

Bosnia and Herzegovina Country Strategy

2017-2022

as approved by the Board of Directors on 5 July 2017



European Bank
for Reconstruction and Development

Table of Content and Glossary

Table of Content

Executive Summary	3
Bosnia and Herzegovina – EBRD Snapshot	4
I. Implementation of Previous Strategy – 2014-2016	5
Key Transition Results Achieved during Previous Strategy Period	5
Challenges to Implementation and Key Lessons	7
II. Economic Context	8
Macroeconomic Context and Outlook for Strategy Period	8
Key Transition Challenges	9
III. Government Priorities and Stakeholder Engagement	11
IV. Defining EBRD B&H Country Strategy Priorities	12
V. Country Strategy Results Framework	13
VI. Mapping of International Partners Complementarity in EBRD Business Areas	16
VII. Implementation Risks and Environmental and Social Implications	17
VIII. Donor Co-Financing Assessment	18
Annex – Political Assessment	20

Glossary of Key Terms

ABI	Annual Business Investment	SOE	State Owned Enterprise
ASB	Advisory for Small Businesses	PFI	Partner Financial Institution
B&H	Bosnia and Herzegovina	PPP	Purchasing Power Parity
COOs	Countries of Operation	PPPs	Private-Public Partnerships
EBRD	European Bank for Reconstruction and Development	PTI	Portfolio Transition Impact
EFF	Extended Fund Facility	WB	Western Balkans
EIB	European Investment Bank	WBIF	Western Balkans Investment Framework
ESCO	Energy Service Company	WEF	World Economic Forum
ETI	Expected Transition Impact	WiB	Woman in Business Programme
EU	European Union		
E&S	Environmental and Social		
FDI	Foreign Direct Investment		
FI	Financial Institutions		
GEFF	Green Economy Financing Facility		
GET	Green Economy Transition		
GHG	Greenhouse Gas		
ICT	Information and Communications Technology		
IEA	International Energy Agency		
ICGI	Investment Climate and Governance Initiative		
IFC	International Finance Corporation		
IFI	International Financial Institution		
IMF	International Monetary Fund		
IPA	Instrument for Pre-Accession Assistance		
ODA	Official Development Assistance		
NPL	Non Performing Loan		
RA	Reform Agenda		
SMEs	Small and Medium Enterprises		

Strategy for Bosnia and Herzegovina – Executive Summary

Bosnia and Herzegovina is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development (“the Bank”), although the intricacy of the country’s constitutional setup affects the functioning of the state and that of its democratically elected institutions.

The country’s economy has been relatively resilient in the past decade to the fallout from various economic crises and shocks, including the global crisis of 2007-09, the Eurozone crisis in 2012 and the major floods that affected Western Balkans in 2014. However, economic growth has been slow on average in recent years, reflecting the challenging business environment, modest growth in main export markets and the slow pace of reforms. In July 2015, the authorities at all levels, in close co-operation with the European Union and international financial institutions, including the EBRD, have adopted a detailed Reform Agenda. This was followed by the submission in February 2016 of an application for EU membership, and the signing in September 2016 with the International Monetary Fund of a three-year €553.3 million extended arrangement under the Extended Fund Facility. This renewed commitment to reforms and EU approximation opens up new opportunities for the Bank to deepen its support for Bosnia and Herzegovina’s transition to a sustainable market economy.

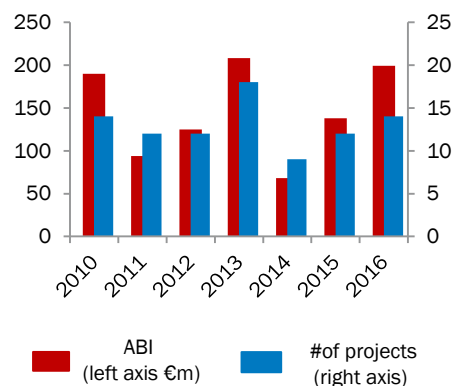
Bosnia and Herzegovina faces major challenges in all six transition qualities identified by the Bank as key components of a sustainable market economy, namely competitive, well-governed, green, inclusive, resilient and integrated. In light of the country’s Reform Agenda, the Bank’s comparative advantages relative to other international financial institutions and donors point to a close involvement in improving the country’s **competitiveness** and enhancing its **integration** in the region, as well as reinforcing the **resilience** of the economy by enhancing energy security. **Green economy transition** will be an important element of the Bank’s engagement, given the high energy intensity of B&H economy and the low level of energy efficiency in both the industrial and the residential sectors. In addition, in light of the major inclusion challenges, the Bank will promote inclusive growth at the project level. With that in mind, the Bank is set to pursue the following strategic priorities in Bosnia and Herzegovina in 2017-2022:

- Enable capacity-building and scaling up of the private sector, while promoting commercialisation of public utilities, and supporting privatisation of viable state-owned enterprises to enhance Competitiveness
- Support development of key transport and energy cross-border links with a view to promote Integration with the region while enhancing Resilience of the economy, and
- Support energy efficiency and renewable energy generation, while helping municipalities upgrade quality of services to promote Green Economy.

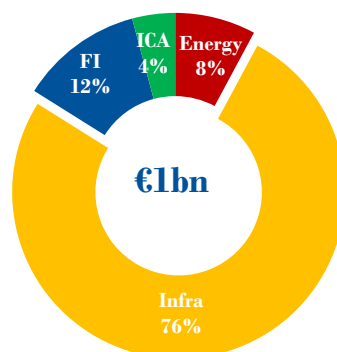
Bosnia and Herzegovina – EBRD Snapshot

The Bank's has been operating in Bosnia and Herzegovina since 1996, with more than €2 billion invested.

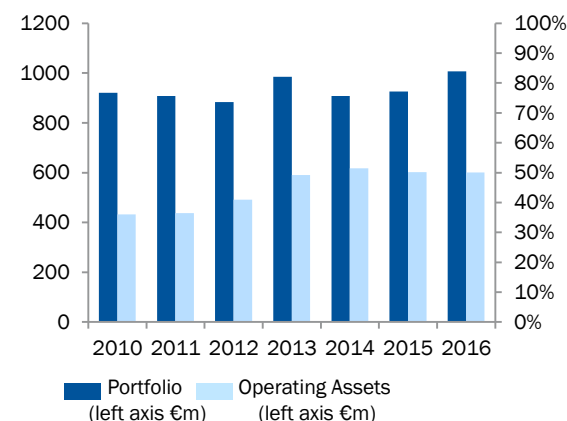
Annual Business Investment and Operations



