stable and credit growth picked up. The fallout from Russia's war against Ukraine has been limited so far. In line with global trends, inflation accelerated significantly. The business environment is negatively affected by the country's fragmented internal market and a large informal economy. The rule of law and the functioning of the internal market has been further weakened by the long-standing political crisis and the blockage of state-level institutions which has also harmed the quality of economic governance. The quality of public

spending has not improved, while the public sector has remained inefficient and oversized.

The implementation of last year's country report recommendations for improving compliance with the functioning market criteria has been very limited. In order to improve the functioning of the market economy, Bosnia and Herzegovina should in particular:

- Improve the business environment by streamlining, simplifying business registration and licencing procedures and strengthen the country's internal market by harmonising and mutually recognising licences and certificates between entities;
- Increase the transparency and efficiency of the public sector, in particular by establishing an adequate institutional and regulatory framework for a better, de-politicised governance, and by improving the efficiency and governance of publicly owned enterprises to reduce their burden on government spending; furthermore, improve the efficiency of tax collection by ensuring an effective exchange of taxpayer information between the country's tax authorities, and in particular clarify the constitutional competence for establishing a central (i.e. country-wide) registry of bank accounts of private individuals, in line with the EU acquis;
- Strengthen country-wide regulatory and supervisory institutions, reinforce country-wide analytical and policy-formulation capacities and publish complete and consistent country-wide data in a timely manner, in particular in the area of public finances.

### Economic governance

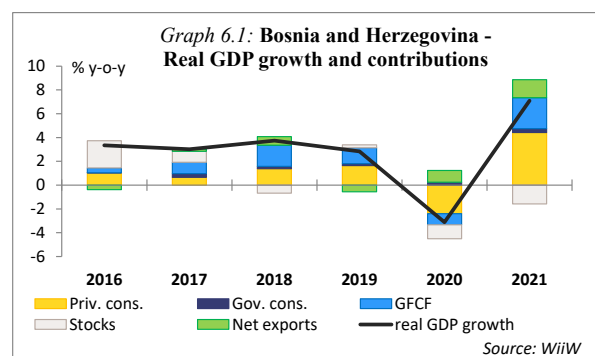
**Economic governance continued to suffer from poor cooperation between the entities and at the state level.** Country-wide economic governance stalled in part due to the refusal of political parties based in the *Republika Srpska* entity to participate in decision-making at the state level. This also affected the preparation of the 2022-2024 Economic Reform Programme, an important element for the country's participation in the Economic and Financial Dialogue with the EU which supports the alignment of the country's economic governance with EU procedures. The failure to adopt a state-level budget in 2021 and the severe delay in the adoption of the 2022 budget disrupted the functioning of state-level institutions and economic policymaking.

The country's response to the COVID-19 pandemic suffered from a lack of transparency and coordination among key stakeholders. Measures were primarily focused on the regional or local level and were not well-targeted to protect the most vulnerable parts of the population.

The implementation of the policy guidance jointly adopted at the Economic and Financial Dialogue with the EU in July 2021 has been limited. Due to the blockage of state level decision-making, the Economic Reform Programme (ERP) was submitted with a substantial delay and suffered from a lack of internal consistency and a fragmented policy approach. The country failed to implement agreed policy conditions which would have allowed the EU to disburse the second and final tranche of its COVID-19 related macro-financial assistance (MFA) package. As a result, the disbursement of EUR 125 million had to be cancelled.

### Macroeconomic stability

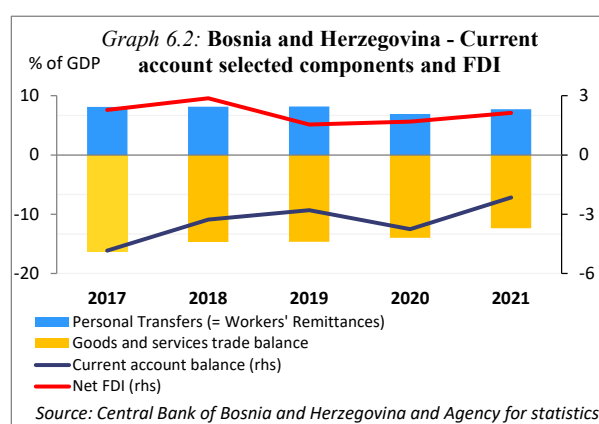
**Economic growth appears to have slowed after a strong post-pandemic recovery, with year-on-year output growth of 5.5% in the first quarter of 2022, after 7.5% growth in 2021 and a contraction of 3.2% in 2020.** Exports and private consumption were the main growth drivers, benefitting from strong



external demand but also solid growth of disposable income, as a result of increased COVID-19-related transfers. Substantial assistance from international institutions such as the IMF, the World Bank and the EU, amounting to more than 3% of GDP, helped to finance those additional transfers. Strong private consumption also translated into relatively strong growth in imports. Due to the low volume of trade with Ukraine and Russia, the direct economic impact of the Russia's invasion of Ukraine has remained limited so far. However, there is a risk of negative second round effects through indirect trade links and prices. The recovery of investment remained muted, reflecting lingering uncertainty related to COVID-19, but also continued political disputes and the resulting stalemate in the political decision-making process. Import growth remained rather high, reflecting strong private consumption and export-related imports. Per-capita income (in purchasing power parities) has remained at around one third of the EU-27 average.

**The current account deficit deteriorated slightly in the first quarter, reaching 4.4% of the quarter's GDP, after 2.1% in 2021, mainly due to higher spending on imports.**

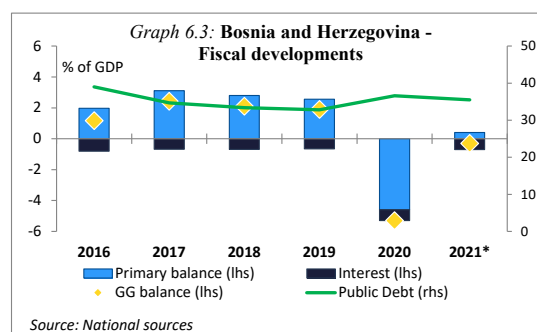
Workers' remittances, which constitute an important source of disposable income, recovered in 2021 and the first quarter of 2022 to pre-pandemic levels. Net foreign direct investment recovered too, increasing from 1.7% of GDP in 2020 to around 2% in 2021 and the first quarter of 2022, mainly consisting of reinvested earnings. Official foreign exchange reserves dropped to about 8.4 months of imports, largely reflecting high import growth. However, thanks to the strong inflow of foreign currency in 2021 in the form of emergency assistance, the foreign



exchange import coverage is still rather high. At the same time import-intensive investment remained weak. Short-term debt accounts for only 0.1% of foreign exchange reserves, reflecting the country's strong reliance on longer-term financing through international financial institutions, such as the IMF, the World Bank, the EU (MFA) and the EIB. The coverage of imports of goods and services through exports improved during 2015-2019, reaching 73% in 2019, largely thanks to a favourable export performance in this period. In 2021, the coverage stood at 71%, similar to 2020.

**Monetary policy has continued to be anchored by the currency board arrangement.** This monetary regime has served the economy well so far. The resilience of the currency board during the pandemic demonstrates the public confidence and trust it enjoys, which makes it an important pillar of macroeconomic stability. However, it also implies that the burden of adjustment to external shocks must be accommodated by other policy areas, in particular fiscal policy to manage demand, and structural reforms to improve the functioning of markets. Headline inflation has been accelerating since autumn 2021, reaching 15.8% year-on-year in June 2022. This brought the average inflation rate to 11.4% in the first half of 2022, compared to 0.1% the year before. About half of this increase in headline inflation is due to increases in food prices, which account for about one third of the basket used to compute the consumer price index. No data on core inflation has been published so far. Domestic political tensions have continued to prevent the appointment of a new board of the central bank, including the governor, whose mandate expired in August 2021.

**During the second half of 2021 and the first half of 2022, public finances benefitted from strong revenue growth, increasingly driven by accelerating inflation.** This additional revenue was used for increasing COVID-19-related spending as well as higher spending on social benefits, such as pensions, and on public wages, while reported public investment spending declined slightly. Once the inflation-related increase in revenues subsides, financing the additional permanent spending could pose a challenge. Overall, the general government registered a deficit of 0.3% of GDP in 2021, compared to 5.3% of GDP in 2020. During 2020 and 2021, COVID-19-related public spending is estimated to have amounted to some 2½-3½% of GDP, facilitated by the emergency assistance received from international institutions and the EU. However, the size of the policy response was limited by administrative bottlenecks and political stalemates, delaying the decision process and the implementation of spending decisions. Budget proposals for 2022 are characterised by significantly higher spending, likely related to the general elections on 2 October 2022, as well as measures to compensate public employees and pensioners for the rapid increase in inflation. The public debt ratio rose only moderately, from 33% of GDP in 2019 to some 37% in 2020 and it declined to 35.5% in the first quarter of 2022. Despite strong growth in revenue from indirect taxes, the overall cooperation and information exchange among the various fiscal authorities has remained limited, which facilitates tax avoidance. Calls by the *Republika Srpska* entity to dismantle the state-level Indirect Taxation Authority pose a threat to the revenue collection system. Furthermore, public finances are burdened by contingent liabilities, in particular in the area of public enterprises. There is a significant degree of non-alignment with EU public sector accounting standards, which strongly impedes the assessment of the country's actual fiscal position. As a result, both the deficit and debt ratio could be significantly higher than reported. Fiscal rules are established only at entity level and there is no independent fiscal institution to monitor and enforce compliance with countrywide fiscal rules.



**Overall, the country's economic performance remains below its potential, as macroeconomic policymaking was hindered by political stalemates, a strong short-term orientation and a missing focus on growth-enhancing policy measures.** While macroeconomic stability has been preserved during the pandemic, fiscal planning for the post-pandemic years continues to be insufficiently geared towards growth-enhancing measures. As the country's currency board regime limits the room for monetary policy, fiscal policy is one of the country's key macroeconomic policy tools. However, this policy tool is not adequately used to steer the country towards stronger growth and faster convergence with EU income levels. The effectiveness of fiscal policy with respect to enhancing the country's growth potential is severely limited by the insufficient degree of cooperation among the various fiscal policy stakeholders, the limited role of the country's fiscal council and the lack of conflict resolution mechanism. With respect to the COVID-19 crisis, the measures taken by the fiscal authorities and the central bank helped to stabilise the economy but failed to pay particular attention to lower income groups.

### Functioning of product markets

#### *Business environment*

**There was no significant progress in reducing barriers to market entry and exit while the institutional and regulatory environment for the functioning of the country's internal market has further deteriorated.** In order to be able to operate in the whole

country, multiple registrations are still required, increasing costs of establishing a company and protecting incumbent companies from competition. So far, no data for 2021 is available concerning the number of registered companies. Contract enforcement, in particular settling commercial disputes, remains difficult; there is a substantial backlog in court cases. It remains difficult to establish property rights in some areas, such as real estate registration. Cooperation and coordination among the various stakeholders has further deteriorated and is a major impediment to the rule of law and a proper functioning of the judiciary, impeding the establishment of a level playing field on a country-wide level, with wide-ranging negative effects on the country's business environment. Furthermore, during last year, key institutions, such as the central bank and the Constitutional Court, were affected by delays in key appointments and in adopting the state budgets for 2021 and 2022. Plans to set up a separate High Judicial and Prosecutorial Council in the *Republika Srpska* entity risk further fragmentation of the country's legal institutions and their independence as well as the integrity of the country's single economic space. Overall, the country's business environment is still hampered by numerous and lengthy administrative procedures, political interference, corruption and diverging rules in different parts of the country, complicating the operation of companies and creating additional costs. Furthermore, risks for a further fragmentation of the country's judiciary have increased while the functioning of the country's constitutional court has been impeded by delays in appointing open positions.

**The informal economy has remained significant during the pandemic while perceived corruption has stayed elevated.** Despite some progress in boosting formal employment by increasing labour market controls, the informal sector is estimated to still account for up to one third of GDP. The pandemic might have increased the importance of the informal economy for livelihoods, compensating for job losses in the formal economy. Thus, informality still provides substantial (unregistered) employment and income but also distorts competition and erodes the tax base. This requires rates for taxes and social security contributions to be higher than would otherwise be necessary. This also adds to a significant fiscal burden on labour, which in turn impedes formal employment and negatively affects Bosnia and Herzegovina's international competitiveness. According to *Transparency International*, the level of perceived corruption has remained one of the highest in the region.

#### *State influence on product markets*

**State influence on the economy has further increased during the pandemic.** Already before the COVID-19 crisis, the oversized public administration as well as poorly performing state-owned enterprises (SOEs) already had a significant impact on the economy, in particular in terms of employment. During the pandemic, the role of government measures gained further prominence. The amount of contingent liabilities has increased as a result of mitigation measures, such as providing loan guarantees, which were extended during 2021. Many public companies rely on state support or accumulate payment arrears to the social security systems or to private suppliers, in order to remain in operation. This creates substantial liquidity imbalances in other areas of the economy. Public procurement, which represents a significant share of public spending and thus plays an important role for the private economy, continues to be managed on the basis of overly complex procedures. This facilitates corruption and leads to a preference for domestic suppliers which is incompatible with the EU *acquis* (see also chapter 5 – *public procurement*). There is still a wide range of administrated prices, and during the pandemic and more recently in response to rapidly increasing energy prices, prices of certain products, such as hygiene products, have been regulated.

**Officially recorded state aid is relatively low, at some 1¼ of GDP in 2019, according to the latest available data. However, significant indirect state support continues to**

**undermine the level playing field.** In 2021, as part of the COVID-19 crisis support package, many companies benefitted from discretionary state assistance. Available data on provided assistance is incomplete. Nevertheless, the level of state aid appears to have been significant during the last year. State aid control is still hindered by only partial legal alignment with European standards and the lack of consistent enforcement of state aid rules throughout the country. The competences of the State Aid Council continue to be limited. This leaves room for unfair distortions of competition in the country.

#### *Privatisation and restructuring*

**Progress with privatisation and restructuring has remained very limited.** Publicly owned enterprises still play an important role in certain sectors, such as mining, but are often badly managed, leading to a significant burden on public finances. Despite some preparatory works at entity level, actual steps to restructure or to dissolve public enterprises have remained very limited. Strategic sectors such as transport and energy are still dominated by poorly managed and often inefficient state-owned companies. The share of the private sector in the country's value added has remained rather stable over the last 5 years at around 80%, and it generates a similar share of the country's employment.

#### Functioning of the financial market

##### *Financial stability*

**The financial market's institutional and regulatory set-up remained fragmented, which impedes banking supervision.** The institutional and regulatory environment for the functioning of the financial market is largely in place, although key elements are decentralised and the central bank's role is limited to coordinating the local regulatory and supervisory agencies. During the last year, the central bank's governing board was only operating on a technical mandate, as due to the blockage of state-level institutions, the appointment of a new governing board and of the governor were delayed. This had a negative impact on the full functioning of the central bank.

**The banking sector has remained stable during the COVID-19 crisis.** The quality of loan portfolios remained solid, despite expiring policy support. The share of non-performing loans (NPLs) in total loans declined further in 2021 and reached 5.2% in the second quarter of 2022, compared to 5.7% a year before. There was limited progress on removing remaining obstacles to an effective and swift resolution of NPLs, including in the areas of out-of-court restructuring and the securitisation and sale of NPLs. Bank profitability started to improve after the fall during the pandemic. The return-on-equity ratio was at some 10.4% during 2021 and rose slightly to 11.1% in the first half of 2022, while the return on average assets stood at about 1.4% during that period. The banking system's overall capital adequacy ratio recovered during the second half of 2021, and remained at 19.4% in the first half of 2022, compared to 19% a year before. However, there are big differences among the country's 22 banks, with some pockets of vulnerability remaining, in particular in the case of some smaller local banks. Furthermore, there is a notable difference between foreign and domestic banks in terms of soundness indicators, with the former being more successful in reducing NPLs or improving loan provisioning. Like elsewhere in the Western Balkans, the degree of euroisation is rather high: 36% of deposits and 45% of loans of commercial banks were denominated in euro in 2021, although the share of euro denominated loans has been on a gradually declining trend in recent years. During the COVID-19 crisis, the central bank has reassured households and corporations on the stability of the country's financial sector and supported debt payment moratoria, suggested by the country's two banking agencies, as well as the suspension of dividend payments and stricter rules on remuneration. Furthermore, the governments of the two entities supported lending by providing temporary guarantees to private sector loans. The

volume of those guarantees amounts to about 0.5% of GDP. In early 2022, the entities' banking agencies took over the Russian-owned Sberbank subsidiaries, as the announcement of sanctions on certain Russian-owned financial institutions had led to a bank run on those subsidiaries, endangering their viability.

#### *Access to finance*

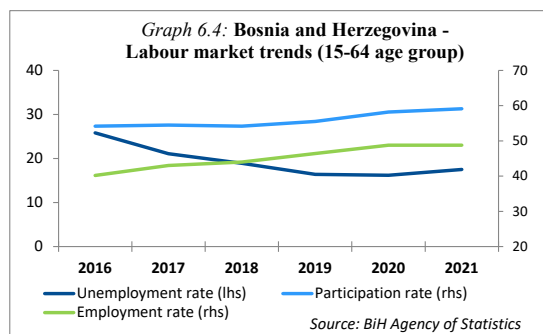
**Credit growth picked up but access to finance often remains challenging.** Annual loan growth averaged 1.7% in 2021, with nearly 3% growth in the second half of 2021. This recovery was mainly driven by household loans, which account for some 30% of the total credit stock. Bank deposit growth accelerated markedly, from 5.6% in 2020 to 10.1% in 2021. Interest rate spreads for consumer loans have declined, dropping during the last 5 years from above 6 percentage points to around 3 percentage points. However, this level is still relatively high, suggesting elevated risks and/or a lack of competition. The five largest banks account for about 80% of the sector's assets. Private sector debt declined from 54.5 % of total debt at the end of 2021, which is higher than at the beginning of the year, and also markedly above the country's five-year average before the pandemic. Financial literacy is limited in particular among small enterprises. The size of the non-bank alternative financing sector and of the capital markets has remained small, with a market capitalisation of the country's stock markets of about 17.5% of GDP in May 2022. The use of venture capital has continued to be very limited. The governments' loan guarantees had a positive impact on the private sector's access to finance. However, for many micro and small companies gaining access to those guarantees appears to have been difficult.

#### Functioning of the labour market

**Economic recovery and government support measures have benefited the labour market, but structural problems persist.** The number of registered employed was some 3.2% (26 500 persons) higher in the first half of 2022 than a year before, while the number of unemployed declined by 7.3% (29 600 persons), leading to a drop in the administrative unemployment rate to 30.8%, compared to 33.2% the year before. However, due to the strong decline in registered unemployed, the registered labour force shrank by about 0.3%, or some 3 100 people. Due to the high share of informal employment, in particular in the trade and tourism industry, administrative data provides only a partial picture of the country's labour market dynamics. Although due to methodological changes, the comparability of labour force survey data over time is limited, their findings largely support the picture of decelerating employment growth and strong declines in unemployment. However, the overall labour force continued to decline, partly as a result of a persistent brain drain, with a high share of qualified and mobile workers leaving for job opportunities abroad. This has a negative impact on the country's competitiveness as well as its growth potential in the medium-term. Reflecting structural problems as well as the COVID-19 shock, youth unemployment (age group of 15-24 years) is particularly high, at around 36% in June 2022. While in the pre-pandemic period employment opportunities have been created in tourism and manufacturing, high unemployment has persisted for years due to challenges associated with skills mismatch and an insufficient increase in job creation as a result of weak investment in the capital stock. Key factors for the persistently high unemployment are a lack of adequate employment possibilities in the economy, a mismatch of education curricula with labour market needs, and the high tax wedge, in particular for low-wage earners. The labour market participation of women and youth is still low, while unemployment rates of those two groups are significantly higher than for men in core working age cohorts. Long-term unemployment has remained high, with about 75% of the unemployed looking for a job for more than one year. During the last year, the authorities have continued to implement active labour market measures,

although the efficiency of the measures is not evaluated sufficiently rigorously. These active measures support the employment of vulnerable or disadvantaged groups. The still substantial discrepancy between unemployment data according to administrative and according to survey-based data points to the need to improve the country's labour market statistics.

**The labour market suffers from a lack of qualified labour, which contributes to high wage growth.** Labour mobility within the country remained low. Many companies suffer from a lack of qualified labour, which is further exacerbated by high emigration. In combination with accelerating domestic price pressures, this scarcity of qualified labour has contributed to relatively high nominal wage growth (4.4 % in 2021 and 9.4% in the first half of 2022). This translated into an increase in real wages by some 2% in 2021, but accelerating inflation brought this increase to a halt. Public sector wages are relatively high compared to other sectors, in particular when taking into account the sector's productivity, which to some extent crowds out qualified labour in the private sector.



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

Bosnia and Herzegovina has made **no progress**, and remains at an **early stage** in terms of capacity to cope with competitive pressure and market forces in the EU. There have been no significant improvements in the overall quality level of education, while measures to improve the transport and energy infrastructure were impeded by political disputes. However, some structural adjustment took place, responding to strong external demand and the constraints imposed by COVID-19. The implementation of last year's recommendations has been very limited.

In order to support long-term growth, Bosnia and Herzegovina should in particular:

- Improve the quality of education and training, in particular, accelerate the modernisation of curricula with a view to better alignment with labour market needs;
- Increase the share of government capital spending in GDP, in particular by focusing on transport and energy infrastructure and on improving environmental standards. Improved management of public investment and an accelerated implementation of those investment projects that have been subject to a clear positive cost-benefit assessment are of particular importance in this respect.
- Support further trade integration with the EU and CEFTA, among others by supporting alignment with European safety and quality standards, such as those planned in the context of the Common Regional Market Action Plan.

#### Education and innovation

**Investment in education remains inadequate, highly fragmented and poorly coordinated, leading to varied standards within the country.** Public spending on education accounted for some 4% of GDP in 2020. When adding private spending and support by foreign donors, the overall amount stands at nearly 5% of GDP. Despite this significant spending, in particular when taking into account the number of students, it fails to provide the country's labour force with the skills and knowledge necessary for a smooth integration in the labour market. This is one factor for a particularly high youth unemployment rate (36.3% in June 2022 according to the LFS), twice the country's overall unemployment rate. The insufficient coordination leads to a lack of common standards for various levels of education, as well as in differences in the quality of teachers' training and performance evaluation.

Teaching curricula continue to be outdated and are still not sufficiently aligned with the country's needs. The country participated for the first time in the 2018 PISA study. Results indicate that the students' performance ranks well below the OECD average, which is a clear impediment for the country's competitiveness and growth potential. Unfortunately, Bosnia and Herzegovina refrained from participating in the follow-up study. The country's illiteracy rate continues to be around 3%, largely as a result of a relatively high rate among women.

**Spending on research and innovation is limited and impeded by the low degree of cooperation and coordination among the various levels of government, leading to a low efficiency of the overall system.** The absence of an efficient funding system is another factor preventing the country's innovation policy from achieving better results for the funds spent. The country's research capacities remain limited, while brain drain continues, most notably in the health, medical, and IT sectors with no systematic measures having been introduced so far to address the issue.

#### Physical capital and quality of infrastructure

**Investment in the country's capital stock remained impeded by continued political uncertainties.** Gross capital formation recovered only partially as it grew by 4.4% in 2021 after a drop of nearly 13% in 2020. This has led to a further decline in the share of gross capital formation to 23% of GDP in 2021, compared to 24.5% in 2019, the last year before the COVID-19 pandemic. Public investment remained low, reflecting a focus on COVID-19-related current spending, while private investment was also negatively affected by the continued uncertainty related to COVID-19 and political uncertainty. Inflows of foreign direct investment (FDI) recovered from a low level to its 5-year pre-COVID average of 2.1% of GDP, after 1.7% of GDP in 2020. A large share of those FDI inflows continue to be re-invested earnings of foreign investors in the financial sector as well as in tourism. As in the case of gross fixed investment, the low level of inflow of foreign investment is impeding the country's ability to achieve a higher growth trajectory. Environmental standards have remained low and are often neglected, leading to high levels of pollution, impeding the health (and thus productivity) of the country's labour force and constituting an additional factor supporting brain drain. Overall, the insufficient momentum in investment and negligence of environmental standards continues to hamper improvement in the country's growth potential.

**Investment in transport and energy infrastructure was delayed as a result of a strong focus of public spending on COVID-19 related measures, but also due to political stalemates on country and entity level including the absence of a state-level budget in 2021 and the delayed 2022 budget.** Political disputes blocked necessary steps for updating the regulation of the energy and transport markets, while the country's spending focus was towards measures to support the economy in response to COVID-19. As a result, the markets for electricity and gas remain fragmented and dominated by key incumbent companies. Infrastructure connections with neighbouring countries as well as the country's level of digitalisation remain inadequate. Furthermore, investment into improving environmental standards, in particular the air pollution, has been neglected.

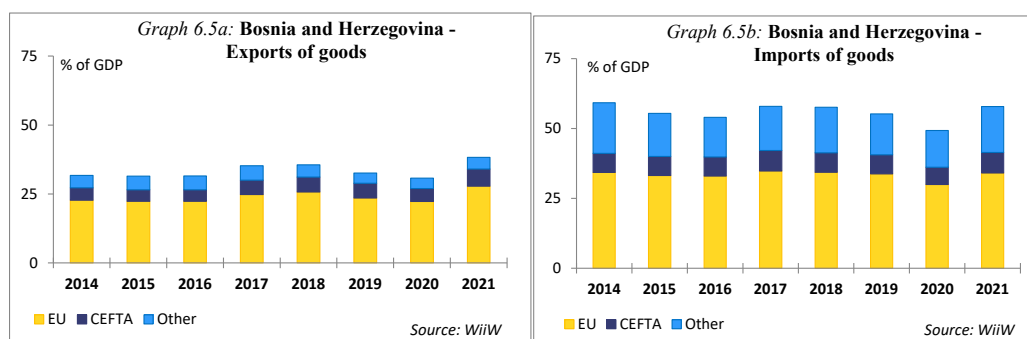
#### Sectoral and enterprise structure

**Structural change has continued during the last year, with a continued shift towards trade and transport.** In the first quarter of 2022, the share of value added in the trade, transport and tourism sectors rose to 21.7% of GDP, compared to 19.7% of GDP a year before, while due to below-average growth the share of the public sector declined by nearly one percentage point, from 17.9% in the first quarter of 2021 to 17% in the first quarter of 2022. During the last years, the company structure registered some increase in the share of micro companies (0-9 employees), and medium-sized companies employing between 50-249

employees. However, the majority of new companies were often trading companies with lower value added. Some 93% of all companies are in the group of small and micro businesses, i.e. those with less than 50 employees.

