

**Competitiveness and Private Sector
Development**



Western Balkans Competitiveness Outlook 2024: Bosnia and Herzegovina



Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Bosnia and Herzegovina

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Member countries of the OECD.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Kosovo*: This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Please cite this publication as:

OECD (2024), *Western Balkans Competitiveness Outlook 2024: Bosnia and Herzegovina*, Competitiveness and Private Sector Development, OECD Publishing, Paris, <https://doi.org/10.1787/82e0432e-en>.

ISBN 978-92-64-80990-1 (print)
ISBN 978-92-64-71843-2 (PDF)
ISBN 978-92-64-42827-0 (HTML)
ISBN 978-92-64-51298-6 (epub)

Competitiveness and Private Sector Development
ISSN 2076-5754 (print)
ISSN 2076-5762 (online)

Photo credits: Cover © Zoltan Gyuracz/shutterstock.com.

Corrigenda to OECD publications may be found on line at: www.oecd.org/about/publishing/corrigenda.htm.

© OECD 2024

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <https://www.oecd.org/termsandconditions>.

Foreword

The *Western Balkans Competitiveness Outlook (CO) 2024* is the fourth edition of the OECD's flagship publication that offers an in-depth assessment across 15 policy areas key to bolstering economic competitiveness in the Western Balkans. The CO provides comprehensive guidance to navigate economic reforms, enhance regional co-operation and help the region's economies align their legal frameworks and policies with those of the OECD and EU. It also enables policy makers to track performance over time, by comparing outcomes against those reported in the previous editions since 2016.

The CO 2024 comprises seven reports: one regional and six economy profiles. Each economy profile evaluates performance across each of the 15 policy dimensions, highlighting areas of progress as well as those requiring continued improvement. The regional profile presents findings for the whole Western Balkans across five policy clusters – *infrastructure and connectivity*, *skills*, *business environment*, *digital transformation* and *greening* – and seeks to evaluate the broader regional trends in these areas.

Complementing these reports, the publication's findings are accessible for the first time through a landmark interactive digital tool: the [Western Balkans Competitiveness Data Hub](#). By providing policy makers with an enhanced ability to assess and benchmark economic reforms seamlessly, the Data Hub aims to support policy makers in designing economic reforms that drive competitiveness and convergence.

The Bosnia and Herzegovina profile of the CO is the outcome of work co-ordinated by the OECD's South East Europe Division. The assessment was conducted under the guidance of Andreas Schaal, Director of the OECD Global Relations and Co-operation Directorate, and Marzena Kisielewska, Head of the OECD South East Europe Division.

Umur Gökçe and Ali-Fuad Turgut (OECD South East Europe Division) led this work, which was initially also managed by Martin Kohtze. The project also benefitted from inputs by William Tompson (OECD Global Relations and Co-operation Directorate), who served as the lead reviewer of the publication.

Our special thanks also go to the authorities of Bosnia and Herzegovina and other stakeholders who have been actively involved in the data collection, whose support and dedication have made the development of this publication possible. We would like especially to acknowledge the contributions of Brankica Pandurević, National Co-ordinator, Sanela Čičić, Entity Co-ordinator of the Federation of Bosnia and Herzegovina, and Nataša Žugić, Entity Co-ordinator of Republika Srpska, who co-ordinated the assessment at their respective levels of government. We would also like to thank Ivona Bulić, Bosnia and Herzegovina Institute of Statistics, Emir Kremić and Danijela Bujak-Buzu, Federal Institute of Statistics, and Radosav Savanović, RS Institute for Statistics for their support in ensuring quantitative data collection, as well as the following individuals, who supported the data-gathering and verification process.

State-level

Policy Dimension	Dimension Co-ordinators
Investment Policy and Promotion	Alma Tabučić, Ministry of Foreign Trade and Economic Relations
Trade Policy	Sanja Šuka, Ministry of Foreign Trade and Economic Relations
Access to Finance	Vanja Božović, Ministry of Finance and Treasury
Tax Policy	Đenana Selimović, Ministry of Finance and Treasury; Jelena Maric, Muharem Mesinovic, Natasa Ujarevic, Zora Aleksic, The Indirect Taxation Authority
State-owned Enterprises	N/A
Anti-corruption Policy	Jelena Turanjanin, Agency for the Prevention of Corruption and Coordination of the Fight against Corruption
Education Policy	Bojana Maric, Ministry of Civil Affairs
Employment Policy	Hajriju Dautović, Ministry of Civil Affairs
Science, Technology and Innovation	Alma Hasanović, Ministry of Civil Affairs
Digital Society	Danko Lupi, Ministry of Communications and Transport
Transport Policy	Dubravka Saravanja, Ministry of Communications and Transport
Energy Policy	Tamara Bajkuša Spahić, Ministry of Foreign Trade and Economic Relations
Environment Policy	Gorana Bašević, Ministry of Foreign Trade and Economic Relations
Agriculture Policy	Amir Lubovac, Ministry of Foreign Trade and Economic Relations
Tourism Policy	Julija Petrovic, Ministry of Foreign Trade and Economic Relations

Federation of Bosnia and Herzegovina

Policy Dimension	Dimension Co-ordinators
Overall co-ordination support	Adis Fajić, Nevzet Sefo and Sead Džih, Federal Ministry of Development, Entrepreneurship and Crafts
Investment Policy and Promotion	Lejla Kljako and Tajma Taso Fejzić, Federal Ministry of Trade
Trade Policy	Darko Basić, Federal Ministry of Trade
Access to Finance	Medina Dudo, Federal Ministry of Finance, and Nevzet Sefo, Federal Ministry of Development, Entrepreneurship and Crafts
Tax Policy	Medina Dudo, Federal Ministry of Finance
State-owned Enterprises	Stipo Buljan, Jasmina Pašić and Senad Zekić, Federal Ministry of Energy, Mining and Industry
Anti-corruption Policy	Eldan Mujanović, Anti-corruption Team of the Government of FBiH and Damir Šapina, Federal Ministry of Justice
Education Policy	Djenana Gološ, Federal Ministry of Education and Science
Employment Policy	Jasmina Khechan-Babić, Federal Ministry of Labour and Social Policy, and Omer Korjenić, Federal Employment Institute
Science, Technology and Innovation	Damir Ravlić, Federal Ministry of Education and Science, with early guidance from Djenana Gološ
Digital Society	Sanela Jakubović and Mariana Milinković, Federal Ministry of Transport and Communications
Transport Policy	Sanela Jakubović and Josip Nikolić, Federal Ministry of Transport and Communications
Energy Policy	Stipo Buljan, Jasmina Pašić, Senad Zekić and Darko Pranjić, Federal Ministry of Energy, Mining and Industry
Environment Policy	Admir Karović, Federal Ministry of Environment and Tourism
Agriculture Policy	Dragana Divković, Federal Ministry of Agriculture, Water Management and Forestry
Tourism Policy	Inja Hadžialić-Bubalo, Federal Ministry of Environment and Tourism

Republika Srpska

Policy Dimension	Dimension Co-ordinators
Investment Policy and Promotion	Slobodanka Dubravac, Ministry of Economy and Entrepreneurship, and Bojan Macura, Ministry of Finance
Trade Policy	Duška Tegeltija and Dražen Marjanac, Ministry of Trade and Tourism, and Sanja Stojčević Uvalić, RS Institute for Statistics
Access to Finance	Nataša Atlagić, Ministry of Trade and Tourism
Tax Policy	Slobodanka Popović, Ministry of Trade and Tourism, and Jelena Popović, Ministry of Finance
State-owned Enterprises	Sonja Tovilović, Ministry of Economy and Entrepreneurship
Anti-corruption Policy	Brankica Grahovac, Ministry of Justice, and Predrag Mirnić, Ministry of Interior
Education Policy	Nataša Cvijanović, Ministry of Education and Culture, Jelena Starčević, Ministry for Scientific and Technological Development, Higher Education and Information Society, and Dolores Peulić, Milka Lončar Antić, and Dean Arežina, RS Institute for Statistics
Employment Policy	Ernest Basalo, Ministry of Labor, War Veterans and Disabled Persons' Protection, and Vladimir Koprivica, RS Institute for Statistics
Science, Technology and Innovation	Zoran Vujković and Ratko Perica, Ministry for Scientific and Technological Development, Higher Education and Information Society, and Dolores Peulić, RS Institute for Statistics
Digital Society	Denis Turkanović, Ministry for Scientific and Technological Development, Higher Education and Information Society, and Aleksandra Đonlaga, RS Institute for Statistics
Transport Policy	Vesna Vožni, Ministry of Transport and Communications, and Tanja Bošnjak, RS Institute for Statistics
Energy Policy	Milan Baštinac and Zoran Savić, Ministry of Energy and Mining, and Rada Lipovčić, RS Institute for Statistics
Environment Policy	Svetlana Radosin, Ministry of Spatial Planning, Construction and Ecology, and Stana Kopranović, RS Institute for Statistics
Agriculture Policy	Saša Lalić and Dragana Oklješa, Ministry of Agriculture, Forestry and Water Management, and Nada Šobot, RS Institute for Statistics
Tourism Policy	Predrag Tešić, Ministry of Trade and Tourism, and Miroslav Ilić, RS Institute for Statistics

The principal authors of the report were Umur Gökçe and Ali-Fuad Turgut (Front matter), Damaris Bangean and Judith Koren (Context), Victor Duggan and Zofia Polakiewicz (Investment policy and promotion); Zofia Polakiewicz (Trade policy); Benoit Dicharry (Access to finance); Bert Brys and Daniel Fichmann in co-operation with Stephanie Lizzo and Benoit Dicharry (Tax policy); Korin Kane in co-operation with Viktorija Chernetska and Alexandra Prokschy (State-owned enterprises); Valts Kalnins in co-operation with Viktorija Chernetska and Alexandra Prokschy (Anti-corruption policy); Elma Aga and Stephanie Lizzo (Education policy); Nicola Duell and Burim Bilali in co-operation with Stephanie Lizzo and Matija Lojpur (Employment policy); Marko Atanasovski in co-operation with Matija Lojpur and Alexandra Prokschy (Science, technology and innovation); Despina Anastasiadou in co-operation with Marijana Petrović and Hana Aljević (Digital society); Vatsalya Sohu and Matija Lojpur (Transport policy); Tobias Heldt in co-operation with Matija Lojpur (Energy policy); Clémence Girin, Jovana Pavlović Djukić and Dafina Marashi (Environment policy); Stephanie Lizzo and Drini Imami in co-operation with Sophia Katsira (Agriculture policy); and Kai Partale and Sophia Katsira (Tourism policy).

The report benefited from further input from Jane Stacey, Kristen Corrie, and Hannes Thees (OECD Centre for Entrepreneurship, SMEs, Regions and Cities); Alejandra Medina, Sara Sultan, Alexandre De Crombrugghe, Martin Kohtze, and Tugba Mulazimoglu (OECD Directorate for Financial and Enterprise Affairs); Caitlyn Guthrie and Lucia Alonso (OECD Directorate for Education and Skills); Javier Lopez Gonzalez, Silvia Sorescu, Janos Ferencz, Jibrán Punthakey, Chiara Del Giovane and Cemre Balaban (OECD Trade and Agriculture Directorate); Talya Vatman and Theresa Gebhardt (International Energy Agency); and Guineng Chen (International Transport Forum).

The following local expert reviewed and provided input to the report: ENOVA Consultants and Engineers.

Our special thanks also go to Mathieu Bousquet, Sandrine Beauchamp and Javier Menendez Bonilla of the European Commission's Directorate-General Neighbourhood and Enlargement Negotiations (DG NEAR), and Vesna Grković, Aida Soko, Alma Sakota, Sanja Spaić Kurtović, Dijana Sikima,

Nadia Bergamino, Maja Dosenović, Jasmina Hadžimešić, Dijana Dedić, and Renata Abduzaimović of the European Union (EU) delegation of Bosnia and Herzegovina, all of whom reviewed and supported the publication.

The report was prepared for publication by Jennifer Allain, with the strategic support of Robert Akam (OECD Global Relations and Co-operation Directorate). It was edited and proofread by Randall Holden. The following people also contributed to the success of the project: Dardan Gashi, Vojtech Holik, and Stefano Ottino.

This report has been produced with the financial assistance of the EU. The views herein can in no way be taken to reflect the official position of the EU nor its Member States.

Table of contents

Foreword	3
Reader's guide	12
Acronyms and abbreviations	16
Executive summary	23
1 Context	26
Economic context	27
References	35
Notes	39
2 Investment policy and promotion	40
State of play and key developments	42
Overview of implementation of Competitiveness Outlook 2021 recommendations	48
The way forward for investment policy and promotion	49
References	50
Notes	51
3 Trade policy	53
State of play and key developments	55
Overview of implementation of Competitiveness Outlook 2021 recommendations	60
The way forward for trade policy	61
References	63
Notes	64
4 Access to finance	66
State of play and key developments	68
Overview of implementation of Competitiveness Outlook 2021 recommendations	73
The way forward for access to finance	74
References	75
Notes	77
5 Tax policy	79
State of play and key developments	81
Overview of implementation of Competitiveness Outlook 2021 recommendations	84
The way forward for tax policy	85

References	87
Notes	87
6 State-owned enterprises	89
State of play and key developments	91
Overview of implementation of Competitiveness Outlook 2021 recommendations	97
The way forward for state-owned enterprises	98
References	100
Notes	100
7 Anti-corruption policy	102
State of play and key developments	104
Overview of implementation of Competitiveness Outlook 2021 recommendations	110
The way forward for anti-corruption policy	111
References	114
8 Education policy	116
State of play and key developments	118
Overview of implementation of Competitiveness Outlook 2021 recommendations	125
The way forward for education policy	126
References	128
Notes	129
9 Employment policy	132
State of play and key developments	134
Overview of implementation of Competitiveness Outlook 2021 recommendations	142
The way forward for employment policy	143
References	144
Notes	146
10 Science, technology and innovation	149
State of play and key developments	151
Overview of implementation of Competitiveness Outlook 2021 recommendations	155
The way forward for science, technology and innovation	156
References	157
Notes	158
11 Digital society	159
State of play and key developments	161
Overview of implementation of Competitiveness Outlook 2021 recommendations	169
The way forward for digital society	170
References	172
Notes	173
12 Transport policy	177
State of play and key developments	179
Overview of implementation of Competitiveness Outlook 2021 recommendations	183
The way forward for transport policy	184
References	186
Notes	187

13 Energy policy	188
State of play and key developments	190
Overview of implementation of Competitiveness Outlook 2021 recommendations	195
The way forward for energy	196
References	197
Notes	198
14 Environment policy	200
State of play and key developments	202
Overview of implementation of Competitiveness Outlook 2021 recommendations	207
The way forward for environment policy	207
References	211
Notes	213
15 Agriculture policy	217
State of play and key developments	219
Overview of implementation of Competitiveness Outlook 2021 recommendations	228
The way forward for agriculture policy	229
References	230
Notes	231
16 Tourism policy	233
State of play and key developments	235
Overview of implementation of Competitiveness Outlook 2021 recommendations	243
The way forward for tourism policy	244
References	245
Note	246
Annex A. Western Balkans Competitiveness Outlook (CO) 2024 assessment model for Bosnia and Herzegovina	247
Constitutional set-up of Bosnia and Herzegovina	247
CO 2024 assessment of Bosnia and Herzegovina	247
Note	249

FIGURES

Figure 1. Scores for Bosnia and Herzegovina across Competitiveness Outlook policy dimensions (2021 and 2024)	23
Figure 1.1. Bosnia and Herzegovina's GDP per capita convergence with the OECD and the European Union (2003-22)	33
Figure 3.1. OECD Trade Facilitation Indicators in Bosnia Herzegovina and the OECD	58
Figure 5.1. Total SSC rates, Federation of Bosnia and Herzegovina, Republika Srpska, WB6 economies and the OECD (2022)	82
Figure 8.1. Enrolment in primary and secondary education in Bosnia and Herzegovina (2017-23)	118
Figure 11.1. Mobile broadband penetration in the WB6 economies, the EU and the OECD (2020-22)	162
Figure 13.1. Renewable energy capacities installed in Bosnia and Herzegovina (2020-23)	193
Figure 15.1. Agriculture's contribution to value added and total employment in Bosnia and Herzegovina (2010-22)	219
Figure 15.2. Bosnia and Herzegovina's international trade of agrifood products (2014-22)	220
Figure 15.3. Budgetary support for the agriculture sector in Bosnia and Herzegovina (2011-22)	224

Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-22) and seasonal distribution of arrivals (2022) in Bosnia and Herzegovina	236
Figure A.1. Example of scoring criteria differentiation between state and entity levels	248

TABLES

Table 1. Policy dimensions and indicators	14
Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality	14
Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores	15
Table 1.1. Bosnia and Herzegovina: Main macroeconomic indicators (2019-22)	28
Table 1.2. Bosnia and Herzegovina's progress towards achieving the SDGs (2023)	30
Table 2.1. Bosnia and Herzegovina's scores for investment policy and promotion	41
Table 2.2. Bosnia and Herzegovina's progress on past recommendations for investment policy and promotion	48
Table 3.1. Bosnia and Herzegovina's scores for trade policy	54
Table 3.2. OECD Digital Trade Inventory for Bosnia and Herzegovina	59
Table 3.3. Bosnia and Herzegovina's progress on past recommendations for trade policy	61
Table 4.1. Bosnia and Herzegovina's scores for access to finance	67
Table 4.2. Listing rules in Bosnia and Herzegovina	70
Table 4.3. Bosnia and Herzegovina's progress on past recommendations for access to finance	73
Table 5.1. Bosnia and Herzegovina's scores for tax policy	80
Table 5.2. Bosnia and Herzegovina's tax revenues composition (2022)	81
Table 5.3. Bosnia and Herzegovina's progress on past recommendations for tax policy	85
Table 6.1. Bosnia and Herzegovina's scores for state-owned enterprises	90
Table 6.2. Bosnia and Herzegovina's progress on past recommendations for state-owned enterprises	97
Table 7.1. Bosnia and Herzegovina's scores for anti-corruption policy	103
Table 7.2. Bosnia and Herzegovina's and WB6 economies' perceived anti-corruption policy performance, 2018-23	104
Table 7.3. Whistleblower reports in 2018-22 (state level)	108
Table 7.4. Bosnia and Herzegovina's progress on past recommendations for anti-corruption policy	111
Table 8.1. Bosnia and Herzegovina's scores for education policy	117
Table 8.2. ECEC strategies in Bosnia and Herzegovina	120
Table 8.3. Education expenditure in Bosnia and Herzegovina (2016-19)	121
Table 8.4. Bosnia and Herzegovina's progress on past recommendations for education policy	125
Table 9.1. Bosnia and Herzegovina's scores for employment policy	133
Table 9.2. Individuals with basic or above-basic overall digital skills in Bosnia and Herzegovina, the WB6 economies and the EU (2021)	139
Table 9.3. Bosnia and Herzegovina's progress on past recommendations for employment	142
Table 10.1. Bosnia and Herzegovina's scores for science, technology and innovation	150
Table 10.2. Bosnia and Herzegovina's progress on past recommendations for science, technology and innovation	155
Table 11.1. Bosnia and Herzegovina's scores for digital society	160
Table 11.2. Bosnia and Herzegovina's progress on past recommendations for digital society	169
Table 12.1. Bosnia and Herzegovina's scores for transport policy	178
Table 12.2. Rail transport in Bosnia and Herzegovina and the EU (2019-21)	180
Table 12.3. Road infrastructure density in Bosnia and Herzegovina, the WB6 economies and the EU (2017, 2019, 2021)	181
Table 12.4. Road safety trends in Bosnia and Herzegovina and the EU (2012-22)	183
Table 12.5. Bosnia and Herzegovina's progress on past recommendations for transport policy	183
Table 13.1. Bosnia and Herzegovina's scores for energy policy	189
Table 13.2. Bosnia and Herzegovina's progress on past recommendations for energy	196
Table 14.1. Bosnia and Herzegovina's scores for environment policy	201
Table 14.2. Bosnia and Herzegovina's progress on past recommendations for environment policy	207
Table 15.1. Bosnia and Herzegovina's scores for agriculture policy	218
Table 15.2. Bosnia and Herzegovina's progress on past recommendations on agriculture policy	228
Table 16.1. Bosnia and Herzegovina's scores for tourism policy	234
Table 16.2. BiH's progress on past recommendations on tourism policy	244

Table A.1. Application of the scoring models to the Competitiveness Outlook 2024 policy dimensions

248

Follow OECD Publications on:



<https://twitter.com/OECD>



<https://www.facebook.com/theOECD>



<https://www.linkedin.com/company/organisation-eco-cooperation-development-organisation-cooperation-developpement-eco/>



<https://www.youtube.com/user/OECDiLibrary>




<https://www.oecd.org/newsletters/>

This book has...

StatLinks 

A service that delivers Excel® files from the printed page!

Look for the *StatLink*  at the bottom of the tables or graphs in this book. To download the matching Excel® spreadsheet, just type the link into your Internet browser or click on the link from the digital version.

Reader's guide

Assessment process

Following the first three *Western Balkans Competitiveness Outlook* assessments, published in 2016, 2018 and 2021, the fourth assessment cycle was launched on 27 April 2023. In Bosnia and Herzegovina, the Ministry of Foreign Trade and Economic Relations (State-level) held the main role of co-ordinator for the assessment process, and was supported by the Office of the Prime Minister (Federation of Bosnia and Herzegovina) with early inputs from the Ministry of European Integration and International Co-operation (Republika Srpska), ensuring co-ordination at the level of the respective entities. For each of the 15 thematic policy dimensions, a relevant line ministry was designated as policy dimension co-ordinator responsible for input collection, with this structure replicated for the state level and both entities. Once the assessment was launched, the OECD team introduced the new digitalised frameworks for assessing each of the 15 policy dimensions. Consisting of qualitative questionnaires and a statistical data sheet, these frameworks were presented and explained by the OECD, with particular attention paid to new questions and indicators.

Following the launch of the assessment, the National Co-ordinators disseminated the assessment materials among the co-ordination networks and completed the assessment between April and August 2023. They assigned a score to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessment materials were returned to the OECD team between August and October 2023. The OECD then reviewed the inputs and, where necessary, requested additional information from the National Co-ordinator. The updated assessment materials were sent back to the OECD over the defined period until November 2023.

Upon final completion of the assessment materials, the OECD organised a series of fact-finding meetings with the different levels of government, in Banja Luka on 24 October 2023, Mostar on 26 October 2023 and in Sarajevo on 27 October 2023 to gain a better understanding of the policy landscape, to collect additional information for indicators where necessary, and to discuss the first set of selected draft findings. Based on the additional inputs received and the outcome of the discussions on preliminary analyses and recommendations, the OECD compiled the key findings for each of the 15 policy dimensions. These findings were then presented during a dedicated preliminary findings meeting held on 13 December 2023, and discussed with the National Co-ordinators of the Western Balkan economies. The OECD then held consultations on these findings with local non-government stakeholders, including chambers of commerce, academia and NGOs, in January and February 2024. The draft Competitiveness Outlook economy profile was made available to the Government of Bosnia and Herzegovina for its review and feedback from February to March 2024.

Assessment approach

Coverage

This publication features data from and a comprehensive analysis of the six Western Balkan economies, including Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia, providing a detailed analysis of their key sectors, trends, and challenges for achieving convergence with the European Union and OECD area.

The data collection and assessment are standardised for the region, with some differences in the case of Bosnia and Herzegovina. As policy making in Bosnia and Herzegovina is much more decentralised than that of the other Western Balkan economies, information from the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) as well as the state-level has been taken into account in the assessing and scoring of policy dimensions. While Brčko District was not directly included in the assessment, its policies have been specified in various sections of the report, as appropriate. For more information on the exact methodology of the scoring, refer to the Bosnia and Herzegovina profile of the CO 2024.

Timeline

The assessment and monitoring of the policy developments were conducted between 1 March 2021 and 1 March 2024. Any policy changes and new developments after 1 March have not been taken into account in the assessment.

Scoring

The assessment comprises a total of 15 policy dimensions that are key to economic competitiveness; these constitute the central building blocks under national economic reform agendas. Each policy dimension is divided into several sub-dimensions (generally between 2 and 4), which are further comprised of granular indicators.

The methodology consists of assessing a total of 147 qualitative indicators across 15 policy dimensions, presented in Table 1f. In addition, there are a total of 265 quantitative indicators that provide insights into the policy outcomes, demonstrating whether policies bring out the desired results and the extent to which they help to achieve the Western Balkans' socio-economic convergence with the OECD area and the EU.

The 2024 assessment retains the 0-5 scoring scale from previous cycles. However, the scoring criteria have been revised to reflect current best practices and policy trends in OECD and EU countries, as well as policy developments in the Western Balkans. Each indicator is assigned a numerical score ranging from 0 to 5 based on the level of policy development, implementation and monitoring & evaluation, enabling performance comparison across economies and over time. Level 0 represents the weakest performance, while Level 5 indicates the strongest, signifying a higher level of policy convergence towards OECD good practices and standards.

* 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.

Table 1. Policy dimensions and indicators

Dimension	No. of qualitative indicators
1. Investment policy and promotion	8
2. Trade policy	6
3. Access to finance	8
4. Tax policy	11
5. State-owned enterprises	11
6. Anti-corruption policy	13
7. Education policy	9
8. Employment policy	12
9. Science, technology and innovation	9
10. Digital society	11
11. Transport policy	10
12. Energy policy	11
13. Environment policy	10
14. Agriculture policy	8
15. Tourism policy	10

Each criterion that is met on the scale of Level 0 to Level 5 indicates a level of policy sophistication. This form of scoring allows for more nuanced score progression along the scale, and permits the consideration of more refined inputs in scoring. For this assessment, the OECD team has also prepared simplified versions of the scoring methodology, using benchmark criteria to better illustrate the reasoning and rationale behind the scores. However, it is only a simplified representation, and does not encompass all the elements that influence the scoring. Table 2 presents an example indicator for accommodation quality (Tourism policy), with assessed criteria in the second column.

Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality

Score level	Policy requirements	Criterion met
Level 0	A consistent accommodation quality standard framework has been adopted.	✓
	Measures facilitating investments in high-quality private accommodation development or renovation have been adopted.	✓
	Measures facilitating investments in renovation or in building up new high-quality private accommodation are implemented.	✓
	Accommodation quality standard framework is in the process of implementation.	✓
	Energy efficiency requirements are included in the accommodation quality standard framework.	✓
	Regular inspection of quality standards is in place.	X
	Requirements for persons with disabilities are included in the quality standards for accommodation.	
	The sharing economy is regulated.	X
	Accommodation facilities that enhance their energy efficiency are supported by the government.	X
	Regular monitoring of the accommodation framework is conducted.	X
Level 5	An independent ex post evaluation has been conducted to assess the effectiveness of the implemented measures and to take corrective action.	X
	Score for Bosnia and Herzegovina	2.5

Notes: The indicator and criteria shown in the table above do not reflect the actual score for Bosnia and Herzegovina and are included solely for demonstration purposes. Moreover, there is no methodology for specific criteria being assessed, which would translate directly into a score. In other words, each criterion does not necessarily result in a score increase.

As part of the current assessment cycle, the **Western Balkans Competitiveness Data Hub** (westernbalkans-competitiveness.oecd.org) has also been developed to access all the scores by indicator, showcasing the fulfilment of criteria by each economy and offering the rationale behind scores. Scores can be explored through policy dimensions as well as over time, and in comparison to other Western Balkan economies.

The final scores represent a simple average of all indicators, and not individual sub-dimensions. Table 3 illustrates an example of the dimension scoring system and thus the final scores. The number of indicators included in each sub-dimension varies depending on the complexity and scope of the policy area concerned. Therefore, the sample average of the sub-dimension scores can be different from the final dimension scores.

Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			3.6	3.9
	1.2: Investment promotion and facilitation			2.4	3.3
	1.3: Mobilising sustainable investment			2.2	2.8
Bosnia and Herzegovina's overall score		2.2	2.7	2.8	3.4

For further details on the Competitiveness Outlook methodology, individual scores for each indicator, as well as on the changes in scope compared to the last assessment cycle in 2021, please refer to the detailed assessment methodology on the *Western Balkans Competitiveness Data Hub*.

Comparability

The *Western Balkans Competitiveness Outlook* reflects a continual process of methodological refinement aimed at enhancing the robustness and comparability of indicators. However, evolving policy trends in OECD and EU countries, alongside shifting priorities in the Western Balkans, can sometimes make a direct comparison of scores difficult over time. In the 2024 edition, scores are compared back to 2021 and 2018. Due to vast methodological changes, direct comparisons to the first edition in 2016 are not feasible.

Since the 2018 edition, indicators have also been reorganised into different sub-dimensions, reflecting the policy aspects that are of key importance for the Western Balkans. This does not have any impact on the overall score comparability, i.e. dimension scores remain comparable. However, sub-dimension scores cannot be compared across subsequent editions.

Acronyms and abbreviations

ACER	Agency for the Cooperation of Energy Regulators
AEO	Authorised Economic Operator
AEOI	Automatic Exchange of Information
AI	Artificial intelligence
AIF	Alternative Investment Funds
AIFMD	Alternative Investment Fund Managers Directive
AKIS	Agriculture Knowledge and Innovation System
AMIS	Agricultural Management Information Systems
AMLD5	Fifth Anti-Money Laundering Directive
APOSO	Agency for Preschool, Primary and Secondary Education
AZLP	Agency for Personal Data Protection
BAM	Bosnia and Herzegovina convertible mark
BAN	Business Angel Network
BARS	Banking Agency of Republic of Srpska
BATs	Best available techniques
BCP	Border crossing point
BCSD	Business Council for Sustainable Development
BD	Brčko District
BEIS	Business, Energy and Industrial Strategy
BEPS	Base erosion and profit shifting
BHDCA	Bosnia and Herzegovina Directorate of Civil Aviation
BHEPA	Bosnia and Herzegovina Export Promotion Agency
BiH	Bosnia and Herzegovina
BIT	Bilateral Investment Treaty
BLSE	Banja Luka Stock Exchange
BREF	Best Available Techniques Reference Documents
CAP	EU Common Agricultural Policy

CBA	Cost-benefit analysis
CBAM	Carbon Border Adjustment Mechanism
CbC	Country-by-country
CBIT	Capacity-building Initiative for Transparency
CCAC	Climate and Clean Air Coalition
CEDS	Common Education Data Standards
CEFTA	Central European Free Trade Agreement
CEFTA SEED+	Central European Free Trade Agreement – Systematic Exchange of Electronic Data+
CEFTA TRACES NT	Central European Free Trade Agreement – Trade Control and Expert System New Technology
CERTs	Computer Emergency Response Teams
CIT	Corporate income tax
CLP	Classification, Labelling and Packaging
CMOs	Common market organisations
CO	Competitiveness Outlook
CoE	Council of Europe
COST	European Cooperation in Science and Technology
CRA	Communications Regulatory Agency of BiH
CzDA	Czech Development Agency
DIH	Digital innovation hubs
DLT	Distributed ledger technology
DMOs	Destination management organisations
DPO	Data protection officer
DSO	Distribution system operator
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECEC	Early childhood education and care
EDI	Electronic data interchange
EDP	Entrepreneurial Discovery Process
EEA	European Environment Agency
EEAS	European External Action Service
EECC	European Electronic Communications Code
EFTA	European Free Trade Agreement
EIB	European Investment Bank

eIDAS	Electronic Identification, Authentication and Trust Services
EIPPCB	European Integrated Pollution Prevention and Control Bureau
EIS	European Innovation Scoreboard
EMD2	Second Electronic Money Directive
EMF	Electromagnetic field
ENISA	European Union Agency for Cybersecurity
EOSC	European Open Science Cloud
EPR	Extended producer responsibility
EQF	European Qualifications Framework
ERP	Economic Reform Programme
ESAP	Environmental Strategy and Action Plan
ETC	European Travel Commission
ETS	Emissions trading system
EU	European Union
EUR	euro
EUSAIR	European Union Strategy for the Adriatic Ionian Region
EV	Electric vehicle
EVCS	Electric vehicle charging stations
FADN	Farm Accountancy Data Network, replaced by the FSDN
FABCE	Functional Airspace Block Central Europe
FBA	Banking Agency of the Federation of Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
FERK	FBiH Regulatory Commission for Energy
FINRA	Financial Reform Sector Activity
FIPA	Foreign Investment Promotion Agency of Bosnia and Herzegovina
FSDN	Farm Sustainability Data Network
FTAs	Free Trade Agreements
FTC BiH	Foreign Trade Chamber of Bosnia and Herzegovina
FTS	Framework Transport Strategy
GDP	Gross domestic product
GDPR	EU General Data Protection Regulation
GEF	Global Environment Facility
GERD	Gross domestic expenditure on research and development
GHG	Greenhouse gas

GIs	Geographical indicators
GIS	Geographic Information Systems
GIZ	Gesellschaft für Internationale Zusammenarbeit
GloBE	Global Anti-Base Erosion
GRECO	Group of States against Corruption
GST	Goods and services tax
ha	Hectare
HEIs	Higher education institutions
IBRD	International Bank for Reconstruction and Development
ICBL	Innovation Centre Banja Luka
ICESP	Italian Circular Economy Stakeholder Platform
ICILS	International Computer and Information Literacy Study
ICT	Information and communication technology
IDDEEA	Agency for Identification Documents, Registers and Data Exchange
IFAD	International Fund for Agricultural Development
IFIs	International financial institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IMPAQ	Improving Air Quality and Air Management
INTERA	Foundation for Innovation and Technology Development
IPARD	Instrument for Pre-accession Assistance for Rural Development
IPPC	Integrated Pollution Prevention and Control
IPR	Intellectual property rights
IRBRS	Republic of Srpska Investment-Development Bank
ISCED	International Standard Classification of Education
ISP	Intesa Sanpaolo Banka D.D. Bosna i Hercegovina
IT	Information technology
ITA	Indirect Taxation Authority
ITE	Initial teacher education
ITF	International Transport Forum
ITU	International Telecommunication Union
IWW	Inland waterway
JBCPs	Joint Border Crossing Points
JRC	European Commission's Joint Research Centre
JSI	Joint State Initiative

KPIs	Key performance indicators
LAGs	Local Action Groups
LEZs	Low emission zones
LPIS	Land Parcel Identification System
MAWMF	FBiH Ministry of Agriculture, Water Management and Forestry
MAFWD	RS Ministry of Agriculture, Forestry and Water Development
MCT	Ministry of Communications and Transport
MNRVOID	Ministry of Scientific and Technological Development, Higher Education and Information Society
MoCA	Ministry of Civil Affairs
MoFTER	Ministry of Foreign Trade and Economic Relations
MRV	Monitoring, reporting and verification
MSCA	Marie Skłodowska-Curie Action
NAP	National Adaptation Plan
NCTS	New Computerised Transit System
NDC	Nationally Determined Contributions
NECP	National Energy and Climate Plan
NEET	Not in education, employment, or training
NGO	Non-governmental organisation
NI4OS	National Initiative for Open Science in Europe
NIS	Network and Information Systems
NTOs	National tourist organisations
OECD	Organisation for Economic Co-operation and Development
OGP	Open Government Partnership
OSH	Occupational safety and health
PAR	Public Administration Reform
PHPA	Administration of Bosnia and Herzegovina for Plant Health Protection
PISA	Programme for International Student Assessment
PIT	Personal income tax
PPP	Public-Private Partnership
PRTR	Pollutant Release and Transfer Register
PSD2	Second Payment Services Directive
QDMTT	Qualified domestic minimum top-up tax
RAMS	Road Asset Management System
R&D	Research and development

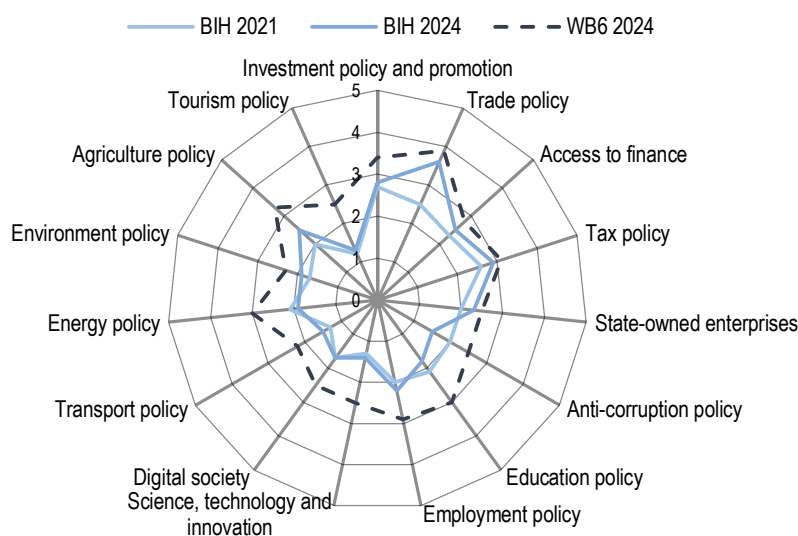
RCC	Regional Cooperation Council
REACH	Registration, Evaluation, Authorisation, and Restriction of Chemicals
RERS	Regulatory Commission for Energy of RS
RES	Renewable energy sources
RF	Radio frequency
RITTD	Research, innovation, technology transfer and digitalisation
RS	Republika Srpska
RSSC	Republic of Srpska Securities Commission
S3	Smart Specialisation Strategy
SAA	Stabilisation and Association Agreement
SASE	Sarajevo Stock Exchange
SDGs	Sustainable Development Goals
SDPPSE	Strategy for the Development of Preschool, Primary, and Secondary Education
SEI	Stockholm Environment Institute
SEPA	Single Euro Payments Area
SERC	State Electricity Regulatory Commission
SES	Single European Sky
SIBs	Systemically important banks
Sida	Swedish International Development Cooperation Agency
SMEs	Small and medium-sized enterprises
SOPs	Standard Operating Procedures
SPIs	Safety performance indicators
SPP	Single project pipeline
SPS	Sanitary and phytosanitary
SSCs	Social security contributions
STI	Science, technology and innovation
STP	Science and Technology Park
SUMP	Sustainable Urban Mobility Plan
SWG RRD	Regional Rural Development Standing Working Group
TALIS	OECD Teaching and Learning International Survey
TCC	Coalition for the Competitiveness of Tourism
TCT	Transport Community Treaty
TFA	Trade Facilitation Agreement
TFI	Trade Facilitation Indicators
TIMSS	Trends in International Mathematics and Science Study

TORS	Tourist Organisation of RS
TPP	Third-party payment services providers
TRACES NT	Trade Control and Expert System New Technology
TSIs	EU Technical Specifications for Interoperability
TTC	Total transfer capacity
UCITS	Undertakings for Collective Investment in Transferable Securities
UIS	UNESCO Institute for Statistics
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value added tax
VET	Vocational education and training
VOC	Volatile Organic Compounds
WB6	Western Balkan 6
WBIF	Western Balkans Investment Framework
WBL	Work-based learning
WCAG	Web Content Accessibility Guidelines
WCO	World Customs Organization
WEEE	Waste of Electrical and Electronic Equipment
WHO	World Health Organization

Executive summary

Bosnia and Herzegovina has positively, albeit slowly, advanced since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), progressing across 11 of the 15 policy dimensions, regressing in three and stagnating in one. Bosnia and Herzegovina showed the strongest score increases in the areas of trade and agriculture policies, with the remaining nine areas advancing marginally. However, Figure 1 illustrates that Bosnia and Herzegovina is performing below the average of the six Western Balkan (WB6) economies across all policy dimensions, with only state-owned enterprises (SOEs), tax, access to finance and trade policies nearing the average. Bosnia and Herzegovina is significantly lagging in the areas of digital society, agriculture, education and tourism policy, scoring below all of its Western Balkan neighbours, highlighting the areas requiring substantial improvement for achieving convergence with the European Union (EU). For additional insights into Bosnia and Herzegovina's performance across various dimensions, trends over time or comparisons with other economies, please refer to the Western Balkans Competitiveness Data Hub at westernbalkans-competitiveness.oecd.org.

Figure 1. Scores for Bosnia and Herzegovina across Competitiveness Outlook policy dimensions (2021 and 2024)



Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub for information on the assessment methodology and the individual score assigned to indicators.

StatLink  <https://stat.link/edpcrm>

Main progress areas

The main achievements that have led to increased performance for Bosnia and Herzegovina since the last assessment are as follows:

- **Increased digitalisation has helped to facilitate trade.** The roll-out of the New Computerised Transit System has streamlined operations and fostered efficiency in the customs process by enabling the electronic submission and processing of declarations. Such advances in efficiency have been bolstered by the improved legislative framework surrounding customs policy, which has further simplified related procedures. The introduction of an Authorised Economic Operators programme has been another good step towards creating a secure and efficient trade environment by encouraging businesses to adhere to security and compliance standards.
- **The tax administration has been significantly strengthened.** The e-filing of taxes has been progressively implemented for most taxes in both entities – the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). The frequency of e-filing system use has been steadily growing across both entities, with rates increasing to 64% in FBiH and 90% in RS. Both entities have also developed audit plans targeting large taxpayers. Risk-based selection strategies have improved compliance assessment and risk management in both entities, thereby improving the resource allocation of tax administrations.
- **Strengthened legal and regulatory frameworks governing banking finance have increased businesses' access to finance.** Both entities have advanced on aligning banking industry regulation with international standards, including the EU acquis, which has strengthened the reliability of bank finance supply for businesses in the economy. Loans from commercial banks to small and medium-sized enterprises (SMEs) account for around 45% of total loans in Bosnia and Herzegovina, exceeding the regional average. Both entities offer an array of policy schemes to bolster SMEs' access to bank finance, including designated credit guarantee schemes and credit lines. Such advances in the banking sector are crucial given that banks control 88% of total financial assets in the economy as of June 2022.
- **Ongoing initiatives focusing on rural development support the productivity and competitiveness of the agriculture sector.** Both entities have undertaken efforts to offer augmented policy support and financing to expand rural infrastructure, focusing on the road network as this is integral to supporting farmers' access to services and connection to markets. Irrigation and draining infrastructure have also been expanded and improved, although remain limited. Meanwhile, rural livelihoods have been improved by enhanced income generation capacities and living standards of rural populations, largely supported by several donor-funded projects. These projects have played a crucial role in supporting small rural agrifood businesses.

Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, Bosnia and Herzegovina is encouraged to:

- **Reinforce anti-corruption efforts.** The perceived level of corruption in Bosnia and Herzegovina consistently remains above the regional average and has generally worsened in recent years. There is no overarching policy framework on anti-corruption for both state and entity levels, and limited resources and powers affect corruption prevention, investigative and prosecutorial bodies. Systems for the management of conflicts of interest, disclosure of assets, whistleblower protection and registration of beneficial ownership fall short of international standards. Only 20% of the public agrees that the government fights corruption successfully, the lowest in the Western Balkans.

- **Accelerate efforts to establish necessary conditions for a well-equipped science, technology and innovation (STI) system.** The policy framework guiding STI remains outdated in Bosnia and Herzegovina, with slow progress towards the development of an economy-wide smart specialisation strategy. The lack of effective policy co-ordination due to the constitutional set-up hinders the ability to leverage economies of scale. Implementation capacity remains limited and there are no dedicated agencies to implement targeted policy instruments. Investments into research and development (R&D) remain chronically low, and weak business-academia linkages, coupled with significant brain drain, result in low scientific research. Concerted and comprehensive efforts will be needed to strengthen the STI system.
- **Improve the quality and relevance of education across all levels.** Varying learning standards for students limits the capacity of government actors to assess learning outcomes across the entire education system. Limited participation in international assessments, such as the Programme for International Student Assessment (PISA), further hinders the ability of policy makers to develop valuable benchmarks for monitoring education performance. High youth unemployment and inactivity rates indicate deficiencies in the system's ability to equip youth with the necessary skills. Policies and mechanisms supporting teachers' professional development are underdeveloped, and the decentralised nature of pre-university education funding impacts the quality and equity of education, particularly in early childhood education and care.
- **Strengthen policies to improve the competitiveness of the tourism sector.** The tourism sector is experiencing a dynamic period, with significant growth over the past ten years. However, there are limited policies to capitalise on this growth. Efforts need to be increased to attract foreign direct investment and promote innovation in the sector, with a focus on diversifying the tourism offer. The lack of an economy-wide tourism brand identity, state-level tourism organisation and reliable data hinder Bosnia and Herzegovina from fully unleashing its potential. These issues are further compounded by the absence of a comprehensive framework for destination management, which limits co-operation across various administrative levels.

1 Context

This chapter offers an overview of Bosnia and Herzegovina’s economic developments since the Competitiveness Outlook 2021, with a special focus on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for Bosnia and Herzegovina’s accession efforts. Altogether, this sets the stage for in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

Economic context

Key economic developments

Bosnia and Herzegovina is a small upper-middle-income economy with a gross domestic product (GDP) of approximately EUR 24.9 billion as of 2023 (IMF, 2024^[1]; FRED, 2023^[2]). Services account for the largest share of the economy, contributing 54.4% to GDP, followed by industry, including construction, which accounts for 24.7% of GDP, while agriculture represents only 4.8% of GDP (World Bank, 2024^[3]). Meanwhile, 50% of employment is concentrated in services, while industry and agriculture comprise 33% and 17% of employment, respectively (ILO, 2024^[4]). The informal sector is estimated to account for 30.5% of employment as of 2019 (ILO, 2023^[5]).

Over the assessment period, Bosnia and Herzegovina's economy remained largely resilient, with growth projected to slow to 2.5% in 2024 (IMF, 2024^[6]) (Table 1.1). While its GDP declined by 2.9% in 2020, growth rebounded to 7.3% in 2021, decelerated rapidly to 3.8% in 2022, and further slowed to approximately 2% in 2023 (European Commission, 2024^[7]; IMF, 2024^[8]). On the demand side, growth has been primarily driven by domestic demand supported by higher real wages, policy support, tourism, and recovering private investment (IMF, 2024^[8]). Public and minimum wage increases to mitigate the impact of rising costs have supported domestic demand but also risk fuelling inflation (IMF, 2024^[8]). On the production side, recovery growth was mainly driven by trade, transport, accommodation, food and IT and communication services (European Commission, 2024^[7]). Tourism has also helped buoy the recovery, with figures reaching and even surpassing post-pandemic levels in the first eleven months of 2023 (World Bank, 2023^[9]).

Despite a peak of 14% in 2022, inflation has been moderate over the observed period and is projected to continue declining (IMF, 2024^[6]). As a result of the Russian Federation's full-scale invasion of Ukraine (Box 1.1) rising international food and energy prices drove inflation to a peak in 2022, which was felt particularly among poor and vulnerable households (European Commission, 2024^[7]; World Bank, 2023^[9]). As of 2023, inflation came down to 4.3%, owing to downward pressures from lower import prices, domestic currency appreciation, and monetary policy normalisation (IMF, 2024^[6]). Policy responses to mitigate the impact of rising prices have included agricultural subsidies (non-tax), personal income tax deduction (only in the Republika Srpska entity), and customs tariff reductions.

Amid challenging circumstances, the labour market shows signs of modest recovery, with unemployment declining to 15.4% as of 2022, below the pre-pandemic level of 15.7% in 2019 (European Commission, 2024^[7]). Labour force participation rates also increased, from 57.3% to 61.6% over the same period (ILO, 2024^[10]). Youth unemployment declined slightly from 38% in 2021 to 35% in 2022 – reaching pre-pandemic levels, but remaining persistently high and reflecting structural problems (World Bank, 2023^[9]; European Commission, 2024^[7]). The increase in employment has also been accompanied by an increase in wages, with wage growth consistently rising in 2021 and 2022 by 6.3% and 8.2%, respectively (European Commission, 2024^[7]).

Bosnia and Herzegovina's external sector has made a strong recovery following the pandemic, largely owing to its services exports. As of 2022, travel comprised 49.6% of services exports, while transport accounted for another 22.1% (UNCTAD Statistics Division, 2023^[11]). While total exports had declined significantly from 40% of GDP in 2019 to 34.6% in 2020, a strong upswing followed, with total exports recuperating to 42.6% of GDP in 2021 and growing further to 48.1% in 2022 (European Commission, 2024^[7]). Inward foreign direct investment (FDI) flows increased by 12.6% over 2021 to 2022, from EUR 496.2 million in 2020 to EUR 627.5 million, reaching above pre-pandemic levels (UNCTAD, 2023^[12]). As of December 2022, the Federation of Bosnia and Herzegovina accounted for 64.5% of total FDI, the Republic of Srpska contributed 34.4%, and the Brčko District constituted 1.1% (FIPA, 2023^[13]). The top five historic investors in BiH are Austria, Croatia, Serbia, Slovenia, and Germany, which collectively represent 61% of total FDI stocks. Personal remittances increased by 33% from 2020, reaching

EUR 2.45 billion in 2022 (World Bank, n.d.^[14]). Total reserves amounted to approximately EUR 8.2 billion in 2022, an increase from EUR 7.6 billion in 2020 (World Bank, 2024^[15]). As the Bosnia-Herzegovina Convertible Mark (BAM) remains pegged against the euro, its exchange rate has remained constant, at a rate of BAM 1.96 per euro (European Commission, 2024^[7]). However, its real effective exchange rate has increased slightly into 2022, owing to a rising positive inflation differential with its trade partners (European Commission, 2024^[7]). The current account deficit narrowed to 6% of GDP in 2022, with lower oil prices and higher investment income and remittances (European Commission, 2024^[7]; World Bank, 2023^[9]; IMF, 2024^[8]).

While the government's fiscal position has improved following the shock of 2020 due to stronger tax revenues supported by a high inflation rate, its improved fiscal position is expected to be temporary. Following a negative government balance in both 2020 and 2021, at -5.2% and -0.3% respectively, Bosnia and Herzegovina's balance reached -0.4% in 2022 (European Commission, 2024^[7]). However, the fiscal deficit is expected to widen owing to increases in wages, pension outlays, and social benefits approved in 2023 (World Bank, 2023^[9]; IMF, 2024^[8]). Despite an increase in public debt in 2020, it decreased to 37.6% by 2021 and 31.5% by 2022, and is estimated to remain stable though varying between the two entities (World Bank, 2023^[9]). In June 2023, Standard and Poor's raised the long-term local and foreign currency sovereign credit ratings on Bosnia and Herzegovina to "B+" from "B", which it has maintained as of February 2024 (S&P Global Ratings, 2024^[16]).

Bosnia and Herzegovina's financial sector has remained well capitalised and stable, though some policy-induced risks exist (IMF, 2024^[6]). Its capital adequacy ratio remained at 19.5% in the second quarter of 2023, well above the regulatory minimum of 12% (European Commission, 2024^[7]). Nonperforming loans decreased from 5.8% in 2021 to 5.4% in 2022 (World Bank, 2023^[9]). Lending rates have risen marginally, from 3.1% in 2020 to 3.4% in 2022, a rate that may not adequately reflect real credit risk (World Bank, 2022^[17]; IMF, 2024^[6]). Credit to the private sector has shrunk, declining from 1.3% in 2020 to -8.1% in 2022 (World Bank, 2023^[9]).

Table 1.1. Bosnia and Herzegovina: Main macroeconomic indicators (2019-22)

Indicator	Unit of measurement	2019	2020	2021	2022
GDP growth	% year-on-year	2.3	-2.9	7.3	3.8
National GDP	USD billion	20.48	20.23	23.65	24.47
Inflation	% average	0.6	-1.1	2.0	14
Current account balance	% of GDP	-2.6	-2.8	-1.8	-4.3
Exports of goods and services	% of GDP	40	34.6	42.6	48.1
Imports of goods and services	% of GDP	54.5	47.9	53.9	61.9
Net FDI	% of GDP	2.1	2	2.7	3
Public and publicly guaranteed debt	% of GDP	34.5	38.8	37.6	31.5
External debt	% of GDP	62.1	66.9	55.5	52.1
Unemployment	% of total active population	15.7	15.9	17.4	15.4
Youth unemployment	% of total	34.1	37.1	35.3	31.9
International reserves	In months of imports of G&S	7.8	10	9.3	6.8
Exchange rate (if applicable local currency/euro)	Value	1.96	1.96	1.96	1.96
Remittance inflows	% of GDP	11.4	9.5	10.5	10.5
Lending interest rate	% annual average	3.3	3.1	3.2	3.4
Stock markets (if applicable)	Average index	772	769	870	1 009

Note: G&S = goods and services.

Sources: European Commission (2024^[7]); World Bank (2022^[18]; 2022^[19]); World Bank (2023^[9]); EBRD (2023^[20]); IMF (2024^[21]); UNCTAD (2024^[22]).

Box 1.1. Economic impacts of Russia's full-scale invasion of Ukraine on Bosnia and Herzegovina's economy

The economic fallout from Russia's war of aggression against Ukraine, which provoked rising inflation globally and in Europe, led to moderate consequences for Bosnia and Herzegovina's economy. Inflationary pressures from rising energy prices spilled over into the economy, reaching peak **inflation rate** of 14% in 2022. Moreover, since February 2022, 213 Ukrainian nationals have remained in Bosnia and Herzegovina, 41 of whom have claimed asylum status (UNHCR, 2024^[23]).

Bosnia and Herzegovina's **trade** sector has been minimally affected overall, as trade with both Russia and Ukraine comprises a small amount of its total trade. As of 2022, Russia accounted for only 0.3% of exports and 1.6% of BiH's imports (United Nations, 2024^[24]). Russia's total value of trade with Bosnia and Herzegovina declined in 2023, owing to a drastic reduction in the value of imports. Exports increased by 2% over 2022 to 2023, from EUR 50 million to EUR 52.2 million. Bosnia and Herzegovina primarily exports medicaments, apples and pears, and refined petroleum to Russia (United Nations, 2024^[24]). Meanwhile, imports from Russia, which mainly consist of petroleum gas, raw aluminium and coal, decreased by 30% from EUR 337.9 million to EUR 236.4 million between 2022 and 2023 (United Nations, 2024^[24]). Prior to Russia's full-scale invasion of Ukraine in 2022, total Russian **investment** in Bosnia and Herzegovina accounted for less than 4%, and was primarily focused on banking, energy and real estate (Ruge, 2022^[25]). Shortly after the outbreak of war, authorities in Bosnia and Herzegovina expelled Russian banks and sold subsidiaries of Sberbank, Russia's largest lender, due to the bank's significant cash outflows.

Trade relations with Ukraine, which represent less than 0.1% of the economy's total trade value, have also been impacted since the start of the conflict. Exports to Ukraine nearly doubled over 2021 to 2022, increasing from EUR 4.4 million to EUR 8.05 million, and increased by 8% thereafter to EUR 8.73 million in 2023 (United Nations, 2024^[24]). Meanwhile imports from Ukraine totalled EUR 30.1 million in 2021, peaked at EUR 60.3 million in 2022 and fell to EUR 31.3 million in 2023 (United Nations, 2024^[24]).

Bosnia and Herzegovina's direct **energy** needs were moderately impacted, as Russia is the main source of its natural gas imports. The cost of household electricity rose by a mere 3% from the start of 2020 into end-2022, as Bosnia and Herzegovina can fulfil domestic demand through hydroelectric generation (EBRD, 2022^[26]). However, the cost of gas for household consumers rose by 60% over the same period (Eurostat, 2024^[27]). As Bosnia and Herzegovina's energy sector is managed primarily at entity level, the country has had a split approach regarding its energy imports of gas since the conflict, which has led to a temporary stalemate in efforts at infrastructure expansion. For the Federation of Bosnia and Herzegovina, plans are under way to develop the South Interconnection Gas Pipeline through Croatia, which would supply Bosnia and Herzegovina with gas from a liquefied natural gas (LNG) terminal on the Croatian island of Krk, increasing the diversification of natural gas. Meanwhile, Republika Srpska aims to increase its gas imports exclusively from Russia through the construction of the New Eastern Interconnection gas pipeline, facilitating the transportation of Russian gas through Serbia.

Sustainable development

Bosnia and Herzegovina has made moderate progress towards reaching the targets of the 2030 Agenda for Sustainable Development over the assessment period; implementation and monitoring strategies show room for improvement (Sachs et al., 2023^[28]) (Table 1.2) As of 2023, Bosnia and Herzegovina achieved or is on track to achieve 44.3% of its target indicators and has made limited progress

in 31.1% of indicators, while performance has regressed across 24.6% of indicators. Bosnia and Herzegovina officially endorsed the 2030 Sustainable Development Goal (SDG) Agenda in September 2015 and developed the SDG Framework for Bosnia and Herzegovina in December 2020, which was formally adopted by the Council of Ministers in 2021 (UNDP, 2020^[29]). The lead government unit responsible for overall monitoring and reporting on the implementation of the SDGs Framework is the interministerial Council for the Implementation of the SDGs in Bosnia and Herzegovina, which also coordinates the preparation of annual reports and Voluntary National Reviews (VNR) for the United Nations (UNDP, 2020^[29]). Despite these efforts, however, the government has not yet mainstreamed SDGs into its national and sectoral plans and has yet to incorporate SDG tagging into national budgeting practices (Sachs et al., 2023^[28]; UNDP, 2023^[30]). While no national indicators have been enumerated, there is online reporting on official SDG indicators (Sachs et al., 2023^[28]). According to the latest VNR in 2023 (the first being in 2019), co-ordination and integration of policies, as well as monitoring of SDG indicators, remain especially challenging given the highly decentralised structure of the country (Government of Bosnia and Herzegovina, 2023^[31]).

Table 1.2. Bosnia and Herzegovina’s progress towards achieving the SDGs (2023)

SDG	Current assessment	Trends
1 – No poverty	SDG achieved	On track or maintaining SDG achievement
2 - Zero hunger	Significant challenges	Moderately improving
3 – Good health and well-being	Significant challenges	Moderately improving
4 – Quality education	Significant challenges	Information unavailable
5 – Gender equality	Significant challenges	Moderately improving
6 – Clean water and sanitation	Significant challenges	Stagnating
7 – Affordable and clean energy	Significant challenges	Moderately improving
8 – Decent work and economic growth	Significant challenges	Moderately improving
9 – Industry, innovation and infrastructure	Significant challenges	Moderately improving
10 – Reduced inequalities	Significant challenges	Information unavailable
11 – Sustainable cities and communities	Major challenges	Stagnating
12 – Responsible consumption and production	Significant challenges	Stagnating
13 – Climate action	Significant challenges	Stagnating
14 – Life below water	Challenges remain	Moderately improving
15 – Life on land	Significant challenges	Moderately improving
16 – Peace, justice and strong institutions	Significant challenges	Stagnating
17 – Partnerships for the goals	Challenges remain	Moderately improving

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges; major challenges.
Source: Sachs et al., (2023^[28]).

Bosnia and Herzegovina achieved or has maintained the achievement of the SDGs in only one area, poverty (SDG 1), and is nearing achievement in protection of marine life (SDG 14) and partnerships for the goals (SDG 17). Despite the challenges wrought by the pandemic and ensuing energy crisis that affected the most vulnerable, the economy’s performance relating to poverty reduction remains in line with SDG achievement. Considerable improvements have been made in the aforementioned areas of SDG 14 and SDG 17 since 2021, supporting advancements in their achievement. Meanwhile, progress has generally been moderate across most SDG areas and information was insufficient regarding progress made in the areas of education (SDG 4) and reduction of inequalities (SDG 10) (Sachs et al., 2023^[28]).

Progress has been most positive in the areas of nutritional well-being (SDG 2); health (SDG 3); gender equality (SDG 5); affordable and clean energy (SDG 7); economic growth (SDG 8); industry, innovation and infrastructure (SDG 9); and protection of terrestrial life (SDG 15). However, progress in these areas remains insufficient to achieve the goals (Sachs et al., 2023^[28]). Rising obesity rates and

low vaccination rates continue to hinder progress in the areas of nutritional well-being and health (SDGs 2 and 3). Persistently high levels of CO₂ emissions from fuel combustion and limited access to clean fuels and technology for cooking among the population impedes further improvement in the area of clean energy (SDG 7). Progress in economic growth (SDG 8) was limited owing to persistently high unemployment, while low levels of expenditure in research and development inhibited advancement of industry, innovation and infrastructure (SDG 9) (Sachs et al., 2023^[28]). Bosnia and Herzegovina continues to have a low mean percentage area of protected biodiversity areas, posing a hindrance to the protection of terrestrial life (SDG 15).

Performance has been flagging in the areas of clean water and sanitation (SDG 6); responsible consumption and production (SDG 12); and climate action (SDG 13), with the most significant gap in sustainable communities (SDG 11). Minimal improvement in the availability of basic drinking water and poor wastewater treatment rates contribute to the lagging performance in the area of clean water and sanitation (SDG 6) (Sachs et al., 2023^[28]). Ongoing high levels of emissions in production processes and in imported products hinder progress in the areas of responsible consumption and production (SDG 12) and climate action (SDG 13). While 2030 target levels have been met with regard to the proportion of urban population living in slums, significant challenges remain in achieving sustainable cities and communities (SDG 11), particularly in reducing air pollution and improving access to piped water, transport and other services.

EU accession process

Bosnia and Herzegovina's EU accession process began in June 2006, with the signing of its Stabilisation and Association Agreement (SAA). The SAA entered into force in June 2015 and Bosnia and Herzegovina submitted its application for EU membership in February 2016. In October 2019, the European Commission outlined 14 key priorities for Bosnia and Herzegovina to fulfil in order to be ready for the opening of accession negotiations, which focus on the areas of democracy and functionality of the state, the rule of law, fundamental rights and public administration reform. In February 2020, the European Commission set out its revised enlargement methodology, which places an even stronger focus on the fundamentals of the accession process proposed by the EU, and emphasises credible fundamental reforms, stronger political steer, and the increased dynamism and predictability of the process (European Commission, 2021^[32]). Along with the revised methodology, the Commission adopted an Economic & Investment Plan to support and bring the Western Balkans closer to the EU.

In December 2022, Bosnia and Herzegovina was granted EU candidate status, catalysing positive momentum, including steps made towards fulfilment of the key priorities outlined by the European Commission. In November 2023, the EC issued its recommendation for the opening of accession negotiations, contingent upon achievement of the necessary degree of compliance with the Membership criteria, which was approved by the European Council in December 2023. On 12 March 2024, the European Commission issued its formal recommendation for the opening of negotiations. Opening was then approved at the European Council meeting of 21 March 2024 (European Council, 2024^[33]). While chapters on EU accession are not yet open for the economy as the negotiation procedures have not yet commenced, the status of Bosnia and Herzegovina's implementation of each criterion is being assessed on an annual basis.

According to the latest enlargement report, Bosnia and Herzegovina has made significant positive developments within particular reform areas since it gained candidate (European Commission, 2023^[34]). When it comes to the fundamentals of the accession process, Bosnia and Herzegovina has made important reforms, such as its adoption of the law on prevention of conflicts of interest and the law on anti-money laundering and countering terrorist financing. It has also taken significant steps towards improving the judiciary and prosecutorial system, the fight against corruption, organised crime, terrorism, and migration management, with the approval of a mandate to negotiate a Frontex status agreement¹

(European Commission, 2023^[34]). The legislative and institutional framework on fundamental rights is largely in place, though significant reforms are still needed to ensure equal access to voting rights and quality education. Meanwhile, newly proposed laws that reintroduce criminal penalties for defamation in Republika Srpska threaten freedom of expression and freedom of the media (European Commission, 2023^[34]). Bosnia and Herzegovina has reached and continues to maintain full alignment with the EU Common Foreign and Security Policy (European Commission, 2024^[35]).

In terms of economic criteria, Bosnia and Herzegovina is still in the initial stages of developing a functional market economy, and falls between an early stage and a certain level of readiness regarding its ability to handle competitive pressure and market forces within the EU (European Commission, 2023^[34]). It has made limited progress in the former, with economic performance remaining below its potential amid a fragmented internal market and limited economic reforms. Key impediments regarding its capacity to cope with competitive pressure and market forces in the EU lie in continued underperformance in the quality of education and green and digital transition, and low total trade volumes with the EU relative to its total trade potential.

On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of convergence between the Western Balkans and the EU (European Commission, 2023^[36]; European Commission, 2023^[37]). Backed by EUR 6 billion in non-repayable and loan support, the Growth Plan has the potential to boost socio-economic convergence and bring the WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023^[38]). The new Growth Plan is based on four pillars, aimed at:

1. “Enhancing economic integration with the European Union’s single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market;
2. Boosting economic integration within the Western Balkans through the Common Regional Market;
3. Accelerating fundamental reforms, including on the fundamentals cluster², supporting the Western Balkans’ path towards EU membership, improving sustainable economic growth including through attracting foreign investments and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans” (European Commission, 2023^[37]).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures, providing incentives to economies to accelerate the adoption and implementation of the EU *acquis*, while narrowing the gap between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region’s performance in achieving economic convergence towards the EU and the OECD area, and highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (OECD, 2023^[39]) (Box 1.2).

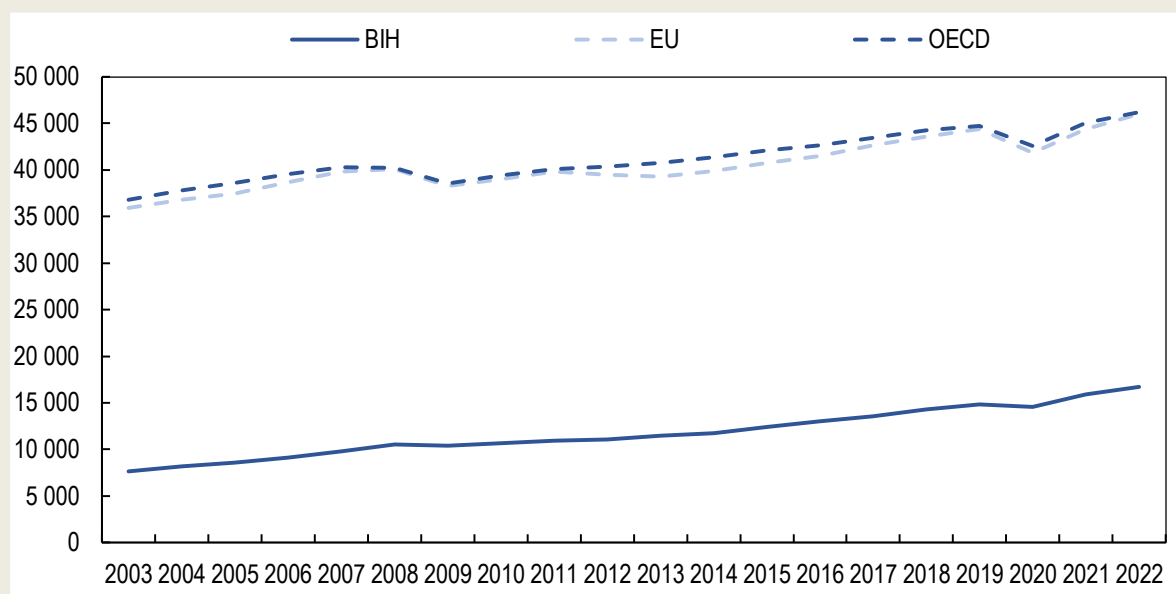
As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission country-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan’s funding. All Reform Agendas are structured along the same four policy areas: 1) the business environment and private sector development, 2) green and digital transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes’ chapter IV on structural challenges as, going forward, the Economic Reform Programmes will only cover macrofiscal aspects.

Box 1.2. Economic Convergence Scoreboard for the Western Balkans 2023: Spotlight on Bosnia and Herzegovina

Bosnia and Herzegovina's GDP per capita has more than doubled from 2003 to 2022 in comparison to the EU's and OECD's comparatively modest increases of 27% and 25%, respectively. Between 2003 and 2022, Bosnia and Herzegovina significantly narrowed the gap in GDP per capita by more than half with the EU and OECD area, showing substantial progress. Bosnia and Herzegovina has experienced a consistent rise in GDP per capita during the observed period, highlighting positive policy developments that promote a resilient economy and stronger workforce. However, Bosnia and Herzegovina's 2022 GDP per capita of USD (PPP international \$) 16 737 (EUR 15 900)¹, compared to the EU's USD 45 978 (EUR 43 679) and the OECD's USD 46 208 (EUR 43 897), underscores the considerable progress still needed for Bosnia and Herzegovina to align with the EU and OECD area (Figure 1.1).

Figure 1.1. Bosnia and Herzegovina's GDP per capita convergence with the OECD and the European Union (2003-22)

In purchasing power parity 2017 USD (thousands)



Source: World Bank (2022₍₄₀₎).

StatLink  <https://stat.link/oj4cqp>

In this context, the OECD developed the *Economic Convergence Scoreboard* for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool designed to evaluate the extent of economic convergence of the Western Balkans with the European Union and the OECD area. Prepared to inform discussions at the Berlin Process Western Balkans Leaders' Summit 2023 and grounded in a decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters include *business environment, skills, infrastructure and connectivity, greening, and digitalisation*.

Since 2008, Bosnia and Herzegovina has demonstrated consistent yet gradual advancement across the five policy clusters, underscoring the adoption of policies that support harmonisation with the EU *acquis* and OECD standards but also emphasising the necessity for more robust and efficient implementation. Bosnia and Herzegovina advanced in both the *skills* and *infrastructure and connectivity* clusters. Regarding *skills*, the economy has improved its performance, trending positively with incremental advancements in areas such as the employment rate and output per hour worked. Notably, the Programme for International Student Assessment (PISA) score is near parity with that of the EU and the employment rate is approaching the same milestone, while output per hour worked, though presently performing at less than half of the EU's rate, is steadily increasing. Moreover, Bosnia and Herzegovina's performance in many facets of the *infrastructure and connectivity* cluster is comparable to that of the EU and even surpasses it in total freight transport by road and average time required to obtain electricity. Noteworthy advances were made in average time to obtain electricity over the three observed periods (2008-12; 2013-17; 2018-22), with the economy surpassing convergence with the EU since the latter period.

By contrast, there is a need for further advancement in the *business environment* and *greening* clusters. Bosnia and Herzegovina's performance in terms of the *business environment* warrants attention, given the stagnation in trade openness since 2008 and the 5% observed decline in new business density; these point to challenges within the small business sector. In this context, SME's performance in total exports also declined by 20%, although it is currently above that of the EU. Concerning the *greening* cluster, the current intensity of water exploitation in Bosnia and Herzegovina is eight times higher than that in the EU, and fertiliser consumption increased by 14% between 2013 and 2022, underscoring the need for enhanced implementation of greening policies as part of the country's broader convergence efforts.

In the context of aligning with OECD standards, Bosnia and Herzegovina has demonstrated consistent progress, albeit with a slight setback in the OECD Services Trade Restrictiveness Index and Digital Services Trade Restrictiveness Index, and with regard to the Competitiveness Outlook (CO) 2021 employment and agriculture policy. Notably, advancements have been made in CO access to finance policy, energy policy and digital society. Bosnia and Herzegovina's positive development within a majority of OECD good policy practices, standards and tools demonstrates the positive influence of the CO 2021 recommendations on Bosnia and Herzegovina's long-term policy development.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international dollars into EUR.
Source: OECD (2023^[39]).

EU financial and development support

Bosnia and Herzegovina continues to receive significant support from the European Union, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, and long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank (EIB) loans, Western Balkans Investment Framework grants and more.