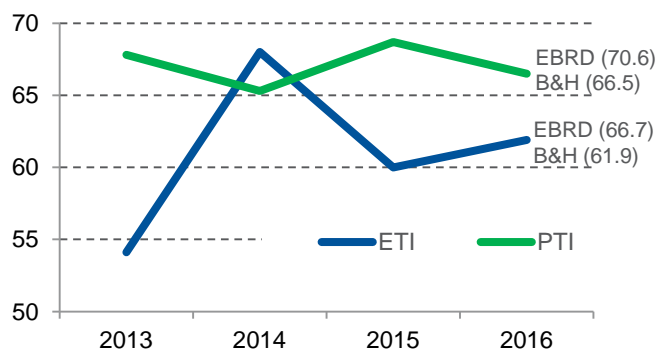
Portfolio Composition



Portfolio Dynamics



Transition Impact



EBRD Investment Activities in B&H

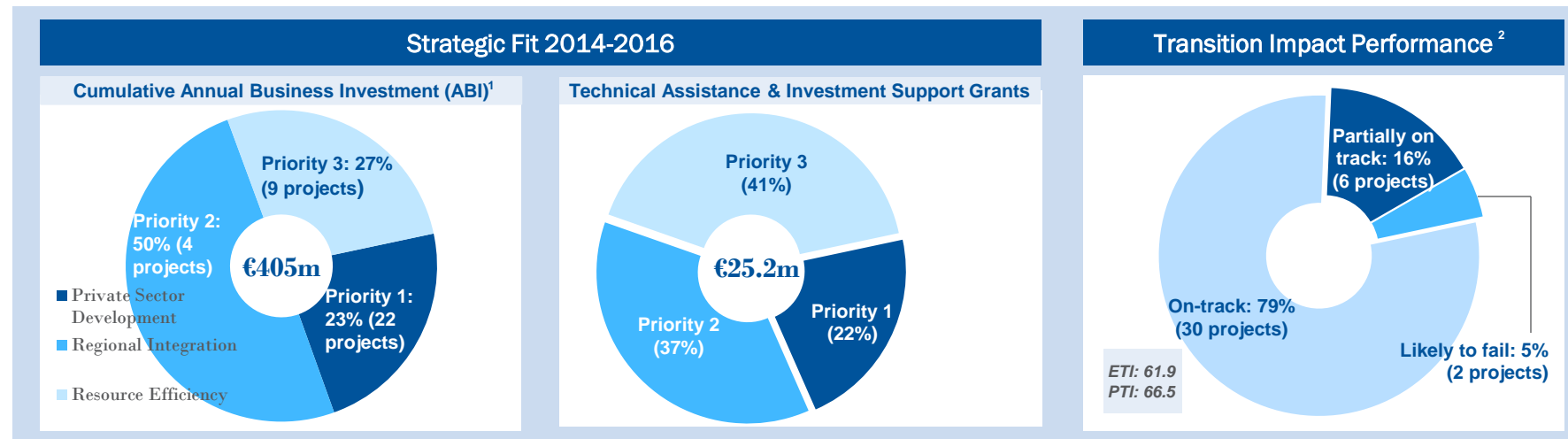
Portfolio	€1,007m	# of active projects	59
Private share	27.7%	Operating assets	€601m
# of private projects	34 (57.6% of portfolio)	Net cumulative investment	€2,010m
NPLs	0.48%		

1. Implementation of Previous Strategy – 2014-2016



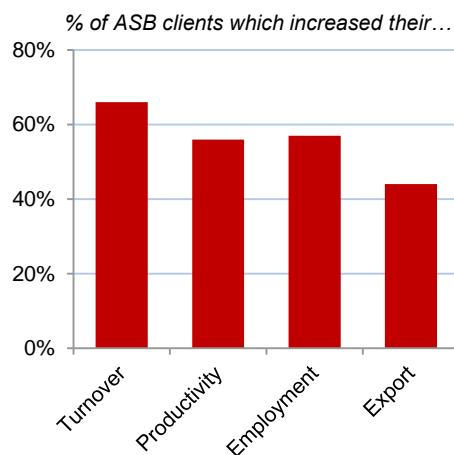
European Bank
for Reconstruction and Development

1.1. Key Transition Results Achieved during Previous Strategy Period



Priority 1: Restructuring and expansion of the local private sector

Advice for Small Businesses (ASB)³



Key Transition Results

- B&H's profile as an investment destination raised via EBRD-supported investment by KKR in the ICT provider Telemach.
- Increased competition in the agribusiness/retail sectors supported through a loan to a local retailer.
- 26 per cent median turnover increase in local companies supported by ASB over 2014-6, with employment up by 24 per cent.

1. Implementation of Previous Strategy – 2014-2016



European Bank
for Reconstruction and Development

1.1. Key Transition Results Achieved during Previous Strategy Period

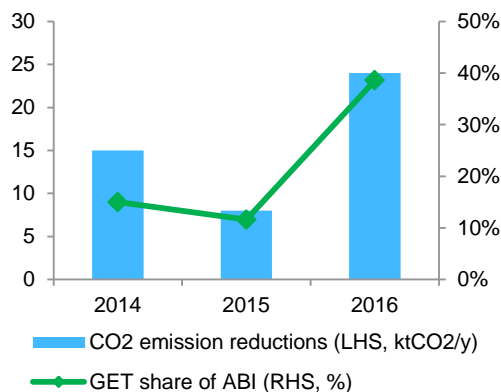
Priority 2: Forging closer linkages with wider regional markets

Key Transition Results

- Improved regional integration through EBRD funding Corridor Vc motorway.
- Further development of a regional power market through B&H's joining the regional transmission capacity auction office in Montenegro (Bank-supported).
- Credit lines provided to local banks to help local companies meet EU standards thus improving their competitiveness and raising quality standards.

Priority 3: Promoting a more efficient and sustainable use of resources

Green Economy Transition (GET)



Key Transition Results

- Progress in enacting legislative framework for promotion and development of renewable energy in both entities; feed-in tariffs introduced.
- CO₂ emissions decreased by 47 Kt/year with energy savings of 649,850 GJ/y with the Bank's help.
- Demonstrable commercialisation of district heating, water supply and waste water treatment through EBRD's projects.

1. Implementation of Previous Strategy – 2014-2016



European Bank
for Reconstruction and Development

1.2. Challenges to Implementation and Key Lessons

Context for implementation: Transition constrained by the complexity of constitutional structure. Progress made with reform in both entities (flexibility of labour market improved through new legislation and new bankruptcy laws enacted). Privatisation of SOEs has lagged behind, with challenging business climate impeding SMEs' activities. Damages from the 2014 floods partially offset by large-scale regional transport infrastructure projects (especially the Corridor Vc motorway). The Bank engaged with reform-minded local governments in commercialising municipal service providers and deployed carefully targeted products to reach SMEs.

Implementation Challenges and Opportunities

- Progress impeded by difficult business climate, weak rule of law, inconsistent commitment to reform.
- Privatisation process in the Federation effectively stalled.
- Corporate sector shallow, constrained by lack of skills, weak corporate governance.
- Banking sector liquid and risk-averse with NPLs reduced but still significant, reduced interest in generic SME offerings.
- Road sector reforms set back by a pilot PPP project cancellation, progress made in regional power interconnection.
- FDI deterred by political risk, complex governing structure, weak regulatory frameworks.
- Strategy delivery vulnerable to external shocks, e.g., floods.
- Reform acceleration impetus created by the government's Reform Agenda, IMF facility, EU membership prospect.
- Strong coordination with the authorities and IFIs on prioritisation of investment projects (especially in the transport and energy sectors).

Key Lessons

- Meaningful privatisation, although powerful enabling factor, will likely remain a best-case scenario in the near-term. Only persistent advocacy and firm external pressure in concert with other key players, in combination with heightened internal need, may bring it about.
- Engagement with carefully selected SMEs that stand a chance of scaling up through a tailored combination of ASB advisory and investment should produce demonstration effect.
- Provision of targeted (e.g., Women in Business) lending frameworks can work well in risk-averse environment.
- Regional connectivity projects that pass through B&H can be leveraged to enhance engagement.
- Uncommercial, loss-making municipal utilities can be assisted in introducing cost recovery in tariffs and improved operational efficiency, subject to local political commitment.

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

The economy has been relatively resilient over the past 15 years, but has grown at a rate below the regional average.