### Economic integration with the EU and price competitiveness

**Trade and investment integration with the EU remained high but overall trade is below its potential.** In response to the strong export decline during the beginning of the COVID-19 crisis, exports rose by 40% year-on-year in the first half of 2022, mainly as result of strong demand from the EU (Germany, Italy, Croatia), but also from CEFTA countries such as Serbia. During the five years before the pandemic, trade slightly shifted towards the neighbouring region, reflecting stronger exports to countries such as Serbia and Croatia. Exports to the EU-27 as a share of total merchandise exports rose from some 72% in 2021 and rose to 74% in the first quarter of 2022. Exports to CEFTA countries increased their share in total exports, reaching 16.7% in 2021 and 18.7% in the first half of 2021. The country's openness to trade (exports and imports as a percent of GDP) recovered in 2022 from the sharp drop in in the first quarter of 2021, reaching 89% of GDP, compared to 69% the year before. Even before the pandemic, the country's openness to trade was relatively low, in particular in view of its relatively small economy. The export structure is not very diversified and relies mainly on basic metals, furniture, and textiles. While some further progress has been achieved in addressing non-tariff barriers to trade with the EU, such as required phytosanitary and sanitary standards, overall compliance with these requirements remains weak. The integration of the country's financial and capital markets with the EU is still rather low, although a large part of the banking sector is owned by European banks. About two thirds of the country's stock in FDI is originating from the EU countries. Annual FDI inflows largely show a similar pattern.



**The country's overall price competitiveness has deteriorated somewhat.** After a long period of gradual improvements during 2016-2021 by some 4%, the country's real effective exchange rate started to appreciate in December 2021 and was 4.4% higher in April than a year before, reflecting a rising positive inflation differential with the country's trade partners. In nominal effective terms, the currency appreciated by 1.2% during that period, mainly reflecting the exchange rate movements of the US dollar, the Turkish lira and the Russian rouble against the euro, to which the Convertible Mark is pegged.

## **2.4. PUBLIC PROCUREMENT, STATISTICS, FINANCIAL CONTROL**

### **Chapter 5 - Public procurement**

*EU rules ensure that public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.*

Bosnia and Herzegovina has **some level of preparation** in the area of public procurement. There was **some progress** in the reporting period. The country has adopted amendments to the public procurement law aiming at aligning its legislation with the EU *acquis*. It needs to continue the alignment process and strengthen capacities. Public procurement remains prone to irregularities and vulnerable to corruption during the procurement process and contract implementation. Selective and non-transparent judicial follow-up in cases of corruption in public procurement is a cause of significant concern. The country needs to ensure continued equal treatment of domestic and EU bidders in awarding public contracts in line with provisions of the SAA. Recommendations from last year remain valid.

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

- further align the public procurement law with the EU public procurement *acquis*, including in the area of concessions;
- adopt a new public procurement strategy 2023-2027 and accompanying action plan that supports its implementation;
- strengthen the administrative capacities of the Public Procurement Agency and the Procurement Review Body by increasing their staff and providing appropriate training, and making the procurement process more transparent.

#### Institutional set-up and legal alignment

The **legal framework** is partially in line with the EU *acquis*. The law on public procurement was amended in August 2022 to further align it with the EU *acquis*, after several years in parliamentary procedure. The relevant implementing legislation needs to be adopted. The legal framework on concessions and public-private partnerships is still highly fragmented and needs to be aligned with the EU *acquis*. All legal and financial instruments used for public procurement and concessions, including intergovernmental agreements concluded with third countries, should comply with the principles of transparency, competition, equal treatment and non-discrimination.

The new 2023-2027 **strategy for the development of public procurement** and relevant action plan have not yet been adopted. The Public Procurement Agency adopted a plan for integrity and a plan for the fight against corruption in 2022.

The Public Procurement Agency is the body authorised to initiate, implement and monitor the public procurement policy in all sectors. The Agency's administrative capacities are insufficient, particularly concerning the monitoring and support functions (22 versus 45 civil servants planned). It manages and develops the Public Procurement Portal. Tender documents and other important guidelines can be downloaded from the Portal. However, the exchange of information and tender participation is not fully conducted electronically and as per EU standards, but still partly in paper form. Better coordination with the audit and judiciary institutions is necessary.

#### Implementation and enforcement capacity

In 2021, Bosnia and Herzegovina's **public procurement market** represented 7.51%, of the country's GDP, slightly below the 2020 level. The average number of bids per tender remains low at 2 in 2021.

**On monitoring the award and implementation of contracts**, the administrative capacities of the Public Procurement Agency are insufficient to fulfil its tasks. Statistics collected from contracting authorities show an increase in the use of the negotiated procedure without prior publication (11.87% in 2021 compared to 8.53 % in 2020). The use of price as the only award

criterion remains high with 70% of public contracts. The Agency's monitoring role should be strengthened to identify potential weaknesses and irregularities in procurement procedures. The Agency has not prepared any manuals, guidelines or other practical tools for the implementation of the public procurement law, apart from the manual on the e-Procurement system. The Agency's collection of opinions and solutions to the most common practical problems faced by practitioners is not regularly updated. A mechanism to regularly and systematically coordinate the interpretation of public procurement legislation between the key institutions involved has not been put in place.

**The capacity to manage public procurement processes** is weak. Specialised procurement functions need to be established in each contracting authority and staffed with officials who have the relevant skills and expertise. There was no new development to improve **integrity and conflicts of interest** in this area. Public procurement remains prone to irregularities and vulnerable to corruption during the procurement process and contract implementation. There has been no sanctioning of corruption cases in Public procurement by the courts. The Public Procurement Agency organised training on public procurement for most contracting authorities across the country and enhanced its cooperation with prosecutors and civil society to monitor violations of procurement rules.

#### Efficient remedy system

The legislation on the **right to appeal** is broadly in line with the EU *acquis* although time limits are excessively short. The Procurement Review Body is a quasi-judicial body reviewing complaints from bidders. It has offices in three locations (Sarajevo, Banja Luka and Mostar), but no formal mechanism to coordinate them and ensure consistent decision-making and legal certainty. The functioning of the Procurement Review Body continues to be weak, primarily due to its insufficient staffing and technical capacity. The number of appeal cases is increasing and inconsistency of decisions remains the main issue. Only a small number of decisions have been challenged before the Court of Bosnia and Herzegovina. The transparency of the decision-making of the Procurement Review Body needs to be significantly enhanced. The length of administrative disputes against its decisions in the Court of Bosnia and Herzegovina remains excessive.

### **Chapter 18 - Statistics**

*EU rules require Member States to be able to produce good quality statistics in line with the principles of the European Statistics Code of Practice and statistics based on professional independence, impartiality, reliability, transparency and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.*

Bosnia and Herzegovina is at an **early stage of preparation** in the area of statistics. **Limited progress** was made, notably by completing a survey on income and living standards. The country should enhance cooperation, coordination, decision-making processes and the legal basis to develop the national statistical system in key areas, increasingly applying European and international standards. In order to better support policy analysis, improvement is needed on the provision of timely, exhaustive and countrywide statistics on government finances, national accounts and the labour market. The classification of regions equivalent to the NUTS classification still needs to be finalised. Last year's recommendations remain mostly valid.

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

- adopt a master plan for production of national accounts;
- continue implementing the surveys on income and living conditions;

→ adopt a methodology, responsibilities and funding for the next agricultural census and adopt a roadmap for preparation of the next population census.

As regards **statistical infrastructure**, the law on statistics of Bosnia and Herzegovina still needs to be aligned with the principles of the European Statistics Code of Practice. Statistics are only to some extent timely, relevant and reliable. Coordination between the Agency for Statistics of Bosnia and Herzegovina (BHAS) and other producers, including the entities' offices, needs to be strengthened. The latter need to carry out surveys in time and according to the overall statistical programme.

The Agency for Statistics needs to have access to administrative data beyond that of the Indirect Taxation Authority. The Agency for Identification Documents, Registers and Data Exchange (IDDEEA) has begun cooperating to improve transport statistics.

On **classifications and registers**, the Statistical Business Register continues to be maintained, but data received from administrative sources remains insufficient. The main business demography statistics were sent to Eurostat in February for the first time. The address list of agricultural households is being used to prepare a quality research framework necessary for the future agricultural census. The main statistical classifications are in place. However, the equivalent to NUTS II regions has only been provisionally defined and accepted by the European Commission until Bosnia and Herzegovina finalises the entire classification and includes in it the definition of the equivalent to NUTS III level as well.

On **macroeconomic statistics**, the production of national accounts continues to deviate from the EU *acquis*, and a master plan needs to be agreed among the three statistical institutes. Annual accounts are compiled using production, expenditure and income approaches, while quarterly accounts are compiled only according to the production and expenditure approaches. Sector accounts are not produced.

Regarding the transition to ESA 2010 methodology, the sector classification is complete except for sub-sectors of the general government sector. Moreover, the responsibility for implementation is still unclear. Bosnia and Herzegovina needs to provide the Commission with its GDP per capita figures harmonised at NUTS II level. Balance of payments statistics are harmonised with current international statistical standards.

Some progress was made in compiling government finance statistics, but the data are not in line with ESA 2010. For the period 2015-2021, yearly data as well as quarterly data for 2020 Q1 – 2022 Q1 were processed and submitted to Eurostat. Bosnia and Herzegovina continued to submit excessive deficit procedure tables, however the quality and completeness need to be further improved. Quarterly balance of payments and international investment position data were transmitted. GDP time series by production, income and expenditure is now available for the period 2000-2022. Bosnia and Herzegovina has also put in place adequate infrastructure for data transmissions to Eurostat and the European Central Bank. Bosnia and Herzegovina does not transmit Harmonised Indices of Consumer Prices (HICP) data to Eurostat.

On **business statistics**, short-term statistics for industry, construction and services are not fully available and will need to be established in line with the requirements of the EU *acquis*. The structure for all required datasets for short-term business indicators has been prepared, and the data was sent to Eurostat. Statistics related to the production of manufactured goods (PRODCOM) are sent to Eurostat on an annual basis.

Foreign affiliates statistics are produced by the Agency for Statistics for inward statistics and by the Central Bank for outward statistics, but full compliance with regulations for these

statistics needs to be ensured. Inward foreign affiliates statistics for 2019 were submitted to Eurostat. Tourism statistics are limited to data on accommodation, but a private and business travel survey was conducted for the reference years 2018 and 2019. The same survey is planned in 2022 for the reference year 2021. Research and development statistics are published annually. The Community Innovation Survey is conducted on a regular basis. Information and communications technology statistics were also provided to Eurostat.

On **social statistics**, preparation for the next population and housing census has hardly progressed. The necessary legislation has not been agreed among entity statistical institutes. A new master sample frame is now available and was used not only for the household budget survey, but will also be used for upcoming surveys, such as the labour force survey and a full-scale survey of income and living conditions (fieldwork May-July 2022). The labour force survey is implemented annually and on a quarterly basis, and data for the first quarter of 2022 was published by BHAS. Both the questionnaire and methodological documents were aligned with Eurostat recommendations. Neither the labour cost index nor the structure of earnings survey are implemented. Job vacancy and social protection statistics are collected regularly. Intensified cooperation with the institutions responsible for monitoring migration flows is needed. Education statistics covering all levels of government are published annually. Culture statistics include 15 domains, although coverage is not yet adjusted to Eurostat requirements. There have been some improvements regarding crime statistics, which are collected monthly and submitted annually for the United Nations Office on Drugs and Crime questionnaire.

The lack of a recent agricultural census – the last one took place in 1960 – is a major limitation for **agricultural statistics**. Special attention needs to be paid to agreeing the methodology, responsibilities and budgetary aspects of a future census planned for 2023. A very limited number of statistical indicators are produced, including some experimental estimates. Supply balance sheets are not available. Statistics on crops and animal production are not in line with the EU *acquis*.

As for **energy statistics**, further work is needed to improve the quality of data in line with EU requirements, in particular annual data on renewable energy sources and basic monthly data on oil. The harmonised calculation of the share of energy from renewable sources for the reference year 2019 was submitted to Eurostat.

Regarding **environmental statistics**, the Agency for Statistics continued to publish data from the annual statistical surveys on climate change and greenhouse gas emissions from agriculture and waste disposal. The Agency for Statistics reported environmental protection expenditures to Eurostat for the first time but has yet to report environment-related taxes.

## Chapter 32 - Financial control

*The EU promotes the reform of national governance systems to improve managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.*

Bosnia and Herzegovina has **some level of preparation** in this area. **Good progress** was made in fulfilling last year recommendations, notably in implementing at a good rate the public internal financial control (PIFC) strategies in both entities. The secondary legislation and methodology were updated at all levels and incorporated in the IT application on PIFC, generating consolidated annual PIFC reports at all levels. A communication strategy 2021-2025 has been adopted at the state level; other levels of government need to develop one. All central harmonization units need to continue strengthening their capacities and monitor the effectiveness of internal control functions in the public sector, with particular attention to the

risk management and internal audit functions. Bosnia and Herzegovina should improve the quality of external audit reports and step up communication efforts at entity level to reinforce public awareness.

In the coming year, Bosnia and Herzegovina should:

- improve the relevant PFM legislation at all levels of government to better implement managerial accountability across public entities;
- improve the quality of the monitoring on public companies, by using the public internal financial control IT application;
- improve the impact of SAIs work through communication strategies at entity level.

### Public internal financial control

A comprehensive **strategic framework** for public internal financial control (PIFC) is in place together with individual 2020-2025 PIFC strategies, which are being implemented. Annual PIFC reports are adopted by each level of government. However, the respective governments and parliaments should monitor the implementation of recommendations provided by the Central Harmonisation Units (CHU), the Supreme Audit Institutions (SAIs) and the Internal Auditors. The Brčko District still needs to make the monitoring framework operational.

**Managerial accountability** is embedded in the strategy on public administration and public internal financial control and public financial management, but remains to be properly implemented. Partially, the problem lies with unclear provisions regulating the organisation of public administration and the unclear relationship between supervisory and subordinated bodies, partially with confused policy-making roles and reporting lines and lack of adequate management of performance of subordinated bodies. Coordination of policy content with government priorities is lacking throughout the public administration. Most public entities have strategic plans with objectives and performance indicators, but checks on performance are missing. While delegation of authority within public service is defined in the legislation on internal control, such remains only understood as financial one and has not yet been properly implemented. (*see also Public Administration Reform*).

The legal framework for the functioning of **internal control** is largely in place at all levels of government, including rulebooks on internal control standards and risk management for its implementation. However, effective implementation of internal control systems still needs to be improved at all levels. Particularly, the legal provisions on internal control remain not well integrated in the general Public Finance Management regulations, business processes and management information systems at all levels of government and in the public enterprises. A countrywide management information system for risk management, internal control and monitoring and reporting of the financial management and control activities is in place (PIFC application) and needs to be used for risk assessment, risk mitigation and internal audit.

In 2021, there was a substantial increase in first-level budget spending units and public enterprises submitting an internal control self-assessment report to the CHUs via the PIFC application from some 500 in 2020 to 656 reports in 2021. All state-level institutions, some 70% of the first level budget organisations in the Federation entity and more than 80% in the *Republika Srpska* entity submitted their self-assessment reports for 2020 online. Risk management data has been increasingly recorded in the risk register of the PIFC application. Risk registers are established in most state-level public institutions; entities need to increase further coverage of institutions in this area and particularly so in the Federation. Risk management is not yet seen as a management activity and remains not incorporated in the decision-making cycle. Budget inspection is in place at each level. The legal basis ensures a

separation of budget inspection from internal audit function and such is maintained across institutions also in practice.

**Internal audit practice** is regulated and is in line with international audit standards. In the reporting period, the internal audit manuals at all levels have been updated and embedded in the internal audit management module of the PIFC IT application, including quality assurance provisions. The CHUs adopted a methodology on quality reviews on internal control and internal audit and should start with the implementation in 2022. Despite the positive trend in filling the number of available internal audit job positions – from 71% (322 out of 451) in 2021, to 77% (350 out of 451) for 2022 – the persisting problem lies in the fragmentation of the internal audit system and weak capacities of those units. The CHUs should consider some level of centralisation and further strengthening of the joint internal audit services. While nearly all appointed internal auditors in the public sector have become certified, an increase from a total of 721 in 2021 to 798 certified internal auditors in 2022 has continued. The problem of the lack of skills in this area is partially addressed by implementing the internal audit management software in 2021 as part of the PIFC application. This ensures a unified methodological approach on the audit process, while increasing quality assurance. Internal audit certification procedures are in place and implemented at all levels of government except in the Brčko District. However, more needs to be done to increase professional development of audit staff, especially on risk assessment, using IT and work with analytical tools.

**Central harmonization units (CHUs)** have been established at state, entity levels and Brčko District. The three CHUs at state and entity level, prepare yearly consolidated reports, whereas Brčko District yet needs to deliver on that. The PIFC IT application for financial management control and internal audit reporting and monitoring was tested at all levels. With exception of the Federation CHU who has very weak capacities, the job positions are filled and there is sufficient staff and administrative capacity to provide methodological guidance, promote and monitor PIFC reforms via the PIFC application. The quality of the PIFC reports needs to be improved, by including risk management, and performance indicators for public companies for monitoring fiscal risks. Their impact on internal control remains weak, as recommendations remain not well implemented across public entities across all levels. The coordination Board of Central Harmonisation Units continued its work according to the work plan of 2021, but its effectiveness in driving reforms needs to improve.

#### External audit

With regard to the **constitutional and legal framework** there is no constitutional anchorage of any of the Supreme Audit Institutions (SAI). The functional, operational and financial independence of the SAIs at all respective levels of government is regulated in the specific SAI laws, broadly in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI). No instances show that such independence is violated in practice.

The **institutional capacity** of SAIs needs to be strengthened across levels of government. External audit coverage of the cantonal level remains weak. All SAIs have been implementing their strategic development plans for 2021-2025. SAIs should continue to work closely with the prosecution authorities to see how to best handle instances of possible fraud and corruption that the SAI uncovers during an audit. The Coordination Board of State Audit Institutions needs to be further strengthened in effectively following up with audit offices on how the legal framework and related procedures on external audit can be implemented across levels and as well establish a better monitoring system on progress undertaken by the various audit offices.

With regard to the **quality of audit work**, all the SAIs have a broad mandate, which covers financial, compliance and performance audit. The trend on number of performance audits has remained stable across levels. The SAIs have INTOSAI compliant methodologies and manuals. The SAIs should consider improving the quality of their audits in providing compliance assurance and increase the number of performance audits. However, the assessments are of general nature. The SAIs need to apply comprehensive internal control assessments tailored to the audited areas, types of transactions and type of organisations.

The **impact of the audit work** of all SAIs is limited. The audit recommendations continue to be predominantly focused on formal compliance. Implementation rate of recommendations continues to remain low at all levels, between 25% to 40% to be fully implemented, or in the process of being implemented. While parliaments have procedures in place for examining audit reports, the level of parliamentary scrutiny to these reports varies across levels of government. SAIs need to step up efforts for closer partnerships with respective parliaments in making their recommendations binding for each government level.

The quality of the audit findings needs to be improved. The results should be presented in terms of value added by the SAIs and communicated in a more efficient manner in the audit reports and in the media. Some efforts were undertaken in the outreach activities of SAI at the state level by developing and publishing the communication strategy 2022-2025 and organising a consultative meeting with civil society. In the Federation entity and in the Brčko District better communication of SAIs is seen as a strategic objective in the new development strategy 2021-2025, and all entities need to still develop communication strategies.

#### Protection of the EU's financial interests

The legislation at all levels of government ensures some degree of EU **acquis alignment**. No progress was reported on alignment with the Directive on the fight against fraud to the EU's financial interests by means of criminal law. An anti-fraud coordination service (AFCOS) and the corresponding AFCOS network are not yet set up, and the country has not yet adopted an anti-fraud strategy.

While there is no solid track-record on cooperation with the Commission during investigations, the State Investigation and Protection Agency and the Ministry of Finance and Treasury ensure *ad hoc* cooperation. As EU funds are not managed indirectly by the country authorities, Bosnia and Herzegovina does not report on irregularities to the Commission through the Irregularity Management System.

In the reporting period, the State Prosecutor's Office of Bosnia and Herzegovina provided OLAF with the information requested in the context of an ongoing investigation. Further support and information was also provided for the purpose of another case by a District Prosecutor's Office.

#### Protection of the euro against counterfeiting

Bosnia and Herzegovina has not ratified the 1929 Geneva Convention for the suppression of counterfeiting currency. The level of EU **acquis alignment** for technical aspects needs to be assessed. The Central Bank has a regulation in place that obliges commercial banks and other entities to withdraw all suspect banknotes and coins from circulation. However, no sanctions are imposed for failure to fulfil this obligation. The Commission does not yet have a **cooperation agreement** on coins with the Agency on Forensics of Bosnia and Herzegovina.

### 3. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

**Good neighbourly relations and regional cooperation** form an essential part of Bosnia and Herzegovina's European integration process and contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past.

Bosnia and Herzegovina maintained its engagement in a number of **regional cooperation initiatives**, such as the Central European Free Trade Agreement (CEFTA), Energy Community, Transport Community, the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council, of which it hosts the seat.<sup>12</sup> Bosnia and Herzegovina took over chairmanship of the Adriatic and Ionian Initiative in May 2022.

Following the May 2022 Foreign Affairs Council, EU foreign ministers held, for the first time, an informal exchange of views with Western Balkans counterparts. The **EU and Western Balkans Leaders Meeting on 23 June 2022** reaffirmed their EU perspective of the region and gave impulse to intensify cooperation, in particular on integration into EU measures on food and energy supplies and independence, as well as to support capacity building for cyber security and the social agenda, notably involving youth in the economy. The meeting was also an opportunity to discuss closer political cooperation, including foreign policy alignment of the Western Balkans with EU positions and restrictive measures.

At the **EU-Western Balkans summit in Brdo pri Kranju** in October 2021, the six Western Balkans leaders reaffirmed their commitment to inclusive regional cooperation, strengthening good neighbourly relations and investing more decisive efforts in establishing the Common Regional Market. The summit announced a range of concrete deliverables benefiting the Western Balkans, including the Economic and Investment Plan; the pledge to boost COVID-19 vaccination rates; the path towards lower roaming costs; an innovation agenda for the Western Balkans; green lanes to reduce border waiting times and Transport Community action plans for smart transport and sustainable connectivity.

The **Common Regional Market**, as agreed by the leaders of the Western Balkans at the 2020 Berlin process summit in Sofia, is critical in increasing the attractiveness and competitiveness of the region. It will help Bosnia and Herzegovina to speed up the recovery from the aftermath of the pandemic, notably to attract investors looking for diversification of supply and shorter value chains and to maximise the benefits of the infrastructure investments under the Economic and Investment Plan. A number of important decisions to facilitate the movement of workers remain blocked. It is important that all parties play a constructive role in building the Common Regional Market and deliver on their joint commitments set out in its action plan. The Chairman of the Council of Ministers of Bosnia and Herzegovina attended as observer the summits of the Open Balkans Initiative held in June 2022 in Ohrid and in September 2022 in Belgrade.

In October 2021, Bosnia and Herzegovina along with other Western Balkan partners endorsed the Action Plan for the **Green Agenda for the Western Balkans**, which aims at reflecting the European Green Deal and contributing to the sustainable socio-economic development and the green recovery of the region after the pandemic. Bosnia and Herzegovina should contribute to successfully implementing this joint regional vision, with a high level of ambition, putting sustainable development, resource efficiency, nature protection and climate

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<sup>12</sup> Bosnia and Herzegovina also actively participates in initiatives such as the Brdo-Brijuni Process, the Central European Initiative, the Adriatic-Ionian Initiative, the EU Strategies for the Danube Region and for the Adriatic-Ionian Region, the Migration, Asylum, Refugees Regional Initiative (MARRI), the Regional School of Public Administration (ReSPA), the Regional Youth Cooperation Office in the Western Balkans (RYCO), the South East European Cooperation Process (SEECP) and the Western Balkans Fund.

action at the centre of all economic activities.

Bosnia and Herzegovina has continued to closely cooperate with Croatia, Montenegro and Serbia under the **Sarajevo Declaration Process**, which aims to find sustainable solutions to refugees and displaced persons as a result of the armed conflicts in ex-Yugoslavia during the 1990s. Within the framework of the Regional Housing Programme (RHP), 2 034 housing units have been built, purchased or reconstructed by end June 2022 in Bosnia and Herzegovina, able to accommodate circa 6 100 persons. The success of the programme risks being jeopardised by important delays in construction, particularly in the *Republika Srpska* entity, as well as in co-funding by Bosnia and Herzegovina. Significant challenges remain with regard to the economic and social integration and wellbeing of many families, which is required to ensure the sustainability of return.

The unresolved fate of **missing persons** who disappeared during the conflicts of the 1990s remains a key issue to be solved in the Western Balkans. Despite steady progress in identification (70 persons in 2021 and 127 in the first half of 2022), 7 590 persons are still missing as a result of the conflict. Further efforts are needed at the regional level through the missing persons group established in 2018 under the Berlin Process to strengthen cooperation.

Bosnia and Herzegovina generally maintains good **bilateral relations** with other enlargement countries and neighbouring EU Member States.

Relations with *Albania* are friendly and without open issues, with occasional high-level bilateral visits. The two countries have yet to establish full-fledged bilateral embassies, as agreed the previous year. Trade flows remain low.

There are no official relations with *Kosovo*<sup>\*</sup>, as Bosnia and Herzegovina does not recognise Kosovo's independence and the two maintain a strict visa regime. Bilateral meetings took place occasionally at the margins of regional and multilateral summits. An initiative to simplify the visa procedure for citizens of Kosovo is still pending.

Bilateral relations with *Montenegro* are good with occasional high-level bilateral visits. The agreed border demarcation is yet to be physically marked. Three joint border crossing points remains to be set up.

Relations with *North Macedonia* are good with occasional high-level bilateral visits. Several bilateral agreements are in place, including on cooperation on EU integration.