Under the Instrument for Pre-accession Assistance I and II, the EU allocated Bosnia and Herzegovina with total funding of EUR 1.9 billion over 2007-20, while the IPA III funding for national programmes amounts to over EUR 256 million (European Commission, 2023^[41]). The IPA 2022 programme covers the areas of environmental protection, strengthening democracy and the judiciary, and support to other reforms to fulfil EU standards and norms. It also includes the dedicated EUR 70 million from the 2023 Energy Support Package immediate measures, 90% of which have already been disbursed to support vulnerable families and SMEs facing rising energy prices. The actions are also aimed at supporting policy measures to accelerate the energy transition (European Commission, 2023^[41]).

The European Union has also been crucial in financially supporting Bosnia and Herzegovina in the wake of COVID-19. Bosnia and Herzegovina received over EUR 340 million in combined assistance through the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners; the European Union's Team Europe COVID-19 economic recovery support package to the region; and SME support from the European Investment Fund.

Additionally, through the Economic and Investment Plan (EIP) for the Western Balkans 2021-27, Bosnia and Herzegovina is expected to benefit from significant flagship projects. The EU has already mobilised EUR 3 billion in investments, out of which EUR 934 million are grants (European Commission, 2023^[41]). The Bosnian section of Corridor Vc, backed by over EUR 1 billion in financing to date through the EIB, represents the largest ever infrastructure project in the country's history. Once completed, the project will link Bosnia and Herzegovina with Hungary, eastern Croatia and the Adriatic Sea. The EIP also foresees investments in a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Bosnia and Herzegovina, two wind farms, and gas interconnection with Croatia to facilitate diversification of Bosnia and Herzegovina's energy supply (WBIF, 2023^[42]).

References

- EBRD (2023), *Transition Report 2023-24*, <https://www.ebrd.com/news/publications/transition-report/transition-report-202324.html> (accessed on 12 April 2024). [20]
- EBRD (2022), *Bosnia and Herzegovina Country Diagnostic: Private Investment Challenges and Opportunities 2022*, <https://www.ebrd.com/where-we-are/bosnia-and-herzegovina/overview.html> (accessed on 12 April 2024). [26]
- EUR-lex (2023), *Frontex Status Agreements with Non-EU Countries*, <https://eur-lex.europa.eu/EN/legal-content/summary/frontex-status-agreements-with-non-eu-countries.html> (accessed on 11 June 2024). [44]
- European Commission (2024), *EU Candidate Countries' and Potential Candidates' Economic Quarterly (CEEQ) Q4 2023*, https://economy-finance.ec.europa.eu/document/download/00bb7307-1694-4c7e-99de-5c3e662b2172_en?filename=tp070_en.pdf (accessed on 8 April 2024). [7]
- European Commission (2024), *Report on Progress in Bosnia and Herzegovina – March 2024*, https://neighbourhood-enlargement.ec.europa.eu/document/download/fa9da504-4ecb-4317-b583-c9fff0b833b2_en?filename=Report%20on%20progress%20in%20Bosnia%20and%20Herzegovina%20-%20March%202024.pdf (accessed on 12 April 2024). [35]
- European Commission (2023), *Bosnia and Herzegovina 2023 Enlargement Package Factsheet, Brussels: Directorate-General for Neighbourhood and Enlargement Negotiations*, https://neighbourhood-enlargement.ec.europa.eu/bosnia-and-herzegovina-2023-enlargement-package-factsheet_en. [41]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [34]

- European Commission (2023), *Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of the Regions: New growth plan for the Western Balkan*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/COM_2023_691_New%20Growth%20Plan%20Western%20Balkans.pdf (accessed on 5 April 2024). [36]
- European Commission (2023), *New Growth Plan for the Western Balkans*, https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/new-growth-plan-western-balkans_en#:~:text=On%208%20November%202023%2C%20the,growth%20and%20accelerating%20socio%2Deconomic (accessed on 8 April 2024). [37]
- European Commission (2021), *Application of the Revised Enlargement Methodology to the Accession Negotiations with Montenegro and Serbia*, <https://data.consilium.europa.eu/doc/document/ST-8536-2021-INIT/en/pdf> (accessed on 12 April 2024). [32]
- European Council (2024), *European Council Conclusions, 21 and 22 March 2024*, <https://www.consilium.europa.eu/en/press/press-releases/2024/03/22/european-council-conclusions-21-and-22-march-2024/>. [33]
- Eurostat (2024), *Electricity Prices for Household Consumers - Bi-Annual Data (from 2007 Onwards (Online Data Code: nrg_pc_204)*, https://ec.europa.eu/eurostat/databrowser/view/nrg_pc_204/default/table?lang=en&category=nrg.nrg_price.nrg_pc (accessed on 12 April 2024). [27]
- FIPA (2023), *FDI Position and Performance, September 2023*, https://economy-finance.ec.europa.eu/document/download/451b2f4e-b781-4bdd-899d-8c2bb9b4fc9f_en?filename=tp065_en_0.pdf (accessed on 12 April 2024). [13]
- FRED (2023), *Gross Domestic Product for Bosnia and Herzegovina*, <https://fred.stlouisfed.org/series/MKTGDPBAA646NWDB> (accessed on 3 May 2024). [2]
- Gomez Ortiz, M., R. Zarate Vasquez and D. Taglioni (2023), “The economic effects of market integration in the Western Balkans”, *The World Bank Policy Research Working Paper Series*, Vol. 10491, <https://ideas.repec.org/p/wbk/wbrwps/10491.html> (accessed on 8 April 2024). [38]
- Government of Bosnia and Herzegovina (2023), *Voluntary Review 2023: Implementation of Agenda 2030 and the Sustainable Development Goals in Bosnia and Herzegovina*, <https://hlpf.un.org/sites/default/files/vnrs/2023/VNR%202023%20Bosnia%20and%20Herzegovina%20Report.pdf> (accessed on 12 April 2024). [31]
- ILO (2024), *ILO Modelled Estimates and Projections database (ILOEST) ILOSTAT*, <http://ilostat.ilo.org/data> (accessed on 12 April 2024). [10]
- ILO (2024), *ILO Modelled Estimates Database*, <https://ilostat.ilo.org/> (accessed on 12 April 2024). [4]
- ILO (2023), *Overview of the Informal Economy in Bosnia and Herzegovina*, https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/genericdocument/wcms_751314.pdf (accessed on 12 April 2024). [5]

- IMF (2024), *Bosnia and Herzegovina: Concluding Statement 2024 Article IV Consultation Mission*, <https://www.imf.org/en/News/Articles/2024/03/19/cs31924-bosnia-and-herzegovina-concluding-statement-2024-article-iv-consultation-mission> (accessed on 12 April 2024). [6]
- IMF (2024), *Datamapper: GDP, Current Prices*, <https://www.imf.org/external/datamapper/profile/BIH> (accessed on 12 April 2024). [1]
- IMF (2024), *Datamapper: Real GDP Growth*, <https://www.imf.org/external/datamapper/profile/BIH> (accessed on 12 April 2024). [8]
- IMF (2024), *International Financial Statistics (IFS)*, <https://data.imf.org/regular.aspx?key=61545855> (accessed on 8 April 2024). [21]
- OECD (2023), *Economic Convergence Scoreboard for the Western Balkans 2023*, OECD, Paris, <https://www.oecd.org/south-east-europe/ECS-Policy-Paper-2%20web-1.pdf> (accessed on 5 April 2024). [39]
- RCC (2021), *Balkan Barometer*, Regional Cooperation Council, <https://www.rcc.int/balkanbarometer/publications>. [43]
- Ruge, M. (2022), "The past and the furious: How Russia's revisionism threatens Bosnia", <https://ecfr.eu/publication/the-past-and-the-furious-how-russias-revisionism-threatens-bosnia/#:~:text=For%20Bosnia%20as%20a%20whole,the%20financial%20and%20energy%20sectors> (accessed on 12 April 2024). [25]
- S&P Global Ratings (2024), *Bosnia and Herzegovina Credit Rating*, <https://www.cbbh.ba/Content/Read/549?lang=en#:~:text=On%20February%20%2C%202024%2C%20rating,Herzegovina%20%E2%80%9EB%2B%20outlook%20stable%E2%80%9C>. (accessed on 12 April 2024). [16]
- Sachs, J. et al. (2023), *Implementing the SDG Stimulus. Sustainable Development Report 2023.*, Paris: SDSN, Dublin: Dublin University Press, <https://doi.org/10.25546/102924>. [28]
- UNCTAD (2024), *Data Centre*, <https://unctadstat.unctad.org/datacentre/> (accessed on 8 April 2024). [22]
- UNCTAD (2023), *World Investment Report 2023, Country Fact Sheet: Bosnia and Herzegovina*, https://unctad.org/system/files/non-official-document/wir_fs_ba_en.pdf (accessed on 12 April 2024). [12]
- UNCTAD Statistics Division (2023), *General Profile: Bosnia and Herzegovina*, <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/070/index.html> (accessed on 12 April 2024). [11]
- UNDP (2023), *Joint Programme 2022 Annual Progress Report*, https://mptf.undp.org/sites/default/files/documents/2023-05/bosnia_and_herzegovina.pdf (accessed on 12 April 2024). [30]
- UNDP (2020), *The SDGs Framework in Bosnia and Herzegovina*, <https://zamisli2030.ba/wp-content/uploads/2019/12/SDG-Framework-for-BiH-English.pdf> (accessed on 12 April 2024). [29]

- UNHCR (2024), *Ukrainian Nationals in Bosnia and Herzegovina*, [23]
https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiAeresLyFAxWZU6QEHWUKD_sQFnoECBkQAQ&url=https%3A%2F%2Fdata.unhcr.org%2Fes%2Fdocuments%2Fdownload%2F104567&usg=AOvVaw0XjFkKDG8zOaphdGi_Olui&opi=89978449 (accessed on 12 April 2024).
- United Nations (2024), *UN Comtrade Database*, <https://comtradeplus.un.org/> (accessed on 8 April 2024). [24]
- WBIF (2023), *New Investments Approved under the Economic and Investment Plan for the Western Balkans*, <https://www.wbif.eu/news-details/new-investments-approved-under-economic-and-investment-plan-western-balkans> (accessed on 12 April 2024). [42]
- World Bank (2024), *World Development Indicators*, <https://databank.worldbank.org/source/world-development-indicators> (accessed on 12 April 2024). [3]
- World Bank (2024), *World Development Indicators Database: Total Reserves (Includes Gold, Current US\$) - Bosnia and Herzegovina*, <https://data.worldbank.org/indicator/FI.RES.TOTL.CD?locations=BA> (accessed on 12 April 2024). [15]
- World Bank (2023), *World Bank Western Balkans Regular Economic Report*, <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report> (accessed on 8 April 2024). [9]
- World Bank (2022), *GDP Per Capita, PPP (Constant 2017 International \$)*, <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD>, <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD> (accessed on 5 April 2024). [40]
- World Bank (2022), “Lending Interest Rates - Bosnia and Herzegovina”, <https://data.worldbank.org/indicator/FR.INR.LEND?locations=BA> (accessed on 15 May 2024). [18]
- World Bank (2022), *Personal Remittances, Received (% of GDP) - Bosnia and Herzegovina*, <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=BA> (accessed on 11 June 2024). [19]
- World Bank (2022), *World Development Indicators database: Lending Interest Rate (%) - Bosnia and Herzegovina*, <https://data.worldbank.org/indicator/FR.INR.LEND?locations=BA> (accessed on 12 April 2024). [17]
- World Bank (n.d.), *World Development Indicators Database Personal Remittances, Received (Current US\$)*, <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=BA> (accessed on 12 April 2024). [14]

Notes

¹ Frontex is the European Border and Coast Guard Agency of the European Union and assures the security of the EU's external borders in line with EU's fundamental rights charter. Frontex provides support on the ground and fighting cross-border crime, collecting aerial surveillance and information for EU and Schengen countries. The management of EU's borders is supported by status agreements between Frontex and non-EU members, including the Western Balkan economies Albania, Montenegro, North Macedonia and Serbia. For more information, please see (EUR-lex, 2023^[44]).

² In line with Communication on “Enhancing the accession process – A credible EU perspective for the Western Balkans”, COM(2020)57. The fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights, chapter 24 – Justice, Freedom and Security, the economic criteria, the functioning of democratic institutions, public administration reform, chapter 5 – Public procurement, chapter 18 – Statistics; and chapter 32 – Financial control (RCC, 2021^[43]).

2 Investment policy and promotion

Creating an attractive environment for investors is essential to stimulate economic activity and to foster sustainable economic growth. This chapter assesses the scope and effectiveness of existing policies and strategies that aim to enhance investment volume and quality. The first sub-dimension, investment policy framework, assesses the robustness of legal framework for investment, the efficiency of dispute settlement mechanisms, as well as intellectual property rights enforcement and awareness-raising capacity. The second sub-dimension, investment promotion and facilitation, focuses on investment promotion agency structures, investment promotion strategies and investor incentives, all geared towards attracting foreign direct investment. The third sub-dimension, mobilising sustainable investment, explores the strategic framework for a sustainable investment governance, while also reflecting on the scope of financial and technical support allocated to sustainable investment.

Key findings

Bosnia and Herzegovina registered modest further improvements in its performance in the investment dimension (Table 2.1). The economy's score slightly increased to 2.8 since the 2021 Competitiveness Outlook. Despite these modest advancements, Bosnia and Herzegovina scored low in comparison to the other WB6 economies.

Table 2.1. Bosnia and Herzegovina's scores for investment policy and promotion

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			3.6	3.9
	1.2: Investment promotion and facilitation			2.4	3.3
	1.3: Mobilising sustainable investment			2.2	2.8
Bosnia and Herzegovina's overall score		2.1	2.7	2.8	3.4

The **key findings** are:

- While progress in investment policy and promotion has been generally limited at state level and in the Federation of Bosnia and Herzegovina (FBiH), there have been several important developments in Republika Srpska (RS), including the adoption of the Strategy for Attracting Foreign Investments for the period 2021-27.
- While there is not a well-established framework for sustainable investment in Bosnia and Herzegovina, the FBiH adopted a 2021-27 Development Strategy, focusing on key drivers for inclusive, innovative and digital growth.
- Despite moderate improvements, there is still scope for aligning alternative dispute resolution mechanisms with the EU *acquis*.
- In August 2023, foundational principles were established for a new model bilateral investment treaty (BIT), featuring standards on investment protection and promotion in agreements.
- The efforts to improve the business environment in the economy are ongoing, though vary in scope across levels of governments. The FBiH is developing an online company registration system, while RS introduced a wide range of programmes and regulation with the goal of improving the investment climate.
- The process of company registration remains complex and unharmonised across levels of government, with distinctive procedures, fees and durations across entities.

State of play and key developments

Having dipped slightly in 2020 during the COVID-19 pandemic, foreign direct investment (FDI) inflows to Bosnia and Herzegovina fully recovered to reach a new record of EUR 604 million (USD 661 million) in 2022 (UNCTAD, 2023^[1]). In terms of percentage of GDP, however, net inflows remain relatively low, having declined marginally from 2.6% during 2017-19 to 2.5% during 2020-22. On this measure, Bosnia and Herzegovina still ranks last among the WB6 economies, although it compares more favourably to the average among similar “upper middle income” economies, where net inflows averaged 1.8% during the 2020-22 period, and the OECD average of 1.4% 2022 (World Bank, 2024^[2]). The stock of direct investment amounted to 37% in 2022, the lowest among the Western Balkans and the first time it had fallen below 40% of GDP since 2011 (UNCTAD, 2023^[1]). Manufacturing (29% of total FDI stock) and financial services (20%) account for the bulk of FDI, followed by telecommunications and trade (10% each). In terms of the origin of Bosnia and Herzegovina’s stock of inward FDI, the most important economies are Austria (15%), Croatia (15%), Serbia (14%), Slovenia (7%), the United Kingdom (6%), and Germany (6%) (Central Bank of Bosnia and Herzegovina, 2022^[3]).

Sub-dimension 1.1: Investment policy framework

Bosnia and Herzegovina’s legal framework for investment activities and business conduct is intricate and lacks clarity. The entities have a high degree of autonomy when regulating investment policies and institutions, and the economy is decentralised. The complexity arises from this decentralisation and the substantial autonomy granted to sub-national entities in establishing their investment policies, regulations and institutions. The situation poses a challenge for investors due to potential overlaps or conflicts in these decentralised entities. While the overall framework for attracting FDI is coherent, the nuances in secondary legislation and regulations, as well as transparency, impacting business operations can vary at the entity and canton levels, affecting both local and foreign investors.

There have been important developments in the legal framework for investment at entity level. In November 2021, RS adopted the Strategy for Attracting Foreign Investments for the period 2021-27 (Box 2.1), with the 2023-25 Action Plan for the implementation of the strategy adopted in June 2023. Recent years have also seen the government of RS introduce a wide range of legislative and regulatory reforms¹ aimed at improving the business and investment climate in the entity. The government has also introduced measures to improve transparency and stakeholder consultation. In 2022 for example, new Guidelines for consultations in the drafting of regulations and other general acts were adopted. These included measures to promote digitalisation of the process using the “eConsultation” web application. Following reforms to its public-private partnership (PPP) regime in 2020, RS issued new PPP implementation guidelines in 2021. For its part, the FBiH prepared a draft Law on PPPs in November 2021, although it has yet to be implemented. The pending legislation aims to rectify the drawbacks of the previous PPP law, characterised by a complex administrative procedure that resulted in the limited implementation of PPP projects.

In Bosnia and Herzegovina, the market is open with limited exceptions to national treatment. The economy’s score on the OECD FDI Regulatory Restrictiveness Index, which evaluates market access and exceptions to national treatment, was 0.037 in 2019, below the OECD average of 0.064. The regulations governing foreign investors in the economy are unlikely to be a significant barrier to attracting investments. While there are some restrictions, particularly in arms production within the military and the media sector, where foreign ownership is capped at 49%, exceeding this limit is possible if the government determines that such investments do not compromise national security. Real estate is another sector with restrictions, as the economy imposes discriminatory limitations on property ownership by foreign legal entities. To acquire property, foreigners must either register as a local company or be citizens of an economy with a reciprocal land ownership agreement. Furthermore, both domestic and foreign investors are prohibited from owning agricultural land in the economy (OECD, 2020^[4]).

Box 2.1. RS refines investment strategy with a sustainable development focus

In recent years, the government of RS has developed a coherent and comprehensive strategy for attracting foreign investment, while the forthcoming Sustainable Development Strategy for the period 2024-30 should ensure that the focus is increasingly on attracting high-quality investment that contributes to the entity's SDG-linked sustainability objectives.

In November 2021, the government of RS adopted the Strategy for Attracting Foreign Investments to RS for the period 2021-27. The strategy identified priority sectors with development potential: manufacturing, ICT, tourism and energy. It comprises three strategic goals: i) to increase the cumulative FDI inflow (reversing recent outflow trends), ii) to increase the share of FDI in GDP, and iii) to increase the participation of FDI motivated by efficiency enhancement, in line with sustainable development goals. Thus, already the alignment of investment strategy with SDG goals is a high priority.

In March 2023, the government of RS decided to develop a Sustainable Development Strategy for the period 2024-30. Financial support for the strategy's development is being provided by the United Nations Development Programme (UNDP), the government of the Slovak Republic and the Slovak Development Agency, while negotiations take place with other potential donors.

According to the authorities, the strategy will be “the most important document in the field of strategic planning and development management, and will be the basis for the development of all other sectoral and development strategies at the national and local level”. In accordance with the 2021 Law on Strategic Planning, there should be alignment between sectoral strategies as well as between strategies at both entity and local government level. This suggests that there will be a good degree of alignment between the Strategy for Attracting Foreign Investments and the Sustainable Development Strategy. It is expected, in addition, that the strategy itself, when finalised, will include an important investment component, with a particular focus on “smart growth”.

After the initial phase of the strategy's preparation was concluded in mid-2023, it was expected that a first series of public economy-wide consultations would be conducted. A second series of public consultations was to take place to afford citizens and stakeholders the opportunity of commenting on the draft strategy, once completed. It is expected that the final draft strategy will be completed in 2024, at which point it will be submitted to the National Assembly of RS for adoption.

Source: Government of Republika Srpska (2021^[5]).

The model treaty is being updated to incorporate contemporary provisions, particularly those concerning the investment-state dispute mechanism, aligning with EU standards and international best practices. The foundational principles for a novel model bilateral investment treaty (BIT) were adopted in August 2023 and contain standards on investment protection in agreements and on investment promotion.

Bosnia and Herzegovina's legal framework provides various avenues for **dispute settlement**, encompassing alternative dispute resolution mechanisms. The economy has demonstrated a favourable inclination towards arbitration, instilling confidence among foreign investors that they can effectively uphold their rights and contracts in case of a dispute. Within the framework of the EU-funded project “EU support for judicial reforms in BiH”, a working group has been formed comprised of representatives across the three levels of government.² The main objective of the group is to draft the Alternative Dispute Resolution Strategy, in accordance with the EU *acquis*.

At the entity level, there are additional measures for alternative dispute mechanisms, although their utilisation varies across entities. Within the FBiH, ombudsman services and mediation are commonly employed mechanisms, and their principles, operation, and organisation are regulated by state-level laws.

However, since the last assessment, there has been little significant progress in terms of the functioning of the judiciary or, specifically, dispute settlement for commercial matters. The inadequate performance of the judicial system persisted, compromising citizens' ability to fully enjoy their rights, while selective and non-transparent judicial follow-up in corruption cases is (European Commission, 2023^[6]). Moreover, enforcing contracts and resolving disputes through the national legal system remain challenging. Additionally, commercial cases involving subject matter unfamiliar to judges, like intellectual property rights, often linger unresolved for extended periods (US State Department, 2023^[7]). There is a need for comprehensive judicial reform strategies, as well as resolute commitment and sufficient resources to implement them, at both state and entity levels. There also remains scope for aligning alternative dispute resolution mechanisms with EU standards and best practices, as well as proactive efforts to raise awareness of, and promote the use of, arbitration and mediation as alternatives to judicial proceedings. Consideration should also be given to the elaboration of draft model contractual dispute resolution clauses for commercial contracts (Desic, Nedic and D'Urso, 2021^[8]).

Bosnia and Herzegovina has a sound **intellectual property rights (IPR) legal framework**. However, substantial efforts are needed in enhancing IPR enforcement and co-ordination. As of now, an intellectual property strategy for the period 2022-26 has not been officially adopted (European Commission, 2023^[6]). There is a particular need for strengthening the Law on Patents as well as protections for collective copyright (US State Department, 2023^[7]). **IPR enforcement and awareness raising** remain challenging in Bosnia and Herzegovina. Reflecting in part weaknesses in the judicial system, civil and criminal enforcement of IPR laws remains underdeveloped (European Commission, 2023^[6]). While awareness of IPR issues remains low in academic institutions and the private sector, a nascent domestic software industry is starting to broaden the public knowledge base (US State Department, 2023^[7]). Implementation of the IPR enforcement strategy is needed, backed by increased resources for, specialised training in, and enhanced co-ordination between, the relevant policy-making and enforcement institutions. There is also a need for increased awareness-raising activities on IPR issues among target stakeholder communities.

Sub-dimension 1.2: Investment promotion and facilitation

Bosnia and Herzegovina's **investment promotion agency structure and strategy** is complex and multi-layered, reflecting the economy's governance structure. It still requires streamlining, and there should be enhanced inter-institutional co-operation among the entities. The task of promoting investments falls under the jurisdiction of the Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA), a state agency. FIPA's mission is to attract and enhance foreign investment inflow, support the growth of existing foreign businesses, facilitate public-private sector collaboration, advocate favourable business policies, and promote Bosnia and Herzegovina as an attractive investment destination. The staff count has remained constant at around 30 since 2019. However, the budget has seen an increase, albeit moderate, reaching BAM 1.38 million (EUR 705 000) in 2019, BAM 1.6 million (EUR 818 000) in 2022, and BAM 1.9 million (EUR 971 000) in 2024.

While there have not been significant developments at the state level or in inter-institutional co-ordination mechanisms, the FBiH has put forth draft legislation aimed at fostering the growth of small businesses and entrepreneurial infrastructure. These proposals have been submitted for parliamentary consideration. If approved, the enactment of the Entrepreneurial Infrastructure Bill and the introduction of a new law supporting small business development would establish the foundation for significant budget allocations to SMEs and entrepreneurs, totalling up to 1% of the FBiH's budget. In parallel, the FBiH advanced on the implementation of the one-stop-shop system for business entity registration. This system, established through recent amendments to the Law on Business Companies and the Law on the Registration of Business Entities of the FBiH,³ lays the legal foundation for the institutionalisation of the one-stop-shop system and electronic registration; however, the project has not yet been launched. The entity responsible for the project's implementation is the Federal Ministry of Justice.

RS has initially solidified the legal framework for its investment promotion agency. In 2021, the enactment of the Law on Amendments to the Law on RS Administration laid the legal groundwork for establishing the RS Directorate for Investments as an autonomous administrative organisation with legal status. Although initially scheduled for 2024, the unit is yet to be established, and budget reallocation suggests potential inconsistencies in the implementation process.

Enhancing investment facilitation services and after-care support activities can alleviate the complexity of the business environment in Bosnia and Herzegovina. However, challenges exist due to varying regulations between entities and among cantons. A good example of such challenges is the divergence across jurisdictions of procedures for starting a business, which is regulated by a national framework law⁴ in addition to three additional laws for each entity and the district of Brcko.⁵ The process ranges in cost from BAM 350 (EUR 179) in RS to BAM 2 500 (EUR 1 278) in the FBiH and from 6 steps in RS to 7 steps in FBiH, and 13 steps in the Canton of Sarajevo (EBRD, 2022^[9]). While there have not been significant developments in this regard at the state or FBiH level, the government of RS has implemented a programme of administrative streamlining with the aim of simplifying procedures and reducing the cost of doing business (Box 2.2).

The **investor incentives** system in Bosnia and Herzegovina is intricate and multi-faceted, and primarily administered at the entity level. While there have not been significant developments at the state level, the FBiH introduced new investor incentives, including subsidies for project development, entrepreneurship and crafts, and the survival of traditional crafts. However, the majority of support available in FBiH is designed for business support rather than investment attraction.

RS introduced changes to its Investment Incentives Law. First introduced in 2019, the Law was amended in 2020 and again in April 2022. This latter range of amendments was introduced following analysis carried out into the Law's functioning and with the aim of streamlining procedures for the awarding of incentives. Among the specific changes was a criterion for entitlement to incentives for direct investments, whereby a minimum amount of investment was introduced as an alternative option to the previously unique criterion that the investment should lead to the employment of at least 100 workers.⁶ In September 2022 the government issued a "Decree on the procedure of granting incentives for direct investments of special importance". This Decree takes into account the potential impact of the investment on local economies, covering projects where there is i) employment of at least 100 workers or investments of at least BAM 10 000 000 (EUR 5 100 000) in tangible and intangible assets on the territory of a developed or medium-developed local self-government unit, or ii) employment of at least 50 workers or investments of at least BAM 5 000 000 (EUR 2 500 000) in tangible and intangible assets on the territory of an underdeveloped or extremely underdeveloped local self-government unit (Government of the Republic of Srpska, 2022^[10]). The Decree makes available subsidies for up to two years by way of refunds of taxes and employee contributions made. RS has also adopted several other regulations to provide financial support for the introduction of digitalisation and new technologies, notably the Law on Incentives and a Decree on the procedure for awarding incentives for SMEs.

Box 2.2. RS reform drive targets improvements in business climate

In April 2021, RS adopted a Decision on the implementation of the Project for Optimisation of Administrative Procedures and Formalities. Reflecting demands from the business community, this had been included as one of the measures in the Program of Economic Reforms of RS for the period 2021-23, with the aim of improving the business environment and increasing the level of investment.

As a first step, the project was to include analysis of procedures and formalities issued by RS public bodies and authorised entities. For this purpose, the authorities have created a comprehensive electronic database of administrative procedures and formalities for business activities. These primarily consist of formalities registered on the portal of the Point of Single Contact for Business. One of the key simplifications envisaged by the project relates to obtaining documents *ex officio* using web services. In addition, parties are no longer obliged to submit decisions on the registration of business entities or current excerpts.

The April 2021 Decision included an implementation Action Plan as well as two institutional innovations. Firstly, a Project Management and Monitoring Council was established, consisting of ministers responsible for the areas of economy and finance as well as those responsible for areas in which there exist a large number of procedures and formalities. Representatives of the business community also participate. Secondly, an Operational Body for the implementation of the Project was to be established, comprising representatives of competent bodies that conduct administrative procedures and issue formalities, as well as the Secretariat for Administrative and Technical Affairs, which is comprised of officials of the Ministry of Economy and Entrepreneurship.

Separately, recent years have also seen the adoption of a range of regulatory and legislative measures aimed at improving the business environment. These include, for example, a new Law on Social Entrepreneurship (2021), amendments to the Law on Companies (2023), and a Decision on regulatory impact assessment (2023). In addition, several measures were introduced with the aim of reducing tax and non-tax benefits for the economy, namely: amendments to the Law on Municipal Taxes (2021) and repeal of the Law on Special Republic Taxes (2022). Together, these abolished the obligation of business entities, legal entities and entrepreneurs to pay an annual tax for displaying a business name. Amendments to the Law on Income Tax (2021) abolished the dividend tax. Amendments to the Law on Contributions (2022) reduced employee contributions from 32.8% to 31%. Finally, amendments to the Law on Agricultural Land (2021) were to enable the construction of agricultural and manufacturing facilities in which processing industry activities were to be carried out; these were exempted from obligations to pay compensation for changing the use of agricultural land for non-agricultural purposes.

Source: Government of Republika Srpska (2021_[11]).

Sub-dimension 1.3: Mobilising sustainable investment

The **strategic framework and governance for sustainable investment** is relatively underdeveloped at the state and entity level. The FBiH has approved the Development Strategy for the period 2021-27,⁷ which emphasises key accelerators aimed at fostering inclusive, innovative, and digital growth and development (Box 2.3). The government of RS, however, has taken important steps to mainstream sustainable approaches explicitly linked to its SDG objectives, in its investment strategy as well as in related sectoral strategies. It is expected that the economy's forthcoming Sustainable Development Strategy will further underpin the commitment to sustainable investment going forward. Similarly, the extent to which **financial and technical supports for sustainable investment** are provided is more developed in RS than at the

level of either the state or FBiH. In the former, these supports address two of the four SDG-linked sustainability objectives, namely i) productivity and innovation, and ii) job quality and skills. Moreover, incentives for direct investment in technology are granted based on the condition that the project contributes to sustainable economic growth and employment. However, the sustainable investments sector in the economy is primarily led by international financial institutions (IFIs) and international donors, with minimal involvement from domestic governments in providing incentives.

Box 2.3. Development Strategy of the FBiH 2021-27

In accordance with the Law on Development Planning and Management, the FBiH adopted the Decision on Developing the Development Strategy of the FBiH 2021-27 in April 2022.

Notably, the strategy aligns with the internationally recognised Agenda 2030 and SDGs. The strategy mirrors the priorities outlined in the EU Economic and Investment Plan for the Western Balkans, the Green Agenda for the Western Balkans, and the EU Digital Strategy. It also encompasses measures associated with the S3 Framework (Smart Specialisation Strategy), as recommended by the EU Commission.

The Strategy outlined four main objectives to be achieved by 2027:

- accelerated economic growth, which includes improved digitalisation of the economy and support for exports of higher-value products
- prosperous and inclusive social development, encompassing improved outcomes of the health sector, boosted education systems
- resource-efficient and sustainable development, which includes improved protection of natural resources, air quality and energy efficiency, and incentivised development of rural areas
- a transparent, efficient and accountable public sector following the rule of law.

The objectives include 78 measures outlined as goals and priorities. Additionally, an Action Plan has been formulated during the planning process, comprising around 550 potential activities aimed at supporting the implementation of these 78 measures. Implementation of the strategy will be carried out via three-year and annual work plans developed by the ministries and institutions of the FBiH. According to the government, full implementation of the strategy will bring about GDP growth of a minimum 9.2%.

The strategy prioritises enhancing the digital infrastructure of small and medium-sized enterprises (SMEs) and fostering industrial clustering. Additionally, it envisages providing SMEs with access to mentoring programmes, facilitated networking, and financial support as key objectives. Moreover, it is the first strategy in the FBiH to focus on enhancing the energy efficiency of companies by providing tangible technical and financial support measures. Additionally, it aims to aid in the implementation of energy audits and energy management systems. The strategy also emphasises the promotion of eco-efficiency through financial instruments. As of early 2024, no evaluation or monitoring reports have been published.

Source: Federation of Bosnia and Herzegovina (2021_[12]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's progress in implementing 2021 Competitiveness Outlook recommendations has been mixed, with moderate advances in improving both the clarity of legal frameworks for foreign investment and the inclusiveness of policy making (Table 2.2). Limited progress was observed in dispute settlement, as the judicial reforms are advancing at a slower pace. Nevertheless, there were improvements in the functioning of the judiciary. There is still room for improvement in the enforcement of IPR and raising awareness. On the entity level there were some advances in reinforcing the legal framework for sustainable investment, although the process is still in its early stages.

Table 2.2. Bosnia and Herzegovina's progress on past recommendations for investment policy and promotion

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Improve the clarity and predictability of the legal frameworks for investment, including for foreign investors	There has been some progress at state level with preparation under way of a new model BIT, government adoption of which is pending.	Moderate
Improve the transparency and inclusiveness of policy making	In 2022, RS issued new Guidelines for consultations in the drafting of regulations. This included measures to promote digitalisation through the "eConsultation" web application.	Moderate
Accelerate justice reform efforts, particularly those related to commercial matters, and dedicate more effort to improving the rule of law and easing the process of enforcing contracts	In recent years, there has been limited improvement in the functionality of the judiciary, particularly regarding the resolution of commercial disputes. Persistent inefficiencies in the judicial system undermine citizens' rights, and there is prevalent selective and non-transparent follow-up in corruption cases.	Limited
Promote arbitration as a recognised alternative dispute resolution mechanism	At the entity level there are supplementary measures for alternative dispute mechanisms, yet their usage remains limited.	Limited
Enforce IP rights and raising IP awareness	Currently, there is no official adoption timeline of an intellectual property strategy for the period 2022-26. There is a specific requirement for enhancing the Law on Patents and bolstering protections for collective copyright. Enforcement and awareness raising in the realm of intellectual property rights pose are challenges in Bosnia and Herzegovina.	Limited
Reinforce FIPA's resources and capacity so that it can effectively fulfil its mandate and establish stronger co-ordination mechanisms to avoid overlaps and conflicts in investment promotion and facilitation activities	Progress was limited in this respect, as staffing remained constant since 2019 and the budget was only modestly revised upwards.	Limited
Improve investment-facilitating activities, including those related to starting a business	There has been some progress at entity level. In light of demands from the business community, as one of the measures of the Program of Economic Reforms of RS for the period 2021-23, a programme of administrative streamlining was introduced. One of the key simplifications was removal of the obligation on parties to submit decisions on the registration of business entities.	Moderate
Promote and unify legislation encouraging green investment, while increasing transparency through the publication of summary information in one place	There has been some progress at entity level. The FBiH prepared a draft Law on PPPs in November 2021, although it has yet to be implemented. Following reforms to its PPP regime in 2020, Republika Srpska issued new PPP implementation guidelines in 2021. In February 2023, moreover, the entity made a decision on the development of the Sustainable Development Strategy for the period 2024-30, in which one of the segments also refers to sustainable investments, and specifically to "smart growth".	Moderate

The way forward for investment policy and promotion

Bosnia and Herzegovina continues to lag behind regional peers in its ability to attract investment while reform momentum that had seen important improvements in its attractiveness as an FDI destination appears to have stalled in more recent years. Indeed, a number of policy recommendations from *Competitiveness Outlook 2021* remain valid, due to limited progress in the intervening period. Priorities for reform should therefore include the following areas:

- **Enhance the clarity and predictability of investment-related legal frameworks, especially at the state level and within the FBiH, for both domestic and foreign investors.** Essential elements of a robust investment policy involve upholding the rule of law, implementing high-quality regulations, ensuring transparency, openness, and maintaining integrity. Taking effective measures in these aspects will promote investment and mitigate the challenges associated with conducting business. Well-established institutions with defined mandates will further contribute to sustaining a stable and transparent environment for investors.
- **Harmonise company registration procedures uniformly across all levels of government and facilitate seamless online registration.** Despite moderate advancements in the process, online company registration has not been put into effect thus far across all entities. It is essential to prioritise streamlining and expediting the registration process and improve the co-ordination between business registers, fostering a more conducive environment for businesses and promoting economic growth.
- **Intensify initiatives for judicial reform, with a specific focus on commercial cases, and allocate additional resources to enhance the rule of law while facilitating the enforcement of contracts.** This entails ensuring judges receive ample resources and proper training to grasp the intricacies of commercial litigation. The effectiveness and autonomy of the judicial systems are essential for fostering a business-friendly atmosphere, instilling confidence, and encouraging investment. A justice system that ensures prompt and effective contract enforcement, along with addressing the backlog of court cases, has the potential to positively influence the investment climate, as well as enhance the productivity and competitiveness of businesses in Bosnia and Herzegovina.
- **Ensure the enforcement of intellectual property (IP) rights and enhance awareness of IP.** This includes prompt adoption of the intellectual property strategy for the period 2022-26. The institutions responsible for enforcement should receive sufficient staffing and training, and the establishment of a co-ordinating body is recommended.
- **Ensure comprehensive integration of SDG-linked sustainable investment objectives into investment promotion strategies and associated implementation plans at all levels of government.** This comprehensive integration is vital for aligning economic development efforts with global sustainability targets, fostering responsible and impactful investment practices. By embedding SDG-linked objectives into planning and execution processes, governments can contribute significantly to the promotion of environmentally friendly, socially inclusive, and economically sustainable investments (Box 2.4)

Box 2.4. Incorporating sustainability objectives in investment facilitation strategies in Ireland

The Industrial Development Agency in Ireland (IDA) launched the 2021-24 investment promotion and facilitation strategy, which incorporates a wide range of sustainability objectives.

The IDA's strategic plan for the period 2021–2024 is structured around five core pillars: growth, transformation, regional development, sustainability, and impact. To attain the goals outlined within each pillar, the strategy outlines specific key metrics, which include:

- attracting 800 investments to support the creation of 50 000 jobs and boost economic activity
- engaging in 170 research, development, and innovation investments
- facilitating 130 training and upskilling investments
- advancing regional development through 400 investments
- promoting a green recovery through 60 sustainability investments.

The strategy has a strong greening component, which includes specific investment targets aligning with priority Sustainable Development Goals (SDGs), namely SDG 12 (Responsible consumption and production), SDG 13 (Climate action), and SDG 14 (Life below water). The emphasis will be on bolstering sustainability within the existing client base and securing investments in new endeavours related to sustainability. This includes activities focused on climate change mitigation and adaptation, sustainable use and preservation of water and marine resources, transitioning to a circular economy, prevention and control of pollution, and protection and restoration of biodiversity and ecosystems. The strategy positions IDA to respond to emerging pandemic-accelerated trends. It targets sustainable growth among existing clients through transformative investments in Irish operations, emphasising productivity enhancement through research and development, digitalisation, training, and sustainability. Simultaneously, the strategy remains committed to attracting new leading multinational enterprises to Ireland, ensuring sustained growth, and maximising FDI impact beyond 2024.

Source: Industrial Development Agency of Ireland (2021^[13]).

References

- Central Bank of Bosnia and Herzegovina (2022), *External Sector Statistics*, http://statistics.cbbh.ba/Panorama/novaview/SimpleLogin_en_html.aspx (accessed on 14 June 2024). [3]
- Desic, A., B. Nedic and L. D'Urso (2021), *Promoting Cross-Border Mediation in Resolving Civil and Commercial Disputes in the Western Balkans*, https://www.rcc.int/download/docs/2021-09-PCBM_final.pdf/2842f8bce8cd32b2aa1517429f7b9a1a.pdf. [8]
- EBRD (2022), *Bosnia and Herzegovina Country Diagnostic: Private Investment Challenges and Opportunities 2022*, <https://www.ebrd.com/where-we-are/bosnia-and-herzegovina/overview.html> (accessed on 12 April 2024). [9]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [6]

- Federation of Bosnia and Herzegovina (2021), *Development Strategy of the Federation of Bosnia and Herzegovina*, [12]
<https://fzzpr.gov.ba/files/Strategije/Strategija%20razvoja%20FBiH%202021.-2027..pdf>.
- Government of the Republic of Srpska (2022), *Regulation on the Procedure for Awarding Incentives for Direct Investments of Special Importance*, [10]
<https://www.akta.ba/legislativa/154095/uredba-o-postupku-dodjele-podsticaja-za-direktna-ulaganja-od-posebnog-znacaja>.
- Industrial Development Agency of Ireland (2021), *Driving Recovery and Sustainable Growth 2021-24*, [13]
https://www.idaireland.com/getmedia/69a2499c-ac2b-45b7-a342-e57bfb42a2de/IDA_STRATEGY_Draft_15.pdf?ext=.pdf.
- OECD (2020), *FDI Regulatory Restrictiveness Index (database)*, [4]
<http://www.oecd.org/investment/fdiindex.htm> (accessed on 1 March 2024).
- The Government of Republika Srpska (2021), *Decision on Implementation of the Project for Optimization of Administrative Procedures and Formalities Adopted*, [11]
<https://investsrpska.vladars.net/decision-on-implementation-of-the-project-for-optimization-of-administrative-procedures-and-formalities-adopted/>.
- The Government of Republika Srpska (2021), *The Strategy for Attracting Foreign Investments in the Republic of Srpska for the Period 2021–2027*, [5]
<https://investsrpska.vladars.net/the-strategy-for-attracting-foreign-investments-in-the-republic-of-srpska-for-the-period-2021-2027-adopted/>.
- UNCTAD (2023), *UNCTADstat*, [1]
<https://unctadstat.unctad.org/wds/> (accessed on 1 March 2024).
- US State Department (2023), *2023 Investment Climate Statements*, [7]
<https://www.state.gov/reports/2023-investment-climate-statements/bosnia-and-herzegovina/>.
- World Bank (2024), *World Development Indicators, DataBank*, [2]
<https://databank.worldbank.org/source/world-development-indicators> (accessed on 6 February 2023).

Notes

¹ The 2021 Law on Free Zones, 2022 Law on Amendments to the Law on Incentives in the Economy, and 2021 Law on Concessions, among others.

² Association of Mediators in Bosnia and Herzegovina, representatives of the Ministry of Justice of Bosnia and Herzegovina, the Federal Ministry of Justice, the Ministry of Justice of the Republic of Srpska and the Judicial Commission of the Brčko District, as well as the Ombudsman Institution and the Foreign Trade Chamber of BiH.

³ The Federation of Bosnia and Herzegovina has officially implemented the Decree for the maintenance of the register of business entities. This decree outlines various responsibilities, including the management of the business entity register, insurance, electronic document collection, conversion of paper documents

to electronic format, and other crucial aspects related to register upkeep. Additionally, on 27 February 2024, the government issued a determination designating the competent organisational unit within the Federal Ministry of Justice responsible for ensuring the technical accuracy, maintenance, and prompt delivery of electronic data related to the register's main book and the overall functioning of the registration system. This responsibility has been assigned to the ministry's Service for General and Joint Affairs.

⁴ Framework Law on the Registration of Business Entities in Bosnia and Herzegovina.

⁵ The Law on Registration of Business Entities in the Federation of Bosnia and Herzegovina; Law on Registration of Business Entities in the Republika Srpska; and Law on Registration of Business Entities in Brcko District.

⁶ <https://investsrpska.vladars.net/the-law-on-amendments-to-the-law-on-incentives-in-the-economy-of-the-republic-of-srpska-adopted>.

⁷ As published in the *Official Gazette of the Federation of Bosnia and Herzegovina*, Issue No. 40/22.

3

Trade policy

Effective trade policy is vital for regional integration and alignment with the European Union. This chapter examines how Western Balkan governments use trade policy to ease market access and harness digitalisation for enhanced trade facilitation. The first sub-dimension, trade policy framework, assesses the government's ability to formulate, implement and evaluate trade policy, examining the institutional formulation and co-ordination of trade policy, public-private consultations and the network of free trade agreements. The second sub-dimension, digital trade, focuses on the legal framework for digital trade policy and digital trade facilitation and logistics. The third sub-dimension, export promotion, explores the effectiveness of export promotion agencies and programmes, especially in the context of deepening regional integration.

Key findings

Bosnia and Herzegovina's score since the 2021 assessment cycle considerably improved to reach 3.6 in 2024. There has been progress observed under the export promotion sub-dimension, in which Bosnia and Herzegovina exceeds the regional average, and the trade policy framework dimension, where the economy scores slightly below the regional average (Table 3.1).

Table 3.1. Bosnia and Herzegovina's scores for trade policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Trade	2.1: Trade policy framework			4.3	4.4
	2.2: Digital trade			2.6	3.8
	2.3: Export promotion			3.8	3.6
Bosnia and Herzegovina's overall score		2.2	2.5	3.6	3.9

The **key findings** are:

- Despite improvements since the last assessment cycle, Bosnia and Herzegovina does not currently have an overarching economy-wide trade strategy governing the adoption of new trade policies with the goal of improving trade performance.
- There is a deficiency in monitoring and evaluating digital trade policies, both at the entity and state levels, marked by a notable absence of performance indicators specifically designed for digital trade.
- While there has been notable progress in implementing digital trade facilitation measures, such as the New Computerised Transit System, the economy still lacks sufficient measures to enhance the paperless trade environment.
- The Indirect Taxation Authority (ITA) started implementing Authorised Economic Operations (AEO), with the first two companies with AEO status registered in late 2023.
- Bosnia and Herzegovina has made significant progress in the implementation of export promotion programmes, having implemented new initiatives, including disseminating trade policy information, representation at trade fairs, capacity building, facilitating business-to-business matchmaking with potential partners, and aiding in compliance with international standards.
- Bosnia and Herzegovina stands out in the Western Balkan region as one of the few economies with a dedicated unit focused on incorporating environmental goals into trade policy development.

State of play and key developments

Bosnia and Herzegovina improved its trade performance since the last assessment cycle. Trade in goods reached 102.4% of GDP in 2022, up from 91.5% in 2021 (World Bank, 2024^[1]). Nevertheless, export composition lacks diversity, primarily relying on basic metals, furniture, and textiles (European Commission, 2023^[2]). Despite adapting to shifts in global demand, and placing emphasis on value added services like trade, IT, and tourism, the total trade in services reached 15.9% of GDP in 2022 (compared to 13.2% in 2021), the lowest percentage in the Western Balkans. In 2022, exports of goods and services amounted to EUR 8 billion (USD 8.8 billion) and EUR 2.7 billion (USD 2.9 billion) respectively, showcasing moderate growth from 2019²⁰²² (World Bank, 2024^[1]). Economic integration with the EU remains strong, with the EU as the main trading partner. Germany and Croatia remain Bosnia and Herzegovina's main export recipients (each receiving 15% of the economy's total exports). The rest of the EU accounts for 44% of the economy's exports, followed by Central European Free Trade Agreement (CEFTA) members (CEFTA, 2023^[3]).

Sub-dimension 2.1: Trade policy formulation

The Ministry of Foreign Trade and Economic Relations (MoFTER) is the key institution competent in **trade policy formulation**, co-ordination and implementation.¹ All institutions involved in formulating trade policies are obligated to develop an annual work plan, subject to approval by the Council of Ministers of Bosnia and Herzegovina. Throughout the entire policy-making process – from initiation and formulation to implementation, evaluation, and monitoring – there is a consistent emphasis on interministerial co-ordination and consultations with the Chambers of Commerce. Following the implementation of a specific trade policy measure, each institution is required to assess its execution by providing regular reports on both the progress in implementing the work programme and the impact of the enacted trade policy measures. MoFTER publishes annual reports on its work plans on its website. However, the Ministry does not have an updated strategy to improve trade performance.

Bosnia and Herzegovina is one of the few economies in the Western Balkan region that has a dedicated unit responsible for integrating environmental objectives into trade policy formulation. Notably, within MoFTER, the specialised unit is dedicated to co-ordinating environmental policies among the entities of Bosnia and Herzegovina, ensuring alignment with pertinent EU and international standards. This comprehensive approach underscores the commitment to a well-informed and collaborative foreign trade policy framework. By considering environmental factors in trade policy, Bosnia and Herzegovina can better balance economic growth with environmental protection. Such integration can lead to the development of eco-friendly trade practices, such as promoting green industries and encouraging the adoption of cleaner technologies. While the clear interconnection between trade policy and the environment has been institutionalised, it is noteworthy that the government has yet to undertake the systematic collection of data pertaining to the environmental aspects of trade.

MoFTER was the main beneficiary of the EU4Trade Programme, concluded in 2023, which aimed to improve the regulatory framework for trade in goods and services (Box 3.1).

The regulations governing **public-private consultations** exhibit inconsistencies throughout the economy, lacking a cohesive strategic framework for collaboration with civil society at both the state and entity levels. On the state level, eKonsultacije facilitates public submissions and requires addressing all comments before an act can proceed. There has been moderate progress in RS with a new legislative framework adopted in January 2021. The new framework obligates the ministry to publish the working version of the strategic and/or implementation document (including draft version, goals, implementation activities and topic) on the ministry's website at least 15 days before adoption. However, that limited availability for comments and the ministry's responses to them creates an impractical time frame for incorporating all feedback. Despite improvements in the scope of the consultation process, there are no procedures in place

for allowing citizens concerned or potentially affected by a regulation to provide comments before a measure is adopted. Furthermore, the Ministry of Trade and Tourism does not have accurate information regarding participation in the legislative process and therefore cannot accurately measure the impact of stakeholder participation. In the FBIH, the requirement to engage in public-private consultations is mandated by both general and sector-specific regulations,² although no new developments have been recorded since the last assessment cycle.

Box 3.1. EU4Trade in Bosnia and Herzegovina

This initiative was launched in September 2020 and spanned 34 months. It was implemented by MoFTER and the Indirect Taxation Authority (ITA), both serving as key partners and beneficiaries of the project. The goal of the EU4Trade Project is to enhance Bosnia and Herzegovina's competitiveness in foreign trade. This involves strengthening the capacity to enhance the regulatory and procedural framework for both goods and services trade.

The project comprises two main components:

1. Component 1 focuses on enhancing the regulatory and procedural framework for both goods and services trade to align with international standards.
2. Component 2 is dedicated to the implementation of risk-based systems and the enhancement of import, export, and transit regimes for goods.

The expected results of the project were the following:

- enhancing the regulatory and procedural framework for goods and services trade
- strengthening knowledge and understanding through capacity building
- conceptualising the establishment of a Service Centre
- promoting awareness of international trade in services
- streamlining formalities associated with import, export, and transit to alleviate logistical burdens
- enhancing the use of risk management and fostering inter-agency co-operation at borders
- prioritising the processing of perishable goods at the border
- reviewing and recommending provisions for an Authorised Economic Operators programme
- enhancing the framework and mechanism for pre-arrival processing of goods
- facilitating study visits to acquire practical knowledge.

Source: EU4Trade (2024^[4]).

There was limited progress in expanding Bosnia and Herzegovina's network of bilateral and multilateral **free trade agreements** (FTAs).³ There have been no advances in the economy's accession to the World Trade Organisation.

Sub-dimension 2.2: Digital trade

The development of the regulatory **policy framework for digital trade** in Bosnia and Herzegovina is still in its early stages. No significant changes have occurred in the framework since the last assessment cycle, and there has been minimal advancement of its implementation. The regulatory framework for digital trade at the state level is governed by the Law on electronic and legal business transactions, enacted in 2007. The creation of an Office for Supervision and Accreditation within the Ministry of Communications and Transport in 2019 facilitated implementation of the Law on Electronic Signatures and issuing authenticated

electronic signatures in the economy. The legislation delineates the legal framework for specific aspects of electronic legal and business interactions, covering activities such as the provision of information society services, the responsibilities of service providers, contract formation, and service provider accountability. While partially harmonised with EU regulation, it establishes a comprehensive structure for e-commerce governance in the economy. The legal framework for e-business in RS is primarily governed by the Law on Electronic Business, enacted in 2009 and amended in 2016. Additionally, elements of e-commerce are regulated by the Law on Trade (2019), RS Consumer Protection Law (2012, amended in 2014, 2017, and 2021), and the updated Rulebook on Distant Sales Methods and Procedures (2021). As the policy framework for digital trade is still underdeveloped, there is currently no overarching digital trade strategy or agenda in place, either at the state or entity levels. The lack of a well-defined digital trade strategy implies that there is no cohesive and co-ordinated plan to address the various aspects and challenges associated with digital trade within the jurisdiction. This absence underscores the need for the formulation and implementation of a strategic framework to guide and regulate e-commerce activities, fostering a more structured and effective approach to this rapidly evolving aspect of digital trade.

The oversight and assessment of digital trade policies are currently lacking, both at the entity and state levels, with a notable absence of performance indicators specifically tailored to digital trade. This deficiency suggests a lack of systematic monitoring and evaluation mechanisms to gauge the effectiveness and impact of existing digital trade policies.

Bosnia and Herzegovina's competitiveness in foreign markets is compromised by non-tariff barriers, logistical and infrastructural deficiencies, and ineffective border management. To address the bottlenecks, the economy introduced new **digital trade facilitation measures**.

As of August 2022, the economy implemented the New Computerised Transit System (NCTS). This system facilitates customs procedures by enabling the electronic submission and processing of transit declarations, thereby streamlining operations and fostering efficiency. The implementation of NCTS is poised to significantly enhance the movement of goods across borders, offering benefits such as improved accuracy in customs data, reduced paperwork, and an overall more effective and streamlined customs environment. Moreover, the incorporation of NCTS aligns with broader initiatives across the Western Balkans, aimed at bringing customs practices in line with international standards and advancing trade facilitation efforts (United Nations Economic Commission for Europe, 2021^[5]).

The implementation of the 2015 Law on Customs Policy, which is partially harmonised with the EU *acquis*, commenced in August 2022 following adoption of the Law on Customs Offences (European Commission, 2023^[6]). In the context of the Law on Customs Policy, the Indirect Taxation Authority (ITA)⁴ started implementing the Authorised Economic Operations (AEO) programme, which is currently being promoted both by the ITA itself and through projects led by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), EU4TRADE, and the United States Agency for International Development (USAID). The AEO programme rollout has already seen results, with the first two companies⁵ with AEO status registered in October and December 2023 (CEFTA, 2023^[3]).

The rollout of the NCTS and the implementation of the Law on Customs Policy in August 2022 were not captured in the OECD Trade Facilitation Indicators assessment, which could explain the stable scores from the 2019 TFI assessment cycle (Box 3.2).

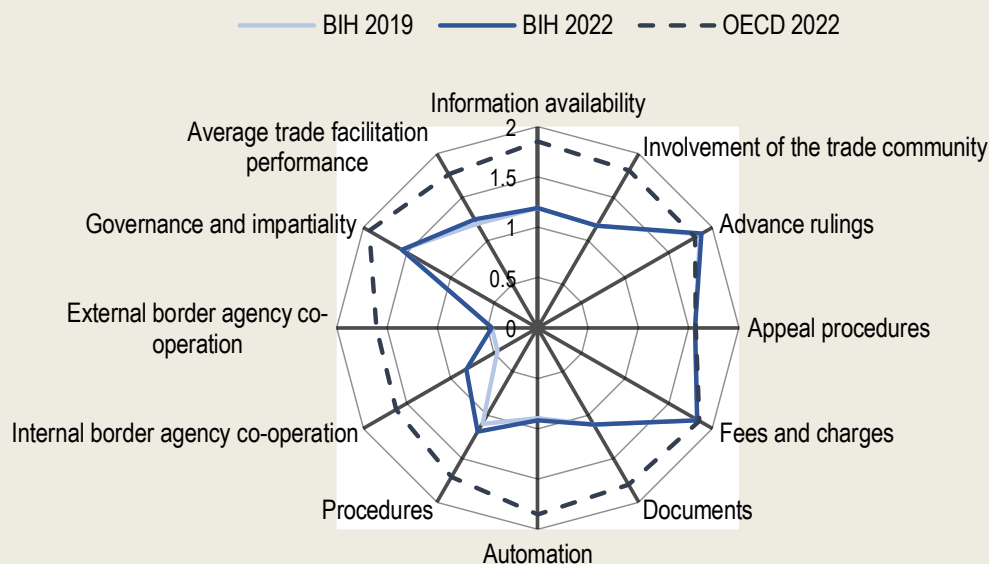
There is room for improvement in implementing measures that encourage the transition towards a more streamlined and efficient paperless trade environment. There is scope to further develop and refine strategies aimed at reducing reliance on traditional paper-based processes, fostering digitalisation, and promoting the adoption of electronic documentation in trade-related activities. Bosnia and Herzegovina has not implemented an Electronic Single Window, so traders currently do not have a single entry point for submitting import/export documents. With an Electronic Single Window, clearance of goods would be expedited, thus reducing the cost for traders (UNECE, 2003^[7]). Similarly, the economy has not implemented systems for the electronic application and issuance of import and export permits and

preferential certificates of origin (United Nations Regional Commissions, 2023^[8]), further hindering trade processes at the border.


Box 3.2. Bosnia's performance under the OECD Trade Facilitation Indicators

The OECD has developed Trade Facilitation Indicators (TFIs) to aid governments in streamlining border procedures, lowering trade costs, boosting trade volume, and maximising benefits from international trade (Figure 3.1). These indicators also function as a tool for economies to assess the status of policy implementation across various areas and measures specified in the WTO Trade Facilitation Agreement.

Figure 3.1. OECD Trade Facilitation Indicators in Bosnia Herzegovina and the OECD



Source: OECD (2022^[9]).

StatLink  <https://stat.link/gq09n1>

Since the 2019 TFI assessment, Bosnia and Herzegovina's score remained unchanged, with the exception of the scores under the procedures and internal border co-operation indicators. The score in the latter almost doubled from 0.46 to 0.82, indicating progress in that area. The economy exceeds the OECD average under the advance rulings indicator and outperforms the Western Balkan economies¹ under the following indicators: advance rulings, appeal procedures, fees and charges and governance and impartiality. Bosnia and Herzegovina's average trade performance only slightly increased from 2019.

¹ The OECD Trade Facilitation Indicators assessment covers Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. Source: OECD (2022^[9]).

In terms of compliance with international agreements and instruments governing digital trade, Bosnia and Herzegovina has yet to endorse critical instruments, including the UN Electronic Communications Convention and the UNCITRAL Model Law on Electronic Commerce (Table 3.2). These agreements

advocate standardisation of national laws regulating e-commerce transactions, playing a vital role in establishing regulatory norms for e-transaction frameworks, e-authentication, e-signatures, and electronic contracts (OECD, 2021^[10]). Nor has the economy aligned with the Information Technology Agreement which, on a most-favoured-nation basis, removes tariffs for a broad range of IT products, including computers and telecommunications equipment.

Table 3.2. OECD Digital Trade Inventory for Bosnia and Herzegovina

	Instrument	Description	Bosnia and Herzegovina adherence
E-transaction frameworks	JSI Participant	WTO Joint Statement Initiative comprises discussion on trade-related aspects of e-commerce, including cybersecurity, privacy, business trust, transparency, and consumer protection.	✗
	UN Electronic Communication Convention	Convention encourages standardisation of national laws and regulations governing e-commerce transactions.	✗
Consumer protection	OECD Recommendation of the Council on Consumer Protection in E-commerce	The OECD Recommendation on Consumer Protection in E-commerce provides guidelines and recommendations for member countries to enhance consumer protection in the context of electronic commerce. The recommendations typically cover various aspects of online transactions to ensure that consumers can engage in e-commerce with confidence and trust.	✗
Paperless trading	WTO Trade Facilitation Agreement	The Trade Facilitation Agreement (TFA) includes clauses aimed at accelerating the transit, release, and clearance processes for goods, encompassing those in transit, and outlines measures for fostering efficient collaboration between customs and relevant authorities concerning trade facilitation and customs compliance matters.	✗ ¹
Cross-border data transfer/Privacy	Convention 108	Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data is the first legally binding international treaty dealing with privacy and data protection.	✓
	2001 Additional Protocol to the Convention	The Additional Protocol reinforces the protection of individuals' rights in the context of automated processing of personal data and encourages international co-operation on privacy and data protection matters.	✓
	Convention 108+	2018 Amending Protocol to Convention 108 updates the provisions on the flow of personal data between signatories.	✓
Cybersecurity	The Convention on Cybercrime of the Council of Europe (Budapest Convention)	An international treaty aimed at addressing crimes committed via the Internet and other computer networks. It serves as a framework for international co-operation in combating cyber threats and promoting a harmonised approach to cybercrime legislation.	✓
Goods market access	The Information Technology Agreement	The Information Technology Agreement, on a most-favoured-nation basis, removes tariffs for a broad range of IT products, including computers and telecommunications equipment.	✗
	Updated ITA concluded in 2015	Covers the expansion of products included in the Information Technology Agreement by eliminating tariffs on an additional list of 201 products.	✗

Note: Bosnia and Herzegovina is not yet a WTO member so it cannot ratify the Trade Facilitation Agreement.

Sub-dimension 2.3: Export promotion

The Foreign Trade Chamber of Bosnia and Herzegovina (FTC BiH) holds a national-level mandate of an **export promotion agency**. Within FTC BiH, the Bosnia and Herzegovina Export Promotion Agency (BHEPA) is responsible for strengthening the position of Bosnian companies on international markets. Apart from FTC BiH, the Export Council of Bosnia and Herzegovina, operating within MoFTER, plays a crucial role with its primary objective of co-ordinating all promotional activities related to the export of goods and services. It achieves this through a distinctive form of state-private partnership and a collaborative

agreement process. This process involves representatives from various institutions and the private sector, who engage in consensus building on crucial matters, thereby contributing to a co-ordinated and effective approach to promoting exports. The governing body of the FTC BiH, known as the FTC BiH Assembly, has endorsed the "Guidelines for the FTC BiH's long-term activity plan for the period 2023-26". These guidelines, effective from January 2023, outline the strategic focus areas for providing services to SMEs, which include digitalisation and the circular and green economy, as well as internationalisation.

Operating with complete operational autonomy, FTC BiH is supported by a dedicated budget, primarily sustained through membership fees, revenue generated from services, and contributions from international projects, often with the involvement of international donors. Furthermore, a portion of the budget is allocated to supporting Bosnian exporters in participating in international trade fairs. In 2022, the budget amounted to 0.05% of the economy's value of export, compared to 0.06% in 2021.

Despite the absence of a dedicated export promotion agency in RS, the Ministry of Economy and Entrepreneurship oversees export promotion initiatives and manages a website specifically designed for foreign investors and exporters.

Bosnia and Herzegovina made strides in implementing **export promotion programmes**. Those offered at the state level include providing trade policy information, representation at trade fairs, capacity building, business-to-business matchmaking with potential partners, and assistance in complying with international standards. In 2023, the FTC BiH introduced a specialised webpage for small and medium-sized enterprises (SMEs). Serving as a centralised hub for comprehensive information, the webpage provides valuable details on a range of topics, including opportunities for accessing finance. Additionally, the portal features a complementary e-learning platform with course modules on e-commerce, information on each stage of the internationalisation process, and diagnostics of companies' export capacity.

Advances were made in implementing programmes like ExpoDigit,⁶ geared towards enhancing the competitiveness and international reach of metal-processing and wood-processing companies within the economy. With 31 beneficiaries involved in the ExpoDigit project, efforts are directed at facilitating their export capabilities. Furthermore, as part of the COVID-19 Investment Response – EU4BusinessRecovery Action – the Green Recovery component focuses on building the capacities of both private and public entities. The aim is to support the green transformation specifically in sectors like metal and wood processing, with 40 beneficiaries actively participating in the initiative to date, contributing to the overall goals of export promotion in strategic sectors. In RS financial support programmes are available, although they mainly target investors rather than exporters, offering incentives to promote the adoption of innovative technologies that can indirectly lead to export activities. In addition, the Ministry of Economy and Entrepreneurship awards incentives to business entities to acquire new equipment and employ new technologies. In 2021, the total budget for these purposes was BAM 7 million (EUR 3 500 000), while in 2022 it was increased to BAM 13.5 million (EUR 6 900 000). The uptake also rose, from 207 business entities in 2021 that were awarded the incentive, to 238 in 2022.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's progress in implementing 2021 Competitiveness Outlook Recommendations has been rather modest (Table 3.3), with moderate progress achieved in creating a formal interministerial co-ordination mechanism and collecting data on stakeholders involved in public-private consultations. There was no evidence of progress in monitoring and evaluation of public-private consultation frameworks and none observed in finalising the drafting of the Law on Electronic Communication and Electronic Media or adopting new legislation on electronic identification and trust services for electronic transactions.

Table 3.3. Bosnia and Herzegovina's progress on past recommendations for trade policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Create a formal interministerial co-ordination mechanism based around a specific action plan on improving overall trade performance to boost co-operation between different ministries and government bodies	At the state level, interministerial co-ordination and consultations with the national and entity Chambers of Commerce are conducted in a complementary manner during all stages of policy making (i.e. initiation; formulation; implementation; evaluation; monitoring). Furthermore, every institution tasked with shaping trade policy is mandated to develop an annual work plan. This plan requires approval by the Council of Ministers of Bosnia and Herzegovina. When the work programme encompasses the execution of specific trade policy measures, including the drafting and endorsement of trade regulations, there is an obligation to conduct preliminary consultations with the business community and pertinent institutions across all levels of government in Bosnia and Herzegovina. There is a formal interministerial co-ordination mechanism framework in RS, which has been strengthened in 2018. The Trade Development Council serves as the main advisory body in charge of trade policy formulation and it meets every 6 months.	Moderate
Collect data on stakeholders involved in consultations for monitoring and evaluation purposes	At the state level, in the eKonsultacije procedure, the consultation reports include details about the individuals or groups involved in the consultation. Each report specifies whether the suggestions or comments from the public were accepted, partially accepted, or declined. Additionally, annually every organisation submits a questionnaire to the Ministry of Justice of Bosnia and Herzegovina, assessing the involvement of the general public in the consultation procedures. However, progress remains moderate, as the consultation mechanism is not updated based on monitoring and evaluation results. In RS, despite improvements in the scope of the consultation process, there are no procedures in place for allowing citizens concerned or potentially affected by a regulation to provide comments before a measure is adopted. Furthermore, the Ministry of Trade and Tourism does not have accurate information regarding participation in the legislative process and cannot therefore accurately measure the impact of stakeholder participation.	Moderate
Set up a process for regularly reviewing consultation frameworks according to established goals of effectiveness, efficiency, inclusiveness and transparency, as well as performance indicators	There is no evidence of progress.	None
Reinforce the regulatory framework on e-commerce by finalising the drafting of the Law on Electronic Communication and Electronic Media and adopting new legislation on electronic identification and trust services for electronic transactions (e-signature)	There is no evidence of progress.	None

The way forward for trade policy

- **Develop a strategic framework for improving trade performance.** Trade in Bosnia and Herzegovina remains below potential, despite high integration with the EU. This framework should encompass a systematic approach that identifies key objectives, assesses existing challenges, and outlines a set of coherent strategies and initiatives. Consideration should be given to factors such as market analysis, regulatory adjustments, infrastructure enhancements, and capacity building. Additionally, the strategic framework should be adaptable to evolving economic landscapes and be supported by measurable indicators to gauge progress and effectiveness.
- **Further strengthen the legal framework for digital trade and develop a multi-faceted digital trade strategy for all levels of government.** The regulatory framework for digital trade is still in

its early stages in Bosnia and Herzegovina and is not fully aligned with the EU E-commerce Directive.⁷ Consequently, there is a pressing need for legislative reforms and harmonisation efforts to establish the regulatory environment for digital trade in Bosnia and Herzegovina. This alignment is crucial to facilitate cross-border digital transactions, enhance legal clarity, and promote a business-friendly atmosphere that encourages both domestic and international e-commerce activities. The economy should also adopt domestic policies designed to create an enabling environment, for businesses and consumers to use digital technologies and platforms and fully reap the benefits of digital trade (IMF, OECD, UN, World Bank, WTO, 2023^[11]). Moreover, Bosnia and Herzegovina should develop an overarching strategy to further digitalise trade and boost the uptake of e-commerce. Such a strategy should involve a holistic approach that addresses technological, regulatory and collaborative aspects to capitalise on the opportunities presented by the digital economy and foster sustainable international trade.

- **Strengthen monitoring and evaluation of digital trade facilitation measures.** Introducing and reinforcing monitoring and evaluation of digital trade facilitation measures is of great significance for Bosnia and Herzegovina. This process enhances trade efficiency, attracts foreign investments, promotes growth, ensures transparency, and fosters compliance with international standards. It makes the economy more competitive in the global market, facilitates data-driven decision making, and increases trade resilience, ultimately contributing to economic development and prosperity.
- **Intensify efforts to enhance the efficiency of the paperless trade environment,** particularly considering the absence of an electronic single window system. A single window serves as a centralised platform that facilitates the electronic submission and processing of trade-related documents, streamlining customs procedures and reducing the reliance on paper documentation. Bosnia and Herzegovina could refer to North Macedonia's example and the processes the economy had to follow to establish an electronic single window (Box 3.3). The acceleration of initiatives to enhance the paperless trade environment in Bosnia and Herzegovina is necessary to modernise and optimise trade processes. This involves not only implementing technological solutions but also establishing a comprehensive framework that encourages digitalisation and facilitates electronic interactions in import/export, ultimately contributing to increased efficiency, cost-effectiveness, and overall competitiveness in international trade.

Box 3.3. Electronic single window in North Macedonia

North Macedonia became a pioneer in the regional adoption of the single window, after implementing the system in 2008.

The overarching goal of the project was to facilitate and improve access to and exchange of cross-border data and information among different government agencies and between the government and the business community. Specifically, the project aimed to establish conditions for the submission of import/export/transit data in a unified manner at a single entry point, promoting more efficient co-ordination of all cross-border controls and inspections.

Efforts to implement the single window were launched after the assigned working group conducted a **comprehensive analysis of the necessary trade data and the trade procedures** undertaken by each government agency participating in foreign trade transactions. Utilising the information gathered, and in alignment with UNECE Recommendation 33 on Establishing a Single Window¹ and Recommendation 34 on Single Window Data Harmonization and Standardisation,² the group standardised the required trade data across different agencies and aligned them with the World Customs Organization (WCO) Data Model.³

The working group then focused on **recognising legal impediments and enhancing the legal framework** for the single window project's implementation. The areas under examination

encompassed, among other aspects, the electronic submission and issuance of import/export licences and various trade documents, electronic signatures, security concerns, and the identification of system users, as well as liability issues. To implement the system, North Macedonia modified numerous laws and regulations governing areas such as administrative procedures, administrative fees, electronic signatures, and more. Additionally, the government enacted a distinct regulation to establish the single window.

As a result, EXIM⁴ became operational in November 2009. The business community can open EXIM via any web browser. Once the licence application is submitted, it is automatically directed to the relevant institution in charge of it. Applicants can track the status of their submission within EXIM and receive email notifications for any changes in status. Each institution has the capability to communicate with the applicant, allowing for requests for additional data or corrections. Electronic copies of licences issued by the relevant institutions are accessible to the authorities responsible for overseeing shipments at border crossings or internal customs terminals. Moreover, the system enables the electronic submission and distribution of tariff rate quotas. Users of the EXIM system, whether from businesses or institutions, can perform actions within the system after prior identification using valid digital certificates. EXIM is free of charge⁵ for all users.