B&H main macroeconomic indicators					
	2012	2013	2014	2015	2016*
GDP growth (% y-o-y)	-0.9	2.4	1.1	3.0	2.0
CPI inflation (% avg.)	2.1	0.1	-0.9	-1.0	-1.1
Government balance (% of GDP)	-2.7	-1.9	-2.9	-0.2	0.0
Current account balance (% of GDP)	-8.7	-5.3	-7.4	-5.7	-5.6
Net FDI (% of GDP)	1.9	1.4	2.6	1.4	2.2
External debt (% of GDP)	62.7	61.7	63.7	63.7	63.3
Gross reserves (% of GDP)	24.8	26.4	28.7	33.3	30.5
Total investment to GDP (% of GDP)	17.4	16.7	18.6	16.0	n.a.
General government gross debt (% of GDP)	44.3	43.5	44.0	44.7	44.2
Private sector credit (% of GDP)	56.3	56.6	56.4	54.9	55.5
Unemployment (%)	28.0	27.5	27.5	27.7	25.4
Nominal GDP (€ bn)	14.1	14.4	14.4	15.1	15.3

- Economy resilient to internal and external shocks, but growth sluggish.
- Full convergence with EU living standard a distant prospect, as current GDP per capita (PPP-adjusted) is 30% of the EU average.
- Economy diversified, with high productivity by region's standards, reflecting B&H's industrial past, but lacking export sophistication.
- SMEs dominate the economy, but the environment for small businesses is difficult, with many lacking access to finance.
- GDP growth estimated at around 2.0% in 2016, boosted by large projects in transport (corridor Vc motorway) and energy.
- Further annual growth of about 3% expected in near-term.
- Medium-term growth prospects could be enhanced subject to implementation of the government's reform agenda.
- Privatisation a potential reforms catalyst.
- EU approximation advancement would increase growth.
- Economy vulnerable to political uncertainty, Eurozone slowdown, and delays in implementation of IMF programme.

2. Economic Context

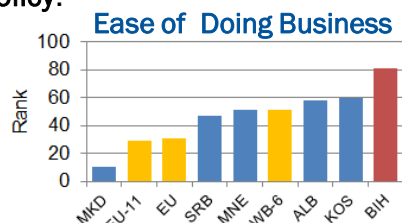
2.2 . Key Transition Challenges¹



European Bank
for Reconstruction and Development

Competitiveness

- **Constitutional structure** complicates implementation of reforms.
- **Perception of political instability** discourages long-term investment, FDI.
- **Heavy state presence** in the economy creates inefficiencies; **privatisation** in the Federation stalled, with further procrastination eroding value of presently viable SOEs.
- **Informal sector** around 30-50% of GDP.
- SMEs, innovative firms **lack access to finance**.
- **Quality** standards, operational practices below EU norms.
- **Productivity** above region's average but well below EU standards.
- **Low value added economy**, despite industrial legacy.
- Limited enforcement of **competition policy**.

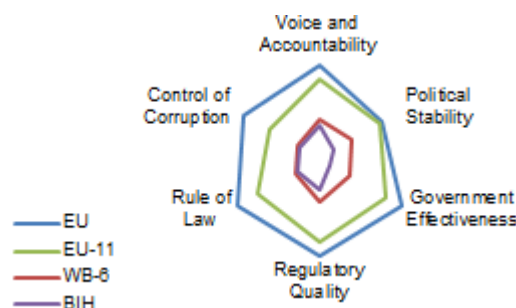


Source: The World Bank's Doing Business 2017 Report

Governance

- **Public governance** adversely affected by weak institutional, policy, administrative and legal environment.
- **Corporate governance framework** suffers from lack of internal control and deficient functioning of boards.
- **Corruption** perceived to be widespread and persistent.
- **Political connections** viewed by many as key to success.
- **Low standards of professional management** hold back growth.
- **Complex legal environment**, with key regulatory frameworks (e.g., PPP) lacking clarity.

Governance Indicators

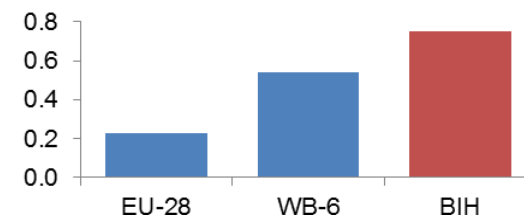


Source: The World Bank's Worldwide Governance Indicators database

Green Transition

- **Energy and carbon intensity** high by Western Balkans standards and far above the EU average.
- **Continuous development of coal fired power plants** may add to climate change problems.
- Economy exposed to **climate change-related effects (especially floods)**.
- Risk of increased **transport-related emissions** as road network develops.
- Significant energy savings potential, but **institutional framework lacking**.
- **High levels of outdoor air pollution**, sub-par **waste management**.

Carbon Intensity (CO2 emissions per unit of GDP)



Source: International Energy Agency, Authors' calculations

1. See EBRD Bosnia and Herzegovina Country Diagnostic for more details.

2. EBRD World Bank BEEPS Indicators (% of credit-constrained firms 12.8 (2013), % of management's time spent on dealing with regulations 15.7 (2013), % of firms that consider corruption to be the main obstacle 7.8 (2013).

2. Economic Context

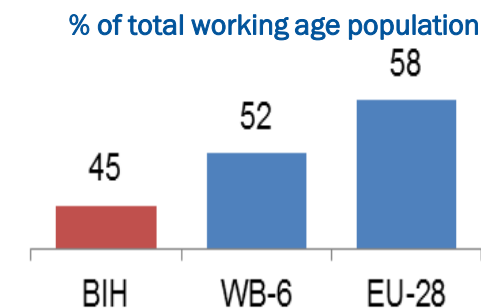
2.2 . Key Transition Challenges



European Bank
for Reconstruction and Development

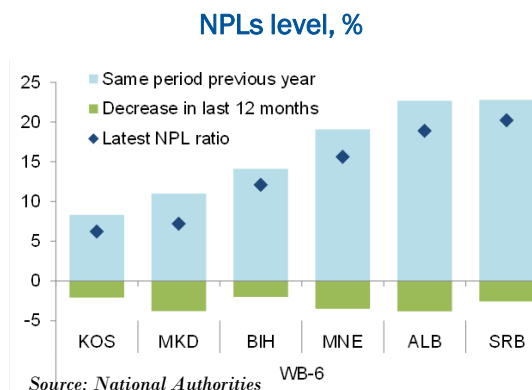
Inclusion

- **Share of population in employment** lowest in the EBRD region, overall labour participation rate low.
- High level of **youth unemployment**, close to 60 per cent¹. **Female unemployment rate** close to 32 per cent.
- **Educational levels** below EU standards, companies vie for qualified workers.
- Significant **gender inclusion gaps** with respect to employment and starting/owning business.
- Large **regional gaps** with respect to quality of institutions.
- Male and female labour force participation (15+, 2015, ILO estimates) at 55.1 and 33.5 per cent, respectively, lowest in region.



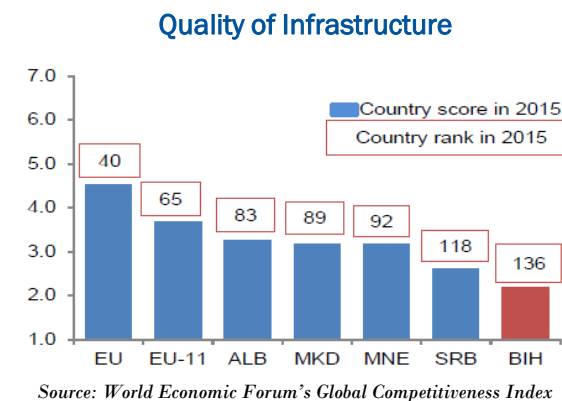
Resilience

- Economy proved **relatively resilient** overall to internal and external shocks.
- **Banking sector** highly liquid, but **capital adequacy** below regional standards.
- Local currency pegged to Euro under **currency board**, mitigating exchange risks.
- **NPLs**, while declining, remain significant (12%).
- Development of **non-banking financial sector** nascent.
- **Flood damage** extensive in recent years.
- **Excessive dependence on Russian gas** hampers energy security.



Integration

- Internal and cross-border, integration hampered by **poor-quality transport infrastructure** (roads in particular).
- Integration in energy markets below potential.
- Trade openness well below EU average, **non-tariff barriers to trade persistent**.
- B&H poorly integrated into **global value chains**.
- **FDI low** by regional standards, **exports lack sophistication** (except auto parts).



