

Bosnia and Herzegovina 2016



Total: 52.16

Quick facts

Population:	3.863 million
Unemployment rate:	27.7 %
GDP:	17.987 billion EMU
GDP growth rate:	3.2 %
GDP per capita:	3 880 EMU

Political Freedom

Free and Fair Elections : 6.43

During the observed period there were no major elections in Bosnia and Herzegovina (BiH). All political parties were preparing for local elections, which would take place in October 2016. While after 2014 parliamentary elections the government in Republika Srpska entity was relatively quickly built, it took months for parties to form a government in the country's second entity, Federation of BiH. Coalition was made in March, but it didn't last long, since reshuffle took place in October, when dominating Party of Democratic Action (SDA) and - till recently their strongest opponent - Alliance for Better Future, had reached an agreement. Generally, BiH is characterized, in the eyes of relevant international institutions, as a country with good mechanisms in place to conduct free and competitive elections. However, many irregularities such as vote buying and abuse of state resources occurred during the campaign and on the election day, questioning the integrity of the process. The biggest problem with electoral process is the discriminatory constitutional provision which denies the right to ethnic minorities – i.e. all people except Croats, Serbs or Bosniaks - to run for the Presidency or for the House of Peoples. Although European Court for Human Rights ruled that this provision should be changed, no further progress has been made so far.

Absence of Unconstitutional Veto Players : 3.33

Bosnia and Herzegovina is the only country in Freedom Barometer which has got veto players in the traditional sense of the term. The Office of the High Representative is set to oversee the

implementation of the Dayton Peace Agreement and ensure representation of Croats, Serbs and Bosniaks, therefore it is empowered with the right to veto any legislation. According to the Dayton Agreement, representatives of each of the three ethnic groups have also right to put veto on legislation in order to protect interests of their ethnicity. However, that power is often abused to prevent decision making process, amid the lack of will of some or all of three sides to find a common ground on country's key issues. Very complex administrative system, with a lot of gaps and weak legislative framework, created a huge space for corruption among public officials. Therefore, it is widespread in BiH. Influence of all three official religions – Islamic, Catholic and Serbian Orthodox - on the public opinion is significant and often used for indirect interference in political decisions.

Freedom of Press : 5

There is a wide range of broadcast, print and online media outlets in Bosnia and Herzegovina that are partly free to express their opinion. Lack of media independence is mostly due to political pressure. Therefore, their reporting is often alongside ethnic and/or political lines. Traditionally, state companies are the biggest advertisers, often using their economic power to influence the media content. Political influence is even more obvious in public broadcasting, especially on the Radio Television of Republika Srpska, which is perceived as direct mouthpiece of the entity's government. Intimidation and harassment of journalists critical towards authorities is common in both the Federation of BiH and the Republika Srpska. Rate of convictions for such a behavior remains very low.

Rule of Law

Independence of the Judiciary : 3

Amid rising dysfunction of government, especially at the central level, judiciary is trying to keep its autonomy and its control function vis-a-vis executive at various tiers. It is fragmented to four systems, with responsibilities that are not clearly divided. It is under increasing pressure by politicians, undermining its previously achieved degree of independence. The outside pressure hinders efficiency as well - the backlog of cases is diminishing slower than expected. Prisons are overcrowded, while prisoners' rights are often violated. The political pressure is especially strong regarding high corruption cases, where numerous investigations were blocked, or regarding cases of vote buying. Besides, there is a demand from the BiH's entity RS to change the composition of the Constitutional Court by dismissing the last remaining foreign judges. On two occasions, in 2011 and 2015, the RS leader Milorad Dodik threatened with a referendum to delegitimize the authority of BiH's courts or prosecutors in RS, but he receded. Other eventual controversial referenda initiatives are not to be excluded.

Corruption : 3.8

Partitocracy at all (of the six) tiers of government, huge public sector, high spending, and unclear division of responsibilities along with poor coordination between anti-corruption actors are the main factors that nurture a very high level of corruption in BiH, placing it behind all its neighbors. In its Corruption Perception Index 2015, Transparency International has put BiH, with the score 38, to

the place 76 (of 168 countries), which was yet another decline from the scores 42 and 39 in 2013 and 2014 respectively. In its 2015 Report on BiH, European Commission recommended better funding of and coordination between anti-corruption bodies, improvement of legislative framework - including in the area of political party funding - and to heighten the effect of deterrence via tougher penalties for corruption.

Protection of Human Rights : 5.46

Although there is, throughout BiH, less denial of war crimes as such, the denial of genocidal nature of the crime in Srebrenica is still a norm in the RS, considerably hindering reconciliation while heightening tensions. Ethnocentrism with elements of hate speech dominates curricula in ethnically segregated BiH's schools. Similar case is with many other institutions, where ethnicity as criteria for employment or advance in work comes first, political affiliation second and nepotism or corruption follow the way. ECHR ruling as of 2009, on the equal access to the highest political positions by non-members of any of the three "constituent" ethnicities, is not implemented so far. Citizens in a minority position are discriminated in many local environments. Romany are especially endangered. Gender equality is all too slowly getting through. Reported domestic violence is often not responded by police in rural areas. Human trafficking remains as a huge problem. Homophobia is stronger than in any of the neighboring countries. In both entities there have recently been pressures on the NGOs, while in RS there are also attempts to limit the Internet freedom (namely social networking) for the sake of keeping "public order" (in reality, for preventing the citizens to self-organize for large-scale anti-government protests).