The implementation of the single window resulted in a smaller number of documents needed for trade-related procedures, streamlined issuing and tracking licences, and overall savings of time and resources in border processes.

1. https://unece.org/DAM/cefact/recommendations/rec33/rec33_trd352e.pdf.

2. <https://unece.org/trade/publications/recommendation-34-ecetrade400>.

3. The WCO Data Model has served as the fundamental data framework for global trade interoperability. It was created with the purpose of establishing a common system for cross-border data exchange and facilitating the implementation of single window systems. The WCO Data Model comprises meticulously organised, harmonised, standardised and reusable sets of data definitions and electronic messages, crafted to fulfil the operational and legal needs of customs and other regulatory agencies involved in cross-border activities (World Bank, 2024^[12]).

4. www.exim.gov.mk.

5. Apart from the purchase of digital certificates.

Source: World Customs Organisation (2009^[13]).

References

- CEFTA (2023), *Authorized Economic Operations Database*, <https://transparency.cefta.int/AuthorizedEconomicOperator/IndexPublic?FullName=&AEOStat usID=&PartyID=3&StartDateFrom=&EndDateFrom=&StartDateTo=&EndDateTo=> (accessed on 14 June 2024). [3]
- EU4Trade (2024), *Improving Foreign Trade and Competitiveness of Bosnia and Herzegovina*, <https://eu4tradeproject.eu/> (accessed on 13 June 2024). [4]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [2]
- European Commission (2023), *Bosnia and Herzegovina Report 2023*, https://neighbourhood-enlargement.ec.europa.eu/document/download/e3045ec9-f2fc-45c8-a97f-58a2d9b9945a_en?filename=SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [6]

- IMF, OECD, UN, World Bank, WTO (2023), *Digital Trade for Development*, [11]
https://www.wto.org/english/res_e/booksp_e/dtd2023_e.pdf.
- OECD (2022), *Recommendation of the Council on OECD Guidelines for Managing Conflict of Interest in the Public Service*, OECD Publishing, Paris, [9]
<https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>.
- OECD (2021), *Digital Trade Inventory*, <https://doi.org/10.1787/9a9821e0-en>. [10]
- UNECE (2003), *The Single Window Concept*, [7]
https://unece.org/fileadmin/DAM/trade/ctied7/ece_trade_324e.pdf.
- United Nations Economic Commission for Europe (2021), *New Computerised Transit System*, [5]
<https://unece.org/fileadmin/DAM/trans/doc/themes/UNDAC2C/Geneva2016/Meszaros210616.pdf>.
- United Nations Regional Commissions (2023), *Global Survey on Digital and Sustainable Trade Facilitation*, <https://www.untfsurvey.org/>. [8]
- World Bank (2024), *BIH Firm Recovery and Support Project*, [12]
<https://projects.worldbank.org/en/projects-operations/project-detail/P174604>.
- World Bank (2024), *World Development Indicators, DataBank*, [1]
<https://databank.worldbank.org/source/world-development-indicators> (accessed on 6 February 2023).
- World Customs Organisation (2009), *Single Window Report - Executive Summary*, [13]
<https://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/sw-initiatives/macedonia/macedonia-single-window-report-january-2009.pdf?la=en>.

Notes

¹ Foreign trade policy development falls under Bosnia and Herzegovina's MoFTER competency.

² The regulation on rules for interested public participation in the procedure of preparation of federal legal regulations and other acts (*Official Gazette of the FBiH*, No. 51/2012) on rules and procedures for drafting laws and other regulations of the Federation of Bosnia and Herzegovina (*Official Gazette of the FBiH*, No. 71/2014).

³ Bosnia and Herzegovina has been a member of CEFTA since 2007. Both the European Free Trade Agreement (EFTA) and the Stabilisation and Association Agreement (SAA) were ratified by Bosnia and Herzegovina in 2015. At time of writing, Bosnia and Herzegovina's sole bilateral trade agreement is with Türkiye, in force since 2003.

⁴ The Indirect Taxation Authority oversees implementation of digital trade facilitation measures across the state and entity levels.

⁵ Schenker d.o.o. and Nelt d.o.o.

⁶ <https://komorabih.ba/expo-digit-podrska-bh-kompanijama-u-internacionalizaciji-i-digitalizaciji>.

⁷ <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32000L0031>.

4 Access to finance

Access to finance is crucial for developing the private sector in all economies. This chapter, along with three sub-dimensions, explores the necessity for businesses to be able to access financing sources to start up, grow, diversify and ultimately contribute to overall competitiveness. The first sub-dimension, bank financing framework, assesses the regulatory framework of bank financing, including the quality of banking industry legal framework, registration and information systems and the policies making bank finance inclusive. The second sub-dimension, access to alternative financing sources, focuses on the various means that businesses can get financing, encompassing access to capital markets, private equity as well as factoring and leasing. The third sub-dimension, digital finance, delves into the effects of digital solutions on payment services and the emergence of new avenues for business finance.

Key findings

Bosnia and Herzegovina's performance in access to finance has slightly improved since the 2021 assessment, from 2.3 to 2.5. This follows a substantial increase observed between 2018 and 2021 (Table 4.1). Both the entities covered by the Competitiveness Outlook assessment, i.e. the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), have undertaken substantial measures to align their banking framework with international standards. Moreover, RS has initiated efforts to develop alternative financing sources, leading to score improvement in the related policy area.

Table 4.1. Bosnia and Herzegovina's scores for access to finance

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Access to finance	3.1: Bank financing framework			3.2	3.5
	3.2: Access to alternative financing sources			2.6	2.4
	3.3: Digital finance			1.3	2.3
Bosnia and Herzegovina's overall score		1.9	2.3	2.5	2.8

The **key findings** are:

- Bosnia and Herzegovina has made significant regulatory changes to align its banking industry's legal framework with international standards. In October 2021, the European Commission confirmed that the two entities' supervisory and regulatory frameworks comply with the EU *acquis*, which addresses credit institutions' capital requirements and related regulations.
- Although no legal progress has been recorded in the FBiH, active efforts are under way in RS to establish comprehensive capital market legislation. The legal framework has been amended to improve the functioning of the securities market and provide a specific legal framework for private equity. Further harmonisation with the EU *acquis* is currently ongoing in RS as the Republic of Srpska Securities Commission (RSSC) started drafting a "Capital Market Act".
- Equity finance is nonexistent, and no venture capital funds operate in Bosnia and Herzegovina. These activities currently lack a legal framework in the FBiH and RS, although RS is making strides towards aligning with the EU *acquis* in this area, as demonstrated by the amendment of the Law on Investment Funds in July 2022.
- Business angel networks and crowdfunding platforms are nonexistent in Bosnia and Herzegovina. These activities currently lack a legal framework in both the FBiH and RS, and there are no ongoing legislative or policy initiatives aimed at developing regulations for these forms of financing.
- Despite recent progress in RS, neither the FBiH nor RS has implemented the EU *acquis* for digital payment activities. Another hurdle is the limited adoption of digital payments; two-thirds of Bosnian adults reported using digital transactions in 2021, significantly lower than the EU average of 93.0%. Despite this discrepancy, no strategic framework has been implemented to promote the adoption of digital payment methods.

State of play and key developments

In Bosnia and Herzegovina, the financial sector heavily relies on banking, as banks control 88% of total financial assets as of June 2022 (Central Bank of Bosnia and Herzegovina, 2022^[1]), similar to levels seen in December 2019 (European Banking Authority, 2021^[2]). This contrasts with the euro area, where the banking sector comprises only 50% of total financial assets in 2022 (European Central Bank, 2023^[3]). Despite a decrease in the number of commercial banks to 22 in 2022 from 28 in 2013, competitive pressures have remained stable. Notably, the top three banks in Bosnia and Herzegovina collectively held around 41.7% of assets in 2021, compared to 61.1% in 2013 (World Bank, 2022^[4]). However, this percentage remains considerably lower than the averages observed in the Western Balkans (68.8%) and the EU (71.5%).

Over the past decade, the financial sector has experienced a notable decline in credit provision, indicating a contraction in the economy's primary source of finance. Total credit provided by the Bosnian financial industry has significantly decreased. In 2022, domestic credit to the private sector amounted to 48.1% of GDP, down from 60.8% in 2013. This figure is comparable to the Western Balkan region (46.4% in 2022) but falls short compared to the European Union (69.5%) (World Bank, 2022^[4]).

Sub-dimension 3.1: Bank financing framework

In Bosnia and Herzegovina, **banking industry regulation** is overseen by the banking supervisory authorities of the respective entities. Since the last assessment cycle, substantial legal progress has been achieved to strengthen the reliability of the bank finance supply for businesses by harmonising banking regulation with Basel III standards. In May and June 2021, the Banking Agency of the Federation of Bosnia and Herzegovina (FBA) and the Banking Agency of the Republic of Srpska (BARS) each adopted the "Decision on Liquidity Risk Management in Banks". The decision outlines minimum liquidity risk management requirements for banks; covers qualitative standards and quantitative measures such as the liquidity coverage ratio and net stable funding ratio; and introduces additional mechanisms for liquidity risk assessment. A noticeable outcome of the efforts in harmonising the banking legal framework with international standards was the European Commission's confirmation in October 2021 that the Bosnia and Herzegovina two entities' supervisory and regulatory frameworks comply with Regulation (EU) No. 575/2013, which addresses credit institutions' capital requirements and related regulations.¹ This overall legal progress has been supported by the United States Agency for International Development's (USAID) Financial Reform Sector Activity (FINRA) project, which was implemented between September 2017 and September 2022 in both entities. Implemented by the consulting firm Financial Markets International, technical assistance has been provided to the Central Bank of Bosnia and Herzegovina, the Bosnia and Herzegovina Deposit Insurance Agency, the BARS and the FBA. Finally, the economy's banking industry also made progress in preventing systemic risk as, in December 2023, both the BARS and the FBA adopted the Decision on Capital Buffer for Systemic Risk, which defines requirements to maintain a buffer for structural systemic risk, making the banking system less vulnerable to bankruptcies of systemically important banks (SIBs).

Despite this progress, the Bosnian banking industry remains subject to systemic risk, which could cause substantial perturbations in the bank finance supply for businesses. The legal framework for SIBs in Bosnia and Herzegovina is not yet harmonised, making the banking system more vulnerable to major bankruptcies and generating risks of adverse shocks on bank finance supply.² Moreover, both entities have implemented all Basel III recommendations, especially those related to credit risk (internal ratings-based approach, securitisation framework), market risk (internal model approach) and operational risk (advanced measurement approach). Finally, the complexity of the institutional setup contributes to hindering adequate banking supervision as the Central Bank of Bosnia and Herzegovina does not have jurisdiction over the supervision of banks. The FINRA project's second pillar aiming at strengthening banking supervision

obtained very limited results in this regard. For instance, the Standing Committee for Financial Stability, pivotal for the supervision of the Bosnian financial system, does not convene regular meetings and has not met since March 2022 (European Commission, 2023^[5]).³

Regarding lending requirements, these are determined at the entity level by the FBA and the BARS and are relatively stringent, limiting access to bank finance. In both entities, the legal framework permits secured creditors to establish and enforce their rights over non-fixed assets like securities, movable assets, and stocks. However, fixed assets such as real estate and land continue to serve as the predominant collateral for loans, posing challenges for firms with fewer fixed assets. Additionally, micro-, small and medium-sized enterprises (MSMEs) face stringent requirements as there are no loan thresholds below which collateral criteria are flexible, limiting their access to bank finance.

In Bosnia and Herzegovina, **registration and information** of assets are operated at the state level, apart from the cadastre, administered by each entity. These cadastre systems have not experienced any legal change since the last assessment cycle. They cover both entire territories, are updated automatically (for each transaction), and are publicly available on line. Regarding the ownership of pledges on registered fixed and non-fixed assets, the registry is kept at the state level within the Ministry of Justice of Bosnia and Herzegovina. The ownership registration for pledges on fixed and non-fixed assets is incomplete, as fewer than 50% of non-fixed assets are documented. This share is estimated at between 75% and 99% for fixed assets. Moreover, the available information for non-fixed assets is very limited, as it does not include the valuation of these assets. This incomplete coverage may impact the assessment of collateral values for Bosnian banks, potentially restricting access to bank finance for owners of unregistered assets.

A public credit information system, the Central Registry, is in place and governed by the Central Bank of Bosnia and Herzegovina.⁴ Credit data are collected directly by the Central Bank from all banks, leasing companies, microcredit organisations and other financial institutions operating in Bosnia and Herzegovina. However, credit bureau coverage remains limited, with the Central Public Credit Registry covering only 47.1% of the population and private bureaus covering just 14% (World Bank, 2019^[6]). Financial institutions offering loans must report the comprehensive history of individuals' or businesses' credit and loan-related activities, and financial institutions can request online data with written borrower consent. The implementation of the Decision on Amendments to the Decision on the Central Register of Loans of Business Entities and Individuals in Bosnia and Herzegovina in January 2022 introduced additional macroprudential measures on credit data protection, such as the interdiction of reproduction and diffusion of personal data, or the right to protect sensitive information.

The complex institutional structure of Bosnia and Herzegovina and the subsequent lack of a single financial market continuously impede **access to bank finance**, especially for smaller firms (OECD, 2022^[7]). In detail, loans from commercial banks directed to SMEs accounted for only 44.1% of the total loans in Bosnia and Herzegovina in 2022, which outperforms the Western Balkan average (39.0%) but is substantially lower than in comparable economies from the EU, such as the Slovak Republic (60.5%) or Latvia (76.0%) (OECD, 2022^[8]). Specific policy schemes helping SMEs to access finance, such as credit guarantee schemes and credit lines, are active in both entities of Bosnia and Herzegovina. However, especially in the FBiH, they suffer from efficiency issues (OECD, 2022^[7]). In detail, the FBiH Development Bank provides financial support for private investments targeting digitalisation but without a specific focus on SMEs. Moreover, information on the actual uptake remains unclear, which raises concerns about the effectiveness of the FBiH Development Bank's schemes (OECD, 2022^[7]). These effectiveness challenges are noteworthy given the significant activity of the FBiH Development Bank, which remained substantial in the aftermath of the COVID-19 pandemic. In 2022, its total activity amounted to EUR 187.5 million (Development Bank of the Federation of Bosnia and Herzegovina, 2023^[9]), EUR 183.8 million in 2020, and EUR 164.7 million in 2019 (Development Bank of the Federation of Bosnia and Herzegovina, 2021^[10]). In RS, the Republic of Srpska Investment-Development Bank (IRBRS) is substantially smaller as its activity

has been equivalent to EUR 70.4 million in 2023 (Republic of Srpska Investment-Development Bank, 2024_[11]).⁵

However, several international programmes are still running and others have been implemented in the aftermath of the COVID-19 pandemic, aiming to prevent a substantial deterioration of access to finance conditions in Bosnia and Herzegovina. Running from December 2020 to December 2024, the still ongoing “BiH Firm Recovery and Support Project” has been implemented under the international agreement signed by the International Bank for Reconstruction and Development (IBRD) to support SMEs in both FBiH and RS with a total budget of USD 65.3 million (World Bank, 2024_[12]).⁶ Between April 2021 and February 2022, the European Investment Bank (EIB) launched three programmes providing a total of EUR 100 million in credit lines operated by ProCredit Bank, Intesa Sanpaolo Banka BiH, Raiffeisen Bank BiH, Unicredit Bank Banja Luka, and Raiffeisen Leasing to finance SME investment (European Investment Bank, 2024_[13]).⁷ Launched in May 2022 by the EBRD, the EU and the Gesellschaft für Internationale Zusammenarbeit (GIZ), the “Go Digital in Bosnia and Herzegovina” programme is a EUR 40 million credit line channelled to local banks to support SMEs’ investments in digital transformation (European Bank for Reconstruction and Development, 2022_[14]).⁸

The smallest Bosnian businesses and entrepreneurs can also rely on **microfinance** to access finance, with 27 institutions operating in 2022 (compared to 18 in 2013) across Bosnia and Herzegovina. Still, the total number of microfinance institutions has not increased in Bosnia and Herzegovina since 2019 (International Monetary Fund, 2023_[15]). With a robust and tailored legal framework, Bosnia and Herzegovina stands out in the Western Balkans for having among the most advanced microfinance sectors, constituting 2.4% of GDP in outstanding loans (2.1% in 2013). The existing legal framework has not experienced any change since the last assessment cycle, and it is still based on the Law on Microcredit Organisations (European Microfinance Network, 2019_[16]). The two separate banking agencies supervise the lending activities of microfinance institutions in both entities, and the microcredit supply is ensured by both foundations, i.e. nonprofit entities focused on social impact and microcredit businesses. It should be noted that only microcredit businesses are subject to the Law on Microcredit. However, foundations fund smaller amounts as they can provide up to EUR 5 106 microcredits, while a microcredit business can lend up to EUR 25 532 (European Microfinance Network, 2019_[16]).⁹

Sub-dimension 3.2: Access to alternative financing sources

Capital markets in Bosnia and Herzegovina remain underdeveloped. The overall market capitalisation of Bosnia and Herzegovina’s stock markets is about 17% of GDP in 2022 (European Commission, 2023_[5]), which significantly lags behind the EU (75.4%) (World Bank, 2022_[4]). Both entities in Bosnia and Herzegovina have their stock markets: the Sarajevo Stock Exchange (SASE) in the FBiH and the Banja Luka Stock Exchange (BLSE) in RS, with specific rules (Table 4.2).

Table 4.2. Listing rules in Bosnia and Herzegovina

	Federation of Bosnia and Herzegovina	Republic of Srpska
Minimum duration of business operations	3 years	2 years
Financial statements	Audited financial report for the minimum last 3 years	Positive or unqualified audit report
Minimum amount of market capitalisation	BAM 1 million	BAM 1 million
Minimum number of stakeholders	150	50

Source: OECD (2021_[17]).

The regulatory framework concerning bond markets is in place in both entities; however, the market is shallow and illiquid, especially relating to corporate bonds. The legal framework of both entities allows the emission of treasury securities, municipal bonds, corporate bonds, and zero-coupon bonds, with comprehensive information for investors (maturity, liquidation preferences, coupon rate, tax status and call provision). However, no institution provides a credit rating, not allowing investors to evaluate investment risks. Moreover, no measures are in place to promote the use of the corporate bond market, such as tax subsidies or legislation allowing the issuance of tailored bonds for SMEs' needs.

Although no legal progress has been recorded in the FBiH in strengthening the capital market's legal framework since the last assessment cycle, several changes have been implemented in RS to improve the functioning of the securities market, with two series of amendments to the Law on the Securities Market. The amendments implemented in July 2021 focus on the primary market, where companies raise capital, to simplify the process for them to raise funds through the public issuance of securities and ensure that investors receive transparent and accurate information.¹⁰ The amendments implemented in August 2022 regulate the duration of public securities offerings to streamline the process and provide more flexibility for companies seeking capital through public offerings.¹¹ Finally, further harmonisation with the EU *acquis* is in preparation as the Republic of Srpska Securities Commission (RSSC) started the drafting of the Capital Market Act, the Act on UCITS I. Especially the alignment to the Undertakings for Collective Investment in Transferable Securities (UCITS) directive is expected to develop the Bosnian fund management industry by facilitating cross-border investments stemming from the EU capital market in RS. The alignment to the EU *acquis* should be realised before the end of the year 2026.¹² Alongside these legal advancements, data indicate growth in the corporate bond market in RS, with 11 corporate bond issuances recorded in 2021, surpassing the levels seen in 2019 (9) and 2013 (2).

Equity finance is nonexistent and no venture capital funds operate in Bosnia and Herzegovina, while existing regulation is heterogeneous across the two entities. In the FBiH, these activities are currently regulated by the Law on Investment Funds, which is not a specific legal framework for private equity. On the other hand, RS amended the "Law on Investment Funds" in July 2022 to provide a specific legal framework for establishing and operating alternative investment funds (AIFs). This adjustment aims to broaden and diversify the investor base, potentially enhancing liquidity in securities. The amendments create a tailored framework for AIFs, allowing them to attract capital from investors and strategically deploy these funds in investments. Further steps involve complete harmonisation with the EU *acquis*, with upcoming amendments to the Law on Alternative Investment Funds to reach complete alignment with the EU Alternative Investment Fund Managers Directive (AIFMD). This directive will introduce specific rules to regulate and standardise the operations of AIFs, bringing them in line with EU legislation.¹³ This initiative is expected to encourage the development of private equity in Bosnia and Herzegovina by attracting investments from the EU capital market. Finally, regarding Business Angel Networks (BAN), no legal framework or policies foster their development, helping to explain the fact that no BAN currently operates in Bosnia and Herzegovina.

Factoring is regulated at the entity level in Bosnia Herzegovina. In the FBiH, the FBA is drafting amendments to the Factoring Law to enhance the comprehensiveness of the legal framework, although a specific timeline has not been communicated. Additionally, under the Law on Corporate Income, interest on factoring is deductible, and value added tax (VAT) is only applied to service fees, reducing the overall cost of factoring and thereby supporting market development. However, foreign factors business agents face limitations in operating directly in the local market, restricting their potential penetration. In RS, significant legal progress has been made on factoring following adoption of the Law on Factoring in December 2020 and five associated bylaws implemented in April 2021, making the existing legal framework comprehensive. Overall, the recent legal progress achieved in Bosnia and Herzegovina is expected to further develop the factoring market in the early stages of development. In 2022, factoring activities stood for 0.30% of GDP in 2022 (0.28% in 2020) (Facilitating Open Account, 2023^[18]), while

factoring turnover was equivalent to 12.6% of GDP in the EU in 2022 (EU Federation of Factoring & Commercial Finance, 2023^[19]).

Leasing is also regulated at the entity level in Bosnia and Herzegovina, as it is governed by the Law on Leasing in the FBiH and the Law on Leasing in RS. To foster the development of leasing, both entities intend to exclude interests calculated under financial leasing contracts from the VAT calculation base. In terms of market development, all four leasing companies currently operating in Bosnia and Herzegovina are registered in the FBiH, primarily due to its status as the largest market in the region. Additionally, these companies have extended their operations by establishing branches in RS. In total, leasing activities generated a turnover of EUR 58 million in 2021 (0.29% of GDP), a very slight increase from EUR 53.7 million in 2019 (0.28% of GDP) (OECD, 2022^[7]), while this figure was close to 2% of the GDP of the EU in 2022 (Leaseurope, 2023^[20]).

Sub-dimension 3.3: Digital finance

Bosnia and Herzegovina's two entities have not yet implemented a dedicated legal framework for **digital payments**. In detail, the FBiH currently lacks any regulation in this regard. However, in January 2024, RS adopted the Law on Electronic Money, with its implementation scheduled for June 2024. Following the implementation, the legal framework would be partially aligned with the EU's Second Electronic Money Directive (EMD2), allowing the operation of e-money institutions and the issuance of electronic money. Implementation of the Law on Electronic Money would also partially align the legal framework with the Second Payment Services Directive (PSD2), therefore extending banks' payment services to third-party payment service providers (TPPs).¹⁴ Additionally, to prepare for future integration into the Single European Payment Area (SEPA), RS plans to fully align with EMD2 and PSD2 by drafting amendments to the Law on Internal Payment Transactions initiated in 2024. However, no specific timeline has been communicated for future adoption and implementation. These regulatory changes are expected to allow the emergence of firms in the digital payments sector in RS, although as of 2022 no such firms exist.

Despite the economy not having implemented a dedicated legal framework for digital payments, 66.5% of the adult population reported having made or received a digital payment in 2021 (World Bank, 2022^[4]). This figure surpasses the Western Balkan average (61.7%) but lags behind the EU average (93.0%). The data suggest that Bosnia and Herzegovina may struggle with a digital skills deficit, hindering the widespread adoption of digital payment methods.¹⁵ The overall moderate penetration of digital payments poses challenges, ranging from increased business transaction fees to hindered financial accessibility and higher citizen remittance costs. This is particularly crucial for Bosnia and Herzegovina, considering the importance of remittance inflows standing at 12.9% of GDP in 2022 (World Bank, 2024^[21]).

It should also be pointed out that the greatly increased digitalisation of the financial system can also promote the use of bank accounts (Khera et al., 2021^[22]), as 79.3% of the Bosnian adult population possessed a bank account in 2021 – a figure still falling below the EU's 95.1% (International Monetary Fund, 2023^[15]). Despite the moderate adoption of digital payments and limited bank finance penetration, there is no explicit strategy to promote financial inclusion in Bosnia Herzegovina, and the information provided about potential initiatives does not explicitly address gaps in digital skills. In RS, authorities identified high banking fees as a bottleneck for financial inclusion by implementing the amendments to the Law on Internal Payment Transactions in April 2022.¹⁶ Notably, this Law requires commercial banks to provide basic payment accounts to all citizens of RS for a monthly fee that should not surpass 0.15% of the average net salary. Also implemented in April 2022 to limit banking fees in RS, the Law on Interbank Fees for Payment Transactions Based on Payment Cards caps the interbank fee for a debit card transaction at a maximum of 0.2% of the transaction value; for a credit card transaction, the interbank fee cannot exceed 0.3% of the transaction value.¹⁷ A new law is being drafted in the FBiH to regulate maximum bank fees, but there is no specific timeline for adoption or implementation.

Both entities from Bosnia and Herzegovina lack comprehensive legal frameworks for **crowdfunding** and **distributed ledger technology (DLT)** for financing, which hinders businesses from using digital assets to circumvent traditional banking and regulatory requirements associated with capital markets using digital assets yet (OECD, 2019^[23]). Nevertheless, the state-level government of Bosnia and Herzegovina has addressed the DLT security requirements to align them with the security standards specified in the EU Anti-Money Laundering Directive (AMLD5).¹⁸ Indeed, complete alignment with the EU AMLD5 has been reached with the implementation of the Law on Preventing Money Laundering and Financing of Terrorism in February 2024.¹⁹

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has made notable strides in aligning its banking industry's legal framework with international standards and enhancing the legal framework for the capital market (Table 4.3). However, the advancement of alternative funding sources, such as crowdfunding, has been comparatively limited. Additionally, the accessibility of the corporate bond market for all businesses remains challenging. The key developments based on the previous CO Recommendations are elaborated below.

Table 4.3. Bosnia and Herzegovina's progress on past recommendations for access to finance

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to align Bosnia and Herzegovina's banking regulations with international standards	Regulation is being harmonised with Basel III standards in both entities and significant legal progress has been achieved since 2021. In October 2021, the European Commission confirmed that BiH's supervisory and regulatory framework is equivalent to Regulation (EU) No. 575/2013, which addresses credit institutions' capital requirements and related regulations. In RS, the BARS adopted a strategy in 2022 to maintain equivalence with EU banking regulations until 2026. However, complete alignment with international standards remains unachieved.	Strong
Continue to build a business environment with diverse financing sources. Given the economy's limited success in attracting venture capital, supporting crowdfunding by adopting a dedicated legal framework and targeting the diaspora could be a more successful approach	Substantial legal progress has been recorded in RS. The regulatory framework for private equity has seen significant development through amendments to the Law on Investment Funds implemented in July 2022. Progress has also been made in the legal frameworks for factoring and leasing. However, no legal progress has been recorded in the FBiH since the last assessment cycle. Finally, no legislative development for crowdfunding in Bosnia and Herzegovina has been recorded in either entity.	Moderate
Facilitate market-based long-term debt financing for businesses with a more extensive use of corporate bonds. This could be achieved by creating an appropriate credit rating mechanism. The government could also consider introducing a special framework for private bond placements by smaller companies	No policies or specific regulations were in place to help businesses access the corporate bond market in either entity. Moreover, no credit rating mechanism has been implemented.	None

The way forward for access to finance

In a fragmented institutional setup where both entities have extensive competencies on access to finance policies, relevant policy makers should:

- **Achieve aligning banking regulations with Basel III standards.** As in the other Western Balkans, the banking sector is the primary player in the financial industry. Given the importance of the banking sector in accessing finance, both entities should create a more robust and stable global banking system that can withstand economic downturns and financial shocks. Particular attention should be paid to increasing the co-ordination of supervisory activities between the two entities.
- **Continue efforts to harmonise further capital markets' legal framework with EU standards to develop market-based financing.** Adopting EU *acquis* regulations on stock and debt markets can increase investor confidence, strengthening cross-border co-operation. This can create opportunities for local businesses to attract investment and raise capital from a larger pool of investors.
- **Strengthen the mandates and structure of credit guarantee funds.** Considering the ongoing decline in SMEs' access to finance, particularly in the FBiH, it is essential to review the performance of existing funds to pinpoint obstacles. Collaborating with stakeholders, a reassessment of credit guarantee schemes' mandate and design is necessary to ensure targeted measures effectively support SMEs (Box 4.1).
- **Continue to align financial market regulation with the EU and enable the exchange of information between the two entities.** Building further on the efforts to align both financial markets to EU standards, additional steps should be taken to facilitate inter-entity exchange of information on the financial sector and good practice.
- **Make digital finance available for all individuals and businesses by developing a co-ordinated approach.** Financial services are increasingly digitalised, and older adults, individuals with low education levels, and those residing in rural areas face more significant financial exclusion because of insufficient digital skills, which should be considered in financial inclusion strategies.

Box 4.1. The United Kingdom Business Support Evaluation Framework

The UK Department for Business, Energy and Industrial Strategy (BEIS) has created a dedicated framework for evaluating business support interventions in the United Kingdom. The tool aims to help policy makers create comparable support programmes and establish standards for all initiatives to provide the highest quality services. The framework focuses on quantitative evaluation and is complemented by qualitative monitoring. The evidence gathered through the evaluation framework is a basis for an impact and cost-effectiveness assessment. BEIS provides numerous support programmes for businesses, which are monitored and evaluated regularly; therefore, the framework compiles the evidence already gathered to identify good practices in the evaluation area. The framework focuses on support programmes' comparability through standardisation, data collection and reporting.

The framework is designed along a logic model, which accounts for collecting different data components. The key elements include inputs, e.g. resources used for a support programme, deliverables, programme output and impact. The envisioned timeline of the impact evaluation is set at a minimum of three years. The business support interventions are evaluated based on a set of predefined indicators, such as gross value added, turnover, employment, and productivity proxy measures such as turnover/headcount ratio. The indicators are well targeted to ensure programme

comparability. BEIS aims to create uniform standards for the support programmes provided and increase the transparency of the evaluation process.

The monitoring and evaluation of business support programmes are uneven across entities in Bosnia and Herzegovina; thus, introducing a common, comparable evaluation framework would improve the quality of the support services provided. Given Bosnia and Herzegovina's governmental structure, comparable programmes and a common assessment framework would reduce the administrative burden for both entities and ensure higher-quality support services for SMEs. Bosnia and Herzegovina can draw on their co-operation with international development co-operation partners, which can assist the economy in developing an evidence-based framework for impact evaluation.

Source: OECD (2022^[7]).

References

- Central Bank of Bosnia and Herzegovina (2022), *Comment on Trends in the Sector of Non-banking Financial Institutions*, http://file:///C:/Users/Dicharry_B/Downloads/Komentar%20kretanja%20u%20sektoru%20nebankarskih%20finansijskih%20institucija%20za%20juni%202022_eng.pdf. [1]
- Credit Guarantee Fund of the Republic of Sprska (2023), *Financial Statements for the Year Ended December 31, 2022*, <https://garantnifondrs.org/wp-content/uploads/2023/09/lzvjestaj-nezavisnog-revizora-za-2022.-godinu.pdf>. [24]
- Development Bank of the Federation of Bosnia and Herzegovina (2023), *Financial Statements for the Year which Ended on December 31, 2022*, <https://rbfbih.ba/wp-content/uploads/2023/06/lzvjestaj-nezavisnog-revizora-31.12.2022.pdf>. [9]
- Development Bank of the Federation of Bosnia and Herzegovina (2021), *Financial Statements for the Year which Ended on December 31, 2020*, https://rbfbih.ba/wp-content/uploads/2021/04/lzvjestaj_nezavisnog_revizora_za_2020_godinu_bosanski_jezik.pdf. [10]
- EU Federation of Factoring & Commercial Finance (2023), *Annual Factoring Data Factoring Turnover in Europe*, <https://euf.eu.com/data-statistics/annual-factoring-data.html> (accessed on 24 November 2023). [19]
- European Bank for Reconstruction and Development (2022), *Go Digital in Bosnia and Herzegovina*, <https://www.ebrd.com/news/2022/go-digital-in-bosnia-and-herzegovina.html> (accessed on 2 February 2024). [14]
- European Banking Authority (2021), *EBA acknowledges Commission's decision on equivalence for Bosnia and Herzegovina and North Macedonia-Annex*, <https://www.eba.europa.eu/publications-and-media/press-releases/eba-acknowledges-commissions-decision-equivalence-bosnia-and> (accessed on 31 January 2024). [2]
- European Central Bank (2023), *ECB Data Portal*, <https://data.ecb.europa.eu/data-comparison/e595831e-7662-41cf-ab04-f191303138ac> (accessed on 24 November 2023). [3]

- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [5]
- European Investment Bank (2024), *Financed Projects*, <https://www.eib.org/en/projects/loans/index.htm?q=&sortColumn=loanParts.loanPartStatus.statusDate&sortDir=desc&pageNumber=0&itemPerPage=25&pageable=true&language=EN&defaultLanguage=EN&loanPartYearFrom=2021&loanPartYearTo=2024&orCountries.region=true&count> (accessed on 5 February 2024). [13]
- European Microfinance Network (2019), *Legislative Mapping Report Bosnia and Herzegovina*, <https://www.european-microfinance.org/sites/default/files/document/file/bosnia.pdf>. [16]
- Facilitating Open Account (2023), *Annual Report 2023*, https://fci.nl/en/annual-review?language_content_entity=en. [18]
- International Monetary Fund (2023), *Financial Access Survey (FAS)*, <https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C&sid=1460043522778> (accessed on 24 November 2023). [15]
- Khera, P. et al. (2021), “Is digital financial inclusion unlocking growth?”, *IMF Working Paper*, Vol. WP/21/167, http://file:///C:/Users/Dicharry_B/Downloads/wpia2021167-print-pdf.pdf. [22]
- Leaseurope (2023), *Solifi Releases their 2023 Global Leasing Report*, <https://www.leaseurope.org/solifi-releases-their-2023-global-leasing-report-1> (accessed on 24 November 2023). [20]
- OECD (2022), *Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard*, <https://doi.org/10.1787/e9073a0f-en>. [8]
- OECD (2022), *SME Policy Index: Western Balkans and Turkey 2022: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, <https://doi.org/10.1787/b47d15f0-en>. [7]
- OECD (2021), *Competitiveness in South East Europe 2021*, <https://doi.org/10.1787/20765762>. [17]
- OECD (2019), *Initial Coin Offerings (ICOs) for SME Financing*, <http://www.oecd.org/finance/initial-coin-offerings-for-sme-financing.htm>. [23]
- Republic of Srpska Investment-Development Bank (2024), *Database of Disbursed Loans*, <https://www.irbrs.net/PlasiraniKreditiBaza/PlasiraniKreditilzvjestaji.aspx?p=3&lang=eng> (accessed on 14 June 2024). [11]
- World Bank (2024), *BIH Firm Recovery and Support Project*, <https://projects.worldbank.org/en/projects-operations/project-detail/P174604>. [12]
- World Bank (2024), *Remittances Prices Worldwide*, <http://remittanceprices.worldbank.org/> (accessed on 17 January 2024). [21]
- World Bank (2022), *The Global Financial Development Database*, <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database> (accessed on 24 November 2023). [4]

World Bank (2019), *Doing Business Project*,
<https://data.worldbank.org/indicator/IC.CRD.PRVT.ZS?locations=BA> (accessed on
 8 February 2024).

[6]

Notes

¹ These temporary measures aimed to introduce additional rules for expected credit losses and offset the consequences of a potentially significant increase in debt repayment (European Commission, 2023^[5]).

² It can also be mentioned that the amount of insured deposits is EUR 35 800, which remains substantially below the EUR 100 000 of the EU *acquis*.

³ The Standing Committee for Financial Stability comprises the banking agencies, the Central Bank, the Deposit Insurance Agency, and the relevant ministries.

⁴ There is also an operational national private credit information system, which is neither recognised nor overseen by a regulator.

⁵ It could also be noted that the Credit Guarantee Fund has operated in RS since 2010. The amendments to the Law on Guarantee Funds in 2019 and 2020 expanded the competencies of the Credit Guarantee Fund to having it issue individual and portfolio guarantees to SMEs. However, its activity is modest, with a total of EUR 32.8 million in 2022 (Credit Guarantee Fund of the Republic of Sprska, 2023^[24]).

⁶ The IBRD has not yet communicated any renewal of this programme.

⁷ The three programmes are the “ISP BiH Loan for SMEs and Priority Projects IV” programme (started in April 2021), the “UBBL COVID-19 Response for SMEs & Midcaps Loan” programme (started in June 2021), and the “ISP BiH Impact Incentive Loan for SMEs & Midcaps” (started in February 2022).

⁸ This program received a EUR 10 million extension in November 2022.

⁹ While both foundations and microcredit companies offer microcredits, foundations operate as nonprofit entities focused on social impact, whereas microcredit companies are for-profit institutions subject to financial regulations and seek to generate profits from their lending activities.

¹⁰ In detail, the Law introduces improved rules for documents such as the prospectus, which companies use to share crucial information with investors. This includes defining the validity period of these documents and ensuring their accessibility. Moreover, rules and costs for companies issuing short-term financial instruments have been streamlined. The law also limits changes to the information companies provide during a public offering to protect investors, ensuring that investors receive reliable and consistent information. Finally, the law grants broker-dealers more flexibility in their operations.

¹¹ In detail, the Law establishes a legal basis for ending the public offering of a company's shares before the registration and payment deadline, even if shareholders, exercising their pre-emption right, have registered and paid for at least 60% of the new shares offered in the prospectus. In cases where subscribed

shares are not paid for after the public offer is completed, nonpayment will not carry legal consequences and the subscribed shares cannot be legally traded.

¹² UCITS is designed to create a standardised and secure framework for investment funds, promoting investor protection, facilitating cross-border investment, and contributing to the harmonisation of regulations across the EU (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0065>).

¹³ The AIFMD directive regulates the activities of alternative investment fund managers within the EU (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0061>).

¹⁴ EMD2 directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110>; PSD2 directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366>.

¹⁵ Such data are not available at the entity level.

¹⁶ No assessment of the impact of banking fees on financial inclusion has been conducted by the authorities in Bosnia and Herzegovina. However, the importance of credit card fees has been underlined by (European Commission, 2023^[5]).

¹⁷ On financial inclusion, the Committee for the Coordination of the Supervision of the Financial Sector of the RS is tasked with organising and implementing user protection in financial services, alongside providing information on and education in these services. The members of the Committee are the Minister of Finance of the RS, the President of the Securities Commission of the RS, the Director of the Banking Agency of the RS, and the Director of the Insurance Agency of the RS.

¹⁸ In RS the Law on the Securities Market amendments, already entered into force in July 2022 to define virtual currency and wallet deposit services, tasks the Securities Commission with overseeing providers for compliance with anti-money laundering rules, and defines penal provisions in case of infringement. This Law was the first step towards harmonisation with the EUAMLD5 directive (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843>).

¹⁹ The Law on Securities Market was amended in June 2022 as a first step towards alignment with the EU AMLD5 directive. These amendments introduce clear definitions for virtual currency and wallet depository services. They also establish rules requiring providers of virtual currency exchange services or wallet depository services to register, share information, and undergo checks.

5 Tax policy

A well-planned tax policy provides the necessary incentives to promote economic growth. This chapter, along with two sub-dimensions, explores the effectiveness of tax policy and tax administration. The first sub-dimension, tax policy framework, assesses the soundness and efficaciousness of the legal framework, the tax system, and the incentives for investment in promoting steady economic growth. The second sub-dimension, tax administration, focuses on the efficiency and transparency of the tax administration organisation while also reflecting upon the tax filing and payment procedures and taxpayer services.

Key findings

Bosnia and Herzegovina has improved its scores since the previous Competitiveness Outlook, although the overall score is slightly below the regional average (Table 5.1). Overall performance in tax policy remained the same. Tax administration in the economy was strengthened due to improvements in compliance assessment and risk management as well as higher rates of e-filing in both entities covered by the Competitiveness Outlook assessment, i.e. the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). However, relatively underdeveloped personal income tax and social security contribution analysis offset these advancements.

Table 5.1. Bosnia and Herzegovina's scores for tax policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tax	4.1: Tax policy framework			2.8	2.4
	4.2: Tax administration			2.9	3.8
Bosnia and Herzegovina's overall score		1.4	2.6	2.9	3.1

The **key findings** are:

- Bosnia and Herzegovina levies a significant tax burden on labour income despite maintaining a low personal income tax (PIT) rate. This burden largely stems from the social security contribution rates (SSCs), among the highest in the region: in the FBiH, the total SSC rate is 41.5%, while in RS it is 31%.
- The entities' reliance on revenues from SSCs presents challenges given current trends in population ageing and emigration. These shifts risk reducing the size of the labour force, consequently leading to significant declines in the tax revenue collected.
- Although RS made some progress in its tax expenditure reporting, this analysis remains weak in the FBiH and at the state level, which is detrimental to monitoring and the effectiveness of tax expenditures, including tax incentives, along with the tax revenue forgone.
- The Ministry of Finance of RS, with the support of the International Monetary Fund (IMF), conducted aggregated tax expenditure accounting for the first time in March 2023.
- E-filing of taxes has been progressively implemented for most main taxes in both entities. In the FBiH, e-filing is possible for corporate income tax (CIT), PIT, and SSCs, while in RS, taxpayers can electronically file any type of tax. Moreover, the frequency of e-filing system use has been growing across both entities, with rates in the FBiH increasing from 55% to 64% and rates in RS rising from 43% to 90% between 2019 and 2022.
- There have been ongoing efforts to measure and improve taxpayers' satisfaction with the tax administrations' services in both entities. Namely, the Swedish Tax Agency has worked with both entities to assess satisfaction levels.
- Despite progress in recent years, Bosnia and Herzegovina could still deepen its engagement within the international taxation framework. Specifically, the economy has yet to participate in the OECD Automatic Exchange of Information (AEOI) initiative.

State of play and key developments

Sub-dimension 4.1: Tax policy framework

While Bosnia and Herzegovina generates substantial **tax revenue** relative to its GDP, its tax mix heavily relies on indirect taxes. Corporate income tax (CIT) and personal income tax (PIT) revenues, on the other hand, are comparatively low (Table 5.2). Both the FBiH and RS have maintained tax-to-GDP ratios above the WB6 average, with 33.5% and 35.3% respectively, compared to the WB6 average of 30.4%. In FBiH, the share of tax revenues drawn from social security contributions (SSCs) stands at 44.2%, while taxes on goods and services account for 43.2% of the total tax revenue. This combination totals 87.4% of the entity's total tax mix. Similarly, in RS, SSCs contribute 39.9% and taxes on goods and services contribute 47.3% to the tax revenues, totalling 87.2% of its tax mix. The proportion of total tax revenue contributed by PIT and CIT is lower in both entities compared to the OECD averages. The FBiH collects 5.7% of its total revenue from PIT and 5.5% from CIT, while RS collects 5.3% from PIT and 6.6% from CIT, all of which are notably lower than the OECD averages of 24.1% for PIT and 9% for CIT.

Table 5.2. Bosnia and Herzegovina's tax revenues composition (2022)

Tax revenues are expressed as a percentage of GDP

	Corporate income tax revenues	Personal income tax revenues	Social Security contributions revenues	Taxes on goods and services revenues	Total tax revenues
BIH-FBiH	1.8	1.9	14.8	14.4	33.5
BIH-RS	2.3	1.9	14.1	16.7	35.3
WB6	2.1	1.9	9.9	14.9	30.4
OECD	2.8	8.3	9.2	10.6	33.6

Note: Information for Bosnia and Herzegovina is from 2022 and information from the OECD is from 2020.

Sources: Information provided by the Federation of Bosnia and Herzegovina's Federal Ministry of Finance and the Ministry of Finance of Republika Srpska for the Competitiveness Outlook assessment; Data on the OECD are from OECD (2022^[1]).

Both the FBiH and RS operate a relatively low statutory **CIT rate** of 10%. While this rate is in line with the lower spectrum of the WB6 region, it is considerably lower than the rate in most OECD countries. Both entities tax resident companies on income earned domestically and abroad. Non-resident businesses, on the other hand, are taxed solely on the income they generate within the jurisdiction. Capital gains are categorised as business income and are subject to the 10% CIT rate. There is no withholding tax for dividends distributed to resident individuals, but both entities levy withholding taxes on income generated by non-resident businesses paid to foreign entities. In the FBiH, the withholding tax rate on dividends by non-resident businesses paid to foreign entities is taxed at 5%.

In terms of **investment incentives**, both the FBiH and RS primarily offer cost-based tax incentives, with a significant emphasis on supporting research and development (R&D) expenditures. This targeted approach aligns with international best practices, as evidence supports the efficiency of cost-based incentives in driving R&D investment (OECD, 2022^[2]).

The **Global Anti-Base Erosion Rules (GloBE)** could affect Bosnia and Herzegovina. The GloBE Rules ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each of the jurisdictions in which they operate. While countries are not required to adopt the GloBE Rules, jurisdictions that adopt them will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether an MNE is subject to an effective tax rate below the agreed minimum rate of 15% in any jurisdiction where it operates (OECD, 2022^[3]). For Bosnia and Herzegovina, that means that in-scope Ultimate Parent Entities of MNE Groups – that have their

headquarters in a jurisdiction that has implemented the GloBE Rules and that operate a subsidiary (or Constituent Entity) in Bosnia and Herzegovina – may be subject to a top-up tax in the residence jurisdiction, if the profits earned in the subsidiary are taxed at an effective rate below 15%. As Bosnia and Herzegovina's statutory CIT rate is below this rate, subsidiaries of multinational enterprises that fall under the scope of GloBE and operate within Bosnia and Herzegovina could be impacted by these rules.

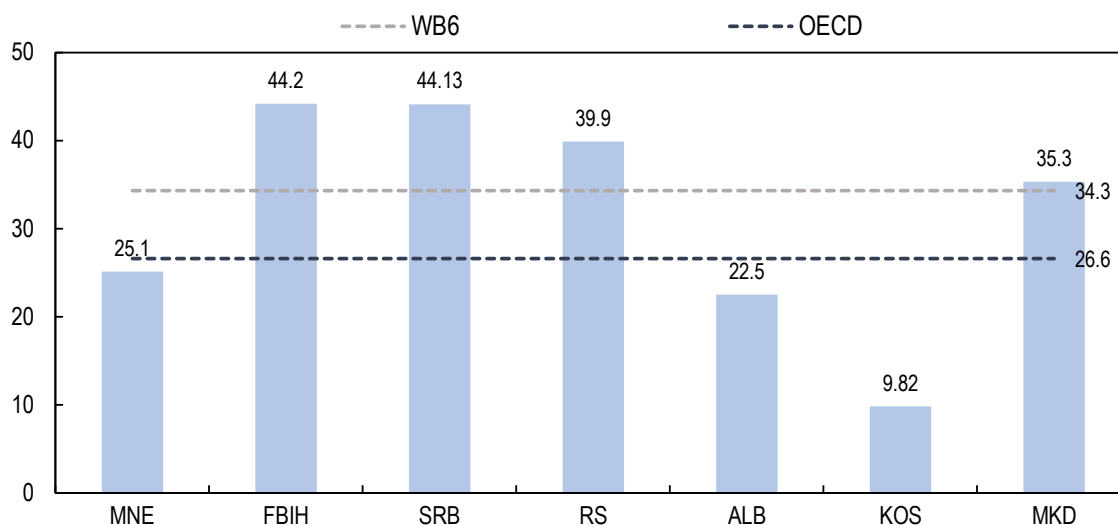
In recent years, Bosnia and Herzegovina has become increasingly engaged within the **international taxation framework**. In 2019, it became a member of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and has signed the Convention on Mutual Administrative Assistance in Tax Matters. That said, Bosnia and Herzegovina has yet to participate in **exchange of tax information** initiatives. Exchanging information through the OECD Automatic Exchange of Information (AEOI) standards and implementing the Country-by-Country (CbC) Reporting Package can incentivise taxpayers to voluntarily disclose their assets and enables the tax authority to better detect evasion activities and concealed offshore assets. Strengthening its capacity in this area will also help Bosnia and Herzegovina more effectively tax capital income from its top earners (OECD, 2017^[4]).

Personal income tax rates in Bosnia and Herzegovina are relatively low. The FBiH applies a flat PIT rate of 10%, while in RS this PIT rate is only 8% (although a 10% rate applies to self-employed individuals). In the FBiH, the annual PIT allowance is BAM 3 600 (EUR 1 840). In RS, the PIT allowance is BAM 12 000 (EUR 6 145) per year, and taxpayers are also able to deduct BAM 1 800 (EUR 920) per year for each dependent family member, and a deduction based on interest paid on housing loans.

While PIT rates are relatively low, **SSC rates** are high in both entities. RS enforces an aggregate contribution rate of 31%, while in the FBiH employees face SSC rates of 31%, and employers face rates of 10.5%, leading to a total SSC rate of 41.5% (Figure 5.1). These rates are applied uniformly across all sectors of employment. This reliance on SSCs presents challenges given the demographic shifts due to population ageing and emigration trends. These two trends risk shrinking the labour force, and consequently tax revenues (Brys and Colin, 2019^[5]).

Figure 5.1. Total SSC rates, Federation of Bosnia and Herzegovina, Republika Srpska, WB6 economies and the OECD (2022)

In percentage



Sources: Information provided by the Federation of Bosnia and Herzegovina's Federal Ministry of Finance and the Ministry of Finance of Republika Srpska for the Competitiveness Outlook assessment; (OECD, 2024^[6]).

Given the likely impact of these demographic changes to Bosnia and Herzegovina's economy, it is crucial for both entities to utilise **modelling and forecasting** to assess the impact that demographic changes will have on its revenue generation (see, for example, OECD (2018^[7])). Such an assessment is a critical step in formulating a plan to bolster the resilience of the economy's public finances. RS has already started evaluating how projected changes to the population will impact the sustainability of its pension system, but has yet to look at the effect on PIT revenues. Moreover, Bosnia and Herzegovina has developed and uses other models, namely micro-simulation models that are used to simulate the effects of PIT, SSC, and CIT reforms, including their distributional impacts.

A **presumptive or simplified tax regime** targeting small businesses or vulnerable self-employed individuals could also play a role in formalising Bosnia and Herzegovina's tax system. These regimes aim to induce businesses to formalise by reducing tax compliance costs and setting lower tax rates than the standard tax system. RS has implemented such a regime for small entrepreneurs, where a small entrepreneur is defined as a natural person who does not employ more than three workers and does not exceed an annual income of BAM 50 000 (EUR 26 000). The annual tax for a small entrepreneur is calculated at a rate of 2% on the total income of the entrepreneur. However, the annual tax cannot be less than BAM 600 (EUR 300). The maximum tax burden is capped at BAM 1 000 (EUR 510) on the total income of a small entrepreneur, effectively applying a 2% tax rate on a maximum income of BAM 50 000.

Regarding the **design and structure of the value added tax (VAT) system**, Bosnia and Herzegovina levies a 17% VAT on a relatively broad base. The following services are exempt from VAT: public postal services (except telecommunications), medical and healthcare services, social security services, education services, and sports or sports education services.¹ However, there are no goods for which a 0% rate applies, and the VAT registration threshold is the lowest in the region. Notably, the VAT registration threshold in Bosnia and Herzegovina was increased from BAM 50 000 to BAM 100 000 in November 2023.² Bosnia and Herzegovina imposes a VAT on cross-border digital services. The country's VAT rules predominantly follow the destination principle outlined in the international VAT/goods and services tax (GST) Guidelines, with reference made to the consumer's place of residence.

In terms of **environmentally related taxes**, Bosnia and Herzegovina imposes excise duties on gasoline and diesel fuel. There remains ample room for further carbon pricing and elevated excise taxes to enable Bosnia and Herzegovina to meet its climate objectives and accelerate the shift towards net zero greenhouse gas emissions. Additionally, Bosnia and Herzegovina need to evaluate the consequences that the EU Carbon Border Adjustment Mechanism (CBAM),³ scheduled to take effect from January 2026, may have on its economy. Depending on this analysis, Bosnia and Herzegovina may wish to enhance its carbon pricing to avoid potential revenue losses. The domestic pricing of carbon offers the dual advantage of generating revenues that can be channelled towards the green transition and/or other government policies (OECD, 2022^[8]).

In Bosnia and Herzegovina, **health taxes** include a specific and *ad valorem* excise tax on cigarettes and a specific tax per kilogramme of smoking tobacco, alongside an *ad valorem* excise tax on cigars and cigarillos. Cigarettes are subject to a specific excise tax of BAM 82.50 (EUR 42) per 1 000 cigarettes and an *ad valorem* rate of 42% on the retail price. An excise tax of BAM 133.20 (EUR 68) per kilogramme is imposed on smoking tobacco. Such a system that incorporates both *ad valorem* and specific excise taxes can be found in many OECD member countries and aims at deterring the consumption of both high- and low-value products while simultaneously optimising revenue generation (OECD, 2020^[9]). These taxes offer potential revenue gains and have important health implications, as they can help decrease smoking rates and thus alleviate associated healthcare costs. Thus, there is further scope to augment taxes on tobacco products, given their health and revenue benefits, and align more closely with World Health Organisation (WHO) recommendations and OECD averages (OECD, 2022^[10]).

Efforts towards conducting regular **tax expenditure reporting** have been mixed across the state and entity levels. Notably, RS conducted aggregated tax expenditure accounting for the first time in March 2023 and plans to do so regularly. Conversely, tax expenditure reporting does not occur regularly at the state level or in the FBiH. Reporting would allow both the state and the FBiH to monitor the use and effectiveness of tax expenditures, including tax incentives, along with the tax revenue forgone.

Sub-dimension 4.2: Tax administration

Tax administration functions are divided among different jurisdictions, with direct taxes designed, collected, and administrated by the FBiH, RS and the Brčko District, and indirect taxes managed at the state level by the Indirect Taxation Authority. In FBiH, the tax administration approach is split between functions such as registration and tax return processing, and a taxpayer group approach for audits, with separate units for different types of taxpayers. RS utilises its tax administration central office for co-ordination and policy implementation, with regional centres taking on varied functions, from audits to tax collection, and local offices handling document processing and tax liability calculation.

Regarding **compliance assessment and risk management**, a risk-based approach is applied throughout Bosnia and Herzegovina. At the state level, a Risk Analysis and Management Department prepares a monthly audit plan, prioritising taxpayers based on their calculated risk points. Both entities have developed audit plans targeting large taxpayers, with an automated system for selecting high-risk taxpayers currently in development in RS. These risk-based selection strategies allow for effective resource allocation in compliance programmes.

Regarding **independence and transparency**, neither the FBiH nor RS has an independent management board of the tax authority. In both entities, however, the tax administration budget is set via annual budgetary procedures and is not dependent on the amount of revenue collected. Misconduct by tax administration members is regulated in RS but not in the FBiH, underscoring the need for strong safeguards to ensure tax administration independence.

With respect to **tax filing and payment procedures**, e-filing has been progressively implemented for different taxes. Notably, e-filing became mandatory for VAT and excise duties in 2019. The uptake has been significant; in 2022, 90% of tax returns were filed electronically in RS, and 64% in the FBiH. To facilitate this process, free software for tax compliance is provided to taxpayers. However, while neither entity has an independent body to review these procedures regularly, both undergo evaluation by their respective Ministries of Finance.

In the FBiH, regular surveys are conducted to measure the level of satisfaction with **taxpayer services**. As part of the Tax Administration's Modernisation Project, in March 2023 the Swedish Tax Agency helped carry out an independent survey on taxpayers' satisfaction with the Tax Administration's services. Taxpayer services are available on line and payments can be made on line.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's progress on implementing past CO Recommendations has been mixed: in some areas, such as strengthening the use of electronic filing, the economy has made strong advances since CO 2021. Conversely, its progress has stagnated in several domains, including strengthening the tax administration's independence and rebalancing labour income taxation. Table 5.3 shows the economy's progress on implementing past recommendations for tax policy.

Table 5.3. Bosnia and Herzegovina's progress on past recommendations for tax policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to support the economy in light of COVID-19	All COVID-19-related tax support measures have been phased out.	Strong
Diversify the tax mix and increase progressivity in the tax system	Bosnia and Herzegovina improved tax collection and enforcement, but no significant tax policy design changes have been made. The basic PIT allowance was increased.	Limited
Rebalance the taxation of labour income by shifting revenue away from SSCs and towards PIT	No policy actions have been taken in this regard. PIT base was narrowed in the Republic of Srpska.	None
Evaluate whether the imbalance between the tax burden on capital and labour income distorts the economy and creates tax-induced incentives for entrepreneurs to incorporate	No indication that this assessment has taken place and/or resulted in policy actions.	None
Strengthen tools and capacities to assess the effects of tax policies on the economy	The Republic of Srpska conducted aggregated tax expenditure accounting for the first time in March 2023.	Moderate
Turn profit-based tax incentives into cost-based tax incentives	The economy now operates mostly cost-based tax incentives.	Moderate
Strengthen the use of e-filing	E-filing use increased significantly in both entities (43% in 2019 to 90% in 2022 in RS; 55% in 2019 to 64% in 2022 in FBiH).	Strong
Define an action plan regarding BEPS Pillar 2's global minimum tax rate in case consensus on this rate is found among members of the OECD/G20 Inclusive Framework on BEPS	No indication that this is actively being assessed and/or resulted in policy actions.	None
Continue to engage with the international tax community and implement international best practices	Bosnia and Herzegovina is a member of the Inclusive Framework but has yet to participate in information exchange initiatives or implement the Country-by-Country (CbC) Reporting Package.	Limited
Carry out a cost-benefit analysis on the merits of a worldwide taxation system for resident corporations	No indication that this assessment has taken place.	None

The way forward for tax policy

Considering the level of the previous recommendations' implementation, there are still areas in which Bosnia and Herzegovina could enhance the tax policy framework and further improve the functioning of the tax administration. As such, policy makers may wish to:

- **Consider the diversification of the tax mix by lessening the reliance on SSCs and taxes on goods and services, and increasing revenues from PIT and CIT.** Diversifying the tax mix can raise revenues and make them more resilient to shocks as well as long-term trends, such as population ageing.
- **Review the SSC rates and consider the labour market outcomes of shifting towards a progressive PIT system.** Shifting the tax burden from SSCs to a progressive PIT system could also potentially enhance the tax system's equity and efficiency. Regarding equity, increasing the number of PIT brackets and introducing a higher top PIT rate would make the tax system more redistributive and help raise revenues. On the efficiency front, reduced SSC rates and low bottom PIT rates could decrease barriers to formal employment.
- **Implement environmentally related taxes, such as carbon pricing and elevated excise taxes.** This would help Bosnia and Herzegovina to meet climate objectives and generate additional revenues (Box 5.1).

Box 5.1. Indonesia's Carbon Tax

Indonesia passed the Law on the Harmonization of Taxation Regulations in October 2021, with which it introduced a carbon tax. The tax will be payable on purchasing “goods containing carbon” and activities that produce greenhouse gas emissions. The revenue generated from the carbon tax may be used to finance the country’s climate change mitigation and adaptation activities through the national budget. The carbon tax entered into force on 1 July 2022. The minimum carbon tax rate is set at IDR 30 per kilogramme of CO₂ equivalent (approximately EUR 2.7 per tonne), less than half of the originally proposed rate of IDR 75. While low, according to the law the tax rate will be “higher than or equal to the carbon market price per kilogram of carbon dioxide or its equivalent”, when the cap-and-trade carbon emissions trading system will be operational. For the initial phase, beginning in 2022, the carbon tax will apply to coal power plants only. The carbon tax will be levied on the amount of emissions that exceed a given cap, based on intensity criteria depending on the power plant size. Starting from 2025 onwards, the full implementation of the carbon trading system and an expansion in the number of sectors subject to the carbon tax will be considered depending on several factors, including economic conditions, the readiness of actors and impact assessments. Indonesia is the fourth Asian country to implement a carbon-pricing mechanism, after the People’s Republic of China, Japan, and Korea.

Source: OECD (2022^[11]).

- **Continue to conduct tax expenditure reporting and further strengthen the level of analysis to evaluate the effectiveness of tax incentives and expenditures.** Improved tax expenditure reporting is key to enhancing transparency in the tax system and allowing for independent evaluation of tax incentives. A regular tax expenditure report should be realised to identify, measure, and report on the cost of tax expenditures in a way that enables their cost to be compared with direct spending programmes. Policy makers can then conduct cost-benefit analysis to evaluate whether specific tax incentives meet their stated objectives and, if not, whether they should be abolished or replaced.
- **Improve transparency and exchange of information by participating in initiatives such as the OECD AEOI standards and implementing the CbC Reporting Package.** Progress in this area allows for the possibility of using exchanged data for tax enforcement purposes (i.e. from tax assessment to tax collection). Additionally, the availability of offshore financial account information domestically may have a deterrent effect against tax evasion practices.
- **Assess the impact of the GloBE Rules on the economy’s tax system and tax incentives.** To avoid potential revenue losses, both entities will need to consider aligning their tax policies with international standards and, in the short term, may wish to consider introducing a qualified domestic minimum top-up tax (QDMTT).

References

- Brys, B. and C. Colin (2019), *Population Ageing and Sub-Central Governments*, [5]
<https://doi.org/10.1787/22265848>.
- OECD (2024), *OECD Global Tax revenue Database*, <https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm> (accessed on 14 June 2024). [6]
- OECD (2022), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends*, OECD Publishing, Paris, <https://doi.org/10.1787/6525a942-en>. [10]
- OECD (2022), *OECD Investment Tax Incentive Database: 2022 Update: Tax Incentives for Sustainable Development*, <https://www.oecd.org/investment/investment-policy/oecd-investment-tax-incentives-database-2022-update-brochure.pdf> (accessed on 1 March 2024). [2]
- OECD (2022), *Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action*, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, <https://doi.org/10.1787/e9778969-en>. [8]
- OECD (2022), *Revenue Statistics 2022: The Impact of COVID-19 on OECD Tax Revenues*, OECD Publishing, Paris, <https://doi.org/10.1787/8a691b03-en>. [1]
- OECD (2022), *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules*, OECD Publishing, Paris, <https://doi.org/10.1787/25d30b96-en>. [3]
- OECD (2022), *Tax Policy Reforms in Low- and Middle-Income Countries: Policy brief*, OECD, Paris, <http://www.oecd.org/tax/tax-policy/tax-policy-reforms-in-low-and-middle-income-countries-policy-brief.htm>. [11]
- OECD (2020), *Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues*, OECD Publishing, Paris, <https://doi.org/10.1787/152def2d-en>. [9]
- OECD (2018), *Reshaping the Personal Income Tax in Slovenia*, OECD, Paris, <https://www.oecd.org/tax/tax-policy/reshaping-the-personal-income-tax-in-Slovenia.pdf>. [7]
- OECD (2017), *Standard for Automatic Exchange of Financial Account Information in Tax Matters, Second Edition*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264267992-en>. [4]

Notes

¹ For a list of VAT-exempt activities, please see: www.uino.gov.ba/portal/en/vat/general-information-on-vat-system-in-bosnia-and-herzegovina.

² www.uino.gov.ba/portal/en/news/the-threshold-for-entering-the-vat-system-has-been-increased-to-bam-100-000.

³ The EU Carbon Border Adjustment Mechanism (CBAM) is the policy instrument designed to reduce the likelihood of carbon leakage by instituting a carbon price on imported goods. This tool reflects the EU's commitments to reducing its greenhouse gas emissions under the "Fit for 55" package while still ensuring a level playing field between EU and non-EU businesses. The CBAM's transitional period, which started on 1 October 2023 and continues until the end of 2025, exclusively involves reporting obligations; however, from 1 January 2025, carbon pricing will also be implemented.

6 State-owned enterprises

State-owned enterprises are important economic actors and can enhance economic activity and competitiveness if a level playing field with private companies is ensured. This chapter, along three sub-dimensions, explores the importance of implementing policy, institutional and legal frameworks that contribute to competitive neutrality between private firms and state-owned enterprises. The first sub-dimension, efficiency and performance through improved governance, assesses clarity of the ownership policy and the board nomination framework, including independent and professional boards, and privatisation practices. The second sub-dimension, transparency and accountability, focuses on the financial and non-financial reporting and audit practices, including anti-corruption integrity measures and protection of minority shareholders. The third sub-dimension, ensuring a level playing field, explores the discrepancies in the legal and regulatory treatment of SOEs compared to private businesses, and the financing conditions of SOEs.

Key findings

Bosnia and Herzegovina (BiH) performs slightly below the Western Balkans' regional average on the overall state-owned enterprise (SOE) policy dimension, reflecting the presence of several regional challenges with regard to state ownership. These include the absence of a state ownership policy to clarify the state's expectations as owner; a decentralised ownership portfolio wherein line ministries often exercise ownership and regulatory functions simultaneously; weaknesses in SOE board responsibilities and independence; and the absence of market-consistent performance expectations for SOEs. Bosnia and Herzegovina's progress in implementing the CO 2021 Recommendations has been limited overall (Table 6.1). The main related reform undertaken has been the establishment in Republika Srpska (RS) of a central SOE monitoring unit within the General Secretariat of the Government. The RS authorities have also recently announced plans to undertake a more ambitious SOE reform programme, involving improved SOE management and supervision practices, as outlined in the 2024-26 Programme of Economic Reforms. RS achieves slightly higher scores than the Federation of Bosnia and Herzegovina (FBiH), reflecting, among others, the establishment of the new monitoring unit and the fact that many SOEs are overseen by the RS Share Fund, an entity that does not have sectoral regulatory functions and therefore supports a better separation of ownership and regulatory functions over SOEs.

Table 6.1. Bosnia and Herzegovina's scores for state-owned enterprises

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
State-owned enterprises	5.1: Efficiency and performance through improved governance			2.2	2.3
	5.2: Transparency and accountability			2.4	2.7
	5.3: Ensuring a level playing field			2.3	2.8
Bosnia and Herzegovina's overall score		1.9	2.0	2.3	2.5

The **key findings** are:

- Bosnia and Herzegovina's approximately 94 SOEs held by the central governments of the FBiH and RS entities operate in a largely decentralised manner across several ownership ministries, without an ownership policy in place to clarify the state's objectives regarding SOEs. RS authorities have taken some measures to strengthen ownership arrangements, including placing many SOEs (19 enterprises out of a total portfolio of 27) under the Share Fund (not a ministry with sectoral-regulatory functions) and establishing an SOE performance-monitoring unit. This unit, the Department for Coordination of Public Enterprise Supervision within the General Secretariat of the Government, could significantly improve state ownership practices in RS once it begins undertaking its foreseen role in developing an ownership policy, advising on SOE practices and instituting an SOE performance-monitoring system.
- SOE board nominations are subject to general minimum qualifications criteria applicable to all public appointments in both entities in BiH, including requirements for a public competition. However, there is scope to develop more targeted nomination guidelines specifically for SOEs to ensure, among others, SOE boards' adequate private-sector expertise and independence. In practice, SOE board positions are frequently perceived to be awarded based on personal or political connections rather than on professional qualifications.
- Significant shortcomings in SOEs' ownership and board arrangements heighten corruption-related risks. These shortcomings include the aforementioned lack of clarity regarding SOEs'

objectives and insufficient independence of board members. However, some targeted anti-corruption measures are in place, including regulations barring politicians from serving on boards of directors and requirements that SOE supervisory boards oversee the development of codes of ethics.

- SOEs in both entities are subject to the same basic financial-reporting requirements applicable to private companies, while nonfinancial-reporting requirements are very limited. Neither entity undertakes aggregate reporting on the SOE portfolio, but the RS Share Fund does publish some reports on its portfolio companies.
- Concerning the level playing field with private companies, the majority of SOEs in both entities are incorporated as joint-stock or limited liability companies in line with good practice, but six SOEs in RS are incorporated under the special legal form of “public enterprise”.¹ External assessments have found that SOEs in BiH often have tax arrears, market regulatory advantages and/or wage premiums compared to private competitors, which points to corporate or market inefficiencies that distort the level playing field with private companies.

State of play and key developments

The authorities of the FBiH and RS do not maintain centralised databases on each entity’s entire ownership portfolio. However, at least in RS this can be expected to change in the coming years, as the authorities are in the process of developing a centralised data-collection platform for SOEs.² In the absence of such centralised databases, external studies highlight SOEs’ significant economic footprint in BiH and shed some light on their sectoral distribution and financial performance. The most recent and comprehensive source of information is a 2019 IMF study which analysed the financial statements of 550 SOEs held at all levels of government (including the central level of government) (IMF, 2019_[1]). According to this study, SOEs held only by the central-entity governments (notably excluding a large number of municipal utilities companies) employ 58 000 people, accounting for 8.4% of total employment in Bosnia and Herzegovina. These SOEs are notably present in electricity generation, the primary sectors (including, for example, coal mines in the FBiH and the forestry company in RS), manufacturing (including weapons factories) and transportation (including railways and roads).

Information sources vary concerning the exact number of SOEs held respectively by the FBiH and RS entity-level authorities. The aforementioned IMF study reports entity-level portfolios of 45 and 49 SOEs respectively in the FBiH and RS (IMF, 2019_[1]); the authorities reported smaller portfolios in this assessment: 38 SOEs in the FBiH and 27 SOEs in RS (of which 8 are directly held by the government and 19 by the RS Share Fund). Some of the differences may reflect evolutions in SOE portfolios since the IMF study was undertaken in 2019, but available data do not allow for definitive conclusions on this. Limited centralised data on SOE portfolios reflect the larger issue of highly decentralised state ownership portfolios and the associated limited performance monitoring by the entity-level authorities.

More detailed data are available on the portfolio of the RS Share Fund, whose SOEs employ nearly 10 700 people accounting for 3.7% of total employment in RS. The four largest individual employers among the 19 SOEs are Forests of RS (JPŠ Shume Republike Srpska) (4 800 people), followed by the postal services company Pošta Srpske (2 500 people), the railway company Željeznice Republike Srpske (1 800 people) and the energy holding company (the parent company of several electricity generation and distribution companies), Elektroprivreda Republika Srpska (495 people). As measured by their corporate valuation, the largest four SOEs in the RS Share Fund portfolio, valued collectively at around USD 2.5 billion (around EUR 2.3 billion), are Roads of the Republic of Srpska, the energy holding company Elektroprivreda Republika Srpska, the forest-plantation company Industrijske Plantaže and the railway company Željeznice Republike Srpske.

Concerning the performance of SOEs in BiH, the aforementioned IMF report found that SOEs are plagued by “low profitability, high leverage, and low liquidity” (IMF, 2019, p. 11^[1]). According to this study, 66 of the total 550 SOEs reviewed (in this case, including SOEs held by cantons and municipalities) had accumulated sufficient losses to post negative total equity values equal to 2% of GDP, with the highest proportion of losses occurring in the mining and quarrying, manufacturing and energy sectors. The study highlighted high wages as one potential source of these performance woes, estimating that on average SOEs offered a 40% wage premium compared to private enterprises (IMF, 2019^[1]). This points to a situation where SOEs are manifestly not generating sufficient value for their ultimate “shareholders”, the general public. Not only does SOEs’ underperformance present an opportunity cost as funds invested in SOEs could be channelled to more productive activities, but it also creates significant fiscal risks in a context of already limited public finances.