1. Source: International Labour Organisation

3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

- Public finance, taxation and fiscal stability; business climate and competitiveness (including privatisation and restructuring of SOEs); rule of law and good governance; labour market, and public administration targeted by the **2015 Reform Agenda**, with IMF's EFF and the World Bank's Development Loan (DPL) underpinning.
- **Privatisation** targeted as part of business climate and competitiveness. **Privatisations in the telecom sector**, as well as to large industrial companies in the Federation RA are of particular relevance.
- RA's stated objective to **downscale the public sector** conducive to privatisation momentum.
- Integration would benefit from intended **railway restructuring** in both entities.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- EBRD, IFC as two lead IFIs helping the B&H Government implement Business Climate and Competitiveness component of the Reform Agenda:
 - Broad agreement on the importance of re-energising privatisation, with the telecom sector a priority.
 - Initial support for the EBRD Investment Climate and Governance Initiative, including Investor Councils.
 - Agreements with reform-minded municipalities on commercialisation of municipal utilities, with sovereign support expected.
 - Possibility of getting involved in the railway sector restructuring.
- Recognition of the importance of advancing B&H's regional integration through developing vital internal and external transport links.

3.3. Key Messages from Civil Society to EBRD

- Social and economic exclusion and poverty persist, high youth unemployment particularly problematic.
- Strong and sustainable development of the SME sector needed.
- Environmental Impact Assessments for hydro power plants projects to be enhanced.
- Renewable energy diversification (solar and wind) needed.

4. Defining EBRD B&H Country Strategy Priorities

What needs to change? (Section 2)

Can it be changed? (Section 3)

What can the Bank do? (Section 4)

- Lack of shared vision, fragmented policy making and complicated procedures for decision making impedes implementation of reform agenda
- Competitiveness held-back by heavy state presence
- Business climate not conducive to private sector growth
- Informality, corruption hinder private sector
- Poor corporate governance deters investment, hinders competitiveness
- Managerial capacity lacking

- New Reform Agenda conducive to bringing about change, additional leverage from re-engagement with EU
- Best SMEs seek EBRD's support to improve capacity and scale up
- Support from reform-minded municipal government champions
- Re-energising privatisation process, while challenging task in itself, would help improve competitiveness, governance

- Combination of investment and ASB assistance enables direct engagement with select SMEs to improve capacity, governance
- EBRD competitive in targeted products (e.g. WIB, Competitiveness Facility) for SMEs
- Solid track record in commercialisation of municipal companies through investment and performance improvement technical assistance
- EBRD well-positioned to take on visible role in flagship viable privatisation projects, as they occur, due to its brand, combination of investment and privatisation advisory
- Investment Climate and Governance Initiative (ICGI) to improve investment climate

- Poor transport infrastructure impedes internal and regional integration
- Intra- and inter-regional energy connectivity needs to be enhanced
- Exposures to climate change-related factors

- Regional transport connectivity agenda, Berlin process
- Corridor Vc motorway is key to providing access to EU markets
- Authorities keen to improve regional links
- Third Energy Package
- Establishment of WB Coordination Auction Office

- EBRD well-positioned to provide funding in combination with IFI partners to help narrow the infrastructure gap while promoting private sector participation

- High carbon intensity
- Low efficiency of supply and usage of energy
- Sustainability of municipal services needs improvement
- Low energy conservation
- High air pollution levels

- Regional renewable energy, energy efficiency initiatives
- Energy directives from EU
- Local governments keen to improve municipal services

- Considerable experience in municipal projects with explicit environmental and resource-efficiency objectives
- "Green cities" initiative
- Frameworks for energy efficiency and renewable energy

Strategic Priorities (2017-2022)

What We Want to See in 2022

Enable capacity-building and scaling up of the private sector, while promoting commercialisation of public utilities, and supporting privatisation of viable state-owned enterprises to enhance Competitiveness.

- Robust and capable SME/corporate sector (including women-led companies)
- Improved skills and quality standards for SMEs
- Improved investment climate
- Decreased state ownership
- Commercialised and efficient municipal services

Support development of key transport and energy cross-border links to promote Integration with the region while enhancing Resilience of the economy.

- Improved quality/availability and equal access to of transport infrastructure
- Improved regional connectivity of energy infrastructure
- Improved climate resilience of transport infrastructure

Support energy efficiency and renewable energy generation, while helping municipalities upgrade quality of services to promote Green economy.

- Increased power generation from renewable sources
- Increased energy efficiency in the residential and public sector
- Improved water efficiency, waste water treatment
- Reduced air pollution
- Improved road safety

5. Country Strategy Results Framework

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

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> • Robust and capable SME/corporate sector (including women-led companies) • Improved skills, capacity and quality standards for SMEs 	<ul style="list-style-type: none"> ▪ Provision of specialised SME on-lend frameworks (to complement general purpose SME lending) via partner banks, e.g., scaling up Women in Business and rolling out EU Competitiveness Facility, direct engagement with bankable private corporates. ▪ Demonstration of best practices via broad engagement with select (“Blue Ribbon”) SMEs, using ASB advisory and investment to enhance core competencies and build capacity with a view to scale-up organically and, potentially, via acquisition. 	<ul style="list-style-type: none"> • Vol./num. of outstanding SME loans in PFIs (<i>baseline 2016: vol. H1 2016 €92,619,291, 6 PFIs</i>) • Vol/num. of outstanding direct loans to corporates • Vol. of outstanding loans to PFIs under WiB programme (<i>baseline 2016: vol. H1 2016 €1,365,572</i>) • % of ASB assisted companies that achieved increased turnover (<i>baseline 2016: 75%</i>)
<ul style="list-style-type: none"> • Decreased state ownership and enhanced competition • Commercialised municipal services 	<ul style="list-style-type: none"> ▪ In alignment with key players, consistent privatisation advocacy. Selective participation in flagship privatisations of viable SOEs as they occur. ▪ Promotion of improved governance, financial and operational performance improvement of municipal utilities, as well as private sector participation (including, if feasible, PPPs) as an integral element of engagement with reform-minded municipalities. 	<ul style="list-style-type: none"> • Reduction of state ownership to minority stake in supported SOEs (<i>qualitative account - baseline established at project approval</i>) • Tariffs reach target level (<i>baseline – established at project approval</i>) • Improved operational/financial performance measures in supported municipal companies (profitability, efficiency, collection rate) (<i>baseline – established at project approval</i>)
<ul style="list-style-type: none"> • Improved business environment 	<ul style="list-style-type: none"> ▪ Business climate improvement advocacy through ICGI and Investor Council, leveraging the designation as a lead institution (with IFC) under the Business Climate Improvement chapter of the Reform Agenda. 	<ul style="list-style-type: none"> • Improvements in corporate governance and business standards in supported SOEs (<i>qualitative account – baseline N/A</i>)

5. Country Strategy Results Framework

Support development of key transport and energy cross-border links with a view to promote **Integration** with the region while enhancing **Resilience** of the economy