Economic Freedom

Security of Property Rights : 4.79

Private property rights are not adequately protected in Bosnia and Herzegovina. One of the most important problems in the country remains to be weakness of the judiciary: courts are partial in their decisions and can be influenced by external factors, politicians or powerful private interests. Corruptive practices within the judiciary are also present. The judiciary system has many backlogged cases, leading to prolonged legal processes. Judicial process, as well as enforcement of legal contracts, is slow and inefficient. Courts do not uphold time standards, and the number of adjournments is not prescribed. Many judges in commercial cases also do not possess knowledge or experience for cases that require specialization. Furthermore, commercial cases are often not regarded as those to which priority should be given. Bankruptcy procedures do not put sufficient emphasis on rehabilitation or reorganization of companies, and furthermore insolvency procedures are met with very low recovery rates. Registering property is a very long but also expensive procedure, due to very high property transfer tax. Great proportion of land does not have a clear title, due to restitution process. Different entities' real property cadastre services, as well as the role of municipality courts in land registry, further complicate the situation. The issue of property rights of internally displaced persons and refugees remains open, due to inefficient proceedings of the Commission for Real Property Claims of Displaced Persons and Refugees.

Size of Government: Expenditures, Taxes, and Enterprises : 5.85

Size of government in Bosnia and Herzegovina is huge. High social spending is one of the reasons for the situation, while direct government involvement in the economy is another. Government consumption is high, reaching 44% of GDP in 2015, but in line with many other European countries. Government bureaucracy is overwhelming, and with a blatant wage bill, as a direct legacy of the war with many different tiers of government competing for authority and resources. Although wide-scale privatization process was conducted, there are many state-owned enterprises (SOE), in many different fields that are usually left to open markets in other countries. Many of those SOEs are inefficient, heavily relying on government indirect or direct subsidies, and with high arrears. Some SOEs are divided alongside entity lines, disabling them of using economy of scale and of increasing their efficiency, for instance in the railway sector. Economic growth has recently picked up to 3% of GDP, but continuous budget deficits have increased the public debt to almost 45% of GDP in 2015. In May 2016, an International Monetary Fund mission in Bosnia and Herzegovina came to an agreement with the government regarding a 3-year program of Extended Fund Facility. The program is conditional, should the government implement a set of various measures (unofficially called the reform agenda) aiming at increasing the productivity of public sector, improving the business environment, decreasing the level of public debt through moderate fiscal austerity measures and safeguarding financial sector stability. Corporate and personal income tax are flat and both are set at 10%. VAT is low for European standards – only 17%, without a preferential rate. However, social security contributions are very high (with different rates in the two entities), leading to a high labour tax wedge.

Regulation of Credit, Labour, and Business : 5.8

Regulation of entrepreneurial activities in Bosnia and Herzegovina is not too business-friendly, with excessive red tape and prevalent corruptive activities. Most burdensome factors for doing business in Bosnia and Herzegovina come from the realm of politics: inefficient government bureaucracy, policy and government instability as well as corruption. Starting a business is a very slow procedure, burdened with bureaucracy and includes not only notaries but also municipal courts and various other bodies; it also incurs high costs not only due to high fees but also due to a high minimum capital requirements. Obtaining a construction permit and getting electricity are similar, in bureaucratic requirements, long processes and high costs. Compliance with tax regulation involves a high number of payments, with complicated and inconsistent procedures, of which the area of parafiscal surcharges is a clear example. Recent introduction of labour codes in both entities reflected the need to streamline the complicated procedures in hiring and firing and to introduce more flexibility. Those procedures are, however, still burdensome, with fixed contract duration of only 24 months and severance pay that is increasing with years in tenure, protecting more seasoned workers. Minimum wage is high relative to the average wage, and was recently increased in the Federation of BiH entity by 10%.

Freedom to Trade Internationally : 8.7

Freedom to trade internationally is generally respected in Bosnia and Herzegovina. Tariffs are mostly low, but somewhat higher than in the European Union, with the average applied tariff rate

of 6.4%. Bosnia and Herzegovina is the only country alongside Serbia, from the South East Europe region, that is not a member of the World Trade Organization (WTO). The accession process came to a halt with the last session of the accession working group held in 2013. Main Bosnian trade partners are the European Union (especially Croatia and Germany) and countries from the region (Serbia and Montenegro). Therefore, majority of trade is conducted under the Stabilization and Association Agreement (SAA) and Central European Free Trade Agreement (CEFTA). Croatian accession to the EU led to a change in custom treatment of Croatian agricultural products, with imposed higher tariffs. Regulatory trade barriers in the field of certification and quality standardization pose significant obstacles to free trade. Furthermore, custom service is not well organized, with inefficient or complicated procedures, while corruption and partial treatment are still present in the sector. Further EU accession process is envisaged to lower non-trade barriers and further liberalize international trade. But the process is progressing slowly and Bosnia is still only a potential but not yet an official candidate-country. The lack of political will within the country to conduct necessary reforms puts Bosnia in a gridlock. Trade liberalization would also be achieved through the long awaited WTO accession. The Law on Internal Trade stipulates a discriminatory measure that 50% of all items in retail chains must be of domestic origin.