Sub-dimension 5.1: Efficiency and performance through improved governance

Concerning the **clarification of ownership policy and rationales**, neither the FBiH nor RS has elaborated a state ownership policy outlining why the state owns enterprises and what overarching objectives it expects them to achieve. A Law on Public Enterprises in force in both entities implicitly establishes the rationale for state ownership of certain SOEs, in that it defines the public enterprises under its purview as those established to serve the public interest. However, many SOEs in BiH do not have an obvious public-interest activity (e.g. those operating in the manufacturing sector) and either do not fall under the scope of the aforementioned SOE-specific law, or otherwise remain in state ownership for unclear reasons. In addition to not clearly defining the rationales for state ownership, the state as a shareholder generally does not set clear performance objectives for SOEs, which are frequently loss-making.

Although efforts to **professionalise state ownership** practices have been limited in BiH overall, they have undergone some recent improvements in RS, where a Department for Coordination of Supervision of Public Enterprises was established in 2022, within the General Secretariat of the Government of the Republic of Srpska. The unit’s responsibilities are mostly related to SOE performance monitoring, but its establishing legislation also mandates the unit to perform some ownership and/or advisory functions. These include, among others, developing a state ownership policy and making recommendations to line ministries to improve the performance of specific SOEs in their portfolios, for example through restructuring plans. This unit's establishment resulted from work on SOE reform spearheaded by a Government Working Group for Reform of Public Enterprises established in 2020. At the time of writing, the RS Government was revising an Action Plan on SOE reform for the 2022-26 period, which could result in more significant changes in state ownership practices. Moreover, the 2024-26 Programme of Economic Reforms, adopted by the National Assembly of RS in December 2023, sets several ambitions related to SOE reform, including 1) the establishment of more co-ordinated supervision, improved governance and heightened transparency of SOEs; and 2) the restructuring of individual SOEs in the energy and railways sectors to improve their efficiency (National Assembly of Republika Srpska, 2023^[2]). In the FBiH, an informal co-ordinating unit was previously established in the FBiH prime minister’s office, but this unit did not have the formal authority to co-ordinate ownership decisions.

In both the FBiH and RS, SOE oversight responsibilities are generally dispersed across the public administration and not subject to a common ownership policy to guide shareholding decisions. In both entities, state ownership responsibilities are by law the purview of the government as a whole, but in practice ownership decisions are often delegated to sectoral line ministries, which sometimes also exercise regulatory functions. This mixing of ownership and regulatory functions is partly mitigated in RS for the 19 SOEs in the portfolio of the Share Fund, since the Share Fund does not exercise a sectoral regulatory function. However, sectoral line ministries do still play a shareholding function over the SOEs in the Share

Fund portfolio. In the FBiH, seven separate ministries have delegated responsibilities for exercising the government's ownership rights over distinct portfolios of SOEs. The largest number of SOEs in the FBiH (19 enterprises) are held by the Ministry of Energy, Mining and Industry, followed by the Ministry of Transport and Communications (10 enterprises).

Some preliminary efforts to establish a **robust board nomination framework** for SOEs have been undertaken in both entities, where SOE board nominations are subject to general requirements applicable to all governmental appointments (set forth in respective Laws on Ministerial, Government and other Appointments). The related legislation requires, for example, open and competitive procedures and establishes some general minimum qualifications such as age requirements and the absence of a criminal record. These rules ensure some degree of transparency in SOE board nominations and constitute a step towards professionalising related procedures. However, since these procedures apply to all public sector nominations (they are not specific to SOEs), there may be scope for the authorities to develop more targeted guidelines on SOE board nominations – for example, to incorporate requirements related to board candidates' qualifications, e.g. specific skills, private sector expertise and independence.

Concerning board nomination procedures in individual entities, in the FBiH all SOE board nomination procedures must by law be published in the *Official Gazette* and in at least one daily newspaper, as per the aforementioned Law on Ministerial, Government and other Appointments. A dedicated regulation in the FBiH sets forth that for new SOE board appointment procedures, the government must appoint a dedicated commission comprising an odd number of members that is responsible for submitting to the shareholders' assembly (the government for wholly owned SOEs) a list of all candidates that meet the established qualifications requirements (based on applications submitted through the public competition). Exceptions to the established procedures and qualifications criteria are possible through the use of temporary appointments allowing board service for terms of up to three months and until the termination of the public competition. In RS, the authorities report that in practice, for an SOE with non-state shareholders, the decision to undertake a board nomination procedure is made at the shareholders' meeting and then publicly announced. Following the announcement an SOE-specific commission – comprising three representatives of the competent ministry and two representatives of the concerned company – interviews candidates and submits a ranked list to the shareholders. Board members are then appointed by majority vote of shareholders. For SOEs in full state ownership, the procedure for board appointments similarly involves a public announcement, while the government of RS performs the function of the shareholders' assembly and appoints board members by majority vote. Neither entity maintains a database with a pool of potential SOE board candidates that can be drawn upon for future board appointments, a practice that could increase efficiency in the nomination process.

External assessments point to significant shortcomings regarding the establishment of **independent and professional boards** in SOEs in BiH, despite the aforementioned regulations that clearly establish certain transparency and general qualifications requirements. In both the FBiH and RS, boards of directors are generally perceived to operate as extensions of line ministries, rather than as independent corporate organs that can effectively shield management from political interference. Neither entity has in place requirements for a certain number, or proportion, of board members that are independent from the state shareholder and from SOE management.³ In the most extreme cases, SOEs are often perceived to operate under the control of political parties, pointing to significant corruption-related risks (U.S. Department of State, 2022^[3]). At the same time, SOE boards in BiH often include private-sector professionals, rather than primarily civil servants, which may make them better equipped to oversee corporate decision making. The Law on Public Enterprises in force in both RS and FBiH prohibits persons holding office in a political party from serving as management board members in SOEs, while the Law on Ministerial, Governmental and Other Appointments establishes a similar requirement for supervisory boards in RS (no such legal requirement is applicable to supervisory boards in the FBiH). The FBiH authorities report some lack of legal clarity regarding the definition of persons “holding office in a political party” and have underlined that

acting politicians can be appointed to SOE management boards directly after stepping down from their political roles.

Concerning their responsibilities, the company law in both RS and the FBiH establishes board members' duty of loyalty and care to the company. SOE boards are granted the authority to appoint and dismiss the CEO in both entities, in line with good practice. In RS, the parent body of the Share Fund, the Investment-Development Bank, sends recommendations to government-appointed SOE board members concerning how they should vote at annual general meetings, raising some concerns regarding SOE board members' independence in practice.⁴

Regarding **privatisation practices**, there are some basic elements in place in both entities that establish a minimum degree of transparency concerning planned state divestments, as well as oversight over completed privatisations. In the FBiH, privatisations are the responsibility of the Privatisation Agency, which prepares an annual privatisation plan, subsequently approved by the government, announcing all SOEs scheduled for privatisation in the near term. A dedicated Agency for Review of Privatisation is responsible for enhancing the public transparency of privatisation processes, identifying any irregularities in privatisations and presenting information to the public on successful privatisations. There have been no significant privatisation transactions in the past five years in the FBiH. In RS, annual privatisation plans are prepared by the Investment-Development Bank (the parent body of the Share Fund) and adopted by the government. The 2023 privatisation plan of RS foresaw the privatisation of one SOE in 2023, while five SOEs were privatised in the five years preceding 2023. Although there is currently no standing committee dedicated to reviewing the probity of planned or completed privatisation, a large amount of privatisations (153 in total) undertaken since 2005 were subject to post-sale audits for probity and protection of the public interest by a dedicated Commission on Privatisation Review. This commission was disbanded in 2019. Applicable legislation in RS requires public disclosure of planned privatisations 15-30 days in advance of sale completion. In addition to the aforementioned privatisation plan, the government has also adopted a Decision regarding specific strategic SOEs that should not be subject to privatisation until further notice. The RS Law on Privatisation of State Capital in Enterprises identifies privatisation as an important element in the RS national development strategy. In light of this, it is not clear why the authorities chose to disband the Commission on Privatisation Review, whose mission to protect the public interest could still add value for future privatisations.

Sub-dimension 5.2: Transparency and accountability

Concerning **financial and nonfinancial reporting**, in both the FBiH and RS, SOE disclosure requirements are set forth in the respective Laws on Public Enterprises, which require that all SOEs prepare annual financial statements in accordance with applicable accounting and auditing standards. SOEs are generally required to submit their annual financial statements to a central registry that subsequently makes them available on line. In the FBiH, external assessments have found that in practice SOEs' financial statements are frequently not available on line and have noted that they are only accessible subject to payment of a fee (IMF, 2019_[1]). Requirements and practices regarding nonfinancial reporting are very limited in both entities. The Annual General Meetings (AGM) of SOEs in the FBiH are required to submit reports on "work and employment" to the parliament at least annually, but these do not constitute traditional nonfinancial reports. SOEs in RS are required to prepare three-year business plans that are submitted to the auditor-general and the competent ministry. Although the business plans touch upon some nonfinancial issues such as environmental protection and employee issues, they do not constitute standard nonfinancial reports. The publication of sustainability reports is not a widespread practice in either entity, reflecting the broader absence of sustainability-related goals applicable to the SOE sector despite a growing international consensus that SOEs can be key vehicles in supporting the low-carbon transition and responding to climate-change risks.⁵

Regarding broader SOE transparency efforts, neither of the authorities produces annual aggregate reports on SOEs. However, the Share Fund of RS produces annual reports for the 19 SOEs in its portfolio.

Additionally, legislation establishing the RS Department for Coordination of Supervision of Public Enterprises mandates it to oversee the development of a modern Information Technology (IT) platform for centralising data on SOEs and to produce quarterly and yearly reports on SOEs, including on their size and basic financial results, for the government. The new IT platform was still under development at the time of writing. Related legislation was under preparation to enable the Department to collect the requested data directly from SOEs and clarify the responsibilities of all institutions and enterprises expected to contribute data to the system. The authorities report that there are plans to make some of the centralised data publicly available through a searchable online platform that links to SOEs' financial reports.

Regarding **auditing practices**, only certain types of SOEs in BiH are required to have their financial statements audited by an external commercial audit firm, while state audit institutions sporadically undertake financial statement audits in an ad hoc manner. In the FBiH, the Law on Accounting and Audit establishes that external commercial audits must be undertaken for all firms exceeding a certain size threshold. In RS, external audits are required for all public interest entities, which presumably includes all, or most, SOEs. All joint-stock companies, which notably include all 19 SOEs in the RS Share Fund portfolio, are furthermore required to establish an audit committee. Additionally, in both RS and the FBiH, as per the Law on Public Enterprises, all SOEs must establish an internal audit function. In RS, the head of the internal audit function is appointed by the auditor-general, or by the board audit committee if the auditor-general does not exercise this right. The head of the internal audit department (who is not employed by the enterprise) can only be removed by the board or management subsequent to written approval by the auditor-general. This points to a system in RS in which SOEs are run more as extensions of the public administration – subject to public administration internal audits – than as commercial entities subject to independent oversight by boards of directors. In RS, the 2022-26 Action Plan on SOE reform foresees the elaboration of measures to strengthen follow up on the results of external audits, for example by elaborating sanctions in case SOEs or their ownership institutions do not implement the recommendations of the state auditor.

Concerning **anti-corruption and integrity measures** for SOEs, external reports point to significant corruption-related risks in SOEs in BiH. For example, a 2022 report by the US Department of State suggests that SOEs are in practice “controlled by political parties, increasing the possibilities for corruption and inefficient company management” (U.S. Department of State, 2022^[3]). In both entities, there remain significant shortcomings in SOEs' ownership and corporate governance arrangements that exacerbate corruption-related risks. These include the fact that SOEs are often run by line ministries not subject to a common ownership policy or clear objectives (increasing the risk that political objectives influence corporate decision making) and that SOE boards do not include independent members who could help shield SOEs from political interference. Neither entity has adopted legislation barring the use of SOEs as vehicles for political-party financing. In the FBiH in particular, the law does not specifically protect whistleblowers within SOEs, while legislation in RS on the reporting of corruption does contain provisions to protect whistleblowers.

All of this being said, elements have been introduced in both entities to mitigate corruption-related risks in the SOE sector. For example, all SOEs in both the FBiH and RS are required by the Law on Public Enterprises in force in each entity to establish an internal audit function that is appointed by the auditor-general (or the board) and must elaborate codes of ethics containing certain minimum elements outlined in the law. Codes of ethics must, among others, address issues related to conflicts of interest and the duties of board members and employees. The Law also contains several provisions that seek to minimise conflicts of interest and ensure that related parties do not receive advantageous business conditions at the expense of the enterprise. Fines or other penalties are foreseen for certain related offences committed by responsible persons, such as entering into an apparent or actual conflict of interest with the enterprise, disclosing trade secrets to third parties, or engaging in criminal or illegal acts that cause

material damage to the company. The authorities did not provide information on SOEs' compliance with these provisions, pointing to scope for strengthened monitoring in this area. Practices also vary across the SOE sector. For example, in the FBiH the authorities report that some, but not all, SOEs developed dedicated integrity plans in the context of the 2019 national Anti-Corruption Strategy.

The **protection of minority shareholders** is particularly pertinent regarding state ownership practices in BiH, since many SOEs include private minority investors in their shareholding structure. In FBiH, almost half of the SOEs (a total of 17 companies) held by the central government have non-state minority shareholders. Of the 19 SOEs in the portfolio of the RS Share Fund, 11 include minority non-state investors. In line with good practice, the company law in force in both entities establishes sound basic protections for minority shareholders, including the right to equitable treatment and to redress through the courts in case of alleged violation of their rights. Similar to many other Western Balkans economies, the law on companies applicable in both RS and the FBiH establishes additional rights for shareholders with at least 5% of shares, for example the right to nominate a representative to the supervisory board. In RS, the right to all shareholders' equal access to company information, including in cases where some shareholders have preferential voting rights, is explicitly enshrined in the company law, but this is not the case in the FBiH. The extent to which minority shareholders avail themselves of their rights varies; FBiH authorities report that many non-state minority shareholders practice their right to appoint supervisory board members, which is less common in RS, according to its authorities. No recent cases of alleged abuse of minority shareholder rights in SOEs have appeared in recent online media, based on a non-exhaustive review conducted in the context of this assessment.

In the FBiH, some legislative provisions establish potentially problematic differences in legal treatment between minority shareholders and the state shareholder. In particular, a Government Decree on Executing Authorities in Companies with State Capital Share establishes that the CEO and supervisory board members must act in the interests of the capital owner (the state shareholder). In cases where the interests of the state shareholder may contradict those of the enterprise and/or other shareholders, this legal provision may lead to situations where decisions are made in the interest of political goals rather than corporate performance. Although this is partly mitigated by provisions in the company law requiring that board members and CEOs act conscientiously and in the interest of the company, the decree still seems to establish some degree of special treatment for the state shareholder.

Sub-dimension 5.3: Ensuring a level playing field

Concerning SOEs' **legal and regulatory treatment**, most SOEs in both the FBiH and RS are incorporated according to general company law (operating as either joint-stock or limited liability companies), in line with good practice. However six SOEs in RS have the special legal form of "public enterprise" (*javno preduzeće*) and operate only according to a dedicated Law on Public Enterprises.⁶ Although the Law on Public Enterprises also applies to state-owned joint-stock and limited liability companies undertaking public-interest activities, its provisions do not establish any major differences in legal treatment that might distort the level playing field with private companies. On the contrary, the Law on Public Enterprises in force in both entities contains some provisions related to fair competition, such as a provision barring any state aid that could distort competition. Nonetheless, SOEs in practice do appear to benefit from preferential treatment, in particular when it comes to tax and social security contributions, for which, according to the IMF, arrears owed by SOEs, mostly in the railway and mining sectors, totalled 4% of GDP (IMF, 2019_[1]). Other external assessments highlight that SOEs also frequently benefit from an advantageous market position and regulatory treatment, particularly in sectors where the state has historically held a monopoly, such as telecommunications and energy (U.S. Department of State, 2022_[3]). SOEs may face some legislated advantages in the FBiH related to the payment of creditors. For example, the Law on Financial Consolidation of Business Companies establishes that in the context of "financial consolidation" procedures, forced collection of claims over the assets of a majority state-owned company cannot be initiated. On the other hand, SOEs may face operational disadvantages due to their state ownership. For

example, SOEs in RS must comply with public sector procurement policies, which may burden these companies more than private companies.

Concerning **SOE financing conditions**, most SOEs in both the FBiH and RS obtain financing from the commercial marketplace. Although there is limited information available on the terms of such financing, it is likely that commercial lenders perceive at least an implicit state guarantee on SOE debts, which may lead to more favourable terms as compared to private companies. Explicit state guarantees are sometimes provided for large investment projects but, according to the authorities, are not a common practice. The FBiH authorities report that only one SOE, JP Elektroprivreda BiH, currently benefits from an explicit state guarantee on its commercial debt with one bank for implementing a large construction project. Beyond state guarantees, a fundamental issue concerning SOE financing conditions is that the authorities of the FBiH and RS do not establish expected rates of return for SOEs and many SOEs, according to available data, do not achieve economically significant rates of return.⁷ This effectively constitutes a cost of equity capital that is not market-consistent. Some SOEs, such as Republika Srpska Railways, are consistently loss-making, pointing to structural issues that should be investigated and addressed. The IMF study mentioned earlier found that a total of 66 SOEs in BiH (albeit including also those owned by cantons and municipalities) had sufficient accumulated losses to achieve negative equity values (IMF, 2019_[1]). SOEs are regularly kept afloat by direct government subsidies in both entities.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's progress in implementing the CO 2021 recommendations has been limited overall, with neither entity having developed a state ownership policy, updated SOE board nomination procedures or corporatised SOEs operating under the special legal form of "public enterprise" (Table 6.2). However, the recent establishment of a performance-monitoring unit for SOEs in RS could inform improvements in ownership practices and strengthen transparency of the state shareholder, if the state decides to publish the performance data that it collects and use the data to develop clearer performance objectives for SOEs.

Table 6.2. Bosnia and Herzegovina's progress on past recommendations for state-owned enterprises

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Develop a state ownership policy and improve the central monitoring of SOEs	There has been no progress in developing a state ownership policy in either entity, but the RS authorities have announced plans in the 2024-26 Economic Reform Programme to improve management and supervision arrangements for SOEs. Establishing an SOE performance-monitoring unit in RS could contribute to improvements in state ownership practices, centralise data on SOEs, and inform the development of clear performance objectives for SOEs.	Moderate
Strengthen SOE board competencies by improving the nomination framework	Neither entity has taken steps to improve the SOE board nomination framework.	None
Ensure a level playing field when SOEs compete in the marketplace	The RS authorities have not taken steps to corporatise the SOEs currently incorporated under the separate legal form of "public enterprise" or to liquidate the SOEs that are no longer active. In the FBiH, all SOEs are already incorporated as joint-stock or limited liability companies.	None
Review minority shareholder rights and participation in SOE decision-making bodies	No steps have been taken to review minority shareholder rights or participation in SOE decision making.	None
Improve transparency at the level of SOEs and the state as owner	No significant steps have been taken in either entity to improve transparency by SOEs or by the state as shareholder. However, the recent establishment of an SOE performance-monitoring unit in RS has the potential to improve transparency, if the results of its performance-monitoring mandate are	Limited

The way forward for state-owned enterprises

The most significant state ownership reform undertaken in Bosnia and Herzegovina since the previous assessment has been the establishment of an SOE performance-monitoring and co-ordination unit in RS. However, the pace of state ownership reforms in other areas that were the subject of OECD Recommendations in 2021 has been much slower, making most of the earlier Recommendations largely relevant today. These policy Recommendations, with some elements added to fine-tune them, are as follows:

- **Develop a state ownership policy and continue improving central monitoring of SOEs.** In the context of BiH's decentralised ownership arrangements, a state ownership policy clearly outlining the government's rationale for ownership should be elaborated in each entity to guide ownership decisions and practices. The ownership policy could provide a useful foundation for eventually developing enterprise-specific financial and nonfinancial performance objectives, the implementation of which could be monitored and used to guide structural changes to improve SOE efficiency. The authorities of both entities should centralise data on SOEs to allow for an evidence-based identification of performance issues and to inform the subsequent development of clear financial and non-financial objectives. The recent establishment of the Department for Coordination of Public Enterprise Supervision has improved ownership arrangements in RS and should be drawn upon to strengthen SOE objectives setting and performance monitoring going forward. Doing so would be in line with the ambitions for strengthened management and monitoring of SOEs set forth in the 2024-26 Programme of Economic Reforms. The Department's foreseen role in advising on ownership and legislative reforms and instituting a centralised data-collection system for SOEs has the potential to transform the exercise of ownership in RS for the better. The authorities should ensure that the unit is adequately resourced, and bolstered by necessary legislation, to fulfil its foreseen functions. Box 6.1 provides a snapshot of the institutional development of the Governance Coordination Centre in Lithuania, as well as information on the SOE-specific data available on its website. That example may provide useful inspiration for the RS authorities as they build up their own SOE performance monitoring unit.
- **Strengthen SOE board competencies by improving the nomination framework.** While the legislation in place seeks to ensure that SOE boards are not subject to conflicts of interest, there appears to be scope to improve their professionalism and private-sector expertise. The authorities should consider strengthening and publishing the professional criteria applicable to SOE board appointees to ensure that members have a sufficient diversity of expertise (e.g. financial, corporate strategy and industry-specific expertise) to effectively oversee necessary strategic and structural decision making within SOEs, in the interest of improved enterprise performance.
- **Ensure a level playing field when SOEs compete in the marketplace.** The authorities should review SOEs' operational requirements to identify any regulatory or operational differences that hinder healthy competition with private companies in the markets in which they operate. The authorities should also fully corporatise SOEs that undertake primarily commercial activities but are still organised under the separate legal form of "public enterprise". Moreover, the authorities should ensure that all SOEs create value alongside private companies, which may necessitate structural reforms in individual SOEs. The authorities of RS should in particular move forward with their stated ambitions to undertake structural reforms in the state-owned energy and railway sectors, to improve these enterprises' economic efficiency.

Box 6.1. Spearheading more professional state ownership practices: Example of Lithuania's Governance Coordination Centre

Lithuania's Governance Coordination Centre is a public institution that is today charged with a variety of SOE-oversight functions, including co-ordinating the selection of SOEs' independent board members; overseeing SOEs' implementation of strategic plans; preparing aggregate reports on SOEs' performance and governance; and advising on ownership policy development. The scope of its work has significantly expanded since its establishment in 2010, when its mandate related primarily to monitoring and reporting on the implementation of disclosure standards for SOEs, notably through the development of aggregate reports on SOEs. Its institutional development over the years – from a primarily performance-monitoring and reporting body to a state ownership centre contributing to key shareholder functions such as board nominations – shows the potential that ownership co-ordination units have to spearhead more professional state ownership practices in the long run. Its website includes extensive information on the state ownership landscape in Lithuania, including links to all relevant state policies, legislation and guidelines, an index rating SOE governance practices, and extensive enterprise-specific information. The enterprise-specific information includes the following:

- a fully updated list of all SOEs, including their legal form, assets and sales revenues, number of employees, sector of operation and responsible ownership institution
- a list of all board members serving on SOEs
- detailed financial statements and highlighted key financial indicators, such as profit/loss figures, return-on-equity and return-on-assets, debt-to-equity ratio and dividend payout rate
- enterprise-specific performance indicators (for example traffic-hazard indicators for the national railway company or customer satisfaction data for the postal services operator).

Source: OECD description based on information available at Governance Coordination Centre (2023^[4]).

- **Review minority shareholder rights and participation in SOE decision-making bodies.** A significant proportion of SOEs in BiH are partly owned by minority private investors, underscoring the need to ensure that their interests are credibly and consistently taken into account in corporate decision making, so that SOEs can continue to benefit from needed private capital. An in-depth review of the strength of minority shareholder protections in practice goes beyond the scope of this assessment but would be a useful undertaking for the authorities to consider as they seek to continue broadening SOE ownership to include private investors.
- **Improve transparency at the level of SOEs and the state as owner.** There is scope for SOEs to go beyond financial reporting and produce more detailed non-financial reports. These could include (as relevant) information on SOEs' achievement of public-public objectives and/or their contributions to broader sustainability commitments, particularly relevant for SOEs operating in sectors with a high carbon footprint. The authorities should undertake an in-depth review of SOEs' reporting practices to identify and address weaknesses in their financial and non-financial reporting practices. The state as an owner should begin producing publicly available reports on the performance of the SOE sector, using the information collected from individual SOEs. In RS, the recently established SOE monitoring unit could play a key role in such an undertaking.

References

- IMF (2019), *State-Owned Enterprises in Bosnia and Herzegovina: Assessing Performance and Oversight*, <https://www.imf.org/en/Publications/WP/Issues/2019/09/20/State-Owned-Enterprises-in-Bosnia-and-Herzegovina-Assessing-Performance-and-Oversight-48621>. [1]
- National Assembly of Republika Srpska (2023), “*Programme of Economic Reforms of Republika Srpska for the Period 2024-2026*” (in Serbian language), <https://www.narodnaskupstinars.net/?q=la/akti/ostali-akti/program-ekonomskih-reformi-republike-srpske-za-period-2024%E2%80%922026-godine>. [2]
- Public Enterprise Governance Coordination Centre (2023), *Homepage*, <https://governance.lt/en/> (accessed on 13 June 2024). [4]
- U.S. Department of State (2022), *2022 Investment Climate Statements: Bosnia and Herzegovina*, [https://www.state.gov/reports/2022-investment-climate-statements/bosnia-and-herzegovina/#:~:text=Bosnia%20and%20Herzegovina%20\(BiH\)%20is,under%20the%20indue%20influence%20of](https://www.state.gov/reports/2022-investment-climate-statements/bosnia-and-herzegovina/#:~:text=Bosnia%20and%20Herzegovina%20(BiH)%20is,under%20the%20indue%20influence%20of) (accessed on 1 March 2024). [3]

Notes

¹ In FBiH 13 SOEs operate according to a specific Law on Public Enterprises, but they are all also incorporated as joint-stock or limited liability companies subject to the companies law.

² According to the IMF, the FBiH Government previously maintained a database on centrally owned SOEs, but it was only accessible through the *Official Gazette*. The RS Share Fund also published a database for its portfolio companies, but it had not been updated since 2014 (IMF, 2019).

³ Stock exchange listed companies in RS are an exception, since their boards must comprise a majority of non-executive members, of which at least two are independent members (with independence defined in relation to the absence of ownership, business or employment relationships with the company during the preceding two years).

⁴ According to the Investment-Development Bank’s website, SOE board members are subsequently requested to report on whether they voted in accordance with the recommendations and, if not, to explain why. See <https://www.irbrs.org/azuro3/a3/index.php?id=84>.

⁵ For general information on the role of SOEs in the low-carbon transition and international practices with setting related objectives, see <https://www.oecd.org/publications/climate-change-and-low-carbon-transition-policies-in-state-owned-enterprises-e3f7346c-en.htm>.

⁶ Concerning SOEs’ legal treatment, the RS authorities report that all SOEs, regardless of their legal form, are subject to the Law on Public Enterprises and that provisions of the Law on Companies only apply in cases not regulated by the Law on Public Enterprises.

⁷ In the context of this assessment, the RS authorities reported that most SOEs achieve economically significant rates of return, but that the authorities do not gather or assess financial performance data on all SOEs.

7 Anti-corruption policy

An effective anti-corruption policy is essential for promoting fair competition. This chapter, along four sub-dimensions, explores the effectiveness of the prevention, investigation and prosecution of corruption cases. The first sub-dimension, anti-corruption policy and risk management, assesses the planning, co-ordination and monitoring of anti-corruption policies, including corruption risk assessments and corruption proofing of legislation. The second sub-dimension, prevention of corruption, focuses on anti-corruption public-awareness as well as the effectiveness of the legal framework regarding corruption prevention bodies, conflicts of interest, and whistleblower protection. The third sub-dimension, business integrity and corporate liability, explores the robustness of the framework for businesses integrity and regulatory mechanisms, as well as the liability of legal persons. The fourth sub-dimension, investigation and prosecution, assess the capacities of specialised anti-corruption investigative and prosecutorial bodies in investigating and prosecuting high-level corruption cases.

Key findings

In 2024, Bosnia and Herzegovina made strides with the adoption of the Law on Preventing Conflicts of Interest in Governmental Institutions. However, beyond this measure, the legal and institutional anti-corruption framework has changed little since the last Competitiveness Outlook assessment (Table 7.1), leaving major gaps such as the lack of a comprehensive and fully functional framework of asset and interest disclosure at the level of the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). While the economy has made efforts in several sub-dimensions, notably in terms of provision of training and investigation of corruption, the perceived level of corruption has worsened and the track record of convictions for high-level corruption remains limited.

Table 7.1. Bosnia and Herzegovina's scores for anti-corruption policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Anti-corruption	6.1: Anti-corruption policy and risk assessment			1.3	2.4
	6.2: Prevention of corruption			1.6	2.9
	6.3: Business integrity and corporate liability			1.6	1.9
	6.4: Investigation and prosecution			1.3	2.4
Bosnia and Herzegovina's overall score		1.7	2.0	1.5	2.5

Notes: Scores for 2024 are not directly comparable to the 2021 scores due to changes in the scoring methodology of this indicator. Sub-dimension 6.3 as well as several indicators in the other sub-dimensions is scored for the first time in this assessment. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy.

The key findings are:

- Anti-corruption strategies have expired at the state level as well as in the FBiH and RS. In March 2024, the state-level authorities held public consultations for the new draft strategy and action plan, intended to serve as the overarching policy framework for government entities at both state and entity levels. However, past strategies have often seen limited implementation.
- The adoption of the Law on Preventing Conflicts of Interest in Institutions at the level of Bosnia and Herzegovina in 2024 significantly strengthens the management of conflicts of interest and the oversight body – the Commission for Deciding on Conflicts of Interest. The law in RS lacks fundamental provisions for resolving conflicts of interest. Legislation on conflicts of interest in the FBiH has not been implemented since 2013.
- The new Law on Preventing Conflicts of Interest in Institutions also strengthens the disclosure of assets and interests at the state level, but generally Bosnia and Herzegovina has yet to establish a comprehensive and fully operational disclosure that aligns with the recommendations of the Group of States against Corruption (GRECO). These include notably consolidation of the requirements of financial disclosure into one single declaration form, verification of the reports, and public accessibility to all declarations.
- The Agency for Prevention of Corruption and Co-ordination of the Fight against Corruption (APC) and the Civil Service Agency have carried out numerous training sessions, covering topics such as conflicts of interest, co-ordination of anti-corruption efforts, corruption in public procurement, ethics in public administration, and protection of whistleblowers. The APC offers digital training opportunities through its website, providing online modules on the code of ethics, integrity plans and protection of whistleblowers.

- The data concerning convictions for high-level corruption display inconsistency, with the government reporting fewer convictions in 2021-22 than the European Commission, which cites five final verdicts, including two acquittals in 2022 and three in 2021. Both accounts suggest a poor to modest track record in the fight against high-level corruption.

State of play and key developments

Bosnia and Herzegovina has consistently recorded a higher perceived level of corruption compared to the average across the Western Balkan 6 (WB6) economies (Table 7.2). On a scale from -2.5 (worst) to +2.5 (best), Bosnia and Herzegovina's score in the World Bank's Control of Corruption Indicator has deteriorated from -0.61 in 2018 to -0.68 in 2022. Transparency International's Corruption Perceptions Index reflects a similar trend. Bosnia and Herzegovina scored 38 in 2018 on a scale from 0 (highly corrupt) to 100 (very clean), gradually declining to 34 in 2022 and slightly improving to 35 in 2023.

Table 7.2. Bosnia and Herzegovina's and WB6 economies' perceived anti-corruption policy performance, 2018-23

	2018	2019	2020	2021	2022	2023
Control of Corruption Indicator						
BiH (percentile rank)	-0.61	-0.65	-0.64	-0.67	-0.68	
BiH (score)	-0.41	-0.45	-0.44	-0.41	-0.38	
WB6 (score)	-0.41	-0.45	-0.44	-0.41	-0.38	
Corruption Perceptions Index						
BiH (rank)	89/180	101/180	111/180	110/180	110/180	108/180
BiH (score)	38	36	35	35	34	35
WB6 (score)	38.67	37.67	37.5	38.67	38.67	39.50

Note: Percentile rank (0-100) indicates rank of economy among all economies in the world. (0 corresponds to lowest rank and 100 corresponds to highest rank.)

Sources: World Bank (2023^[1]); Transport Community (2023^[2]); Kaufmann and Kraay (2023^[3]).

According to the Balkan Barometer, only a minority of people in Bosnia and Herzegovina agrees that the government fights corruption successfully. Despite a notable increase to 20% in 2021 (RCC, 2021^[4]) from 8% in 2020 (RCC, 2020^[5]), this indicator continues to rank among the lowest in the WB6.

Sub-dimension 6.1: Anti-corruption policy and risk assessment

Bosnia and Herzegovina has a complex constitutional structure, resulting in a fragmented **anti-corruption policy framework**. There are several anti-corruption policy planning documents at different government levels, with some currently in force while others have expired. While the authorities in the FBiH and RS have expressed intentions and preparatory actions to develop new strategies, no drafts were published in 2023. The state-level Anti-Corruption Strategy for 2015-19 as well as the Strategy for Countering Corruption in Republika Srpska (RS) for 2018-22 has expired. An intergovernmental working group prepared the new Strategy for the Fight against Corruption of Bosnia and Herzegovina (2024-28) and its Action Plan, both submitted for public e-consultation in March 2024. The documents cover, at least along broad lines, the state and entity levels of government and aim to strengthen prevention and co-ordination, detection and prosecution as well as the inter-institutional, regional and international co-operation. In the FBiH, there exists an Action Plan for the Fight against Corruption, effective since 2021 until the adoption

of a new strategy. However, there is no allocated budget for implementing the plan, which increases the risk of weak implementation.

The APC shall ensure the overall co-ordination of anti-corruption policy, provide support, and propose new activities or changes in implementation. It has developed a digital application for reporting progress and monitoring the implementation of strategic anti-corruption documents, which has been installed in all cantons of the FBiH and the Brčko District. In 2021, the APC initiated the development of anti-corruption plans for 2022 for the state-level institutions based on the Guidelines for Strategic Planning of Anti-Corruption Policies, developed and published by the APC, and required the appointment of contact points for co-operation with the APC (APIK, 2021^[6]). According to the APC, most institutions have developed such plans. In the FBiH, the Anti-Corruption Team monitors the implementation of the Action Plan against Corruption. In contrast, no anti-corruption co-ordination body was active in RS as of end-2023.

Implementation levels of the anti-corruption policy framework are generally low. The most recent monitoring report from 2020 on the implementation of the state-level strategy and Action Plan reveals that 48% of measures have been implemented, 43% partially implemented, and 9% remain unimplemented (APIK, 2020^[7]). According to the unpublished draft analysis of the Ministry of Justice of RS, 55% of the activities of RS's strategy and Action Plan 2018-22 have been fully implemented, 28% have been partially implemented or are in progress, and 17% have not been implemented as of 2023. The FBiH has made efforts to implement the Action Plan, for example, by designating and training anti-corruption focal points in federal institutions (Anti-Corruption Team of the Government of the Federation of Bosnia and Herzegovina, 2023^[8]). However, there is a lack of comprehensive data regarding the current state of implementation.

Bosnia and Herzegovina has no explicit legislation on **corruption risk assessment**. The Law on APC stipulates the responsibility of the APC to prescribe a uniform methodology and guidelines for making integrity plans and helping all public institutions with their implementation, but institutions are not legally obliged to carry out corruption risk assessments. Together with the Regional Anti-corruption Initiative, the APC has created and launched a digital system for the development of integrity plans. The APC has also adopted rules on the development and implementation of integrity plans. These rules outline the modalities of corruption risk assessment, considered an important stage in the preparation of integrity plans (APIK, 2018^[9]). A similar document exists in RS based on the expired anti-corruption strategy 2013-17. In the FBiH, the Law on Financial Management and Control in the Public Sector mandates risk management, and in 2022 the Ministry of Finances approved new Guidelines for Risk Management in the Public Sector, with one of the risk categories being ethics and integrity. Although the guidelines are generally well elaborated, they lack details regarding corruption risks (Federal Ministry of Finance, 2022^[10]).

The levels of development and adoption of integrity plans vary at different levels of government. As of end-2023, among the 76 public institutions in Bosnia and Herzegovina, 55 had completed the development of integrity plans, while 15 were in the process of developing plans, and 6 had not provided feedback. In the FBiH, 15 institutions had completed the development of integrity plans and 7 institutions had started the process as of 2023 (APIK, 2023^[11]). According to the Anti-Corruption Team of the FBiH, the number is much higher. Up until 2022, 90 institutions had their integrity plans approved at some point, yet it appears that many of them have not been updated since their initial adoption (Anti-Corruption Team of the Government of the Federation of Bosnia and Herzegovina, 2023^[8]). According to the government, approximately two-thirds of 1 092 institutions of RS adopted integrity plans in 2017-21. However, more recent data on RS are lacking.

Corruption proofing of legislation is implicitly outlined in the duties assigned to the APC, which include monitoring the impacts of laws and bylaws with the aim of preventing corruption. The APC is also tasked with providing opinions and guidelines on their implementation, as well as with initiating activities to amend and/or harmonise existing legal frameworks. The Unified Rules for Legislative Drafting in the Institutions of Bosnia and Herzegovina prescribe the methodology for assessing the impact of regulations (including

on corruption and conflict of interest). The rules are mandatory for state-level institutions and recommendatory for other levels of authority. The APC is designated as one of the control bodies whose opinion must be obtained for impact assessments. The APC uses the Methodology for Assessment of Corruption Risk in Regulations of Bosnia and Herzegovina that was developed by international experts and approved in 2017. According to the government, the APC prepared two opinions in 2020, seven in 2021, and nine in 2022, suggesting a modest performance record. An illustrative instance where the APC's input significantly influenced legislative development occurred during the drafting of the Law on Prevention and Suppression of Corruption in the Sarajevo Canton in 2022. There is no corruption proofing of legislation at the level of RS and the FBiH.

Sub-dimension 6.2: Prevention of corruption

The APC is Bosnia and Herzegovina's main **corruption prevention body** but has limited direct powers. Its mandate includes developing the anti-corruption strategy and action plan and monitoring implementation, designing methodologies, co-ordinating the work of public institutions, monitoring the implementation of anti-corruption legislation and instances of conflict of interest, taking action upon receiving information on corruption-related acts, and developing educational programmes. The Anti-Corruption Team of the FBiH is a co-ordinating body comprising representatives of different authorities rather than a fully fledged agency. RS does not have any corruption prevention body.

The APC has safeguards of independence and accountability procedures. It reports to the parliamentary assembly (PA) of Bosnia and Herzegovina, which appoints the director of the APC and two deputies upon proposal of the Selection and Monitoring Committee of the Agency, following open competition. The director's term is five years with a possibility of one renewal. The committee can submit a proposal to dismiss the director if there are grounds as stated in the law. According to the law, the committee comprises nine members, including two from the academic community and one from civil society. The committee may not interfere in the daily work of the APC or request information on individual cases. Meetings of the committee should be open to public. The committee is mandated to review reports on APC operations, which are prepared by the APC at least twice a year. However, the reports on the APC's operations for 2020-21 and the first half of 2022 have not been published. In practice, the mandate of the committee expired in 2018, and it was inactive until 2021 when it reconvened in a new composition (Parliamentary assembly Bosnia and Herzegovina, 2021_[12]). The committee in its current composition convened first in 2023 and reviewed the report on APC's operations of August 2022-June 2023, which is available on the website of the APC (APIK, 2023_[11]). The director of the APC submits a budget proposal, but the APC does not have any guarantees of a certain level of funding. With 33 employees, the APC remains one of the smallest prevention agencies in the region. Given that many prevention tasks are carried out at the entity level, the institutionalisation of prevention of corruption and safeguards against undue interference in fulfilling this function are limited in Bosnia and Herzegovina.

Bosnia and Herzegovina's policy regime to detect and enforce the management of conflicts of interest is not in line with international good practice, but the adoption of the new Law on Preventing Conflicts of Interest in Institutions at the level of Bosnia and Herzegovina in March 2024 is an important step forward. The economy has not fully implemented the GRECO recommendations to harmonise "the legislation on conflicts of interest throughout the national territory" and ensure the independence and timeliness of the corresponding advisory, supervisory and enforcement regime (GRECO, 2023_[13]). There are laws for prevention of conflicts of interest in the FBiH (however not implemented since 2013) and in RS that differ significantly, resulting in a diversity of approaches. The new state-level law prohibits a public office holder from undertaking any official action, participating in a discussion, voting or deciding on an issue related to their personal and financial interest or that of a related person, and obliges them to inform the Commission for Deciding on Conflicts of Interest (CDCI) upon learning about a possible conflict of interest. However, the law provides limited guidance for resolving such conflicts of interest and requires that, by default, the public office holder assign the affected task to another person. It is worth noting that in most countries

public officials typically do not themselves make decisions on how to resolve their own conflicts of interest. RS law lacks fundamental provisions necessary for addressing conflicts of interest, including requirements for officials to disclose conflicts of interest and refrain from decision making until resolution of the conflict of interest. The oversight institution at the state level is the CDCI, which, according to the new law, will comprise seven members appointed by the Parliamentary Assembly based on competence, reputation and expertise. The Republican Commission for Determining Conflicts of Interest in Public Bodies is the oversight body in RS. At the state level, members of the parliamentary assembly (PA) have been sitting on the commission, but in the future persons holding a public office and members of political parties will not be able to be CDCI members, which is a significant step towards strengthening the independence of the body. In RS the commission members may not engage in political party activities, but there is no transparent, competitive, merit-based selection process. According to the government, the CDCI imposed six sanctions for violations of conflict of interest and related rules in 2021, and five sanctions in 2022. The sanctions are reportedly small fines insufficient as an effective deterrent (GRECO, 2023^[14]). Effective and stable oversight in this area has been impeded by periods when the CDCI was not appointed (2018-20) or had an incomplete composition, as well as by an infrequency of meetings (e.g. only one single session in 2022) and a lack of resources. The government has provided no data on the implementation of the conflict-of-interest law of RS.

Bosnia and Herzegovina has yet to establish comprehensive and fully functional **asset and interest disclosure**, with limited progress in implementing the GRECO recommendations since the previous CO assessment. Specifically, there is a need to consolidate financial disclosure requirements into a unified declaration form, enhance the verification process for submitted reports, and ensure transparent accessibility of all declarations to the public (GRECO, 2023^[14]) (GRECO, 2023^[13]). According to the new state-level law on conflict of interest, public office holders are required to submit regular reports of financial situation and assets to the Commission for Deciding on Conflicts of Interest (CDCI). The report is comprehensive and covers the personal data of officials and close relatives, as well as information on immovable and movable property, deposits, shares and other securities, debts and claims, sources and amounts of income, data on other jobs, etc. The CDCI verifies the accuracy and completeness of the reports and holds the authority to impose sanctions. Notably, prior to the enactment of the new law, no penalties were established for failing to declare or for providing false declarations. The government has indicated that reports submitted under the previous legislation are accessible to the public upon request. Moving forward, however, the CDCI intends to proactively disclose this data on its website. In RS, officials shall submit financial reports to the Republican Commission for Determining Conflicts of Interest, but no evidence has been provided by the government on the implementation of this obligation. Based on other sources, levels of compliance are low, with only 212 out of some 600 state-level officials, and 129 out of some 4 000 officials of RS, having submitted financial reports in 2022 (European Commission, 2023^[15]). In the FBiH, there is no system for asset and interest disclosure in place. However, the Election Law of Bosnia and Herzegovina creates a system of disclosure for the whole economy that obliges all candidates elected at all levels of authority to submit asset declarations to the Central Election Commission (CEC). Elected persons must also submit declarations after the termination of their tenure. The CEC makes the statements available to the public through a digital database and imposes fines for failure to submit declarations, but it has no competence to verify the accuracy of the data.

At the state level, the Law on Whistleblower Protection in the Institutions of Bosnia and Herzegovina (adopted in 2013) provides for the **protection of whistleblowers**, but it falls short of fully meeting international standards. The law applies only to the reporting of corruption at the state level. If the APC establishes that a detrimental action has been taken against a whistleblower, it can issue an instruction to the director of the institution to remove the consequences of the detrimental action. If the director claims that the action would have been taken even without whistleblowing having taken place, they must prove this is the case. The law is short of providing many elements that are set out in the EU Directive 2019/1937 on the protection of persons who report breaches of European Union law. For example, it is not applicable to whistleblowing in the private sector, and it does not cover reporting persons who are no longer

employees of the institution, or persons connected with whistleblowers. Furthermore, it imposes specific mandatory preconditions for external reporting, and it does not envisage protection for public disclosure when the reported breach constitutes an imminent or manifest danger. The law also does not specifically stipulate the confidentiality of a whistleblower's identity, but at least the rules issued by the APC require that whistleblower reports and identities be treated confidentially. Legally guaranteed support for whistleblowers is limited, as there are no explicitly envisaged channels of counselling, no access to free legal aid, etc. In contrast, the 2017 Law on Protection of Persons Reporting Corruption of the Republika Srpska is more comprehensive. It protects reporting persons in both the public and private sectors; envisages protection to persons connected with the whistleblower; does not set mandatory preconditions for external reporting; and provides the right to free legal assistance. However, the RS law also only covers whistleblowers' reporting of corruption, which is per the narrow definition limited to instances of abuse of authority or official position. Moreover, the RS law stipulates a good-faith requirement for the whistleblower, which could be abused for undue denial of protection. Furthermore, the conditions for public disclosure lack clarity, and a whistleblower may have to demonstrate a causal connection between the report and alleged retaliation (Devine and Worth, 2021^[16]). The FBiH still lacks legislation for the protection of whistleblowers.

The APC has supported implementation of the law by developing unified regulations on internal reporting and whistleblower protection; supervising and co-ordinating the adoption of the respective internal acts in public institutions; preparing an instruction for the implementation of the law; establishing a toll-free number for reporting persons; preparing promotional materials; and conducting training and lectures. Nevertheless, the number of whistleblower reports has been modest, showing no indication of an upward trend (Table 7.3). The APC granted protection to whistleblowers in two cases in 2021 and one case in 2022. In RS, whistleblower protection was granted in response to at least one out of three requests in 2022 (European Commission, 2023^[15]).

Table 7.3. Whistleblower reports in 2018-22 (state level)

	2018	2019	2020	2021	2022
Number of whistleblower reports	2	4	3	3	1

Source: Based on data provided by Bosnia and Herzegovina's authorities in the context of the CO 2024 assessment.

Despite the lack of an overarching government outreach strategy, the APC and certain other public bodies have been engaged in **anti-corruption public awareness and education** activities. The Anti-Corruption Team of the FBiH has developed in 2021 a model communication plan with the support of international experts. This plan contains model communication campaigns and recommendations for anti-corruption bodies on how to raise awareness and foster behavioural change among the public concerning corruption (Minic and Tunović Bećirović, 2022^[17]). The APC has undertaken several outreach activities, for example periodic invitations for school students to create artistic and literary works on anti-corruption themes. The Ministry of Interior of RS has produced awareness-raising materials. The APC and the Civil Service Agency have carried out numerous training sessions, including on topics of conflict of interest, co-ordination of anti-corruption efforts, corruption in public procurement, ethics in public administration, and protection of whistleblowers. Through the website of the APC, digital training on the code of ethics, integrity plans and protection of whistleblowers is available. According to the government, all staff members within the APC tasked with awareness-raising and education activities underwent comprehensive training in 2021-22. However, there is a lack of data concerning the total funding allocated for anti-corruption awareness-raising and education efforts.

Sub-dimension 6.3: Business integrity and corporate liability

The formal framework for promoting **business integrity** remains limited, with no significant advances noted since the last Competitiveness Outlook assessment. Bosnia and Herzegovina still does not have a distinct policy for promoting business integrity. Company laws of the FBiH and RS do not define the responsibilities of boards to oversee the management of corruption risks. In RS however, the board of an open joint-stock company must either adopt a code of conduct or accept the corporate governance standards adopted by the Securities Commission. These standards encompass various aspects, including the moral standards of conduct of the director and board members. The board must report to the shareholders' meeting annually on compliance with the code and provide explanations for any instances of noncompliance. The Law on Registration of Business Entities in RS requires the submission of data on beneficial owners to the register of business entities. The definition of a beneficial owner (founder with a 20% or more share) is narrower than the one envisaged in EU anti-money laundering directives. Data from the register shall be available to all interested parties without proving a legal interest subject to rules on personal data protection. There is a lack of available data regarding the implementation of the registration of beneficial owners. In the FBiH, there is no register of beneficial owners. While the Central Bank is not a commercial entity, the government has highlighted its internal policies, including its Code of Ethics, Guidelines on Gifts and Hospitality, Guidelines on Conflicts of Interest, and its digital system for reporting corruption and other irregularities, as exemplary practices in promoting business integrity.

Bosnia and Herzegovina has legal frameworks regarding the **liability of legal persons** at the state level, in the FBiH and in RS. However, insufficient data hamper assessment of the corporate liability framework's efficacy in combating corruption. According to the Criminal Code of Bosnia and Herzegovina, for a criminal offence perpetrated in the name of, on account of, or for the benefit of a legal person, the legal person shall be liable when its managerial or supervisory bodies have been involved or have failed to act, or when the legal person disposes of illegally obtained property gain or uses objects acquired in the criminal offence. The liability of legal persons is general (liability possible for any criminal offence) and autonomous (the legal person shall be liable for a criminal offence even when the physical person is not guilty of the perpetrated criminal offence). However, the physical perpetrator apparently has to be identified. Sanctions include fines, confiscation of property and dissolution of the legal person. Security measures include forfeiture, publication of judgement and a ban on performing a certain activity. Legal consequences following the conviction of a legal person include the prohibition of work based on a permit, authorisation or concession issued by an institution of Bosnia and Herzegovina or a foreign country. The law does not allow a due diligence (compliance) defence to exempt legal persons from liability or mitigate sanctions. According to the government, two monetary fines were imposed on legal persons for corruption offences in 2021 and three in 2022.

Sub-dimension 6.4: Investigation and prosecution

Bosnia and Herzegovina has a limited track record regarding the **investigation and prosecution of high-level corruption**. The government reports only one conviction for high-level corruption in 2022, and none from 2019 to 2021. Moreover, the government indicates that the State Investigation and Protection Agency (SIPA) conducts several investigations related to high-level corruption. Data published by the European Commission reflect a similar trend, with a notable number of indictments filed in recent years (18 in 2022 and 12 in 2021), but a relatively low rate of final verdicts rendered, including both convictions and acquittals. In 2023 a first-instance judgement was finally reached in a public procurement fraud case resulting in prison sentences for three persons, including the former prime minister of the FBiH. Nevertheless, challenges persist in the fight against high-level corruption, including issues with effectively confiscating criminal proceeds and the infrequency of financial investigations (European Commission, 2023^[15]). No evidence has been provided regarding the fight against high-level corruption by the law enforcement and prosecutorial authorities of the FBiH and RS.

The State Investigation and Protection Agency (SIPA), within the state-level Ministry of Security, is the only institutionally separate **specialised anti-corruption investigative body** tasked with combating several categories of serious crime, including corruption, and protected by certain special guarantees of independence. The law defines SIPA as an operationally independent administrative organisation. The Council of Ministers appoints the director and deputy director, upon proposal of the Minister of Security who selects the candidate from a list submitted by an independent board. The Council of Ministers dismisses the director and deputy director under conditions and through procedures implemented by the independent board. The SIPA budget is adopted in a standard procedure, and it does not have specific guarantees of a certain level of funding. The director submits reports on the work of SIPA to the Minister of Security and, upon request, to the Parliamentary Assembly, the Council of Ministers and the Presidency of Bosnia and Herzegovina. In 2022, SIPA initiated 100 investigations of corruption cases, of which 52 were finalised. Moreover, SIPA sent 53 reports against 57 individuals to prosecutors' offices (European Commission, 2023^[15]). At first glance, the staffing level of SIPA, with 29 anti-corruption investigators as of mid-2023, seems to align with the caseload. However, the government has not disclosed any budgetary figures for the SIPA. In RS, several Ministry of Interior organisational units, such as the Department for Economic Crime and Corruption, are responsible for investigating corruption. They do not have special safeguards of independence and accountability mechanisms, except those applicable to all police units. The FBiH has not established specialised anti-corruption investigation units.

Bosnia and Herzegovina has no organisationally independent **specialised anti-corruption prosecutorial and judicial bodies**. Anti-corruption specialisation is ensured through internal sections and departments of the prosecutor's offices at the state level, in the FBiH (envisaged in law but not established in practice) and in RS. At the state level, corruption cases are assigned to prosecutors in the Section for Corruption within the Special Department for Organised Crime, Economic Crime and Corruption. The Section has five prosecutors and two non-legal experts. In the FBiH and RS, laws on the suppression of corruption and organised crime define key aspects of the specialised departments. The Special Department of the Prosecutor's Office for Combating Corruption, Organized and the most Serious Forms of Economic Crime of RS is competent for 36 categories of crime, including corruption-related offences. As of December 2022, seven public prosecutors served at the Special Department of RS, suggesting insufficient staffing considering the department's extensive range of responsibilities. In 2022, the government of the FBiH adopted an Action Plan for the implementation of the Law on Suppression of Corruption and Organised Crime in the FBiH but the relevant specialised prosecution unit was not established as of end-2023 (Vlada FBiH, 2022^[18]) (Istraga, 2023^[19]). The European Commission's assessment highlights that the specialised anti-corruption departments have yet to demonstrate effectiveness in handling high-level corruption cases, emphasising the need for significantly greater independence. The assessment also expresses concerns over reported instances of selective unwillingness from the police to co-operate with prosecutor's offices in high-level corruption cases. Additionally, it highlights the adverse effect of controversies regarding the authority of state-level prosecutor's offices to issue instructions to the entity-level offices (European Commission, 2023^[15]). In RS, the Special Department for Combating Corruption, Organized and the most Serious Forms of Economic Crime operates in the District Court of Banja Luka.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has made little progress in implementing the past CO Recommendations (Table 7.4). At the state level and in RS, systems for the management of conflicts of interest, disclosure of assets, whistleblower protection, and registration of beneficial ownership still fall short of international standards. In the FBiH, several anti-corruption measures are enshrined in law but have not been effectively implemented, such as rules on conflict-of-interest, asset disclosure and specialised investigative and prosecutorial bodies. Furthermore, certain critical elements such as whistleblower protection and the registration of beneficial ownership data have not been included in the entity's legislative framework at all.

Table 7.4. Bosnia and Herzegovina's progress on past recommendations for anti-corruption policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Ensure effective and impartial implementation of rules and oversight in the areas of conflict of interest and asset disclosure	The new Law on Preventing Conflicts of Interest in Institutions at the State level adopted in 2024. No evidence of progress in the FBiH and RS.	Limited
Develop and adopt new whistleblower protection laws at the state level and in the FBiH. Take measures to encourage and support the sustained practice of whistleblowing	No legislative changes. Some information activities were conducted.	Limited
Ensure the registration and disclosure of the beneficial ownership of legal entities in line with international standards	No evidence of progress.	None
Strengthen the capacity to investigate and prosecute high-level corruption and consider setting up independent specialised anti-corruption prosecutorial bodies. Set up the specialised bodies in the FBiH	No evidence of progress.	None

The way forward for anti-corruption policy

Considering the low level of implementation of the previous recommendations, Bosnia and Herzegovina may wish to further strengthen its anti-corruption framework and practice by continuing to follow the policy advice of CO 2021, adjusting as appropriate in the context of recent developments. Additionally, Bosnia and Herzegovina may wish to consider one new recommendation concerning the development of anti-corruption strategies and actions plans:

- **Develop comprehensive anti-corruption strategies and action plans** for the state level, the FBiH and RS, through inclusive and consultative processes. Policy makers in Bosnia and Herzegovina should allocate sufficient budgetary resources to facilitate implementation and incentivise public bodies to uphold rigorous implementation standards. Aligning with the United Nations Convention against Corruption, these strategies and action plans should facilitate effective, co-ordinated anti-corruption policies that promote the participation of society and reflect the principles of the rule of law, as well as effective management of public affairs and public assets, integrity, transparency and accountability (United Nations, 2004^[20]). The effective fight against corruption necessitates more than the enactment of strategic laws and the establishment of key institutions; it requires concerted efforts spanning across the entire public sector. To strengthen incentives for public bodies, the government could publish data on the implementation progress, embed the progress of anti-corruption actions in the key performance indicators of the public bodies and performance appraisal of the managers, and introduce a legal guarantee that all planned anti-corruption actions are secured with adequate state budget funding.
- **Ensure effective and impartial implementation of rules and oversight in the areas of conflict of interest and asset disclosure at all levels of governance.** The OECD Guidelines for Managing Conflict of Interest in the Public Service recommend establishing procedures for identifying, managing and resolving situations of conflict of interest. The Guidelines define several strategies for the resolution or management of a conflict of interest, such as the divestment or liquidation of the interest by the public official, or the transfer of the public official to duty in a non-conflicting function (OECD, 2022^[21]). Latvia could offer some useful inspiration on managing conflicts of interest (Box 7.1). Moreover, Bosnia and Herzegovina should amend rules on asset disclosure to comply with the Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials. According to the Recommendation, declarations ought to be subject to control by an oversight mechanism, which includes compliance with declaration obligations, the accuracy of submitted information, and signalling the possibility of conflicts of interest or undeclared cash flows (Ethics and Integrity Network of ReSPA, 2014^[22]).

Box 7.1. Basic rules for action in case of conflict of interest in Latvia

Latvia's Law on Prevention of Conflict of Interest in Activities of Public Officials represents an example of minimum rules that should be in place for managing ad hoc conflicts of interest (i.e. conflicts that arise in particular situations rather than exist permanently, as for example a private company being owned by a public official). It includes the following provisions:

Prohibition from acting in a conflict-of-interest situation:

- A public official is prohibited, in the performance of their duties, to prepare or issue administrative acts, perform any supervision, control, investigatory, or punitive functions, or enter into contracts or perform other activities in which such public official, their relatives or transaction counterparties are personally or financially interested.

Obligation to report:

- A public official shall, without delay, provide information in writing to a higher public official or collegial authority regarding their financial or other personal interest and also financial or other personal interest of their relatives or transaction counterparties regarding the performance of any action included in the duties of their office.

Actions by a higher official or authority:

- A higher public official or collegial authority after receipt of the information shall assign the performance of the functions or tasks of the relevant public official to another public official.
- A public official shall, upon request of the head of the public authority or their authorised person, provide information to them in writing which is necessary upon taking internal control measures for the prevention of the risk of corruption and of a conflict of interest.
- The head of a public authority has an obligation, in conformity with their competency, not to allow the public officials working in such authority to be in a conflict-of-interest situation, and in such situation to implement the powers of office.
- The head of a public authority must inform without delay the Corruption Prevention and Combating Bureau of the detected violations of this law, which have been committed by the public officials of the relevant authority.

Administrative sanctions:

- For the performance of the functions of a public official in the situation of a conflict of interest, a fine from EUR 70 to EUR 700 shall be imposed, with or without determining a prohibition of exercising the rights of the public official for up to two years.
- For the non-performance of the obligations specified in this law in relation to the prevention of a conflict of interest, a fine of up to EUR 350 shall be imposed, with or without determining a prohibition of exercising the rights of the public official for up to two years.

Criminal sanctions:

- For a person who violates the restrictions or prohibitions imposed on a public official in the law if substantial harm has been caused thereby, the applicable punishment is the deprivation of liberty for a period of up to three years, temporary deprivation of liberty, probationary supervision, community service, or fine.
- For a public official holding a responsible position, the applicable punishment is the deprivation of liberty for a period of up to five years or temporary deprivation of liberty, probationary

supervision, community service, or fine, with or without confiscation of property and with deprivation of the right to engage in specific employment or to take up a specific office for a period of up to five years.

Sources: Republic of Latvia (2023^[23]; 2023^[24]).

- **Amend (state-level, RS) or adopt (FBiH) whistleblower protection laws in line with international standards.** Bosnia and Herzegovina has made certain efforts in this area, but the progress is uneven and overall limited. The economy should maintain measures to encourage and support the sustained practice of whistleblowing. The EU directive 2019/937 envisages the protection of whistleblowers in both public and private sectors and applies protection measures to whistleblowers, their facilitators, and physical and legal persons connected with them. In line with the directive, state and entity levels in Bosnia and Herzegovina should provide information and legal advice on procedures and available remedies easily accessible to the public and free of charge; effective assistance from competent authorities before any relevant authority involved in their protection against retaliation; and financial assistance and support measures, including psychological support, for reporting persons in the framework of legal proceedings.
- **Ensure the registration and disclosure of the beneficial ownership of legal entities.** In the FBiH the authorities have not implemented measures to ensure the registration of beneficial ownership data. In RS a register is envisaged, but certain elements, such as the definition of a beneficial owner, are not fully in line with international standards. The EU Anti-Money Laundering Directives envisage beneficial ownership information in a central register. It is also required that the information held in the central register of beneficial ownership information is adequate, accurate and current, and that states put in place mechanisms to this effect.
- **Strengthen capacity to effectively investigate, prosecute and adjudicate high-level corruption cases** and consider establishing independent specialised anti-corruption prosecutorial bodies that focus on serious offences and are adequately protected from outside interference. The United Nations Convention against Corruption sets the standard that a body or bodies or persons specialised in combating corruption through law enforcement shall be granted the necessary independence, by the fundamental principles of the legal system of the State Party, to be able to carry out their functions effectively and without any undue influence (United Nations, 2004^[20]). The CO assessment did not evaluate in-depth the work of SIPA, the specialised organisational units of the Ministry of Interior of RS, or internal sections and departments of the prosecutor's offices, and therefore does not argue whether any undue influence on their activities has taken place. However, Bosnia and Herzegovina should introduce additional means to safeguard the independence of the institutions as appropriate to their status through the more public and competitive selection of management; strengthened protection against arbitrary dismissal; and guarantees of dedicated budget funding. The FBiH should accelerate efforts to set up the specialised bodies as envisaged in the law.

References

- Anti-Corruption Team of the Government of the Federation of Bosnia and Herzegovina (2023), *Report on the work of the Anti-Corruption Team of the Government of the Federation of Bosnia and Herzegovina for the year 2022*, https://fbihvlada.gov.ba/uploads/documents/izvjestaj-o-radu-antikorupcionog-tima_1679470485.pdf. [8]
- APIK (2023), *Report on the Work of the Agency for Prevention of Corruption and Coordination of the Fight against Corruption for the period from August 1, 2022, to June 30, 2023.*, Agencija za prevenciju korupcije i koordinaciju borbe protiv korupcije, <http://www.apik.ba/izvjestaji/izvjestaji-agencije/default.aspx?id=2941&langTag=en-US>. [11]
- APIK (2021), *Guidelines for Strategic Planning of Anti-Corruption Policies in Bosnia and Herzegovina.*, Agencija za prevenciju korupcije i koordinaciju borbe protiv korupcije, <http://www.apik.ba/zakoni-i-drugi-akti/ostali-akti/smjernice-i-preporuke/default.aspx?id=2321&langTag=bs-BA>. [6]
- APIK (2020), *The Fourth Monitoring Report on the Implementation of the Anti-Corruption Strategy 2015-2019 and Action Plan for the Implementation of the Anti-Corruption Strategy 2015-2019.*, Agencija za prevenciju korupcije i koordinaciju borbe protiv korupcije, <http://www.apik.ba/izvjestaji/izvjestaji-agencije/default.aspx?id=2352&langTag=bs-BA>. [7]
- APIK (2018), *Rules for the Preparation and Implementation of Integrity Plans in Institutions in Bosnia and Herzegovina.*, Agencija za prevenciju korupcije i koordinaciju borbe protiv korupcije, http://www.apik.ba/zakoni-i-drugi-akti/Plan_integriteta/?id=1742. [9]
- Devine, T. and M. Worth (2021), *Gap Analysis of Whistleblower Protection Laws in the Western Balkans and Moldova*, Regional Anti-Corruption Initiative, https://rai-see.org/php_sets/uploads/2021/10/RAI-GAP-Analysis-English.pdf. [16]
- Ethics and Integrity Network of ReSPA (2014), *Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials*, <https://www.respaweb.eu/download/doc/02+Policy+Recommendations+on+Income+and+Asset+Declarations.pdf/5d3ea91ed1b5ebcaeeaf5bbb97463ec1.pdf>. [22]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [15]
- Federal Ministry of Finance (2022), *Guidelines for Risk Management in the Public Sector in the Federation of Bosnia and Herzegovina.*, http://fotoart.ba/1_fm/f/juli2022/Smjernice%20za%20upravljanje%20rizicima%20u%20javnom%20sektoru%20FBiH%2042_22-BOS.pdf. [10]
- GRECO (2023), *Evaluation Report: Bosnia and Herzegovina*, <https://rm.coe.int/fifth-evaluation-round-preventing-corruption-and-promoting-integrity-i/1680aa76dc>. [14]
- GRECO (2023), *Second Interim Compliance Report: Bosnia and Herzegovina*, <https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/1680ab84bd>. [13]

- Istraga (2023), *The Amended Budget Document Proves: Prime Minister Nikšić Announced the Fight Against Corruption but then Cut Funds for the Construction of the Building Intended to House the 'Federal USKOK'*, <https://istraga.ba/dokument-izmijenjenog-budzeta-dokazuje-premier-niksic-najavio-borbu-protiv-korupcije-pa-ukinuo-novac-za-izgradnju-zgrade-u-kojoj-bi-trebao-biti-smjesten-federalni-uskok/>. [19]
- Kaufmann, D. and A. Kraay (2023), *Worldwide Governance Indicators*, <https://www.worldbank.org/en/publication/worldwide-governance-indicators>. [3]
- Minic, Z. and S. Tunović Bećirović (2022), *Model Communication Strategy for Anti-Corruption Bodies in BiH*, https://aktbih.ba/documents/Model_Communication_Strategy15679545831623539672.pdf. [17]
- OECD (2022), *Recommendation of the Council on OECD Guidelines for Managing Conflict of Interest in the Public Service*, OECD Publishing, Paris, <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>. [21]
- Parliamentary assembly Bosnia and Herzegovina (2021), *Panel for Election and Monitoring of the Work of the Agency for Prevention of Corruption and Coordination of the Fight Against Corruption*, <https://www.parlament.ba/committee/read/19?mandateld=8&committeeMandate=218>. [12]
- RCC (2021), *Balkan Barometer*, Regional Cooperation Council, <https://www.rcc.int/balkanbarometer/publications>. [4]
- RCC (2020), *Balkan Barometer*, Regional Cooperation Council, <https://www.rcc.int/balkanbarometer/publications>. [5]
- Republic of Latvia (2023), *Criminal Law, Article 325*, <https://likumi.lv/ta/en/en/id/88966-criminal-law>. (accessed on 13 June 2024). [24]
- Republic of Latvia (2023), *Law on Prevention of Conflict of Interest in Activities of Public Officials, Articles 11, 20, 21, 32*, <http://.https://likumi.lv/ta/en/en/id/61913-on-prevention-of-conflict-of-interest-in-activities-of-public-officials> (accessed on 13 June 2024). [23]
- Transport Community (2023), *Action Plans and the EU Acquis Progress Report 2023*, <https://www.transport-community.org/wp-content/uploads/2023/12/Action-Plans-and-EU-Acquis-Progress-Report-2023-WEB.pdf>. [2]
- United Nations (2004), *United Nations Convention Against Corruption*, https://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf. [20]
- Vlada FBiH (2022), *Adopted Action Plan for the Implementation of the Law on Combating Corruption and Organised Crime in the Federation of Bosnia and Herzegovina.*, <https://fbihvlada.gov.ba/hr/usvojen-akcioni-plan-za-implementaciju-zakona-o-suzbijanju-korupcije-i-organiziranog-kriminala-u-fbih>. [18]
- World Bank (2023), *Worldwide Governance Indicators - Control of Corruption*, <https://www.worldbank.org/en/publication/worldwide-governance-indicators> (accessed on 1 March 2024). [1]

8

Education policy

A robust education policy framework is essential for developing human capital and meeting the labour market's need for a skilled and productive labour force. This chapter, composed of four sub-dimensions, assesses the presence and efficacy of education strategies, legislation, programmes and institutions. The first sub-dimension, equitable education for an inclusive society, examines system governance and the quality of pre-university education starting from preschool. The second, teachers, looks at the selection, initial training and ongoing professional development and management of the teaching workforce. The third sub-dimension, school-to-work transition, focuses on VET governance and the labour market relevance and outcomes of higher education. The fourth sub-dimension, skills for green-digital transition, explores the frameworks and initiatives for fostering green and digital skills in education curricula.

Key findings

Bosnia and Herzegovina's score in education policy has decreased since 2021, remaining notably below the regional average (Table 8.1). The decline can largely be attributed to the economy's underdeveloped policy frameworks for the development of green and digital skills – areas that are assessed for the first time. In most other areas, such as ensuring equitable education and the education and management of teachers, Bosnia and Herzegovina's performance has generally remained stagnant.

Table 8.1. Bosnia and Herzegovina's scores for education policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Education	7.1: Equitable education for an inclusive society			2.0	3.3
	7.2: Teachers			1.5	3.1
	7.3: School-to-work transition			2.5	3.4
	7.4: Skills for the green-digital transition			1.0	2.0
Bosnia and Herzegovina's overall score		1.8	2.1	1.8	3.0

The **key findings** are:

- The decentralisation of education funding in Bosnia and Herzegovina has resulted in notable disparities at both the entity and the canton level. Namely, this variation leads to significant differences in equipment, staffing, and other resource allocation across educational institutions, which in turn affects the overall quality and equity of education – especially in early childhood education and care (ECEC), which is most dependent on municipal funding.
- Bosnia and Herzegovina lacks standardised national examinations, which hampers efforts to compare and monitor student learning outcomes. Moreover, the economy's limited participation in international assessments, such as the Programme for International Student Assessment (PISA), hinders the ability to develop valuable benchmarks for monitoring education policy and performance.
- Policies and mechanisms supporting teachers' professional development are underdeveloped in both entities. Namely, the inconsistent application of standards for evaluating teacher performance can adversely impact teaching quality and discourage continuous learning. As such, participating in assessments like the OECD Teaching and Learning International Survey (TALIS) could provide comparative insights on teachers and school leaders' working conditions and learning environments at their schools.
- Although several new domestic and donor-funded projects have been implemented, there has been limited progress in enhancing vocational education and training (VET) and increasing the labour market relevance of higher education. High youth unemployment and NEET (not in education, employment, or training) rates, standing at 31.9% and 17.6% respectively in 2022, highlight ongoing issues with the education system's ability to equip students with the required knowledge and skills.
- Recent state-level initiatives, such as aligning its policy framework with the European Digital Competence Framework and launching the Re-imagining Education programme, reveal the importance that the government has allocated to enhancing digital skills among students. However, the economy continues to grapple with challenges arising from inadequate digital

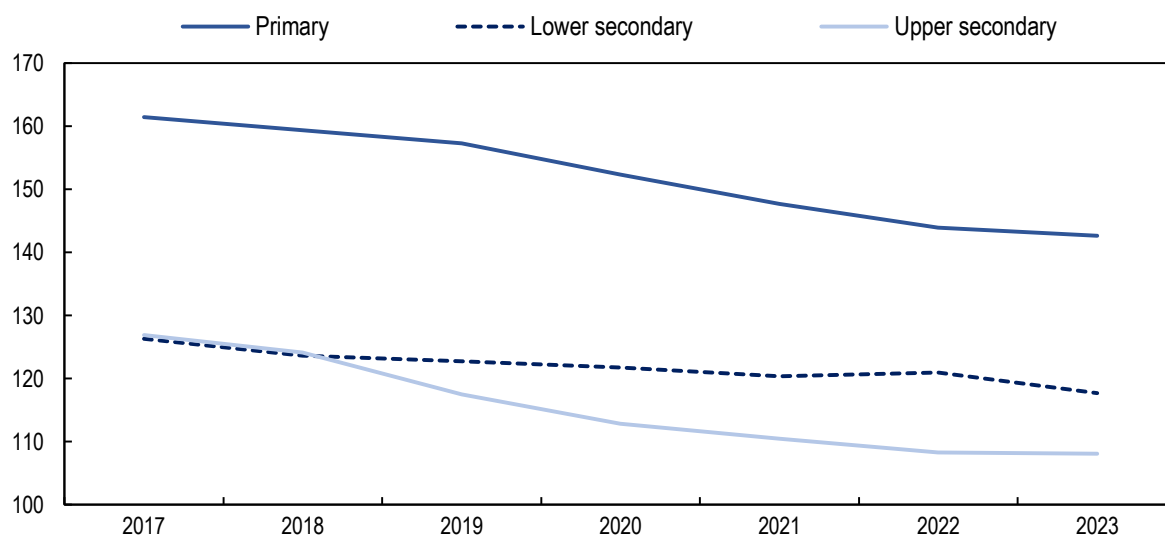
infrastructure in schools, including limited computer availability and a lack of Internet connectivity.