Relations with *Serbia* are good and stable overall, although without concrete steps forward in tackling outstanding issues, including on borders. Bilateral high-level visits are regular. In March 2022, Bosnia and Herzegovina ratified the agreement with Serbia to establish a joint border crossing at Bratunac/Ljubovija, further improving efficiency of border control and implementation of the integrated border management policy. The two countries also need to reach an agreement on two river dams on the Drina River and a part of the Belgrade-Bar railway which crosses into Bosnia and Herzegovina's territory. Serbia and the *Republika Srpska* entity launched the construction of three hydroelectric power plants on the upper Drina. As this was done without involving Bosnia and Herzegovina's state institutions, upon appeal the Constitutional Court ruled that a decision of the Commission for Concessions is required; this is now pending. Around 11 120 persons with Serbian citizenship voted in the Serbian presidential and parliamentary elections at 15 locations throughout Bosnia and Herzegovina in April 2022.

*Türkiye* is a strong international supporter of Bosnia and Herzegovina and exchanges at high

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<sup>\*</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

level are frequent. The two countries reaffirmed their commitment to the construction of the Sarajevo-Belgrade highway, which Türkiye committed to finance.

Relations with *Croatia* are good overall, although affected by outstanding bilateral issues. Bilateral visits took place at high level. There are open issues concerning land and sea borders, and the 1999 border agreement has not been ratified by either side. Implementation of the 2001 succession agreement has been affected by issues on private properties and acquired rights. Bosnia and Herzegovina reaffirmed its support to an expert and legal team to dispute Croatia's plan to build a facility for radioactive waste and spent nuclear fuel storage at Trgovska Gora near the border.

#### 4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

##### CLUSTER 2: INTERNAL MARKET

This cluster is key for Bosnia and Herzegovina's preparations for the requirements of the EU's internal market and is of high relevance for early integration and the development of the Common Regional Market. Bosnia and Herzegovina has some level of preparation in the areas of free movement of workers, company law, competition and financial services, whereas it is moderately prepared in free movement of capital and intellectual property. It is at an early stage of preparation on free movement of goods, services and right of establishment as well as on consumer and health protection. Unfortunately Bosnia and Herzegovina has made limited or no progress in any of the internal market areas.

Major steps are required to align the legislative framework with the EU *acquis* on the free movement of goods and adopt a countrywide strategy for the quality infrastructure. Bosnia and Herzegovina should also align with the EU Services Directive, provide for the mutual recognition of qualifications for regulated professions, and open up the postal market for competition. Bosnia and Herzegovina should remove unjustified restrictions on the free movement of capital and urgently adopt a new law on anti-money laundering and countering the financing of terrorism. In the field of company law, Bosnia and Herzegovina needs to establish a central registry of businesses and a single authority for the oversight of statutory auditors. Bosnia and Herzegovina also needs to implement the strategy for enforcement of intellectual property rights and amend the Law on Patents. On competition policy, Bosnia and Herzegovina should remove all ethnic-based decision making procedures from the Competition Council and State Aid Council and further align with the EU *acquis*; it should ensure the operational independence of the State Aid Council and improve its enforcement record, and align existing aid schemes with the SAA. On financial services, Bosnia and Herzegovina needs to improve coordination in supervision and enforcement, sign a financial stability memorandum of understanding and strengthen the bank resolution framework. On consumer and health protection, Bosnia and Herzegovina needs to align at all levels with the EU *acquis* on serious cross-border health threats including communicable diseases, tobacco control (including the introduction of prohibition to smoke in public places), substances of human origin, on medicines for human and veterinary use and the state-level law on consumer protection.

##### Chapter 1 - Free movement of goods

*The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules, the principle of the free movement of goods prevents these creating unjustified barriers to trade.*

Bosnia and Herzegovina is at an **early stage of preparation** in the area of free movement of goods. **No progress** was made in this area. Last year's recommendations remain valid. Major steps still need to be taken to align the legislative framework with the EU *acquis*, in particular

on technical requirements for products, conformity assessment and market surveillance.

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

- establish a list of technical regulations in force and start to repeal countrywide the domestic legislation that conflicts with the EU legislation, including ex-Yugoslav standards that conflict with those aligned with European standards;
- adopt a countrywide strategy for the quality infrastructure;
- examine all existing legislation and administrative practices in the non-harmonised area to assess if they comply with Articles 34-36 of the Treaty on the Functioning of the European Union, and start to plan how to address all non-compliant elements.

### General principles

As regards the general principles, the legislative and institutional framework for the **production, distribution and marketing of industrial products** is not in place. Bosnia and Herzegovina does not have a coherent countrywide approach, nor does it have a strategy or action plan for alignment with the EU *acquis*. No steps were taken to comply with commitments under the Stabilisation and Association Agreement (SAA) or to repeal conflicting regulations at all levels of government.

### Non-harmonised area

There are no plans to ensure that legislation and administrative practices for the non-harmonised area are aligned to the obligations of **Articles 34-36** of the Treaty on the Functioning of the European Union (TFEU) and its relevant case law. There is no specific body established or empowered to fulfil the obligation of notifying technical regulations.

### Harmonised area: quality infrastructure

While the legal basis and administrative structure for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance are in place, they are not aligned with the EU *acquis* and remain uneven and fragmented. The relevant institutions are set up at both state and entity levels, but the coordination between them remains weak. There is still no countrywide strategy to put in place quality infrastructure, which is necessary for Bosnia and Herzegovina to have a coherent countrywide approach.

On **standardisation**, the Institute for Standardisation of Bosnia and Herzegovina is a full member of the European Telecommunications Standards Institute and an affiliate member of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). In 2021, the Institute for Standardisation adopted 1 981 European standards as national standards. The percentage of adopted European standards is 93.54%. However, conflicting ex-Yugoslav mandatory standards have still not been withdrawn in a systematic manner across the country, and there is still no countrywide register of the legislation in force.

The Institute for Accreditation of Bosnia and Herzegovina is the single national **accreditation** body and an associate member of the European Cooperation for Accreditation (EA). The Institute remains understaffed. It made some progress by extending the accreditation fields covered by the EA bilateral agreement to medical examinations and certification of products and it confirmed its status in the fields of calibration, testing and inspection. There are 169 conformity assessment bodies in Bosnia and Herzegovina: 86 testing laboratories, 3 medical and 11 calibration laboratories, 6 product certification bodies and 63 inspection bodies. The Law on accreditation is not aligned with the EU *acquis*, and the designation of conformity assessment bodies and procedures are still not applied consistently throughout the country.

The Institute of **Metrology** of Bosnia and Herzegovina participates in EU technical committees, European development programmes and cooperation projects with EU metrology institutes. Metrology institutes in Bosnia and Herzegovina need to cooperate and coordinate their activities when implementing the legislation in this area. In 2021, the *Republika Srpska* entity introduced conflicting rules for the accreditation of laboratories, already accredited under the state-level law, undermining legal certainty and the single economic space.

In the reporting period, the **Market Surveillance** Agency and the inspection bodies of the entities and the Brčko District conducted 200 checks as part of proactive surveillance, and 17 on reactive surveillance. As a result of 200 product safety inspections, 30 817 unsafe products were withdrawn from the market (of which 10 183 were destroyed), and businesses brought 1 685 products into compliance with safety requirements. The market surveillance system is still largely based on mandatory standards and pre-market control. The Law on market surveillance is still not aligned with the EU *acquis*.

#### Harmonised area: sectoral legislation

On the EU ‘**new and global approach to product legislation**’, Bosnia and Herzegovina has adopted legislation designed to align with the EU *acquis* on electrical equipment, machinery, electromagnetic compatibility, lifts, personal protection equipment, non-automatic weighing instruments and pressure equipment, as well as fertilisers. However, no further alignment in this sector took place over the past 10 years. The legislation is not applied across the country, as the legislative framework is fragmented and the *Republika Srpska* entity implements its legislation separately.

There is no countrywide approach to align with the EU *acquis* regarding ‘**old approach product legislation**’ or with **procedural measures**. No progress was made on aligning the legislation with the EU *acquis* on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) or on strengthening administrative capacities in this area. On **civil explosives**, Bosnia and Herzegovina still lacks a comprehensive legal framework for the transport of dangerous goods. Legislation on returning cultural objects unlawfully removed from the territory of an EU Member State is not aligned with the EU *acquis*.

## **Chapter 2 - Freedom of movements for workers**

*Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.*

Bosnia and Herzegovina has **some level of preparation** in the field of free movement of workers. However, **limited progress** was made in the reporting period and last year’s recommendations remain therefore valid.

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

- start developing a countrywide database on vacancies;
- continue negotiating and concluding new bilateral agreements on social security, notably with EU Member States.

Regarding **access to the labour market**, the legislation does not differentiate between EU workers and other third-country nationals. In order to work in Bosnia and Herzegovina, an EU citizen has to obtain a work permit and meet certain conditions, with several exceptions as provided by the law on foreigners. Employment in public administration is reserved for Bosnia and Herzegovina citizens. In 2021, 955 work permits were issued to third-country nationals, of which 418 work permits were issued to EU citizens. Main sectors are processing industry, sales, civil construction, and services.

The laws of the entities' and the Brčko District on the employment of foreigners still need to be fully harmonised with the state-level law on foreigners, especially when it comes to regulating the issuance/approval of a residence permit for the purpose of work.

Bosnia and Herzegovina still lacks a countrywide **database of vacancies**.

As regards the **coordination of social security systems**, Bosnia and Herzegovina has 10 bilateral agreements on social security in place, of which 6 are with EU Member States, and another 16 agreements (of which 12 with EU Member States) are implemented on the basis of succession from the former Yugoslavia. An agreement on social security with the Czech Republic was signed in May 2021 and ratified in July 2022. The country's system of coordinating social security schemes remains fragmented, with limited administrative capacities and lack of formal cooperation among relevant authorities covering all levels of government. There has been no progress on the European Health Insurance Card (EHIC).

### Chapter 3 - Right of establishment and freedom to provide services

*EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.*

Bosnia and Herzegovina is at an **early stage of preparation** regarding the right of establishment and freedom to provide services. **No progress** was made in this area and last year's recommendations remain valid. The existing legislation needs to be aligned with the EU Services Directive and does not provide for the mutual recognition of qualifications for regulated professions. A countrywide strategy for the development of postal services needs to be adopted to create a consistent regulatory framework that is aligned with the EU *acquis*.

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

- establish a monitoring mechanism to screen, check and align relevant legislation in force with the EU Services Directive and to identify and remove barriers to the right of establishment and freedom to provide services in the single economic space;
- adopt a countrywide law on postal services, to further align the legislation with the EU *acquis*, including the Regulation on cross-border parcel delivery services, and open up the postal market to competition;
- align with the EU *acquis* on mutual recognition of professional qualifications.

The legislation on the **right of establishment and freedom to provide cross-border services** is not aligned with the EU *acquis*. In particular, no progress was made to develop a horizontal law that covers the principles of the Services Directive and no screening of sector-specific legislation took place. A register of service-related legislation needs to be established to identify those laws to be amended and to further align them with the EU Services Directive. Also missing is a comprehensive inventory of all administrative and technical steps needed to register domestic and foreign companies that are economically active countrywide. This would help abolish those requirements that hamper the creation of a single economic space. No point of single contact was established. Legislative alignment in this area requires administrative capacity and strong coordination between administrative bodies at all levels of government.

The legal framework for **postal services** is partly aligned with the EU *acquis*. Further efforts are needed to prepare and adopt a consistent regulatory framework aligned with the EU Postal Services Directive, that allows for providing universal postal services across the country. The postal market needs to fully open up to competition. The institutional and financial

independence as well as the administrative capacity of the Agency for Postal Traffic needs strengthening to perform its regulatory function. There was no progress in aligning legislation with the EU Regulation on cross-border parcel delivery services. There is still no state-level strategy to develop postal services.

The legislation does not provide for the **mutual recognition of qualifications for regulated professions** as required by the EU *acquis*. The general roadmap for alignment with the EU *acquis* has not been implemented. Significant efforts are needed to establish an adequate institutional framework that includes e-government facilities and national contact points assisting citizens that request the recognition of their professional qualifications. Bosnia and Herzegovina needs to establish a list of regulated professions.

#### **Chapter 4: Free movement of capital**

*In the EU, capital and investments must be able to move without restriction, and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.*

Bosnia and Herzegovina is **moderately prepared** in the area of free movement of capital. There was **no progress** in the alignment with the EU *acquis* on the free movement of capital. Last year's recommendations were not addressed and remain valid.

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

- reduce the extensive administrative requirements for short-term capital transactions and amend the legislation to comply with SAA commitments on the acquisition of real estate by EU citizens;
- adopt urgently a new law on anti-money laundering and countering the financing of terrorism, including a register of beneficial ownership information for legal persons and a register of beneficial ownership information for legal arrangements.

As regards **capital movements and payments**, the country continues to apply full current account convertibility. Long-term capital transactions are mostly liberalised, but restrictions remain for short-term capital transactions, including financial credits and loans provided by residents to non-residents and residents' payments of life insurance premiums to non-residents. Investment rules for institutional investors are subject to limitations on investment in foreign securities.

The state-level law on foreign direct investments does not provide equal treatment of foreign and domestic natural persons for the acquisition of property. Entity laws on foreign investments still stipulate a cap of 49% of foreign ownership for companies operating in media affairs and the military industry unless, in case of justified interest, the entity government issues a decision to exceed 49% of the founding capital. The restriction therefore remains in force and is not in line with the requirements of the EU *acquis* on the free movement of capital, unless justified on grounds of public policy or public security.

For the acquisition of real estate by foreign natural persons, reciprocity is required unless the matter is regulated by an international agreement. Farmland cannot be owned by foreign natural or legal persons. Bosnia and Herzegovina is late in implementing its obligations under the SAA, which requires the country to amend its legislation on the acquisition of real estate so that from 2021 EU citizens should be treated in the same manner as citizens of Bosnia and Herzegovina.

There was no progress in privatising companies of strategic interest where entity governments retain majority shares and management rights.

The Central Bank of Bosnia and Herzegovina (CBBH) operates a modern **payment system** since introducing a new gyro clearing system in 2019. Although since mid-2020 all banks in the country have the required technical specifications to handle Single Euro Payment Area (SEPA) payments, Bosnia and Herzegovina needs to adopt legislation to align with the EU *acquis* (Payment Services Directive II, the Electronic Money Directive II and the SEPA Regulation) to be able to adhere to the SEPA schemes for communities of banks or financial institutions outside the European Economic Area.

Payment services need to be further liberalised and modernised to benefit existing and new players on the market. The system should be open to operators other than banks.

Bosnia and Herzegovina needs to adopt a new law on **anti-money-laundering and countering the financing of terrorism (AML/CFT)** in line with international standards and further align with the EU *acquis* on anti-money laundering and countering the financing of terrorism. The new law should in particular cover customer due diligence requirements, the reporting of suspicious transactions and the transparency of beneficial ownership. While Bosnia and Herzegovina has been removed from the EU list of high-risk third countries, the country should continue to improve its AML/CFT framework, including by introducing a register of beneficial ownership information for legal persons and a register of beneficial ownership information for legal arrangements, in line with the EU *acquis*. These further steps should be taken urgently and well in advance of the next assessment by the committee of experts on anti-money laundering measures and the financing of terrorism due to take place by 2023.

Bosnia and Herzegovina also needs to improve its track record of financial investigations, prosecutions and convictions for related offences; make a more consistent use of legal provisions on asset confiscation; and establish an asset recovery office. Preventive measures, supervisory action and sanctions in case of breaches – especially in the non-financial sector – also still need to be implemented.

## Chapter 6 - Company law

*The EU has common rules on the formation, registration and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.*

Bosnia and Herzegovina has **some level of preparation** in the field of company law, corporate accounting and audit. **No progress** can be reported in this area. Further efforts are needed to align with the EU *acquis* on company law. Some steps were taken in the area of electronic registration of companies in the Federation entity, however no central registry of businesses was established to connect the business registers across the country and ensure harmonisation. Further efforts are needed to align with the EU *acquis* on accounting and non-financial reporting, while there is still no single countrywide authority for the oversight of statutory auditors. Recommendations from last year were not addressed and remain valid.

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

- finalise the review of the existing legislation in the area of company law to identify amendments needed to complete alignment with the EU *acquis*;
- improve the connection and coordination of business registers among entities and the Brčko District;
- review the existing legislation in the area of accounting and statutory audit to align with the EU *acquis*.

On **company law**, Bosnia and Herzegovina is aligned to a limited extent with the EU *acquis*. No valid central registry of businesses has been set up, nor has any connection been made between the company registers of the entities and the Brčko District. The electronic business registration was established separately in the *Republika Srpska* entity and the Brčko District. The Federation entity amended its company law and law on the registration of business entities in 2021 to simplify the registration process of businesses, including electronic registration and to establish a one-stop-shop system. Further alignment is needed with the 2019 EU Directive on the use of digital tools and on cross-border operations, as well as with rules on shareholder rights, including the encouragement of long-term shareholder engagement.

The legislation on **company reporting and statutory audit** remains partially aligned with the EU *acquis*. Bosnia and Herzegovina still needs to align its legal framework on non-financial reporting with the EU *acquis*. The state-level Accounting and Audit Commission of Bosnia and Herzegovina acts as an expert body responsible for accounting and auditing standards, accompanying instructions and practices. The respective laws in the entities and the Brčko District prescribe the use of International Financial Reporting Standards (IFRS) for annual and consolidated accounts of all legal entities. Although some public audit oversight exists within the entities, Bosnia and Herzegovina still needs to designate a single authority with countrywide competence that is responsible for the oversight of statutory auditors, in line with EU *acquis* requirements.

## Chapter 7 - Intellectual property law

*The EU has harmonised rules for the legal protection of intellectual property rights (IPR) and of copyright and related rights. Rules for the legal protection of IPR cover, for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.*

Bosnia and Herzegovina is **moderately prepared** in the area of intellectual property law. **No progress** was made in this area during the reporting period. Significant efforts are required on legislative alignment and, in particular, on improving enforcement and coordination. The recommendations from last year were not addressed and remain valid.

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

- implement the strategy on enforcement of intellectual property rights;
- amend the Law on Patents;
- increase coordination and capacities of policy-making institutions to enforce intellectual, industrial and commercial property rights.

The legal framework on **copyright and neighbouring rights** is largely aligned with the EU *acquis*. The provisions in the area of orphan works and collective management rights need to be revised to align with the EU *acquis* in this area. Copyright works and related rights are deposited and registered in the Institute for Intellectual Property. Six organisations in the country are authorised to the collective management of copyright and related rights. An intellectual property strategy 2022-2026 has not yet been adopted.

On **industrial property rights**, the legislative framework is partially aligned with the EU *acquis*. Further alignment is needed, in particular on patents, trademarks and trade secrets. Bosnia and Herzegovina has acceded to the relevant multilateral conventions, as required by

the SAA, except for the European Patent Convention, for which it still needs to adopt relevant amendments to the Law on Patents.

Regarding **enforcement**, in the reporting period, the Indirect Taxation Authority received 113 requests for customs measures based on protected trademarks and issued 114 decisions on temporary detention and seizure of goods (compared to 69 requests and 57 decisions in the previous reporting period). The State Investigation and Protection Agency investigated 38 cases of which 13 were closed.

The administrative and judicial capacity of the enforcement institutions is insufficient and their coordination needs to increase. The coordination body for the protection of intellectual property, gathering representatives of enforcement institutions from all levels of government has been established. Bosnia and Herzegovina's strategy on IPR enforcement has not been implemented. The country still does not have a reliable system for collecting, analysing and exchanging data between the various enforcement institutions. Steps need to be taken to raise the awareness of businesses and consumers in preventing counterfeiting and piracy. Prosecutors, judges and court panels following up on infringement cases are not sufficiently specialised in IPR legislation to handle cases efficiently and consistently.

## Chapter 8 - Competition policy

*EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and abuse of dominant position, and also include rules on concentrations between companies which would significantly impede competition. EU rules also set out a system of State aid control. Governments are only allowed to grant State aid if restrictive conditions are met, with a view to preventing distortion of competition.*

Bosnia and Herzegovina has **some level of preparation** in the area of competition policy. There was **no progress** in this area in the reporting period. Bosnia and Herzegovina took no steps to remove all ethnic-based decision-making procedures and vetoes from the Competition Council and State Aid Council, in line with the Commission Opinion's key priorities. Bosnia and Herzegovina should further align its implementing legislation on competition and State aid with the EU *acquis*. Recommendations from last year were not addressed and remain valid.

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

- improve the enforcement record of the State Aid Council by ensuring that State aid measures are notified ex-ante by granting authorities;
- in line with SAA provisions, ensure that the State Aid Council operates independently and aligns with the EU *acquis* the existing aid schemes, introduced before the State Aid Council was established.

### Antitrust and mergers

The **legislative framework** on antitrust and mergers is broadly aligned with the EU *acquis*. The Law on Competition of Bosnia and Herzegovina largely mirrors the provisions of the Treaty on the Functioning of the European Union on restrictive agreements and abuse of dominant position. Implementing legislation needs to be further aligned with the EU *acquis*.

As for the **institutional framework**, the functioning of the Competition Council is significantly impeded by tight procedural deadlines and ethnic-based decision-making procedures, which require decisions to be supported by at least one representative of each constituent people to have legal effect.

Regarding **enforcement capacity**, the Competition Council is composed of six members

assisted by 20 staff. The staff's level of expertise needs to be further developed through relevant training.

On **implementation**, in 2021 the Competition Council took 34 decisions, including 4 on prohibited agreements, 5 on abuse of dominant position and 3 decisions on both prohibited agreements and abuse of dominant position, 10 decisions on concentrations and issued 12 expert opinions. 7 fines were imposed, amounting to EUR 260 000. The Competition Council should strengthen the enforcement of competition rules, as the impact of competition enforcement is limited and fines are negligible. No dawn raids have been carried out in the reporting period. The leniency programme for companies providing information on cartel cases has never been used. The judiciary's capacity to handle complex competition cases has improved with an increase in the number of assessed cases, the capacity however needs to be further reinforced. In advocacy, the Competition Council should have the power to conduct market studies to gain a better understanding of competition in key sectors, detect sources of competition problems and identify solutions.

### State aid

The **legislative framework** on State aid, including the Law on the State Aid System, is partially aligned with the EU *acquis* and SAA provisions. The implementing legislation is not developed evenly across the country and needs to be aligned with the EU *acquis*. A regional aid map has not yet been drawn up.

As for the **institutional framework**, the State Aid Council is responsible for the consistent implementation of the State aid law. It is composed of eight members appointed by the Council of Ministers and the governments of the entities and the Brčko District. As in the case of the Competition Council, the functioning of the State Aid Council is significantly impeded by ethnic-based decision-making procedures, which require decisions to be supported by at least one representative of each constituent people to have legal effect. The mandate of the members of the State Aid Council from the *Republika Srpska* entity expired in 2020, and those from the Federation entity and the state level in 2021. No actions have been undertaken by the relevant authorities to appoint new members.

The **enforcement capacity** of the State Aid Council is insufficient. With only six staff members, its secretariat is not in a position to fulfil its tasks. Furthermore, its capacity needs to be developed through relevant training.

On **implementation**, the State Aid Council issued only two (positive) decisions over the reporting period. A vast majority of State aid measures are put in place by granting authorities without notification and prior approval by the State Aid Council. All existing State aid schemes still have to be aligned with EU State aid rules and SAA provisions. Bosnia and Herzegovina needs to ensure transparency of all State aid measures.

### Liberalisation

Concerning **liberalisation**, the Law on Competition and the Law on the State aid system apply to public undertakings and undertakings with special or exclusive rights. The rules on financing services of general economic interest are not fully aligned with the EU *acquis*.

## **Chapter 9 - Financial services**

*EU rules aim to ensure fair competition and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on the authorisation, operation and supervision of these institutions.*

Bosnia and Herzegovina has **some level of preparation / is moderately prepared** in the area of financial services. There was **no progress** in implementing last year's recommendations. Further steps are needed to significantly improve coordination in supervision and enforcement within the sector. The overall level of preparedness in the securities market remains low. Last year's recommendations remain largely valid.

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

- sign a financial stability memorandum of understanding;
- strengthen the bank resolution framework by amending the entities' banking laws and the law on deposit insurance to enable the creation of a financial stability fund
- demonstrate improvements in the coordination between corrective and enforcement powers of supervisory bodies (including banking agencies).

As regards **banks and financial conglomerates**, the banking sector appears adequately capitalised and liquid. The overall capital adequacy ratio was 18.6% at the end of June 2022, well above the regulatory minimum of 12%. However, the fragmented market remains a drag on banks' moderate profitability. Strategies on fully implementing Basel III are in place. In October 2021, the Commission decided to consider the supervisory and regulatory framework for credit institutions in the country as equivalent to that applied in the EU for the purposes of the Capital Requirements Regulation.

Banking agencies coordinated their response to support the financial sector and the economy in general during the pandemic, including through a moratorium on debt repayments, possible loan restructurings and other regulatory measures. The agencies also suspended dividends and limited remuneration in the banking sector. These measures helped ensure financial stability, although the take-up of relief measures was not as high as expected. The agencies decided to abolish all temporary relief measures from April 2022. Financial stability will have to be closely monitored, including through more frequent meetings of the Standing Committee for Financial Stability which brings together the central bank, the ministries of finance at state- and entity-level, the entity banking agencies and the deposit insurance agency.

The announced sanctions against the Russian financial sector triggered bank runs in March 2022 on two Sberbank subsidiaries which together represent some 8% of total assets of the banking sector. The two entity banking agencies reacted swiftly by taking over the management of these institutions and initiating the bank resolution mechanism, resulting in the sale of both banks.

Despite these successes, fragmentation of the institutional and regulatory set-up continues to impede banking supervision. The Standing Committee for Financial Stability met only once during the reporting period (at the time of the bank runs) and only twice since the beginning of COVID-19 pandemic, raising concerns about the coordination and regularity of financial stability monitoring. To ensure financial stability, Bosnia and Herzegovina needs to improve cooperation among the two entities' banking agencies, central bank, deposit insurance agency and relevant ministries (a memorandum of understanding to that end still needs to be signed), and to adopt a common methodology to determine systematically important banks.

The deposit insurance scheme is operational, but the amount of insured deposits is not in line with the requirements of the EU *acquis*. While the implementation of the law on deposit insurance enhances the bank resolution framework, this framework should be further strengthened in order to enable the establishment of a single financial stability fund that could enable bank restructuring and provide sufficient liquidity. This is a major deficiency as,

without such a fund, the financial sector safety net remains inadequately prepared to deal with a potential bank failure which, unlike the case of the Sberbank subsidiaries in March 2022, might not be quickly resolved through change of ownership.

Continued implementation of the methodology for the supervisory review and evaluation process (SREP) enabled identifying risks and corrective measures for individual banks. To be complete, the legal framework must notably strengthen supervisors' corrective and enforcement powers and introduce consolidated supervision of banking groups across the entities.