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> Improved quality/availability of transport infrastructure 	<ul style="list-style-type: none"> Subject to political commitment, investment in support of physical improvement of the Core Network (road, rail, air, waterways), including the key Corridor Vc motorway, through sovereign debt and, where feasible, PPP structures. Advisory on soft policy reforms agreed under the Western Balkans Six connectivity agenda and on prioritisation of investment projects under the Western Balkans Investment Framework. Support for the restructuring via commercialisation of the railway sector, as part of Reform Agenda, in co-operation with World Bank. Promotion of climate resilience-related improvements (with the emphasis on local roads) and safety measures for the road sector. 	<ul style="list-style-type: none"> Net increase in the throughput of infrastructure (annual tonnage or pax, km of road or railway with Bank's assistance) (<i>baseline 0</i>)
<ul style="list-style-type: none"> Improved regional connectivity of energy infrastructure 	<ul style="list-style-type: none"> Subject to political commitment, financing new electricity transmission lines and interconnectors, potentially including additional transmission capacity from Banja Luka to Croatia, as well as new interconnection between the grids of Serbia, B&H and Montenegro. Provision of investment-linked advisory to improve power purchase agreement (PPA) regulation. Policy dialogue to develop EU-compliant energy laws inter alia to enable access to grant funding, including adoption of a country-wide energy strategy and that of a compliant legal framework for electricity and gas. Potential assistance in developing gas interconnectors as the opportunity arises. 	<ul style="list-style-type: none"> Volume of electricity traded with neighbouring countries with Bank's assistance (<i>baseline established at project approval</i>) Improved performance of power transmission company (efficiency, capacity) (<i>baseline established at project approval</i>) Compliance with Third Energy Package requirements supported by the Bank advisory (EU-compliant energy laws including adoption of a country-wide energy strategy and compliant legal framework for electricity and gas (<i>baseline N/A</i>))

5. Country Strategy Results Framework

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



European Bank
for Reconstruction and Development

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> Increased power generation and co-generation from renewable sources Improved efficiency of distribution 	<ul style="list-style-type: none"> Pursuit of bankable renewable energy generation projects with reputable sponsors, leveraging, if possible, regional Western Balkans energy schemes. Support in the rehabilitation of existing grids to stem electricity losses. Subject to prerequisite interconnections in place, consider possible assistance in promoting gasification. Advisory to improve regulatory frameworks for renewable energy. 	<ul style="list-style-type: none"> Renewable energy generated, supported by the Bank, (MWh/y) (baseline 2016: 12,000 MWh/y)
<ul style="list-style-type: none"> Increased energy efficiency 	<ul style="list-style-type: none"> Further deployment of Western Balkans GEFF to promote residential energy efficiency, while continuing industrial energy efficiency support. Trial direct lending for energy efficiency in the public sector. Support of ESCO solutions to improve energy efficiency, including for municipal services and in public buildings. Advisory to improve energy efficiency regulatory framework. 	<ul style="list-style-type: none"> GHG emission reduction, supported by the Bank, (ktCO2/y) (baseline 2016: 24 ktCO2/y)
<ul style="list-style-type: none"> Improved water quality Reduced air pollution 	<ul style="list-style-type: none"> Support for improvements in municipal infrastructure aimed at decreasing water losses. Support for construction and modernisation of waste water treatment plants and co-generation in district heating systems. Promotion of non-polluting public transport, also in conjunction with the “green cities” initiative. 	<ul style="list-style-type: none"> Water saved (m3/y), supported by the Bank (baseline 2016: 0) Number of people (m/f) benefiting from better infrastructure services (baseline 0)

6. Mapping of International Partners Complementarity in EBRD Business Areas



European Bank
for Reconstruction and Development

EBRD BUSINESS AREAS																						
		Sectors														Cross-Cutting Themes						
		Corporate				Energy		Infrastructure				Financial				Green Transition			Inclusion			
Indicative annual investment/ grants (2013-2015 average, excluding budget support,€ million)		Agribusiness	General Industry	Real Estate	ICT	Natural Resources	Electric Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Regional Development
EIB	128						€			€P		€		€					€			
World Bank	79	€		€P				€		€	€								€P			
KfW	54						€	€				€		€			€		€			
EU	43													€P					€P	€P	€P	€P
USAID	26	€		€P			P					€							P		€P	€P
IFC	16		€P	€								€		€					€			
EBRD future	138				€P		€P	€P	€P	€P	€P	€		€			€P		€P	€	€P	

Areas for future cooperation include

Competitiveness

- Liaison with IMF, EU, USAID to advance privatisation
- Cooperation with IFC on business climate improvement
- Work to enhance commercialisation of municipal services with IFC

Integration and Resilience

- Leveraging the Berlin Process
- Coordination and prioritisation under the WBIF
- Railway restructuring with the World Bank

Green

- South East Europe Coordination auction office in Podgorica
- Third Energy package framework
- EU funding for regional hydro plan

€	Area of significant investments	●	Focus mostly on private sector	Transition challenges
P	Area of significant policy dialogue	○	Focus mostly on public sector	Large
				Medium
				Small

Note: 2015 Transition challenges assessed following EBRD methodology. Inclusion transition challenges are reported as arithmetic averages of sub-component scores. IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2013 onwards. In 2014, indicatively EUR 15 million were dedicated to floods recovery and reconstruction. EUR 18 million for both 2015 and 2016, and EUR 12 million for 2017 are indicatively allocated to the Regional Housing Programme, which is implemented within the framework of the IPA multi-country programme.

7. Implementation Risks and Environmental and Social Implications

Risks to the Strategy Implementation

Probability

Effect

- **Vulnerability to political developments:** political factors, inherent in B&H's complex constitutional structure, may interfere with the Reform Agenda to the detriment of the Country Strategy implementation.
- **Continuous stalemate in privatisation:** salient systemic changes in the areas of competitiveness and governance not possible without privatisation of remaining SOEs. In that respect, lack of political will to proceed with privatisation would affect the scale and impact of the Bank's engagement.
- **Investment climate remains largely inimical to private business:** informality, weak regulatory framework, poor governance and perception of corruption deter FDI and inhibit local SMEs, possibly impeding the Bank's engagement with the private sector.
- **Vulnerability to external shocks:** economy exposed to the risks of the Eurozone and neighbouring countries, which may affect demand for the Bank's products.
- **Vulnerability to climate change factors:** on a par with other WB countries, economy exposed to climate change factors, especially floods, which may disrupt orderly implementation of the Strategy.
- **Dependence on regional initiatives:** particularly with respect to integration and green economy, the strategy leverages important WB regional activities, rightly seen as important enabling factors. Conversely, slippages in the progress of these initiatives would adversely affect implementation.



Environmental and Social Implications

- **Assessment and Management of E&S Impacts, Stakeholder Engagement:** Ensure that direct, indirect and cumulative E&S impacts of projects¹ are appropriately assessed and mitigated, work with clients to ensure adequate E&S capacity. Ensure adequate level of stakeholder engagement.
- **Labour and Working Conditions:** Ensure that clients' HR policies and labour practices comply with EBRD Policy to reduce potential discrimination in the work place, particularly in case of any retrenchment due to privatisation of SOEs, and promote equal opportunities.
- **Resource Efficiency and Pollution Prevention and Control:** Assist through policy dialogue and capacity building in the implementation of EU directives at local and national levels. Support development and implementation of Green City Action Plans.
- **Health and Safety:** Assist in improvement of occupational and community health and safety in *inter alia* infrastructure and energy projects. TC funds may be required to improve road safety.
- **Land Acquisition, Involuntary Resettlement and Economic Displacement:** Linear infrastructure projects may require acquisition of land and properties, therefore clients may need to help with the registration of land titles. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with the Bank's requirements.
- **Biodiversity Conservation and Sustainable Management of Living Natural Resources:** Renewable energy and infrastructure projects may have impacts through encroaching or fragmenting sensitive habitats, protected areas or proposed Emerald and Natura 2000 sites. To avoid or minimise such impacts, ensure robust biodiversity impact assessments of projects in sensitive locations are carried out and provide TC support where needed.
- **Cultural Heritage:** Work with clients to identify and consult with key stakeholders and protect sensitive cultural heritage.
- **Financial Intermediaries:** Ensure that FI partners have adequate E&S capacity and risk management procedures in place.