State of play and key developments

In recent years, net enrolment rates in all levels of education in Bosnia and Herzegovina have remained relatively constant. In 2022, net enrolment for students at the level of primary education was 85.1%, which represented a small decrease from 2020 (87%). Similarly, net enrolment rates for lower secondary education (93%) and upper secondary education (79%) have largely stagnated over the past few years, at levels lower than EU and OECD averages (98% and 93%, respectively) (UIS, 2023^[1]). Additionally, there has been a decline in the actual number of students enrolled at all levels of education, reflecting the economy's shrinking population due to emigration and declining birth rates. Primary school enrolment decreased from more than 161 000 students in 2017 to fewer than 143 000 in 2023, with a notable drop of 5 000 students between 2019 and 2020. Similarly, enrolment in lower and upper secondary education decreased by 8 600 and 18 800 students, respectively, from 2017 to 2023 (Figure 8.1).

Figure 8.1. Enrolment in primary and secondary education in Bosnia and Herzegovina (2017-23)

Number of students enrolled (thousands)



Source: UIS (2023^[1]).

StatLink  <https://stat.link/ghgwj8>

Sub-dimension 7.1: Equitable education for an inclusive society

Bosnia and Herzegovina has shown limited progress in strengthening the **system governance** of its education system, largely hindered by the complex institutional structure guiding the various state, entity, cantonal, and district authorities.¹ This complexity of education governance has led to a proliferation of more than 70 education policy documents, ranging from strategies and framework laws to guidelines (ETF, 2020^[2]). Apart from their volume, these documents do not always share common goals, nor do they always

outline mechanisms for the relevant authorities to translate their objectives into clear implementation plans with measurable outcomes (Guthrie et al., 2022^[3]).

At the state level, the Ministry of Civil Affairs (MoCA) has a separate Department for Education, although this solely serves as a co-ordinating body to the Council of Minister of Bosnia and Herzegovina. The MoCA is responsible for proposing national frameworks, policies, and laws governing education. There is also the Agency for Preschool, Primary and Secondary Education (APOSO), which establishes learning standards and curriculum in preschool, primary, and secondary education and contributes to the introduction of qualification frameworks and standards. There are several laws – such as the Framework Law on Preschool Education and the Common Core Comprehensive Development Programmes in Preschool Education – that serve as a basis for harmonising legislation and standards vertically within the economy. Bosnia and Herzegovina does not have a national qualification framework, although efforts are under way to form a working group that would develop and align such a framework with the European Qualifications Framework (EQF).

State-level guidelines and laws are passed to the ministries of education and pedagogical institutes of the two entities, Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH), as well as the Brčko District² for implementation. However, because policy formulation and implementation largely takes place at the entity (and district) level, there is significant variation between their approaches to ensuring and bolstering system governance. In terms of structure, while the FBiH has a very dispersed education system – distributed among 10 cantonal ministries and 13 pedagogical institutes – there is no evidence of efforts to harmonise policies or governance across cantons; instead, their respective educational governing bodies operate within their jurisdiction and do not co-ordinate with one another. By contrast, RS has a much more centralised system, with only one ministry and two pedagogical institutes.

RS's education policy framework is guided by the Strategy for the Development of Preschool, Primary, and Secondary Education (SDPPSE) (2022-30), and the entity is currently in the process of adopting the new Strategy for the Development of Science and Technology, Higher Education, and ICT Industry (2023-30). Together, these two policies aim to enhance educational outcomes by innovating curricula, shifting towards a learning-centric system, and improving professional training for educators. Conversely, the FBiH does not have an overarching education strategy, although it has several strategic plans³ in place to which most cantons adhere. While their scope is not restricted to education, these policies incorporate key components, such as enhancing education outcomes to promote socio-economic development or improving childhood development.

While RS and the FBiH have made efforts to strengthen their policy framework, monitoring and evaluation remains limited in both. Neither entity has developed an indicator framework for their respective education systems, and there are no entity-level (or national) assessments of learning outcomes. As such, this lack of evaluation poses an obstacle to evidence-based policy making for education. Conversely, both entities have established opportunities for their relevant bodies to discuss the progress and implementation of education policies. In RS, the Ministry of Education and Culture submits semi-annual reports to the government on the progress towards achieving education goals, whereas in the FBiH there are periodic meetings of cantonal ministers of education during which they discuss the current status of reforms and next steps.

While there have been advances in improving the quality and equity of **early childhood education and care** (ECEC), further progress has been limited due to funding challenges. The aforementioned Framework Law on Preschool Education (2007) is the guiding state-level document for ECEC. Since its passage, this law made enrolment in preschool for the year prior to elementary school mandatory for all children. Most entity and cantonal laws align with this regulation; the aim is to ensure equal educational opportunities for every child, irrespective of socio-economic status or geographic location (rural versus urban areas). This law was previously complemented by the Platform for the Development of Preschool Education (2017-22). Although the platform recently expired, it had provided a framework for increasing

coverage of preschool education, improving its quality and inclusiveness, and ensuring sufficient and predictable funding – objectives vital to harmonising Bosnia and Herzegovina’s ECEC framework with EU standards and goals. At the entity level, there are various strategic documents and laws regulating ECEC (Table 8.2).

Table 8.2. ECEC strategies in Bosnia and Herzegovina

	ECEC strategies
State-level	– Framework Law on Preschool Education
FBiH	– Strategic Plan for the Improvement of Early Growth and Development of Children 2020-25
RS	– Strategy for the Development of Preschool, Primary, and Secondary Education (SDPPSE) 2022-30 – Law on Amendments to the Law on Preschool Education

Sources: Responses provided by the MoCA (state), the Federal Ministry of Education and Science (FBiH) and the Ministry of Education and Culture (RS) as part of the CO 2024 assessment.

In 2023, participation in early childhood education educational development (ISCED 01⁴) and pre-primary education (ISCED 02) remained very low, registering 22.3% of children in the FBiH and 28% in RS.⁵ However, ensuring equity within ECEC systems is a central concern embedded in the policies and programmes of both entities, which have undertaken broader efforts to make ECEC more accessible to marginalised groups. These efforts include awareness raising (performed by RS and the FBiH), reducing costs for families (only done by RS), using inclusive language, and adjusting facilities’ opening hours (only carried out in the FBiH). In RS, the SDPPSE 2022-30 includes several explicit objectives on improving equity by expanding preschool programmes to children in underserved communities, raising awareness about the importance of early education, and promoting the inclusion of children with developmental disabilities. While this same policy focus is absent in the FBiH, the Federal Ministry of Education and Science launched a new programme in 2023, “Support to projects to improve the inclusiveness of preschool, primary and secondary education”. This initiative aims to improve the inclusiveness of education for selected groups, including children who are socio-economically disadvantaged, live in remote rural areas, have developmental disabilities, or are of Roma nationality.

However, further improvements to ECEC – both related to and beyond inclusivity – are impeded by the field’s decentralised funding. Namely, the decentralisation of the education system negatively impacts the uniformity of funding, given that preschool education is financed from municipal budgets. Thus, the uneven economic development of different parts of the economy tends to result in irregular, insufficient funding mechanisms that can structurally undermine the sustainability of preschool education. This in turn contributes to a lack of equipment, inadequate funding for educational staff, and difficulties providing transport for students (Camović and Bećirović-Karabegović, 2022^[4]). Moreover, preschool education receives a much smaller proportion of public funding than primary education in Bosnia and Herzegovina: in 2019, only 6.0% of money spent on formal education went towards ECEC – only one-eighth of that spent on primary education (Table 8.3). Of note, this level of spending on ECEC is below EU levels: whereas Bosnia and Herzegovina spends approximately 0.21% of its GDP on preschool education, EU Member States spend an average of 0.57% of national GDP.⁶

Table 8.3. Education expenditure in Bosnia and Herzegovina (2016-19)

Year	Education expenditure (% of GDP)	Share for preschool education (% of total expenditures on education)	Share for primary education (% of total expenditures on education)
2016	4.3	4.9	47.8
2017	4.1	4.7	57.0
2018	3.9	4.4	50.3
2019	4.0	6.0	49.0

Source: Camović and Bećirović-Karabegović (2022^[4]).

Consequently, both entities rely on donor funding to finance their ECEC strategies, but this level of financial support is still insufficient. Preschools can procure additional funding through donations and the participation of parents. Less developed municipalities allocate a lower level of funding for co-financing preschool institutions, leading to increased fees for the parents. As such, in certain areas where the cost of participation in ECEC is higher due to these expected contributions, rates of participation tend to be lower. Indeed, while only 25% of children aged 3 to 5 years old attended preschool in 2020, most of these children were from urban areas and came from higher-income, more highly educated households, revealing how this system can perpetuate inequities in access (UNICEF, 2020^[5]).

Data collection on ECEC is conducted at both the state and entity levels. The Agency for Statistics of BiH and each entity's respective institute of statistics gathers a range of information, including the number and types of ECEC providers, child enrolment rates, child-to-staff ratios, and staff qualifications. Methodologies for data collection are not harmonised between entity and cantonal statistical offices, and figures regarding certain outcomes do not fully reveal the significant disparities that exist between different groups.⁷ In this way, it can be difficult to compare ECEC systems across BiH, undermining the utility of collecting these statistics. However, in 2023, the "Technical assistance for pre-school education in BiH" project was initiated with a key objective: to establish databases at competent education institutions, thereby illustrating a stride towards standardising data collection on ECEC across the economy.

Ongoing initiatives to guarantee **quality instruction for all** have yielded some positive results in Bosnia and Herzegovina. Established by the APOSO in 2018, the common core curriculum sets clear standards for mathematics, science, and the Bosnian/Croatian/Serbian language. The curriculum is designed around competence-based learning, which emphasises the desired learning outcomes or results that students should achieve by the end of certain stages in their education. Defined in terms of knowledge, skills or competencies, these outcomes are designed to illustrate what students should be capable of doing as a result of their education.

Learning standards for students are well defined but vary significantly between entities as well as among cantons. This consequently limits the capacity of government actors to assess learning outcomes across schools, cantons, and entities. In RS, the curriculum for primary education defines learning outcomes for each subject as well as the criteria for students' assessment. Moreover, the Ministry of Education and Culture of RS is in the process of drafting a new rulebook to facilitate the implementation of regular standardised assessments of student learning. Currently, matura exams are conducted experimentally only for students in Grade 9. Conversely, in the FBiH, there is a common core curriculum, although assessment and evaluation policies vary among cantons. For instance, students in the Sarajevo and Tuzla Cantons take an external matura exam at the end of Grade 9,⁸ whereas students in other cantons only must complete school-based assessments, graded from 1 (insufficient) to 5 (excellent). This latter use of grade-point average and teacher-graded marks is not standardised; indeed, only three of the fourteen

administrative units in Bosnia and Herzegovina have standardised data on student learning (Guthrie et al., 2022^[3]).

There are no regular, standardised exams or assessments of student learning at the state level. Instead, Bosnia and Herzegovina relies on participation in international assessments, including the Programme for International Student Assessment (PISA) and the Trends in International Mathematics and Science Study (TIMSS). However, even participation in these assessments is inconsistent: the economy only participated twice in the TIMSS (in 2007 for Grade 8 and 2019 for Grade 4) and once in PISA (in 2018). No clear measures were adopted by Bosnia and Herzegovina to address the findings of PISA 2018 or TIMSS 2019, although at the canton level some cantons have started reforming their curricula in line with these assessments' recommendations.⁹ Looking to the future, the economy's commitments are mixed: while it did not take part in the 2022 PISA assessment and has not confirmed involvement in future cycles of PISA, it has committed to participating in both the TIMSS 2023 assessment as well as the 2023 International Computer and Information Literacy Study (ICILS). However, without regular participation in these assessments, longitudinal performance – and therefore potential progress – is challenging to monitor, limiting the use of their findings to shape policies or reforms.

The economy boasts one of the lowest rates of early school leavers, defined as individuals aged 18-24 years with up to a lower secondary education and no further training, in the region. Indeed, in 2021, Bosnia and Herzegovina reported an early leavers' rate of only 4.7%, which was notably below the regional average of 7.4% and the EU average of 8.0% (Eurostat, 2023^[6]). However, it is important to note that this figure does not reveal existing differences between students: for example, among Roma students, dropout rates remain much higher, estimated at around 15%,¹⁰ although systematic data collection on this population's proportion of early school leaving does not exist. To combat dropout, RS has instituted several policies, including offering free textbooks,¹¹ financial support for transportation, and discussions and training to prevent early leaving among Roma children. Conversely, there is no available information regarding specific measures or activities implemented in the FBiH.

Sub-dimension 7.2: Teachers

Initial teacher education (ITE) and selection in Bosnia and Herzegovina exhibits wide variation, given that it falls entirely within the competencies of the entities. While the FBiH lacks a unified policy framework for ITE – signalling limited progress since the last CO assessment cycle – the SDPPSE 2022-30 of RS contains a strategic goal regarding the provision of professional training programmes to teachers.

To enter ITE programmes in the FBiH, candidates only need to show a four-year high school diploma. Conversely, in RS, candidates need both to have attended high school and to have passed tertiary entrance exams. Then, teachers in both entities must pass a professional exam to formally enter the profession; candidates in RS are additionally subject to a one-year probationary period.

Only limited structural policies exist in either entity that seek to bolster the profession's competitiveness and thus attract new talent. Throughout 2022, RS increased the wages of school employees a total of three times. Such salary increases are crucial for boosting the attractiveness of the teaching profession, as Bosnia and Herzegovina has one of the lower annual gross statutory starting salaries¹² of teachers in the Western Balkans across pre-primary, primary, lower secondary and upper secondary education (Eurydice, 2023^[7]). No policies exist regarding other augmented benefits (such as bonuses or leave), improved working conditions, or increased professional autonomy for teachers. Moreover, policies designed to retain and support these new teachers – beyond initially encouraging them to enter the profession – are similarly limited.

Like their selection and education, **teacher professional development and management** in Bosnia and Herzegovina is decentralised, with each entity responsible for its own policies. However, there have been some efforts at the state level in this domain, namely the development of a model¹³ supporting the

professional development of educators and teachers through the provision of guidance and awareness raising. In RS, professional development programmes are outlined in the SDPPSE (2022-30), whereas teacher education programmes are a pillar under the FBiH's ongoing programme on improving inclusiveness in its education systems. Available programmes include in-person and online courses and seminars, education conferences, observation visits, and formal qualification programmes. In both entities, professional development is required and does not have any impact on career progression or salary increases.

In terms of career structure, professional teacher standards exist in both entities, but they are rarely tied to progression. In RS, teachers undergo evaluations through self-appraisals as well as assessments by school leadership teams, such as principals or school boards. However, this progression from mentor to advisor and finally to senior advisor is generally linked to years of teaching experience rather than performance, which can undermine teachers' incentives to improve performance and develop new skills or competencies. In the FBiH, there is significant variation across cantons, making it difficult to assess and compare these pathways. For example, in the West Herzegovina canton, teacher standards are defined but not linked to promotion processes for teachers, while in the Sarajevo canton the use of teacher standards was discontinued due to administrative burdens (Guthrie et al., 2022^[3]).

Sub-dimension 7.3: School-to-work transition

While Bosnia and Herzegovina has made some progress in easing the school-to-work transition in recent years, there is still room for improvement. Over the past decade, the share of youth not in education, employment or training (NEET) has fallen by more than 10 percentage points, reaching 17.6% in 2022 (World Bank, 2024^[8]). Part of this remarkable drop is likely due to the high levels of youth emigration; indeed, a 2021 survey found that 47% of Bosnian youth aspired to emigrate – of which half of the respondents sought to leave permanently (United Nations Population Fund, 2021^[9]). However, the NEET rate is still nearly double the EU average of 9.6% (in 2022) (Eurostat, 2023^[10]). Moreover, the youth unemployment rate has halved between 2012 and 2022, decreasing from 63.1% to 31.9% – but remains almost double that of EU Member States (16.3% in 2022) (World Bank, 2024^[11]). Such chronically high NEET and youth unemployment rates in part reflect difficulties with ensuring education systems provide the labour force with the necessary knowledge and skills to facilitate their integration into the labour market (European Commission, 2023^[12]).

In Bosnia and Herzegovina, the institutional frameworks guiding **vocational education and training (VET) governance** are moderately developed, although VET still suffers from limited monitoring and evaluation mechanisms. Several policies provide the foundation for state-level governance: one central law is the Framework Law on Secondary Vocational Education and Training, which outlines guidelines and standards for VET in line with EU goals. Other key documents¹⁴ underscore the importance of well-developed, efficient VET governance. However, clear regulations for work-based learning (WBL) and monitoring mechanisms remain absent at the state level, posing challenges for sector oversight. At the entity level, both RS and the FBiH have quality assessment and certification mechanisms that are characterised by clear quality standards and regular evaluations and expectations, ensuring rigorous VET qualifications.

One notable donor-funded initiative aimed at improving VET governance is the EU's Technical Assistance for VET Education project.¹⁵ Expected to be implemented between 2023 and 2026, the EUR 3.35 million project aims to build the capacity of education authorities in Bosnia and Herzegovina as well as raise awareness in order to improve the employment prospects of VET graduates.

Social partners¹⁶ play a central role in shaping VET governance, as their engagement can bolster the efficacy and responsiveness of the VET system. Although the quality and relevance of these social partners' involvement in VET is still limited in the economy, the APOS0 – the government body tasked with setting standards and developing VET policy nationally – includes social partners in working groups. These working groups are then involved in the development of sectoral occupational standards, as well as

the development of core and school curricula. Moreover, the Framework Law on Secondary Vocational Education and Training outlines the establishment of tripartite advisory councils (established at the entity, cantonal, and district levels), which include social partners. Enhanced co-operation between education institutions and social partners can be further used to better align curricula with the demands of the labour market, underscoring the utility of collecting social partners' inputs.

Efforts to enhance the **labour market relevance and outcomes of higher education** in Bosnia and Herzegovina have been demonstrated through several programmes aiming to reform the education system. For instance, the newest Economic Reform Programme (ERP) 2024-26 contains a reform on improving the alignment of education and the development of practical knowledge and skills in the labour market (Government of Bosnia and Herzegovina, 2024^[13]). The document also outlines respective actions to be undertaken by the two entities, including improving the system of adult education (RS) and improving linkages between study programmes and the needs of the labour market (FBiH). Both entities touch upon labour market relevance in the respective strategies.¹⁷

A strong emphasis is placed on the internationalisation of curriculum and fostering student mobility as key components of the economy's efforts to strengthen labour market outcomes. At the state level, Bosnia and Herzegovina participates in the EU Erasmus+ programme. Additionally, RS has been particularly proactive in advancing internationalisation, offering scholarships for studying abroad, facilitating international exchanges, and introducing English language instruction at universities.

Moreover, both entities employ several targeted mechanisms to align education programmes with labour market demands. Despite these efforts, issues with co-ordination and clarity of accreditation for higher education institutions (HEIs) challenge better alignment of the labour market relevance and outcomes of higher education. In the FBiH, there are several block grants and scholarships to support in-demand programmes as well as awareness campaigns for prospective students to support their selection. Similarly, RS also offers grants and conducts communication campaigns; additionally, the entity uses labour market information to inform curriculum design, which in turn aligns the higher education sector with labour market demands.

Sub-dimension 7.4: Skills for the green-digital transition

Bosnia and Herzegovina possesses a relatively underdeveloped framework guiding **digital skills development**, although several ongoing efforts demonstrate the economy's commitment to further developing this framework. At the state level, the working document "Priorities in integrating entrepreneurial and digital competence into education systems in Bosnia and Herzegovina 2019-30" seeks to align digital skills in the economy with the European Digital Competence Framework. Moreover, the Framework Law on Vocational Education and Training references the necessity of cultivating digital skills, although it does so indirectly rather than making it an explicit priority (ETF, 2019^[14]). However, while these policies represent a solid first step, there is still no dedicated overarching framework.

While the development of digital skills is not incorporated into primary or secondary education curricula, there are some standards to ensure the widespread availability of ICT in schools, teacher training on ICT, and the integration of ICT in school curricula.¹⁸ Improving access is an important prerequisite due to low levels of digital infrastructure in schools: on average, there is one computer available for every 20 students in Bosnia and Herzegovina (compared to 1.2 in OECD countries) (Government of Bosnia and Herzegovina, 2024^[13]). Additionally, an estimated 30% of primary and secondary schools in Bosnia and Herzegovina do not have access to the Internet, which is a prerequisite for the instruction of most digital skills.

However, in recent years, the economy has made several strides towards bolstering its support for students' digital skills. For example, at the end of 2021, the government of Bosnia and Herzegovina launched the Re-imagining Education initiative, which was implemented in RS as well as two cantons in the FBiH (West-Herzegovina and Una-Sana) to support the development of digital and blended learning

facilities. By the conclusion of the one-year programme, more than 2 000 teachers had received training for digital learning (Panjeta, 2022^[15]). Another advancement was the submission of the new Action Plan for Digital Education to the European Commission in March 2023.

Both entities have policy frameworks in place that touch – albeit rather minimally – upon the importance of promoting digital skills. In RS, the new Strategy for the Development of Science and Technology, High Education and ICT Industry (2023-30) will place a significant focus on digital skills through several strategic priorities and measures. Similarly, FBiH's Development Strategy 2021-27 includes one measure aimed at encouraging educational institutions to provide a higher level of knowledge and practice in the field of ICT by improving teachers' knowledge and work to facilitate students' acquisition of digital skills. Additionally, the ongoing FBiH programme "Support to programmes for the development of students' functional knowledge and skills" seeks to support IT equipment procurement projects to cultivate digital competencies through coding and the use of digital technologies.

Green skills development in Bosnia and Herzegovina is still in its early stages. There are currently no policy measures at the state level to promote in students the knowledge, skills and attitudes needed for a greener and more sustainable economy, nor are there plans to adopt such measures. However, the government of Bosnia and Herzegovina was invited to participate in the European Education Area working groups 2021-25 initiative. This initiative aims to bolster the resilience and inclusivity of education and training systems to prepare young individuals for the green and digital transition (European Commission, 2023^[12]).

Conversely, both entities have made small strides in establishing the requisite policies and programmes to support the inclusion of green skills and knowledge into school curricula. FBiH's Development Strategy 2021-27 includes one measure on raising awareness about the necessity of developing green skills. Moreover, education curricula in this entity includes competencies such as valuing sustainability, promoting nature, encouraging adaptability, and collective action – all of which are central to supporting the green transition. RS's draft Strategy for the Development of Science and Technology, Higher Education and ICT Industry references the need to adapt the higher education system to support the green circular economy. While this policy priority does not explicitly outline proficiencies to teach students, there are clear linkages between this objective and ensuring the cultivation of green skills. Partnerships largely inform policies in this domain, although no data collection or evaluation activities were mentioned. However, opportunities exist within both formal and non-formal education settings to learn about the climate crisis and sustainability. Educators are supported in developing their knowledge and skills in this area, and various stakeholders, including students, staff, local authorities and the research and innovation community, actively engage in learning about sustainability in the economy.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's level of progress in implementing CO 2021 Recommendations is varied. While the economy has fully implemented the recommendation to develop a new education strategy and improve its monitoring, efforts to ensure integrity in external school evaluation and strengthen data collection and management have been moderate. Furthermore, there has no observed progress towards developing a state-level standardised assessment for evaluating student learning outcomes. Table 8.4 shows a more detailed picture of Bosnia and Herzegovina's progress on implementing past recommendations for education policy.

Table 8.4. Bosnia and Herzegovina's progress on past recommendations for education policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
--	-----------------	-------------------

Strengthen evaluation and assessment policies across the system	Bosnia and Herzegovina produces a general assessment of its education policies in the annual report to the European Commission to monitor the progress of implementing EU recommendations. However, there has been little indication that the economy has taken strides to develop and publish a regular analytical report.	Limited
Establish a technical accreditation system for initial teacher education	ITE was the focus of several projects, and the Guide for Preschool Teachers in Education and the Guide for Teachers in Primary and Secondary Education have been adopted. However, the application of these guides has remained limited at both the entity and cantonal level.	Limited
Prioritise supporting students, especially those in the VET sector, to achieve basic numeracy and literacy skills	There has been some progress in prioritising support for students in the VET sector to improve their skills, as shown in the document "Priorities for the integration of entrepreneurial and digital competence in educational systems in Bosnia and Herzegovina 2019-2030".	Moderate
Consider developing a state-level standardised assessment and set targets for improving student learning outcomes	There is no evidence of progress.	None

The way forward for education policy

Considering the relatively limited level of the previous recommendations' implementation, there are several areas in which Bosnia and Herzegovina could still enhance its education policy frameworks and programmes. As such, policy makers may wish to:

- **Commit to regular participation in international assessments.** Given Bosnia and Herzegovina's decentralised education structure and the lack of standardised student assessments, participation in international assessments, such as PISA, can serve as a promising avenue for providing data that facilitate comparisons not only between schools and demographics (such as gender and socio-economic background), but also with regional or EU peers. This will allow the economy to monitor progress in student outcomes and address disparities in access and quality of education. Similarly, participating in the OECD's Teaching and Learning International Survey (TALIS) could provide comparative insights on teachers and school leaders' working conditions and learning environments at their schools. However, this only works if the economy commits to participating in the same assessment for several years in order to generate trend data.
- **Consider reallocating funding to the most underserved areas of education.** Because of the decentralised funding in the education sector, it is crucial for the relevant ministries to assess avenues for supplementing the budget in less well-funded areas, such as early childhood education. This will help to ensure a more consistent quality of education across all levels of education.
- **Enhance monitoring and evaluation across all areas of education policy.** Currently, the economy lacks the evaluation framework for effectively monitoring – and thus improving – performance and outcomes within the education system. As such, both the state and entity governments should prioritise enhancing data collection and systematic reporting efforts so as to facilitate a more comprehensive, accurate assessment of the quality of education policy. Moreover, given the lack of standardisation between cantons, entities, and the Brčko District, the respective ministries of education should consider working towards aligning their definitions and standards to ensure increased comparability both among one another and outside the economy. The United States' Common Education Data Standards serves as a good example of establishing common data standards and definitions (Box 8.1).
- **Encourage competent education authorities at the entity and district level to update and implement professional teacher standards.** Currently, professional standards do not adequately support teachers' professional development and personal improvement. As such, the relevant education authorities should ensure that they have up-to-date teacher standards in place that cover

teaching knowledge, pedagogical practices, and professional responsibilities and values (Guthrie et al., 2022^[3]). If properly implemented, these standards can then serve as the basis for improved appraisal processes that can support career progression (linked to performance rather than years of experience).

- **Adopt a comprehensive digital competence policy framework.** Given the importance of digital skills development for students, Bosnia and Herzegovina could design and adopt a common digital competency framework for students throughout the economy (for examples, see Box 8.2). Such a policy might help a greater proportion of students to progress from basic to advanced digital skills. Moreover, the adoption of this framework should be accompanied by ensuring that all schools are equipped with the necessary technical resources to effectively support digital learning.

Box 8.1. Ensuring a common approach to data definition and collection: The United States' Common Education Data Standards

The Common Education Data Standards (CEDS) serves as a vital framework for aligning educational data across the United States. Established in 2010 by the Department of Education, the CEDS encompasses data collected and used by institutions at all levels of education, ranging from ECEC to post-secondary education and adult learning.

The initiative aims to create common data standards – and thus, a common vocabulary – that facilitates a standardised approach to the reporting and analysis of this information. In turn, this ensures consistency and comparability nationwide. Updated annually, the CEDS is crucial for ensuring that policy makers at both state and national levels can carry out evidence-based policy making by fostering a common understanding of educational data. Furthermore, beyond improving data interoperability, the CEDS enables seamless data exchange between states themselves, enhancing collaboration and contributing to more effective education policies.

Source: US Department of Education (2024^[16]).

Box 8.2. Examples of digital competence frameworks: Good practices by OECD member countries

Across the OECD area, several countries have developed and instituted digital competency frameworks aimed at promoting the development of digital skills both among students and teachers. Examples include:

- *The “Digital Learning Framework” in Ireland* – This framework, which applies to both primary and secondary education, describes practices of both students and teachers for learning and teaching with digital technologies. The framework is used to help identify and monitor areas of improvement.
- *The “Piano Scuola 4.0” School Digitalisation Plan in Italy* – One of the two pillars of this plan is to foster “next generation labs,” which refers to promoting skills of students in areas key to the digital transition, such as coding or artificial intelligence. To monitor the outputs and outcomes of this project, data are collected every six months and used to compare schools’ performances on a national level.
- *The Schools Digital Strategy in New South Wales (Australia)* – This framework offers an overarching view of how to enable the digital transformation of the education system. It proposes

actions for key stakeholders, including the government, school leaders, teachers, and parents. Its roadmap outlines the progression from establishing the foundations for this transition, to improving access to digital technologies, and then evolving and enabling the future of learning. Emphasis remains on data-driven insights (assessing what tools, techniques, and pedagogies yield the best results) and equitable access.

Sources: OECD (2023^[17]; 2023^[18]).

References

- Camović, D. and J. Bećirović-Karabegović (2022), “Educational quality of early childhood education in Bosnia and Herzegovina”, *European Journal of Educational Research*, Vol. 11/4, pp. 1923-1936, <https://doi.org/10.12973/eu-jer.11.4.1923>. [4]
- ETF (2020), *Bosnia and Herzegovina: Education, Training and Employment Developments 2020*, https://www.etf.europa.eu/sites/default/files/document/Country%20Fiche%202020%20Bosnia%20and%20Herzegovina%20Education%20Training%20and%20Employment%20Developments_0.pdf (accessed on 21 March 2024). [2]
- ETF (2019), *Digital Skills and Online Learning in Bosnia and Herzegovina*, https://www.etf.europa.eu/sites/default/files/2020-06/digital_factsheet_bosnia_and_herzegovina_0.pdf (accessed on 7 March 2024). [14]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [12]
- Eurostat (2023), *Enlargement Countries - Education Statistics*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_education_statistics#Early_leavers_from_education_and_training (accessed on 7 March 2024). [6]
- Eurostat (2023), *Young People Neither in Employment nor in Education and Training (15-24 years)*, https://ec.europa.eu/eurostat/databrowser/view/tipslm90/default/table?lang=en&category=t_educ.t_educ_outc (accessed on 1 March 2024). [10]
- Eurydice (2023), *Teachers’ Actual Salaries*, <https://eurydice.eacea.ec.europa.eu/data-and-visuals/teachers-actual-salaries#tab-1> (accessed on 26 March 2024). [7]
- Government of Bosnia and Herzegovina (2024), *Economic Reform Programme of Bosnia and Herzegovina 2024-26*, <http://www.dep.gov.ba/naslovna/Archive.aspx?pageIndex=1&langTag=en-US>. [13]
- Guthrie, C. et al. (2022), *OECD Reviews of Evaluation and Assessment in Education: Bosnia and Herzegovina*, OECD Publishing, Paris, https://www.oecd-ilibrary.org/education/oecd-reviews-of-evaluation-and-assessment-in-education-bosnia-and-herzegovina_a669e5f3-en (accessed on 22 March 2024). [3]

- OECD (2023), *Digital Education Outlook 2023: Towards an Effective Digital Education Ecosystem*, https://www.oecd-ilibrary.org/education/oecd-digital-education-outlook-2023_c74f03de-en#:~:text=The%202023%20Digital%20Education%20Outlook,prepared%20for%20a%20digital%20transformation.&text=The%20COVID%2D19%20pandemic%20has,be%20ready%20for%20digital%20e. [17]
- OECD (2023), *Shaping Digital Education: Enabling Factors for Quality, Equity and Efficiency*, https://www.oecd-ilibrary.org/education/shaping-digital-education_bac4dc9f-en. [18]
- Panjeta, A. (2022), *Project “Reimagining Education” Officially Completed*, UNICEF, <https://www.unicef.org/bih/en/stories/project-reimagining-education-officially-completed> (accessed on 25 March 2024). [15]
- U.S. Department of Education (2024), *Common Education Data Standards*, <https://ceds.ed.gov/> (accessed on 2 May 2024). [16]
- UIS (2023), *UIS.Stat*, <http://data.uis.unesco.org/>. [1]
- UNICEF (2020), *Situation Analysis of Children in Bosnia and Herzegovina*, <https://www.unicef.org/bih/media/4971/file/Situation> (accessed on 2 May 2024). [5]
- United Nations Population Fund (2021), *Survey on Youth Emigration in Bosnia and Herzegovina*, https://ba.unfpa.org/sites/default/files/pub-pdf/youth_emigration_survey_in_bih_eng_final_0_0.pdf (accessed on 26 March 2024). [9]
- World Bank (2024), *Unemployment, Youth total (% of Total Labor Force Ages 15-24) (Modeled ILO Estimate) - Bosnia and Herzegovina, European Union*, <https://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=BA-EU> (accessed on 2 May 2024). [11]
- World Bank (2024), *World Development Indicators, DataBank*, <https://databank.worldbank.org/source/world-development-indicators> (accessed on 6 February 2023). [8]

Notes

¹ At the state level, there are the Ministry of Civil Affairs of Bosnia and Herzegovina, the Agency for Development of Higher Education and Quality Assurance, and the Agency for Preschool, Primary and Secondary Education. In the Republika Srpska, the Ministry of Education and Culture and the Ministry for Scientific and Technological Development, Higher Education and Information Society are the relevant bodies. In the Federation of Bosnia and Herzegovina, there is the Federal Ministry of Education and Science of the FBiH along with ten cantonal ministries. Finally, the Department of Education of the Brčko District oversees the district’s education policy.

² The autonomous Brčko District is largely responsible for its own education policy. While the education policy of the district is not extensively covered in this chapter, it is important to recognise that the district

holds responsibilities and powers similar to those of the entities with respect to defining and implementing education policies and programmes.

³ These strategies include the Development Strategy of FBiH 2021-27, the Strategic Plan for the Improvement of Early Growth and Development of Children in FBiH 2020-25, and the Programme of measures for the prevention of corruption in higher education in FBiH.

⁴ For more information on ISCED 01 and ISCED 02, please see <https://uis.unesco.org/en/glossary-term/isced-0-early-childhood-education-includes-isced-01-and-isced-02>.

⁵ These figures come from the FBiH's Institute for Statistics and RS's Statistical Office as part of the CO 2024 assessment.

⁶ The share of GDP spent on preschool education in Bosnia and Herzegovina was found by multiplying the percentage of GDP spent on education with the percentage of education expenditures spent on preschool education, which totalled 0.21%. To calculate the EU average, data were collected from UNESCO's UIS Statistics. The average uses data from 2019 and excludes Croatia, Estonia, and Ireland.

⁷ These groups include Roma children, children with disabilities, children from rural or low-income backgrounds, and migrant children.

⁸ The exception was during the school year 2019/20, when both cantons did not hold the external matura exam due to the COVID-19 pandemic.

⁹ Based on inputs of local stakeholders.

¹⁰ One estimate from the FBiH is that 15% of Roma children enrolled in primary education dropped out. See: <https://bosniaherzegovina.un.org/sites/default/files/2021-06/Education%20MPTF%20submission%2031Aug2020%20for%20translation.pdf>. Regarding RS, an Amnesty International report stated that the dropout rate of Roma children was three times the rate of other children in elementary education. See: <https://www.amnesty.org/en/wp-content/uploads/2021/08/eur050022006en.pdf>.

¹¹ Free textbooks were provided for first and second grade students; for the third (and each subsequent) child from families with three or more children; and for children from poor families.

¹² Salaries are measured in terms of purchasing power standard, which is an artificial currency unit defined by Eurostat to enable a fairer comparison across economies.

¹³ For additional information, please see: <https://eurydice.eacea.ec.europa.eu/national-education-systems/bosnia-and-herzegovina/continuing-professional-development-teachers>.

¹⁴ These documents include "Priorities for the integration of entrepreneurial learning and entrepreneurial key competencies in educational systems (2019-30)" and "Improving the quality and monitoring of professional education and training."

¹⁵ For more about this project, see: <https://www.dai.com/our-work/projects/bosnia-and-herzegovina-technical-assistance-for-vocational-education-and-training-vet-education>.

¹⁶ Social partners in Bosnia and Herzegovina include the Economic Chamber, employer associations, trade unions, and the Alliance of Employers.

¹⁷ RS's proposed Strategy for the Development of Science and Technology, Higher Education and ICT Industry (2023-30) includes several measures on improving relevance, while FBiH's Development Strategy 2021-27 seeks to increase higher education quality and align programmes with social and economic needs.

¹⁸ These standards are outlined in documents like the "Guidelines for improving online teaching" and "Basic technical standards for ICT tools outline the framework for digital skills promotion in education."

9 Employment policy

Effective employment policies are crucial for forging a strong economy and fostering economic development and social inclusion. This chapter aims to assess the regulatory framework and policies governing employment, as well as the institutional capacity for implementation. The first sub-dimension focuses on inclusive labour market governance, specifically looking at the employment regulatory and policy framework, labour inspectorates, social dialogue and inclusive employment policies. The second sub-dimension, social protection and activation policies, analyses the public employment services, mutual obligations framework and active labour market programmes. The third sub-dimension, skills for adaptable labour markets, assesses the skills mismatches in the labour market and initiatives for developing digital and green skills. The fourth sub-dimension, expanding the skills pool, focuses on attracting highly skilled migrants and diaspora.

Key findings

Bosnia and Herzegovina's performance in the employment policy dimension has slightly improved since 2021, although it remains below the regional average in all areas covered by the assessment (Table 9.1). Although some progress was made in updating policy frameworks for employment, significant challenges remain in areas such as ensuring adequate capacities for labour inspectorates and employment services and addressing skills gaps, particularly for the green and digital transition.

Table 9.1. Bosnia and Herzegovina's scores for employment policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Employment	8.1: Inclusive labour market governance			2.9	3.2
	8.2: Social protection and activation policies			2.3	3.1
	8.3: Skills for adaptable labour markets			1.6	2.6
	8.4: Expanding the skills pool			1.6	2.4
Bosnia and Herzegovina's overall score		2.0	2.0	2.2	2.9

The **key findings** are:

- Initiatives spearheaded by both entity governments as well as donors, including the new EU4Employment project (2023-26), aim to enhance the economy's inclusive labour market policies, particularly those targeting women. However, despite these efforts, women's employment rates remain low, standing at only 36.8% (or 26 percentage points below the EU average of 63.3%).
- Bosnia and Herzegovina lacks an overarching strategic framework, both at the state and entity level, for addressing informality, despite the relatively high rate within the economy (14%). Moreover, the lack of ongoing efforts to develop such a policy reveals a distinct gap within the employment framework.
- Despite the high youth unemployment rate of 29.8% in 2023 – nearly double the EU average of 15.8% – there has been limited progress in implementing targeted initiatives or tailoring active labour market programmes to young people. This highlights a significant opportunity for Bosnia and Herzegovina to better engage and strengthen support for unemployed and inactive youth, which in turn could also curb emigration of youth.
- Due to consistent low levels of funding and inadequate staffing, the public employment services in both entities are faced with extremely high caseloads, reporting ratios of jobseekers to counsellors that exceed the recommended ratio by more than fivefold.
- Social assistance coverage in both the Federation of Bosnia (FBiH) and Republika Srpska (RS) remains limited, primarily due to rigid eligibility criteria that do not effectively target the poorest citizens, as well as limited co-operation between employment and social services.
- Both entities have advanced in promoting digital skills development through the drafting of new strategies that emphasise the importance of these skills. However, the lack of concrete, well-defined mechanisms, particularly those incentivising employers to upskill their workers, hinders actual implementation in the labour force, leading to a “policy-practice” gap.
- The submission of the Decision on the Adoption of the Framework Strategy for Cooperation with Emigration (2024-28) to the governments of the FBiH, RS and the Brčko District in October 2023

reflects a potential step forward in addressing deficiencies in cross-entity co-operation on effectively engaging with the economy's substantial diaspora population.

State of play and key developments

The activity rate of the population aged 15-64 years old in Bosnia and Herzegovina saw an increase from 42.1% in 2019 to 48% in 2021 but has since plateaued, remaining relatively constant through 2023.¹ The employment rate has stayed consistent at around 40% between 2021 and 2023, surpassing the pre-pandemic rate of 35.5% in 2019. Yet, despite these improvements, the economy's employment rate significantly trails behind the EU average, which stood at 75.3% in 2023 (Eurostat, 2024^[1]). A contributing factor to these low activity and employment rates could be the high level of personal remittance inflows, which have been shown to have a negative effect on employment and participation rates (OECD, 2022^[2]). Indeed, in 2022 the economy received remittances amounting to 10.1% of its national GDP, worth an estimated EUR 2.28 billion (USD 2.47 billion) 2022 (World Bank, 2024^[3]).

Sub-dimension 8.1: Inclusive labour market governance

Despite substantial room to expand its scope, no progress has been made towards strengthening the **legal framework for employment**. At the state level, the legal framework is relatively comprehensive, establishing minimum standards for working time, paid holidays, and health and safety conditions, although it does not encompass the protection of workers from discrimination. The entities – which possess the primary remit over employment policy – similarly have frameworks that cover these areas, although the framework in RS notably excludes standards governing working hours. The big gap in both the regulatory frameworks of both RS and FBiH is that neither ensures that non-standard forms of employment, such as self-employed or platform and gig workers, are included in social protection frameworks. Moreover, in RS, employment protection legislation on workers' rights and conditions only extends to self-employed individuals (excluding all other forms of non-standard employment), while FBiH's Labour Law does not even define non-standard employment.

Similarly, occupational safety and health (OSH) is regulated at the entity level.² Neither entity's regulations on OSH are fully harmonised with the EU *acquis* due to issues with incomplete enforcement and implementation of this legislation, particularly in the areas of inspection capacity, injury prevention, employer training, and risk assessment assistance (European Commission, 2023^[4]). Moreover, in RS, the Ministry for Labour, War Veterans and Disabled Persons Protection has developed annual action plans and runs programmes implementing current or new health and safety regulations at the workplace. The collection and dissemination of statistical data on work-related injuries and diseases still needs to be improved in both entities. Official data on reported accidents and fatalities, along with the most affected sectors, were not published for 2022 or 2023.

While advances in bolstering the regulatory framework on employment have been stagnant, slightly more has been achieved towards strengthening the **policy frameworks for employment**. In December 2021, RS adopted its new Employment Strategy 2021-27 along with a related action plan. The FBiH's policy framework has two main strategic documents: the new Employment Strategy 2023-30³ and the Development Strategy 2021-27, which contains one measure on reducing inactivity and unemployment. These strategies are accompanied by the monthly collection of a diverse set of employment indicators in both the FBiH and RS, which in turn help to support the monitoring of programmes that promote equal opportunities and inclusive labour markets.

Neither entity has developed a separate policy framework governing informal employment, despite the relatively high rate of informal employment of 14%.⁴ However, while there is no strategy aiming to combat

informal employment in RS, the entity's government has implemented some ad hoc measures, such as reducing taxes for low-wage salary earners through an increase of the non-taxable part of the salary, a reduction of the tax rate, and a reduction of social security contributions. Additionally, trade unions and employers' associations periodically undertake efforts, such as campaigns or other measures, to reduce informal work.

Labour inspectorates play an active role in ensuring proper implementation of the employment regulatory framework, although their operations are limited by the absence of a well-defined framework. Both entities outline guidance for their respective labour inspectorates within broader strategies that address various aspects of employment policy, including labour inspectorates. Yet, despite this absence of a regulatory framework, these entities in both the FBiH and RS have comprehensive scopes overseeing all fields related to working conditions, ranging from wages and working hours to workers' rights to strike. Labour inspectorates are established at various levels: at the entity level, in the Brčko District, and at the canton level within FBiH.

In both entities, labour inspectorates' inputs and outputs are monitored annually, and their operations are subject to regular public auditing. Such evaluations are important for promoting accountability, efficacy, and compliance with standards. However, neither entity has yet used the results of these audits to enhance the capacity of labour inspectorates through changes like increased staff or training opportunities, although RS might implement such reforms depending on the findings of its ongoing analysis. While not the result of an annual audit, the FBiH plans to hire 30 new inspectors as part of the Federal Administration for Inspection Affairs' 2024-26 work plan.⁵ Additionally, FBiH's Ministry of Labour and Social Policy sent an official letter to both the entity-level labour inspectorate and cantonal inspectorates that urged them to increase the number of employed inspectors.

Collective bargaining in Bosnia and Herzegovina is moderately developed, marked by several advances since 2021. This bargaining mainly occurs at the federal and sectoral level, with wage negotiations being a central matter in both entities. A significant development occurred in the FBiH in May 2023, when the Independent Trade Union of Civil Servants and Employees invited relevant government institutions and ministries to negotiate proposed amendments to the Branch Collective Agreement; these changes would raise salaries for administrative and judicial authorities' employees. In terms of tripartite social dialogue, the government regularly consults social partners, including employers' organisations and trade unions, on employment policies and related legislation. Additionally, both FBiH and RS have operational Economic and Social Councils that serve as dialogue on crucial employment policy issues, such as the minimum wage – although the final decision on setting this threshold rests with the entities' governments.

While legal and institutional mechanisms for collective bargaining and social dialogue are relatively well established, there is still room for improvement, particularly regarding their use. In the FBiH, while efforts indicate progress towards updating the Branch Collective Agreement, stakeholders still have not reached a consensus on a new general collective agreement after the previous one was terminated in early 2018, resulting in a policy vacuum. In RS, collective bargaining agreements almost entirely exclude the private sector, which can lead to inequitable treatment due to disparities in wages, benefits and working conditions.

Regarding the development and implementation of **inclusive labour market policies**, these policies target a wide breadth of vulnerable groups, including Roma and other ethnic minorities, people living in extreme poverty, people with disabilities, and older unemployed individuals. However, both state and entity levels have devoted most of their efforts to promoting the employment opportunities among women. At the state level, there is a national policy framework aiming to reduce gender inequalities, and the institution BiH Agency for Gender Equality co-ordinates studies on gender inequality policies and programmes, such as the recent 2020/21 survey on women's recruitment and contract terminations.⁶ Additionally, awareness-raising campaigns, including the EU4Employment project (2023-26), aim to reduce gender discrimination in labour market access (Box 9.1).

Box 9.1. Increasing employment opportunities for vulnerable groups: Ongoing efforts by the EU4Employment initiative

Launched in February 2023, the EU4Employment programme was designed to address labour market challenges that disproportionately affect vulnerable groups in Bosnia and Herzegovina, such as women, youth, long-term unemployed individuals, those with disabilities, and members of the Roma communities. This initiative is envisioned to last three years and is financed with EUR 5 million from both the EU and the Swedish Government.

To accomplish this overarching objective, EU4Employment seeks to increase employment opportunities for these selected groups by offering grants and providing technical assistance. The technical assistance is to be delivered by the ILO with the support of experts from the public employment services (PES) of the EU, France, and Belgium. This financial and technical support will be used to develop and provide access to training and retraining opportunities for these traditionally “hard to employ” individuals. By the conclusion of the programme in 2026, the aim is secure employment for at least 625 individuals and engage 1 200 persons in activation and job search programmes.

Source: ILO (2023^[5]).

These state-level measures are complemented by policy frameworks in both RS and FBiH. Namely, RS's efforts on promoting women's employment were enshrined in its Strategy for the Development of Women's Entrepreneurship (2019-23), which focused on the financial support, education, promotion, and support for women in various sectors. However, since its expiration, no action has been taken to develop a follow-up strategy. In the FBiH, the Employment Strategy 2023-30 defines measures to increase the employment rate of women, and the Development Strategy 2021-27 prioritises promoting gender equality within families and society. The Federal Ministry of Education and Science has also implemented a programme designed to support training and professional development for adults – but specifically women – to enhance their integration into the labour market.⁷

Yet despite the implementation of various policy frameworks, significant positive outcomes have not yet been achieved. Indeed, in 2021 the employment rate of women only reached 36.8%, which was the second lowest rate in the region and far below the EU-27 average of 63.3% (Vienna Institute for International Economic Studies, 2024^[6]). Additionally, a substantial gender employment gap persists, with the women's employment rate in BiH 24.9 percentage points lower than that of men – nearly 2.5 times the gap observed in the EU (Eurostat, 2023^[7]). There are several reasons that potentially explain this persistent gender employment gap. Firstly, the restricted availability of affordable childcare services might prevent women from either returning or ever entering the labour market once they have children. Another potential explanation is that women tend to face more difficulties securing access to finance, as they either do not possess sufficient collateral or are approved for smaller loans than men (World Bank, 2017^[8]). Finally, the negative impact of remittances – of which Bosnia and Herzegovina is a significant recipient – on employment and participation rates is notably pronounced among women (OECD, 2022^[2]).

Sub-dimension 8.2: Social protection and activation policies

The unemployment rate in Bosnia and Herzegovina has significantly fallen in recent years, decreasing from 15.9% in 2019 to 11.8% in 2023 (World Bank, 2024^[9]). This is approximately equivalent to the regional average (11.7%) but still remains nearly double that of the EU (6.0%) (Eurostat, 2024^[10]). Youth unemployment rates are even higher, registering 29.8% of the total labour force aged 15-24 years in 2023 – nearly double the EU average of 15.8% (World Bank, 2024^[11]).

No progress has been made in improving **public employment services** (PES), which remain underdeveloped and poorly resourced in both entities. The services provided by PES in both FBiH and RS are comprehensive, ranging from the registration of unemployed individuals and vacancies to the organisation of outreach activities for employers. In both entities, PES use profiling tools to categorise jobseekers and prioritise support measures, but these are not closely tailored to jobseekers with different levels of employability. These broad mandates have not been met with appropriate resources allocated to support the staff. Indeed, PES in both entities struggle with a high caseload, averaging around 337 jobseekers per counsellor in RS and 1 160 jobseekers per counsellor in the FBiH.⁸ These insufficient human resources complicate PES's ability to accomplish their mandate – particularly given the complicated employment landscape in the economy.

There have been efforts by both FBiH and RS to digitalise aspects of their respective PES. In FBiH, efforts to digitalise processes have been introduced to increase the efficiency of cantons' PES, although full implementation remains outstanding. For instance, online registration for jobseekers has been introduced in some cantons, but only six of the ten cantonal employment services are integrated into an IT system that can match vacancies and job seekers. In RS, some PES services have been digitalised, as best evidenced by the introduction of online registration. However, in both entities the overall lack of sufficient digital skills constrains the use of these processes and services.

Co-ordination between PES at all levels and key stakeholders such as training organisations and local stakeholders is lacking; co-ordination is mainly in place between different public institutions such as PES and ministries, as well as with social partners. When it comes to monitoring and evaluation, performance measurement tools for PES have only been introduced in some cantonal PES in the FBiH, primarily as pilot projects financed with the support of the Swiss Government.

Although both entities have a well-defined legal framework outlining eligibility criteria for **unemployment benefits**, the effectiveness of these benefits is constrained by their modest amounts and the low percentage of jobseekers who qualify for them. With respect to the former, unemployment benefit levels are less than 50% of previous wages in both entities: specifically, they total 40% of the average net salary in the FBiH and 45-50% of previous earnings in RS (depending on years worked). Recipients in either entity are eligible to receive benefits between 3 and 24 months, depending on previous work history. The adverse consequences of the COVID-19 pandemic led to an increase in the number of individuals receiving unemployment benefits between 2019 and 2020, rising by 80.8% in FBiH and 65.2% in RS (Numanović, 2021_[12]).⁹ However, while this number returned to pre-pandemic levels by 2022 in FBiH, it has remained elevated in RS, decreasing from 42 503 to 40 576 recipients. Yet, only an estimated 4-5% of registered jobseekers receive unemployment benefits, likely due to a combination of relatively short duration of eligibility, the high incidence of long-term unemployment (meaning more than one year of job searching), and the exclusion of non-standard workers.

Like unemployment benefits, social assistance coverage in both FBiH and RS is very low due to rigid eligibility criteria. This difficulty is particularly evident in FBiH: while the entity-level law on social protection outlines beneficiaries' rights to receive this assistance, the specific eligibility criteria and requirements are defined by each individual canton. The decentralised structure is likely a reason for the absence of available information regarding the share of registered jobseekers receiving social assistance in FBiH, indicating poor co-operation between employment and social services. The Development Strategy 2021-27 outlines an objective to improve the targeting of social protections, but this policy has yet to be met with concrete programmes or implementation measures. Even in RS, which possesses a more centralised system, co-operation between these services is weak. This poor level of co-operation presents a challenge to further bolstering the employability of hard-to-place jobseekers and placing them into jobs. Additionally, the social assistance scheme in both entities does not effectively target the poorest individuals in society. Indeed, studies have found that the poorest quintile of Bosnian citizens receives just 17.3% of all social assistance in the economy (Numanović, 2021_[12]).

In both entities, **active labour market programmes** (ALMPs) are in place, primarily targeting vulnerable groups. Specifically, target populations include Roma and other ethnic minorities, women, people living in extreme poverty, people with disabilities, low-skilled individuals, older unemployed individuals, and victims of violence. Both entities outline their ALMPs in their respective employment policy frameworks: FBiH's Development Strategy 2021-27 seeks to improve the position of vulnerable groups in the labour market,¹⁰ while the Employment Strategy 2021-27 of RS includes annual employment action plans with specific measures on ALMPs. Moreover, the FBiH has stipulated that its federal and cantonal PES must allocate a fixed proportion of ALMP funding annually (10% and 5%, respectively) to the "Fund for Professional Rehabilitation and Employment of Persons with Disabilities", which implements incentive measures for this population to enter the labour market.

However, a clear exclusion from these programmes is that of young NEETs (those not in education, employment or training) – an issue given the high share of youth unemployment in the economy. However, Bosnia and Herzegovina is currently working on the implementation of the Youth Guarantee Scheme,¹¹ a flagship project under the Economic and Investment Plan for the Western Balkans that aims to reduce youth unemployment. The first of the initiative's four phases is the development of a Youth Guarantee Implementation Plan, which outlines specific measures for early intervention and activation as well as for supporting labour market integration. Bosnia and Herzegovina has not yet finalised its implementation plan; while RS and the Brčko District have prepared draft plans, FBiH has faced delays in its own drafting process.

In terms of programmes, the FBiH utilises a few employment subsidy schemes that have shown preliminary indications of effectiveness. Namely, there are subsidies for jobseekers who are 40 years of age or older ("New Opportunity"), women ("Women's employment"), and for the Roma population that are available at both the entity and canton level. One of the newer programmes was inaugurated in 2020, providing subsidies to employers who hire first-time jobseekers or young unemployed persons ("Your Opportunity"). RS has introduced several new measures since 2021 that emphasise IT skills training and professional practice programmes.

The PES in both the FBiH and RS collect yearly monitoring data on the implementation of ALMPs and conduct impact assessments (either independently or in co-operation with partners). The Employment Service of RS recently formed a new department that regularly evaluates individual employment plans and programmes. Moreover, RS has used the results from its 2018-19 assessments to redesign employment programmes offered in 2021-22. In FBiH, evaluations emphasises the sustainability of interventions 12 months after the end of an ALMP.¹² In certain cases, these results are used to design new programmes: for example, the findings of the evaluation of the initiative "Opportunity for All" were used to design a new programme with the World Bank called "New Opportunity."

Despite this proliferation of new and ongoing ALMPs, they have not been matched with generous financial support. Instead, funding for these programmes is low, accounting for only 0.14% of total GDP – slightly over one-third of EU levels (0.39%) (European Commission, 2024_[13]). Moreover, while hiring subsidies are widely used, more proactive tools – namely training programmes aimed at building human capital in the medium or long run – are less frequently utilised, representing a gap in the design of these ALMPs.

Sub-dimension 8.3: Skills for adaptable labour markets

In a trend consistent with the rest of the region, lower-skilled individuals in Bosnia and Herzegovina have the highest risk of being unemployed compared to medium- and highly skilled individuals. Indeed, in 2021, the unemployment rate among the portion of the labour force with a low skill level was 24.4%, compared to 17.9% among the medium-skilled and 12% among the highly skilled (Vienna Institute for International Economic Studies, 2024_[6]).¹³ However, even across all skills levels, skills mismatch proves a substantial obstacle: in 2022, 42% of surveyed employees in Bosnia and Herzegovina have reported unmet learning

needs, and only 49% of respondents participated in skills development programmes (compared to the EU-27 average of 62%) (ETF, 2023^[14]).

Since the last assessment cycle, there have been several advances towards addressing the **skills mismatch** in Bosnia and Herzegovina. In FBiH, the new Employment Strategy 2023-30,¹⁴ adopted in late 2023, includes several measures aimed at promoting adult learning in its accompanying operational plan. Moreover, the Development Strategy 2021-27 complements this objective with its measure aiming to establish a functional system of adult education and lifelong learning. Moreover, federal and cantonal PES are implementing the “New Opportunity” programme, which supports the employment of people with lower qualifications and skills as one of the target groups.¹⁵ Additionally, in 2023, the Federal Employment Agency launched the new “Training for the needs of the labour market” programme; vouchers are given to unemployed individuals to finance their participation in education or training with the aim of promoting the development of relevant, in-demand knowledge and skills. Finally, to improve workplace-based learning and reduce skills mismatch, an Inter-Cantonal Focus Group for the Improvement of Secondary Vocational Education was formed in 2022 to create a platform for the exchange of knowledge and experiences in connection with dual secondary professional education.

Similarly, in RS the Adult Education Strategy 2021-31 and Action Plans were decided. There is an institutional framework in place for co-ordinating activities between different ministries and state agencies and social partners to address skills mismatch, including for curricula revisions. Skills gaps analysis has advanced and is using different methods and sources, such as employer surveys, forecasts, web scrawling and big data, sector studies, and tracer studies. The process of revising and standardising occupations, in co-operation with social partners, was completed, aligned with the demands of the labour market. For example, some new occupations were introduced, while other outdated ones (that were not in demand by the labour market) were discontinued. Moreover, workplace-based learning elements are integrated into the VET system.

Efforts to promote the development of skills for the digital transition in Bosnia and Herzegovina are relatively new and consequently would benefit from further development. The economy has a comparatively low share of individuals with basic or above-basic levels of digital skills, nearly 20 percentage points below that of the EU (Table 9.2). Moreover, the rates of use of computer devices in the workplace and participation in trainings for digital skills are below both the regional and EU averages, indicating the need to scale up efforts to bolster these skillsets (ETF, 2023^[14]).

Table 9.2. Individuals with basic or above-basic overall digital skills in Bosnia and Herzegovina, the WB6 economies and the EU (2021)

Percentage of all individuals

BIH	WB6	EU
34.7	34.8	53.9

Note: Data from Kosovo (which were used to calculate the WB6 average) were from the latest available year (2019).

Sources: Eurostat (2023^[15]); Eurostat (2020^[16]).

Most activities to address skills gaps in Bosnia and Herzegovina focus on strengthening the digital skills of young people in education institutions (Jahić, 2022^[17]). As a result, less is done to promote digital skills of those already participating in the labour market. The Development Strategy of FBiH 2021-27 includes a measure on strengthening digital skills, particularly those tailored to the needs of the labour market.¹⁶ However, while this explicit objective marks an important first step, it is not accompanied by concrete measures or mechanisms for incentivising employers and employees to develop these skills, such as through subsidising the cost of reskilling or upskilling. In RS, policies and programmes are currently limited, although future activities are expected to accompany the new Strategy for the Development of Science

and Technology, Higher Education and Information Society (2022-27), which is still pending adoption. However, the entity has made progress in conducting studies on the current and future development of employment in key ICT occupations as well as in identifying digital skills needs through consultations with key stakeholders, such as employers and sector associations.

There is significant room to strengthen Bosnia and Herzegovina's efforts to promote **skills for the green transition**, particularly given the economy's high level of reliance on coal mining for both energy and income. The economy¹⁷ has one of the highest numbers of individuals employed in the coal sector in the Western Balkan region, and it has the highest subsidies for coal in the region (OECD, 2022_[18]). However, given Bosnia and Herzegovina's ambitions to become carbon-neutral by 2050, it is crucial that the economy prepare for this green transition – particularly through establishing policies and programmes that mitigate negative employment effects, such as retraining policies for the workforce.

Yet despite this importance, both entities have undertaken very limited efforts. There are no training or skills adaptation measures, VET training courses, employment incentives, or entrepreneurship programmes to promote employment in the green economy in either entity, reflecting a major gap in ensuring its workforce can seamlessly transition and have the appropriate skills to contribute to the activities of a green economy. That being said, the strategic documents in both entities do have references to this policy area. In FBiH, the Development Strategy of the Federation of Bosnia and Herzegovina 2021-27 includes the objective to raise awareness about environmental protection, climate change and the necessity of developing green skills and to support to small and medium-sized enterprises to improve energy efficiency and the principles of "green economy".¹⁸ In RS, the Strategy of Industrial Development 2021-27 includes a measure on transitioning to a green and circular economy, although it does not explicitly mention mitigating the impact of this transition on employment outcomes.

Sub-dimension 8.4: Expanding the skills pool

Bosnia and Herzegovina's approach to **making the most of foreign talents** is outlined in the state-level "Migration and Asylum Strategy (2021-25)",¹⁹ which details key objectives on migration management, including support for legal migration, for integration of foreigners residing legally in the economy, and efforts for strengthening migration co-ordination mechanisms and asylum management. Complementing this strategy is the Action Plan on Migration and Asylum (2021- 25), thus completing the related strategic framework. Central to both the strategy and action plan is the overarching aim of encouraging the complete, seamless integration of legally residing foreigners into the social and economic fabric of Bosnia and Herzegovina. A co-ordination Body for Migration Issues²⁰ ensures horizontal co-ordination across state ministries, with the Ministry of Security serving as the lead authority in migration matters. However, the Ministry of Civil Affairs also plays an active role, offering training for civil servants from various institutions at all levels of government to strengthen their capacities and co-operation on migration issues (although these training sessions were halted in 2023 due to financial constraints).

Regarding labour market access, domestic legislation treats European Union citizens and third-country nationals equally, requiring EU citizens to obtain work permits, as outlined in the Law on Foreigners. A revised version of this law, adopted by the parliament in 2023, aims to enhance alignment with the EU *acquis*, facilitating freedom of movement for EU citizens. There is a need to ensure full harmonisation between the laws governing foreign employment in the state's entities and the Brčko District with state-level legislation, especially on the issuance of work-related residence permits. In 2022, 3 780 work permits were granted to third-country nationals, including 367 to EU citizens, primarily in sectors such as civil construction, trade, art, real estate, manufacturing, and services (European Commission, 2023_[4]).

Migrants in Bosnia and Herzegovina might face several employment challenges. Firstly, the economy has a fragmented system for co-ordinating social security schemes due to its limited administrative capacity and a lack of formal co-operation among relevant authorities at all levels of government. This issue is compounded by the lack of bilateral agreements with EU Member States regarding social security co-

ordination and healthcare insurance (European Commission, 2023^[4]). Moreover, Bosnian legislation on the mutual recognition of professional qualifications is not aligned with the EU *acquis*. However, in October 2023, Bosnia and Herzegovina signed a memorandum of understanding (MoU) with the other Western Balkan economies for the mutual recognition of professional qualifications; the agreement aims to improve professional mobility and align skills with labour market needs. Substantial efforts are also required to establish an effective institutional framework, involving e-government facilities and national contact points to aid citizens in seeking recognition of their professional qualifications.

An estimated 2.0 million to 2.2 million people of Bosnian origin – over half of the economy’s total population – reside abroad.²¹ In 2017, to draw from its diaspora ties for the socio-economic development of the economy and to **attract diaspora skills**, Bosnia and Herzegovina adopted a strategic document called “Policy on Co-operation with Diaspora.” This policy aimed at diaspora mapping, skills profiling, and capacity building in enhancing collaboration with diaspora across sectors women (OECD, 2022^[2]). Subsequently, a Communication Plan with Diaspora was implemented in 2018 to enhance connectivity and communication. The “Policy on Co-operation with Diaspora” acts as a guide for sub-national governments, with both FBiH and RS possessing respective entity-level strategies, although it also sought to establish the foundations for a state-level framework (Box 9.2).

Box 9.2. Efforts to develop a state-level framework for diaspora engagement

One of the main objectives of the “Policy on Co-operation with Diaspora” was the development of a state-level framework strategy, the Strategy for Co-operation with Diaspora. This strategy’s overarching aim was intended to be the establishment of a legal framework for planning and regulating co-operation with diaspora. A draft of the Framework Strategy for co-operation with emigration and the Action Plan on the web application eKonsultacije has been prepared for the period 2024-28, and public consultations were held between August and September 2023. At the beginning of October, the Decision on the Adoption of the Framework Strategy for Cooperation with Emigration for the Period 2024-28 and the Action Plan were sent for opinion to the competent bodies, including the government of FBiH, the government of RS, and the government of the Brčko District. The Ministry has not yet received all the opinions from the competent authorities, so it is expected that this consultation process will continue in 2024 and then the draft strategy will be sent to the Council of Ministers of Bosnia and Herzegovina for consideration.

Source: Inputs provided as part of the CO 2024 assessment.

Currently, at the entity and district level, the FBiH has its own Strategy on Co-operation with Diaspora and Action Plan (2020-24), while RS developed its Strategic Plan for Co-operation with Diaspora in 2020. Additionally, in 2020, Brčko District launched its Strategy on Co-operation with the Diaspora of Brčko District (2020-24), closely aligned with FBiH’s strategy but tailored to its needs. These strategies are managed separately at the entity level, reflecting differing focuses and priorities, with FBiH and the Brčko District emphasising investment and skills transfer, whereas RS emphasises cultural identity.

Bosnia and Herzegovina is implementing various initiatives to attract diaspora skills, including the development of an interactive portal by the Ministry of Human Rights and Refugees, facilitating knowledge transfer and skills-sharing opportunities. Additionally, RS launched an entity-level diaspora registry in 2022 as well as an online portal inviting diaspora members to participate. Furthermore, international organisations such as USAID and UNDP have supported diaspora-related projects (Qaisrani et al., 2023^[19]). USAID’s “Diaspora Invest” project aims to encourage economic contributions from the diaspora through incentives like matching grants and technical assistance for investors. UNDP’s “Diaspora for

Development" project focuses on mobilising diaspora support by fostering connections with public, non-governmental, and private economic sectors.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has made mixed progress towards implementing past CO Recommendations. In some areas, namely the implementation of adult learning programmes and increasing women's employment, some moderate advances were achieved. Conversely, the economy's progress remained limited in most other areas, including its efforts to align labour laws with EU directives and strengthening the PES's capacities. Below, Table 9.3 shows Bosnia and Herzegovina's efforts to implement these previous recommendations on employment policy.

Table 9.3. Bosnia and Herzegovina's progress on past recommendations for employment

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue efforts to align labour law and OHS regulation to EU directives	Occupational health and safety and labour law are not fully aligned with EU minimum standards. Moreover, in FBiH, the legal framework on employment does not encompass labour standards and social protection for most non-standard workers, including platform workers and gig workers.	Limited
Implement adult learning programmes for low-skilled adults	In FBiH, the new Employment Strategy 2023-30 includes several measures addressing adult learning. Additionally, the new ALMP, "New Opportunity", specifically targets and co-finances the employment of individuals with lower skills or lower qualifications. Another new ALMP, "Training for the needs of the labour market", offers financial support to jobseekers to cultivate in-demand skills and competencies to improve their employability. In RS, skills gap analysis is advanced, and surveys are conducted on the current and future needs of the labour market as well as employee participation in training and education. There is a particular emphasis on the development and enhancement of digital skills among these adults. However, there is no evidence in either entity of specific policies or programmes that encourage employers to upskill their workers' digital competencies.	Moderate
Regularly conduct analyses of wages by sector, gender, educational level and occupation	In FBiH, the Federal Bureau of Statistics publishes on a monthly basis data on the number of employed and unemployed persons and wages in the entity. In RS, there are studies conducted on the gender wage gap. However, there are no data collected on non-standard forms of employment, and there is no evidence on progress towards collecting data on informal employment and working conditions.	Limited
Activate disability pension recipients who have the capacity to work and include them in vocational rehabilitation measures	There is limited evidence regarding concrete measures that either entity has undertaken to activate these individuals, although people with disabilities are defined as a target group for ALMPs.	Limited
Strengthen the capacities of the PES to align with EU and OECD good practices	There has been no observed progress towards reducing the caseload of PES in either RS or FBiH. Moreover, there is limited evidence of enhanced co-operation with relevant stakeholders at the local level or improved employer services. However, in RS, efforts have been made by the Chamber of Commerce to identify skills needs gaps, while in FBiH, federal and cantonal PES conduct annual employer surveys on skills and workers shortages. There has been an increased focus on activating vulnerable groups through new strategies and action plans, although evidence of direct improvements has yet to be provided.	Limited
Continue efforts to increase the employment rates of women	At the state level, the BiH Agency for Gender Equality co-ordinates studies on policies and programmes aimed at reducing gender inequalities. It also leads stakeholder consultations on policies targeting women's employment. Additionally, the EU4Employment project was launched, which is also aimed at reducing gender discrimination in accessing the labour market. At the entity level, RS adopted the Women's Entrepreneurship Development Strategy 2019-23, but this expired last year. The FBiH has several policy measures and programmes aiming to increase women's employment rates, but there is no dedicated	Moderate

The way forward for employment policy

Considering the relatively limited progress made in implementing the previous CO Recommendations, there are still areas in which Bosnia and Herzegovina could better address the key challenges facing its labour market and subsequently strengthen its employment policy frameworks. As such, policy makers may wish to:

- **Develop the regulatory framework for non-standard forms of employment**, including self-employment, temporary agency work, and platform and gig work. Ensuring that these forms of non-standard employment are incorporated under the legal framework helps to protect workers' rights and to extend social protection coverage. As such, the governments of both FBiH and RS should explore how to best update their respective regulatory frameworks to safeguard this subset of labourers.
- **Establish and implement a comprehensive policy framework to combat informal employment.** Bosnia and Herzegovina is the only Western Balkan economy that has neither developed nor is actively developing a strategic framework against informality. Such a framework should include measures for building institutional capacity and infrastructure to detect and address informal activities, outlining specific programmes or mechanisms to facilitate individuals' and businesses' entrance into the formal market, and enhancing data collection and monitoring capacities to benchmark progress.
- **Continue to strengthen the social dialogue framework, in particular in the private sector.** Well-designed collective bargaining systems can promote labour market stability by facilitating adjustments in wages and working time (OECD, 2018^[20]). As such, the entities should try to better engage stakeholders from the private sector and involve them in general collective agreements to ensure their formalised participation and engagement in ongoing social dialogue processes.
- **Implement vocational guidance in a "life cycle" perspective.** This "life cycle" approach recognises career development as a lifelong process that therefore requires career guidance and counselling services and that considers an individual's entire life span, from childhood to retirement (Box 9.3). RS and FBiH should consider introducing vocational guidance starting in secondary school; offering early career exploration – and allowing young people to explore different career options and understanding their interests and strengths – would be an important factor for reducing skills mismatches. This vocational guidance should emphasise lifelong learning and continuous skills development to respond to skills shortages and changing needs of the current and future labour markets.
- **Reduce caseload of PES counsellors.** Studies have found that reducing the casework-to-clients ratio in PES can lead to a decrease in the rate and duration of unemployment through enhanced monitoring and intensified search efforts (Hainmueller et al., 2016^[21]). As such, given the high incidence of unemployment, PES in Bosnia and Herzegovina should strive to hire more staff in order to decrease each counsellor's caseload, bringing it closer to the ILO's recommended ratio of 1:100 (Kuddo, 2012^[22]). A reduced caseload will also help counsellors to better co-operate with social and health services at the local level to overcome complex employment barriers.