The ratio of non-performing loans declined to 5.2% of the outstanding loan portfolio at the end of H1 2022. Nevertheless, institutional and legal obstacles to swift and effective resolution need to be reduced.

Regarding **Insurance and Occupational Pensions**, no progress was made in alignment and harmonisation of the legislation on compulsory vehicle insurance after adoption of the entity laws in 2020, which created conditions for the liberalisation of the insurance market in Bosnia and Herzegovina.

No progress was made in preparing for the transition to a Solvency II-based regulatory framework nor on voluntary pensions.

Alignment with the *acquis* governing financial supervision of institutions for occupational retirement provision remains to be addressed.

No progress was made in terms of **financial market infrastructure**. Legislation is not in line with the EU *acquis*, including the Settlement Finality Directive.

The regulatory framework for **securities markets and investment services** is under the entities' competences. Both entities have a securities market regulator (the Securities Commissions) and a dedicated, though not harmonised legal framework on securities market and investment funds. Coordination between the entities needs to be improved to ensure consistent alignment with key areas of the EU securities market *acquis*, such as market manipulation and market abuse rules. Members of the Securities Commission of the Federation entity were appointed only in September 2021 after nearly two years during which all requests for capital increase, mergers and acquisitions came to a halt, creating serious problems for businesses and the capital market.

In July 2021 and February 2022, the *Republika Srpska* entity amended the law on the securities market to simplify the issuance of debt securities and further develop brokering activities. In July 2022, the *Republika Srpska* entity also amended the law on securities markets to regulate crypto currencies and custodian wallet providers, contributing to the fight against money laundering and terrorism financing involving those currencies.

## **Chapter 28 - Consumer and health protection**

*EU rules protect consumers' economic interests and in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, and medicines for human and veterinary use. The EU also ensures high common standards for upholding patients' rights in cross-border healthcare and tackling serious cross-border health threats including communicable diseases.*

Bosnia and Herzegovina is at an **early stage** of preparation in the field of consumer protection and public health. **No progress** was made in the area during the reporting period; last year's recommendations were not implemented and remain valid. The legislation on serious cross-

border health threats including communicable diseases is not yet aligned with the EU *acquis* at all levels of government.

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

- adopt legislation at all levels prohibiting smoking in public places in line with the EU *acquis* and ratify the protocol to eliminate illicit trade in tobacco, and start to enforce both measures;
- further align its legislation with the EU *acquis* on substances of human origin, and on medicines for human use and establish an oversight system in this field with a view to ensuring efficient coordination in the whole country;
- further align the state-level law on consumer protection with the EU *acquis*.

### Consumer protection

On **horizontal aspects**, the legal framework for **consumer protection** is still enshrined in the 2006 state-level law on consumer protection. This law needs urgent and extensive revision to ensure alignment with the significant developments in the EU *acquis* to address rapidly changing digital markets, and to address the risk of unequal protection of consumers in the entities due to legislative fragmentation across the country.

The Ombudsman's office for consumer protection issued decisions in 444 consumer complaints (249 during the previous reporting period), particularly in the area of services of general economic interest, e.g. telecommunications and commercial sector, and provided 400 pieces of legal advice (365 during the previous reporting period).

The legal framework in the area of consumer credit and distance marketing of financial services is not aligned with the EU *acquis*.

The legal framework for **product safety** is not yet aligned with the EU *acquis*. Over the reporting period, the Market Surveillance Agency and the inspection bodies of the entities and the Brčko District implemented 200 checks as part of proactive surveillance, and 17 were initiated on reactive surveillance. As a result of 200 product safety inspections, 30 817 unsafe products were withdrawn from the market (of which 10 183 were destroyed), and businesses brought 1 685 products into compliance with safety requirements.

### Public health

On **horizontal aspects**, no progress was made in drafting a **health strategy** at the state level or in the Brčko District. There is no state-level health information strategy or integrated **health information system**.

Legislation on **tobacco control** policies at the level of the entities and the Brčko District is not aligned with the relevant EU *acquis*. The Federation entity adopted a law on tobacco control in April 2022 regulating the use, advertising, flavouring and packaging of tobacco and other smoking products. However, this law includes extensive exceptions, so is likely to have a limited impact, including on indoor smoking in public and commercial areas. Bosnia and Herzegovina is a party to the WHO Framework Convention on tobacco control, but it does not convention fully implemented it due to a lack of systematic monitoring. Bosnia and Herzegovina has still not ratified the protocol to eliminate illicit trade in tobacco products.

The legal framework regulating the areas of **blood, tissues, cells and organs**, at the level of the entities and the Brčko District is not yet aligned with the EU *acquis*. The legal framework on biomedically assisted fertilization is fragmented so it cannot be evaluated as aligned with the EU *acquis* across the country. The country does not have the necessary administrative

capacities to fulfil the requirements laid down in the EU *acquis* on human organ, tissue and cell transplantation. The entities have established institutes for transfusion medicine. Transplantation programmes are organised at entity level with very limited cooperation between them, and there not been any progress in setting up a state-level oversight system in order to ensure efficient coordination in the whole country.

On **serious cross-border health threats**, including **communicable diseases**, the legislation has not yet been aligned with the EU *acquis* at all levels of government. Bosnia and Herzegovina's participation in the technical activities of the European Centre for Disease Control and Prevention (ECDC) remains limited and it has not yet taken part in the ECDC assessment on the status of communicable diseases. Bosnia and Herzegovina needs to strengthen coordination between the entities and the state level on communicable disease surveillance and response. Measures to promote healthy lifestyles in connection with the prevention of **non-communicable diseases** are regulated and partially implemented by the competent institutions of the entities and the Brčko District.

COVID-19 mitigation measures were not well coordinated throughout the country and were also not lifted in a coordinated manner. Bosnia and Herzegovina also continued to use the EU joint procurement agreement for medical counter-measures. By June 2022, Bosnia and Herzegovina had received over 2.2 million COVID-19 vaccine doses provided by the EU, and over 300 000 via COVAX. Bosnia and Herzegovina remains among the European countries with the lowest vaccination levels (25.3% of the population) and with the highest mortality rate (4 878 per million). Bosnia and Herzegovina did not establish a countrywide certificate, interoperable with the EU Digital COVID-19 Certificate system (EU DCC). The country lifted all containment measures and entry restrictions in May 2022.

On **cancer screening**, Bosnia and Herzegovina still has no countrywide cancer control plan, or a countrywide early detection programme, and the Federation entity has no systematic cancer registers or screening programmes for the treatment of cancer, due to legislative issues and limited financial capacity. Both entities have cancer registers. The *Republika Srpska* entity has an early detection programme in place. The Brčko District has no register or early detection programmes.

Bosnia and Herzegovina has 74 community-based **mental health** centres with multi-disciplinary teams and some of them have additional specialists. A special forensic psychiatric hospital provides treatment to forensic patients from across the country.

On **preventive measures**, some activities to reduce **alcoholism and prevention of alcohol-induced disorders** were carried out with the participation of NGOs. **Drug abuse prevention and harm reduction, preventative measures** are not systematic, though some are implemented through education and NGO activities. There is no systematic approach to rehabilitation and social reintegration, and programmes have been introduced on this unequally in different parts of the country.

On **health inequalities**, accessibility for all citizens remains a key health care system challenge, despite the legislation stipulating that equal access to health should be in place. Ensuring good quality accessible public health care for all, including marginalised groups, remains an issue and is Bosnia and Herzegovina's key reform priorities. Roma only have access to healthcare services if they are registered at the employment or education administrations which means that many Roma lack health insurance. During the declared state of emergency / natural disaster, all levels of government passed measures on temporary universal health protection coverage with regard to COVID-19. Primary health care during the pandemic suffered from an outdated health care system, lack of doctors and medical staff, lack of strategic response and crisis management, and lack of coordination. Obstacles to the

mobility of patients between different entities or cantons persist and illustrate the complexity and inefficiency of the system; this is to be improved and harmonised with the EU *acquis*.

Women and girls were disproportionately affected by the COVID-19 pandemic, most particularly by being on the frontlines of the pandemic and through loss of jobs in care, hospitality and services. Authorities need to ensure inclusion of a gender perspective in planning and implementation of relief and recovery measures aimed at addressing the impact of the COVID-19 pandemic. Furthermore, the pandemic highlighted issues with access of women to medical facilities for regular prenatal examinations and increased morbidity and mortality related to pregnancy and childbirth complications. Bosnia and Herzegovina needs to improve conditions in hospitals and maternity hospitals and ban obstetric violence, in line with its obligations under the Istanbul Convention.

The state-level Agency for Medicines and Medical Devices (ALMBiH) is the regulatory body in charge, inter alia, to secure the functional, coordinated and uniform system for regulation of medications and medical devices, supervise a single market for these products, and ensure their availability on the entire territory of a country. In December 2021, the *Republika Srpska* entity adopted a Law on Pharmaceuticals and Medical Devices that foresees the establishment of an entity-level agency with the same competences and responsibilities as ALMBiH, violating the constitutional and legal order. The law came into force in late June, and the Constitutional Court suspended its application in July 2022. No steps have been taken so far to set up such entity-level agency. If implemented, Bosnia and Herzegovina would backslide in its alignment with the EU *acquis* and not respect its obligations under the SAA.

### **CLUSTER 3: COMPETITIVENESS AND INCLUSIVE GROWTH**

The cluster covers chapters 10- digital transformation and media, 16- taxation, 17- economic and monetary policy, 19- social policy and employment, 20- enterprise and industrial policy, 25- science and research, 26- education and culture, 29- customs union.

Bosnia and Herzegovina needs to develop and adopt laws electronic communications and electronic **media**, and on electronic identity and trust services, in line with the EU *acquis*, and pursue the digital switchover. On **taxation**, it should bring VAT and excise duties on beer in line with the EU *acquis* and ensure the interoperability of e-signature. On **monetary policy**, it should guarantee the independence of the central bank and appoint the members of its governing board without delay and ensure the integrity of the currency board. It should ensure consistent political support for and high visibility, countrywide ownership and coherence of the **Economic Reform Programme** as the vehicle to coordinate macroeconomic and fiscal policies. On **social policy**, it should adopt employment strategies, develop a Youth Guarantee implementation plan and enhance social dialogue. On **enterprise and industrial policy**, it should simplify and harmonise business registration, ensure coordination of industrial policy strategies at the various levels of government and adopt guidelines to harmonise support for SMEs and entrepreneurs on the basis of needs. It should ensure a fully functional system of (re-)accreditation of higher **education** institutions and study programmes, and continued participation in international assessment studies. It should reinforce the capacity of the Indirect Taxation Authority and increase risk-based post-clearance controls, expand simplified **customs** procedures for trusted economic operators and upgrade interconnectivity and interoperability with EU IT systems and requirements.

#### **Chapter 10 - Digital transformation and media**

*The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support universal availability of modern services.*

Bosnia and Herzegovina is at an **early stage of preparations** in the area of digital transformation and media. **No progress** was achieved in implementing last year's recommendations, which remain valid. The legislation and strategic framework are not in place and not aligned with the EU *acquis*. The country still needs to introduce the European emergency number 112. The Regional Roaming Agreement, enabling 'roam like at home' (RLAH), was successfully implemented. Last year's recommendations have not been implemented and remain valid.

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

- develop and adopt a law on electronic communications and electronic media in line with the EU *acquis*;
- complete phase two of the digital switchover and adopt a framework strategy for access to the broadband network;
- develop and adopt a law on electronic identity and trust services for electronic transactions with a single supervisory body for the whole country in line with the EU *acquis*.

Regarding **electronic communications and information and communication technology**, the country has still made no progress in adopting the legislation related to electronic communications and electronic media in line with the 2018 EU regulatory framework nor made progress in aligning with the EU Broadband Cost Reduction Directive. Bosnia and Herzegovina has not developed a broadband strategy, even though it introduced the 4G network in 2019. The Communications Regulatory Agency still lacks financial independence and no efforts were made to improve the procedure for appointing its management to ensure full political independence.

In 2021, there were 60 internet providers, 792 782 broadband subscribers and 3 394 184 internet users (96.12 % penetration rate), with a penetration rate of 22.60 % for broadband internet. The Regional Roaming Agreement enabling 'roam like at home' entered into force in July 2021, leading to a further decrease of the price of roaming services and to a significant increase in traffic, primarily in mobile data traffic. On 28 July 2022, the Council of Ministers endorsed the Declaration for the Future of Internet, a global initiative signed by over 60 international partners to date, which sets out the vision and principles of a trusted internet.

Regarding **information society services**, Bosnia and Herzegovina made no progress in adopting a countrywide strategy and action plan for development of the information society. No progress was made in the adoption of the law on electronic identity and trust services for electronic transactions with a single supervisory body for the whole country in line with the EU *acquis*. Also, no progress has been made in ensuring the interoperability of the electronic signature system throughout the country. One company and two state-level institutions now offer e-signature services.

Bosnia and Herzegovina does not have a comprehensive legislative framework (a law on information security is in place only in the *Republika Srpska* entity) on the security of networks and information systems and made no progress in adopting a countrywide strategy. Moreover, the country made no progress in designating a countrywide single point of contact responsible for coordination and cross-border cooperation. Bosnia and Herzegovina needs to establish a network of computer security incident response team (CSIRT) to facilitate strategic cooperation and the exchange of information (a CSIRT is operational only at the Ministry of Defence and in the *Republika Srpska* entity).

As regards **audio-visual policy**, Bosnia and Herzegovina made no progress in developing and adopting a law on electronic communications and electronic media in compliance with the EU

*acquis* and to harmonise entity legislation with the state-level law on public broadcasting system. No progress has been made in adopting legislation on media ownership transparency, including a register of ownership structures, as well as legislation on advertising in the media. The country needs to complete the second phase of the digital switchover. Bosnia and Herzegovina has failed to introduce a suitable model to collect broadcasting fees that would ensure the public broadcasting system's financial sustainability and political independence. The Public Services Broadcasting Corporation, as prescribed by the respective law, is still not established. The financing of local public broadcasters from the public budget also needs to be brought in line with the EU *acquis*, as it constitutes State aid and provides opportunities for political pressure and influence. (see also Chapter 23 – Freedom of expression)

## Chapter 16 - Taxation

*EU taxation rules cover value-added tax, excise duties and certain aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion.*

Bosnia and Herzegovina has **some level of preparation** in the area of taxation. **No progress** was made in implementing the recommendations from last year which therefore remain valid.

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

- bring the legislation on VAT and on excise duties in line with the EU *acquis*, notably on excise duties on beer;
- eliminate all administrative burdens in the area of electronic signature (e-signature) in order to ensure its interoperability and a harmonised countrywide system.

The legislative framework for **indirect taxation** is partially aligned with the EU *acquis*. The country needs to further align VAT legislation with the EU *acquis* and improve cooperation between the Indirect Taxation Authority and the tax administrations of the entities and Brčko District, including through joint audits. Its ability to fulfil its vital countrywide role must be maintained.

As regards excise duties on tobacco, alcohol and energy, there are considerable discrepancies with the EU *acquis* on the scope and classification of the excisable goods as well as exemptions, structures and minimum rates. The country needs to align its law on excise tax fully with the EU *acquis*.

On **direct taxation**, in December 2021, the *Republika Srpska* entity amended the laws on personal income tax, the law on social contributions and the labour law to change the tax base to gross (as opposed to net) wages, increase the personal income tax deduction, decrease the tax rate from 10% to 8% and reduce the overall rate of social contributions from 32.8% to 31%. There was no progress in the field of direct taxation in the Federation entity as new legislation on income tax and social contributions to reduce the tax burden on labour and increase take-home pay remain to be adopted. The tax and social contribution regimes in the two entities have therefore continued to diverge, hindering progress towards a single economic space.

On **administrative cooperation and mutual assistance**, Bosnia and Herzegovina has ratified the OECD/Council of Europe convention on mutual administrative assistance in tax matters. The country has not yet committed to automatically exchange financial account information based on the OECD single global standard. Bosnia and Herzegovina has signed double taxation agreements with 20 EU Member States.

Concerning **operational capacity and computerisation**, the electronic submission of VAT

and excise duties declarations is in place. However, coordination, cooperation and data exchange among the country's different tax administrations need to be further improved, including the countrywide harmonisation and interoperability of the e-signature. The administrative capacity and staffing levels of the Indirect Taxation Agency should be substantially strengthened, especially in key operational posts.

## Chapter 17 - Economic and monetary policy

*EU rules require the independence of central banks and prohibit them from directly financing the public sector. Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.*

Bosnia and Herzegovina is at an **early stage** of preparation on economic and monetary policy. There was **backsliding** in this area due to the failure to appoint a new governing board of the central bank and regarding cooperation and coordination of macroeconomic and fiscal policies as evidenced in particular by the difficulties involved in the preparation and execution of the Economic Reform Programme. Monetary policy underpins economic stability, but full independence of the central bank remains to be ensured. The 2021 recommendations were implemented only to a limited extent and remain valid.

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

- maintain the independence of the central bank and the integrity of the currency board arrangement and appoint the members of the governing board of the central bank without any further delay.
- enhance cooperation and coordination on socio-economic reforms among the different levels of the government and strengthen the analytical capacities of governmental institutions, in particular of the state-level Ministry of Finance and Treasury.
- ensure consistent political support for and high visibility, countrywide ownership and coherence of the Economic Reform Programme (ERP), including its medium-term macro-fiscal framework; enhance administrative capacity to design, implement and monitor reforms;

As regards **monetary policy**, the exchange rate regime continues to be characterised by a currency board arrangement, which links the convertible mark (KM) to the euro as the anchor currency. This provides stability within the country's complex institutional environment. The central bank's objective of keeping the domestic currency stable remains in contrast with the primary objective of monetary policy in the EU, which is price stability. The Law on the Central Bank is not fully aligned with the EU *acquis* as regards the prohibition of monetary financing.

The Law on the Central Bank does not ensure the bank's unconditional functional independence. The central bank is required to report to the Parliamentary Assembly on its audited annual financial statements and to the Presidency on the preliminary financial reports. This latter requirement could impinge on the central bank's independence. Legislative provisions governing the removal of the Governing Board members and the duration of appointment of replacement members still need to be fully aligned with the EU *acquis*.

In August 2021, the mandate of the governing board expired, and the Presidency of Bosnia and Herzegovina failed to appoint a new one due to the blockage of state-level decision-making by the representatives from the *Republika Srpska* entity. On the last day of its mandate, the governing board adopted the decision to apply the principle of continuity to enable the undisturbed performance of core tasks and functions of the central bank until the

Presidency appoints new members of the governing board. The circumstances of the appointments in 2020 of now-acting members of the board (following a change in the composition of the Presidency) and previous dismissals, as well as the failure to appoint a new board after the expiry of the previous mandate raise concerns about the vulnerability of the central bank to political interference. In addition, certain political leaders repeatedly proposed to use the central bank reserves for fiscal purposes, which would undermine the currency board arrangement. Therefore, a continued focus on preserving the integrity of the currency board arrangement and the independence of the central bank in line with the EU *acquis* is crucial.

Banking supervision powers lie with the two entities' banking agencies. While the banking system weathered the pandemic shock relatively well, banking sector supervision is impeded by fragmented competences and insufficient cooperation and information sharing.

Concerning **the budgetary framework**, the reporting of public sector data in line with the European System of National and Regional Accounts (ESA 2010) improved with further work done to participate in the fiscal notification exercise. However, due to the country's fragmented institutional setup and limited cooperation between different authorities involved, general government fiscal data is published only with long delays. The alignment of the underlying statistical framework with ESA 2010 requirements and definitions is also still limited. The Central Bank has started to publish national forecasts, in addition to those already published by the Directorate for Economic Planning, albeit with a stronger focus on monetary issues. Fiscal rules remain at entity level and there is still no independent fiscal institution to monitor and enforce compliance with country-wide fiscal rules. The adoption of the medium-term budgetary framework was delayed by the blockage of state-level institutions by the representatives from the *Republika Srpska* entity, diminishing its role as the basis for budgetary planning. The overall framework remains insufficiently developed, often missing, for example, budgetary impact estimations of policy decisions. Furthermore, it is underused as a policy-guiding instrument.

Regarding the EU *acquis* on **economic policy**, the overall quality of Bosnia and Herzegovina's medium-term Economic Reform Programme (ERP) did not improve this year and was submitted with a two-month delay. The Council of Ministers failed to empower the Directorate for Economic Planning to effectively coordinate the preparation of the programme due to the blockage of state-level decision-making by representatives from the *Republika Srpska* entity, a step backward from last year. The delay in the adoption of the state-level budget also had a negative impact on the preparation of the ERP. All of this points to long-standing and significant weaknesses in administrative cooperation and policy formulation. The policy guidance jointly agreed at the July 2021 Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye was implemented only to a limited extent. Capacities to design, implement and monitor structural reforms need to be significantly enhanced to meet the requirements of the European Semester. This means establishing a country-wide medium-term reform programme that is coherent, consistent and based on a jointly agreed prioritisation. In that vein, the coordination role of the Directorate for Economic Planning should be strengthened, including by providing it with the necessary resources.

## Chapter 19 - Social policy and employment

*EU rules in the social field include minimum standards for labour law, equality, health and safety at work and non-discrimination. They also promote social dialogue at European level.*

Bosnia and Herzegovina has **some level of preparation** in the field of social policy and employment. There was **limited progress** in the area. Serious challenges remain to be

addressed as regards employment, social inclusion and protection, and poverty reduction, especially related to coordination among the responsible institutions across the country. Steps were taken to strengthen and promote social dialogue, which should be further improved at all level of governments, and lead to the conclusion of collective agreements. Last year's recommendations were not addressed and remain valid.

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

- develop and adopt entity-level and countrywide employment strategies as a policy framework, while providing for additional capacities for implementation and monitoring;
- develop a Youth Guarantee Implementation Plan in line with the EU model and guidance;
- introduce a uniform minimum level of maternity leave benefits and protection throughout the country, starting by harmonising the definitions of maternity, paternity and parental leave.

The **labour laws**, in place at the level of the entities and Brčko District, apply to all employees, except civil servants, and guarantee a minimum level of protection of employee rights. In order to fully meet EU standards, the legal framework requires further improvement, notably as concerns the protection of workers from discrimination.

The right to strike is regulated by the entity-level labour laws and by the laws on striking that are in place at all levels of the government. Implementation of the labour laws remains inadequate, especially when it comes to social dialogue, protection for workers and the enforcement of labour inspection.

No initiative was taken to amend the labour laws to address deficiencies related to crisis management, as exposed during the COVID-19 pandemic

Laws on **health and safety at work** are in place in the entities and the Brčko District. Following adoption of new occupational safety and health law in the Federation entity, new bylaws are regulating, *inter alia*, risk assessment, licencing of authorised entities and performance of periodical review in the area of occupational safety and health. The bylaws regulating specific aspects of occupational safety and health still need to be adopted and harmonised with the EU *acquis* throughout the country.

Enforcement and implementation of legislation remains partial, especially when it comes to inspection capacities, control over proper prevention of injuries at work, investment in safety and relevant training for employers or assistance to conduct a proper risk assessment in the workplace. The system of collection and dissemination of statistical data on work-related injuries and diseases still needs to be improved. Official data on reported accidents and fatalities, along with most affected sectors, were not published for 2021. In December 2021, the *Republika Srpska* entity adopted its 2021-2024 strategy on occupational health and safety.

**Social dialogue** remains weak at all levels and no significant improvements have been made. The involvement of social partners in the implementation of policies is limited and their internal capacities require improvements. In November 2021 the Federation entity adopted a law further regulating the representativeness of social partners, which should facilitate collective agreements. The number of concluded branch and sectoral collective agreements, however, remains low. Economic and Social Councils operate at entity level, with different approaches and effectiveness. The state-level Economic and Social Council has not been established. There are no general collective agreements in the two entities, but a number of branch agreements are in place, limited mainly to the public sector and some state-owned enterprises.

Laws on social entrepreneurship were adopted in the Republika Srpska entity in November 2021 and in Brčko District in January 2022. Adoption is pending in the Federation entity.

Regarding **employment policy**, there is still no countrywide employment strategy in place. Entity strategies have expired too. An employment strategy 2021-2027 was adopted in the *Republika Srpska* entity, including the Youth Guarantee. An employment strategy remains to be adopted in the Federation entity.

According to the data of the Labour Force Survey in 2021, only 39.6% of the working age population is employed, but only 48% of the working age population is actually active in the labour market, with a markedly lower share of women (less than 40% of the total). When it comes to employment, the share of women is even lower, and stands at 39.3% of the total number of the employed persons. Shares of men and women in the unemployed are roughly the same, pointing to the significantly lower activity rate of women of working age (over 60% of inactive population are women). Youth unemployment remains high, as 40% of those aged 15 – 24 that are actually looking for work are unable to find it. 81% of the unemployed are younger than 50. Long-term unemployment prevails, as almost 80% of the total unemployed have been looking for work for more than a year and were unable to find it. This also points to a mismatch between the outputs of the education system and real needs of the labour market and predominantly structural nature of the unemployment.

The highest share in educational structure of the unemployed persons have those with completed secondary education and specialisation (71.8%), followed by those with a college, university, master and doctoral degree (14.2%), and those with completed primary school or lower education (14%).

The trend of labour emigration from Bosnia and Herzegovina to the EU has been constantly increasing for years, with the number of first residence permits in EU Member States granted to Bosnia and Herzegovina nationals rising steadily from 11 506 in 2011 to 56 363 in 2019 and decreasing to 35 158 only in 2020 due to the COVID-19 pandemic.

The capacity of the **public employment services** to provide quality services to jobseekers has been gradually improving but remains weak. The administration of social benefits further limits the ability of public employment services to assist active jobseekers. The public employment service should be discharged from administrative duties related to health insurance and other social benefits for the registered unemployed. This has been implemented only in the *Republika Srpska* entity, while no progress has been made in other parts of the country.

Bosnia and Herzegovina took part in bilateral and regional awareness-raising meetings on the Youth Guarantee. In the upcoming period, the country needs to put in place coordination mechanisms involving all relevant actors and take concrete steps to gradually establish and implement the Youth Guarantee scheme by developing the Youth Guarantee Implementation Plan, with the Ministry of Civil Affairs coordinating action by the entities and Brčko District.

The level of informal employment remains high. The measures to reduce informal employment are supported within active employment measures such as self-employment, incentive programmes for employers and improvement of business climate, as well as some repressive measures and efforts to reduce para-fiscal charges.