8. Donor Co-Financing Assessment

8.1. Grant Needs Assessment for the New Country Strategy Period

- Grants required to undertake feasibility studies, prepare investment projects and build capacities of prospective clients, particularly in support of sustainable infrastructure, the Small Business Initiative (SBI) and the Green Economy Transition. In addition, investment grants to co-finance investments needed for municipal and transport projects.
- At the regional level, existing programmes combining policy dialogue, loan financing and grants for consultancy and investment incentives require additional support. E.g., an extension of the Regional Energy Efficiency Programme (REEP) is expected, as well as a scaling up credit lines to enhance competitiveness of SMEs, including via the Western Balkans Enterprise Development and Innovation Facility (EDIF).
- Taking into account affordability criteria, past needs for donor finance, grant intensity of some of the new activities envisaged, **grant needs above historical levels expected.**

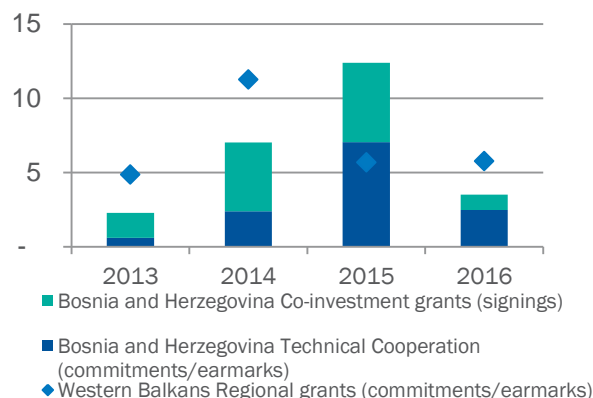
8.2. Potential Sources for Grant Funds

- Western Balkans Investment Framework** (beneficiary governments, EU, bilateral donors and IFIs): grants for priority infrastructure investments across the environment, transport, social and energy sectors. A national sector strategy is a prerequisite to apply, as is demonstrable progress in the implementation of policy reforms.
- EU:** priority areas under the Instrument for Pre-Accession include private sector development, energy efficiency and infrastructure.
- Bilateral Donors:** support via bilateral EBRD accounts for SBI, including Women in Business, GET and sustainable infrastructure, as well as some policy work.
- The EBRD Shareholder Special Fund:** complementary facility to donor resources, where advancing transition remains a priority area.

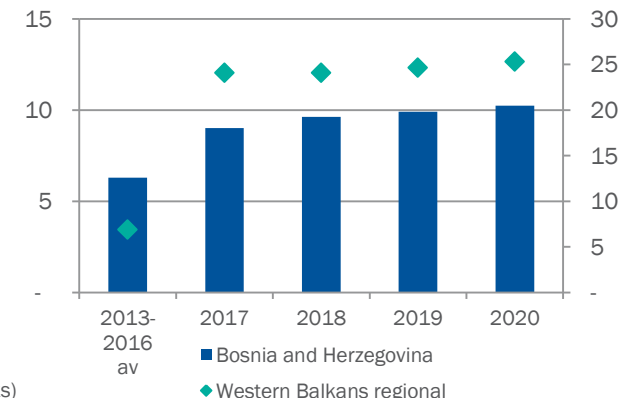
Selected Affordability Indicators

EBRD regional percentile rank ¹		
GDP per capita (PPP, USD) ²	11,034	25 th
ODA Country	YES	N/A
ODA as share of Gross National Income (%)	0.91	57 th
ODA per capita (USD – current prices)	38	70 th

Donor finance during last strategy (€m)²



Grant Needs Projection (€m)



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in case of ODA indicators) that score below Bosnia and Herzegovina.

2. Estimate. Source: IMF

3. The 2013-2015 TC data is based on Commitments as at the end of March 2016 (the latest available date before data migration in a new Donor Funds System). 2016 TC data is based on 2016 earmarks at the project level.



ANNEX

The constitutional and legislative framework for a pluralistic parliamentary democracy, the separation of powers and checks and balances in the political system, the guarantees for fundamental rights and for the meaningful role of civil society are in place in B&H and are largely in line with international and European standards.

However, the functioning of the state in general, and of its democratically elected institutions in particular, is affected by the specifics of the country's constitutional setup. The 1995 Dayton Accords, which ended the war in B&H and paved the way to the country's stability, created a uniquely complex institutional structure and a fragmented policy-making apparatus. At the central level, decision-making is based on a complex system of checks and balances, which were designed to protect the interests of the three 'constituent' peoples and which de-facto encourage their representatives to demonstrate their commitment to their ethnic constituency rather than to the State. While there is no consensus in sight between the country's ethnic leaders regarding the optimal internal organisation of B&H, without comprehensive constitutional reform further progress towards a more efficient and democratic state may be difficult to achieve.

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

The specifics of the constitutional set up also affect human rights. Some parts of the existing B&H legislation are not in compliance with international standards, including the European Convention of Human Rights. In 2009, the European Court of Human Rights (ECHR) issued a verdict to stop discrimination against ethnic minorities in B&H, whose representatives are prevented by law from running for the highest public offices. This verdict of the ECHR has not been implemented yet. The Resolution of the Parliamentary Assembly of the Council of Europe (PACE) on B&H noted that this “hampers the completion of much needed reforms in key sectors, such as democratic institutions, the rule of law and human rights”(1). As stressed in the Action Plan for B&H by the Council of Europe for 2015-2017, the reforms required to “abolish the discriminatory election system ...are long overdue”.(2)

The progress in democratic reforms directly affects the country's progress in EU approximation. The adoption by all level of governments in B&H, in summer 2015, of the new Reform Agenda was important step forward and allowed overcoming the stalemate in relations with the EU. The Stabilisation and Association Agreement, frozen for many years, has been put into force and in February 2016 B&H submitted a formal application for the membership in the EU. The European Commission (EC) has been subsequently tasked to prepare its “Opinion” regarding this application and started its technical work. At the same time, the Conclusions of the Council of the European Union of 17 December 2013 linking the implementation of the above-mentioned ECHR ruling with B&H's progress on EU path remain in place (3). The latest Outcome of the Council Meeting of 13 December 2016 reminded the importance of the implementation of this ruling for establishing a democratic and well-functioning society where equality of all citizens is warranted (4).

Representative and Accountable Government

Free, fair and competitive elections

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

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

2) Council of Europe, Action Plan for Bosnia and Herzegovina 2015-2017, adopted by the Council of Ministers of CoE on 4 March 2015.

3) Conclusions of the General Affairs Council, Council of the European Union, 17 December 2013.

4) Outcome of the Council Meeting, General Affairs, Council of the European Union, 13 December 2016. Parliamentary Assembly of the Council of Europe (PACE), Resolution 1701 (2010), Resolution 1725 (2010), and Resolution 1855 (2012)

However, there is one area where the legal framework fails in terms of both active and passive suffrage rights: existing ethnically-based and residence limitations to the right to run in elections do not comply with the European Convention on Human Rights and run counter to the OSCE Copenhagen document and other international standards. PACE has repeatedly requested B&H authorities to amend its Constitution and electoral legislation in order to end discrimination against ethnic minorities (5). On 22 December 2009, the ECHR issued a legally binding verdict providing that ethnicity-based ineligibility is incompatible with the general principles of the European Convention. In 2011, an Interim Joint Parliamentary Committee was set up in order to draft amendments to the Constitution and electoral law in order to comply with the ECHR verdict, but no changes have been agreed so far by the key stakeholders. ECHR has subsequently made further verdict related to ethnicity and residence-based limitations of electoral rights (*Zornic v B&H*, 2014), and another application (*Pilav v B&H*) is pending.

Due to a lack of political agreement, the basic rights of citizens to vote in local elections are undermined on the local level in the ethnically divided city of Mostar, where six years after the verdict of the Constitutional Court has not been implemented and elections have not taken place.