Box 9.3. Lifelong vocational guidance: A Croatian approach

Croatia has developed and implemented a holistic “life cycle” approach to delivering career guidance, counselling and information services to its citizens, irrespective of age or employment status. Starting from primary and secondary education, students have access to guidance services provided by both teaching and non-teaching staff (including psychologists, librarians, and principals). Additionally, many schools extend career guidance to students in Grades 7 and 8, which mark the final two years of compulsory education in Croatia. As students transition to higher education, there are initiatives to enhance existing faculty and university-based career centres – and establish new ones – to provide insights on job search strategies and labour market trends and cultivate networking skills.

For adults in the labour force, as well as those who are unemployed and actively searching for jobs, the national Croatian Employment Service and Lifelong Career Guidance Centres offer accessible guidance services. These services encompass a range of offerings from printed materials, like brochures and leaflets, to interactive measures, such as online counselling, group activities, and workshops. Unemployed individuals can access specialised career guidance from trained counsellors, while those facing additional barriers to employment – such as individuals with health or learning challenges or those from marginalised groups – can access individual counselling services.

Source: Euroguidance Network (2023^[23]).

- **Strengthen support for young jobseekers.** Given the high rate of youth unemployment compounded by the exclusion of young NEETs from ALMPs, it is vital that the governments of RS and FBiH further develop mechanisms for assisting young jobseekers. These efforts should focus on increasing these individuals’ employability and fostering practical skills through work experience. To this end, Bosnia and Herzegovina should establish and implement a Youth Guarantee Plan, as the other economies in the region are doing.
- **Strengthen measures aimed at upskilling and reskilling the workforce, particularly regarding skills for the digital and green transitions.** Both the state and entity governments should develop policy frameworks and programmes that specifically aim to support the development of skills for the digital and green transitions among both employed and unemployed individuals. Instilling these skillsets will likely reduce skills mismatches by ensuring individuals’ have the competencies to contribute to and thrive in the evolving labour market.

References

- ETF (2023), *European Skills and Jobs Survey: Statistical Profile for Bosnia and Herzegovina*, European Training Foundation, https://www.etf.europa.eu/sites/default/files/2023-11/Statistical%20profile_BiH_EN_edited.pdf (accessed on 24 March 2024). [14]
- Euroguidance Network (2023), *Lifelong Guidance System in Croatia*, <https://euroguidance.eu/guidance-system-in-croatia>. [23]
- European Commission (2024), *Labour Market Policy*, https://webgate.ec.europa.eu/empl/redisstat/databrowser/explore/all/all_themes (accessed on 13 March 2024). [13]

- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [4]
- Eurostat (2024), *Employment and Activity by Sex and Age - Annual Data*, https://ec.europa.eu/eurostat/databrowser/view/lfsi_emp_a_custom_10440557/default/table?lang=en (accessed on 18 March 2024). [1]
- Eurostat (2024), *Total Unemployment Rate*, https://ec.europa.eu/eurostat/databrowser/view/tps00203/default/table?lang=en&category=t_1_about.t_employ.t_lfsi.t_une (accessed on 18 March 2024). [10]
- Eurostat (2023), *Gender Employment Gap Still Persists in 2022*, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20231128-1#:~:text=In%202022%2C%20the%20EU%27s,and%20women%20aged%2020%2D64.> (accessed on 23 March 2024). [7]
- Eurostat (2023), *Individuals' Level of Digital Skills (from 2021 Onwards)*, https://ec.europa.eu/eurostat/databrowser/view/ISOC_SK_DSKL_I21_custom_2397093/bookmark/table?lang=en&bookmarkId=dc481686-c938-4e07-b03c-8e039f532857 (accessed on 13 March 2024). [15]
- Eurostat (2020), *Individuals' Level of Digital Skills (until 2019)*, https://ec.europa.eu/eurostat/databrowser/product/view/isoc_sk_dskl_i?category=degurb.degurb_isoc.du_isoc_sk.du_isoc_sku (accessed on 23 April 2024). [16]
- Hainmueller, J. et al. (2016), "Do lower caseloads improve the performance of public employment services? New evidence from German employment offices", *The Scandinavian Journal of Economics*, Vol. 118/4, pp. 941-974. [21]
- ILO (2023), *EU4Employment in Bosnia and Herzegovina*, https://www.ilo.org/budapest/what-we-do/projects/WCMS_886005/lang--en/index.htm#:~:text=EU4Employment%27s%20specific%20objective%20is%20to,of%20the%20local%20labour%20market. [5]
- Jahić, H. (2022), *Embracing the Digital Age: The Future of the Work in the Western Balkans: Country Report: Bosnia and Herzegovina*, European Training Foundation, https://www.etf.europa.eu/sites/default/files/2022-09/WB%20Embracing%20digital%20age_Country%20report_BiH_EN.pdf (accessed on 22 March 2024). [17]
- Kuddo, A. (2012), *Public Employment Services, and Activation Policies*, World Bank, Washington, D.C., <https://documents1.worldbank.org/curated/en/261871468184139230/pdf/689380NWP00PUB0ction0and0labor01215.pdf> (accessed on 18 March 2024). [22]
- Numanović, A. (2021), *Performance of Western Balkan Economies Regarding the European Pillar of Social Rights. 2021 Review on Bosnia and Herzegovina*, Regional Cooperation Council, Sarajevo, <https://www.esap.online/download/docs/ESAP-Social-Rights-Pillar-Report-BiH.pdf/004b179e517a303b1f198a506fe3c0e9.pdf>. [12]

- OECD (2022), *Labour Migration in the Western Balkans: Mapping Patterns, Addressing Challenges and Reaping Benefits*, OECD Publishing, Paris, <https://www.oecd.org/south-east-europe/programme/Labour-Migration-Western-Balkans-FINAL-WEB.PDF> (accessed on 26 March 2024). [2]
- OECD (2022), *Multi-dimensional Review of the Western Balkans: From Analysis to Action*, OECD Publishing, Paris, https://www.oecd-ilibrary.org/development/multi-dimensional-review-of-the-western-balkans_8824c5db-en (accessed on 13 March 2024). [18]
- OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, Paris, <https://www.oecd.org/employment/jobs-strategy/about/good-jobs-for-all-in-a-changing-world-of-work-9789264308817-en.htm> (accessed on 25 March 2024). [20]
- Qaisrani, A. et al. (2023), *Study of the Diasporas' Contributions to the Socio-Economic Development in the Western Balkans*, International Centre for Migration Policy Development, Vienna, https://www.icmpd.org/file/download/59589/file/ECONDIAS_Comparative-report_FINAL.pdf (accessed on 15 March 2024). [19]
- Vienna Institute for International Economic Studies (2024), *The Jobs Gateway in South Eastern Europe*, <https://data.wiiv.ac.at/seejobsgateway.html> (accessed on 13 March 2024). [6]
- World Bank (2024), *Unemployment, Total (% of Total Labor Force) (Modeled ILO Estimate) - Bosnia and Herzegovina*, <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=BA> (accessed on 2 May 2024). [9]
- World Bank (2024), *Unemployment, Youth total (% of Total Labor Force Ages 15-24) (Modeled ILO Estimate) - Bosnia and Herzegovina, European Union*, <https://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=BA-EU> (accessed on 2 May 2024). [11]
- World Bank (2024), *World Development Indicators, DataBank*, <https://databank.worldbank.org/source/world-development-indicators> (accessed on 6 February 2023). [3]
- World Bank (2017), *Promoting Women's Access to Economic Activities*, <https://documents1.worldbank.org/curated/en/899661521447164653/pdf/124360-PN-P144969-PUBLIC-BiHGenderPolicyNote.pdf> (accessed on 26 March 2024). [8]

Notes

¹ 2019 data can be accessed here: https://bhas.gov.ba/data/Publikacije/Bilteni/2021/NUM_00_2020_TB_1_EN.pdf. 2020 data can be accessed here: https://bhas.gov.ba/data/Publikacije/Bilteni/2021/NUM_00_2021_TB_1_EN.pdf. 2021 data can be accessed here: https://bhas.gov.ba/data/Publikacije/Bilteni/2023/NUM_00_2022_TB_1_EN.pdf.

² In the FBiH, the main regulation on OSH is the Law on Occupational Safety. In RS, the main regulation is the Law on Occupational Health and Safety.

³ This strategy can be accessed here: <https://fzzpr.gov.ba/files/Strategije/Strategija-zaposljavanja-u-FBiH-2023-2030.pdf>.

⁴ This estimate is from the International Labour Organization, accessed here: https://www.ilo.org/budapest/countries-covered/bosnia-herzegovina/WCMS_471903/lang--en/index.htm.

⁵ This work plan can be accessed here: <https://fuzip.gov.ba/wp-content/uploads/2024/01/trogodisnji-plan-2024-2026.pdf>.

⁶ Results of this survey were published in the report, “Women in the Labour Market 2020/21”.

⁷ For additional information, please see: http://www.fmon.gov.ba/Upload/Ostalo/69c42975-90ff-4bd1-85e9-90c0b7221d1c_REZULTATI%20RASPODJELE%20PODRSKA%20ZENAMA07112022.docx.

⁸ These data came directly from FBiH and RS government stakeholders under the framework of the CO 2024 assessment.

⁹ Between 2019 and 2020, the number of unemployment beneficiaries in FBiH increased from 10 238 to 18 512 individuals. In the same period, the number in RS increased from 25 721 to 42 503 individuals.

¹⁰ For additional information, please see: https://fzzpr.gov.ba/files/Strategic%20documents%20of%20FBiH/Development%20Strategy%20of%20the%20FBiH%202021-2027-summary_ENG.pdf.

¹¹ For the European Commission’s guidance on establishing a Youth Guarantee, please see: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:120:0001:0006:EN:PDF>.

¹² <https://www.fzzz.ba/ID:S-71;JSESSIONID=1295250d-22ff-4cff-8940-e84fb170e908?csrt=4843736886757033822>.

¹³ To determine skill level, the International Standard Classification of Education (ISCED) is used. Low-skilled workers fall between ISCED 0 and 2, obtaining a maximum of lower secondary education. Medium-skilled workers constitute those with a level of either ISCED 3 (upper secondary education) or ISCED 4 (post-secondary non-tertiary education). Finally, highly skilled workers must have completed either a short-cycle tertiary education (ISCED 5) or a Bachelor’s degree or above. See: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_Standard_Classification_of_Education_\(ISCED\)#Implementation_of_ISCED_2011_.28levels_of_education.29](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_Standard_Classification_of_Education_(ISCED)#Implementation_of_ISCED_2011_.28levels_of_education.29).

¹⁴ This strategy can be accessed here: <https://fzzpr.gov.ba/files/Strategije/Strategija-zaposljavanja-u-FBiH-2023-2030.pdf>.

¹⁵ For additional information, please see: [https://www.fzzz.ba/ckFinderFiles/files/Programi/2023/Program%20sufinansiranja%20zapo%C5%A1ljavanja%202023\(1\).pdf?csrt=4843736886757033822](https://www.fzzz.ba/ckFinderFiles/files/Programi/2023/Program%20sufinansiranja%20zapo%C5%A1ljavanja%202023(1).pdf?csrt=4843736886757033822).

¹⁶ For additional information, please see:

https://parlamentfbih.gov.ba/v2/userfiles/file/Materijali%20u%20proceduri%202021/Strategija%20razvoja%20FBiH%202021-2027_bos.pdf.

¹⁷ Primarily in the Tuzla canton, Srednjobosanski canton, Zeničko-Dobojski canton, Ugljevik region, and Gacko region.

¹⁸ Please see:

https://parlamentfbih.gov.ba/v2/userfiles/file/Materijali%20u%20proceduri%202021/Strategija%20razvoja%20FBiH%202021-2027_bos.pdf.

¹⁹ The Migration and Asylum Strategy (2021-25) can be accessed here: <http://www.msb.gov.ba/PDF/120120244.pdf>.

²⁰ Representatives of the Coordination Body for Migration Issues in Bosnia and Herzegovina are from the Ministry of Security, the Service for Foreigners, the Border Police, the Ministry of Human Affairs, the Ministry of Human Rights and Refugees, and the State Agency for Investigation and Protection.

²¹ <https://www.pragueprocess.eu/en/countries/540-bosnia-and-herzegovina>.

10 Science, technology and innovation

An effective institutional and policy context for science, technology and innovation (STI) is essential to boost the knowledge economy. This chapter, along three sub-dimensions, analyses the overall STI trends and performance in the region, the development of sustainable and impactful STI policies and processes. The first sub-dimension, STI system, assesses the STI regulatory framework and strategies, including smart specialisation strategies and the institutional framework for STI policy. The second sub-dimension, public research systems, analyses the governance of the public scientific research sector, funding approaches and human resource capacity to foster academic research excellence. The third sub-dimension, knowledge exchange and co-creation, assesses policies that support integration between scientific research and the private sector, which is critical for technology transfer, as well as policies and initiatives to promote European and regional collaboration in STI.

Key findings

Bosnia and Herzegovina has only marginally improved its performance in the area of science, technology and innovation (STI), and continues to lag behind the other Western Balkan economies as the lowest performer in the region (Table 10.1). The guiding strategies that were in place during the previous Competitiveness Outlook report have expired, and the economy's complex STI system remains at an early stage of development. Some improvements have been made in the availability of STI-related statistics that could support the development of a more effective and efficient STI system going forward.

Table 10.1. Bosnia and Herzegovina's scores for science, technology and innovation

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Science, technology and innovation	9.1: STI system			1.3	2.9
	9.2: Public research system			1.9	2.5
	9.3: Knowledge exchange and co-creation			1.0	2.0
Bosnia and Herzegovina's overall score		1.3	1.3	1.4	2.5

The **key findings** are:

- Bosnia and Herzegovina's STI policy framework remains outdated. The state-level Strategy for Scientific Research expired in 2022 and a successor document has not been developed. While the strategic framework for scientific research in RS was renewed in 2023, across FBiH, the regulation of STI activities remains scattered. Progress on the development of an economy-wide Smart Specialisation Strategy (S3) is slow.
- In line with Bosnia and Herzegovina's constitutional setup, STI policy co-ordination remains fragmented, impeding the development of an effective and holistic STI policy framework that draws from economies of scale and effective co-ordination between levels of government. Implementation capacity is limited and there are no dedicated agencies in either of the two entities to implement targeted policy instruments. Plans to establish a Science and Innovation Fund in Republika Srpska are on hold.
- In 2021, Bosnia and Herzegovina participated in the European Innovation Scoreboard for the first time, showcasing sufficient improvements in STI-related data collection. However, the reliability and granularity of this data could still be substantially improved.
- The level of public spending on scientific research remains chronically low, and there is no efficient funding methodology to encourage higher education institutions (HEIs) to engage in research activities. While official data on gross domestic expenditure on research and development (GERD) are not available, overall investment into research and development (R&D) is estimated at around 0.3% of GDP.
- Human resources for STI remain underdeveloped, as the scientific research sector is severely impacted by brain drain and no targeted measures have been implemented at scale to tackle this issue. According to the latest available data from 2021, 447 researchers per million inhabitants are active in Bosnia and Herzegovina, compared to 753 in North Macedonia and 2 230 in Serbia.
- Against the background of the underdeveloped STI system, linkages between academia, the private sector and public bodies remain weak, resulting in low levels of intellectual property (IP) commercialisation. Infrastructure for business-academia collaboration also remains

underdeveloped. Bosnia and Herzegovina adopted a Framework for a Research Infrastructure Roadmap in 2022, but no further progress has been made in this area.

State of play and key developments

While Bosnia and Herzegovina's overall policy framework for science, technology and innovation (STI) remains at an early stage of development, the economy's performance in this area shows some variation across its different entities, with Republika Srpska (RS) being more advanced. In 2021, Bosnia and Herzegovina was included in the European Innovation Scoreboard (EIS) for the first time, highlighting gradual improvements in collecting STI-related statistics to monitor the state of STI progress, but the quality and reliability of data remain somewhat suboptimal (EIS, 2023^[1]).

According to the EIS, Bosnia and Herzegovina is an *emerging* innovator. Ranked in the third-to-last position of the EIS assessed economies, Bosnia and Herzegovina's performance stood at 36.2% of the EU average in 2023 and has been decreasing over the past years (European Commission, 2023^[2]). Investments into research and development (R&D) remain chronically low and weak business-academia linkages, coupled with significant brain drain in the research profession, have resulted in a low level of output, quality and commercialisation of scientific research.

Sub-dimension 9.1: STI system

Bosnia and Herzegovina's overall **STI policy framework** remains fragmented and outdated. Within the economy's constitutional context, the development and implementation of the STI policy framework falls within the competencies of RS, the Brcko District and cantons, with the Federation of Bosnia and Herzegovina (FBiH) and the state-level government mainly providing co-ordinative support. This has resulted in a fragmented approach to STI policy design, and a diverse and sometimes incoherent policy mix.

At the state level, the Strategy for Scientific Research expired in 2022 without an accompanying action plan ever being developed. The establishment of a working group to prepare a new economy-wide strategic framework to provide guidance on scientific research and intra-economy co-ordination is pending. In RS, a new strategic framework for the development of Science and Technology, Higher Education and Information Society (2023-29) was adopted in 2023, while at the same time innovation is also addressed in RS's 2021-27 Strategy for Small and Medium-sized Enterprise (SME) Development. In contrast, there is no strategic STI policy framework in the FBiH in place, and there have been no new developments since the previous Competitiveness Outlook assessment. Only four out of the FBiH's ten cantons regulate research and innovation (R&I) activities at all to support the development of STI activities. While the FBiH 2021-27 Development Strategy identifies an increased digitalisation of the economy and human capital development as key objectives, other priority areas such as the transition to a net-zero economy are not prioritised in any of the relevant strategic documents.

An economy-wide **Smart Specialisation Strategy** (S3) is under development but remains at an early stage. In 2020, a working group was established by the Council of Ministers to oversee the development of the S3 with the support of the European Commission's Joint Research Centre (JRC), but due to limited budgets and capacity, progress has been slow. Both the quantitative and qualitative analyses have been completed and preparations to plan and finance the Entrepreneurial Discovery Process (EDP) are currently under way, with RS having already started the EDP. As part of this process, it will be important to identify an effective governance structure of the S3 that reflects the constitutional arrangement but also considers critical mass and capacity constraints across the different levels of government.

Inherent in Bosnia and Herzegovina's decentralised governance system, the **institutional framework** for STI policy remains highly fragmented across the economy, entities and cantons. At state level, the Ministry of Civil Affairs co-ordinates STI policy and represents the economy in STI-related international fora. In RS, the Ministry of Scientific and Technological Development, Higher Education and Information Society oversees STI policy design, while a Council for Science and Technology advises on implementation of policy measures in support of scientific research. In contrast, in the FBiH, each canton has its own ministry in charge of research and innovation, with the federal ministry co-ordinating STI policy within the entity. This arrangement has led to a set of inconsistent regulations and definitions, limited co-ordination and sometimes competing priorities, which significantly restricts the development of an effective, harmonised and impactful framework for STI policy, and results in very limited implementation capacity.

Neither entity has a dedicated implementation agency responsible for developing STI-related measures and executing the overall STI policy framework. Despite several years of planning, RS has yet to establish an Innovation Fund to provide tailored financial support for innovation activities. However, the entity's draft strategy for scientific research considers its creation as a priority and a law is currently being prepared to provide regulation for the establishment of a dedicated fund by 2026. To fill this gap, the Innovation Centre Banja Luka continues to provide small-scale support for innovation and entrepreneurship more broadly. In the FBiH no such agency exists, but its new development strategy does mention the intention to establish an FBiH Fund for Technology Development, Research and Innovation.

Sub-dimension 8.2: Public research system

Bosnia and Herzegovina's public research system lacks a clear emphasis on fostering **research excellence** and suffers from insufficient funding and brain drain. The legal and institutional framework governing public scientific research, which rests at entity and canton level, mainly focuses on higher education more generally. Compared to the previous Competitiveness Outlook assessment, co-ordination between the state and entity level with regard to skills accreditation has improved. However, to date there is still no harmonised approach to quality assurance and performance management of higher education institutions (HEIs) across Bosnia and Herzegovina, significantly undermining the credibility and transferability of qualifications across education providers and study programmes. Most HEIs and R&D institutes have endorsed the EURAXESS Code of Conduct and seven EURAXESS centres operate across Bosnian universities to advise on intellectual property rights, mobility opportunities and EU framework programmes.

Across the economy, public scientific research remains significantly underfunded. Amid a lack of reliable data on gross domestic expenditure on R&D (GERD), it is estimated that total public investments into research and innovation amount to less than 0.3% of GDP (European Commission, 2023^[3]). Public funding is largely based on institutional funding, without a clear separation between teaching and scientific research, and there is no overall guidance on the strategic focus of the investment provided, which is determined by each HEI individually. Within FBiH in particular, budgets continue to be allocated evenly across all cantons, irrespective of the number of HEIs and students, research priorities and performance.

Both entities operate small-scale grant schemes to support scientific research and technology development. In 2023, FBiH provided EUR 500 000 to co-finance targeted scientific research. In the same year, RS also launched a call for scientific research with a budget totalling EUR 150 000. Both programmes prioritise scientific research in the field of natural sciences, healthcare, and engineering and technology, which is promising and could help navigate the economy's green and digital transition. However, it is currently uncertain how successful these programmes have been in terms of participation and outcomes.

Systemic brain drain is severely impeding the availability of **human resources for research and innovation**, particularly in the field of health, medicine and information and communication technology (ICT), but no comprehensive measures have been introduced to date to address this increasingly challenging dynamic. The number of active researchers in Bosnia and Herzegovina is significantly lower

than regional peers and has steadily declined in recent years. According to the latest available data from 2021, 447 researchers per million inhabitants are active in Bosnia and Herzegovina, compared to 753 in North Macedonia and 2 230 in Serbia (UNECE, 2021^[4]). As an important step towards better drawing from the skills of Bosnia and Herzegovina's diaspora, RS established a register for scientists and innovators¹ in 2023, with 62 researchers from its diaspora currently registered. Across both entities, there is some financial support available to support doctoral studies, publications, participation in international research platforms and short-term study visits; however, these initiatives remain small in scale. Other efforts by RS to foster human resources for research and innovation include activities to raise awareness and promote the attractiveness of scientific research as a profession, such as the annual Festival of Science, the Night of Researchers, and regular open days at HEIs. In the FBiH there are currently no specific measures in place to address the challenges related to the loss of human capital for research and innovation. Further reflecting on the low capacity of human resources for research and innovation, only 23 researchers have participated in the Marie Skłodowska-Curie Actions (Horizon Europe, 2023^[5]).

Bosnia and Herzegovina has strengthened **international and regional co-operation** within the area of STI, which is co-ordinated at the state level. The economy joined the Horizon Europe Programme in 2021. To date, 31 projects have been granted nearly EUR 4.5 million, indicating an improvement in the economy's participation success compared to its performance under Horizon 2020. During the latter's period (2014-20), 147 projects received EUR 8.6 million in EU support (Horizon Europe, 2023^[5]). While there are some small-scale funding opportunities to assist with tender applications under the Horizon Europe programme, limited practical support is available. As a key development, and under the auspices of the EU Cities Mission on climate-neutral and smart cities under Horizon Europe, Sarajevo was selected as one of 100 European cities, of only three in the WB6 region, to receive tailored advice and financial support for developing climate-neutral initiatives (Box 10.1); this further strengthens the economy's integration into EU innovation networks (EEAS, 2022^[6]). Its participation in the programme can also help Sarajevo become a regional pioneer in developing and implementing sustainable urban planning policies to curb global greenhouse gas emissions and slow down climate change.

Box 10.1. Sarajevo's ambition to become a climate-neutral and smart city

In 2021, Sarajevo has been selected to participate in the EU-funded Cities Mission programme, which aims to establish 100 climate-neutral and smart cities by 2030. The programme will bring together local authorities, citizens, businesses and investors as well as regional and national authorities to collaborate on transforming selected cities into climate-neutral, smart and innovative hubs.

Over a period of 10 years, Horizon Europe plans to invest around EUR 360 million in research and innovation activities linked to the programme, notably in the areas of mobility, energy and green urban planning. The EU Cities Mission will also create possibilities to build joint initiatives and collaborate with other EU programmes to strengthen international and regional collaboration among the cities.

Participating cities will also benefit from tailored advice and technical assistance through a dedicated Cities Mission Platform run by NetZeroCities, which provides access to additional financing opportunities and the possibility to join large-scale innovation projects and pilot initiatives. Furthermore, the programme will facilitate networking opportunities, exchange of best practices among cities, and support to engage citizens, research organisations and the private sector in the mission's objectives.

Sources: European Union (2023^[7]); European Commission (2024^[8]).

In 2021, Bosnia and Herzegovina also became a member of the R&D co-operation platform EUREKA, and actively participates in the EU's Centre for Science and Technology (COST) platform. Moreover, the economy's inclusion in the European Innovation Scoreboard (EIS) was an important step to align and move closer to the European Research Area, as it helps the economy to better monitor the impact of STI-related policies and conduct evidenced-based reforms.

Sub-dimension 9.3: Knowledge exchange and co-creation

Incentives for business-academia collaboration remain limited, notably in the FBiH, resulting in a need to strengthen measures that encourage knowledge exchange and technology transfer more systematically. The forthcoming strategy for scientific research of RS recognises business-academia linkages as a priority, while in the FBiH no such collaboration framework is in place.

In RS, grant support provided by the Innovation Centre Banja Luka primarily focuses on supporting innovative private sector companies, without a mandatory requirement to engage R&D institutes. Since the last Competitiveness Outlook however, the entity launched another call under its Synergy Programme with an overall budget of EUR 100 000. This programme focuses specifically on increasing technology transfer and opportunities for co-creation between businesses and academia in RS. However, no information is available regarding the programme's results and impact, and no new activities have been reported since its last call in 2021. The establishment of a Science or Innovation Fund, if and when established, could increase the availability and scope of financial support for scientific research projects and collaboration opportunities during the next assessment phase.

The Swedish-supported Challenge to Change project² continues to provide financial support to innovative businesses in Bosnia and Herzegovina. Operative since 2017, the project entered into a third phase in 2022, providing EUR 3 million over three years to small and medium-sized enterprises (SMEs) to engage in innovative projects and activities, with co-financing of up to EUR 30 000. In previous calls, 160 enterprises had received financing, showcasing the project's successful track record. In the absence of any scalable cross-entity financial support, the Challenge to Change project has played an important role in engaging SMEs in R&I activities and encouraging the development of creative solutions that address sustainable socio-economic development in Bosnia and Herzegovina. As such, the project can serve as an important foundation for introducing more sophisticated financial programmes, such as innovation vouchers and collaborative grant programmes, to enhance incentives for business-academia collaboration in the future.

There are no indirect financial support schemes for business-academia collaboration available in either of Bosnia and Herzegovina's entities. The state-level strategy on intellectual property (IP) for the period 2022-26 has not yet been adopted and is only partially aligned to EU *acquis*, including in the area of patents. It notably lacks specific provisions to support exchange with businesses and the commercialisation of intellectual property, as the division between ownership of intellectual property and the royalty split for publicly funded research is not sufficiently defined, further discouraging technology transfer and commercialisation.

The development of **R&I infrastructure for business-academia collaboration** remains nascent, and no advances have been made since the last Competitiveness Outlook. Although Bosnia and Herzegovina adopted a Framework for Research Infrastructure Roadmap in 2022 with the assistance of the Regional Cooperation Council (RCC), marking an important first step to map existing provisions and identify shortcomings, no concrete actions have been implemented since.

In RS the establishment of a Science and Technology Park (STP) in Banja Luka has not progressed amid a lack of funding, with the design phase currently ongoing. The Innovation Centre Banja Luka continues to play an important role in supporting innovation more broadly and operates a technology transfer office, although its uptake is unclear. In the FBiH there are several STPs in place; however, there is no evidence

that these facilities offer opportunities to strengthen linkages with academia and in reality, they often primarily serve as incubation centres.

Lastly, Bosnia and Herzegovina's approach to **open science** remains largely conceptual, although there is a growing awareness regarding the importance of making scientific research and knowledge accessible to everyone. In RS, open access to science is embedded in the legal framework governing science and technology, and is featured in the entity's forthcoming strategy on scientific research. In addition, the University of Banja Luka, since 2020, is a member of the European Open Science Cloud (EOSC) and under the auspices of the National Initiative for Open Science in Europe (NI4OS) project a local science portal has been launched, consolidating access to open science journals. Bosnia and Herzegovina also participated in 2020 in the RCC Open Access Research Infrastructure in the Western Balkans Support Programme, and subsequently, six HEIs and R&D institutes adopted open access policies. However, there is limited evidence of actual implementation of open science practices to date.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has made limited progress in addressing the Recommendations of Competitiveness Outlook 2021 (Table 10.2). The STI system at all levels of government remains inefficient, with low overall investment into R&D activities contributing to existing capacity constraints in the public research system and brain drain. There have also been no major reforms undertaken to strengthen the institutional infrastructure for business-academia collaboration. The economy's inclusion in the European Innovation Scoreboard (EIS) in 2021, together with the planned Smart Specialisation Strategy and the new strategy for scientific research in RS, once adopted, may provide a more targeted approach to strengthen science, technology and innovation capacity in the medium term.

Table 10.2. Bosnia and Herzegovina's progress on past recommendations for science, technology and innovation

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Align strategic priorities and co-ordinate implementation.	RS has adopted a new Science strategy, but overall the STI framework remains limited, while efforts to develop a Smart Specialisation Strategy at state level are progressing slowly.	Limited
Increase investment in the public sector research system	Overall investments into R&D remain below 0.3% of GDP and the public research system is chronically underfunded, resulting in limited human resource capacity for scientific research.	Limited
Integrate the private sector	The framework for co-creation and knowledge exchange between businesses and academia remains underdeveloped. There are few incentives available to stimulate technology transfer between the private and research sectors, and the R&I infrastructure remains at an early stage of development.	Limited
Strengthen the enforcement of IP legislation	Enforcement remains low, with the state-level IP enforcement strategy (2022-26) still not implemented. There are no activities to raise awareness of the importance and benefits of IP protection.	Limited
Improve the collection of statistical data on science, technology and innovation	In 2021, Bosnia and Herzegovina participated in the European Innovation Scoreboard for the first time. However, the overall granularity and reliability of STI data remain suboptimal.	Moderate

The way forward for science, technology and innovation

Given the slow pace of STI reforms in Bosnia and Herzegovina, the economy should step up efforts to strengthen the local STI system, in line with respective competencies, at all levels of government, and strive towards a more harmonised approach. During the next cycle of the Competitiveness Outlook, it will be important to establish the necessary conditions for a well-funded and equipped scientific research system that can attract and nourish private sector partnerships. Going forward, Bosnia and Herzegovina should focus on the following:

- **Prioritise the timely development of the Smart Specialisation Strategy (S3)** to provide a cross-entity strategic framework for science, technology and innovation and enable a co-ordinated approach to support the key priority areas identified in the S3 process. Following the strategy's adoption, Bosnia and Herzegovina should involve all STI actors across various government levels to strengthen commitment to the common goals of the S3 and enable adequate and well-funded implementation and co-ordination capacity across entities and cantons. This will be critical to ensure that policy measures are aligned and effective. Where relevant, existing strategic documents should be adjusted to complement and support the objectives of the S3.
- **Increase funding availability for public scientific research**, including to support Bosnia and Herzegovina's green and digital transition via innovation. To underline the commitment to and credibility of the research system, investments into public R&D institutions need to increase significantly. Implementing a merit-based institutional funding scheme, linked to clear and transparent performance indicators, would offer incentives to the public research sector to prioritise those strategic research fields, including digital and emerging technologies, with greater commercialisation potential. At the same time, performance-based funding would increase the quality and outcomes of public research while maintaining a prudent use of public finances.
- **Introduce targeted measures to counteract brain drain in scientific research.** While a well-funded public research sector remains a prerequisite to attract new professionals to the field, concrete and scalable measures can increase the attractiveness and perceived value of scientific research more generally, especially in under-resourced areas of research. By separating budgets for teaching and research in higher education institutions (HEIs), greater focus on research activities as a distinctive area separate from teaching can be achieved. Similarly, providing scalable financing instruments for doctoral and post-doctoral research can provide improved financial incentives and economic prospects for researchers. Soft measures, such as offering training, providing information on career opportunities, and raising awareness about the benefits of science can further enhance the sector's attractiveness. In this regard, RS's new digital register for researchers marks an essential first step to tackle brain drain, and can become an important tool to monitor human resources in the industry and create linkages with the diaspora.
- **Create the foundation for business-academia collaboration and co-creation.** The policy framework for collaboration between the private and scientific research sector is lacking, with weak institutional infrastructure and incentive schemes in place. Close engagement and consultation among all levels of government, the private sector and research institutions – in line with the “triple helix” approach – will be essential to build strong foundations for business-academia collaboration. The engagement of business and academia representatives will also be important when finalising the Smart Specialisation Strategy and in designing concrete implementation measures to ensure that the policy mix is relevant and supported by all stakeholders to maximise the impact and effectiveness of public resources.

- **Continue improving the availability of statistical data related to science, technology and innovation.** Bosnia and Herzegovina's inclusion into the European Innovation Scoreboard (EIS) is an important mechanism to monitor and evaluate the economy's progress on STI performance, and will help the economy to be more agile in responding to emerging policy needs. However, efforts need to be strengthened to collect information on key data, including notably on gross domestic R&D expenditure (GERD).

References

- EEAS (2022), *Sarajevo Part of Mission "100 Net Zero Emission Cities": Launch of Coalition for Greener Projects*, https://www.eeas.europa.eu/delegations/bosnia-and-herzegovina/sarajevo-part-mission-%E2%80%9C100-net-zero-emission-cities%E2%80%9D-launch-coalition-greener-projects_en?s=219. [6]
- EIS (2023), *European Innovation Scoreboard 2023 - Country Profile Bosnia and Herzegovina*, https://ec.europa.eu/assets/rtd/eis/2023/ec_rtd_eis-country-profile-ba.pdf. [1]
- European Commission (2024), *EU Climate Neutral and Smart Cities*, https://research-and-innovation.ec.europa.eu/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-europe/eu-missions-horizon-europe/climate-neutral-and-smart-cities_en (accessed on 13 June 2024). [8]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [3]
- European Commission (2023), *European Innovation Scoreboard*, <http://op.europa.eu/en/web/eu-law-and-publications/publication-detail/-/publication/04797497-25de-11ee-a2d3-01aa75ed71a1>. [2]
- European Union (2023), *Net Zero Cities*, <https://netzerocities.eu/> (accessed on 13 June 2024). [7]
- Horizon Europe (2023), *Horizon Europe Dashboard - R&I Country Profile*, https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/1213b8cd-3ebe-4730-b0f5-fa4e326df2e2/sheet/0c8af38b-b73c-4da2-ba41-73ea34ab7ac4/state/analysis/select/Programme/H2020/select/Country%20Code/BA. [5]
- UNECE (2021), *Researchers (in Full-Time Equivalent), per 1,000,000 Population*, United Nations Economic Commission for Europe, <https://w3.unece.org/SDG/en/Indicator?id=124> (accessed on 1 March 2024). [4]

Note

¹ The RS register for scientists and innovators can be accessed here: www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mnk/Konkursi/Ostali_Konkursi/Pages/default.aspx.

² The Swedish International Development Cooperation Agency (Sida) provides financial support to businesses with innovative ideas that create employment, increase competitiveness and promote sustainable socio-economic development in Bosnia and Herzegovina (<https://c2c.ba/en/project/information/1>).

11 Digital society

Digital transformation, driving efficiency and productivity through the adoption of digital technologies and data utilisation, holds promise for fostering economic activity and competitiveness. This chapter, across four sub-dimensions, assesses the scope and quality of the policy framework and strategies and the implementation and adoption by Albania. The first sub-dimension, access, explores government policies and initiatives to enable network infrastructure investment and broadband services take-up and increase data accessibility. The second, use, delves into the government's plan to implement programmes to develop a user-centric digital government and help businesses achieve a digital transformation. The third, society, assesses whether governments have planned and implemented programmes to reduce the digital divide and create an inclusive society through green digital technologies. The fourth, trust, examines the economies' frameworks and how they are being implemented to protect data and privacy, build trust in e-commerce and ensure cybersecurity through effective digital risk management systems.

Key findings

Bosnia and Herzegovina's performance in the digital society policy dimension stagnated since the last assessment.¹ Bosnia and Herzegovina slightly enhanced its performance in electronic communications regulations, digital government and digital business. However, the assessment indicates that the economy did not advance in terms of all digital inclusion indicators. Its overall performance lies below the average Western Balkan regional performance for digital society policy (Table 11.1).

Table 11.1. Bosnia and Herzegovina's scores for digital society

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Digital society	10.1: Access			2.0	2.9
	10.2: Use			1.7	2.3
	10.3: Society			1.3	1.7
	10.4: Trust			1.7	2.7
Bosnia and Herzegovina's overall score		1.6	1.7	1.7	2.5

Note: The CO 2021 assessment included one additional sub-dimension entitled "Jobs" that received a 1.7 score.

The **key findings** are:

- Bosnia and Herzegovina faces challenges in rural broadband development and investment in high-speed communication infrastructure. The outdated electronic communications framework and the absence of regulations reducing costs and streamlining administrative processes for network construction hinder private sector investments. Being the last Western Balkan economy to allocate spectrum for 4G networks in 2019, Bosnia and Herzegovina has delayed the implementation of 5G technologies.
- Despite recognising the importance of data transparency and openness, Bosnia and Herzegovina lacks a comprehensive legal framework on data accessibility and reuse. The absence of a government open data portal and proactive data publication mandates for public institutions, along with insufficient data governance regulations, inhibits data-driven innovation.
- Digital government development in Bosnia and Herzegovina is uneven and hindered by interoperability issues. Fragmented digitalisation efforts across state and entity-level governments result in systems that impede data exchange among public institutions, slow down digitalisation of public registers, and limit the widespread use of digital identity systems. Isolated e-services exist at the BiH state and FBiH entity level, while RS operates its own e-services portal.
- Bosnia and Herzegovina's legal framework on privacy and personal data protection requires alignment with the EU framework. The Agency for Personal Data Protection faces resource constraints, limiting its ability to conduct educational activities on digital privacy and personal data protection for both the public and private sectors.
- Bosnia and Herzegovina lacks a robust cybersecurity framework and capacities to address cybercrime effectively across all government levels. Cybersecurity legislation exists only at the RS entity level and is not aligned with the EU cybersecurity framework. Progress remains limited in establishing a national focal point for cybersecurity co-operation and a network of government and private sector Computer Emergency Response Teams (CERTs), impacting the cyber resilience of critical information infrastructure across the territory of BiH.

State of play and key developments

Bosnia and Herzegovina's information and communication technology (ICT) sector has shown consistent growth over the past three years. The gross value added by the ICT sector as a percentage of national GDP increased from 4.41% in 2021 to 4.56% in 2022 (BHAS, 2022^[1]). According to the Development Strategy 2021-27 of the Federation of Bosnia and Herzegovina (FBiH), the information technology (IT) sector in the FBiH generates nearly six times higher profit (560%) than the economy average, while using only half the resources (with business asset per employee amounting to 49% of the economy average) (FZZPR, 2021^[2]). However, the industry's growth is hindered by a lack of talent, as mismatches between ICT graduate skills and industry needs persist alongside ongoing brain drain, with no systematic measures introduced thus far to effectively address these issues.

In 2023, the share of households with Internet access increased to 81.6% from 75.9% in 2022 (BHAS, 2023^[3]). This growth indicates that while Internet penetration is still trailing the EU average of 93.09%,² the gap is narrowing rapidly. However, despite increased Internet adoption and advancements in public administration digitalisation, Bosnia and Herzegovina still lags behind in its digital transition. Within the country's complex institutional landscape, the establishment of a robust legislative framework for digital society development remains pending, despite commitments for alignment with the EU *acquis*. Moreover, even in areas where legal frameworks have improved, such as digital government and digital business, implementation often falls short, failing to achieve the main objectives of the reforms.

Sub-dimension 10.1: Access

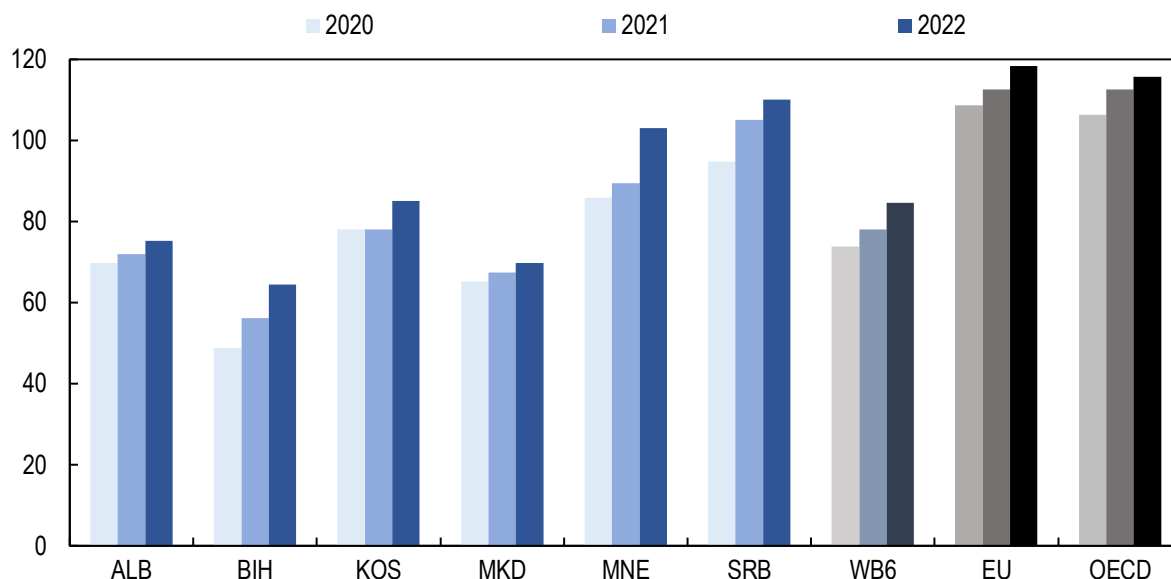
Broadband infrastructure development in Bosnia and Herzegovina has seen significant growth in the past three years, primarily driven by investments from telecommunication operators, with a general vision provided by the Electronic Communications Sector Policy 2017-21, which has yet to be updated. The Policy's goals included the development of high-speed connectivity and rural broadband infrastructure to ensure access for the entire population. Fixed broadband subscriptions have increased from 24.4% in 2021 to 27.1% in 2022 (CRA, 2023^[4]), marking the third-highest penetration rate in the Western Balkan region, following Montenegro (31.3%) and Serbia (29.3%),³ but are still behind the EU average of 34.90%. Moreover, fibre subscriptions accounted for 8.27% of total subscriptions in 2022 and rose to 12% in 2023 (BHAS, 2023^[5]), which is slightly below the OECD average of 13.16%.⁴ On the other hand, the delayed development of 4G networks, launched in April 2019, has negatively affected the share of mobile broadband subscriptions, which amounted to 64.44% in 2022 (CRA, 2023^[4]), the lowest in the WB6 region and significantly below the EU (118.30%) and OECD (115.62%) averages (Figure 11.1). Nevertheless, there has been a strong positive trend, with mobile broadband penetration increasing by 14.6% since 2021 and 29.41% since 2020 (BHAS, 2023^[6]).

The absence of an actionable nationwide broadband development plan has left broadband development largely driven by commercial interests, resulting in underdeveloped rural network infrastructure in areas with insufficient demand to justify investment costs. Additionally, an outdated legal framework, along with a lack of measures at different levels of the government aimed at the reduction of administrative burdens and costs associated with construction permits, further discourages network investments. The BiH Ministry of Communications and Transport (MCT) has prepared a draft Broadband Development Framework Strategy in Bosnia and Herzegovina for the period 2023-27 with an Action Plan, which was discussed with competent ministries at the entity level. Although the strategy was published for public consultations in July 2023, it remains a draft document with no budgetary provisions and an uncertain adoption time frame. The strategy sets targets for improved high-speed fixed and ultra-fast broadband access for households, along with 4G/LTE coverage for the entire territory and 5G coverage for the majority of the population and main travel routes within Bosnia and Herzegovina. However, it does not outline gigabit connectivity targets for key socio-economic drivers, such as schools, universities, public buildings or hospitals. Furthermore, the strategy does not outline specific measures for increasing the resilience of broadband infrastructure.

Nevertheless, it plans to release the 5G spectrum by October 2025 and implement broadband infrastructure mapping. Challenges remain in comprehensive broadband resource mapping, including the voluntary nature of information sharing from local administrations responsible for issuing construction permits and verifying works.

Figure 11.1. Mobile broadband penetration in the WB6 economies, the EU and the OECD (2020-22)

Number of subscriptions per 100 inhabitants



Sources: Data for BiH collected from CRA (CRA, 2022^[7]); data for KOS collected from ARKEP (ARKEP, 2023^[8]); ITU DataHub (2023^[9]); OECD (2023^[10]).

StatLink  <https://stat.link/u18oks>

The **communications regulatory framework** in Bosnia and Herzegovina, established in 2003, is outdated and has seen limited progress in adapting to the rapid evolution of electronic communications and associated challenges over the past three years. A draft new Law on Electronic Communications, aimed at aligning with the European Electronic Communications Code (EECC), is in its early stages of preparation with an uncertain timeline for adoption. Significant reforms within the electronic communications regulatory framework will be required, including the development of accompanying regulations for the new law, and the harmonisation of legacy legislation related to administrative procedures for construction works at the local government level. These reforms extend beyond the jurisdiction of the Communications Regulatory Agency of BiH (CRA) and state-level institutions, necessitating collaboration with entity-level governments and local administrations. Given the complexity of the government structure and jurisdictional issues in Bosnia and Herzegovina, adopting legislation to mitigate administrative costs and streamline the issuance of permits for telecommunications network infrastructure construction is particularly challenging. This also explains the framework's misalignment with the EU Broadband Cost Reduction Directive.⁵ Similar challenges delayed the launch of 4G services until 2019, making Bosnia and Herzegovina the last economy in the Western Balkan region to allocate 4G spectrum licences. Currently assigned spectrum includes radio frequency (RF) band frequencies enabling operators to deploy 5G technologies; however, while operators have announced their intention to prepare rollout plans, this rollout is still pending.

Relevant 5G regulations from the CRA are also pending, including guidelines for electromagnetic field (EMF) limit levels (ITU, 2023^[11]). The CRA continues to regulate the existing telecommunications market through annual and mid-term regulatory policy work plans, monitoring market development, collecting data and publishing relevant reports. Additionally, it is implementing a technical assistance programme with support from the International Telecommunication Union (ITU) for the establishment and management of a national broadband mapping system (ITU, 2023^[11]). However, the CRA's political and financial independence is yet to be ensured, with the members of its Council operating without a renewed mandate since 2018. Furthermore, as of early 2024, the CRA has not yet published its annual report of activities for 2022 on its official website, unlike previous years. The application of Regulatory Impact Assessments also remains inconsistent (SIGMA, 2022^[12]).

Bosnia and Herzegovina is in the nascent stages of **data accessibility** and openness, with policy implementation showing little progress over the past three years. As of early 2024, the economy lacks an open data portal at any level of the government, and only a limited amount of public sector data is sporadically published on the websites of individual institutions. In 2023, the EU Open Data Maturity report ranked Bosnia and Herzegovina last among 35 monitored countries, with particularly low scores in open data governance, data quality and open data portal development. Most concerning was the significant decrease in BiH's score compared to the 2022 report (Page M., 2023^[13]). Despite the adoption of the Strategic Framework for Public Administration Reform in BiH 2018-22 and its Action Plan by all levels of the government of Bosnia and Herzegovina in December 2020 – aimed at fostering transparency and accountability, access to public sector data, and government openness – implementation has faltered due to the lack of political will.

The BiH Open Government Partnership (OGP) Action Plans also include commitments to data openness. The 2022-24 Action Plan outlines the development of an open data portal, building on activities from the previous Action Plan. However, these commitments only target state-level institutions, as entity-level governments operate autonomously in this regard. Unfortunately, the political crisis in 2022 further hindered progress, affecting adoption of the 2022-24 Action Plan (OGP, 2023^[14]). Similarly, the government of the Republika Srpska (RS) entity has included proactive data publishing in its e-Government strategy, but the lack of budget allocation for specific activities leaves those initiatives promoting data openness heavily reliant on external donors. The General Secretariat of the FBiH Government, on the other hand, started to prepare a draft document on an open government initiative that included the establishment of an entity-level open data portal, which is still pending. Moreover, the legal framework for data accessibility is not aligned with EU legislation, including the Open Data Directive⁶ and the Data Governance Act.⁷ Proactive transparency is not mandated by law, and there are no regulations outlining specific obligations for public sector institutions to publish their data in open, machine-readable formats with suitable licences to promote data reuse for new applications. Additionally, Bosnia and Herzegovina lacks uniform legislation on data governance applicable to all public sector institutions.

Sub-dimension 10.2: Use

Bosnia and Herzegovina has made limited progress in **digital government** development since 2021. Despite the adoption of the Strategic Framework for Public Administration Reform (PAR) in BiH 2018-22 and its Action Plan, the development of seamless e-government services for citizens and businesses across the entire territory has stagnated. Although the Interoperability Framework of BiH was adopted in 2018, alignment with the EU Interoperability Framework and the establishment of a national interoperability platform for nationwide data exchange among public sector institutions are still pending. The absence of this platform presents significant challenges for the implementation of the envisaged “once only” principle in digital service delivery. Moreover, full alignment with EU electronic Identification, Authentication and Trust Services (eIDAS)⁸ Regulation on e-identification and trust services has yet to be achieved, as Bosnia and Herzegovina has not established a single supervisory body for the entire territory (EC, 2023^[15]). Since April 2022, the Agency for Identification Documents, Registers and Data Exchange of BiH (IDDEEA) has

been qualified to issue eIDAS-compliant (Electronic Identification, Authentication and Trust Services) electronic signatures for legal transactions in BiH state-level institutions and abroad (GIZ, 2024_[16]).⁹ On the other hand, the RS Government has also established a service in the line ministry¹⁰ (MNRVOID) for issuing qualified electronic certificates (e-signatures) based on smart cards. However, the application and use of e-signatures and e-documents in Bosnia and Herzegovina remain very limited due to legacy legislation and lack of legal harmonisation across different levels of administration. The absence of a functional nationwide digital identity scheme hampers the development of high-quality, fully transactional e-services and limits the efficiency of government functions. It also impedes the development of cross-border digital services in collaboration with neighbouring economies and EU Member States.

Bosnia and Herzegovina lacks a national e-government services portal, and service digitalisation is slow and uneven among state and entity-level institutions. Although some progress has been made in customs and tax services, challenges still need to be addressed due to the low integration of digital technologies in the public sector and insufficient digital skills among public servants to manage digital transformation and e-service delivery (SIGMA, 2022_[12]). Despite the appointment of PAR Co-ordinators in 2021, the implementation of the PAR has encountered significant challenges, with only 14% of outlined activities implemented since its adoption in December 2020 (EC, 2023_[15]). Most public registers are not digitalised, and public sector information systems are underdeveloped. Additionally, digital government infrastructure, such as an e-payments system, a national Data Centre or a national government cloud infrastructure, has yet to be established. Some scattered e-services of an informative nature are offered by BiH institutions, and the Council of Ministers of BiH publishes a catalogue of these services. Notable progress has been made in the development of the public e-Procurement portal.¹¹

At the entity level, RS is implementing its own e-Government Development Strategy 2019-22 through annual activity plans with numerous ongoing projects, some of which are co-financed by the international donor community. The eSrpska, the entity's e-government portal, provides only informative services, with "e-baby" being the first service of its kind developed according to the life-event approach. Additionally, the RS Government established the Academy for Digital Transformation to strengthen the capacities of public sector officials and civil servants engaged in digital transformation projects. On the other hand, the government of FBiH has adopted a decision on the implementation of the interoperability framework and a Development Strategy of FBiH for 2021-27, outlining measures for government digitalisation, including the establishment of an e-government portal. However, interoperability and the use of electronic documents are significantly hindered by legacy legislation at the different administrative levels of FBiH, which urgently requires harmonisation with digital government legislation.

Bosnia and Herzegovina's progress in **digital business** development across different levels of administration is uneven. In general, SMEs are not aware of the benefits that digitalisation could bring, and face challenges with funding investment in digitalisation (ITU, 2023_[11]). At the state level, despite the vision outlined in the Policy of the Information Society Development 2017-21 aiming to establish a digital single market, actionable measures have not been outlined. The economy has not adopted a nationwide programme to support e-business and e-commerce or provide financial support for digitalisation. Despite limited institutional support, companies' engagement in online sales,¹² propelled by the COVID-19 pandemic, has grown from 23.5% in 2021 (BHAS, 2022_[17]) to 27.0% in 2022 (BHAS, 2023_[18]), positioning Bosnia and Herzegovina as a high performer among Western Balkan economies. In 2022, 88.5% of enterprises connected to the Internet with speeds of at least 30 Mbps (megabits per second), and 32.3% with speeds above 100 Mbps (BHAS, 2022_[19]). Notably, in 2023, 20.7% of enterprises utilised cloud services, while only 6.6% engaged in big data analysis, and 5.4% utilised AI technology (BHAS, 2023_[18]). Furthermore, according to the Statistical Agency of BiH, the share of enterprises employing ICT experts rose from 13.4% in 2021 to 17.6% in 2022 (BHAS, 2023_[18]). Additionally, more than half of all enterprises provided IT expert training to their employees, indicating a significant disparity between workforce skills and labour market needs. Electronic business registration is currently only possible in RS and the Brčko District; it lacks interoperability with registers beyond their territorial jurisdiction. This lack hampers service

delivery and negatively impacts businesses operating across the territory of Bosnia and Herzegovina. The digitalisation of businesses and workforce capacity building relies heavily on international donor financing,¹³ EU-funded projects, and initiatives from Chambers of Commerce and business associations. One such association is the BIT Alliance, which supports the development of the IT industry. Digital Innovation Hubs are slowly emerging in BiH with donor support¹⁴ to facilitate the digital transformation of businesses, and could benefit from successful examples in the region (Box 11.1).

The RS Government has made efforts to support business digitalisation through programmes co-financing SME adoption of Information and Communication Technologies (ICTs) since 2021. However, the allocated funds for these programmes are relatively modest, resulting in fewer SME beneficiaries. Additionally, the RS Government has adopted legislation incentivising direct investments in new technologies and the ICT sector, recognising it as an industry of special importance. Further support to SMEs is provided by the RS Chamber of Commerce and Industry through workshops, donor-funded projects and educational activities, including the Digitalisation Centre for consulting services. However, no assessments are conducted to review the extent to which these initiatives have achieved any measurable impact. In terms of supporting SMEs' innovation activities and start-ups in RS, support is provided by the Innovation Centre Banja Luka (ICBL) and its IDEMO ["Let's Go"] Digital Innovation Hub. In the FBiH, programmes financing SME digitalisation have yet to be planned by the entity's government. The ICT sector benefits from the activities of the INTERA (Foundation for Innovation and Technology Development) Technology Park in Mostar and the BIT Centar in Tuzla, an ICT start-up incubator and ICT training centre that helps SMEs to grow and innovate.

Box 11.1. The BioSense Institute in Serbia and digital transformation of agriculture

The **BioSense Institute** (Institute for Research and Development of Information Technology in Biosystems) is a leading Serbian Digital Innovation Hub (DIH). Founded in 2015, it is a pioneer in the digital transformation of agriculture in Serbia. BioSense acts as a one-stop-shop, providing competitive services and introducing digital innovations while connecting research, entrepreneurship, science and market-ready solutions. Material science, micro and nano electronics, sensor design, remote sensing, the Internet of Things, artificial intelligence, biosystem research, cellular agriculture and bioarchaeology are just some of the scientific fields BioSense integrates to make agriculture more efficient. It utilises science as a backbone for economic growth, social well-being, and employment. Thanks to this transdisciplinary approach the Institute is recognised by the international scientific community, with participation in 30 national and around 50 international projects, most of which are funded by the EU Horizon 2020 Programme.

The Institute includes the **BioSense Accelerator**, an intensive 3-month programme that targets early-stage AgTech start-ups and acts as a bridge between science and business. The accelerator is the only one in the country that provides support to domestic and regional IT entrepreneurs focused on creating innovative and groundbreaking digital solutions for agriculture.

Source: BioSense Institute (2023_[20]).

Bosnia and Herzegovina has yet to establish a framework governing the use of **emerging digital technologies**, including artificial intelligence (AI), blockchain, the Internet of Things and possibly other technologies. However, entity-level governments have begun to integrate the utilisation of AI and other emerging digital technologies into their policy documents. The FBiH Government has adopted the Development Strategy 2021-27, which identifies AI technology as a tool for the digitalisation of the economy. The Strategy outlines a development for AI, identifying the areas with the strongest potential for its innovative application, including public administration, while considering its effect on social and societal

issues. The strategy also foresees the establishment of an institute promoting the development of AI and creating a relevant ecosystem in FBiH. Additionally, the RS Government has included some preliminary considerations in its draft Science & Technology, Higher Education and Information Society Development Strategy 2023-29 under preparation, encouraging the use of technologies like AI, big data and cloud technologies for business digitalisation, and also highlighting the need to monitor the degree of their application by companies in all sectors.

Sub-dimension 10.3: Society

Bosnia and Herzegovina has yet to prioritise measures aimed at ensuring **digital inclusion** for the vulnerable. Despite the Policy for Information Society Development 2017-21 emphasising the importance of developing digital skills, tangible action to improve digital literacy and access to digital technologies have been lacking at all levels of government. Instead, there has been a heavy reliance on donor initiatives. Furthermore, the BiH Government has not updated its non-obligatory guidelines for the websites of BiH state institutions since 2009 to ensure compliance with the relevant EU Directive¹⁵ and international standards on web content accessibility. Regulations for website accessibility are also lacking at the entity level. Nevertheless, BiH state government websites comply well with Web Content Accessibility Guidelines (WCAG) 2.0 standard (SIGMA, 2022^[12]). Similarly, the integration of accessibility requirements for ICT products and services into public procurement processes has yet to be realised.

Information society challenges for Bosnia and Herzegovina include inequalities in online engagement and ICT utilisation due to age, gender, location and ethnicity. This marginalises people with disabilities, senior citizens, Roma populations, people in rural areas, and women. In 2023, only 30.08% of individuals in BiH reported having basic digital skills or higher, which is significantly lower than the EU average of 55.56%,¹⁶ though it ranks third-highest in the WB6 region after Montenegro (52.02%)¹⁷ and Serbia (33.61%).¹⁸ However, within the age group 55-74, only 6.91% of men and 3.91% of women have basic digital skills or higher, highlighting significant age and gender disparities. Although Internet usage was gender-balanced in 2022 (80.8% men and 77% women), it decreases significantly with age, with only 31.9% men and 33.2% women aged 65-74 using the Internet (BHAS, 2022^[19]).

Moreover, despite a decrease in individuals who never used the Internet – a drop from 20.3% in 2021 to 14.28% in 2023 – this figure remains higher than in most WB6 economies and the EU average of 5.97%¹⁹ (BHAS, 2021^[21]). It is also alarming that 30.24% of schools²⁰ in BiH territory lack Internet connection, affecting nearly 14 000 children (UNICEF, 2023^[22]). Additionally, women represent only 23% of those employed in the IT sector, despite rapid IT industry growth and increasing digitalisation trends. In response to these challenges, civil society and the private sector in Bosnia and Herzegovina are leading initiatives to mitigate the risk of digital exclusion for vulnerable groups. Four UN agencies (United Nations Development Programme [UNDP], the United Nations Children's Fund [UNICEF], UN Women, and the United Nations Population Fund [UNFPA]) launched the IT Girls initiative in BiH, aimed at bridging the digital gender gap and promoting equal opportunities in the marketplace, workplace, and community through high-quality digital skills training. By the end of 2023, IT Girls had partnered with seven Ministries of Education across both entities and the Department of Education of Brčko District, reaching 22 primary and 28 secondary schools and empowering more than 2 000 girls and young women. Additionally, Bit Alliance, an IT industry association, has organised CoderDojo free programming schools at 16 locations in 11 cities, training over 700 elementary and high school students.

Bosnia and Herzegovina has yet to adopt specific policies to foster the development of **green digital technologies**. Initiatives to promote a green digital sector and draw from its advantages for the green transition are still in their nascent stages. However, it is noteworthy that the Agency of Statistics of BiH has begun collecting and publishing data on the environmentally friendly use of ICTs by both companies and individuals, in line with the European Green Deal policies. According to this data, there is some level of awareness among enterprises regarding the environmental impact of ICTs, and efforts have been made to address it. In 2022, 61.5% of enterprises applied measures to reduce the environmental impact stemming from the energy consumption of ICTs (BHAS, 2022_[19]). Additionally, 42.8% of enterprises take into consideration the environmental impact of ICT services and equipment when making purchasing decisions. Furthermore, 40.3% of enterprises recycle ICT equipment no longer in use, while 51.6% store them in the enterprise (e.g. for spare parts) and 19.8% donate them. However, when it comes to individuals, the data on recycling habits for unused ICT equipment paint a less encouraging picture, indicating a lack of public awareness regarding the environmental impact. In 2022, 19.3% of individuals disposed of their old laptops or tablets without recycling them, significantly surpassing the EU average of 1.44%²¹ (BHAS, 2022_[19]). Similarly, 12.9% discarded their old smartphones without recycling, again exceeding the EU average of 2.13%.²²

Despite these challenges, Bosnia and Herzegovina has made strides in establishing a framework for the management of Waste of Electrical and Electronic Equipment (WEEE), or e-waste. In the FBiH, targeted regulations were adopted in 2022, setting forth fees for end-of-life products categorised as e-waste. Furthermore, secondary legislation on e-waste management based on the Extended Producer Responsibility (EPR) principle was enacted in March 2023. Under these regulations, manufacturers, distributors and importers of such products are required to report to the Federal Ministry of Environment and Tourism of BiH and the FBiH Environmental Protection Fund regarding the quantity, mass and type of equipment placed on the market. Similarly, the RS Government introduced special waste streams, including e-waste, in its Law on waste management since 2020. However, accompanying regulations governing e-waste management and relevant EPR measures are not yet in place in RS. Oversight of waste management and enforcement activities is conducted by environmental inspectors at both the state and entity levels.

Sub-dimension 10.4: Trust

Privacy and personal data protection in Bosnia and Herzegovina have shown little progress over the past three years. Despite assumed obligations towards EU accession, there is limited advancement in aligning the legal framework with the EU *acquis*, such as the EU General Data Protection Regulation (GDPR)²³ and EU Police Directive²⁴ (EC, 2023_[15]). Although the Council of Europe (CoE) Convention 108+ (ETS 223/2018) on personal data protection was ratified in July 2022, necessary regulations to harmonise domestic legislation have yet to be adopted. Moreover, the existing Law on personal data protection fails to adequately address digital privacy concerns and requires significant harmonisation to strike a better balance between privacy protection and the broader public interest. This framework has been utilised by institutions to deny citizens access to information and documents and hampers automated data exchange between public institutions for efficient public service delivery, contradicting the “once only” principle (AZLP.BA, 2023_[23]). The Agency for Personal Data Protection (AZLP) operates on inadequate human, financial and technical resources, lacking initiatives to strengthen its independence (EC, 2023_[15]). Despite a growing number of complaints, the Agency has only 11 staff members assigned to supervise the Law on personal data protection. In 2022, a total of 75 direct inspections were conducted in both the public and private sectors, with many complaints left unprocessed or referred to the justice system (AZLP.BA, 2023_[23]). The majority of complaints in 2022 were related to personal data processing through video surveillance cameras, indicating a significant gap in citizens' protection. Furthermore, the Agency's capacity-building and public awareness efforts are severely limited, evident from the organisation's one training session held in 2022. Its jurisdiction for supervision and

inspection is restricted to institutions of the BiH state. While the BiH Parliament must consult the Agency on legal proposals, other assemblies at the various administrative levels of Bosnia and Herzegovina are not mandated to seek the Agency's opinion on legislative proposals regarding personal data processing. Although data controllers and processors, particularly in public authorities, are not required to appoint a personal data protection officer (DPO), the Agency has appointed its own DPO and established a register of data protection officers for Bosnia and Herzegovina. In its annual reports, the Agency consistently stresses the need for legal harmonisation with EU legislation to enhance privacy and personal data protection standards in Bosnia and Herzegovina.

Bosnia and Herzegovina is in the early stages of developing **consumer protection in e-commerce**. Currently, there is no policy or programme specifically addressing consumer protection of online consumers. The existing BiH Consumer Protection Act is outdated and does not align with the EU framework on consumer rights. Although the Act includes some consideration of distance contracts, it lacks provisions for addressing the rapidly changing digital markets. Responsibility for legal harmonisation in consumer protection lies with the Market Surveillance sector of the Ministry of Foreign Trade and Economic Relations of BiH. Individual inspection laws are enacted at the entity level in FBiH, RS and the Brčko District. The Institution of the Ombudsman for Consumer Protection in BiH plays a crucial role in promoting effective consumer protection policies, including those related to e-commerce transactions. It advocates for the establishment of efficient out-of-court settlement mechanisms, such as alternative dispute resolution, and emphasises the need for legal reforms to enable collective lawsuits and collective compensation for consumers. Presently, consumers in Bosnia and Herzegovina must resort to the court system to address misleading or fraudulent e-commerce practices, a process that is often time-consuming, financially burdensome, and impractical for minor disputes. Moreover, consumers in Bosnia and Herzegovina face unequal protection across entities, as legislation and inspection processes vary. While RS updated its legal framework on e-commerce in 2016 and consumer protection in 2017, alignment with the EU *acquis* remains incomplete, and law enforcement and inspections in e-commerce are lacking. Similarly, in the FBiH, the Federal Inspectorate's annual activity reports show no inspection activity in e-commerce. Moreover, in both entities, data collection regarding consumer complaints related to e-commerce is absent. Unfortunately, there are no noteworthy government initiatives at any administrative level to raise awareness about consumer rights and how to exercise them in e-commerce transactions. Some awareness activities are conducted by the eCommerce Association in BiH.²⁵ Despite this lack of online consumer education, e-commerce uptake is increasing, with 41.31% of Internet users making online purchases in the past 12 months in 2023, though it is still notably lower than the EU average of 75.14%.²⁶

Bosnia and Herzegovina is yet to bolster its **cybersecurity** capacities, despite facing a significant cyberattack in September 2022 that disrupted the functioning of key institutions such as the Parliament of Bosnia and Herzegovina and the Council of Ministers of BiH for a span of two weeks. A nationwide cybersecurity strategy remains elusive, as do efforts to enhance the resilience of critical infrastructure and ensure adequate investment in capacities and co-operation to combat the growing challenges of cybercrime. Moreover, there is a lack of political agreement on adopting a legal framework for cybersecurity and establishing a Cybersecurity Council or Authority to serve as the Unique National Focal Point, as outlined in the EU Directive on Security of Network and Information Systems (NIS1 and NIS2). Although the BiH Ministry of Security has drafted the Law on Information Security, Networks Security and Security of Information Systems, its adoption is pending. RS has enacted its own legislation on Information Security, as well as on Critical Infrastructure, but these laws are not yet aligned with the EU framework.

Moreover, progress in establishing Computer Emergency Response Teams (CERTs) and co-operating with international CERT networks to combat cybercrime has been limited. Although BiH has adopted a strategy to establish a national CERT, no consensus on its implementation has been reached. Currently, state and entity governments are striving for political agreement on CERT jurisdiction and functions to create a domestic network of co-operating CERTs. While RS has established the RS-CERT as a unit of the competent Ministry, a CERT for FBiH is not yet in place. However, the Ministry of Security of BiH has

set up the Military CERT with financial and technical support from NATO and plans to establish the BH-CERT for the institutions of the Council of Ministers. Similarly, the FBiH intends to establish the FBiH-CERT with support from UNDP. Additionally, the University of Sarajevo has established an Academic CERT since August 2022. However, despite these initial efforts and plans, co-ordination and collaboration between existing CERTs remains deficient, negatively impacting the economy's cybersecurity capacity. Supported by the international donor community, an assessment of Bosnia and Herzegovina's cybersecurity resilience and readiness is ongoing,²⁷ along with public awareness campaigns (ITU, 2023_[11]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's progress on implementing CO 2021 Recommendations has been mixed. The economy has made moderate advances in digital government development, yet progress in electronic communications, business digitalisation, ICT sector support and cybersecurity has been limited. There has been no notable progress in advancing personal data protection or rural broadband development. Table 11.2 below shows the economy's progress in implementing past recommendations for developing a digital society.