There has been no progress in preparations for using the **European Social Fund**. (*See Chapter 22 - Regional policy and coordination of structural instruments*).

On **social inclusion and protection**, there are still no countrywide strategies on poverty reduction, social inclusion and protection or a system at state level for monitoring policy

implementation. For persons with disabilities, institutional care is still prevalent. Services within the community that enable independent living are not adequately supported and there is no comprehensive strategy for deinstitutionalisation. At entity level, there is a wide range of strategies and laws related to social inclusion and protection, but they are not enforced due to lack of funding, inadequate procedures, standards and referral practices and a general lack of coordination.

The social protection system remains underdeveloped and the effectiveness of social transfers is limited. Social assistance is neither well targeted, nor needs-based due to the absence of adequate system for data collection. A large number of people in Bosnia and Herzegovina are not covered by public health insurance and as such are not entitled to the basic package of health care services. In addition, because of the highly decentralised governance structure, the eligibility conditions for social assistance differ between entities, districts and cantons. Along with differences in eligibility criteria, there are also differences in coverage, targeting efficiency and generosity. Cooperation between the social service centres and employment bureaus is not well established. The transformation of institutions for social protection and, in particular, of those for children without parental care is still ongoing. Deinstitutionalisation requires comprehensive reform with regard to financing of the new services for both, capacity building and support to social service centres across the country.

There are still no countrywide systematic measures to improve the situation of older persons. A strategy for improving the situation of the elderly 2019-2028 was adopted in the *Republika Srpska* entity but systematic measures to improve the situation of older persons need to be taken at country level. Bosnia and Herzegovina should adopt a new action plan for children.

In April 2022, the Council of Ministers adopted a countrywide action plan for the social inclusion of the Roma 2021-2025, encompassing antidiscrimination, housing employment, education, and healthcare health. Its implementation will require appropriate funding by all levels of government, and continued monitoring. (*Also see chapter 23 – Fundamental rights*)

The Federation entity amended the legislation to extend the right to a survivor's pension to family members of fallen soldiers who did not have insurance at the time of death. In April 2022, the Federation entity Parliament increased the social protection and allowances for war veterans and their families. In November 2021 and January 2022 respectively, the *Republika Srpska* entity and Brčko District adopted legislation to support employment opportunities for disadvantaged groups social enterprises and cooperatives.

In December 2021, the *Republika Srpska* entity amended legislation on children protection, increased financial allocations, and expanded the scope of right to children allowances. The amendments also extended the right to wage compensation for parents/guardians who work part-time due to child's needs for enhanced care and increased the amount of monthly allowance for parent caregivers. In November 2021, the Federation entity adopted legislation regulating the status of parents who are caregiver to their disabled children and provided them with a right to monthly allowance with paid corresponding social security contributions.

The EU Statistics on Income and Livings Conditions (EU-SILC) is still not available in the country.

On **non-discrimination in employment and social policy**, although labour laws within the country address the issue of non-discrimination at work, apart from policy frameworks which target the increase of employment opportunities for persons with disabilities, there are no strategies or action plans in place specifically developed for employment-related discrimination. The labour market and the social policies have not been very successful in addressing the specific needs of vulnerable population, including Roma. The weak links

between the responsible ministries and lack of cooperation constitutes a barrier for progress. In 2021, the Ombudsman dealt with 261 cases of employment-related discrimination. Complaints concern mainly irregularities in employment and dismissal procedures, and in the payment of pensions, contributions and compensations. A significant number of workers do not initiate proceedings, nor do they seek judicial protection for fear of being fired. Most public bodies do not have mechanisms for dealing with complaints of mobbing and discrimination in line with the antidiscrimination law.

The principle of **equal opportunities and equal treatment of men and women in matters of employment and social policy** is regulated by the laws on gender equality and antidiscrimination, and by the entity-level labour laws. These laws contain provisions on gender equality covering different areas (employment, education, training and professional qualification) but in practice the enforcement of non-discrimination legislation remains low. The employment rate for the population aged 20-64 decreased from 40% in 2020 to 39.1% in 2021 for females and increased slightly for men from 65% to 66% respectively, resulting in a high gender employment gap of 26.9 percentage points.

There are still different maternity leave benefits and definitions of parental leave across the country. Bosnia and Herzegovina needs to establish a uniform minimum maternity leave benefits across the country and harmonise the definition of maternity, paternity and parental leave to eliminate discrimination. Women are estimated to earn on average 78% to 85% of a man's salary for the same position.

The *Republika Srpska* entity reinforced its legislative framework on protection from harassment at work in September 2021, largely in line with relevant standards.

## Chapter 20 - Enterprise and industrial policy

*EU enterprise and industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium-sized enterprises (SMEs).*

Bosnia and Herzegovina remains at an **early stage of preparation** in the area of enterprise and industrial policy. **Limited progress** was made, notably in updating entity-level industrial policy strategies and in harmonising the insolvency framework across the country. The investment environment remains unsatisfactory. The recommendations of the previous report remain in large part valid.

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

- simplify and harmonise business registration in both entities in order to reduce the administrative burden on entrepreneurs, by centralising company registration and licensing under one-stop-shops and by broadening online registration;
- harmonise the industrial policy strategies and action plans of the various levels of government, ensuring coordination and involvement of industrial enterprises in policy formulation and implementation;
- assess the needs of businesses, particularly SMEs, when it comes to modernising skills and adopt strategic guidelines for harmonisation of SMEs and entrepreneurship support.

During the reporting period, the entities and Brčko District continued COVID-19 support measures for business in the form of subsidies and tax reliefs. Guarantee funds continued operating in both entities. Although substantial resources were allocated to mitigate the economic consequences of COVID-19, a consistent countrywide approach (coordinated with the private sector) is still absent and the crisis response was fragmented, insufficient and slow.

An ex-post evaluation of the COVID-19 support measures for business would provide accountability for the use of public funds and evidence on the effectiveness of measures for future policy-making.

Regarding **enterprise and industrial policy principles**, Bosnia and Herzegovina still lacks a countrywide industrial development strategy as well as a state-level body promoting consistency between industrial strategies and coherence with other related policies. The *Republika Srpska* entity adopted its industrial development strategy for 2021-2027 in August 2021 and adopted the accompanying action plan in April 2022. The strategy partially corresponds to the EU industry strategy and envisages financing of up to EUR 85 million for its implementation. In April 2022, the Federation entity also adopted its own development strategy to 2027. The Brčko District has yet to prepare sectoral strategies to implement its existing development strategy which is valid until 2027.

A few steps were made to **improve the business environment** and to attract investments. The *Republika Srpska* entity expanded the eligibility criteria for its direct investment incentive programme in March 2022, and in December 2021 the entity adopted its action plan to optimise administrative procedures in business registration, which is monitored by a council of 45 stakeholders. The *Republika Srpska* entity also adopted a rulebook on free zones in October 2021 to implement its own legislation, also in line with the state-level framework. In July 2021, the Federation entity adopted a new bankruptcy law, while Brčko District adopted its own in April 2022. As a result, the insolvency framework is now harmonised across the country. In September 2021, the Federation entity also adopted a law on crafts, which amongst other measures simplifies the registration and closure of craft businesses and regulates the management of a crafts registry.

Despite these developments, the investment environment and the level of competitiveness remain unsatisfactory. Bosnia and Herzegovina still lacks a countrywide strategic framework to encourage foreign direct investment and to improve the business environment. Common causes of informality like high barriers to starting a business and rules on taxes and para-fiscal charges continue to be among the most salient business environment issues, together with ‘red tape’ and the regulatory differences across various levels of the government. While electronic registration of businesses was launched in the *Republika Srpska* entity, the system is not yet fully functional due to delays in the issuing of e-signatures and e-seals. Such a system was also established in Brčko District. Since October 2021, the Federation entity also enables online business registration applications and set up a one-stop-shop. Further legislation is pending adoption to allow the Financial Information Agency to begin implementing this system.

Regulatory impact assessment is applied across the country and has been expanded to cover the impact on SMEs, though it is still often perceived as a mere formal obligation. Overall, the simplification of business-related legislation is being carried out on an ad hoc basis and is not harmonised throughout the country, e.g. as regards additional administrative and compliance requirements between entities.

**Oversight and governance of public enterprises** remains to be strengthened, including actions to put public companies on an equal footing with other industrial enterprises and to reduce substantial payment arrears. In October 2021, the *Republika Srpska* entity decided to establish a unit for the coordination and supervision of public enterprises within the Government’s Secretariat, with an aim to establish a new register of public enterprises. The Financial Information Agency continues to update the register of public companies in the Federation. Brčko District introduced clarifications on the selection and accountability of governing boards of public enterprises which entered into force in April 2022.

Bosnia and Herzegovina still lacks a countrywide strategic framework for SME development with harmonised objectives, priorities and measures relevant for each administrative level. The Federation entity adopted in February 2022 a proposal for developing a Small Business Development Strategy 2022 – 2027. Bosnia and Herzegovina has no timelines yet for developing a comprehensive countrywide SME framework for implementing the Small Business Act as a whole. Although the harmonised 2021-2023 action plans for support to SME innovation were adopted in both entities and Brčko District in 2021, the resulting country-wide priorities have not yet been utilised for developing a Smart Specialisation Strategy, which would still require a fully-fledged analysis for evidence-informed policymaking.

Preparations for the **green and digital transitions and global competitiveness of industry** in line with the EU industrial strategy are at a very early stage. While the level of internet usage in enterprises is high (with 98% using computers and 96% having internet access), only around 60% of small enterprises have a webpage and only 18% are active in e-commerce.

Energy diversification is slowly advancing. Bosnia and Herzegovina's economy is about six-times more carbon-intensive than the EU average, which requires a greater focus on green investments, including actions at the SME level.

In 2021 Bosnia and Herzegovina ranked 75<sup>th</sup> out of 132 economies in the Global Innovation Index. The low-level commercialization of R&D is linked to low public investments in this area (just 0.03% of GDP) and the weak linkages for technology transfer and cooperation in clusters. The share of higher value-added and technology products is modest, and technology extension services are still non-existent. Private-sector applications under Horizon 2020 show a success rate of just 10%, and the Enterprise Innovation Fund has not invested in the country. Bosnia and Herzegovina ratified the Horizon Europe Association Agreement in January 2022, with retroactive effect from the start of the programme. The collaboration of SMEs and research institutions is not sufficiently developed to create conditions for the application of innovative financing models like innovation vouchers or collaborative grants. The needed amendment to the patent law (*see Chapter 7 – Intellectual Property Law*) could improve both collaboration and financing of innovation activities for higher value-added business.

The capacities and funding to perform monitoring and evaluations of enterprise and industrial policy measures are still limited, and the data remains insufficient to describe the structure and dynamics of industry.

As for **enterprise and industrial policy instruments**, no progress was made in the EU *acquis* alignment of legislation against late payments in commercial transactions, including in the Brčko District.

Bosnia and Herzegovina continued to participate in the EU's COSME programme on the competitiveness of enterprises and SMEs. In 2021, the partners from the two Enterprise Europe Network (EEN) consortia in Bosnia and Herzegovina received funding of around EUR 1.1 million. Bosnia and Herzegovina expressed its interest in participating in the Single Market Programme, and negotiations for an association agreement started in April 2022 and are progressing.

As regards **sectoral policies**, both entities adopted their tourism strategies valid until 2027, the *Republika Srpska* entity in January 2022 and the Federation entity in August 2022.

## Chapter 25 - Science and research

*The EU provides significant support for research and innovation. All Member States can benefit from the EU's research programmes, especially where there is scientific excellence*

*and solid investment in research.*

Bosnia and Herzegovina has **some level of preparation** in the area of science and research. **Limited progress** was made, notably by finalising the country's association to Horizon Europe. The country's research capacities remain very limited. Last year's recommendations remain valid.

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

- develop a new 2022-2028 strategy and action plan for scientific development;
- develop and adopt a smart specialisation strategy;
- adopt the roadmap for research infrastructure.

On **research and innovation policy**, the legislative framework regulating science and research development remains fragmented and still needs to be improved throughout the country. No action plan was in place from 2017 till 2022. Bosnia and Herzegovina needs to develop and adopt a new strategy and action plan for scientific development (2022 – 2028).

The country's estimated total allocations for research and innovation remain below 0.3% of GDP. An increased budget, particularly in the area of innovation, is essential for the country's economic recovery, also given its key relevance for the implementation of the Economic and Investment Plan for the Western Balkans. Further progress should be made to ensure reliable and comprehensive statistics on research and innovation, e.g. for the European Innovation Scoreboard and the European Research Area. The country's research capacities remain limited, while brain drain continues – although limited due to COVID-19 outbreak, most notably in the health, medical, and IT sectors, with no systematic measures having been introduced so far to address the issue.

A Smart Specialisation Strategy has not yet been developed and adopted.

In December 2021, Bosnia and Herzegovina concluded the association to the Horizon Europe programme, with retroactive application since January 2021. The agreement entered into force in August 2022.

The government's efforts in upgrading research and innovation policies and related activities (e.g. the Strategy for the Development of Science and the pending adoption and implementation of the related action plan) as well as grants provided to organisations for submitting proposals under Horizon Europe are delivering results. However, systemic collaboration and interaction needs to be enhanced between 'triple helix' actors – academia, industry and governments.

As regards **international cooperation**, building on its previous participation in Horizon 2020, Bosnia and Herzegovina is taking part in Horizon Europe, having competitively received EUR 1.65 million in the first year. Bosnia and Herzegovina participated 113 times to 69 signed grants of the previous Horizon 2020 programme, competitively receiving an EU contribution of EUR 8.1 million. The success rate of applications from Bosnia and Herzegovina (15%) was above the overall Horizon 2020 success rate.

The country cooperates at regional level, with the Central European Initiative, it is active in EUREKA and in COST with an increasing number of participations in its actions. Bosnia and Herzegovina became full member of EUREKA in 2021. Bosnia Herzegovina has implemented a total of 11 EUREKA collaborative projects worth of over EUR 7 million in total funding for universities and SMEs. In EUREKA Bosnia and Herzegovina is active in the areas of health, ICT, energy, food, agriculture, and forestry.

Starting with 2021, Bosnia and Herzegovina is included in the European Innovation Scoreboard (EIS), enabling its participation in the European Institute of Innovation & Technology's regional innovation scheme (EIT RIS). In the EIS, Bosnia and Herzegovina was found to be an Emerging Innovator. Over time, its performance relative to the EU has decreased, in particular in the last two years.

## Chapter 26 - Education and culture

*The EU supports cooperation in education and culture through funding programmes and the coordination of Member State policy through the open method of coordination. The EU and the Member States must also prevent discrimination and ensure quality education for children of migrant workers, including those from disadvantaged backgrounds.*

Bosnia and Herzegovina is **at an early stage** of preparation in the area of education and culture. There was **no progress** in the area, with Bosnia and Herzegovina failing to participate in 2021 PIRLS or 2022 PISA. A fully functional system of accreditation of higher education institutions and in particular study programmes is still lacking. Bosnia and Herzegovina needs to align legislation at all levels of government with the framework laws on education, and ensure application of the common core curriculum based on learning outcomes. Social inclusion at all stages of education needs to be ensured. Youth strategies across the country should be developed and implemented. Having only been partly addressed, the recommendations of the 2021 report remain relevant.

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

- extend and update the action plan for the national qualification framework (NQF) and establish an inter-sectoral commission for NQF;
- ensure a fully functional system of (re-)accreditation of higher education institutions and study programmes across the country;
- ensure continued participation in international assessment studies<sup>13</sup> and implementation of findings to improve PISA results.

In the area of **education and training**, Bosnia and Herzegovina failed to participate in 2021 PIRLS or 2022 PISA. Coordination of the processes linked with participation in international assessment studies needs to be significantly improved. No clear measures have been taken by Bosnia and Herzegovina to address the findings of 2018 PISA and 2019 TIMSS; in lack of a country wide approach, some cantons have started reforming their curriculum based on students learning outcomes to improve quality in line with 2018 PISA and 2019 TIMSS recommendations.

Activities on implementation of the recommendations for action policies with the roadmap for promotion of inclusive education in Bosnia and Herzegovina should be intensified. The education of children with special needs remains a challenge, particularly in terms of ensuring the necessary infrastructure, provisions, transportation and school assistants to support both children and teachers.

Although the legal framework regulating the collection and systematization of data for the country is in place, there is no mechanism in place to systematically measure or monitor the quality of education inputs, outputs, or outcomes. Data does not feed back into the policy-

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<sup>13</sup> International Student Assessment – PISA, Trends in International Mathematics and Science Study – TIMSS and Progress in International Reading Literacy Study – PIRLS, International Computer and Information Literacy Study – ICILS, Teaching and Learning International Survey – TALIS.

making process. Legislation at all levels needs to be aligned with the framework laws on education.

The education system lacks common standards for the different levels of education, as well as in teacher training and performance evaluation. Comprehensive teacher training focused on developing students' key competences should be provided and a systematic approach for application of the common core curriculum based on learning outcomes ensured.

Due to demographic changes, the number of students enrolled at all levels of education is gradually declining. In early childhood education and care (ECEC), the enrolment rate remains very low at around 12% but with a positive trend (+16.9%). Only 25% of three-to-six year olds (and only 3% of Roma children) are enrolled in pre-school education, the lowest rate in Europe. Enrolment generally remains lower than average for Roma children.

A countrywide policy document on **vocational education and training (VET)** is in place since 2021, based on the Riga conclusions (2021-2030). No noticeable progress followed its adoption.

There is no progress in developing a national qualification framework for Bosnia and Herzegovina. The related action plan expired in 2020 and should be extended and revised, since it was never operational and no specific commission for the national qualification framework has been established. The process of developing qualifications and occupations remains slow and requires better coordination and harmonisation across the entire country. Bosnia and Herzegovina's national qualification framework is not yet referenced to the European Qualification Framework, neither is there a mechanism for validation of prior learning.

The cooperation between the two accreditation agencies, the one at state level and the one in the *Republika Srpska*, has improved. Bosnia and Herzegovina should significantly intensify efforts to ensure a fully functional accreditation system of higher education institutions and in particular study programmes. Implementation of the Commission's recommendations on the subject remains limited.

Bosnia and Herzegovina benefits from the international dimension of the **Erasmus+** programme, however there were no international mobility or capacity building in higher education calls in 2021.

In the area of **culture**, Bosnia and Herzegovina is implementing measures under the UNESCO Convention on the protection and promotion of the diversity of cultural expression. The country has to ensure a permanent solution to the legal status and financing for the seven cultural institutions of significance for Bosnia and Herzegovina.

Implementation of the decisions of the Commission to Preserve National Monuments rests on the entities and there is room for improvement. The budget allocation for culture on all levels of government should be increased with longer term, multi-annual funding decisions to provide stability for cultural creation and operation. Bosnia and Herzegovina has to establish formal partnership structures enabling transparent and organised participation in cultural policymaking. The Creative Europe 2021-2027 programme was adopted by the Presidency only in April 2022.

Although there are **youth** strategies at some levels of government, Bosnia and Herzegovina should work on a countrywide youth strategy that would ensure equal treatment of young people and address brain drain. Bosnia and Herzegovina joined the European Week of Sport in September 2021 within the initiative of the European Week of Sport Beyond Borders.

## Chapter 29 - Customs union

*All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.*

Bosnia and Herzegovina has **some level of preparation** in the area of customs union. Customs legislation is not fully aligned with the EU *acquis*. **Some progress** was made during the reporting period by adopting the customs offenses law and starting to implement the customs policy law from August 2022. The Commission's recommendations from 2021 were partially implemented.

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

- eliminate all administrative burdens in order to ensure the interoperability of the e-signature system on a country-wide basis;
- reinforce the administrative and operational capacity of the Indirect Taxation Authority;
- increase post-clearance controls based on risk analysis, expand use of simplified procedures for reliable economic operators and upgrade interconnectivity and interoperability with EU IT systems and requirements.

The body in charge of implementing **customs legislation** and policies is the Indirect Taxation Authority (ITA). Further alignment with the Union Customs Code is needed, notably on customs procedures and simplified procedures. Implementation of the 2015 Law on Customs Policy, partially aligned with the EU *acquis*, began in August 2022. The law allows for the introduction of an authorised economic operators scheme and for additional simplified customs procedures requiring the use of e-signature. The customs tariff and valuation classifications are harmonised with the EU's Combined Nomenclature. Regarding rules of origin, the country continues to apply the Pan-Euro Mediterranean Convention and has agreed to begin the process of adopting the transitional rules of origin.

Bosnia and Herzegovina is an observer in the Common Transit Convention and intends to join it once it has met all legal and technical requirements. These include the successful implementation of the new computerised transit system for one year at the national level, which began in August 2022, followed by full implementation of the system thereafter.

Bosnia and Herzegovina should also continue aligning its provisions on the protection of intellectual property rights when it comes to customs enforcement. Also, further alignment is needed with the EU *acquis* for authorised economic operators, which has to be achieved through implementation of the Central European Free Trade Agreement (CEFTA) Additional Protocol 5. Cross-border smuggling of tobacco products and other illicit activities in the border regions continue to be an important area where further improvements in cooperation and anti-fraud tools are needed. As part of the anti-fraud effort, the accession to the World Health Organization's Protocol to eliminate illicit trade in tobacco products is recommended.

The **administrative and operational capacity** of the Indirect Tax Authority should be substantially strengthened, especially in key operational posts. Bosnia and Herzegovina needs to progressively align its systems with EU customs requirements, such as the new computerised transit system and internal control standards. Its capacity to conduct a risk analysis is hampered by an inadequate IT system. The customs authorities still perform a high percentage of physical controls.

## CLUSTER 4: THE GREEN AGENDA AND SUSTAINABLE CONNECTIVITY

This cluster covers chapters 14 - Transport policy, 15 – Energy, 21 - Trans-European Networks, and 27 - Environment and climate change. The green transition and sustainable connectivity are key to economic integration within the region and with the European Union, facilitating cross-border trade within the region and creating real benefits for businesses and citizens.

Bosnia and Herzegovina is at early stage of preparation in most areas related to the Green Agenda and sustainable connectivity, namely on energy, environment and climate change. Legislation related to gas, electricity, renewable energy, energy efficiency still needs to be adopted. The country has some level of preparation in the areas of transport and of trans-European networks. Additional efforts are needed to improve road safety to reduce traffic fatalities, and strengthen the regulatory bodies on transport, including civil aviation. Further steps are needed on connectivity reform measures and in aligning with the Trans-European Transport Network (TEN-T) and Trans-European Networks for Energy (TEN-E) Regulations. The green transition and sustainable connectivity are key to economic integration within the region and with the EU. The implementation of the Economic and Investment Plan and the Green Agenda needs to be accelerated in the upcoming period. Bosnia and Herzegovina significantly improved its civil protection system and showed a clear commitment in the area of disaster management; in September 2022 the country joined the Union Civil Protection Mechanism (UCPM) as a full member.

### Chapter 14 - Transport policy

*The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.*

Bosnia and Herzegovina has reached **some level of preparation** in this area, with **limited progress** achieved in the past year, including on implementation of the framework transport strategy and action plans, namely, in maintaining, developing and improving infrastructure. The country needs to further align with and implement effectively the EU *acquis* in all areas of transport and at all levels of government. Bosnia and Herzegovina still needs to strengthen its administrative capacity, in particular concerning road safety as well as enforcement, inspection and investigation bodies for road transport, railways, inland waterways, combined / intermodal transport and civil aviation. Last year's recommendations have not been addressed and remain valid. In the coming year Bosnia and Herzegovina should in particular:

- develop enforcement capacity to reduce road traffic fatalities and make progress on establishing a national system for continuous road crash data collection;
- reinforce the independence, strengthen the capacity and ensure sufficient funding of regulatory bodies in the field of transport;
- draw up the strategic framework, adopt relevant legislation and ensure sufficient capacity and resources for implementing the intelligent transport system (ITS) on the core networks.

Regarding the **general EU transport *acquis***, Bosnia and Herzegovina is implementing its framework transport strategy for the period up to 2030. The development of the transport sector and the speed of structural adjustment and reforms are insufficient and slow. The necessary investments are being delayed by political blockades and lack of coordination and cooperation among all levels of government, resulting in a lack of focus on key priorities. Other constraining factors are limited borrowing capacity and limited financial resources to

prepare technical documentation. As highlighted in the Transport Community Treaty (TCT) action plans, Bosnia and Herzegovina should focus on implementing short- and medium term measures. There was still no progress in completing key sector reforms. Further efforts are required to ensure full alignment with the intelligent transport systems (ITS) directive (its upcoming revised version and the related delegated acts), foster multimodality and secure implementation of relevant national laws in the areas of road and rail. An overall strategy for ITS is yet to be adopted and appropriate resources should be allocated for its implementation.

Bosnia and Herzegovina continues to actively participate in the EU macro-regional strategies for the development of the Danube Region (EUSDR) and the Adriatic and Ionian Region (EUSAIR). The country is moderately prepared for **road transport**. It made limited progress in the reporting period only in maintaining, developing and improving infrastructure. Bosnia and Herzegovina should implement measures agreed in the TCT road safety and road safety action plan to develop climate resilient, intelligent and resource-efficient TEN-T road networks. Implementation of road safety legislation remains of concern. The number of fatalities has scarcely fallen between pre-pandemic 2019 and 2021. Moreover, work is needed to tackle the discrepancy between the national figure and the significantly higher WHO estimate. As part of the TCT road safety action plan, the Ministry of Communications and Transport still needs to establish a lead road safety agency and a countrywide system for the continuous collection of road crash data.

For years, Bosnia and Herzegovina has yet to adopt a state-level law on the international transport of dangerous goods by road. The country still needs to strengthen its mechanisms for monitoring the implementation of the relevant international rules and EU legislation, including those on transportable pressurised equipment, roadside checks of vehicles and road safety.

On **rail transport**, Bosnia and Herzegovina made limited progress in the reporting period; the regulatory framework (laws and by-laws) and administrative capacity of the railway regulator for the opening of the market is now in place and subject to continuous and regular revisions and improvements. Nearly half of the railway infrastructure remains unsafe, outdated and unreliable, and cannot enable suitable international transit on the network. The multiannual maintenance plan for the entire core network is still pending adoption, and the countrywide coordination of infrastructure interventions on railways is degrading. Taking into account the related elements of the TCT rail action plan, and in line with EU standards, the country should use modern intelligent transport systems for the reconstruction and new construction of railway sections. EU standards are not fully and systematically implemented, since less advanced variants, even sometimes non-compliant with ITS, are deemed more cost-efficient.