In practice, elections broadly allow for competition between different political parties and free choice for voters. Candidates are able to campaign freely and without hindrance from the authorities. The Central Election Commission (CEC) is an independent permanent body appointed by a special Commission for Selection and Nomination. Representatives of the OSCE and of the Office of the High Representative (OHR) used to be members of CEC until 2005, and continue to have one advisory seat each in CEC, without voting rights. Municipal election commissions are permanent bodies appointed by the municipal authorities and approved by the CEC.

The media provide voters with diverse and extensive coverage of the electoral campaign. The Electoral Code provides for domestic and international election observation at all levels of election administration. However, the number of domestic observers from civil society has been declining, largely due to the lack of funding. Specifics of the country's constitutional set up and remaining ethnic divisions lead to the political parties reaching out mostly to their own ethnic constituencies, although there are a few parties that pursue a more multi-ethnic approach.

B&H has held regular democratic and competitive elections at both central and municipal levels since the end of the 1992-1995 war. In the past, elections had effectively been organised by the OSCE. The last three general elections (2006, 2010 and 2014) and municipal elections (2008, 2012 and 2016) were fully administered by the B&H authorities. The last general elections were assessed by the OSCE/ODIHR Election Observation Mission as administrated broadly efficiently (6). The electoral campaign was competitive and freedoms of expression were respected. The elections went in relatively calm atmosphere, even if occasionally marked by the inflammatory rhetoric of some contestants. The process deteriorated during the counting, when issues related to transparency were raised by observers. Among recurring procedural irregularities is the so-called 'proxy' (family) voting, especially in rural areas, and trading of polling station commission positions. Local elections held in October 2016 were assessed as broadly orderly. However, a small number of incidents was recorded (7).

Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy, underpinned by the separation of powers and checks and balances in the political system, independent legislature and procedures of legislative oversight in prescribed domains of decision-making, is in place in B&H. The uniquely complex governance architecture of B&H stems from the provisions of the Dayton Peace Accords, and has an elaborate system of checks and balances. They were largely designed to protect the interests of the three 'constituent' peoples.

5) Parliamentary Assembly of the Council of Europe (PACE), Resolution 1701 (2010), Resolution 1725 (2010), and Resolution 1855 (2012)

6) The OSCE Office for Democratic Institutions and Human Rights (ODIHR), General Elections of 12 October 2014, Election Observation Mission, Final Report, 7 January 2015.

7) Council of Europe, Congress of Local and Regional Authorities, preliminary findings of the monitoring of the elections of mayors and council members held in Bosnia and Herzegovina, October 2016.

In reality, they encourage political representatives to demonstrate their commitment to their entity and their ethnic constituency rather than to the State. The functionality and efficiency of the state level authorities is limited, as is the coordination of policy-making. The Constitution grants limited powers to the state-level institutions, while vesting most of them in two Entities: Federation of B&H (FB&H) and Republika Srpska (RS).

The beginning of the implementation of the Reform Agenda, adopted in 2015, has led to improvements in the functioning of the Parliamentary Assembly of B&H and of the Entities' parliaments, including efficiency of the legislative process and ability to oversight the activities of the executive branch.

Effective power to govern of elected officials

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

International presence in B&H remains significant, even though its role and numbers have been reduced. The Dayton Accords established the Office of the High Representative (OHR) under the United Nations (UN) auspices. The High Representative (HR), who reports to the Peace Implementation Council (PIC), a group of 55 countries and international organisations that “sponsor and direct the peace implementation process”, can issue decisions that have legislative power, including overruling domestic legislation. In 1997, PIC provided the HR with additional powers (the Bonn powers) to remove any officials, including elected officials, who obstruct the Dayton peace process. Although the use of the Bonn powers in practice has decreased over the years, the HR continues to use them occasionally. PIC has reached an understanding that the OHR will have to be closed in the future, provided certain “conditions” and “objectives” have been met.

In the past, the HR served also as the European Union Special Representative in B&H (EUSR). Since the decoupling of these two mandates, the EU has reinforced its role in B&H, including the combined presence of the EUSR and the EU Delegation. The EU has deployed considerable resources in B&H under the Common Foreign and Security Policy and is a key international stakeholder.

B&H has an EU-led foreign military presence – EUFOR Althea which, in accordance with a relevant UNSCR resolution (8) , has a mandate to support a safe and secure environment in the country. Over the last few years, EUFOR was reconfigured and the number of troops reduced. It currently focuses largely on capacity-building and training.

Civil Society, Media and Participation

Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations. The Law on Associations and Foundations provides legal guidelines and grants civil society organisations (CSOs) various rights. CSOs can register at different levels, although while CSOs that have registered at the state level are free to operate nationwide, this does not apply to local CSOs which face a number of legal obstacles. The Agreement on Cooperation between the Council of Ministers of Bosnia and Herzegovina and the Non-Governmental Sector, signed in 2007, has not yet been implemented. Institutional mechanisms established in the agreement, such as the Office for cooperation with CSOs, have not been set up.

8) The latest resolution (2315) on the extension of authorisation of EUFOR Althea was adopted on 8 November 2016.

While the estimated number of CSOs in the two Entities is around 12,000, only one third are presumed to be active. Many CSOs are project-based, and relatively narrowly specialised. The Council of Ministers' Rules on Consultation in Legislative Drafting (Consultation Law) allows CSOs to have a voice in shaping laws. However, the consultation process with civil society is not sufficiently robust. In general, public participation in decision-making in B&H needs further improvement. CSOs and authorities are currently attempting to reform the aforementioned laws, in order to expand public participation and transparency.

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

Independence and pluralism of media operating without censorship

The Constitution of B&H guarantees the freedom of the press. Pluralism in the media, which operate broadly freely and without censorship, has increased overall in recent years. The legal framework is largely in place and in line with international standards, prohibiting the incitement of racial, ethnic or religious hatred.

The Press Council, which is a self-regulatory body for the print and internet media outlets, helps to promote freedom of speech and the respect of journalistic ethics, and supervises the application of the B&H press code; however it has no power to fine, suspend or close down any outlet. Broadcast media in both entities are monitored by the Communications Regulatory Agency (CRA), which operates on the state level and its mandate is defined by the Law on Communications of B&H. The Agency's Director General must be approved by B&H's Council of Ministers. The existing legislation provides legal safeguards to ensure the independence of the CRA, but attempts to undermine the latter persist.

At the same time, according to latest reports by OSCE, the level of media freedom is decreasing lately in B&H, despite the appropriate legislation. Also, widespread perception among citizens that the media are over-politicised and subject to political influence remains an issue. During her visit to the country in 2015, the OSCE Representative on the Freedom of the Media expressed her concern about the high number of civil defamation lawsuits, mainly brought by politicians against critical media (9).

The media landscape is diverse and complex and includes some 200 daily, weekly or monthly printed media and 200 broadcast media, while each constituent entity has its own public broadcaster (Radio-Television of the Federation of B&H and Radio-Television of Republika Srpska accordingly) and private media. There is also a national public broadcaster, Radio-Television of B&H.

The internet penetration rate is growing rapidly with 65 per cent of citizens having web access in 2015 compared to 43 per cent in 2010 (10).

Multiple channels of civic and political participation

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

9) OSCE, "OSCE media freedom representative concludes official visit to Bosnia and Herzegovina with safety of journalists and digitalization high on the agenda", 3 July 2015

10) International Telecommunication Union (ITU) Statistics, "Percentage of Individuals Using the Internet," 2000-2015

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is both guaranteed by the Constitution and implemented in practice, as highlighted by the existence of considerable number of parties and a significant opposition able to campaign freely and oppose government initiatives. 51 political parties and 14 coalitions contested in the last general elections. Almost 20 different political parties are represented in the national Parliament.