Table 11.2. Bosnia and Herzegovina's progress on past recommendations for digital society

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Accelerate adoption of the broadband strategy and ensure consensus and sufficient budgetary allocation for its implementation. Prioritise network infrastructure development in rural and remote areas	The Electronic Communications Sector Policy 2017-21 has yet to be updated. No rural broadband development plan has been prepared. No measures have been enacted to stimulate private sector investments in rural infrastructure development. Investments in broadband are driven by commercial interests. 4G development is more recent than in other WB economies, which delays deployment of 5G.	None
Accelerate adoption of the new Law on Electronic Communications to complete alignment with the EU regulatory framework, and implement the broadband mapping exercise	The Law on Electronic Communications has yet to be updated. The existing framework is not aligned with the EECC. The Regulator is implementing a technical assistance programme with support from the International Telecommunication Union (ITU) for the establishment and management of a national broadband mapping system.	Limited
Prioritise sufficient budgetary allocations for implementation of the Strategic Framework for Public Administration Reform 2018-22 (PAR) and implement economy-wide interoperability	The PAR strategy has been inadequately implemented (14% of activities implemented). Insufficient financial resources are allocated to government digitalisation. Interoperability frameworks exist, but there is no significant progress in establishing a functional system for data exchange among institutions. Digital identity systems exist, but lack cross-entity interoperability.	Moderate
Design programmes promoting the digitalisation of businesses in collaboration with chambers of commerce and other industry stakeholders	There is no nationwide programme supporting e-business and e-commerce and providing financial support for digitalisation. RS implements a digitalisation programme for SMEs but with a very limited budget. No cross-entity interoperability exists. Donor financing is used for digital skills training.	Limited
Adopt an ICT sector strategy aimed at improving the legal framework, align the education system with ICT industry needs, and stimulate ICT innovation	No ICT strategy exists. The Chambers of Commerce and IT industry associations make ad hoc efforts to support digital innovation in SMEs and digital upskilling. Technology parks and ICT incubators are supporting start-ups and companies in their innovation efforts. Legislation stimulating investments in ICT is enacted in RS.	Limited
Accelerate the adoption of a new Law on personal data protection to transpose the EU's GDPR and Police Directive into domestic legislation	The Law on personal data protection remains outdated and alignment with the GDPR and the EU Police Directive is still pending. Digital privacy concepts are not adequately considered by the current framework.	None

Adopt a strategic framework for information security and cybercrime, and accelerate the establishment of a domestic CERT with sufficient resources	No cybersecurity policy framework has been adopted. RS has enacted the only legislation in place for cybersecurity and established an RS-CERT. The BiH Government has drafted a relevant Law that remains unadopted. It also adopted a CERT strategy, but a national CERT will not be established. The establishment of CERTs at the state level and the FBiH entity-level CERTs are under way. No national cybersecurity authority exists.	Limited
--	---	---------

The way forward for digital society

Considering the level of the previous recommendations' implementation, there are still areas in which Bosnia and Herzegovina could enhance the digital society policy framework and further improve aspects of inclusive broadband development, data openness, interoperable digital transformation of public administration, and development of trust in digital technologies. As such, policy makers may wish to:

- **Agree on a nationwide broadband development plan and expedite legal and regulatory reforms to facilitate investments in high-speed network infrastructure development.** To address the growing digital divide and accelerate rural development, Bosnia and Herzegovina must prioritise the adoption of a broadband development policy with a comprehensive action plan. Drawing inspiration from neighbouring economies like Albania, which have successfully leveraged donor support for similar initiatives, Bosnia and Herzegovina can implement strategies to enhance high-speed Internet access. It is crucial for all levels of the government to collaborate in streamlining administrative processes and reducing costs associated with network infrastructure investments aligning with the EU Broadband Cost Reduction Directive. Harmonising legacy legislation at the entity and local administration levels on construction permits and providing essential information for comprehensive broadband infrastructure mapping will be instrumental in achieving this goal.
- **Establish a legal framework and an open data portal to foster data sharing and reuse and facilitate data innovation partnerships.** To promote data sharing and drive innovation, Bosnia and Herzegovina must prioritise establishing a robust legal framework and an open data portal aligned with the EU Open Data and Data Governance Directives. Harmonising legacy laws at the entity and local administration levels is essential to ensure smooth implementation. Adopting mandatory guidelines on proactive data transparency, licensing and formats, along with identifying high-value datasets, will facilitate data reuse for developing new applications. Partnering with the private sector will further enhance data-driven solutions for the benefit of citizens and businesses.
- **Adopt a nationwide action plan for the digital transformation of public administration spreading across all levels of government, fostering interoperability.** Bosnia and Herzegovina must secure political agreement across entities and administration levels to enact a government digitalisation action plan. This plan should target obstacles to interoperability, enabling data exchanges among public institutions, interconnection of public registers, and mutual recognition of digital identity systems (Box 11.2). Emphasis should be placed on developing high-quality, user-friendly, interoperable services that seamlessly serve all citizens and businesses operating across BiH territory. An intergovernmental group with decision-making powers should oversee the plan's co-ordination and monitoring, focusing on legal harmonisation to streamline administrative procedures and digitalisation efforts.
- **Align legislation on privacy and personal data protection with the EU framework and enhance the resources of the Agency for Personal Data Protection.** It is imperative for Bosnia and Herzegovina to adopt new legislation that aligns with the EU GDPR on personal data protection and the EU Police Directive, as well as legislation that incorporates digital privacy principles aligned with the EU Privacy Directive. Ensuring the independence of the Agency for Personal Data Protection and providing sufficient financial, human, and technical resources for its

operations is crucial. The Agency must be empowered to fulfil its responsibilities effectively, including significant capacity-building and awareness initiatives. Mandating institutions at all administrative levels to seek and respect the Agency's opinion on legal and regulatory proposals before adoption is essential to strengthen data protection measures.

Box 11.2. Estonia's X- Road interoperability system

X-Road is an open-source software and ecosystem solution that provides unified and secure data exchange between private and public sector organisations. It is the backbone of e-Estonia. Invisible yet crucial, it allows the nation's various public and private sector e-service information systems to link up and function in harmony.

Finland and Estonia have been jointly developing the software since 2013. Four years later, the two countries founded the Nordic Institute for Interoperability Solutions. Since then, the Institute continues X-Road development and co-ordinates the X-Road community. Authorities around the world have recognised the potential of X-Road, which is now implemented in over 20 countries. In 2016, the Faroe Islands and El Salvador became the first countries outside Estonia and Finland to implement X-Road. Today, Azerbaijan, Australia, Scotland, Chile, and South Africa are among the countries that have joined, and the WHO plans to use X-Road for digital vaccine certificates.

X-Road connects different information systems that may include a variety of services. It has developed into a tool that can also write to multiple information systems, transmit large data sets and perform searches across several information systems simultaneously. Its unique core element is that every data exchange between two institutions is performed through their individual keys (unique IDs) without the need to use a third-party server. Datasets are compiled via requests to the relevant authority. Each authority holds and processes only the data it "owns". The health department "owns" the health data, the population registry "owns" the resident data, the traffic authority "owns" the traffic data, etc. There are no duplicate records of data in the X-Road system. Moreover, citizens can log in using the digital ID and view their data, as well as who has been using it and for what purpose. Thus, transparency and efficiency go hand in hand. However, the X-Road requires customisation according to specific rights and jurisdiction. It is particularly relevant for Bosnia and Herzegovina, as it can provide solutions to complex data governance structures.

Sources: Nortal (2022^[24]); e-Estonia (2023^[25]).

- Adopt a comprehensive cybersecurity legal framework across all government levels to align with the EU cybersecurity framework.** It is crucial for Bosnia and Herzegovina to establish a robust cybersecurity legal framework that mirrors EU standards. Strong co-ordination among state and entity-level governments is essential to create a unified approach in tackling cybersecurity challenges. Collaboration is key in combating cybercrime effectively and enhancing the cyber resilience of critical information infrastructures, particularly those shared or interconnected between entities. Recognising that cybersecurity is only as strong as its weakest link, it is imperative to establish a national focal point or cybersecurity authority. This authority should foster direct collaboration with NIS authorities from EU Member States, facilitating the exchange of knowledge and best practices. Moreover, legislation for cybersecurity certification of ICT products, services and processes, in line with the EU Cybersecurity Act,²⁸ should be promptly enacted to ensure that the highest level of cybersecurity standards is met.

References

- ARKEP (2023), *A Summary of the Main Indicators of Electronic Communications*, [8]
<https://www.arkep-rks.org/desk/inc/media/9946608d-8146-4ce3-9859-c7af61e7fd77.pdf>.
- AZLP.BA (2023), *Report About the Protection of Personal Data in Bosnia and Herzegovina for 2022*, Agency for Personal Data Protection of Bosnia and Herzegovina, [23]
<http://www.azlp.ba/publikacije/?id=3970>.
- BHAS (2023), *Electronic Communications 2023*, Agency for Statistics of Bosnia and Herzegovina, [5]
<https://bhas.gov.ba/Calendar/Category/29> (accessed on 14 June 2024).
- BHAS (2023), *Telecommunications Equipment, Network and Services BiH*, Agency for Statistics of Bosnia and Herzegovina, [6]
https://bhas.gov.ba/data/Publikacije/Saopstenja/2023/IKT_03_2022_Y1_1_BS.pdf (accessed on 14 June 2024).
- BHAS (2023), *Usage of Information and Communication Technologies in Enterprises, 2023, First Results*, Agency for Statistics of the Bosnia and Herzegovina, [18]
https://bhas.gov.ba/data/Publikacije/Bilteni/2023/IKT_00_2022_TB_1_BS.pdf (accessed on 14 June 2024).
- BHAS (2023), *Usage of Information and Communication Technologies in Households and Individuals 2023, First Results*, Agency for Statistics of Bosnia and Herzegovina, [3]
https://bhas.gov.ba/data/Publikacije/Saopstenja/2023/IKT_05_2023_Y1_1_BS.pdf.
- BHAS (2022), *Gross Domestic Product by Production, Income and Expenditure Approach*, Agency for Statistics of Bosnia and Herzegovina, [1]
https://bhas.gov.ba/data/Publikacije/Bilteni/2023/NAC_00_2022_TB_1_BS.pdf (accessed on 14 June 2024).
- BHAS (2022), *Use of Information and Communication Technology in Bosnia and Herzegovina 2022*, Agency for Statistics of Bosnia and Herzegovina, [19]
https://bhas.gov.ba/data/Publikacije/Bilteni/2023/IKT_00_2022_TB_1_BS.pdf.
- BHAS (2021), *Use of Information and Communication Technology in Bosnia and Herzegovina 2021*, Agency for Statistics of Bosnia and Herzegovina, [21]
https://bhas.gov.ba/data/Publikacije/Bilteni/2022/IKT_00_2021_TB_1_BS.pdf.
- BioSense Institute (2023), *BioSense Institute*, <https://biosens.rs/en> (accessed on 1 March 2024). [20]
- CRA (2023), *Telecommunications Indicators of Bosnia and Herzegovina for 2022*, Communications Regulatory Agency, <https://docs.rak.ba/documents/d86c1957-09ce-454b-b0f4-ba4cf6b6867a.pdf> (accessed on 14 June 2024). [4]
- CRA (2022), *Elecommunications Indicators of Bosnia and Herzegovina for 2021*, <https://rak.ba/bs-Latn-BA/telecom-market-analysis> (accessed on 1 March 2024). [7]
- EC (2023), *Bosnia and Herzegovina 2023 Report, Commission Staff Working Document, SWD(2023) 691 final*, European Commission, <https://op.europa.eu/en/publication-detail/-/publication/6c4aedce-7eee-11ee-99ba-01aa75ed71a1/language-en>. [15]
- e-Estonia (2023), *X-Road – Interoperability Services*, <https://e-estonia.com/solutions/x-road-interopability-services/x-road/> (accessed on 1 March 2024). [25]

- FZZPR (2021), *Development Strategy of FBiH 2021-2027*, Government of the Federation of Bosnia and Herzegovina, [2]
https://www.fzzpr.gov.ba/files/Strategic%20documents%20of%20FBiH/Development%20Strategy%20of%20the%20FBiH%202021-2027-summary_ENG.pdf.
- GIZ (2024), “GIZ and the Agency for Identification Documents, Records and Exchange in BiH (IDDEEA) Established Cooperation for the Development of a Digital Identity Platform”, [16]
<https://eu4digitalsme.ba/novosti/giz-i-agencija-za-identifikacione-dokumente-evidenciju-i-razmjenu-u-bih-iddeea-ozvanicili-saradnju-za-razvoj-platforme-digitalnog-identiteta/>.
- Herzegovina, A. (ed.) (2022), *Usage of Information and Communication Technologies in Enterprises, 2022, First Results*, [17]
https://bhas.gov.ba/data/Publikacije/Saopštenja/2022/IKT_04_2022_Y1_0_BS.pdf.
- ITU (2023), *Bosnia and Herzegovina – Digital Development Country Profile*, International Telecommunications Union, Office for Europe, [11]
<https://www.itu.int/en/ITU-D/Regional-Presence/Europe/Documents/Publications/2023/Digital%20Development%20Country%20Profile%20Bosnia%20and%20Herzegovina%20%5Bfinal-%20March%202023%5D.pdf>.
- ITU DataHub (2023), “Fixed and Mobile Subscriptions”, <https://datahub.itu.int/dashboards/?id=2>. [9]
- Nortal (2022), “X-Road: Estonia’s Digital Backbone”, <https://nortal.com/insights/x-road-estonias-digital-backbone>. [24]
- OECD (2023), “Broadband Portal”, <https://www.oecd.org/digital/broadband/broadband-statistics>. [10]
- OGP (2023), *Independent Reporting Mechanism (IRM) Action Plan Review: Bosnia and Herzegovina 2022-2024*, <https://www.opengovpartnership.org/documents/bosnia-and-herzegovina-action-plan-review-2022-2024-for-public-comment>. [14]
- Page M., H. (2023), *2023 Open Data Maturity Report*, Publications Office of the European Commission, https://data.europa.eu/sites/default/files/odm2023_report.pdf. [13]
- SIGMA (2022), *Monitoring Report- The Principles of Public Administration: Bosnia and Herzegovina, May 2022*, OECD, <https://www.sigmaweb.org/publications/Monitoring-Report-Bosnia-and-Herzegovina-May-2022.pdf>. [12]
- UNICEF (2023), “By Connecting Schools in Bosnia and Herzegovina to the Internet, Enable Education of the 21st Century”, <https://www.unicef.org/bih/en/press-releases/connecting-schools-bosnia-and-herzegovina-internet-enable-education-21st-century>. [22]

Notes

¹ Decreased scores in the Use and Society sub-dimensions in the current assessment (CO 2024) compared with scores in the CO 2021 assessment are mainly attributed to the incorporation of two new, forward-looking qualitative indicators in the current digital society assessment framework. Scores for these new indicators, namely emerging digital technologies and green digital technologies, are relatively low since they are still in the early stages of development in the Western Balkan region. Furthermore, the

scores from the CO 2018 assessment are not directly comparable with current scores due to a significant restructuring of the digital society assessment framework.

² Eurostat, Households - Level of Internet access, online data code: isoc_ci_in_h, https://doi.org/10.2908/ISOC_CI_IN_H (accessed 13 March 2024).

³ ITU DataHub, Fixed-broadband subscriptions per 100 people, <https://datahub.itu.int> (accessed 6 March 2024).

⁴ OECD Broadband Portal, Fixed Broadband - Fibre/LAN subscriptions per 100 inhabitants, <https://www.oecd.org/digital/broadband/broadband-statistics>.

⁵ Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks (Text with EEA relevance), <https://eur-lex.europa.eu/eli/dir/2014/61>.

⁶ Open Data Directive: Directive (EU) 2019/1024 of the European Parliament and of the Council of 20 June 2019 on open data and the reuse of public sector information (recast), <http://data.europa.eu/eli/dir/2019/1024/oj>.

⁷ Regulation (EU) 2022/868 of the European Parliament and of the Council of 30 May 2022 on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act) (Text with EEA relevance), <http://data.europa.eu/eli/reg/2022/868/oj>.

⁸ Regulation (EU) No. 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC, <http://data.europa.eu/eli/reg/2014/910/oj>.

⁹ A Memorandum of Understanding was signed on 21 February 2024 between Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Agency for Identification Documents, Registers and Data Exchange in BiH (IDDEEA) to support the development of a digital identity platform for biometric authentication, which will be integrated with the existing central IDDEEA biometric register system and identity data register, as well as with the existing central IDDEEA system for issuing electronic certificates and creating digital signatures in the cloud. The digital identity platform will be used in the territory of the entire BiH.

¹⁰ Ministry of Scientific and Technological Development, Higher Education and Information Society of the Republika Srpska (MNRVOID).

¹¹ The BiH public e-procurement portal: www.ejn.gov.ba.

¹² Online sales here refers to the enterprise web sales of goods or services via the enterprise's websites or apps; e-commerce marketplace websites or apps used by several enterprises for trading goods or services; or through electronic data interchange (EDI)-type sales of goods or services, according to the Agency for Statistics of BiH.

¹³ The "Go Digital in BiH" credit line is co-financed by the European Bank for Reconstruction and Development (EBRD), the European Union (EU) and Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ) to help SMEs better understand the opportunities offered by digitalisation and

support their investments in digital transformation: <https://www.ebrd.com/news/2022/go-digital-in-bosnia-and-herzegovina.html>.

¹⁴ The EU4DigitalSME project, which is implemented by GIZ and co-financed by the European Union and Germany's Federal Ministry for Economic Cooperation and Development (BMZ), announced a public call for digital development organisations to submit proposals for digital innovation hubs (DIH) in Bosnia and Herzegovina in January 2022. As a result of this process, four digital innovation hubs are already offering their services to SMEs: <https://b2bit.ba/public-call>.

¹⁵ Directive (EU) 2016/2102 of the European Parliament and of the Council of 26 October 2016 on the accessibility of the websites and mobile applications of public sector bodies (Text with EEA relevance), <http://data.europa.eu/eli/dir/2016/2102/oj>.

¹⁶ Eurostat, Individuals' level of digital skills, online data code: isoc_sk_dskl_i21, https://doi.org/10.2908/ISOC_SK_DSKL_I21 (accessed 11 March 2024).

¹⁷ Eurostat, Individuals' level of digital skills, online data code: isoc_sk_dskl_i21, https://doi.org/10.2908/ISOC_SK_DSKL_I21 (accessed 11 March 2024).

¹⁸ Eurostat, Individuals' level of digital skills, online data code: isoc_sk_dskl_i21, https://doi.org/10.2908/ISOC_SK_DSKL_I21 (accessed 11 March 2024).

¹⁹ Eurostat, Individuals - Internet use, online data code: isoc_ci_ifp_iu, https://doi.org/10.2908/ISOC_CI_IFP_IU (accessed 11 March 2024).

²⁰ Project Connect, UNICEF, <https://projectconnect.unicef.org/map/country/ba>.

²¹ Eurostat, Destination of ICT devices no longer in use, online data code: isoc_eco_dd, https://doi.org/10.2908/ISOC_ECO_DD (accessed 11 March 2024).

²² Eurostat, Destination of ICT devices no longer in use, online data code: isoc_eco_dd, https://doi.org/10.2908/ISOC_ECO_DD (accessed 11 March 2024).

²³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), <http://data.europa.eu/eli/reg/2016/679/oj>.

²⁴ Directive (EU) 2016/680 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data, and repealing Council Framework Decision 2008/977/JHA, <http://data.europa.eu/eli/dir/2016/680/oj>.

²⁵ The eCommerce Association in Bosnia & Herzegovina is raising consumer awareness of eCommerce benefits, and ensuring a safe and engaging environment for the Digital era <https://e-comm.ba/en>.

²⁶ Eurostat, Internet purchases by individuals - Last online purchase: in the 12 months (percentage of individuals who used Internet within the last year), online data code: isoc_ec_ib20, https://doi.org/10.2908/ISOC_EC_IB20 (accessed 12 March 2024).

²⁷ “Building Cybersecurity in Bosnia and Herzegovina”, a three-year EUR 1.3 million project financed by the Government of the Federal Republic of Germany, and implemented by the United Nations Development Programme (UNDP) in BiH.

²⁸ Regulation (EU) 2019/881 of the European Parliament and of the Council of 17 April 2019 on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification and repealing Regulation (EU) No. 526/2013 (Cybersecurity Act) (Text with EEA relevance), <http://data.europa.eu/eli/reg/2019/881/oj>.

12 Transport policy

Through the development of a modern, sustainable, efficient, interoperable and integrated transport network, a sound transport policy can promote closer co-operation with neighbouring economies and be a key driver of competitiveness, both for an economy as well as for the region. The first sub-dimension, planning and management, measures the extent to which an orderly, coherent, consistent and transparent process is in place for developing transport policy and implementing infrastructure projects. The second sub-dimension, regulation and connectivity, determines how well transport modes and networks are regulated and operated, as well as how they are leveraged to promote regional connectivity. The third sub-dimension, sustainability, measures progress towards resource efficiency, environmental protection, reducing health impacts and increasing safety as well as social inclusion.

Key findings

Bosnia and Herzegovina has made minor progress in improving its transport policies and their implementation since the previous assessment (Table 12.1). Overall, BiH continues to underperform in this area compared to the region, despite improvements in specific sub-areas such as procurement procedures, rail reforms and some small-scale progress in developing smart and sustainable transport.

Table 12.1. Bosnia and Herzegovina's scores for transport policy

Dimension	Sub-dimension	2018 Score	2021 Score	2024 Score	2024 WB6 average
Transport	11.1: Planning and management			2.0	2.6
	11.2: Regulation and connectivity			1.0	1.9
	11.3: Sustainability			1.8	2.1
Bosnia and Herzegovina's overall score		1.2	1.3	1.5	2.2

The **key findings** are:

- The procedures for selecting transport infrastructure projects in Bosnia and Herzegovina (BiH) have not evolved since the previous assessment and are in need of improvement. The state-level single project pipeline (SPP) has not been updated since 2019, putting into question its continued relevance. Co-ordination on priority projects for investment between the state and entity levels needs to be improved and be properly reflected in transport policy planning at all levels.
- The state-level Law on Public Procurement was updated in 2022, aligning the legal framework with the EU *acquis* on service contracts, including in the transport sector. However, the legal framework requires further alignment in order to be fully compliant in key areas such as requirements for public-private partnerships (PPPs). A new Strategy for the Development of Public Procurement 2024-28, aiming to improve the procurement process and align it with the EU *acquis* in areas such as green procurement, integrity and digitalisation has been adopted.
- Progress on the construction of important road and rail projects along Corridor Vc continued during the assessment period. Slow progress is being made in the restructuring of Republika Srpska (RS)'s railway company to bring the sector in line with the EU *acquis* on railway unbundling. However, no such progress has been made in the Federation of Bosnia and Herzegovina (FBiH). The railway market remains closed to competition and rail infrastructure in BiH is in need of significant modernisation and development.
- Some progress was made in promoting environmentally sustainable transport. For instance, the Framework Transport Strategy until 2030 was updated in 2022 to integrate measures and targets related to greening transport, in line with the Smart and Sustainable Mobility Strategy for the Western Balkans. BiH also deployed five electric vehicle (EV) charging stations (EVCS) on its TEN-T road network and plans to deploy additional ones.

State of play and key developments

Sub-dimension 11.1: Planning and management

Bosnia and Herzegovina has continued efforts to improve the planning and management of its transport sector since the last CO assessment. The Framework Transport Strategy (FTS) (2016-30), which consists of transport strategies in the two entities and the Brčko District, sets out the **transport vision** for the sector's development. It considers the four main pillars of transport: infrastructure, services, regulation and technology, and lays out the actions to be undertaken to meet the objectives. Consultations with public institutions and implementation agencies were held during the strategy development process. It identifies the integration of transport infrastructure into European and regional transport corridors and further harmonisation of regulation in the field of transport with the EU transport *acquis* as a key issue (European Commission, 2021^[1]).

The strategy has clear and measurable objectives and defined implementation plans with timelines and budgets to meet its objectives. The implementation timeline is segmented in the strategy as short-term (2016-20), mid-term (2021-25) and long-term (2026-30). However, no interim evaluation and reporting activities are planned either at the state level or in the entities, and no processes have been defined to update the strategy, which is concerning considering its long-term scope.

No further improvements have taken place for **transport project selection** in BiH since the last CO assessment. The FTS or the domestic legislation does not mention the methodology for project selection. A single-project pipeline (SPP) has been in place in Bosnia and Herzegovina since 2015, but it has not been updated since 2019. The SPP is also not publicly available, limiting the transparency and accountability of investment decisions for key stakeholders and the general public. Whereas the FBiH directly refers to the state-level SPP, the Annual Programme of the Government of RS represents an input for the SPP, defining the rail and road projects to be undertaken at the level of the entity. Contrary to the SPP, the Annual Programme is updated every six months, potentially conflicting with the state-level SPP and sending conflicting signals to stakeholders such as international financial institutions (IFIs) and the private sector. No tailored cost-benefit analysis (CBA) guidelines exist for transport projects in BiH or the entities, meaning that BiH relies on international guidelines for projects where these apply.

The Law on Public Procurement of Bosnia and Herzegovina governs the **procurement** processes in BiH. It applies to road, rail, aviation, and maritime transport. The Law, amended in August 2022, aligns the procedure for awarding service contracts with the relevant EU Directives from 2014. The Agency for Public Procurement of Bosnia and Herzegovina oversees initiating, implementing and monitoring the public procurement policy in all sectors, including transport. A Plan for Integrity and Plan for the Fight Against Corruption were both adopted in 2022 and are being implemented by the agency. A new 2024-28 Strategy for the Development of Public Procurement and a corresponding Action Plan have been adopted. These documents aim to align BiH's public procurement framework with the EU *acquis* in areas such as green procurement, digitalisation of procurement processes and integrity of the procurement process. Alternative procurement methods such as public-private partnerships (PPP) are currently not considered in BiH for the transport sector. Exemptions to public procurement, such as concession contracts and PPPs, do exist for limited services in other sectors of the economy. Procurement procedures and project outputs are not being consistently monitored, and no evidence of ex post evaluation of procurement procedures exists.

While some action has been taken to improve **asset management** in the road transport sector, Bosnia and Herzegovina could make further progress. Although asset management systems do not exist for all modes of transport, procedures are being developed for road and transport. By 2022, a Road Asset Management System (RAMS) was set up in three of BiH's four public road enterprises responsible for the TEN-T Core and Comprehensive Networks (Transport Community, 2022^[2]). Asset management systems

for rail have not been implemented, limiting the ability to monitor the condition of the assets regularly and subsequently inform maintenance spending allocation.

Sub-dimension 11.2: Regulation and connectivity

Bosnia and Herzegovina's rail infrastructure density, at 1.98 kilometres (km) per 100 square km in 2021 is below both the regional average (2.4 km per 100 square km) and the EU average of 5.7. The rail network is in significant need of maintenance and refurbishment, as well as modernisation, as at least half of the network is currently considered unsafe and unreliable (European Commission, 2023^[3]).

Bosnia and Herzegovina has advanced significantly in updating and aligning its **rail regulation** more closely with the Transport Community Treaty (TCT) Rail Action Plan. Several pieces of legislation have been adopted over the assessment period. A new Railway Safety and Interoperability Law has been drafted, which will align BiH's railway system more closely with the EU's Technical Specifications for Interoperability (TSIs), but it has yet to be passed. In 2022, BiH adopted a new Rulebook on passenger rights and obligations, fully compliant with EU Regulation 1371/2007 on passenger rights. The rail market in BiH is still closed, despite the intent to start opening the market to competition, as progress in this area has been slow.

Over the last years, Bosnia and Herzegovina has carried out several projects to improve its rail network. The interstate bridge construction between Bosnia and Herzegovina and Croatia at Gradiška was completed in 2022. The border crossing was due to be operational in 2023 upon completion of the access expressway on Croatian territory, but it has been delayed (European Commission, 2023^[3]).

The restructuring of RS's railway company "Željeznice Republike Srpske", which began in 2017, is still ongoing and is set to be completed by the end of 2024 (SEE News, 2023^[4]). The restructuring aims to establish a holding company divided into three sectors: transport of passengers, transport of freight and infrastructure management. On the other hand, no such plans have been reported in FBiH and the railway market remains vertically integrated and closed to competition. BiH is currently undertaking modernisation projects on Corridor Vc, along the Samac – Doboj – Rjecica, and Rjecica – Sarajevo sections, which should facilitate connectivity along this key transport corridor (Transport Community, 2023^[5]). RS also adopted several bylaws¹ on both road and rail transport during the assessment period, improving alignment with important secondary legislation under the EU *acquis*.

Bosnia and Herzegovina's rail network utilisation is presented in Table 12.2. Between 2019 and 2021, rail utilisation decreased both for passenger and freight transport. It is substantially lower than the EU average. Rail capacity can be improved, especially for passenger transport, which could have a positive impact on air pollution and climate change, as well as for overall connectivity in BiH.

Table 12.2. Rail transport in Bosnia and Herzegovina and the EU (2019-21)

Rail network utilisation	Change BiH 2019-21 (%)	BiH 2021	EU 2021
Passengers (passenger-kilometres/km of track)	-68	0.01	0.99
Freight (tonne-kilometres/km of track)	-7	0.80	2.02

Sources: European Commission (2023^[6]); ITF (2024^[7]).

In terms of road infrastructure, the density of Bosnia and Herzegovina's roads has been slowly increasing (Table 12.3), but remains considerably below the regional and EU averages, showing significant potential for the development of additional road infrastructure to improve connectivity within BiH and with its neighbours.

Table 12.3. Road infrastructure density in Bosnia and Herzegovina, the WB6 economies and the EU (2017, 2019, 2021)

Kilometers per 100 square kilometers

	2017	2019	2021
BiH	17.47	17.62	18.15
WB6	37.69	37.92	39.33
EU	146.49	146.77	145.30

Source: ITF (2024^[7]).

Little progress has been made on **road regulation** in BiH at both the state and entity levels. Works have been steadily progressing on the Corridor Vc motorway with the completion of several subsections during the last CO assessment period, including the Zenica bypass, the Svilaj bridge and border crossing, the Buna-Pocitelj section, the Johovac-Rudanka section and the Tarcin-Ivan section, including the Ivan Tunnel (European Commission, 2022^[8]). The slow construction and the lack of adequate financing hinder the timely construction of the Corridor Vc motorway in the FBiH (European Commission, 2023^[3]).

Limited **aviation reforms** have taken place in BiH since the last CO assessment. BiH is a Functional Airspace Block Central Europe (FABCE) member, which aims to deliver the European Union's vision of a Single European Sky (SES) by facilitating air traffic control co-ordination. FABCE aims to enhance safety standards, optimise airspace utilisation for more efficient flight routes, reduce flight delays, and increase capacity. These improvements contribute to smoother air traffic operations, lower costs for airlines, and make BiH's air transport sector more attractive and competitive within the region. The SES I package has been fully transposed into domestic law, while the SES II provisions have been partially transposed. Bosnia and Herzegovina's Air Navigation Services Agency, which took over responsibility for air traffic control of BiH's upper airspace in 2019,² is operational but lacks adequately trained and qualified staff and is experiencing lapses in the institutional setup within the Bosnia and Herzegovina Directorate of Civil Aviation (BHDCA) (European Commission, 2022^[8]). New management was appointed in BHDCA in 2021, but it has not yet been able to address these issues adequately. The Airport Charges Directive has not yet been transposed, which could result in varying regulations on airport charges and therefore reduced competitiveness within the European aviation sector, potentially affecting international collaborations and accords.

Maritime and inland waterway (IWW) reforms and regulations are in the early preparation stage in BiH, and very little has been done since the last CO assessment. There has been limited progress in the transposition of the maritime *acquis* and structuring the legal framework for transposition on the state level. Currently, there is no national-level legislation relating to navigation in Bosnia and Herzegovina. Efforts have continued on the rehabilitation of the Port of Brčko, which aims to improve the port's operational efficiency, increase cargo-handling capacity, and enhance the safety of rail operations in Brcko (Transport Community, 2023^[5]).

BiH has continued good co-operation with the neighbouring economies to enhance **regional connectivity**. A bilateral agreement on rail border crossings with Serbia is being finalised. Negotiations are also ongoing between BiH and Croatia for an agreement that aims to provide conditions for facilitated crossing of the state border and establishing an efficient system of control at the border crossing points (BCPs). The latter agreement includes rail transport through rail BCPs Samac-Slavonski Samac (North) and Capljina-Metkovic (South) on the Corridor Vc (Transport Community, 2023^[5]).

Bosnia and Herzegovina adopted the necessary customs legislation, allowing it to implement the NCTS (New Computerised Transit System), and so enabling the exchange of electronic data between the customs authorities and economic operators, thus substituting paper documentation (Administration for

Indirect Taxation, 2024^[9]). BiH completed the modernisation of the road BCP Vardiste with Serbia in 2021. This is expected to significantly improve the quality of travel and working conditions of customs officers and border police. The new BCP has three traffic lanes each at the entrance and exit, significantly speeding up traffic. The quality of freight traffic is also expected to improve, as trucks will have a separate cargo terminal and a truck scale (Transport Community, 2022^[2]). BiH and Serbia have also started discussions for an agreement on joint rail border crossings (Transport Community, 2023^[10]).

New advancements have been made with regard to the Agreement between the Council of Ministers of Bosnia and Herzegovina and the Government of Montenegro for conducting border controls at Joint Border Crossing Points (JBCPs). In 2022, the locations for the JBCPs were finalised, and in 2023 the budget was adopted to implement the reconstruction projects of BCP Zupci and BCP Klobuk (Transport Community, 2023^[5]). This lays down the framework for establishing joint border crossing points on the side of Bosnia and Herzegovina.

BiH has not yet started to develop policies, institutions, or legal and regulatory frameworks for supporting **combined transport**. The draft National Energy and Climate Plan (NECP) has a measure that aims to conduct preliminary works for analysing the needs and potential for the development of an incentives system and legal framework to govern the development of combined transport.

Initial efforts are being made to support the development of **smart transport** systems. Through CONNECTA, the ITS Strategy and operational concept for Road Traffic Management Centres have been developed and are now pending approval (Transport Community, 2023^[10]). These documents aim to ensure harmonised national ITS developments aligned with regional and European principles, ultimately enhancing transportation efficiency and management in BiH. In 2023, BiH successfully established e-tolling interoperability across the economy, and a single tag is now applicable across the entire road network. The ITS Directive 2010/40/EU is not transposed, and more effort is required to fully implement the intelligent transport systems.

Sub-dimension 11.3: Sustainability

BiH has taken some steps to advance towards an **environmentally sustainable transport** system. The FTS was revised with the support of technical assistance in 2022 to include measures that encourage modal shift, reduced emissions from the transport sector, and the uptake of low and zero-emission vehicles, but the official adoption of this revision is still pending. Bosnia and Herzegovina also developed its draft National Energy and Climate Plan (NECP), which aims to reduce the emissions and energy intensity of the transport sector as well as to increase the share of renewable energy sources used for transport.

With dedicated Technical Assistance from CONNECTA and the TCT Secretariat, in 2023 BiH deployed five EV charging stations (EVCS) on its TEN-T road network. As an incentive for EV owners, their use is free of charge. 17 more EVCS are planned to be deployed in BiH in the coming years (Transport Community, 2023^[10]).

The Strategy for Environmental Protection of the FBiH further identifies actions that promote the uptake of biofuels and other renewable fuels (Stockholm Environment Institute, 2024^[11]). FBiH is actively encouraging the uptake of zero-emission vehicles through financial incentives to subsidise the purchase of new electric and hybrid vehicles. The value of the incentives for the electric vehicles is EUR 5 000 and EUR 2 500 for the purchase of plug-in hybrid vehicles or full hybrid vehicles (Sarajevo Times, 2022^[12]).

Road fatalities in BiH have been reduced, falling by 15% between 2019 and 2022 (Table 12.4). The mortality rate per one million inhabitants is slightly higher than the EU average, but lower than in other economies of the region. BiH has continued efforts to improve **road safety**, but these could be further accelerated. The Road Safety Council was established by the Council of Ministers in 2019, and in 2020 held its first meeting. The draft Road Safety Framework Strategy and Action Plan for 2021-25 has been

drafted and is currently under the review of the Road Safety Council. RS is working on updating its Road Safety Strategy, as the previous one expired in 2022. However, the new strategy's development process has experienced challenges and its adoption, initially planned for 2023, was delayed.

Table 12.4. Road safety trends in Bosnia and Herzegovina and the EU (2012-22)

	Change 2012-22 (%)	Change 2019-22 (%)	Value 2022
Change in the number of road fatalities (BiH)	-27	-15	
Change in the number of road fatalities (EU)	-22	-9	
Number of fatalities per million inhabitants (BiH)			69
Number of fatalities per million inhabitants (EU)			46

Sources: European Commission (2023^[6]); Bosnia and Herzegovina data – Information provided by the government for this assessment.

During the assessment period, the Terms of Reference were finalised for establishing a road crash data system in BiH, but the work has not progressed due to lack of funding (Transport Community, 2023^[5]). At the entity level, RS has developed key performance indicators (KPIs) for road safety and has an operational Road Safety Agency since 2011, while no such agency exists in FBiH. Data on road fatalities and injuries are collected by authorities in both entities and aggregated at the state level.

The creation of a **just and fair** transport system is not explicitly addressed in any state- or entity-level strategic framework in BiH. However, encouraging policies are in place at the level of cantons in FBiH and municipalities across the country. For instance, the Sarajevo Canton is implementing its Sustainable Urban Mobility Plan (SUMP) since 2020, which contains objectives related to improving the accessibility of transport for persons with disabilities and using public transport to improve social inclusion and cohesion. SUMPs are also being implemented in the municipalities of Zavidovići in the Zenica-Doboj Canton and Bijeljina in RS. While these are encouraging developments at the local level, their development is sporadic and relies on international funding; the overall coherence, co-ordination and articulation of policies could be reinforced by integrating relevant policy objectives at the entity and state levels.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has overall made limited progress in following up on the Recommendations of the CO Assessment 2021 (Table 12.5). Efforts have been undertaken to complete the actions of the EU Rail and Road Action Plan, aligning these sectors more closely with the EU *acquis*. Moderate progress has also been observed in advancing towards an environmentally sustainable transport system in FBiH.

Table 12.5. Bosnia and Herzegovina's progress on past recommendations for transport policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Update the state-level transport strategy every four years	The FTS 2016-2030 was updated in 2022 to include actions related to sustainability. However, no regular mechanism to ensure periodic updates to the strategy exists.	Limited
Develop domestic CBA guidelines for all transport modes	There are no economy-wide cost-benefit analysis guidelines for transport projects or any accompanying survey, analysis, or technical instructions.	None
Develop/update a tool for project identification, selection, prioritisation and implementation	No further actions have been taken in BiH to develop tools and methodologies for project selection and implementation.	None
Continue rail reforms in RS and begin rail reforms in the FBiH	Restructuring of RS's railway company is ongoing and adoption of key bylaws to advance rail transport in RS has been completed. No significant rail reforms have begun in the FBiH.	Limited

Develop a study on the institutional, legal and operational framework for maritime and IWW transport to define the roadmap for this transport mode	While no steps have been taken to develop the institutional, legal, or operational framework for maritime and IWW transport, BiH has continued efforts to rehabilitate the Port of Brcko.	Limited
Ensure that transport facilitation remains a priority	Efforts to improve transport facilitation through both road and rail have continued in BiH.	Moderate
Implement asset management principles in the transport sector in line with the domestic inventory system	Although asset management systems do not exist for all modes of transport, the Road Asset Management System (RAMS) was set up in three of four BiH public road enterprises responsible for the TEN-T Core and Comprehensive Networks.	Moderate
Develop an Integrated Environmental and Transport Action Plan	The FTS was updated to include actions related to sustainability, but no Integrated Environmental and Transport Action Plan has been developed.	Limited

The way forward for transport policy

- **Monitor, evaluate and readjust the existing policy framework.** The existing transport strategy needs to be regularly monitored. Regular evaluation reports should be made publicly available. This will help Bosnia and Herzegovina to keep its transport policies up to date, relevant and effective. Improved co-ordination between the state and entity levels will also be key in planning and implementing effective transport policies.
- **Develop a tool for project identification, selection, prioritisation and implementation.** This tool should be applied to all transport projects in BiH. These systems should comprise all processes, from identification to ex post monitoring of implemented projects, to the financial management of an information technology system planned to be implemented in all spending departments of governmental institutions and implementing agencies. BiH's single project pipeline, which serves as a basis for this system, should be regularly updated based on co-operation and co-ordination of inputs between the state and entity-level governments.
- **Ensure consistency in measures aiming to develop environmentally sustainable transport.** Bosnia and Herzegovina should pay particular attention to the articulation between different policy documents that aim to achieve green transport – such as the recently updated FTS, as well as the NECP once it will be adopted. Monitoring and evaluation of the implementation of measures needs to be ensured, and targets should be regularly adjusted. Moreover, data collection on transport sector emissions and the environmental sustainability of the transport sector needs to be improved in order to be robust and comprehensive. A good example was developed by the European Environmental Agency in the form of the Transport and Environment Reporting Mechanism, which prescribes indicators for tracking transport and environment in the EU.
- **Improve the road safety framework.** Further efforts are required to align national legislation with the TCT and EU *acquis* on road safety. BiH must also take steps to establish a road crash database and collect the EU key performance indicators to identify measures that could reduce crashes and, consequently, serious injuries and deaths. Developing robust data collection on traffic accidents and key performance indicators on road safety will be essential in this regard (Box 12.1).
- **Enhance efforts to develop well-functioning combined transport,** recognising the crucial role of a modernised rail infrastructure network. Combined transport is the most cost-efficient transport mode, reducing environmental pollution and increasing co-operation between the freight forwarding network companies. Achieving well-functioning logistical chains and establishing an international corridor approach and intermodal solutions could promote high competitiveness in BiH's transport market. Therefore, BiH should prioritise the modernisation and enhancement of its railway network alongside developing the legal and regulatory framework to support combined transport.

Box 12.1. Adopting the Safe System approach and safety performance indicators for improved road safety

In the past decade, the International Transport Forum (ITF) has promoted the adoption of the Safe System approach to road safety. This approach can drastically reduce road fatalities and is endorsed by the United Nations General Assembly. It now forms the basis for the new Global Plan for the Decade of Action on Road Safety 2021–30. The Safe System approach is proactive; it is preventive and predicated on the notion that people make mistakes and that these errors can result in traffic crashes. It seeks to identify and proactively address vulnerabilities in the transportation system in a holistic manner. Adopting the Safe System approach is a concrete step that the WB6 economies can take to improve road safety outcomes.

The Safe System approach requires road safety authorities to collect, analyse and use accurate road safety data and develop safety performance indicators (SPIs). The European Commission developed a list of SPIs with the corresponding methodology in the Baseline project. These safety performance indicators are related to driving behaviours, such as following speed limits, drunk driving, and seat belt usage. Indicators related to vehicles, infrastructure, or trauma are also important. Road safety improvement can be further accelerated by identifying distinct at-risk user groups – or vulnerable user groups – and implementing safety performance indicators to improve road safety outcomes. The ITF report recommends SPIs tailored to vulnerable road users such as pedestrians, cyclists, and motorcyclists. Implementing SPIs that are specific to these groups can help the WB6 economies in advancing the Road Safety Action Plan goal of protecting vulnerable road users.

Sources: ITF (2022^[13]; 2023^[14]);

- **Improve the co-ordination of policies for fair and inclusive transport.** BiH should prioritise the development of fair and inclusive transport policies at both state and entity levels to ensure equitable access to transportation services for all citizens. While encouraging initiatives exist at the local level, such as the Sustainable Urban Mobility Plans (SUMP) implemented in certain cantons and municipalities, such initiatives would benefit from greater coherence and co-ordination at higher administrative levels, as well as good practice exchange from those administrative levels that are implementing them. Emphasising policies that address accessibility, affordability, and improved working conditions for transport workers is crucial. BiH should integrate these policies into its strategic frameworks, aligning them with relevant EU legislation to uphold the rights of passengers and promote social inclusion and cohesion through the transport sector.

References

- Administration for Indirect Taxation (2024), *E-Customs - Administration for Indirect Taxation*, [9]
<https://www.uino.gov.ba/portal/en/e-services/e-customs/> (accessed on 1 March 2024).
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, [3]
https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf.
- European Commission (2023), *Road Safety in the EU: Fatalities Below Pre-Pandemic Levels but Progress Remains too Slow*, [6]
https://transport.ec.europa.eu/news-events/news/road-safety-eu-fatalities-below-pre-pandemic-levels-progress-remains-too-slow-2023-02-21_en.
- European Commission (2022), *Bosnia and Herzegovina Report 2022*, [8]
https://neighbourhood-enlargement.ec.europa.eu/document/download/a113b381-3389-4be7-95b2-a4fb91c8c243_en?filename=Bosnia%20and%20Herzegovina%20Report%202022.pdf.
- European Commission (2021), *Bosnia and Herzegovina: EU Support for Transport Sector Development*, [1]
https://neighbourhood-enlargement.ec.europa.eu/system/files/2017-12/ipa_2017_040541.06_eu_support_for_transport_sector_development.pdf.
- ITF (2024), *Transport Measurement*, [7]
https://stats.oecd.org/Index.aspx?DataSetCode=ITF_GOODS_TRANSPORT (accessed on 7 June 2024).
- ITF (2023), *Using Safety Performance Indicators to Improve Road Safety: The Case of Korea*, [14]
https://www.itf-oecd.org/sites/default/files/docs/safety-performance-indicators-road-safety-korea_0.pdf.
- ITF (2022), *The Safe System Approach in Action, Research Report*, [13]
<https://www.itf-oecd.org/safe-system-approach-action-experience-based-guide-enhanced-road-safety>.
- Sarajevo Times (2022), “The FBiH government allocates money to citizens for the purchase of electric cars”, [12]
<https://sarajevotimes.com/the-fbih-government-allocates-money-to-citizens-for-the-purchase-of-electric-cars>.
- SEE News (2023), “Bosnia’s Serb Republic seeks full ownership of Zeljeznice RS”, [4]
<https://seenews.com/news/bosnias-serb-republic-seeks-full-ownership-of-zeljeznice-rs-report-831306>.
- Stockholm Environment Institute (2024), *Development of the Environmental Strategy and Action Plan of Bosnia and Herzegovina*, [11]
[https://www.sei.org/projects/bosnia-herzegovina-environmental-policy/#:~:text=The%20Environmental%20Strategy%20and%20Action%20Plan%202030%2B%20\(ESAP%202030%2B\),the%20Federation%20of%20Bosnia%20and](https://www.sei.org/projects/bosnia-herzegovina-environmental-policy/#:~:text=The%20Environmental%20Strategy%20and%20Action%20Plan%202030%2B%20(ESAP%202030%2B),the%20Federation%20of%20Bosnia%20and).
- Transport Community (2023), *Action Plans and the EU Acquis Progress Report 2023*, [5]
<https://www.transport-community.org/wp-content/uploads/2023/12/Action-Plans-and-EU-Acquis-Progress-Report-2023-WEB.pdf>.
- Transport Community (2023), *Progress Report: Sustainable and Smart Mobility Strategy in the Western Balkans*, [10]
https://www.transport-community.org/wp-content/uploads/2023/12/Sustainable-and-Smart-Mobility-Strategy-Report_designed.pdf.

Transport Community (2022), *Action Plans - and the EU Acquis Progress Report 2022* (November Issue), <https://doi.org/10.1542/9781581105087-action>.

[2]

Notes

¹Such as the Rulebook on the certification of drivers and centres for education (Directive 1007/59), and the Rulebook on interoperability (Directive 2016/797), the Rulebook on passenger rights and obligation (EC Regulation No. 1371/2007), and the Rulebook on the manner of crossing road and rail traffic.

² Previously, BiH was not in control of its entire airspace, as the upper airspace was jointly controlled by Croatia and Serbia.

13 Energy policy

The competitiveness of any economy is heavily influenced by its energy policies. This chapter investigates the energy policies in place to ensure that energy markets are well-regulated, sustainable and competitive. The first sub-dimension, governance and regulation, focuses on how the energy markets are governed and whether policy is conducive for establishing efficient and competitive energy markets. The second, energy security, explores measures taken to make the energy sector more resilient, including through the diversification of energy supply. The third sub-dimension, sustainability, focuses on the energy sector decarbonization, including through the promotion of renewable energy and energy efficiency policies. The fourth sub-dimension, energy markets, analyses how energy markets are operated, whether competition is used to promote efficient allocation of energy resources, and the degree of regional integration.

Key findings

Bosnia and Herzegovina's overall performance in energy policy has not progressed since the last assessment (Table 13.1), and its score continued to be the lowest in the Western Balkans. The economy did make progress in the area of renewable energy policy, with the adoption of additional legislation in line with the EU *acquis*. However, insufficient action in the areas of decarbonisation and energy poverty outweighs these positive developments. Moreover, in the area of energy markets, Bosnia and Herzegovina has also demonstrated limited reform efforts, as no major advancements took place during the assessment period.

Table 13.1. Bosnia and Herzegovina's scores for energy policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Energy	12.1: Governance and regulation	1.4	2.1	2.0	3.3
	12.2: Energy security			1.7	2.5
	12.3: Sustainability			2.0	2.8
	12.4: Energy markets			2.0	3.3
Bosnia and Herzegovina's overall score		1.4	2.1	1.9	3.0

The **key findings** are:

- Bosnia and Herzegovina's legal framework has yet to fully transpose the Third Energy Package, ensuring competitive energy markets and unbundling in the electricity and natural gas sectors. Insufficient alignment in legal frameworks and regulatory approaches between the entities and the state level remains an obstacle to the full implementation of integrated energy markets and advancement of regional integration. A working group comprising representatives of the state and both entities was established in October 2023 to address these issues.
- Progress has been made on creating a framework for the decarbonisation of the energy sector and the economy at large, with the development of the draft National Energy and Climate Plan (NECP) in 2023. Yet, the NECP needs to be revised based on feedback from the Energy Community Secretariat and be formally adopted.
- Preparatory work is being conducted on introducing an emissions trading system (ETS) and the development of a roadmap for just transition of coal-rich regions. These policy areas will be key for the decarbonisation of Bosnia and Herzegovina's energy sector and its adaptation to the EU's Carbon Border Adjustment Mechanism (CBAM) Regulation – to which Bosnia and Herzegovina is highly exposed to as a net electricity exporter and an economy that is highly reliant on coal, which represents around 60% of its electricity generation.
- Both entities of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) adopted new laws on renewable energy sources (RES), paving the way for the establishment of competitive capacity assignment mechanisms such as auctions, and moving away from old, less competitive incentives systems based on feed-in tariffs.

State of play and key developments

Sub-dimension 12.1: Governance and regulation

The **energy policy, legal and institutional framework** of Bosnia and Herzegovina is defined at both the state and entity levels as well as at the level of the Brčko District (BD). The overarching strategic document is the Framework Energy Strategy of Bosnia and Herzegovina 2018-35, which was developed jointly by state and entity levels¹ and constitutes an overall roadmap for the energy sector's development involving the different levels of government.

State level legislation² governs the electricity transmission system, while the legal frameworks of the entities³ govern aspects such as generation, use, distribution, and energy efficiency. Most notably, in 2023 the Federation of Bosnia and Herzegovina (FBiH) introduced updates to its legal framework to ensure distribution system operator (DSO) unbundling, strengthen protection of consumers, and introduce other important concepts such as self-consumption, energy communities and provisions to strengthen the uptake of market-based support programmes for renewables. Republika Srpska (RS) also adopted a new renewable energy sources law in 2022, introducing similar provisions.

The framework remains fragmented as the state level, RS and the FBiH sometimes follow different approaches, and insufficient alignment between the entities and with the state level prevent a comprehensive transposition of the Third Energy Package and the Clean Energy Package (European Commission, 2023^[1]). This challenge was recognised by the respective stakeholders at state and entity level and led to the creation of a working group in October 2023 to harmonise the existing legal framework and improve its alignment with the *acquis*. This working group consists of representatives from state and entity level and has the potential to create a more aligned legal framework in Bosnia and Herzegovina.⁴ However, the extent to which this will be fully achieved remains to be seen. During the assessment period, some positive developments have taken place, such as the drafting process of the National Energy and Climate Plan (NECP), which has advanced at state level with the participation of both entities.

Concerning the **energy regulator** in Bosnia and Herzegovina, the latest Implementation Report of the Energy Community Secretariat still points out that the framework is not in compliance with the *acquis* (Energy Community Secretariat, 2023^[2]). Structurally, the coexistence of three regulators, namely the State Electricity Regulatory Commission (SERC) at state level, the Regulatory Commission for Energy (FERK) in FBiH and the Regulatory Commission for Energy of RS (RERS), remains complicated and prone to insufficient alignment and overlapping competencies.

Salaries of the regulatory authorities in RS and the FBiH are comparable to industry standards; no information was provided concerning SERC's salaries. Overall, all regulators are reported to be endowed with sufficient resources, and capacity-building initiatives are being implemented by all regulatory bodies. No involvement with the Agency for the Cooperation of Energy Regulators (ACER) seems to take place in the case of SERC and FERK, while RERS reports some collaboration with ACER.

Sub-dimension 12.2: Energy security

In 2022, in the context of the energy crisis exacerbated by Russia's war of aggression against Ukraine, Bosnia and Herzegovina experienced significant socio-economic impacts due to unexpected and substantial increases in energy prices, particularly affecting oil and gas. The economy's full dependence on the import of these energy sources exacerbated the effects of the crisis. Nevertheless, there is still no structural approach to **crisis response and resilience** apparent in Bosnia and Herzegovina. Ad hoc actions that were taken to tackle the price increases included the publication of guidelines for reducing energy consumption, which drew inspiration from EU Commission recommendations on gas savings.⁵ Additionally, an Energy Security Stress Test was done which included an assessment of the risks associated with natural gas supply disruptions in BiH and security of supply. This assessment aimed to

explore the capacity of transnational energy systems to respond to serious interruptions, with a key goal of maximising synergies at both European and regional levels for the benefit of consumers.

In the FBiH some measures were taken to respond to the financial challenges and security of supply concerns as a result of the crisis. The FBiH's response included wholesale and retail price caps, and full price regulation. However, a structured policy framework to counteract external shocks or produce emergency plans is also absent, indicating a lack of a systematic approach to crisis management. For example, the government's decision to restrict the price of electrical energy for qualified consumers under amendments to the electricity law reflects an ad hoc response rather than a consistent strategy.

While in Bosnia and Herzegovina **diversification of energy supply** is emphasised as crucial for achieving security of supply – with the acknowledgement that it cannot fully ensure energy security independently, particularly due to the absence of its own oil and gas production,⁶ – a comprehensive diversification strategy seems to be absent. The relevant EU regulation concerning measures to safeguard the security of gas supply has also not been transposed into national law.⁷

At state level, the Framework Energy Strategy until 2035 outlines the current state of play and future plans for gas pipelines. This strategy envisions the development of capacities for electricity production from various renewable sources, including hydroelectric, wind, solar power plants, and plants for electricity production from biomass, along with cogeneration (combined heat and power, CHP) plants. Active management of physical market integration with neighbouring economies, understanding and implementing options for supply routes diversification, and developing partnerships with suppliers are regarded as key strategies. The NECP further broadens this view of supply security, looking at least incidentally also at the role of new concepts and services for energy communities.

In RS, a natural gas transport system development plan for 2024-33 is in place. There are plans to connect the city of Bijeljina to the gas network by 2024. Studies have been conducted to assess the adequacy of supply and infrastructure to meet future demand, with an anticipated average increase in consumption of 3.5% per year over the next decade. Despite the fact that natural gas makes up only around 3.6% of BiH's energy mix, it needs to be highlighted that the economy's reliance on a single source of gas presents a big risk and negatively impacts its supply security (Milovan, 2024^[3]) (Radio Slobodna Evropa, 2024^[4]). The NECP also highlights this deficiency, adding that not only does the economy rely on a single supplier, but there is also only one gas pipeline in place.

Infrastructure projects like the Bosnia and Herzegovina - Croatia South Interconnection Gas Pipeline, which is in the design and permitting phase, thus are important as they could enable access to alternative gas sources and competitive European Union markets via Croatia, enhancing security of supply and price competition. This project, however, has not seen much progress recently.

Sub-dimension 12.3: Sustainability

Bosnia and Herzegovina relies on coal for around 60% of its electricity generation, which is used to compensate for a lack of hydro-powered generation in periods of insufficient rainfall. This leads to negative environmental and health impacts and a high level of carbon intensity (around 0.43 kilogrammes of Co₂ per unit of GDP, compared to a regional average of 0.30 and an EU average of 0.13 in 2020).

The state-level Ministry of Foreign Trade and Economic Relations (MoFTER) plays a key role in the process of **energy sector decarbonisation**. It is systematically managing its implementation and working closely with the entity ministries of energy and environment and the government of the Brčko District to establish a coherent policy framework for decarbonisation. In line with these efforts, MoFTER, along with these institutions, prepared and submitted the first draft of the NECP to the Energy Community Secretariat in June 2023. To facilitate the drafting of the NECP, MoFTER established seven different working groups, engaging over 120 nominated representatives from all relevant institutions in Bosnia and Herzegovina, including the Brčko District and the entities. In RS, Regulation (EU) 2018/1999 on the governance of the

energy union and climate action has been partially transposed into national law through the 2023 amendment of the Law on Energy by providing the legal basis for an NECP, marking a first step towards integrating additional EU standards and policies in the area of decarbonisation. The Energy Community Secretariat published its recommendations on the draft NECP in December 2023, giving Bosnia and Herzegovina until June 2024 to address them.

Bosnia and Herzegovina has also secured several critical technical assistance measures to support the decarbonisation process. Notable among these is the development of a Roadmap for the transition of coal-rich regions, with the support of the World Bank. This roadmap explores options for energy conversion, recommendations for retraining and labour mobility, and the repurposing of land from former mines and associated facilities. Furthermore, efforts are under way to create a Roadmap for the introduction of carbon pricing and an emissions trading scheme in Bosnia and Herzegovina. This initiative aims to identify which elements of the EU Emissions Trading System (ETS) and related legislation can be introduced and implemented in the economy. Taking a more active stance on these issues is particularly pressing given the introduction of the Carbon Border Adjustment Mechanism (Box 13.1), which increases the pressure for a full internalisation of externalities in electricity generation.

Box 13.1. The Carbon Border Adjustment Mechanism

The Carbon Border Adjustment Mechanism (CBAM) is a groundbreaking policy initiative by the European Union aimed at mitigating climate change by preventing carbon leakage. Introduced as part of the European Green Deal, CBAM seeks to ensure that the climate efforts within the EU are not undermined by the import of goods from countries with less stringent greenhouse gas emission standards. CBAM introduces both administrative and financial burdens for importers bringing CBAM-regulated goods into the EU from third countries and thus also applies to Energy Community Contracting Parties.

The CBAM regulation targets a select group of emission-intensive products such as iron, steel, cement, aluminium, fertilisers, and electricity. Importers of these goods into the EU are required to purchase carbon certificates that reflect the carbon price that would have been paid if the goods had been produced under the EU's carbon pricing rules. The price of these certificates is linked to the price of EU Emissions Trading System (ETS) allowances.

Specifically for electricity imports, an exemption from CBAM might be granted if the exporting country's electricity sector is closely integrated with that of the EU and adheres to specific climate and energy legislation prerequisites. These prerequisites demand the establishment of an ETS by the year 2030. This direct link between the integration of the electricity market and the promotion of decarbonisation via CBAM underscores the need for a harmonised strategy in terms of policy development, implementation and oversight.

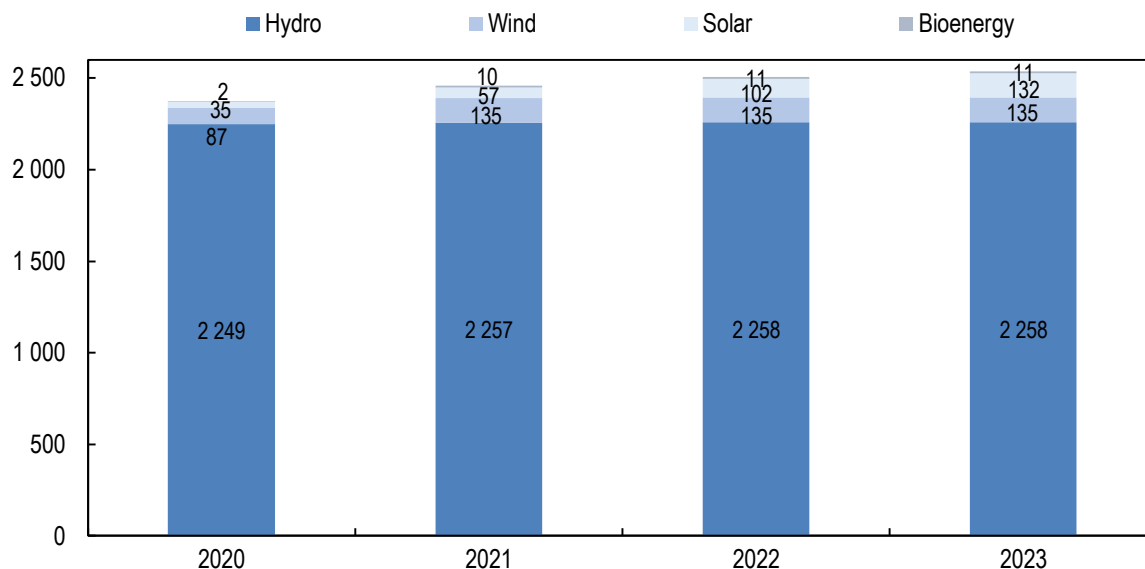
Source: European Union (2023^[5]).

A national Long-Term Strategy with goals to reduce GHG emissions by 2050 has been developed but it does not contain a carbon neutrality target for 2050. Thus, insufficient commitments in the area of decarbonisation are present. A positive development, however, is that plans to expand fossil fuel generation capacity at the Tuzla power plant appear to be off the table (Spasic, 2023^[6]).

Hydropower remains the dominant source of renewable energy in Bosnia and Herzegovina, with other renewable energy sources, such as wind and solar, gradually increasing in capacity over the years, albeit slowly and from a very low level (Figure 13.1). Significant additional efforts are needed to diversify Bosnia and Herzegovina's renewable energy mix.

Figure 13.1. Renewable energy capacities installed in Bosnia and Herzegovina (2020-23)

In megawatts



Source: IRENA (2024^[7]).

StatLink  <https://stat.link/xugehm>

Bosnia and Herzegovina duly recognised the importance of a comprehensive **renewable energy policy** framework, as it boasts considerable potential in renewable energy, including hydropower, solar, and wind. Furthermore, Bosnia and Herzegovina also possesses significant geothermal and biomass potentials. Over the past months a number of developments took place to strengthen such a framework. In February 2022, the National Assembly of RS adopted the Law on Renewable Energy Sources. The FBiH has also adopted a new Law on Renewables in 2023. The two entity laws are harmonised with each other and transpose key provisions of the Renewable Energy Directive. They introduce new concepts such as prosumers and related incentive mechanisms and energy communities. Furthermore, they provide the legal basis for reform of the incentive system, abandoning the current system of feed-in tariffs and moving to market-oriented mechanisms. As also noted by the Energy Community Secretariat (Energy Community Secretariat, 2023^[2]), the implementation of actual auctions still remains outstanding.

Detailed analyses and data from the relevant institutions have informed the draft NECP, defining future installed capacities for renewable energy sources and their annual production. The draft NECP envisages the development of capacities for electricity production using various technologies, such as hydroelectric, wind, solar power plants, and plants for electricity production from biomass.

In the area of **energy efficiency**, despite significant room for improvement, some positive developments are taking place in Bosnia and Herzegovina. The Assembly of the Brčko District of Bosnia and Herzegovina adopted the Law on Energy Efficiency in July 2022. This law is set to be harmonised with the provisions of the Energy Efficiency Directive. Additionally, both entities of Bosnia and Herzegovina plan to work on amending their respective energy efficiency laws to transpose the provisions of that directive. This would

allow them to reap the benefits of a legal framework in line with EU best practices in the area of energy efficiency, fostering more sustainable, competitive, and secure energy systems. Related advantages entail environmental and economic gains associated with reduced energy consumption, as well as broader benefits like enhanced competitiveness and innovation driven by the adaptation to more stringent technical standards. Thus, further alignment with the energy efficiency *acquis* would also enhance the economy's overall competitiveness.

Additional secondary legislation was drafted in the area of energy audits and certification of buildings, and a draft of the Long Term Building Renovation Strategy until 2050 has been prepared. A key priority within the strategy is the adoption of the programme for the renovation of residential buildings (individual and collective housing) in both the FBiH and RS. Efforts are also being made to establish a sustainable financial mechanism for implementing this programme. Furthermore, transposition of the Energy Labelling Regulation has been moved forward, with the adoption of respective rulebooks in the FBiH, and drafted rulebooks in RS, which however have not been adopted yet.

Currently, no definition of **energy poverty** seems to exist in the policy and legal framework of Bosnia and Herzegovina. The topic is, however, planned to form an integral part of the National Energy and Climate Plan (NECP) of Bosnia and Herzegovina. Its draft version also highlights that the absence of a systematic approach to energy poverty is a shortcoming of the legal framework in Bosnia and Herzegovina, and that this should be remedied. Currently, some support measures do exist focusing on the protection of vulnerable customers. The existing measures revolve around direct financial support and reduction of electricity bills. Thus, allocation of funds to vulnerable customers is implemented as a rather ad hoc measure and there is yet to be a structured policy or legal framework established to systematically address energy poverty.

Sub-dimension 12.4: Energy markets

No major developments have taken place in the area of **market operation** in Bosnia and Herzegovina, as no additional steps were taken towards the creation of a day-ahead or intraday market. Bosnia and Herzegovina is thus lagging significantly behind in this area compared to other economies and the Western Balkan 6 region. Developments that can have a positive effect on the overall market environment are taking place in the FBiH, as newly adopted laws are introducing new concepts such as prosumers and energy communities, which can be an impetus for further market development. Also, Working Groups have been created to prepare for additional steps towards the creation of organised markets in line with EU and Energy Community *acquis*. It needs to be noted, however, that the creation of such a dedicated Working Group already dates back to 2022 and insufficient progress in this area is continuously being highlighted by the European Commission and Energy Community Secretariat (Energy Community Secretariat, 2022^[8]) (Energy Community Secretariat, 2023^[2]) (European Commission, 2023^[1]). The Transparency Regulation⁸ has been transposed and is implemented to a large extent with most of the fundamental data being regularly submitted to the transparency platform (Energy Community Secretariat, 2023^[2]) (State Electricity Regulatory Commission, 2022^[9]).

In the area of **unbundling**, the legal framework has been upgraded, as the new Electricity Law in the FBiH does foresee unbundling provisions concerning distribution system operators in line with the EU and Energy Community *acquis*. Implementation of such unbundling, however, allows a two-year delay, which limits the positive aspect of this legal enhancement. Progress in the area of unbundling of transmission system operators also remains outstanding; requirements in line with the Third Energy Package still have not been transposed, as pointed out in the latest Implementation Report of the Energy Community Secretariat.

A positive development took place in the gas sector in RS with the completion of ownership unbundling of GAS PROMET. This achievement has been validated by obtaining a licence along with a positive opinion from the Energy Community, signifying compliance with European standards and practices.

Transparent **third-party access rules** are largely in place in the electricity sector and the transmission network codes have largely transposed the Connection Codes. In the gas sector, however, third party access remains an issue, as for example in the FBiH access takes place subject to negotiation according to the Energy Community Secretariat.

In April 2021, the Independent System Operator in Bosnia and Herzegovina (BiH) published the Indicative Production Development Plan for 2022-31. This plan provides a comprehensive analysis of electricity production, network issues within BiH, and its interconnections with neighbouring economies. Such planning is crucial for ensuring the stability and efficiency of the energy network and can also have a positive impact on **regional market integration** initiatives.

Moreover, BiH is part of a regional initiative involving all other WB6 economies to develop a Regional Feasibility Study for Voltage Profiles Improvement in the Western Balkan 6 Region. This collaborative effort underscores the importance of regional co-operation in addressing common challenges in the energy sector.

The long-term plan for the development of the transmission network in BiH, published by Elektroprijenos BiH in February 2021 for the period 2021-31, addresses congestion issues within the network. The plan suggests solutions such as constructing new interconnection transmission lines and reinforcing the existing transmission network. These measures aim to increase the total transfer capacity (TTC) between BiH and neighbouring economies, thereby enhancing regional connectivity and energy security.

Regional integration could also be strengthened further through two gas interconnector projects – namely, Bosnia and Herzegovina – Croatia North and Bosnia and Herzegovina – Croatia South. As already mentioned above however, the latter has not been progressing lately and it remains to be seen whether the other project, which is currently in the design and permitting phase, can play a meaningful role for further regional integration and diversification of BiH's gas supply.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has tackled the past CO Recommendations only to a limited extent and they largely remain valid (Table 13.2). Additional transposition efforts took place, some even covering aspects of the Clean Energy Package, but overall there still remains a sizeable gap to be closed for full transposition of the Third Energy Package. No progress was achieved towards the creation of day-ahead and intraday markets, and regional integration has not been moved forward. Deficiencies also persist in decarbonisation and energy efficiency where additional actions are required.

Table 13.2. Bosnia and Herzegovina's progress on past recommendations for energy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Harmonise energy policy frameworks across energy sectors and markets, and between the entities	Legal and policy frameworks at state and entity levels remain insufficiently aligned and fail to provide a robust framework, creating the basis for needed next reform steps such as the creation of organised markets, market coupling and further regional integration.	Limited
Undertake wide-ranging reforms to finalise the transposition and implementation of the Third Energy Package (and possibly start work on the Clean Energy Package)	Additional legislation has been adopted to close the existing gaps, but full transposition of the Third Energy Package remains outstanding.	Moderate
Develop and implement a strategy for the introduction of EU-style organised markets in electricity and natural gas	The legal framework advanced through the adoption of the Law on Energy and Law on Electricity at the FBiH level, but no tangible progress is apparent towards the actual creation of EU-style markets.	Limited
Pursue a reinvigorated reform to increase market integration and market coupling	No tangible progress is apparent.	None
Introduce the competitive assignment of renewable projects in combination with good practice subsidisation schemes and simplified procedures	Both entities have adopted new RES laws that provide the legal basis for a reform of the incentive system, abandoning the old system of feed-in tariffs and moving to market-oriented mechanisms.	Moderate
Consider designing a strategy and deploying a greenhouse gas pricing scheme	Some preparatory works and studies have been done, and decarbonisation is a major factor under the NECP drafting process. Avoiding CBAM is also regarded as an incentive to implement an emissions trading system (ETS). Continued reliance on coal, however, questions how seriously the envisaged plans will be further developed and implemented.	Moderate
Expand and pursue a policy to advance energy efficiency	Some additional secondary legislation has been adopted but primary legislation in the area of energy efficiency still needs to be aligned with the applicable <i>acquis</i> .	Limited

The way forward for energy

To tackle the insufficient progress since the last Competitiveness Outlook, Bosnia and Herzegovina needs to streamline its efforts to close the gap with the other economies in the Western Balkan 6 region. The recommendations below would be a good starting point for the needed reforms:

- **Complete the transposition of the Third Energy Package and advance on the Clean Energy Package.** While first steps in this direction have been taken, those efforts need to be further streamlined in full alignment between state level and the entities. In this regard it is of particular importance to ensure the creation of a regulatory authority with sufficient competencies in both the gas and electricity sector, as the absence thereof still presents incompliance with the Third Energy Package. The creation of an organised electricity market will also require additional legislative action at the state level. The Working Group for the continuation of work on the drafting and harmonisation of the Law on Electricity and Gas Regulators, Transmission and Electricity Market in Bosnia and Herzegovina thus should develop concrete proposals for the necessary actions as soon as possible.
- **Create organised markets in line with the EU target model.** Bosnia and Herzegovina is the only economy in the Western Balkans without a day-ahead market for electricity. Creation of day-ahead and intraday markets would strengthen the energy sector of Bosnia and Herzegovina and allow to reap the benefits of well-functioning markets, as well as provide the basis for further regional integration. Parts of the Third Energy Package and the Clean Energy Package have not yet been transposed with the adoption of the Law on Electricity and Gas Regulators, Transmission and Electricity Market in Bosnia and Herzegovina.