Bosnia and Herzegovina still needs to fully align with the fourth EU railway package of 2016 and to proceed with opening the railway market. The railway laws in both entities, aiming to provide non-discriminatory access to the network are to a large extent not compliant with the *acquis* and still need to be reviewed. There is no progress on alignment with the EU *acquis* on rail passenger rights. Network statements are prepared but not published. Establishing independent bodies, namely the railway safety authority and railway accident investigation body, requires amending the law on railways, which is still pending. There was no progress on negotiating protocols on railway border crossing procedures with Croatia, due to technical concerns on border and customs-related issues. Some progress was achieved on regional cooperation, with the signature of a memorandum of understanding by all infrastructure managers of the Western Balkan region and of a Declaration to Rail declaration at ministerial level.

**Maritime transport** is not deemed a priority, since the country has a very narrow sea shore

and neither has a commercial port nor a maritime fleet.

**Inland waterway transport** is at an early stage of preparation. The institutional, legal and regulatory setup of waterway transport in Bosnia and Herzegovina still need to be developed to ensure the safety of navigation on inland waterways and its maintenance.

The preparation on **civil aviation** is backsliding. The 2009 law on civil aviation still has to be aligned with the requirements of the European Common Aviation Area Agreement (ECAA). The Air Navigation Services Agency is operational. However, according to the European Union Aviation Safety Agency (EASA), there is a chronic lack of adequately trained and qualified staff and backsliding in the institutional set-up within the Bosnia and Herzegovina Directorate of Civil Aviation (BHDCA). This increases the risks of safety oversight. The new management appointed in early 2021 has not addressed the issue, and there is no progress in harmonising legislation with the EU regulation on passenger rights. Bosnia and Herzegovina needs to enhance the independence of the civil aviation regulator to reverse the negative trend.

Bosnia and Herzegovina has not started to develop its policy, institutions, legal and regulatory framework on **combined / intermodal transport**. The low level of priority in this sub-sector is caused by a physical infrastructural bottleneck at the Ivan tunnel and Bradina ramp on the railway in Corridor Vc, as well as by the inertia of the relevant institutions and administration.

## Chapter 15 - Energy

*EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy and nuclear safety and radiation protection.*

The country remains at an **early stage of preparations** in this area. Only **limited progress** was made, notably on renewable energy and electricity. Bosnia and Herzegovina still needs to make significant efforts to strengthen countrywide cooperation and coordination and improve the fragmented and inconsistent legislative and regulatory framework. Last year's recommendations have not been implemented and remain valid. In the coming year, Bosnia and Herzegovina should in particular:

- adopt gas and electricity laws and bylaws, in compliance with the third energy package, at state and entity levels and ensure the full harmonisation of laws at entity level in the area of electricity and gas to prevent further delays in opening and functional operating of the energy market and establishment of a day-ahead electricity market;
- adopt state- and entity-level legislation on renewable energy and energy efficiency in line with the obligations stemming from the Energy Community Treaty and the commitments from the 2020 Sofia summit declaration on the Green Agenda for the Western Balkans.
- sign a direct agreement with the service provider to use electronic registers for issuance, cancellation and trade of guarantees of origin.
- finalise and adopt the national energy and climate plan (NECP) 2021-2030.

The national energy strategy of Bosnia and Herzegovina, adopted in August 2018, is outlined in the Framework Energy Strategy until 2035. Its implementation is ongoing. Bosnia and Herzegovina needs to finalise and adopt the national energy and climate plan (NECP) 2021-2030, which will replace the national energy strategy and the national energy efficiency action plan. Civil society organisations are involved in the drafting process.

Measures to improve **security of supply of electricity** need to be redirected from coal to renewables. Preparations for an extension of the Tuzla coal-fired power plant (Block 7) are continuing. This may increase the country's security of supply, but at the same time it might

significantly prolong dependency on coal and is not in line with the country's commitments to decarbonisation. In November 2021 the Ministerial Council of the Energy Community took a decision regarding the failure of Bosnia and Herzegovina to comply with its obligations under the Treaty (Case ECS-10/18); the Secretariat preliminarily concluded that the State Aid Council's decision does not comply with the State aid *acquis* and that the public guarantee granted in favour of the Export-Import Bank of China for a loan constitutes State aid. On 29 June 2022, the State Aid Council of Bosnia and Herzegovina, annulling its decision from 2018, also decided that the guarantee constitutes illegal State aid which the Federation's Ministry of Finance is obliged to recover. In addition, an important supplier has stepped out of the Tuzla Block 7 contract. In March 2022, the Federation entity's Parliament extended the operation of two units of the thermal power plants in Kakanj and Tuzla that were expected to be closed in 2022 and 2023 per Ministerial Council decision, in breach of the applicable anti-pollution laws (the large combustion plants directive). By the end of 2021, unit 4 in the Tuzla power plant and unit 5 in the Kakanj power plant have used up to 90% of the 20 000 working hours allowed by 2023. Bosnia and Herzegovina is also committed to gradually phasing out coal subsidies, aligning with the EU emissions trading system (ETS) and introducing other carbon pricing instruments to promote decarbonisation. This will be particularly challenging for a country whose energy production and industry depend to a large extent on fossil fuels. Although the appointment of the management of Transco is still pending, the company is operating properly.

Regarding **security of supply for natural gas**, the country is fully dependent on a single source, rendering Bosnia and Herzegovina vulnerable in case of disruption. Both the Federation and *Republika Srpska* have a long-term contract with Gazprom. In addition to receiving natural gas through Turkish Stream, an agreement has been signed for the single interconnection point between Serbia and Bosnia and Herzegovina, in accordance with the EU *acquis*.

The Federation entity should accelerate the preparations of the main design, permitting, and adoption of the law on the Southern Gas Interconnector project that will contribute to strengthening the integration into the European gas market and increasing the security of supply. The former refinery in Brod was connected to Croatia's natural gas network in 2021 without the required state-level approval; it remains in breach of the legal framework.

There was no progress in the harmonisation of legislation on compulsory oil stocks and petroleum products. Bosnia and Herzegovina is strongly encouraged to develop the necessary legislation, establish a body at state level on compulsory oil stocks and ensure harmonisation of legislation at entity level, in line with the requirements under the EU *acquis*.

There was some progress in the creation and operation of an **internal energy market**, with the adoption of electricity law in the Brčko District and the law on renewables in the *Republika Srpska* entity. To prevent further delays in the opening and unbundling of energy markets, Bosnia and Herzegovina needs to adopt gas and electricity legal frameworks compliant with the third energy package. The entity-level laws would need to be fully harmonised with this legal framework.

The Brčko District Electricity Law, adopted in November 2021, largely aligns with the 3<sup>rd</sup> energy package provisions and incorporates some elements of the clean energy package. In December 2021, the Federation entity amended the law on electricity, authorising the entity government to cap the increase of electricity prices to 20% more than the previous year.

The country still needs to adopt and enforce a new law for adequate restructuring, certification, and operation of the gas transmission system operator in accordance with the third energy package.

The retail electricity markets in both entities are formally open to competition. Gas customers in the Federation entity are still captive. In the *Republika Srpska* entity, only a small portion of the retail market is supplied under regulated tariffs. Switching rules are in place.

Regulated prices and tariffs do not reflect costs, as the energy sector is subsidised by direct and indirect subsidies. The new law on electricity of the *Republika Srpska* entity provides for the gradual deregulation of generation prices. Bosnia and Herzegovina has made some partial progress in protecting energy vulnerable groups and mitigating energy poverty. The measures in place focus solely on direct financial support and only target the most vulnerable groups, notably recipients of various social welfare benefits. Wholesale gas market prices are not regulated in the *Republika Srpska* entity. In the Federation entity, the prices are regulated by the Ministry. Due to sufficient electricity production from local resources and long term gas contracts, the energy price crisis has been avoided.

Third-party access is granted under regulated tariffs for the gas network in the *Republika Srpska* entity. In the Federation entity, negotiated third-party access still applies to transmission and distribution networks. The regulatory authorities at all levels are operational, but their independence continues to be hampered by political interference. The gas market remains closed without adequate regulatory oversight and lacks transparency, particularly regarding to setting prices for end consumers.

The country is yet to align its respective legislative framework with the EU *acquis* on **hydrocarbons**, which includes harmonising with the directive on the safety of offshore oil and gas installations.

There is some progress on **renewable energy**, but no national renewable energy action plan is in place. New laws on renewable energy sources were adopted in January 2022 in the *Republika Srpska* entity and in June in the Brčko District. However, there is still no state-level legal framework and entity-level legislation needs to be revised in line with principles of the cost-effective support framework. Support schemes in the Federation entity are based on outdated feed-in tariffs, while the *Republika Srpska* entity introduced auctions.

The electricity grid can accept an additional 840MW from wind and 825MW from solar power plants. Despite large capacity, there is no significant progress in new non-dispatchable renewable energy projects. Hydropower planning is carried out without consulting all stakeholders and without respecting the Espoo Convention on transboundary environmental impact assessment. Despite existing legal obligations, environmental impact assessments are not consistently prepared, also leading to protests and challenges in court. In July 2022, the Federation entity Parliament decided to ban on the construction of small hydropower plants up to 10 MW.

Works on the Buk Bijela hydropower plant (180 MW) are ongoing since May 2021 based on an agreement between the *Republika Srpska* entity and Serbia, without the required state-level approval. In July 2021 the Constitutional Court confirm that a decision by the state-level Commission for Concessions is required; this is still pending. The Constitutional Court had previously established that rivers and riverbeds are state property.

Further alignment with EU requirements is necessary for issuing, transferring, and cancelling guarantees of origins and using minimum levels of renewable energy in new buildings and existing buildings subject to major renovation.

Renewable energy producers have priority access to the grid and pay 50% of the fixed part of the connection costs. On the distribution level, producers in the *Republika Srpska* entity have to fully cover connection costs, while renewable energy producers in the Federation entity cover 50% of the calculated average value of the connection costs.

Bosnia and Herzegovina has expressed interest to join the Energy Community regional initiative to establish an electronic system for guarantees of origin. It is encouraged to sign a direct agreement with the service provider to use electronic registers for issuance, cancellation and trade of guarantees of origin as provided in the related regional project implemented in the Energy Community and in line with the EU standards.

On **energy efficiency**, no progress has been made in harmonising the legislation with EU requirements. The Brčko District adopted in July 2022 a Law on energy efficiency.

Bosnia made no progress on **nuclear energy, nuclear safety and radiation protection**. The country has no nuclear sites in its territory nor plans to build any. The country should consider becoming a member of the European Community Urgent Radiological Information Exchange system (ECURIE). Bosnia and Herzegovina should increase the administrative capacity and financial resources of the State Regulatory Agency for Radiation and Nuclear Safety, to meet international commitments on data submission and improve coordination and reporting.

## Chapter 21 - Trans-European Networks

*The EU promotes trans-European networks (TEN) in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.*

Bosnia and Herzegovina has achieved **some level of preparation** in the area of trans-European networks. There was **limited progress** in the area. Transport and energy infrastructures remain insufficiently developed. The development of the corridor Vc motorway proceeded, however, the implementation of connectivity reform measures remains slow. Therefore, the recommendations from previous reports remain valid.

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

- continue with the development of the indicative extension of the TEN-T and TEN-E core networks in line with the priorities identified in the Economic and Investment Plan for the Western Balkan, the Green Agenda and the Transport Community five-year rolling work plan for the development of the indicative TEN-T extension in the Western Balkans;
- accelerate the implementation of connectivity reform measures and continue with the adoption of the multiannual maintenance plans for the entire road and rail core networks;
- align the legislation with regulation (EU) 347/2013 on guidelines for trans-European energy infrastructure.

On **transport networks**, Bosnia and Herzegovina should increase active participation in the Transport Community meetings and intensify cooperation. In addition to the four action plans for rail, road, transport facilitation and road safety, the Transport Community Treaty (TCT) Ministerial Council endorsed the action plan on waterborne transport and multimodality in July 2021. The country should invest more efforts and resources to achieve the targets set in the action plans and to implement the TCT.

Bosnia and Herzegovina should accelerate the implementation of connectivity reform measures and aim to continue with the adoption of the multiannual maintenance plans for the entire road and rail core networks. Border crossing agreements with neighbouring countries remain a challenge; more efforts are required to strengthen mutual relations and cross border cooperation.

A revision of the indicative TEN-T core and comprehensive network is under discussion. Priority connectivity projects on the indicative TEN-T core network to the Western Balkans have been planned through the single project pipeline. The preparation and the

implementation of these projects continued during the reporting period. In relation to the Corridor Vc motorway, works on Rudanka – Putnikovo Brdo and Poprikuse – Nemila subsections started while in several subsections work was completed: the Zenica bypass in July 2021, the Svilaj bridge and border crossing in September 2021, the Buna – Pocitelj in December 2021, the Johovac – Rudanka section in August 2022 and the Tarcin – Ivan section, including the Ivan tunnel, in October 2022. The opening of the border crossing in Svilaj ensured full functionality of the already finalised 10 km motorway section till Odžak. Bosnia and Herzegovina and Croatia now need to agree on the category of border crossing. Additional efforts are required to speed up construction, improve preparedness and close the financing gap to complete the construction of the Corridor Vc motorway in the Federation entity. As regards the two infrastructural investments located in the Republika Srpska entity (Corridor Vc road and rail), the Commission will proceed with the signature of the contribution agreements only after the end of the political crisis, with the return to the full functioning of state institutions.

Construction of the interstate bridge between Bosnia and Herzegovina and Croatia at Gradiška was completed in May 2022, however, the border crossing is expected to become operational only in 2023 upon completion of the access expressway on Croatian territory. A serious effort is needed to accelerate progress in the rail core network where investments continue to be limited in particular due to lack of financial support through fuel levies, as it was done for roads and motorways. The navigability of the Sava River requires further demining and rehabilitation. A WBIF grant for demining the right bank was approved in December 2020 and work on the rehabilitation of the Brčko Port is progressing. Current and future infrastructure investments should comply with the TEN-T regulatory framework, in addition to fulfilling EU standards on public procurement, State aid and environmental impact assessments.

**On energy networks**, Bosnia and Herzegovina has not made any progress related to the harmonisation with Regulation 347/2013 on guidelines for trans-European energy infrastructure in the reporting period; therefore the infringement, established by the Energy Community in November 2018 is still not rectified.

Bosnia and Herzegovina should finalise the Single Project Pipeline to also include the energy sector; this will ensure eligibility of the project of Energy Community interest (Trans Balkan corridor) and the two mutual interest gas projects (North and South interconnectors with Croatia). More efforts are required to accelerate progress for the preparation and development of these projects. Tender documentation for the southern gas interconnector with Croatia (Zagvozd – Posušje – Novi Travnik with a branch to Mostar) is prepared. Bosnia and Herzegovina remains heavily dependent on carbon-intensive infrastructure and still needs to develop its regional connections to unlock the potential of the economic and investment plan and the green agenda for the Western Balkans.

## **Chapter 27 - Environment and climate change**

*The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.*

Bosnia and Herzegovina is at an **early stage of preparation** / has achieved **some level of preparation** in the area of environment and climate change. **Limited progress** was made, mainly at entity level and without countrywide harmonisation. To align with the EU climate *acquis*, implement and enforce it, Bosnia and Herzegovina needs to reaffirm its political commitment and set up the necessary administrative capacities at all levels of government.

The country needs to ensure an even, countrywide harmonised and consistent approach in strategic planning and alignment with the EU *acquis*. Bosnia and Herzegovina significantly improved the capacity of its civil protection system and became a participating state of the Union Civil Protection Mechanism in September 2022. The recommendations from last year were not fully addressed and remain valid.

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

- implement the countrywide environmental approximation strategy and adopt an environmental protection strategy;
- urgently formalise the procedures for the appointment and functions of the national focal point for Bosnia and Herzegovina for the implementation of all environmental conventions to which Bosnia and Herzegovina is a signatory;
- continue implementing the Paris Agreement by putting in place policies and measures to deliver on its updated nationally determined contribution (NDC), adopt and implement the revised climate change adaptation and low emissions development strategy, and adopt an integrated national energy and climate plan (NECP) in line with the Energy Community recommendation.

### Environment

**Horizontal legislation** is aligned with the EU *acquis* to a limited extent. The sub-sector strategies and legislative framework at various levels of government remain non-harmonised, leaving the environment sector unevenly regulated across the country. The will and capacities to ensure countrywide harmonisation with EU *acquis* remain limited. The environment approximation strategy still needs to be fully harmonised and implemented requiring a single integrated action plan. Bosnia and Herzegovina needs to enhance the legal framework, strengthen administrative capacity and monitoring systems, and improve inter-institutional coordination, in line with the Green Agenda for the Western Balkans and the 2050 climate neutrality target. Bosnia and Herzegovina needs to adopt a countrywide environmental protection strategy. The provisions of environmental impact assessment (EIA) and strategic environmental assessment (SEA) needs to be aligned in the legislation at all levels of government and across relevant sectors. It needs to be enforced and strengthened together with the necessary improvements in the access to information and the participation of the public in the decision-making process on planned investments. A strategy on gathering, transferring and reporting of environmental data still needs to be adopted. The legal framework regulating environmental inspections and its enforcement needs to be improved in line with the EU *acquis*. Progress in aligning with a number of horizontal environmental directives such as the directive on environmental liability, the directive on infrastructure for spatial information (INSPIRE) and the directive on environmental crime is still necessary. The long overdue requirement for formalising procedure for appointment of national focal points concerning the implementation of environmental conventions to which the country is a signatory party, is still to be met.

Alignment with the EU *acquis* on **air quality** remains limited. A well-functioning harmonised air monitoring network needs to be established to be able to provide reliable data together with a programme for air quality improvement. The alignment with the EU directive on reduction of national emissions of certain atmospheric pollutants, the establishment of a functional national emission inventories and reporting, and full ratifications and implementation of the Air Convention and its protocols are still pending. The country remains in serious and persistent breach of the Energy Community Treaty on alignment with the EU *acquis* on reducing the sulphur content of certain liquid fuels, on which sanctions are applied

since January 2021. Alignment with EU *acquis* on volatile organic compounds (VOC) is lagging behind.

A countrywide strategy for **waste management** with a particular attention to the circular economy context, the EU plastic strategy and single-use plastics directive still needs to be developed. To align with the landfill directive, the country needs close down or rehabilitate non-compliant landfills. Awareness-raising measures are required to reduce waste generation and promote reuse and recycling. Alignment is furthermore required with the EU *acquis* on sewage sludge, batteries, packaging, polychlorinated biphenyls/ polychlorinated terphenyls and end-of-life vehicles.

On **water quality**, a consistent and harmonised countrywide strategy and sustainable investment plan on water management and urban waste water management is still missing. Specific plans for implementing EU legislation on drinking water, urban waste water and flood risk management still need to be adopted. A roof report for Bosnia and Herzegovina, on river basin management plans still needs to be adopted, as well as a revised action plan for flood protection and river management. Flood hazards and risks are being mapped for the entire country.

There is no progress on alignment with the EU *acquis* on **nature protection**. The list of potential Natura 2000 sites and implementing legislation still needs to be adopted. Investments in renewable energy need to comply with all relevant EU *acquis*, including nature one (*see chapter 15 - Energy*). A system to systematically monitor biodiversity still needs to be established. While Bosnia and Herzegovina reports to the Convention on international trade in endangered species of wild fauna and flora (CITES), full implementation of the Convention and capacity building need to be strengthened. Bosnia and Herzegovina should prepare the legislation and establish the conditions for ratification and implementation of the Nagoya Protocol on access to genetic resources and fair distribution of profits generated by their use.

There is no progress on alignment with the EU *acquis* on **industrial pollution control and risk management**. The pollutants release and transfer register (PRTR) protocol to the Aarhus Convention still needs to be ratified. This includes obligation to report to PRTR at country level, enabling public access to and integration of the collected data and its transmission to the EU institutions. Bosnia and Herzegovina needs to ensure implementation of the National Emissions Reduction Plan (NERP) and adopt technical and financial measures necessary for that purpose. Bosnia and Herzegovina still needs to further align with the directives on industrial emissions, eco-labelling and eco-management and audit schemes. It should also align with the directive on the control of major-accident hazards involving dangerous substances (Seveso III).

On **chemicals**, the country's alignment with the EU Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation remains uneven. Alignment with the EU regulation on classification, labelling and packaging of substances and mixtures (CLP) and appointment of the responsible bodies to formulate the necessary preventive and remedial measures are needed. Bosnia and Herzegovina needs to align with EU *acquis* on asbestos and on the protection of animals used for scientific purposes. The country also needs to implement the Rotterdam convention on the prior informed consent procedure for certain hazardous chemicals and pesticides in international trade, to which Bosnia and Herzegovina is a party. There has been no progress in acceding to the Minamata Convention.

Significant further efforts are still needed to align with the EU *acquis* on environmental **noise**.

In recent years Bosnia and Herzegovina made significant progress in building the capacity of its **civil protection** system at local and entity levels. Bosnia and Herzegovina managed to deliver and show a clear commitment in the area of disaster management and in September 2022 joined the Union Civil Protection Mechanism (UCPM) as a full member with the same rights as the Member States. The country needs to keep developing its capacities and proceed with establishing a secure Trans-European Services for Telematics between Administrations (sTESTA) as a precondition to be connected to the Common Emergency Communication and Information System (CECIS) of the European Commission, improve legislation for preparedness and response and strengthen governance and procedures for developing national risk assessment. Bosnia and Herzegovina should speed up the implementation of the 2020-2025 action plan on civil protection. It should improve coordination among entities and Brčko District, develop a comprehensive training programme for emergency response units and ensure systematic inspections. Bosnia and Herzegovina still needs to establish the 112 European single emergency number.

### Climate change

The level of alignment with the EU **climate acquis** remains limited. Bosnia and Herzegovina needs to adopt a countrywide climate strategy to align with the new EU climate *acquis*, and develop a state-level framework law on climate change. Following the adoption of the Green Agenda action plan in October 2021, Bosnia and Herzegovina should prepare the harmonisation with the EU Emissions Trading System (ETS) and prioritise the alignment with the new governance regulation. The country still needs to adopt and implement a national adaptation plan and a national climate change adaptation and low emission development strategy consistent with the EU 2030 framework on climate and energy policies. The country should finalise the preparation of the national energy and climate plan (NECP) 2021-2030, which will replace the national energy efficiency action plan. The country needs to significantly reinforce its administrative capacities to ensure meaningful implementation of the required measures.

Bosnia and Herzegovina needs to step up the implementation of its revised Nationally Determined Contribution for 2020-2030 (NDC) submitted in 2021 to the UN Framework Convention on Climate Change. It plans to reduce greenhouse gas emissions for slightly more than one third by 2030, and almost two thirds by 2050 compared to 1990. There has been no progress in aligning with the EU monitoring and reporting regulation. There is no national greenhouse gas emissions inventory system and no state-level legal framework regulating this. There is no progress in aligning with the directives on fuel quality, ozone depleting substances, fluorinated gases, carbon capture and storage as well as other relevant legislation. Following ratification of the Kigali amendment to the Montreal Protocol on substances that deplete the ozone layer, the country is required to freeze hydrofluorocarbon production and use in 2024, with an 80% reduction by 2045.

### **CLUSTER 5: RESOURCES, AGRICULTURE AND COHESION**

This cluster covers chapters 11 - Agriculture and rural development; 12 - Food safety, veterinary and phytosanitary policy; 13 - Fisheries; 22 - Regional policy & coordination of structural instruments; and 33 - Financial & budgetary provisions.

While implementing the 2018-2021 strategic plan for **rural development**, Bosnia and Herzegovina must step up its efforts to adopt a post 2021 countrywide strategy for rural development. The country has yet to adopt the state-level laws on wine and on organic production, and harmonise across the country the legislation on quality policy. The country needs to align the legislation on **food safety, veterinary and phytosanitary policy** and strengthen its administrative capacities; in particular, it should speed up preparations for

national reference laboratories, provide an updated National Salmonella Control Plan and maintain the vaccination against rabies and brucellosis. Bosnia and Herzegovina must step up its efforts to prepare and adopt a countrywide strategy on **fisheries** and aquaculture and harmonise data collection. It should start preparing a countrywide **regional development** strategy, improve public investment planning and develop a single project pipeline in all relevant sectors. It should take steps to ensure the management of **own resources**, notably by reinforcing the capacity of the Indirect Tax Authority to effectively implement customs legislation, stepping up the fight against tax and customs fraud, and adopting a master plan for the production of national accounts.

## Chapter 11 - Agriculture and rural development

*The common agricultural policy (CAP) supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.*

Bosnia and Herzegovina is at an **early stage of preparation** in the area of agriculture and rural development. There was **no progress** in implementing last year's recommendations. Bosnia and Herzegovina is unevenly implementing the 2018-2021 strategic plan for rural development and has not yet made any significant steps in the adoption of a post-2021 strategic plan; it still needs to adopt state-level laws on organic production and on wine and update the legislation on quality policy, all in line with the EU *acquis*. The 2021 recommendations remain valid.

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

- complete the implementation of the 2018-2021 strategic plan for rural development, in particular by harmonising rural development programmes and support measures across the country and aligning them with the EU *acquis*, and adopt a countrywide strategy for agriculture and rural development 2022-2027;
- Adopt state-level law on organic production and on wine, in line with the EU *acquis*;
- update and adopt a state-level law on quality policy, in line with the EU *acquis*.

Concerning **horizontal issues**, the necessary administrative structures required for the common agricultural policy (CAP), including a paying agency, were not established and there was no progress in developing elements of an integrated administration and control system (IACS) or a farm accountancy data network (FADN). The country needs to improve the sector coordination and strengthen administrative capacities at all levels of the government. For the country to benefit from the instrument for pre-accession assistance for rural development (IPARD) programme, the authorities need to agree to set-up the necessary institutional structures. Direct payments still need to be aligned with the EU rules through decoupling them from production and linking payments to cross-compliance. The country needs to develop farm advisory services.

As regards **common market organisation (CMO)**, there was no progress in preparing and setting up the regulatory framework in line with the EU *acquis*. The country still needs to adopt a state-level law on wine. The setting-up of a register of grapes and wine producers and a vineyard register is still pending.

Bosnia and Herzegovina made no progress in harmonising **rural development** programmes and support measures. The relevant levels of the government should address it in their policy implementation without further delay.

Reporting on the implementation of the 2018-2021 strategic plan for rural development needs to progress the last reports produced related to 2018. The system of collection and processing of data for planning of agriculture and rural development policies, its implementation, monitoring and reporting needs to substantially improve. A countrywide Strategic Plan for agriculture and rural development 2022-2027 remains to be adopted.