Rule of Law and Access to Justice

Supremacy of the law

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

Independence of the judiciary

The independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality, although enforcement is uneven. The independence of the system is further supported by the functioning of the independent Constitutional Court, the Court of B&H, and the High Judicial and Prosecutorial Council. The main challenges stem from the specifics of B&H's constitutional setup. Independence is affected by the lack of coordination and harmonisation between the State level and Entity levels, and budgetary fragmentation.

Strengthening the independence and efficiency of the judiciary has been one of the main objectives of the EU's on-going Structured Dialogue on Justice. The EU provides assistance to B&H in this area. The Dialogue contributed to the revision of the Law on the High Judicial and Prosecutorial Council and other measures designed to reform the State-level judiciary system in accordance with European standards of independence, impartiality and professionalism. However, the latest progress report by EC noted that "judicial independence, including from political influence, remains to be strengthened" (11).

Government and citizens equally subject to the law

The authorities have stepped up measures to increase accountability and prevent abuse of authority by public office-holders. The Office of the Disciplinary Council has managed to reduce the number of unresolved cases and increase the number of disciplinary actions against public office-holders.

Effective policies and institutions to prevent corruption

According to the 2016 Transparency International Corruption Perception Index (CPI), the country ranks 83rd out of 176 countries (12). This is among the worst positions in South Eastern Europe. Corruption is widely perceived by citizens in B&H as one of the grave problems and a widespread phenomenon.

According to the latest report of the Third Evaluation Round on "Incriminations" and "Transparency of Party Funding" by the Council of Europe's Group of States against Corruption (GRECO), B&H has achieved no further progress as regards the implementation of the 15 recommendations (out of a total of 22) found either not to be or only partly implemented in the previous Interim Compliance Report (13).

11) European Commission, 2016 Communication on EU Enlargement Policy, B&H 2016 Report, 9 November 2016.

12) Transparency International, 2016 Corruption Perceptions Index (CPI).

13) Council of Europe, Group of States against Corruption (GRECO), Third Evaluation Round, Third Interim Compliance Report on Bosnia and Herzegovina, adopted on 1 July 2016, published on 22 September 2016.

In the Evaluation Report of the Fourth Evaluation Round on “corruption prevention in respect of members of parliament, judges and prosecutors” in B&H, GRECO noted that “the complexity of the four judicial systems and threats to judicial independence are deeply affecting the efficiency of justice and fuelling a very negative public perception of the judiciary” (14).

In addition, GRECO addressed 15 recommendations regarding members of parliament and judges and prosecutors and B&H authorities must submit a report on the measures taken to implement these recommendations by 30 June 2017.

Anti-corruption strategies are in place at the central level and in the two Entities. The Law on Conflict of Interest is in place, but the harmonisation of conflict of interest legislation across the country is pending. Nepotism and patronage continue to hamper professional performance throughout the public sector. According to the EU, “corruption remains prevalent in many areas and continues to be a serious problem” (15).

Civil and Political Rights

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

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

While the necessary framework is in place, the implementation of human rights standards remains uneven. The latest assessment of the track record of B&H in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in 2014. The top three recommendations related to minorities (24 per cent of recommendations); women’s rights (21 per cent); rights of the child (20 per cent). B&H accepted 77 per cent of a total of 167 recommendations made through the review process (16).

The constitutional guarantees for freedom of assembly and association, speech, thought, conscience, and religion are broadly respected. At the same time, the Council of Europe and EU reports pointed to remaining weaknesses in the area of the freedom of expression (protection against, and prosecution of, physical attacks against journalists and human rights advocates). Discrimination against LGBT people remains widespread. The antidiscrimination law does not include age and disability as categories for discrimination and allows for a broad range of exceptions. In general, public awareness of the legal remedies provided by the anti-discrimination law remains low.

Property rights are respected, and the vast majority of cases of property repossession requests have been resolved, although there is still no reliable database on outstanding claims. There are still more than 100,000 internally displaced persons in B&H. Despite steps taken to implement the revised Strategy for the Implementation of Annex 7 to the Dayton Accords, mainly regarding housing, B&H still lacks a coordinated mechanism to address legislative gaps hampering sustainable returns and local integration.

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

14) Council of Europe, Group of States against Corruption (GRECO), Fourth Evaluation Round, Evaluation Report, adopted on 4 December 2015, published on 22 February 2016

15) European Commission, 2016 Communication on EU Enlargement Policy, B&H 2016 Report, 9 November 2016

16) United Nations, Universal Periodic Review (UPR), Bosnia & Herzegovina, and UPR Info Statistics

Political inclusiveness for women, ethnic and other minorities

Due to a history of armed inter-ethnic conflict, the issues related to the rights of ethnic communities in B&H are particularly sensitive. There was no census of the population in B&H from 1991 to 2013, when the first post-war census was conducted and included questions on ethnic affiliation. The publication of the results of the 2013 census was delayed due to disagreements between the entities on the methodological issues. When they were eventually published on 1 July 2016, the RS did not recognise the results.

The Constitution established the category of “constituent peoples”, which includes Bosniaks, Croats, and Serbs. The next category is “minorities”. According to the Law on the Protection of the Rights of National Minorities, there are 17 national minorities in B&H (Albanians, Montenegrins, Czechs, Italians, Jews, Hungarians, Macedonians, Germans, Poles, Roma, Romanians, Russians, Rusins, Slovaks, Slovenians, Turks, and Ukrainians). Those who do not declare their ethnicity are defined as “others”.

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

On 22 December 2009, the ECHR issued a legally binding decision providing that the ethnicity-based ineligibility rule is “incompatible with the general principles of the European Convention” (17). In a PACE Resolution adopted on 9 January 2012, the authorities of B&H were reminded that the above-mentioned ECHR verdict was legally binding and urged B&H to implement it without any further delay, warning that failure to adopt necessary constitutional amendments would put at stake the continued membership of B&H in the Council of Europe (18). Nevertheless so far the key stakeholders in B&H have failed to reach an agreement on the implementation of the ruling of ECHR.

The Roma minority continues to be the most vulnerable in B&H. Some progress was made to provide the Roma with personal documents, as well as improve their housing conditions. B&H participates in the Roma Decade of Inclusion, and various Action Plans under the Roma Strategy are in place. Work has started on the revising the action plans on housing, employment and healthcare. However, little progress has been made in improving the situation of Roma women and children, who continue to suffer from discrimination and domestic violence.

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

17) European Court of Human Rights (ECHR), Complaint lodged by two applicants of respectively Roma and Jewish origins: “Sejdić and Finci versus Bosnia and Herzegovina”, 22 December 2009

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

The Gender Action Plan for B&H, adopted in 2006, identified the increase in the participation of women in political life and decision-making as one of key priorities. Nevertheless, the participation of women in political life remains low. The Law on Gender Equality, as amended in 2009, envisaged at least a 40 per cent representation in public administration. Legal requirements regarding gender balance on party lists during the elections were respected during the last general elections, with 42 per cent of candidates being women. However, female candidates obtained 19 per cent of the seats in the state and entity bodies, which is only a slight increase from 2006 (17 per cent). In 2013, the first female prime minister was appointed in the RS (she remains in office today). Women represent an impressive 24 per cent of the Government of RS. At the same time, there is only one female minister in the Government of the other Entity (FB&H), and no women at all are members in the State-level Council of Ministers.

Discriminatory customs and stereotypes are still present in the rural areas, undermining women's basic rights. Domestic violence is a concern, while a harmonised system for monitoring such cases does not exist.

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited B&H in 2015. In its latest report on the visit, published in 2016, CPT expressed concern regarding the fact that "the bulk of its previous recommendations regarding a purposeful regime for remand prisoners, prison healthcare and safeguards for the prevention of police ill-treatment have not been implemented" (19).

19) Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Visit to Bosnia and Herzegovina from 29 September to 9 October 2015, published on 5 July 2016.