No progress was noted **on quality policy**. The legal framework remains to be improved and harmonised with relevant EU *acquis*, in particular concerning wine and spirit drinks, and a clear distribution of competences needs to be ensured.

There was no progress on **organic farming**. The state level-law still needs to be developed in line with EU *acquis* and the regulatory framework harmonised across all levels of the government. Support measures remain unevenly implemented across the country.

## Chapter 12 - Food safety, veterinary and phytosanitary policy

*EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare, and the safety of food of animal origin are safeguarded together with the quality of seeds, plant protection material, protection against harmful organisms and animal nutrition.*

Bosnia and Herzegovina has **some level of preparation** in this area. **No progress** was noted. The country still needs to align with the EU *acquis*, particularly as regards official controls, animal health and plant health. The administrative capacities of laboratories should be strengthened as well as official controls. To ensure alignment with the EU *acquis*, the country's central databases and animal registers require further improvements. As the 2021 recommendations have not been implemented, they remain valid.

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

- introduce inter-laboratory comparative tests as a regular practice, particularly between laboratories in the country that are in charge of the analysis of samples for notifiable diseases, to increase controls and administrative capacity, especially of inspection services and laboratories;
- speed up preparations for national reference laboratories, through further alignment with the *acquis*, and notably by increasing the accreditation of laboratory methods used in hygiene, veterinary and phytosanitary controls, food and feedstuff analysis;
- adopt the OECD seed schemes, notably for agricultural seeds and forestry material;
- provide an updated national salmonella control plan, and maintain the vaccination against rabies and brucellosis and reinforce monitoring and surveillance measures.

In the area of **general food safety, food safety rules and specific rules for feed**, Bosnia and Herzegovina needs to step up its efforts in improving its system to fulfil the public and animal health requirements for the export of bovine, ovine and caprine meat. Regarding animal health, Bosnia and Herzegovina needs to strengthen its official control system, notably for the registration of farm holdings and the deregistration of holdings that are no longer active as well as the reliability of livestock numbers and species present on active holdings. Further improvement as regards the reliability of information of the central database for animal identification is necessary. The passive surveillance of notifiable diseases needs to be strengthened, notably when it comes to early detection system and awareness raising of farmers. The inter-laboratory comparative tests within the country needs to be set-up so that all laboratories can take part in disease validation and verification on a regular basis. The full national reference laboratories system is still not in place. To further align with the EU *acquis*,

Bosnia and Herzegovina must accelerate the setting-up of national reference laboratories for food and feedstuff, hygiene, veterinary and phytosanitary controls, notably by increasing the accreditation of laboratory methods used for these controls. The country has to meet the criteria for export of table eggs to the EU and ensure that its National Salmonella Control Plan (NSCP) is updated and aligned with the EU *acquis* and fully implemented.

Bosnia and Herzegovina needs to accelerate alignment of its legislation with the EU *acquis*, notably the state-level laws on food and veterinary medicine, the new law on animal health and the state-level legislation on the official controls, and should ensure its effective implementation. The hygiene package is still not implemented in a harmonised manner across the country. The country has to improve the implementation of its **veterinary policy** on the control, prevention and eradication of communicable animal diseases and enhance monitoring and surveillance on brucellosis and rabies. Bosnia and Herzegovina needs to continue rabies vaccination campaigns until this disease is considered eradicated and should take full ownership of these campaigns, as of autumn 2023 in line with the EU *acquis*. Bosnia and Herzegovina must ensure that the contingency plan and the surveillance plan related to classical swine fever are in place. The country has to improve and harmonise its system of managing animal disease notification and outbreak information. Although the country's residue monitoring plan is being implemented, it needs to become more effective. The EU audit on the control of residues and contaminants in live animals and animal products including controls on veterinary medicinal products took place in October 2021. Following the audit report recommendations, Bosnia and Herzegovina prepared an action plan aiming at enhancing the implementation of control measures in place, notably on the effective implementation of the plan, identifying the shortcomings in delivery of samples, analytical method validation files and deficient internal quality control procedures. However, one remaining recommendation on the effective quality control procedures and on monitoring the validity of analytical results to guarantee their reliability still needs to be urgently tackled.

The country's laboratories generally have satisfactory capacities. Staffing, equipment and accredited laboratory methods for diagnosing animal diseases needs to be increased. Bosnia and Herzegovina needs to improve the setting up of its central animal identification and registration systems for sheep, goats, pigs and horses.

Bosnia and Herzegovina needs to align its official food and feed control system with the EU *acquis*, concerning the **placing on the market of food, feed and animal by-products**, and strengthen its administrative capacities at all levels of the government. This is particularly true for the inspection services and laboratories, for which inter-laboratory comparative tests need to be introduced. The country still needs to further align these sectors with the *acquis* and fully implement its strategy for management of animal by-products.

In the area of **phytosanitary policy**, to align with the EU *acquis*, Bosnia and Herzegovina needs to undertake the necessary reforms and adopt crucial state-level laws, notably the new Plant Health Law and state level legislation on official controls.

The country continues to implement its programme for special surveillance of quarantine pests for potatoes. Although the registration of plant operators in a single phyto-registry continues, no progress has been made on issuing plant passports. The OECD seed schemes are yet to be adopted. The country has not yet fulfilled the EU *acquis* requirements of setting up its laboratories as reference laboratories providing phyto-sanitary controls. The principles of integrated pest management remain to be implemented in a harmonised manner.

There were no developments in the area of **genetically modified organisms (GMOs)**. Bosnia and Herzegovina still needs to ensure alignment with the EU *acquis*, harmonise legislation across the country and ensure its effective implementation. Inspection services at all levels of

the government are to be strengthened. There was no progress in setting up the country's reference laboratory for testing, controlling and monitoring the presence of GMOs in food and feed.

### Chapter 13: Fisheries

*The common fisheries policy lays down rules on fisheries management, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules on markets and aquaculture, and support for fisheries and coastal communities.*

Bosnia and Herzegovina is at an **early stage of preparation** in this area. There was **no progress**. The country still needs to prepare, adopt and implement a countrywide fisheries and aquaculture strategy in line with EU *acquis*. As the recommendations of 2021 were not implemented, they remain valid.

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

- prepare and adopt a countrywide strategy on fisheries and aquaculture in view of aligning the legislation with the EU *acquis*;
- harmonise the methodology for data collection for fish and fishery products across the country, and establish relevant statistics.

There was no progress in developing a countrywide policy framework and legislation on inland and marine fisheries in order to prepare for the EU's common fishery policy (CFP). Preparing and adopting a countrywide strategy and state-level legislation on fisheries and aquaculture should accelerate, and its harmonisation across the country being ensured.

Institutional capacity and administrative structures needs to be substantially strengthened. There are no specific **structural actions** in place to support small-scale and/or inland fisheries.

No progress was made in setting up relevant measures and strengthening the administrative capacity to implement **resource and fleet management**. Bosnia and Herzegovina still needs to set up a fleet register and the system for management and control of fishing activities in line with the EU Common Fishery Policy. On **inspection and control**, the country still needs to improve and harmonise the data on catches and landings per type of fishery. More information is required on methodologies and planning for data collection. The country still lacks any structural and **State aid** measure in line with the EU *acquis*.

Concerning **market policy**, marketing standards for certain fishery products are in place, but there was no further progress including the establishment of producer organisations in line with the EU *acquis*.

Regarding **international agreements**, Bosnia and Herzegovina continues to cooperate on sea fisheries with the General Fisheries Commission for the Mediterranean (GFCM), of which it is not yet a member, and the UN's Food and Agriculture Organisation (FAO). As a party to the Malta *MedFish4Ever* Declaration, the country should contribute to its effective implementation.

### Chapter 22 - Regional policy & coordination of structural instruments

*Regional policy is the EU's main tool for investing in sustainable and inclusive economic growth. Member States bear responsibility for its implementation, which requires adequate administrative capacity and sound financial management of project design and execution.*

Bosnia and Herzegovina remains at an **early stage of preparation** in the area of regional

policy and coordination of structural instruments. **Limited progress** was achieved, with the adoption, end of June, of the country-wide public financial management strategy and the ratification of the IPA III Framework Partnership Agreement in August. Last year's recommendations remain valid. In the coming year, Bosnia and Herzegovina should in particular:

- start preparing a countrywide regional development strategy;
- improve public investment planning and develop a single project pipeline in all relevant sectors, and ensure its endorsement by the National Investment Committee and its regular update;
- reach an agreement on coordination modalities for the effective use of pre-accession funds while respecting the NIPAC functions as provided for in the IPA II Framework Agreement and IPA III Financial Framework Partnership Agreement.

On **legislative framework**, Bosnia and Herzegovina still needs to establish a system for managing EU structural funds. The country still lacks a number of countrywide strategies in fields relevant to cohesion policy. There is no sound countrywide regional development policy, with accompanying institutional structure and performance monitoring framework. The NUTS II regions are only provisionally defined and accepted by the European Commission until Bosnia and Herzegovina finalises and agrees the entire classification including definition of the NUTS III level. Bosnia and Herzegovina needs to improve the statistical and analytical basis (including definition of NUTS regions) to develop sound strategic framework for cohesion policy. GDP per capita figures harmonised at NUTS II level are still to be provided. Existing budget laws allow for both flexibility and multi-annual budgeting, but the multi-annual programmes need to be included in a more comprehensive manner in the entities' budgets and more consistently across administrative levels. Legislative frameworks establishing financial control and independent internal audit structures are in place at both state and entity levels.

Concerning **the institutional framework** for planning, IPA, the IPA III Financial Framework Partnership Agreement has been ratified in August. The authorities need to come to an agreement on the coordination modalities for the effective use of pre-accession funds while respecting the role of the NIPAC as provided for in the IPA II Framework Agreement and the IPA III Financial Framework Partnership Agreement. The role of the NIPAC as coordinator of EU assistance and EU contact point for the management of EU funds needs to be strengthened.

**Administrative capacity** including training in key institutions managing EU funds is insufficient. The capacity for programming and managing EU pre-accession funds and introducing cohesion policy needs to be improved. To avoid an absorption shock at a later stage, Bosnia and Herzegovina needs to develop a systematic plan such as a management and control system roadmap to help prepare administrative capacities to implement EU regional policy.

Despite difficulties stemming from the lack of agreement on the way to reconcile the IPA legal framework with the system of coordination of European integration, Bosnia and Herzegovina's authorities delivered as required on the **programming** of IPA III. The authorities submitted the action documents for the Programme IPA 2021 and IPA 2022. However, project preparation and strategic planning capabilities still need to improve in order to secure full absorption capacity for IPA III programme. To this end, the adoption of the countrywide public finance management strategy is paving the way for possible budget support operations.

The National Investment Committee needs to revise its single project pipeline for the environment sector and finalise the ones for the energy sector.

Bosnia and Herzegovina continues to gain experience in programming and implementation of regional policy territorial cooperation through the participation in cross border cooperation and transnational and interregional cooperation programmes. Bosnia and Herzegovina is participating in the EU Strategy for the Adriatic and Ionian Region (EUSAIR) and the EU Strategy for the Danube Region (EUSDR), which promote cooperation and synergies among the participating EU and non-EU countries.

Due to the inaction of the Council of Ministers during the political blockade by political parties based in the *Republika Srpska* entity, the financing agreement for the 2020 cross-border cooperation programme with Serbia was not signed by the December 2021 deadline, resulting in the loss of EUR 1.8 million of important funding for the development of the border area. The NIPAC should take full responsibility for an efficient and systematic coordination of cross-border, transnational and interregional cooperation.

Regarding **monitoring and evaluation**, the NIPAC office should urgently strengthen its capacities.

With the exception of cross-border cooperation programmes, the country is still missing a **financial management, control and audit system** for EU funds. Structures and bodies defined in Annex A of the Framework Agreement under IPA II and the IPA III Financial Framework Partnership Agreement remain to be established.

### Chapter 33 - Financial & budgetary provisions

*This chapter covers the rules governing the funding of the EU budget ('own resources'). These resources mainly consist of: (i) contributions based on the gross national income of each Member State; (ii) customs duties; (iii) the non-recycled plastic resource and (iv) a resource based on value-added tax. Member States must have the appropriate administrative capacity to adequately coordinate and ensure the correct calculation, collection, payment and control of own resources.*

Bosnia and Herzegovina is at an **early stage** of preparation in the area of financial and budgetary provisions. **No progress** was made as regards strengthening administrative capacities for coordination and management of own resources. Significant further efforts are needed to ensure sound capacities, institutional set-up and cooperation of institutions and bodies to be involved in application of the own resources system. The recommendations from last year remain valid. In the coming year, Bosnia and Herzegovina should in particular:

- strengthen capacities and inter-agency cooperation to combat tax and customs fraud;
- reinforce the capacity of the Indirect Tax Authority (ITA) to effectively implement customs legislation;
- adopt a master plan for the production of national accounts for Bosnia and Herzegovina.

There was some progress in the underlying policy areas indirectly affecting the own resources system (*see Chapters 16 – Taxation, 18 – Statistics, 29 – Customs union, and 32 – Financial control*).

There was no progress in improving the capacity of ITA and in implementing an accounting system for customs duties to distinguish recovered debts and outstanding debts, in line with the EU's **traditional own resources** accounting.

There was no progress in aligning the VAT law with the EU *acquis*, in particular as regards special schemes and exceptions.

On **Gross National Income (GNI) resource**, definitions and accounting rules of ESA 2010 are used for compilation of the GNI. There was no progress in setting up a common, coordinated, and appropriate national accounts system for the whole country. This should be given high priority. A master plan for the development of national accounts remains to be adopted to facilitate development of this system, in line with ESA 2010.

In terms of **administrative infrastructure**, there was no progress in providing sufficient human and administrative resources to ensure the full and correct application of EU rules concerning payments into the EU budget. Better coordination among administrative structures and implementing rules are needed to ensure correct forecasting, calculation, accounting, collection, payment and control of own resources.

#### **CLUSTER 6: EXTERNAL RELATIONS**

This cluster includes chapters 30 - External relations, which covers the EU's common trade and commercial policy as well as its humanitarian aid and its development policy, and 31 - Foreign, security and defence policy.

Bosnia and Herzegovina should implement the action plan for the Common Regional Market by adopting and implementing the relevant protocols to Central European Free Trade Agreement (CEFTA). Bosnia and Herzegovina should finalise its accession to the WTO and consider establishing a development and humanitarian aid policy. The country's alignment with EU foreign policy significantly improved, notably on statements and restrictive measures following Russia's war of aggression against Ukraine, although implementation of sanctions remains a challenge. The country should appoint a 'political director' and 'European correspondent', and reinforce arms control and monitoring regimes.

#### **Chapter 30 - External relations**

*The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules for humanitarian aid and development policy.*

Bosnia and Herzegovina has reached **some level of preparation** in the area of external relations. There was **no progress**. The capacity to tackle key challenges in trade policy is yet to be strengthened. Bosnia and Herzegovina introduced temporary export restrictions in June 2022 on certain wood products. These decisions should be revoked, and Bosnia and Herzegovina should abstain from taking unilateral trade measures without justification and prior consultation with the Commission in line with its obligations under the SAA. The Commission's recommendations of 2021 were not implemented and remain valid.

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

- finalise its accession to the World Trade Organization (WTO);
- implement the Common Regional Market Action Plan 2021-2024 in particular by adopting CEFTA Additional Protocol (AP) 5 on trade facilitation and CEFTA AP 6 on trade in services; and negotiate and ensure a swift adoption of CEFTA AP 7 on dispute settlement;
- start the process leading to the establishment of a development and humanitarian aid policy.

On the **common commercial policy**, no progress was made on accession to the WTO,

although membership negotiations have been at a very advanced stage for some time. The Russian Federation is the only WTO member that has not completed its bilateral negotiations with Bosnia and Herzegovina on market access for goods and services, having raised one outstanding issue on the need to amend the legislation on the quality of liquid petroleum fuels. The decision to amend this legislation is yet to be approved by the Council of Ministers.

Bosnia and Herzegovina needs to adopt CEFTA AP 5 on trade facilitation, and CEFTA AP 6 on trade in services as soon as possible. In addition Bosnia and Herzegovina should negotiate and ensure a swift adoption of the CEFTA AP 7 on dispute settlement and proceed with the implementation of the Common Regional Market Action Plan 2021-2024.

In June 2022, Bosnia and Herzegovina introduced a 3-month export ban for certain wood products, without providing sufficient justifications or notifying or consulting the Commission in advance as required under the SAA. This decision should be revoked, and Bosnia and Herzegovina should abstain from taking unilateral trade measures without prior consultation with the Commission, in line with its obligations under the SAA.

Bosnia and Herzegovina applies export controls on **dual-use goods** in accordance with its legislation. The framework legislation needs to be aligned with the latest EU *acquis*, namely EU Regulation 2021/821. The country should consider applying for accession to the multilateral export control schemes, such as the Wassenaar Arrangement.

As regards **bilateral agreements with third countries**, a revised free trade agreement with Türkiye entered into force in August 2021, updating and expanding the existing agreement to cover services. Bosnia and Herzegovina needs to further strengthen its administrative capacity and improve cooperation and coordination between ministries and the different levels of competent authorities in order to ensure consistency of implementation and enforcement.

There were no changes in the areas of **development policy** and **humanitarian aid**. The country is a recipient of aid programmes and has so far provided humanitarian aid only ad hoc, including for Ukraine following Russia's invasion in February 2022. Bosnia and Herzegovina is encouraged to start the process of establishing a legal framework covering international cooperation and development policy as well as humanitarian aid towards non-EU countries, in accordance with EU policies and principles, and to build dedicated administrative structures.

### Chapter 31 - Foreign, security & defence policy

*Member States must be able to conduct political dialogues under the EU foreign, security and defence policy, align with EU statements, take part in EU actions, and apply agreed sanctions and restrictive measures.*

Bosnia and Herzegovina has **some level of preparation** in the area of common foreign, security and defence policy. There was **some progress**, as the country significantly improved its alignment with the EU foreign policy, notably on statements and restrictive measures following Russia's war of aggression against Ukraine, upon the initiative of the Ministry of Foreign Affairs. As of August 2022, Bosnia and Herzegovina's alignment rate with relevant High Representative statements on behalf of the EU and Council decisions on restrictive measures (sanctions) was 81%. Alignment with EU sanctions remains a matter of political dispute, and certain ministries have hindered the implementation of restrictive measures. Bosnia and Herzegovina is yet to join a number of international arms control regimes as well as strengthen the monitoring regime regarding weapons and military equipment. Bosnia and Herzegovina continued to participate in EU crisis management missions.

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

- continue improving its alignment with EU common foreign and security policy, and ensure the implementation of restrictive measures stemming from EU alignment;
- develop post-manufacture marking requirements for weapons earmarked for deactivation in line with EU standards;
- improve traceability of seized and confiscated weapons, notably by amending the Law on Marking to cover these types of firearms.

The **political dialogue** between the EU and Bosnia and Herzegovina on foreign and security policy issues continued, including at high level. In April 2022, the deputy foreign minister participated in the informal EU-Western Balkans meeting of political directors in Brussels.

Bosnia and Herzegovina's 2018-2023 foreign policy strategy includes as main goals and priorities the following: full membership of the EU, activation of the NATO Membership Action Plan, fight against terrorism, cooperation at regional level, and bilateral and multilateral cooperation. Its implementation in the reporting period was affected by frequent divergent positions among the members of the Presidency.

Bosnia and Herzegovina still needs to appoint the persons in charge of performing the functions of 'political director' and of 'European correspondent' within the Ministry for Foreign Affairs. Regulations and practices based on ethnic quotas applied in the appointment of diplomatic and consular network have a negative impact on the capacity of the Ministry of Foreign Affairs, adversely affecting the country's foreign policy objectives.

On **Common Foreign and Security Policy**, Bosnia and Herzegovina has improved its alignment with EU statements and restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine. The country joined a number of EU statements at multilateral fora and restrictive measures, upon the political initiative of the Ministry of Foreign Affairs. Alignment with EU sanctions remains a matter of political contestation as one member of the Bosnia and Herzegovina Presidency advocated for a neutral stance on Russia's aggression against Ukraine, which resulted in significant hindrances to their implementation, including not banning flights from Russia or the broadcast of Russian state-sponsored media. In 2021, the country's alignment rate with relevant High Representative statements on behalf of the EU and Council Decisions was 38%. Its alignment increased to 81% by end August. In 2022, the country did not align with EU Council decisions and declarations related to the Russian Federation (in one case), China, Iran, and Syria. Bosnia and Herzegovina should maintain and further improve its alignment rate to signal its commitment to the EU path. Bosnia and Herzegovina aligned with the EU position in the United Nations General Assembly on Russia's aggression against Ukraine and its humanitarian impact, and voted to suspend Russia from the UN Human Rights Council.

Bosnia and Herzegovina ratified the Rome Statute of the **International Criminal Court (ICC)** in 2002; the ratification of the Kampala amendments is pending. There were no procedures requiring cooperation with the Court during the reporting period. The country maintains a bilateral immunity agreement with the United States, granting US citizens exemptions from the jurisdiction of the International Criminal Court. In doing so, the country does not comply with the EU common positions on the integrity of the Rome Statute or related EU guiding principles on bilateral immunity agreements. Alignment with the EU position is therefore needed.

Bosnia and Herzegovina supports all EU measures and instruments for **conflict prevention**, acts in accordance with the principles of the UN Charter and rules of international law, and fully supports the EU programme for the prevention of violent conflicts.

On **non-proliferation**, Bosnia and Herzegovina is yet to join international control regimes such as the Wassenaar Arrangement, the Australia Group, the Missile Technology Control Regime and the Nuclear Suppliers Group.

With regard to trade in conventional weapons, military equipment and dual-use items, the country's overall legal and institutional framework is broadly in line with the EU *acquis*. Further improvements are required regarding the monitoring regime of WMEs produced and traded within the country.

Bosnia and Herzegovina is party to the Chemical Weapons Convention. Legislation on the implementation of the Convention on the Prohibition of the Development, Production, Stockpiling and use of Chemicals and on their Destruction is in place, together with a state-level coordination body.

Bosnia and Herzegovina remained actively engaged in the implementation of the 2018 Regional Roadmap for a sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons and their ammunition in the Western Balkans. The country should demonstrate progress on implementing the 2021-2024 strategy and action plan for control of small arms and light weapons (SALW). All weapons of the country's security forces are to be marked and registered into a single registry to ensure adequate traceability of small arms and light weapons in the country. The marking and registration of the 62 000 small arms and light weapons held by the Armed Forces of Bosnia and Herzegovina is now complete. Bosnia and Herzegovina is to develop post-manufacture marking and record-keeping requirements for seized and confiscated weapons, and weapons earmarked for deactivation.

Regarding **cooperation with international organisations**, Bosnia and Herzegovina is a member of, and actively participates in the work of major international organisations, including the United Nations, the Council of Europe, and OSCE. Bosnia and Herzegovina has been participating in NATO's Membership Action Plan (MAP) since 2019. Bosnia and Herzegovina was elected as a member of the Council of Administration of the Universal Postal Union in August 2021, while its four-year membership (2017-2021) in the UNESCO World Heritage Committee ended in 2021.

In terms of **security measures**, Bosnia and Herzegovina continued to implement the agreement on security procedures for the exchange of classified information between the EU and Bosnia and Herzegovina, in force since 2006.

The lack of funding and a centralised and dysfunctional procurement system for the Armed Forces also critically affect their demining battalion, which is an essential partner for the success of the mine action strategy 2018-2025. The European Peace Facility supports the demining battalion in purchasing new vehicles and metal detectors. The mine action authorities (Demining Commission and BH Mine Action Centre) need to develop and adopt the bylaws and standard operating procedures required by the new land release method.

Regarding the **common security and defence policy** (CSDP), Bosnia and Herzegovina established a framework with the EU for the country's participation in both civilian and military crisis management missions and operations. Three members of the Armed Forces of Bosnia and Herzegovina were deployed in the EU Training Mission (EUTM) in the Central African Republic until July 2022. Bosnia and Herzegovina also took part in UN missions in the Democratic Republic of Congo and in Mali.

On **hybrid threats**, the EU has offered the hybrid risk survey to Bosnia and Herzegovina to identify key vulnerabilities and address them through EU assistance; so far, the government has not expressed interest in participation. The country does not have an overall assessment

regarding hybrid threats, nor a policy framework for addressing hybrid threats. Banja Luka-based provider M-tel continued to carry the signal of the RT and Sputnik channels, despite Bosnia and Herzegovina's alignment with EU sanctions on Russia prohibiting the broadcast of content from these Russian state-sponsored media outlets.

## ANNEX I – Implementation of the 14 key priorities

<i>Opinion key priorities</i>	<i>Implementation</i>
(1) Ensure that <b>elections</b> are conducted in line with European standards by implementing OSCE/ODIHR and relevant Venice Commission recommendations, ensuring transparency of political party financing, and holding municipal elections in Mostar.	Municipal elections held in Mostar in December 2020.
(2) Ensure a track record in the functioning at all levels of the <b>coordination mechanism</b> on EU matters including by developing and adopting a <b>national programme for the adoption of the EU <i>acquis</i></b> .	
(3) Ensure the proper functioning of the <b>Stabilisation and Association Parliamentary Committee</b> .	First SAPC held in 2021 following adoption of rules of procedure, although without adoption of recommendation. No SAPC held in 2022.
(4) Fundamentally improve the institutional <b>framework</b> , including at <b>constitutional</b> level, in order to:	
<ul style="list-style-type: none"> <li>• Ensure legal certainty on the distribution of competences across levels of government;</li> </ul>	
<ul style="list-style-type: none"> <li>• Introduce a substitution clause to allow the State upon accession to temporarily exercise competences of other levels of government to prevent and remedy breaches of EU law;</li> </ul>	
<ul style="list-style-type: none"> <li>• Guarantee the independence of the <b>judiciary</b>, including its self-governance institution (HJPC);</li> </ul>	
<ul style="list-style-type: none"> <li>• Reform the <b>Constitutional Court</b>, including addressing the issue of international judges, and ensure enforcement of its decisions;</li> </ul>	
<ul style="list-style-type: none"> <li>• Guarantee legal certainty, including by establishing a judicial body entrusted with ensuring the consistent interpretation of the law throughout Bosnia and Herzegovina;</li> </ul>	
<ul style="list-style-type: none"> <li>• Ensure equality and non-discrimination of citizens, notably by addressing the <i>Sejdić-Finci</i> ECtHR case law;</li> </ul>	
<ul style="list-style-type: none"> <li>• Ensure that all administrative bodies entrusted with implementing the <i>acquis</i> are based only upon professionalism and eliminate veto rights in their decision-making, in compliance with the <i>acquis</i>.</li> </ul>	
(5) Take concrete steps to promote an environment conducive to <b>reconciliation</b> in order to overcome the legacies of the war.	National war crimes processing strategy adopted in September 2020
(6) Improve the functioning of the <b>judiciary</b> by adopting new legislation on the High Judicial and Prosecutorial Council and of the Courts of Bosnia and Herzegovina in line with European standards.	
(7) Strengthen the prevention and <b>fight against corruption and organised crime</b> , including money laundering and terrorism, notably by:	

<ul style="list-style-type: none"> <li>adopting and implementing legislation on <b>conflict of interest</b> and whistle-blowers' protection;</li> </ul>	
<ul style="list-style-type: none"> <li>ensuring the effective functioning and coordination of <b>anti-corruption</b> bodies;</li> </ul>	
<ul style="list-style-type: none"> <li>align the legislation and strengthen capacities on <b>public procurement</b>;</li> </ul>	Legislative amendments on public procurement adopted in August 2022.
<ul style="list-style-type: none"> <li>ensuring effective cooperation among <b>law enforcement</b> bodies and with prosecutors' offices;</li> </ul>	
<ul style="list-style-type: none"> <li>demonstrating progress towards establishing a <b>track record</b> of proactive investigations, confirmed indictments, prosecutions and final convictions against <b>organised crime and corruption</b>, including at high-level;</li> </ul>	
<ul style="list-style-type: none"> <li>de-politicising and restructuring <b>public enterprises</b> and ensuring transparency of privatisation processes.</li> </ul>	
(8) Ensuring effective coordination, at all levels, of border management and <b>migration</b> management capacity, as well as ensuring the functioning of the <b>asylum</b> system.	Improvement of migration management
(9) Strengthen the protection of the rights of all citizens, notably by ensuring the implementation of the legislation on <b>non-discrimination</b> and on <b>gender equality</b> .	
(10) Ensure the right to life and prohibition of torture, notably by	
(a) abolishing the reference to death penalty in the Constitution of the <i>Republika Srpska</i> entity and	In October 2019 the Constitutional Court repealed the reference to death penalty in the <i>Republika Srpska</i> entity constitution.
(b) designate a <b>national preventive mechanism</b> against <b>torture and ill-treatment</b> .	
(11) Ensure an enabling <b>environment for civil society</b> , notably by upholding European standards on freedom of <b>association</b> and freedom of <b>assembly</b> .	
(12) Guarantee freedom of <b>expression</b> and of the media and the protection of journalists, notably by:	
(a) ensuring the appropriate judicial follow-up to cases of <b>threats and violence</b> against journalists and media workers, and	
(b) ensuring the financial sustainability of the <b>public broadcasting</b> system.	
(13) Improve the <b>protection and inclusion of vulnerable groups</b> , in particular persons with disabilities, children, LGBTIQ persons, members of the Roma community, detainees, migrants and asylum seekers, as well as displaced persons and refugees in line with the objective of closure of Annex VII of the Dayton Peace Agreement.	Pride marches held regularly since 2020, action plan on rights of LGBTIQ persons adopted in July 2022, action plan on the social inclusion of the Roma adopted in May 2022.
(14) Complete essential steps in <b>public administration reform</b> towards improving the overall functioning of the public administration by ensuring a professional and de-	All levels of government adopted the action plan on public administration reform, a comprehensive and countrywide public finance

politicised civil service and a coordinated nationwide approach to policy making.	management strategy, and individual strategies on public financial management.
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## ANNEX II – RELATIONS BETWEEN THE EU AND BOSNIA AND HERZEGOVINA

The **Stabilisation and Association Agreement (SAA)** entered into force in June 2015. Policy dialogue in the joint bodies under the agreement was blocked throughout the reporting period. The country also participates in Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye, where joint recommendations are adopted at ministerial level.

The SAA and its Interim Agreement, applied since 2008, have allowed progressive trade liberalisation and mutual duty-free access for most goods. Since 2000 Bosnia and Herzegovina has also been benefiting from autonomous trade measures. The country joined the Central European Free Trade Agreement (CEFTA) in 2007. The EU is the main trading partner of Bosnia and Herzegovina, accounting for 64% of the country's trade in goods (73% of exports and 59% of imports), for a total trade volume of EUR 11.8 billion in 2021.

In February 2016 Bosnia and Herzegovina **applied for EU membership** and in September 2016, the European Council invited the Commission to submit its opinion on the country's application. In May 2019 the Commission adopted its **Opinion (Avis)** and accompanying analytical report. The Opinion identified **14 key priorities** in the areas of democracy/functionality, rule of law, fundamental rights, and public administration reform that Bosnia and Herzegovina needs to fulfil in order to be recommended for opening EU accession negotiations. In December 2019, the EU Council welcomed the Opinion and invited the Commission to focus its annual reports on Bosnia and Herzegovina, starting with the one in 2020, on the implementation of the key priorities.

**Visa liberalisation** for citizens of Bosnia and Herzegovina travelling to the Schengen area has been in force since December 2010. A readmission agreement has been in force since 2008. The Commission's fourth report under the visa suspension mechanism in August 2021 concluded that Bosnia and Herzegovina continues to meet the visa liberalisation benchmarks.

The EU 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 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 remained deployed in the country, retaining deterrence capacity to support a safe and secure environment. The troops deployed almost doubled in February 2022. The UN Security Council extended EUFOR's mandate until November 2022.

The EU is the main provider of **financial assistance** to Bosnia and Herzegovina, notably under the **Instrument for Pre-accession Assistance (IPA)** with a total allocation of EUR 565.77 million under IPA II in 2014-2020. Under the Instrument for Pre-accession Assistance 2021 – 2027 (IPA III) a first financing decision of EUR 73 million was adopted at the end of 2021, providing support for migration and border management, electoral process, energy, transport, employment and social protection, as well as private sector and regional development. The assistance is implemented under direct management by the EU Delegation in Sarajevo.

This first set of programmes, complemented by a significant package of multi-country programmes, provides a significant contribution to kick-start the implementation of the **Economic and Investment Plan for the Western Balkans and the Green Agenda**.

The new activities will add to the on-going programmes under IPA II (2014-2020), which are still providing significant support for the social and economic development of the country and

contribute to advance on the path of reforms. With specific focus on the fundamental sectors, progress was made with the finalisation of digitalisation process of fully automatized. Public Internal Financial Control reporting, which will support high level decision making processes, and the finalisation of IDDEEA's accreditation process for digital signatures.

EU funds have continued to help the country to deliver on key sectors such as the justice reform, migration management, employment, agriculture, environment and private sector development. Bosnia and Herzegovina benefits from a portfolio of **EUR 394.5 million** of ongoing/active bilateral IPA funds.

Bosnia and Herzegovina also benefits from investments through the **Western Balkans Investment Framework (WBIF)**. WBIF has provided close to EUR 284.3 million of grants to Bosnia and Herzegovina since 2009, leveraging investments estimated at EUR 3.6 billion. The current WBIF portfolio (including regional actions) amounts to EUR 1.077 billion of investments (including EUR 242 million of grants).

Adopting countrywide sector strategies remains a key requirement for Bosnia and Herzegovina to benefit fully from IPA funding in the future. Bosnia and Herzegovina benefits from the IPA multi-country and regional programmes and participates in three cross-border cooperation programmes, as well as in transnational cooperation programmes.

Bosnia and Herzegovina received the first instalment of EUR 125 million in favourable **macro-financial assistance** loans from the Commission in October 2021. The disbursement of the second instalment was cancelled in June 2022 because the country did not adopt the required measures.

The Commission set aside EUR 70 million in grants from IPA II for the Western Balkan partners to reimburse the Member States for the resale of doses they obtained under the EU Advance Purchase Agreements with COVID-19 vaccine producers, of which Bosnia and Herzegovina received EUR 13.77 million. Bosnia and Herzegovina received over 2.5 million doses of COVID-19 vaccines from the EU and its Member States – the highest amount among the Western Balkans. This includes 2 234 390 doses from EU Member States in re-sales and donations, as well as 332 640 doses via COVAX, which is significantly supported by the EU.

Bosnia and Herzegovina participates also in cross-border cooperation programmes, transnational cooperation programmes and union programmes, such as Horizon 2020, Creative Europe, Fiscalis 2020, Customs 2020, Europe for Citizens, Erasmus+, Third Programme for the Union's action in the field of health, and the COSME programme.

**STATISTICAL DATA (as of 01.09.2022)**

**Bosnia and Herzegovina**

<b>Basic data</b>	Note	2009	2016	2017	2018	2019	2020
Population (thousand)		3 844 s	3 516 s	3 510 s	3 500 s	3 492 ps	:
Total area of the country (km <sup>2</sup> )	1)	51 209 w	51 209 w	51 209 w	51 209 w	51 209 w	51 209 w

<b>National accounts</b>	Note	2009	2016	2017	2018	2019	2020
Gross domestic product (GDP) (million national currency)		24 799	29 905	31 376	33 444	35 296	34 255
Gross domestic product (GDP) (million euro)		12 679	15 290	16 042	17 100	18 046	17 514
GDP (euro per capita)		3 298 s	4 349 s	4 571 s	4 885 s	5 168 ps	:
GDP per capita (in purchasing power standards (PPS))		7 300	9 000	9 200	9 800	10 400	10 100
GDP per capita (in PPS), relative to the EU average (EU-27 = 100)		30.0 s	30.9 s	30.8 s	31.6 s	32.5 s	33.0 s
Real GDP growth rate: change on previous year of GDP volume (%)		- 3.0	3.1	3.2	3.7	2.8	- 3.1
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		:	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2015 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		8.3	7.5	6.6	6.9	6.6	7.0
Industry (%)		20.5	22.6	23.3	23.9	23.1	23.0
Construction (%)		6.2	4.7	4.8	4.8	5.0	5.4
Services (%)		65.0 s	65.1 s	65.3 s	64.4 s	65.3 s	64.5 s
Final consumption expenditure, as a share of GDP (%)		107.9	99.1	96.7	94.3	93.0	94.0
Gross fixed capital formation, as a share of GDP (%)		23.7	20.7	21.9	22.8	23.0	22.4
Changes in inventories, as a share of GDP (%)		- 0.1	2.3	3.0	2.0	2.2	1.0
Exports of goods and services, relative to GDP (%)		25.0	36.3	40.9	42.6	40.6	34.5

Imports of goods and services, relative to GDP (%)		48.7	53.0	57.1	57.3	55.2	48.5
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

<b>Business</b>	Note	2009	2016	2017	2018	2019	2020
Industrial production volume index (2015 = 100)		89.9	104.4	107.7	109.5	103.5	96.7
Number of active enterprises (number)		:	67 205 e	68 761 b	68 085	67 981	66 873 pw
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	:	11.5 p	11.1 p	10.4 p	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	:	9.5 p	10.3 p	3.8 p	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	72.0 sw	69.5 bsw	69.1 sw	69.1 sw	:
Value added by SMEs (in the non-financial business economy) (EUR million)		:	5 043 sw	4 845 bsw	5 269 sw	5 780 sw	:
Total value added (in the non-financial business economy) (EUR million)		:	7 594 e	7 681 b	8 393	9 040	8 944 pw

<b>Inflation rate and house prices</b>	Note	2009	2016	2017	2018	2019	2020
Consumer price index (CPI), change relative to the previous year (%)	2)	- 0.4 w	- 1.6 w	0.8 w	1.4 w	0.6 w	- 1.1 w
**Annual change in the deflated house price index (2015 = 100)		:	:	:	:	:	:

<b>Balance of payments</b>	Note	2009	2016	2017	2018	2019	2020
Balance of payments: current account total (million euro)		:	- 727.9	- 777.3	- 559.3	- 503.5	- 657.5
Balance of payments current account: trade balance (million euro)		:	- 3 624.6	- 3 792.2	- 3 845.5	- 4 072.6	- 3 216.3
Balance of payments current account: net services (million euro)		:	1 082.7	1 191.0	1 335.6	1 428.0	771.9
Balance of payments current account: net balance for primary income (million euro)		:	20.7	- 134.6	- 99.6	- 59.0	- 151.2
Balance of payments current account: net balance for secondary income (million euro)		:	1 793.3	1 958.5	2 050.2	2 200.0	1 938.2
Net balance for primary and secondary income: of which government transfers (million euro)		:	20.8	35.9	15.1	51.2	39.6
**3 year backward moving average of the current account balance relative to GDP (%)		:	- 5.7	- 4.9	- 4.3	- 3.6	- 3.3
**Five year change in share of world exports of goods and services (%)		:	10.6	31.5	30.8	25.3	13.8
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)	3)	176.0 w	281.3 w	366.8 w	491.0 w	277.8 w	296.8 w
Foreign direct investment (FDI) abroad (million euro)	4) 3)	- 68.5 w	2.6 w	88.4 w	16.4 w	110.6 w	67.6 w

of which FDI of the reporting economy in the EU-27 countries (million euro)	5)	:	37.0 w	59.4 w	- 14.4 w	- 25.7 w	22.7 w
Foreign direct investment (FDI) in the reporting economy (million euro)	4) 3)	107.5 w	283.9 w	455.2 w	507.4 w	388.4 w	364.4 w
of which FDI of the EU-27 countries in the reporting economy (million euro)	3) 5)	153.6 w	229.2 w	292.7 w	290.8 w	109.7 w	230.5 w
**Net international investment position, relative to GDP (%)	4)	- 52.3 w	- 51.1 w	- 46.4 w	- 42.2 w	- 36.6 w	- 34.6 w
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	4)	8.1 sw	8.2 s	8.4 s	8.5 s	8.5 s	7.4 s

<b>Public finance</b>	Note	2009	2016	2017	2018	2019	2020
General government deficit / surplus, relative to GDP (%)		- 4.3 w	1.2 w	2.6 w	2.3 w	1.9 w	- 5.3 w
General government gross debt relative to GDP (%)	6)	25.2 w	40.5 w	36.1 w	34.1 w	32.7 w	36.6 w
Total government revenues, as a percentage of GDP (%)	6)	41.7 w	42.7 w	43.0 w	43.0 w	42.5 w	42.1 w
Total government expenditure, as a percentage of GDP (%)	6)	46.1 w	41.5 w	40.4 w	40.8 w	40.6 w	47.4 w

<b>Financial indicators</b>	Note	2009	2016	2017	2018	2019	2020
Gross external debt of the whole economy, relative to GDP (%)	4)	72.1 sw	71.2 sw	66.8 sw	66.0 sw	63.6 sw	64.9 sw
Gross external debt of the whole economy, relative to total exports (%)		288.5 w	195.9 w	163.4 w	153.9 w	155.6 w	186.3 w
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	7) 8)	2 835.5 w	4 755.5 w	5 405.6 w	6 209.7 w	6 775.2 w	7 697.6 w
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	7) 9)	6 498.1 w	10 326.9 w	11 307.9 w	12 368.7 w	13 463.7 w	14 443.5 w
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)	7) 10)	6 996.9 w	8 794.8 w	9 419.2 w	9 962.9 w	10 620.9 w	10 403.5 w
**Annual change in financial sector liabilities (%)	11) 12) 13)	- 2.6 w	5.5 w	8.3 w	9.1 w	8.0 w	3.7 w
**Private credit flow, consolidated, relative to GDP (%)	11)	- 3.8 w	1.7 w	3.4 w	3.3 w	3.8 w	- 1.2 w
**Private debt, consolidated, relative to GDP (%)	11)	63 w	58 w	58 w	58 w	59 w	59 w
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	14) 15)	7.93 w	5.20 w	4.38 w	3.79 w	3.29 w	3.05 w
Deposit interest rate (one year), per annum (%)	16) 17)	0.28 w	0.09 w	0.07 w	0.05 w	0.06 w	0.07 w

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, 42 countries (2015 = 100)	18)	98.67 w	100.87 w	101.58 w	103.27 w	103.35 w	105.08 w
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2015 = 100)	18)	0.02 sw	0.01 sw	0.00 sw	0.03 sw	0.02 sw	0.03 sw
Value of reserve assets (including gold) (million euro)	4)	3 176.2 w	4 873.2 w	5 427.0 w	5 944.1 w	6 441.1 w	7 091.0 w

<b>External trade in goods</b>	Note	2009	2016	2017	2018	2019	2020
Value of imports: all goods, all partners (million euro)		6 317	8 263	9 298	9 855	9 969	8 634
Value of exports: all goods, all partners (million euro)		2 828	4 815	5 653	6 085	5 876	5 379
Trade balance: all goods, all partners (million euro)		- 3 489	- 3 448	- 3 646	- 3 770	- 4 093	- 3 254
Terms of trade (export price index / import price index * 100) (number)	19)	:	101.6 sw	101.3 sw	102.7 sw	102.3 sw	105.6 sw
Share of exports to EU-27 countries in value of total exports (%)		70.6 s	71.0 s	70.4 s	72.2 s	72.3 s	72.4 s
Share of imports from EU-27 countries in value of total imports (%)		63.3 s	61.1 s	60.0 s	59.7 s	61.1 s	60.8 s

<b>Demography</b>	Note	2009	2016	2017	2018	2019	2020
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		- 0.1	- 1.8	- 2.0	- 2.4 p	:	:
Infant mortality rate deaths of children under one year of age (per thousand live births)		6.5	:	:	:	:	:
Life expectancy at birth: male (years)		:	:	:	:	:	:
Life expectancy at birth: female (years)		:	:	:	:	:	:

<b>Labour market</b>	Note	2009	2016	2017	2018	2019	2020
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)	20)	57.7 w	58.8 w	58.4 w	58.4 w	59.0 w	62.3 bw
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)	20)	44.2 w	44.2 w	46.6 w	47.7 w	49.7 w	52.5 bw
Male employment rate for persons aged 20–64 (%)	20)	56.5 w	56.4 w	58.1 w	59.5 w	61.6 w	64.9 bw
Female employment rate for persons aged 20–64 (%)	20)	32.3 w	32.0 w	35.1 w	35.8 w	38.0 w	40.0 bw
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)	20)	26.5 w	29.7 w	32.5 w	32.6 w	36.2 w	35.4 bw
Employment by main sectors							

Agriculture, forestry and fisheries (%)	20)	:	18.0 w	18.9 w	15.7 w	18.0 w	12.0 bw
Industry (%)	20)	:	22.7 w	22.2 w	23.5 w	23.8 w	33.4 bw
Construction (%)	20)	:	8.6 w	7.3 w	8.7 w	7.9 w	9.4 bw
Services (%)	20)	:	50.8 w	51.6 w	52.1 w	50.3 w	45.3 bw
People employed in the public sector as a share of total employment, persons aged 20–64 (%)	20) 21) 22)	17.2 w	17.8 w	18.4 w	18.4 w	17.2 w	19.1 bw
People employed in the private sector as a share of total employment, persons aged 20–64 (%)	20) 21) 22)	82.8 w	82.2 w	81.6 w	81.6 w	82.8 w	80.9 bw
Unemployment rate: proportion of the labour force that is unemployed (%)	20)	24.1 w	25.5 w	20.7 w	18.5 w	15.9 w	15.9 bw
Male unemployment rate (%)	20)	23.2 w	22.6 w	19.0 w	17.3 w	13.8 w	14.2 bw
Female unemployment rate (%)	20)	25.7 w	30.2 w	23.3 w	20.5 w	19.0 w	18.6 bw
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)	20)	48.7 w	54.3 w	45.8 w	38.8 w	33.8 w	36.6 bw
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)	20)	20.1 w	21.7 w	17.0 w	15.2 w	12.1 w	11.9 bw
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)	20)	26.5 w	26.2 w	19.5 w	19.1 w	:	19.5 bw
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)	20)	9.1 w	18.9 w	14.6 w	13.9 w	10.9 w	10.9 bw

<b>Social cohesion</b>	Note	2009	2016	2017	2018	2019	2020
Average nominal monthly wages and salaries (national currency)	23)	790 w	838 w	851 w	879 w	921 w	956 w
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2016 = 100)		:	:	:	:	:	:
GINI coefficient		:	:	:	:	:	:
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 (%)	20)	7.4 w	4.9 w	5.1 w	5.4 w	3.8 w	4.7 w

<b>Standard of living</b>	Note	2009	2016	2017	2018	2019	2020
Number of passenger cars relative to population size (number per thousand population)	24)	180.5 sw	245.0 sw	252.0 sw	263.1 sw	269.5 psw	:

Number of mobile phone subscriptions relative to population size (number per thousand population)		830.7 ew	981.1 w	981.7 w	989.9 w	1 075.5 w	1 010.0 w
Mobile broadband penetration (per 100 inhabitants)		:	40.4 w	43.4 w	52.7 w	44.7 w	46.7 w
Fixed broadband penetration (per 100 inhabitants)		:	19 w	19 w	20 w	21 w	22 w

<b>Infrastructure</b>	Note	2009	2016	2017	2018	2019	2020
Density of railway network (lines in operation per thousand km <sup>2</sup> )	1)	19.9 sw	19.9 sw	19.9 sw	19.9 sw	19.9 sw	19.9 sw
Length of motorways (kilometres)		35 w	163 w	172	198	208	218

<b>Innovation and research</b>	Note	2009	2016	2017	2018	2019	2020
Public expenditure on education relative to GDP (%)		:	4.3 sw	4.1 sw	3.9 sw	4.0 sw	:
*Gross domestic expenditure on R&D relative to GDP (%)		:	0.24 sw	0.20 sw	0.19 sw	0.19	:
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	0.04	0.04	0.06	0.09	0.09
Percentage of households who have internet access at home (%)		:	:	:	69.0	72.0	73.0

<b>Environment</b>	Note	2009	2016	2017	2018	2019	2020
*Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)		69.4 w	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2015 constant prices)		:	448.8	434.2	463.4	435.7	442.5
Electricity generated from renewable sources relative to gross electricity consumption (%)		38.9	40.8	39.6	41.5	45.5	:
Road share of inland freight transport (based on tonne-km) (%)	25)	:	76.6 w	78.9 w	78.7 w	77.4 w	78.8 w

<b>Energy</b>	Note	2009	2016	2017	2018	2019	2020
Primary production of all energy products (thousand TOE)		:	4 742	4 624	5 672	5 405	5 237
Primary production of crude oil (thousand TOE)		:	0	0	0	0	0
Primary production of solid fuels (thousand TOE)		:	3 520	3 612	3 659	3 403	3 329
Primary production of gas (thousand TOE)		:	0	0	0	0	0
Net imports of all energy products (thousand TOE)		:	2 133 s	2 299 s	1 814 s	1 979 s	1 806 s
Gross inland energy consumption (thousand TOE)		:	6 767	6 754	7 478	7 230	7 109

Gross electricity generation (GWh)		:	17 767	16 438	19 160	17 493	16 874
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<b>Agriculture</b>	Note	2009	2016	2017	2018	2019	2020
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		:	:	:	:	:	:
Utilised agricultural area (thousand hectares)		1 734.5 e	1 778.8 e	1 762.0 e	1 779.6 e	1 806.3 e	:
Livestock numbers: live bovine animals (thousand heads, end of period)		:	455.0 e	445.0 e	438.0	430.0 e	427.0 e
Livestock numbers: live swine (thousand heads, end of period)		:	545.0 e	548.0 e	542.0 e	543.0 e	547.0 e
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	1 091.0 s	1 090.0 s	1 085.0 s	1 085.0 s	1 085.0 s
Raw milk available on farms (thousand tonnes)		:	:	:	:	:	:
Harvested crop production: cereals (including rice) (thousand tonnes)		1 407.9 e	1 677.5 e	1 176.9 e	1 764.1 e	1 685.6 e	1 966.8 e
Harvested crop production: sugar beet (thousand tonnes)		0.0	0.0	0.0	0.0	0.0	0.0
Harvested crop production: vegetables (thousand tonnes)		271.0 e	361.4 e	291.5 e	298.7 e	298.8 e	323.7 e

**Source: Eurostat and the statistical authorities in Bosnia and Herzegovina**

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

w= data supplied by and under the responsibility of the national statistical authority and published on an "as is" basis and without any assurance as regards their quality and adherence to EU statistical methodology

\* = Europe 2020 indicator

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

Footnotes:

- 1) Inland waters estimated at 210 km<sup>2</sup>.
- 2) Consumer price inflation
- 3) Based on IMF balance of payments manual, Asset - Liability Approach
- 4) Based on IMF balance of payments manual, sixth edition.

- 5) Based on IMF balance of payments manual, sixth edition and OECD Benchmark Definition of Foreign Direct Investment - 4th edition
- 6) End of year (31 December).
- 7) Based on IMF Monetary and Financial Statistics Manual, 2000.
- 8) M1 money supply comprises cash outside banks and transferable deposit in domestic currency of all domestic sectors (except central government deposits).
- 9) M2 money supply is comprised of money supplies, M1 money and QM quasi money. QM money supplies covers other deposits in domestic currency, transferable and other deposits in foreign currency of all domestic sectors (except the deposits of the central government).
- 10) In accordance with the Decision on Credit Risk Management and Determination of Expected Credit Losses, from supervisory body, since January 1, 2020, commercial banks have re-recorded some of the bank's balance sheet receivables on of balance sheet records, which caused a decrease in loan of approximately 400 million KM in private enterprises and household sectors.
- 11) Data for monetary financial institutions.
- 12) The Central Bank of Bosnia and Herzegovina started with other financial corporation statistics from 2006.
- 13) Includes data for the central bank and other banks for the end of December 2018, while data for other financial institutions are given for the end of June 2018.
- 14) Short-term lending rates in national currency to non-financial corporations (weighted average).
- 15) Data are revised due to correction at few banks.
- 16) Demand deposit rates in national currency of households (weighted average).
- 17) Data for December 2018.
- 18) Revision: NEER base period 2010=100
- 19) Paasche export and import unit value indices
- 20) Since January 2020, the Labour Force Survey in Bosnia and Herzegovina has been conducted continuously, throughout the year, with quarterly data release. Also, from 2020 the procedure of weight calibration according to population estimates by five-year age groups and sex is carried out.
- 21) The public sector includes NACE Rev. 1.1 Sections L, M and N while the private sector includes other NACE Sections.
- 22) The public sector includes NACE Rev. 2 Sections O, P and Q while the private sector includes other NACE Sections.
- 23) Net earnings.
- 24) Excluding Brcko District.
- 25) Data not collected on inland waterways. Road share of inland freight transport based on road and rail transport.