- **Phase out coal and develop a comprehensive decarbonisation and diversification policy.** Bosnia and Herzegovina should not rely on additional coal generation, as this contradicts commitments to a more sustainable energy sector and creates additional lock-in effects. A carbon neutrality target should be clearly established in the relevant legislation, going beyond references to achieve carbon neutrality in the NECP. The Energy Community Secretariat's recommendation in response to the submitted NECP should be fully implemented, asking for more concrete targets and policies to implement and monitor the decarbonisation and diversification pathway.
- **Develop a structural approach to crisis response and resilience.** The envisaged working groups to review existing plans and analyses concerning supply security and disruption risks should be created without delay in order to develop comprehensive measures to strengthen the energy sector's resilience. Attention should be given to additional regional integration and institutional co-operation. Furthermore, the Risk Preparedness Regulation should be transposed.
- **Initiate the first Renewable Energy Source (RES) auctions.** With the legal framework for competitive auctions in place, Bosnia and Herzegovina should swiftly move forward with the development of needed additional secondary legislation and hold its first RES auctions to showcase its ability to accommodate competitive mechanisms for additional RES generation. In that regard, removal of remaining administrative hurdles and further simplification of permitting procedures should also be sought to the extent needed to boost the uptake of RES generation in the economy.
- **Introduce prerequisite legislation for implementing the emissions trading system (ETS).** An effective monitoring, reporting and verification (MRV) system is a precondition for the establishment of a fully fledged ETS, and should be covered by the preparatory activities for establishing an ETS. It is necessary to establish framework legislation that provides a suitable legal basis to introduce ETS and the MRV system into BiH's legal system. Furthermore, secondary legislation is necessary to provide detailed rules on MRV.

References

- Energy Community Secretariat (2023), *Annual Implementation Report 2023*, [2]
https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjPjo-C7tiGAXWLcKQEHWpNAwIQFnoECBAQAQ&url=https%3A%2F%2Fwww.energy-community.org%2Fdam%2Fjcr%3A3da7c4f8-ea23-4169-b1e9-66b0ed05fcb7%2FEnC_IR2023.pdf&usq=AOvVaw0SyimfcQ-shn3B1tLQrMnh&
- Energy Community Secretariat (2022), *Annual Implementation Report 2022*, <https://www.energy-community.org/implementation/report/reports/IR2022.html>. [8]
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf. [1]
- European Union (2023), *Regulation (EU) 2023/956 of 10 May 2023 Establishing a Carbon Border Adjustment Mechanism*, <https://eur-lex.europa.eu/eli/reg/2023/956/oj> (accessed on 13 June 2024). [5]
- IRENA (2024), *Renewable Capacity Statistics 2024*, https://mc-cd8320d4-36a1-40ac-83cc-3389-cdn-endpoint.azureedge.net/-/media/Files/IRENA/Agency/Publication/2024/Mar/IRENA_RE_Capacity_Statistics_2024.pdf?rev=a587503ac9a2435c8d13e40081d2ec34. (accessed on 13 June 2024). [7]

- Milovan, A. (2024), *US' Blinken wants Bosnia to End Dependence on Russian Gas*, [3]
<https://www.euractiv.com/section/politics/news/us-blinken-wants-bosnia-to-end-dependence-on-russian-gas/> (accessed on 1 March 2024).
- Radio Slobodna Evropa (2024), *The Federation of Bosnia and Herzegovina Will Pay the Republika Srpska More for the Transport of Russian Gas*, [4]
<https://www.slobodnaevropa.org/a/gas-federacija-rs-plin-bih/32771944.html>.
- Spasic, V. (2023), *Tuzla 7 Coal Plant Project in BiH is Dead, Entity Prime Minister Says*, [6]
<https://balkangreenenergynews.com/tuzla-7-coal-plant-project-in-bih-is-dead-entity-prime-minister-says/>.
- State Electricity Regulatory Commission (2022), *Annual Report*, [9]
<https://www.der.k.ba/DocumentsPDFs/BIH-SERC-Annual-Report-2022.pdf>.

Notes

¹ Based on a proposal from the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, the Council of Ministers issued the Decision to adopt the Framework Energy Strategy of Bosnia and Herzegovina until 2035 at its 152nd session on 29 August 2018, as documented in the *Official Gazette of BiH* (number 70/18).

² Through legislation such as the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina, *Official Gazette BiH*, number 7/02 as amended in 2003 (*Official Gazette BiH*, number 13/03), 2009 (*Official Gazette BiH*, number 76/09) and 2011 (*Official Gazette BiH*, number 1/11), the Law Establishing the Company for the Transmission of Electric Power in Bosnia and Herzegovina, *Official Gazette BiH*, number 35/04 as amended in 2009 (*Official Gazette BiH*, number 76/09) and 2014 (*Official Gazette BiH*, number 20/14) and the Law Establishing an Independent System Operator for the Transmission System of Bosnia and Herzegovina, *Official Gazette BiH*, number 35/04.

³ At the level of the Federation of Bosnia and Herzegovina (FBiH), the three most important laws are the Law on Energy and Regulation of Energy Activities (*Official Gazette FBiH*, number 60/23), Law on Electricity (*Official Gazette FBiH*, number 60/23) and the Law on the Use of Renewable Energy Sources and Efficient Cogeneration (*Official Gazette FBiH*, number 82/23).

RS legislation includes the Law on Energy, *Official Gazette RS*, number 49/09, as amended in 2023 (*Official Gazette of RS*, number 16/23), Electricity Act, *Official Gazette RS*, number 68/20, and the Law on Renewable Sources of Energy, *Official Gazette RS*, number 16/22.

⁴ See Decision number 09-1-02-4032-52/16, dated 2 October 2023 on the appointment of the Working Group for the continuation of work on the drafting and harmonisation of the Law on Electricity and Gas Regulators, Transmission and Electricity Market in Bosnia and Herzegovina (Odluku o imenovanju Radne grupe za nastavak rada na izradi i usaglasavanju Zakona o regulatoru električne energije i prirodnog gasa, prenosu i trzistu električne energije u Bosni i Hercegovini).

⁵ The guidelines for reducing the consumption of energy and energy sources in the Federation of Bosnia and Herzegovina are based on the EU's "Save gas for a safe winter" from July 2022 and the REPowerEU plan published in May 2022. They emphasise the need for increased energy efficiency and a clean transition and diversification of energy supply. Reference is also made to the need to enhance awareness about the potential for energy savings and to introduce proper incentives to change consumer behaviour. The guidelines are available at https://zzofbih.ba/wp-content/uploads/2022/09/informacija-o-donosnju-smjernice-za-smanjenje-potrosnje-u-fbih_cro.pdf.

⁶ See the Framework Energy Strategy of Bosnia and Herzegovina until 2035, *Official Gazette of BiH*, number 70/18 and draft NECP, available at https://www.energy-community.org/dam/jcr:fffa65bf-d137-454d-aad7-992eee783af6/NECP%20BiH%20v.7_ENG.pdf.

⁷ Regulation 2017/1938 concerning measures to safeguard the security of gas supply is designed to ensure a reliable and continuous supply of natural gas, especially in the event of supply disruptions. It established a number of obligations and principles in the area of regular planning and risk assessment as well as in transparency and reporting. It also highlights the importance of regional co-operation and supply diversification, and provides standards for the infrastructure necessary to ensure the security of gas supply. Overall, these principles aim to enhance the preparedness and response to potential gas supply crises, ensuring that the energy needs of citizens and critical services are met even in challenging circumstances. See https://www.energy-community.org/dam/jcr:7af0171c-ddc8-4788-a97b-c9ad4d703a99/REGULATION_EU20171938.pdf and <https://www.entsog.eu/security-supply>.

⁸ Commission Regulation No. 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No. 714/2009 of the European Parliament and of the Council, <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:163:0001:0012:EN:PDF>.

14 Environment policy

A healthy and sustainable environment is crucial for economic competitiveness as it supports resource efficiency, enhances resilience to climate-related risks, fosters innovation, and attracts investments while mitigating environmental degradation and associated costs. The chapter analyses the robustness and comprehensiveness of environment policies across four sub-dimensions. The first sub-dimension, climate action, assesses strategies aimed at both mitigating and adapting to climate change. The second sub-dimension, circular economy, focuses on policies promoting waste minimisation, resource efficiency, as well as sustainable production and consumption. The third sub-dimension, protection of ecosystems, explores challenges in managing freshwater, biodiversity and forestry, as well as land-use. The fourth sub-dimension, depollution, analyses policies related to air quality, water supply and sanitation, and industrial risk management, paramount for enhancing competitiveness while ensuring environmental sustainability.

Key findings

Bosnia and Herzegovina's score for environment policy has increased compared to the last Competitiveness Outlook (Table 14.1), although it remains below the regional average. While some progress has been achieved in enhancing climate action policies and adopting frameworks aimed at reducing pollution, further efforts are needed to improve the circular economy and ecosystem protection frameworks.

Table 14.1. Bosnia and Herzegovina's scores for environment policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Environment	13.1: Climate action			2.3	2.5
	13.2: Circular economy			1.6	2.2
	13.3: Protection of ecosystems			1.8	2.1
	13.4: Depollution			1.9	2.3
Bosnia and Herzegovina		1.3	1.7	1.9	2.3

The **key findings** are:

- Bosnia and Herzegovina has achieved notable advancements in strengthening its climate change framework. This progress is exemplified by the adoption of the Climate Change Adaptation and Low Emission Development Strategy, along with the National Adaptation Plan, which reflect heightened commitments to reduce greenhouse gas emissions and bolster resilience against the impacts of climate change.
- While Bosnia and Herzegovina has begun to develop its circular economy roadmap, and the recently adopted environmental strategies of both entities include the promotion of circular economy principles as a key goal, the integration of these practices by municipalities, citizens and businesses is still at a low level. Moreover, waste management continues to pose a significant challenge in the economy, characterised by a predominant reliance on landfilling and minimal levels of recycling.
- Ongoing efforts are under way to enhance ecosystems' protection, focusing on river basin management and the development of a nature protection framework. Moreover, nature protection information systems were established in both entities to support decision making. However, there is a need to increase both human and financial resources to ensure the efficient implementation of the planned measures. Land use management remains underdeveloped and limited progress was achieved to further develop the related legal and policy frameworks.
- Air, water and soil pollution remain significant environmental challenges. However, there are planned measures to address air quality issues through an improved policy framework and the modernisation of the monitoring network. The water supply and sanitation system framework is under revision to upgrade infrastructure and water fees, and remediation efforts are planned for certain industrial contaminated sites.

State of play and key developments

Sub-dimension 13.1: Climate action

Over the past two decades, Bosnia and Herzegovina has seen a noticeable increase in greenhouse gas (GHG) emissions, despite its modest contribution on the global scale.¹ This rise is attributed predominantly to the economy's heavy dependence on fossil fuels for energy generation, coal in particular. The energy sector constitutes 70% of CO₂ emissions, with energy conversion (thermal power plants, heating plants, transport) and fuel combustion in industry identified as the most energy-intensive sub-sectors (UNFCCC, 2021^[1]). Concurrently, Bosnia and Herzegovina anticipates a growing impact from climate change, with an increased vulnerability to hydrometeorological hazards and natural disasters. The primary drivers of these challenges are expected to be seasonal flooding and periods of drought, posing significant threats to various sectors, with agricultural productivity and water resource management being the most vulnerable. Over the period from 2009 to 2019, the economy encountered extreme weather conditions almost annually,² intensifying spatial variations. Notably, regions experiencing water scarcity were also those having the highest water demands (UNFCCC, 2021^[2]).

To align with its commitments set forth in the United Nations Framework Convention on Climate Change (UNFCCC)³ and the Green Agenda for the Western Balkans, Bosnia and Herzegovina has made substantial strides in strengthening its climate change framework. The revised state-level Climate Change Adaptation and Low Emission Development Strategy (2020-30) was adopted in 2023 with a total budget of EUR 93 million, comprising EUR 8 million for mitigation and EUR 85 million for adaptation measures. The strategy aims to achieve a net reduction of 80% in emissions by 2050 compared to 1990 levels,⁴ in line with the revised Nationally Determined Contributions (NDC) (2021-30). Implementation of the measures outlined in the NDC has been detailed in a specific roadmap and action plan, which include identified investment needs for each sector, with the highest priority given to energy generation, buildings, and transportation.⁵ Moreover, the Environmental Strategy and Action Plan (ESAP) for Bosnia and Herzegovina 2030+, which is currently pending adoption, incorporates a climate change component. The ESAPs for both entities – the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) – as well as the Brčko District have already been adopted by their respective governments in 2023, underscoring a commitment to addressing climate change at all levels of government. Co-ordination among all relevant institutions of Bosnia and Herzegovina⁶ has been strengthened through regular capacity-building activities, mainly conducted by the Global Environment Facility (GEF).⁷

In addition to the aforementioned documents, Bosnia and Herzegovina has strengthened its **climate change mitigation** framework with the adoption of the state-level Energy Strategy until 2035 and the development of the National Energy and Climate Plan (NECP), both defining greenhouse gas emissions reduction targets.⁸ The NECP, planned to be adopted in 2024, will establish a timeline for implementing the measurement, reporting, and verification of GHG emissions. It will also define measures for the introduction of an Emission Trading System, with the aim of having it established by 2026 to meet EU requirements, particularly in anticipation of the Carbon Border Adjustment Mechanism (CBAM).⁹ The FBiH also launched a five-year Green Transition programme in 2024 focusing on decarbonisation and the energy transition, which envisages technical support for firms to prepare for the CBAM.¹⁰ This will be particularly pertinent as economic instruments and incentives to discourage high-carbon behaviour are limited and subsidies for coal-fired power continue, hindering commitments for GHG emissions reduction. In 2023, Bosnia and Herzegovina joined the Climate and Clean Air Coalition (CCAC), endorsing its 2030 Strategy to achieve substantial reductions in short-lived climate pollutants. The strategy aims to limit warming to 1.5°C, and has sought CCAC assistance for national planning and mitigation efforts, with initial projects planned to be launched in 2024. Bosnia and Herzegovina also plans to incorporate considerations for a just transition into its framework and develop a draft Roadmap for the Transition of Coal-Rich Regions in 2023, with the support of the World Bank.¹¹ The roadmap, which remains to be adopted, outlines options for energy conversion, recommendations for retraining and labour mobility, and strategies for repurposing

land previously used for mining and related facilities. With the support of international partners, four local self-government units in Bosnia and Herzegovina will act as pilot areas for a just transition towards decarbonisation, through the identification of strategies to reduce emissions and the promotion of innovative technologies and practices.¹²

Bosnia and Herzegovina is the first economy of the Western Balkans that has adopted a **climate change adaptation**-specific policy framework. The National Adaptation Plan (NAP), adopted in 2022, was developed with the support of the governments of RS, the FBiH and the Brčko District, underscoring readiness to advancing climate change adaptation at all levels of government. The NAP encompasses a comprehensive approach, featuring a risk assessment, future climate projections, a sector-wise overview of climate change impacts, and proposals for medium-term measures. These measures aim to mitigate the adverse effects of climate change on vulnerable areas, such as agriculture, water resources, forest resources, biodiversity, and tourism. In the context of enhancing resilience to climate change impacts, flood hazard and risk mapping has been conducted,¹³ with Flood Risk Management Plans subsequently developed to address and mitigate the identified risks. Nevertheless, emergency responses have not been defined, and compensation programmes are not in place for households, businesses or sub-national governments.

Progress on cross-institutional data collection has started, in line with the NAP. To overcome the deficiency in disaster risk data collection and communication to citizens, Standard Operating Procedures¹⁴ were developed to facilitate both horizontal and vertical institutional co-operation for the exchange of climate data. Additionally, a well-defined framework for monitoring and evaluation has been established, ensuring the systematic updating of the NAP at regular intervals. Specific entity-level Climate Change Committees are also planned to be established to facilitate co-operation.

Sub-dimension 13.2: Circular economy

Shifting to a circular economy necessitates measures addressing the complete life cycle of products, from design and manufacturing to consumption, repair, reuse, recycling, and reintegrating resources into the economy. Currently, resource productivity remains low in Bosnia and Herzegovina and approximately five times lower than in the EU (EUR 0.52/kg in 2021 compared to EUR 2.26/kg in the EU) (Eurostat, 2022_[3]). With a view to adopting enhanced sustainable practices and more effective resource management, Bosnia and Herzegovina is in the process of developing its circular economy roadmap, integrating concepts envisaging **sustainable resource use, consumption, and production**. The process of developing the roadmap involves participation from all sectors of society, including representatives from state and entity-level institutions, the private sector, academia, and civil society, supported by the United Nations Development Programme (UNDP). As part of the process, four main priority areas have been identified: industry, waste, energy and agriculture. While both entities' ESAPs foresee the transition to a circular economy and enhanced waste management, the uptake of such practices has remained limited and awareness of such concepts among citizens and businesses remains low. Limited incentives have been implemented to encourage the transition to a circular economy, such as initiatives to grant eco-labels or promote green public procurement.¹⁵ The circular economy also has yet to be mainstreamed across relevant sectoral policies.

Around 75% of the population is covered by waste management services in Bosnia and Herzegovina, although the figure varies considerably between urban and rural areas, where it can be as low as 40% (EEA, 2021_[4]). **Waste management** remains a significant challenge, primarily due to limitations in infrastructure and operations caused by insufficient funding. The majority of waste is disposed of in non-sanitary landfills¹⁶ and recycling remains minimal (less than 1%). There are more than 1 400 illegal dumpsites across the economy and no measures have been taken to reduce their number. Moreover, while both entities have extended producer responsibility (EPR) schemes in place for different waste streams,¹⁷ lack of enforcement limits their effectiveness. To address these challenges, both entities have

incorporated mandatory targets for the recovery and recycling of packaging waste into their legislative frameworks. In the FBiH, the Decree on Packaging and Packaging Waste Management adopted in 2023 sets a general target, increasing from 37% in 2023 to 45% by 2027 (out of which 5% must be collected from municipal waste), and the RS Law on Waste Management (amended in 2021) establishes a general target of 35%. In 2023, both the FBiH and RS also adopted rulebooks¹⁸ on managing Waste of Electrical and Electronic Equipment (WEEE) aiming to establish a more effective waste management system for electrical and electronic products through separate collection and treatment. Since the FBiH's Waste Management Strategy expired in 2018, only RS has a sector-specific Waste Management Plan (for the period 2019-29), though limited implementation has been noted in the assessed period. Nonetheless, enhanced waste management is one of the strategic objectives included in both entities' ESAPs, notably by reducing waste generation, increasing recycling levels, reducing landfilling and developing new infrastructure. Recognising the challenges posed by plastic pollution in the environment, RS also plans to ban the use of certain disposable plastic products by 2027 (Government of Republika Srpska, 2022^[5]).

Waste service fees collected are insufficient to cover the costs of waste collection throughout the economy, let alone waste infrastructure, and neither entity has undertaken new investments in waste treatment facilities. Moreover, data on waste composition and treatment are of suboptimal quality in both entities as a result of limited reporting by municipalities and the lack of weighting equipment at landfills, hampering proper waste management planning. An attempt to improve data collection has been made in the FBiH with the establishment of the waste management information system as part of the Environmental Protection Fund in 2021, but its impact is yet to be seen.

Sub-dimension 13.3: Protection of ecosystems

Bosnia and Herzegovina is a water-rich economy, with 10 698 m³ of renewable freshwater resources per capita in 2020, more than three times higher than the EU average (3 037 m³) (World Bank, 2023^[6]). Nevertheless, only around one-third of monitored water bodies had good ambient water quality in 2020 (UN Water, 2023^[7]). In addition to increased water pollution and excessive exploitation, the forecasted changes in precipitation and air temperature will negatively affect the current water resources management system. To address the challenges that climate change has on **freshwater management** – particularly shifts in precipitation patterns and increasingly frequent droughts – both entities have made progress in strengthening their respective frameworks. The FBiH is more advanced in this regard, as it has adopted regulations concerning hydropower plants, water intakes and the quality of bathing water in 2022;¹⁹ the FBiH Water Management Strategy (2022-32), aimed at ensuring the sustainable use of freshwater resources; and two water management plans for the preservation of water basins.²⁰ RS also has a Water Management Strategy in force until 2024 and two water management plans.²¹ Implementation is nevertheless lagging in both entities, and monitoring of the RS water strategies has not been undertaken in the assessed period. According to the 2023 Performance Audit Report on River Protection in the FBiH, only 25% of planned measures for river management for the period 2016-20 were implemented, and 39% of necessary funds were invested. Widespread inefficiencies of authorities and insufficient financial resources, inadequate planning of pollution prevention measures, and ineffective inspection processes are highlighted as the main obstacles for implementation of water measures in both entities. Regarding the monitoring of water bodies, only RS has an entity-wide water information system, updated yearly with data on water quantity, quality, allocation and water-related risks. The FBiH only collects water data for the Sava River and Adriatic Sea watersheds. A national water information system has yet to be established to ensure the systematic monitoring of the ecological and chemical status of surface and groundwater in Bosnia and Herzegovina.

Bosnia and Herzegovina holds rich biodiversity, harbouring around one-third of flora endemic to the Balkans. Additionally, around half of its territory is covered by forests (42.7% in 2021), slightly above the EU's 39.9% (World Bank, 2023^[8]). Nevertheless, pressures due to conversion of habitats, overexploitation of resources, increased pollution and climate change directly impact Bosnia and Herzegovina's

ecosystems (Convention on Biological Diversity, 2021^[9]). Some advances can be noted on Bosnia and Herzegovina's **biodiversity and forestry management** frameworks. Both entities have enhanced their legal basis for nature conservation. Despite delays in adopting the FBiH Law on Nature Protection since 2021, the entity adopted several rulebooks pertaining to the assessment and preservation of natural habitats.²² Moreover, RS has prepared the Draft Law on Nature Protection and adopted several bylaws, which prescribe systematic assessment of the state of nature as well as protection and conservation measures for habitats and species. Nevertheless, efforts are needed to strengthen the forestry legislative framework, in particular in the FBiH. Although the FBiH Law on Forests, submitted to the parliament in 2017, has not been adopted, nine cantons have independently enacted local forestry laws.²³ The delay in adopting the entity-wide law hinders effective vertical and horizontal co-ordination between cantons and the state-level ministry. Moreover, the Federal Institute for Nature Protection of the FBiH has not been established as mandated by law, representing a significant obstacle in the entity to advancing efforts in this area. Policy-wise, the state-level (still to be adopted) and both entities' ESAPs (2022-32) include comprehensive and targeted actions for biodiversity and forestry management, namely improved monitoring, reporting and institutional capacities. Awareness-raising activities on the protection of biodiversity are also planned as part of both entities' frameworks. Nevertheless, the establishment of new protected areas is proceeding slowly, with shares of protected areas remaining minimal in both entities (less than 5%²⁴) and well below international targets.²⁵ While forestry inventories have not been conducted in recent years in either entity, hindering the effective management of natural resources, both entities have established natural protection information systems ("e-nature"), intended to facilitate systematic monitoring of the state of biodiversity within both entities. Moreover, a state-level assessment of ecosystem services (2023) has been conducted in collaboration with international partners to map the current status and trends of biodiversity, emphasise the benefits of natural resources, and identify lingering challenges (World Conservation Monitoring Centre, 2023^[10]).

Land use management in Bosnia and Herzegovina remains underdeveloped, although some strides have been made to incorporate land use considerations into policy documents. The Spatial Plan of the FBiH (2008-28), which aimed to establish development plans to outline objectives for the development, protection and use of land, including protected areas, has never been adopted. While an integrated approach to land use has yet to be established, both entities' ESAPs envision sustainable land management and the protection of land resources. These strategies outline measures to strengthen the legal and institutional frameworks related to land use, aiming to achieve land degradation neutrality by 2030. Specifically, the measures target the sustainable utilisation of natural resources in the agriculture, forestry, and fishing sectors to prevent degradation resulting from excessive exploitation. As part of its ESAP, RS is also planning to develop an action plan for the sustainable use of pesticides in agriculture and forestry. Moreover, legislation concerning changes in agricultural land use, particularly addressing illegal construction, has been reinforced in RS through amendments to the Law on Agricultural Land, adopted in 2021 and 2022. However, the implementation of measures to combat soil erosion, restore degraded land, and curb urban sprawl into green areas has been limited thus far. Furthermore, data on land use remain scarce and they lack georeferencing and harmonisation across government bodies.

Sub-dimension 13.4 Depollution

Air quality continues to be a significant concern in Bosnia and Herzegovina, with annual average concentrations of fine particulate matter (PM_{2.5}) reaching 21.9 micrograms per cubic metre (µg/m³) in 2021, more than four times higher than World Health Organization (WHO)-recommended levels of 5 µg/m³ (EEA, 2023^[11]). Moreover, Bosnia and Herzegovina has the fifth-highest mortality rate from air pollution in the world, representing 9% of all deaths in the economy (World Health Organisation, 2023^[12]). Air pollution primarily stems from the reliance on lignite for electricity generation, a low-quality polluting type of coal, and is exacerbated during winter months due to the use of coal and wood for heating. While alignment with EU requirements on air quality remains limited,²⁶ advances in the legal framework are ongoing in FBiH,

through the planned adoption of the proposed Law on Air Protection at the end of 2024. The Law will establish a unified air quality management system within the entity and regulate emissions from industrial plants. Cross-institution co-ordination within FBiH has been enhanced with the establishment of a working group for the preparation of the law. Air pollution objectives and targets have also been included in the state-level and entities' ESAPs. For instance, RS plans to update the real-time air quality public information system and develop an emissions reporting mechanism aligned with international standards. In the FBiH, the focus will be on reducing emissions from large combustion plants and alignment with best available techniques.²⁷ Air quality data management and monitoring were considerably improved at the state level, with the establishment of a database for comprehensive and harmonised data with the support of an international project, completed in 2021.²⁸ To widen the coverage of the national air-monitoring network, additional monitoring stations were installed in both entities. Moreover, as part of this project, inspection capacity was strengthened (four new experts were hired) and nationwide awareness-raising campaigns were conducted.²⁹ Other measures have been taken to enhance air quality, including the implementation of a low emission zones (LEZs) assessment report in Sarajevo, accompanied by a corresponding five-year implementation plan. Additionally, recommendations have been developed to promote cycling practices in Banja Luka, with the aim of reducing emissions from vehicles.

Water supply and sanitation remains a challenge in Bosnia and Herzegovina, as around 85% of the population had access to piped water supply but, though improving, only 48% was connected to a sewerage system (World Bank, 2021_[13]). Water loss in public systems also remains an important concern, still high at 49% (World Bank, 2021_[13]). Both entities report the lack of human and financial capacities to implement water supply and sanitation measures. To address these challenges, both entities have adopted Programmes for the Improvement of Water Services (2022-32) to develop a more sustainable water service sector. These programmes are also the basis for improving the regulatory, institutional and financial framework on water supply and sanitation. In this regard, both entities are preparing changes to the legislation regulating the provision of water services. In RS, the Draft Water Services Law and bylaws are under development, initiated by a newly formed working group in 2022 led by the Ministry of Agriculture, Forestry and Water Management and comprising relevant institutions. The objective of the law is to regulate competencies at the local self-government and utilities levels on managing water supplies, establishing water tariffs, and facilitating contracts for the provision of water services. The FBiH has also adopted a new methodology for water service pricing in 2022 to guide sustainable water and sanitation tariffs for public water utilities. A new Law on Water Services is also under preparation, with the support of a newly established interdepartmental working group. Funding to upgrade water supply and sanitation infrastructure has been secured, with a notable commitment from a EUR 25 million loan provided by the World Bank for the modernisation of water services, scheduled to commence in 2024.

Activities have been undertaken to further develop the framework for **industrial risk management**, although it largely remains underdeveloped. Industrial risk considerations have been integrated into both entities' ESAPs, including measures to further align with the EU *acquis* on chemical safety, noise and industrial data collection. While no developments were reported on the legislative side in RS, the FBiH adopted three regulations between 2021 and 2023 to further align with the EU Seveso III Directive on preventing major industrial accidents.³⁰ These regulations delineate specific obligations, such as the preparation of safety reports, emergency plans, and communication with the public, for operators handling hazardous substances that have the potential to cause significant accidents, and the establishment of an electronic register comprising these operators. On chemicals management, RS closely aligns with the EU *acquis*.³¹ However, in the FBiH, despite the adoption of the Law on Chemicals in 2020, the absence of corresponding bylaws and that of a chemical inventory system have impeded effective enforcement. Promisingly, ESAPs from both entities envisage enhanced capacity building for inspection services in the field of chemical safety. Development of the Pollutant Release and Transfer Register (PRTR) system to track the release and transfer of pollutants from industrial facilities into the environment is ongoing for all levels of government as part of an international project.³² The project's activities encompass several key components, including an evaluation of the current status of environmental data sourced from industrial

facilities. Additionally, it involves providing support for the ratification of the PRTR Protocol, establishing a network tool dedicated to PRTR reporting, and facilitating capacity-building initiatives across institutional, operational, and civil society levels. A general policy basis for soil protection does not exist at the state or entity levels, but activities for the cleanup of contaminated sites are envisaged in both entities' ESAPs. For instance, RS aims at rehabilitating at least 50% of noncompliant landfills until 2032, and the FBiH foresees the reconversion of abandoned mining areas.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina's progress on implementing past CO Recommendations has been mixed. Below, Table 14.2 shows the economy's progress on implementing past recommendations for environment policy.

Table 14.2. Bosnia and Herzegovina's progress on past recommendations for environment policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Improve the wastewater system by replacing the outdated water and sanitation infrastructure and apply the water-user and polluter-pays principles for all water users and dischargers	Currently, only around half of the population in BiH is connected to the sewerage system. The wastewater system remains outdated. Nevertheless, both entities are preparing changes to the legislation regulating the provision of water services. Respective programmes for the Improvement of Water Services were adopted at the entity level to develop a more sustainable water service sector in BiH. There are also several ongoing loans for water supply and sanitation infrastructure.	Moderate
Enhance air quality by reducing emissions from the transport sector, industry and domestic heating	Clear objectives and targets for improving air quality are included in the entity-level environmental strategies. The first-ever database for comprehensive and harmonised data management was established and additional monitoring stations were installed. Several programmes were implemented to increase air quality throughout BiH. Population exposure to PM _{2.5} has been reduced in the past 10 years, but still remains well above WHO-recommended levels.	Moderate

The way forward for environment policy

While Bosnia and Herzegovina has strengthened its regulatory and policy frameworks in several areas of environment policy, overall implementation could be further improved. Some of the priorities are as follows:

- **Strengthen collaboration among relevant stakeholders and partnerships between public and private organisations to ensure a transition to a circular economy.** While Bosnia and Herzegovina has commenced the process of developing a circular economy, promoting intersectoral, cross-agency and interdepartmental collaboration would help scale up innovative circular business models, as the circular economy concept cuts across economic sectors and value chains as well as the competencies of public authorities. Bosnia and Herzegovina could establish a circular economy stakeholder/business platform to strengthen collaboration, information exchange and the exchange of good practices. Besides enabling collaboration and networking opportunities between the public and private sectors, such platforms may also facilitate synergies and knowledge sharing across the different parts of the value chain. Most European countries have established national circular economy stakeholder platforms or hubs, which serve as fora for information exchange; peer learning; multi-stakeholder co-operation; and a depository of information, data and other relevant material (see Box 14.1 for a few examples).

Box 14.1. Examples of circular economy platforms/hubs

- **Slovak Circular Economy Platform (Circular Slovak Republic)** – established in the form of a public-private partnership by the Slovak Ministry of Environment, the Embassy of the Kingdom of the Netherlands, the Institute for Circular Economy, PwC Slovak Republic, the Slovak Business Agency and the Slovak Environment Agency in 2019. Its main goals are to promote circular economy to businesses as an approach that provides economic benefits and opportunities, exchange, information and experience; to help build business partnerships and new projects; to inform businesses about the latest legislation in the area; and to support their participation in the policy-making process. The platform also helps increase discussion between the public and private sectors as well as among businesses themselves.
- **Circular Glasgow** – hosted since 2015 by the Glasgow Chamber of Commerce, Zero Waste Scotland and the Glasgow City Council (United Kingdom). Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas. This is done through workshops and events – a series of knowledge-sharing business-to-business networking events; a circle assessment – a tool that helps businesses understand opportunities to become more circular; and the Circle Lab – an online hackathon event to find a circular solution to local challenges.
- **The Italian Circular Economy Stakeholder Platform** – established in 2018 by the National Agency for New Technologies, Energy and Sustainable Economic Development, as a mirror initiative of the European Circular Economy Stakeholder Platform. It acts through six working groups: 1) research and eco-innovation; 2) policy and governance; 3) measuring the circular economy; 4) sustainable and circular design, production, distribution and consumption; 5) cities and territory; and 6) good practices. The platform aims to foster synergies among relevant stakeholders, overcome the fragmentation of initiatives at the Italian level, map good practices, and promote the Italian way for the circular economy at the national and international level.
- **Turkey Circular Economy Platform** – established in 2020 by the Business Council for Sustainable Development of Türkiye. The platform aims to provide practical solutions, incentives, news and opportunities in the circular economy field. It includes a knowledge hub, an e-commerce platform for industrial symbiosis (as part of Türkiye Materials Marketplace, established in 2016) and measurement tools, and offers training, financial opportunities, and consultancy services for companies that are looking to accelerate their circular transition.

Sources: OECD (2021^[14]; 2024^[15]).

- **Ensure implementation of waste management measures planned as part of both entities' Environment Strategy and Action Plans.** While implementation of waste measures has remained limited in the assessed period, both entities have adopted environment strategies that include objectives to reduce waste generation, increase recycling levels and reduce landfilling. Moreover, RS revised its waste management law to include waste recycling targets. To ensure proper collection and recycling of waste and shift end-of-life management costs of products from the public sector to producers and consumers, both entities should enforce extended producer responsibility programmes, which are prescribed in both waste laws. To do so, entities can follow the guiding principles laid out in Box 14.2.

Box 14.2. Guidance on implementing extended producer responsibility take-back schemes

OECD EPR Guidance

To effectively implement extended producer responsibility (EPR) take-back schemes to shift the end-of-life management costs of products from the public sector to producers and consumers, and to increase the collection and recycling rates of these waste streams, economies should ensure the application of the following principles (the selection is based on the OECD EPR Guidance):

- *Clear legal framework*: The legislation should be clear on the definitions and responsibilities of all actors involved in EPR. There needs to be a legal framework for producer responsibility organisations to operate. The EPR targets need to be periodically reviewed.
- *Transparency*: The governance of EPR systems needs to be transparent to provide more effective means for assessing the performance of the actors involved and holding them accountable for their activities. This will require collecting both technical and financial data and setting up registers of producers, accreditation of producer responsibility organisations, and appropriate sanctions.
- *Sufficient existing waste management capacity*: For EPRs to work effectively, adequate waste infrastructure needs to be in place across the country, including infrastructure for waste separation at source, collection and treatment (ideally recycling).
- *Administrative oversight capacity for better enforcement*: This concerns enforcement capacity to prevent unauthorised facilities and collection points from operation. This should also minimise free-riding and noncompliance.
- *Stakeholder engagement*: Platforms for dialogue among stakeholders need to be established.

Prevent Waste Alliance EPR Toolbox

To facilitate the adoption of general good practices and OECD guidance on EPR, authorities and other relevant actors could make use of the EPR Toolbox developed by Prevent Waste Alliance, consult on other international practices and participate in knowledge exchange to enhance the functioning of the domestic EPR system. The EPR Toolbox contains three modules that span more general aspects of an EPR, including the monitoring of financial flows, but also focus on concrete actions, such as the integration of the informal sector or the creation of a market for recycled plastics.

Data collection and processing for EPR schemes, example of the Czech Republic

While certain technical requirements must be met, the first step towards ensuring transparency of EPR schemes is effective co-ordination and compliance with reporting obligations under applicable legislation. Czechia's electronic registry for waste is an exemplary model of a successful national waste information database. Recently rated as the best European system for waste data management and evaluation by the European Topic Centre for Circular, it employs two distinct systems. One handles the mandatory data reported by entities subject to relevant legal acts (Information System for Reporting Obligations) while the other manages the subsequent verification, processing and evaluation of the reported data (Information System for Waste Management). This streamlined process is further enhanced by extending verification authority to municipal and regional authorities, with the Environmental Information Agency functioning as the central data hub. By engaging a diverse array of stakeholders, including the statistical office, the information system becomes a catalyst for the development and implementation of evidence-based waste management policies.

Sources: OECD (2016^[16]); Prevent Waste Alliance (2023^[17]); Tuscano et al. (2022^[18]).

- **Improve air quality by decreasing emissions from energy production and industrial processes.** Air pollution remains a significant environmental concern in Bosnia and Herzegovina. While the problem is multifaceted, industrial activities (in particular steelmaking and aluminium) and energy production are some of the main sources of pollution in the country, releasing large amounts of pollutants into the air. To ensure adequate pollution control measures in industries and power plants and reduce levels of harmful substances, Bosnia and Herzegovina could refer to the EU's Best Available Techniques Reference Documents to ensure effective enforcement and regulatory compliance (Box 14.3).

Box 14.3. EU's Best Available Techniques Reference Documents

The EU's BREFs, or Best Available Techniques Reference Documents, are a series of guidance documents developed by the European Integrated Pollution Prevention and Control Bureau (EIPPCB). These documents provide detailed information on Best Available Techniques (BAT) in various industrial sectors to prevent or reduce emissions and the impact of industrial activities on the environment. The BREFs are an integral part of the European Union's efforts to regulate industrial emissions and ensure environmental protection.

Key points about the EU's BREF documents:

- *Best Available Techniques (BAT)* – BAT represents the most effective and advanced methods and processes to achieve a high level of environmental protection. It considers the costs and benefits of different techniques for preventing or controlling emissions.
- *Sector-Specific Guidance* – The BREF documents are sector-specific, covering various industries such as energy, chemicals, metals, waste management, and more. Each BREF focuses on a particular industrial sector and provides comprehensive information on the best practices within that sector.
- *Legal Framework* – The BREFs play a crucial role in the implementation of the Industrial Emissions Directive (2010/75/EU), formerly known as the Integrated Pollution Prevention and Control (IPPC) Directive. This directive sets the legal framework for controlling industrial emissions across the EU.
- *Review and Updating* – The BREF documents undergo regular reviews and updates to incorporate new technological advancements, changes in regulations, and improvements in best practices. The process involves consultations with industry stakeholders, environmental NGOs, and experts.

Source: EEA (2024^[19]).

- **Adopt a comprehensive and integrated water management framework in light of the pressing challenges posed by water pollution and the impacts of climate change.** Bosnia and Herzegovina's freshwater resources face increased pollution caused by industrial discharges, improper waste disposal and plastic pollution. Wastewater is largely treated and often discharged in river basins. Moreover, increased droughts and floods caused by the changing climate has significant effects on water security and brings high levels of uncertainty related to its impacts on water bodies on a local level and over different timescales. An integrated framework will require enhanced collaboration among the various government departments and agencies involved in water management, pollution control, and climate resilience. In addressing the integration of climate change impacts into water management, entities could adopt a similar approach to the Netherlands Room for the River programme, a large-scale, integrated water management initiative

aimed at mitigating flood risks and enhancing overall river management. It involves creating additional space for the river to expand during floods, along with measures such as constructing floodplains, removing barriers, and promoting sustainable land use to enhance overall water resilience. Moreover, it emphasises community involvement to create awareness, garner support, and incorporate local knowledge into the planning and implementation process (Ministry of Infrastructure and Water Management, 2024^[20]).

References

- Convention on Biological Diversity (2021), *Bosnia and Herzegovina - Biodiversity facts*, [9]
[https://www.cbd.int/countries/profile/?country=ba#:~:text=Biodiversity%20Facts&text=Thirty%20percent%20\(around%201%2C800%20species,fauna%2C%20fungi%20and%20habitat%20types](https://www.cbd.int/countries/profile/?country=ba#:~:text=Biodiversity%20Facts&text=Thirty%20percent%20(around%201%2C800%20species,fauna%2C%20fungi%20and%20habitat%20types). (accessed on 31 January 2024).
- EEA (2024), *EU Best Available Techniques Reference Documents*, [19]
<https://www.eea.europa.eu/themes/air/links/guidance-and-tools/eu-best-available-technology-reference>. (accessed on 14 December 2023).
- EEA (2023), *Bosnia and Herzegovina – Air Pollution Country Fact Sheet*, [11]
<https://www.eea.europa.eu/themes/air/country-fact-sheets/2023-country-fact-sheets/bosnia-and-herzegovina-air> (accessed on 9 February 2024).
- EEA (2021), *Municipal Waste Management - Bosnia and Herzegovina*, [4]
<https://www.eea.europa.eu/themes/waste/waste-management/municipal-waste-management-country-profiles/bosnia-and-herzegovina-municipal-waste#:~:text=In%20Bosnia%20and%20Herzegovina%2C%20around,several%20others%20are%20being%20planned>. (accessed on 14 June 2024).
- European Commission (2023), *European Innovation Scoreboard*, <http://op.europa.eu/en/web/eu-law-and-publications/publication-detail/-/publication/04797497-25de-11ee-a2d3-01aa75ed71a1>. [23]
- Eurostat (2022), *Material Flow Accounts*, [3]
https://ec.europa.eu/eurostat/databrowser/view/ENV_AC_MFA/default/table?lang=en
 (accessed on 1 March 2024).
- Government of Republika Srpska (2022), *Environmental Strategy of Republika Srpska 2022–2032*, Official Gazette of the Republika Srpska, number 118/22, https://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mgr/Documents/ENVIRONMENTAL%20STRATEGY%20OF%20REPUBLICA%20SRPSKA%202022%20to%202032_462217192.pdf. [5]
- Ministry of Infrastructure and Water Management (2024), *Room for the River*, [20]
<https://www.rijkswaterstaat.nl/en/projects/iconic-structures/room-for-the-river> (accessed on 2 February 2024).
- OECD (2024), *A Roadmap Towards Circular Economy of North Macedonia*, OECD Publishing, Paris, <https://doi.org/10.1787/1973c88c-en>. [15]
- OECD (2021), *Digital Trade Inventory*, <https://doi.org/10.1787/9a9821e0-en>. [14]

- OECD (2016), *Extended Producer Responsibility: Updated Guidance for Efficient Waste Management*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264256385-en>. [16]
- PREVENT WASTE Alliance (2023), *EPR Toolbox*, GIZ, Bonn, Germany, <https://prevent-waste.net/epr-toolbox>. [17]
- RCC (2021), *Balkan Barometer*, Regional Cooperation Council, <https://www.rcc.int/balkanbarometer/publications>. [21]
- Tuscano, J. et al. (2022), *Electronic Registries for Waste Across Europe*, <https://www.eionet.europa.eu/etcs/etc-ce/products/etc-ce-products/etc-ce-report-3-2022-electronic-registries-for-waste-across-europe>. [18]
- UN Water (2023), *SDG 6 Data - Bosnia and Herzegovina*, <https://www.sdg6data.org/en/country-or-area/Bosnia%20and%20Herzegovina> (accessed on 26 February 2024). [7]
- UNDP (n.d.), *Climate Promise: Bosnia and Herzegovina*, <https://climatepromise.undp.org/what-we-do/where-we-work/bosnia-and-herzegovina> (accessed on 10 May 2024). [22]
- UNFCCC (2021), *Fourth National Communication of Bosnia and Herzegovina*, GEF, UNDP, https://unfccc.int/sites/default/files/resource/FNC%20BiH_ENG%20fin.pdf. [1]
- UNFCCC (2021), *Nationally Determined Contribution of Bosnia and Herzegovina for the period 2020-2030*, <https://unfccc.int/NDCREG>. [2]
- World Bank (2023), *Forest Area (% of Total Land)*, <https://data.worldbank.org/indicator/AG.LND.FRST.ZS> (accessed on 17 January 2024). [8]
- World Bank (2023), *Renewable Internal Freshwater Resources per Capita (Cubic Meters)*, <https://data.worldbank.org/indicator/ER.H2O.INTR.PC> (accessed on 2 February 2024). [6]
- World Bank (2021), *BiH Water and Sanitation Services Modernization Project*, <https://documents1.worldbank.org/curated/en/363801641931370816/pdf/Bosnia-and-Herzegovina-Water-and-Sanitation-Services-Modernization-Project.pdf>. [13]
- World Conservation Monitoring Centre (2023), *Assessment of the State of Nature and Management of Natural Resources*, <https://www.procjenapriode.ba/wp-content/uploads/2023/06/koristi-od-priode-u-bih.pdf>. [10]
- World Health Organisation (2023), *World Health Statistics 2023 - Monitoring health for the SDGs*, World Health Organisation, Geneva, <https://www.who.int/data/gho/publications/world-health-statistics> (accessed on 1 March 2024). [12]

Notes

¹ Bosnia and Herzegovina's share of global GHG emissions is 0.05%, according to the World Resources Institute (UNDP, n.d.^[22]).

² Floods in 2009, 2010, 2014, 2018 and 2019, drought and heat waves in 2011, 2012, 2013, 2015, 2016 and 2017, cold waves in early 2012, strong wind in mid-2012 and late 2017, and an extremely large number of hail days in 2018.

³ Bosnia and Herzegovina, as a Non-Annex I signatory to the UNFCCC, has committed to achieving net-zero emissions by mid-century.

⁴ 50% reduction of greenhouse gas emissions by 2050 compared to 2014 levels.

⁵ Key measures encompass various initiatives, such as evaluating the contributions of private sector endeavours, forecasting GHG emissions and removals, monitoring and evaluating NDC, engaging in policy dialogues with the participation of all segments of society, and conducting training and capacity-building activities.

⁶ In Bosnia and Herzegovina, environmental policies are managed by the two entities – the Federation of Bosnia and Herzegovina (FBiH), Republika Srpska (RS) – and the Brčko District, all of which apply laws, regulations, and standards. The Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina is tasked with responsibilities related to defining policy, establishing basic principles, co-ordinating activities, and harmonising plans among entity authorities and institutions at the international level. Plans specifically relate to the fields of agriculture, energy, environment, development and use of natural resources, and tourism. Competent institutions at the entity level include the FBiH Ministry of Environment and Tourism; the Ministry of Spatial Planning, Civil Engineering and Ecology of RS; and the Department of Spatial Planning and Property Legal Affairs in the Brčko District.

⁷ Such activities have been organised as part of the Capacity-building Initiative for Transparency (CBIT) project, financed by the Global Environment Facility (GEF) (2020-24), aiming at supporting BiH's National Adaptation Plan, Fourth National Communication and Third Biennial report. Workshops and conferences were carried out.

⁸ The targets are as follows:

- Reduction of greenhouse gas emissions compared to 1990, including sinks: 41.21%
- Share of renewable energy sources in gross final energy consumption: 43.62%
- Energy efficiency - Primary energy consumption: 6.84 mega tonnes of oil equivalent (Mtoe)
- Energy efficiency - Final energy consumption: 4.34 Mtoe.

⁹ A carbon pricing mechanism, ideally an emissions trading system (ETS) in all economies, will be crucial to cope with the impacts of the EU's Carbon Border Adjustment Mechanism (CBAM) on high-carbon exports. The CBAM is expected to become operational in 2026 and gradually apply to a select number of goods with a high risk of carbon leakage (iron and steel, cement, fertiliser, aluminium, and electricity generation). As EU importers will buy carbon certificates corresponding to the carbon price that would have been paid had the goods been produced under the European Union's carbon pricing rules, non-EU

producers such as the WB6 economies will be encouraged to green their processes and lower production-related emissions.

¹⁰ The programme outlines business transformation support aimed at assisting a minimum of 100 companies operating within sectors of metal, wood, textile, construction, and plastics. The incentives provided are intended to foster circularity practices and facilitate preparation for green financial support.

¹¹ As part of the project "Supporting energy transition in coal-rich regions".

¹² The Sustainable Transition of Bosnia and Herzegovina programme was launched in 2023 and is implemented by the Stockholm Environment Institute (SEI), in collaboration with the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER), the Swedish International Development Cooperation Agency (Sida) and four local self-government units – Banovići, Breza, Ugljevik and Živinice.

¹³ As part of the IPA project, "Support to Flood Protection and Flood Risk Management" (2016-23).

¹⁴ Standard Operating Procedures (SOPs) are documented guidelines or instructions that outline the steps and processes to be followed for routine or repetitive tasks. SOPs are developed to ensure consistency, efficiency, and compliance with established standards or regulations.

¹⁵ To address this, the Public Procurement Agency of Bosnia and Herzegovina, with technical assistance from the UNDP and the Delegation of the EU, has initiated the development of the Public Procurement Development Strategy 2024-28. This new strategy will prioritise the introduction of Green and Socially Responsible Public Procurement as one of its strategic priorities.

¹⁶ In non-sanitary landfills no fee has to be paid, and only around one-third of the waste is disposed of in sanitary landfills.

¹⁷ Extended producer responsibility (EPR) schemes are regulatory policies that assign the responsibility for the end-of-life disposal of products to the manufacturers, encouraging them to design products that are easier to reuse, recycle, or dispose of properly.

Both entities have EPR schemes in place for packaging waste and waste electrical and electronic equipment (WEEE). RS also has EPR schemes in place for waste tires, end of life vehicles, waste mineral and synthetic oils as well as carrier plastic bags.

¹⁸ Rulebook on the management of waste from electrical and electronic products (2023), as published in the *Official Gazette of the Federation of BiH*, number 23/23; and the Rulebook on electrical waste management and electronic products (2023), as published in the *Official Gazette of the Republic of Srpska*, number 36.

¹⁹ The Ordinance of Determination of the Ecologically Acceptable Flow and the Ordinance of Issuing the Water Acts/Permits were both amended in August 2022, and the new Ordinance on Bathing Areas and Criteria for Determining the Quality of Bathing Water was adopted in 2022, transposing the Bathing Water Directive (2006/7/EC).

²⁰ Water Management Plan for Water Area of the Sava River in the Federation of Bosnia and Herzegovina 2022-27, and Water Management Plan for Water Area of the Adriatic Sea in the Federation of Bosnia and Herzegovina 2022-27.

²¹ Sava/Danube and Trebišnjica/Adriatic Sea.

²² Rulebook on conditions and methods of establishing and managing the cadastre of speleological objects (2021); Rulebook on ways, methods and technical means that least interfere with wild species/subspecies or the habitats of their populations, and on limiting encroachment into the habitats of populations of animal species in the time that coincides with their vital periods (2021); Rulebook on the prohibition of the use of means and methods for killing birds and hunting from vehicles (2022); Rulebook on the prohibition of the use of means for catching or killing wild species and methods of transportation (2022); Rulebook on conditions and methods of cross-border trade with endangered species of wild animals and plants in the Federation of Bosnia and Herzegovina (2022).

²³ All cantons except for Herzegovina-Neretva.

²⁴ Protected terrestrial and marine areas made up 4.1% of the total area of Bosnia and Herzegovina in 2022, a negligible increase from 4% in 2021 (RCC, 2021^[21]). The share of protected terrestrial areas was 2.96% in RS and 4.7% in the FBiH.

²⁵ The Aichi targets for 2020 aimed to achieve 17% coverage for terrestrial protected areas and 10% for marine protected areas, and the Kunming-Montreal Global Biodiversity Framework envisages the protection of 30% of terrestrial and marine environments.

²⁶ In particular with regard to the EU Directive on the reduction of national emissions of certain atmospheric pollutants, the *acquis* on volatile organic compounds (VOC), and the *acquis* on reducing the sulphur content of certain liquid fuels, on which penalties have been applied since January 2021 (European Commission, 2023^[23]).

²⁷ “Best available techniques” (BATs) refers to the most effective and advanced methods for preventing or minimising emissions and impacts on the environment. BATs are employed to achieve a high level of environmental protection and are often used as a regulatory concept in environmental legislation.

²⁸ Improving Air Quality and Air Management (IMPAQ) Programme 2017-2021, implemented by the Swedish Environmental Protection Agency.

²⁹ These campaigns included billboard ads, flyers at health centres, targeted messaging through news outlets on TV and radio, and a public website publishing real-time air quality data collected from monitoring stations.

³⁰ The Seveso III Directive (Directive 2012/18/EU) on the control of major-accident hazards involving dangerous substances provides for the relevant framework on risk management measures to prevent major accidents and to limit their consequences.

³¹ REACH (Registration, Evaluation, Authorisation, and Restriction of Chemicals) Regulation, CLP (Classification, Labelling, and Packaging of Substances and Mixtures) Regulation, and Biocidal Products Regulation.

³² “Improvement of registers of discharge and transfer of polluting substances (PRTR) in the countries of the Western Balkans and the Republic of Moldova”, which is implemented by the Federal Ministry of Environment, Nature Conservation and Nuclear Safety of Germany and the German Federal Environment Agency. Beneficiaries include MOFTER, the Federal Ministry of Environment and Tourism, the Ministry of Spatial Planning, Construction and Environmental Protection of the Republic of Srpska, and the Brčko District Department.

15 Agriculture policy

Agricultural development remains a priority for all economies, not only in response to the essential resource needs of a growing population but also due to its substantial contributions to total employment and GDP. The chapter analyses the performance and trends of agriculture policies across three sub-dimensions. The first sub-dimension, rural development and infrastructure, assesses strategies and programs related to rural infrastructure, livelihood support, and irrigation systems. The second sub-dimension, agricultural support systems, covers the policy, governance and instruments in the agricultural sector. The third sub-dimension, food safety and quality, focuses on the policy framework regulating food safety and on the food quality legislation and agencies, which are key tools in an economy's path towards productive and sustainable agriculture.

Key findings

Bosnia and Herzegovina has increased its overall agriculture policy score since the previous Competitiveness Outlook cycle, although it remains far below the regional average (Table 15.1). There was some progress made in enhancing rural development and infrastructure policy frameworks, although this remains the economy's weakest area of performance. Conversely, Bosnia and Herzegovina's limited alignment with EU regulations has restricted further advances in bolstering its agriculture support system and food safety and quality policies.

Table 15.1. Bosnia and Herzegovina's scores for agriculture policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Agriculture	14.1: Rural development and infrastructure			2.3	3.2
	14.2: Agriculture support system			2.7	3.3
	14.3: Food safety and quality			2.6	3.4
Bosnia and Herzegovina's overall score		2.5	2.0	2.5	3.3

The **key findings** are:

- Although the new Strategic Plan for Rural Development of Bosnia and Herzegovina (2023-27) awaits parliamentary approval, the continued absence of an up-to-date policy framework at the state level has hindered improvements to rural and irrigation infrastructure. Moreover, while both the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) prioritise rural development in their respective strategies, it will be important to place heightened focus on harmonisation of support measures across the entire sector in line with available budgetary funds.
- No notable advances were made towards establishing key agricultural information platforms, such as the Farm Sustainability Data Network (FSDN, previously known as FADN) or a Land Parcel Identification System (LPIS), since the last assessment cycle. Yet implementation of such systems would act as a catalyst for progress in key areas, including aligning with the EU *acquis*, promoting informed decision making, modernising land management, and addressing land fragmentation, among others.
- Despite the advantages and support conferred by implementing the Instrument for Pre-accession Assistance for Rural Development (IPARD) programme to the sector, Bosnia and Herzegovina has made no progress in establishing the prerequisite institutional structures and frameworks. Participating in the programme's newest cycle, IPARD III, would allow the economy to benefit from concrete financial and technical assistance to strengthen the sustainability and competitiveness of the agricultural sector.
- Concerning agricultural research, innovation, technology transfer and digitalisation (RITTD), Bosnia and Herzegovina has not taken any steps to develop a policy framework at either the state or entity level, nor does the economy have a dedicated budget for RITTD partially due to fragmentation across governance levels. However, the ongoing EU4Agri project, which is set to conclude at the end of 2024, represents an opportunity to better foster innovation and knowledge transfer for farmers and agricultural producers.
- Despite commitments to improving compliance with animal health and safety, demonstrated by initiatives like the new CEFTA SEED+ project (Central European Free Trade Agreement – Systematic Exchange of Electronic Data+), the economy has made minimal progress in aligning

with EU regulations on food safety and animal and plant health. This harmonisation is further constrained by insufficient human and financial resources allocated to official laboratories responsible for food safety.

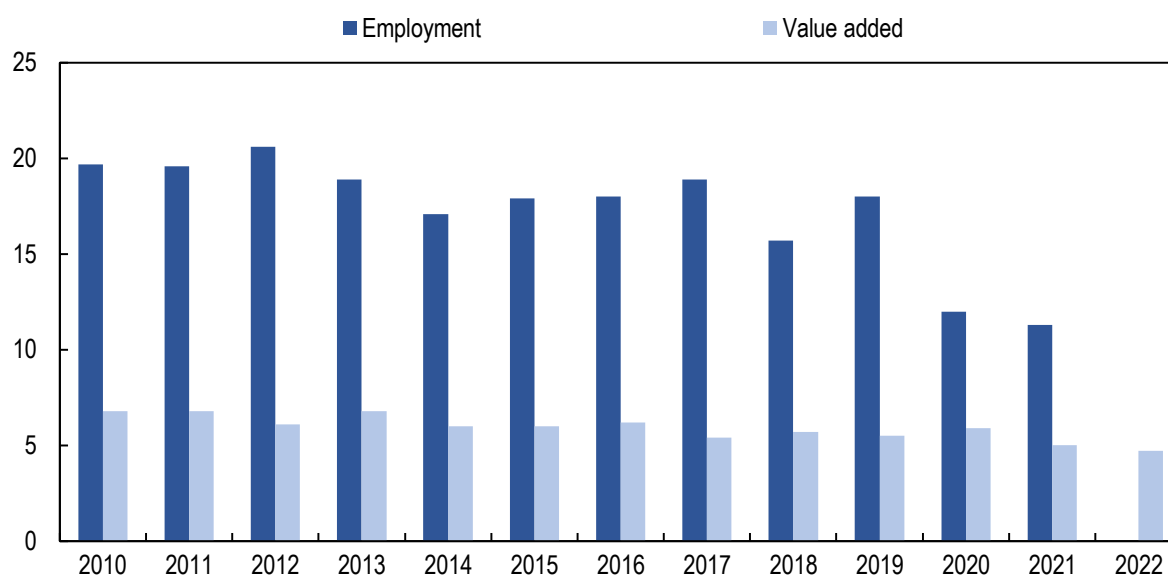
State of play and key developments

Despite physical and topographical challenges like mountainous terrain and a low proportion of suitable land for intensive farming, agriculture remains a crucial sector to Bosnia and Herzegovina's economy, though its relative importance for the economy has been on a declining trend over the past few years. Particularly noteworthy is the sector's diminishing contribution to GDP, which experienced a drop from 5.5% in 2019 to 4.7% in 2022, again placing it below the regional average of 8.4%. Furthermore, agriculture's share in total employment rates has declined over the past decade, falling from a high of 20.6% in 2012 to 11.3% in 2021.

Agriculture accounts for more than half of all informal employment within the economy, with an estimated 90% of those employed in the sector working informally (EBRD, 2022^[1]). As evidenced in Figure 15.1, the gap between agriculture's contribution to employment and GDP illustrate relatively low levels of productivity, as most farms in Bosnia and Herzegovina are small in size and subsistence-oriented.

Figure 15.1. Agriculture's contribution to value added and total employment in Bosnia and Herzegovina (2010-22)

In percentage of employment and value added



Source: World Bank (2024^[2]).

StatLink  <https://stat.link/Infkj1>

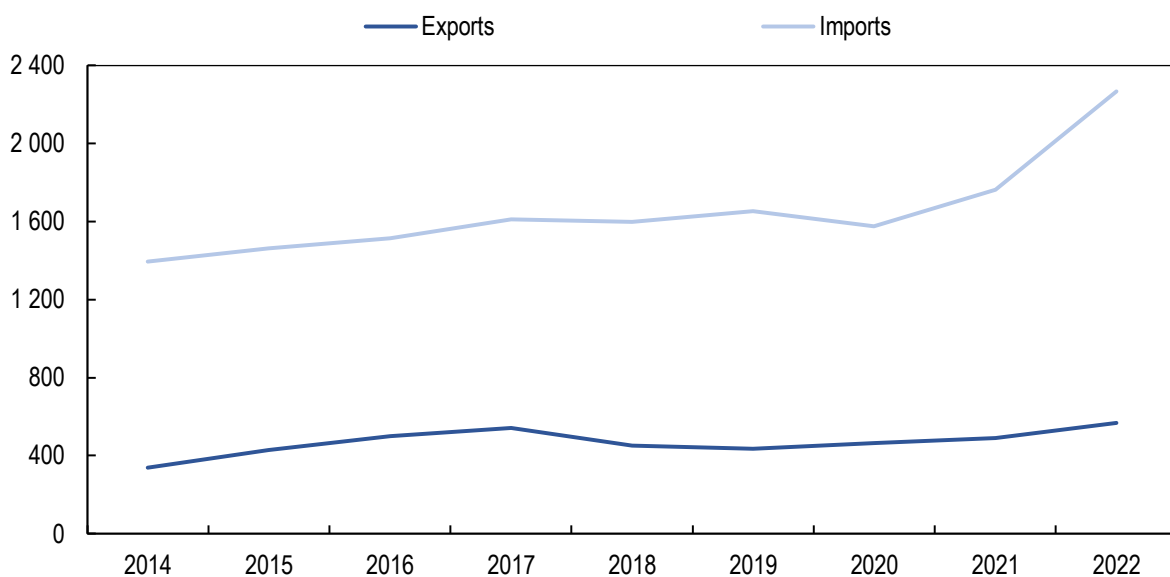
In terms of international trade, Bosnia and Herzegovina's agrifood sector has undergone significant shifts over the past decade. Agrifood product exports have shown a notable increase of 23%, indicating a growing presence in international markets. On the other hand, the surge in agrifood imports by 47%

suggests a heightened demand for foreign goods within the country. This juxtaposition highlights the evolving dynamics of Bosnia and Herzegovina's agrifood trade, with implications for both domestic production and international trade relationships. This widening gap has deepened the trade deficit, positioning Bosnia and Herzegovina, like many other Western Balkan economies, as a net food importer.

It is worth mentioning that while the European Union remains Bosnia and Herzegovina's largest trading partner, agrifood trade with the EU makes up a relatively modest proportion, comprising 13.1% of exports and 3.8% of imports in the EU's total trade with the economy (European Commission, 2023^[3]). Nonetheless, agrifood trade with the EU holds notable significance: in 2022, Bosnia and Herzegovina exported EUR 260 million and imported EUR 1 142 million in agrifood products from the EU – comprising approximately half of total levels (Figure 15.2).

Figure 15.2. Bosnia and Herzegovina's international trade of agrifood products (2014-22)

In millions of EUR



Source: SWG (2023^[4]).

StatLink  <https://stat.link/h6715f>

Sub-dimension 14.1: Rural development and infrastructure

Rural infrastructure (including roads, electricity, and information and communication technology) in Bosnia and Herzegovina continues to be underdeveloped due to obstacles stemming from outdated policies, inadequate financial resources, and a lack of available data. At the state level, the most recent rural infrastructure policy framework, the Strategic Plan for Rural Development of Bosnia and Herzegovina (2018-21), expired at the end of 2022. As the government body responsible for the co-ordination of agricultural policy at the state level, the Ministry of Foreign Trade and Economic Relations (MoFTER) has spearheaded efforts to prepare the successor document for 2023-27. However, while this new strategy awaits parliamentary approval, the economy is operating without an up-to-date policy framework on rural infrastructure.

To address deficiencies in the poorly developed road networks and inadequate Internet coverage in rural areas, both entities in Bosnia and Herzegovina have initiated efforts through their respective rural development strategies and support measures. However, there is a noticeable lack of harmonisation

across these measures, with implementation often misaligned with EU standards. In Republika Srpska (RS), its Ministry of Agriculture, Forestry and Water Management (MAFWM) outlines its priorities in the Strategic Plan for the Development of Agriculture and Rural Areas 2021-27. One key objective was to increase the length of asphalted rural roads by 10% by the end of 2027. Of note, this shift in policy focus addresses the previous lack of priority allotted during the 2016-20 programming cycle, when budget constraints prevented the allocation of funds to further develop rural infrastructure. In the Federation of Bosnia and Herzegovina (FBiH), a new Agriculture and Rural Development Strategy has been drafted and endorsed by the government. While its adoption is still pending, this draft policy outlines measures aimed at enhancing road, electricity, and Internet infrastructure. Additionally, FBiH operates an Annual Subsidy Programme supporting the development of renewable energy capacities on farms and processing facilities to enhance their access to the power supply.

Nevertheless, the inadequate availability of funds remains a major impediment for the continuous enhancement of rural infrastructure in both entities, hindering the prompt implementation of necessary reforms. Significant funds are also allocated from local, cantonal, and entity budgets for road infrastructure maintenance nationwide, with particular emphasis on reconstructing local roads and enhancing access to rural areas. Consequently, many municipalities prioritise budget investments in this domain. However, the effectiveness and quality of these endeavours remain subject to debate.

Another challenge is the lack of well-developed platforms that offer up-to-date market information for farmers and agricultural producers, as no such system exists at either the state or entity level. However, in RS, the Department for the provision of advisory services within the MAFWM collects information on the price of agricultural products on a weekly basis.

Concerning **rural livelihoods**, entities operate autonomously in formulating policies and programmes, resulting in progress that varies in terms of maturity. In Bosnia and Herzegovina, rural livelihoods hold significant importance, as 50% of the economy's population is considered to be rural, marking the highest rate among the Western Balkan economies (World Bank, 2024^[5]). Yet, despite the widespread prevalence, neither the FBiH nor the state endorses an official definition of "rural areas". Conversely, RS has adopted the OECD's criteria of rural areas, referring to an area with a population density of less than 150 inhabitants per km².

During the development of the Strategic Plan for Rural Development 2023-27, state-level oversight of entity-level actions supporting rural livelihoods is somewhat diminished, but will be resumed and adjusted upon conclusion of the process. RS's Strategic Plan for the Development of Agriculture and Rural Areas 2021-27 includes several measures on rural livelihoods, mainly related to rural diversification. Specific areas of focus include supporting self-employed agricultural and food technology engineers, aiding women's associations and agricultural co-operatives, and co-financing rural development projects. Conversely, FBiH currently lacks a policy framework on rural livelihoods, as its recent strategy has expired and the new one is still in the drafting stage. However, the expired strategy included programmes related to economic development, social security, rural diversification, and education that were co-funded by the entity's government and the International Fund for Agricultural Development (IFAD).

These efforts by RS and FBiH are bolstered by several ongoing projects financed by international organisations. Of note, IFAD is providing EUR 13.4 million in funding to Bosnia and Herzegovina for the Rural Enterprises and Agricultural Development Project 2018-26, which aims to improve rural economic development by improving livelihoods, income generation, and living standards. The initiative is estimated to have approximately 8 650 direct beneficiaries and 5 000 indirect beneficiaries (IFAD, 2023^[6]). Furthermore, the EU4AGRI-Recovery initiative,¹ spanning 2.5 years from 2021 to 2023, was developed to aid BiH in alleviating the economic impact of the COVID-19 pandemic on agrifood businesses and rural tourism operators while ensuring their ongoing operations. Valued at EUR 5 million, this project, funded by the European Union in partnership with the United Nations Development Programme (UNDP) and the Czech Development Agency (CzDA), complemented the ongoing EU4AGRI project (2020-24).

Support for the establishment of Local Action Groups (LAGs), particularly with regard to diversification in rural areas, has featured in the Strategic Plan for Rural Development co-ordinated at the state level. However, there is currently no legislation governing the establishment of LAGs within Bosnia and Herzegovina. LAGs are typically initiated by foreign donors through specific projects, even though FBiH's Law on Payments in Agriculture and Rural Development stipulates that the entity's Ministry of Agriculture, Water Management and Forestry (MAWMF) can introduce measures aligned with the EU LAG approach. Moreover, LAGs have operated in FBiH in the past, but insufficient funding has led all but one of these groups to cease their activities.

Irrigation infrastructure in Bosnia and Herzegovina remains limited, with only 15 000 hectares (ha) of the potential 285 000 ha irrigated (World Bank, 2020^[71]). Of note, this low level of irrigation follows the completion of the eight-year World Bank project, the Irrigation Development Project (2012-20), which provided new and improved irrigation and drainage services to 10 055 ha. As such, there is still significant scope to enhance the implementation of irrigation infrastructure policy, fostering augmented use and accessibility of these systems.

Similar to rural infrastructure, the irrigation policy framework at the state level is currently absent due to the ongoing preparation of the Strategic Plan for Rural Development 2023-27. However, both entities again have their own guiding policies. In RS, the key document, the Strategic Plan for the Development of Agriculture and Rural Areas 2021-27, delineates irrigation as a priority area, underscoring the need to construct and modernise systems to support increased agricultural production. The MAFWM of RS is also working to establish a secondary irrigation network through the construction of canals, pipelines, and pumping stations. Irrigation policy in FBiH is slightly more intricate and challenging to navigate, consisting of several (rather than one) overlapping policies that collectively form the overall framework. The recently drafted Agriculture and Rural Development strategy incorporates measures related to irrigation infrastructure, while the Water Law outlines mechanisms governing access to irrigation resources. Additionally, the MAWMF of FBiH has drafted the Water Management Strategy (pending adoption), which offers measures for the use of irrigation resources as well as leveraging the interconnection between the water sector and other sectors, including agriculture.

Beyond the governments, water use associations can serve as powerful actors that can shape irrigation policies and programmes and governance. These groups have been established and operate in both entities. In RS, the two existing water use associations – the Union of Associations of Agricultural Producers of RS and the Association of Farmers of the Bijeljina Region – were established by the government. Conversely, in FBiH, these organisations, which exist at the cantonal and municipal level, were created as part of the Irrigation Development Project.

Sub-dimension 14.2: Agriculture support system

The **agriculture policy framework** of Bosnia and Herzegovina, while comparatively robust, encounters limitations stemming from the absence of essential information systems and a complex institutional structure. This challenge is accentuated by the lack of harmonisation and consolidation across administrative levels within the realms of policy and legal frameworks, institutional and financial arrangements, and methodologies for data collection. With respect to the latter, the organisation of the economy leads to the formulation and implementation of policies and objectives at multiple administrative levels, including the state, two entities, one district (Brčko District), and ten cantons.

At the state level, the draft Strategic Plan for Rural Development 2023-27 outlines five tentative objectives:

- increasing productivity and sustainability
- promoting competitiveness and innovation

- sustainably managing natural resources
- renewing and strengthening rural areas
- developing a system for managing rural development.

Notably, these objectives closely align with those in the strategies of both RS (Strategic Programme of the Development of Agriculture and Rural Areas; Law on Agriculture) and FBiH (Mid-term Agriculture Sector Development Strategy; draft Strategic Plan for Rural Development). Indeed, both entities prioritise competitiveness, increased production, rural development, and the sustainability of natural resources. Yet, there are some key differences; for example, FBiH maintains a unique focus in its policy frameworks on food quality and organic production.

Concerning the EU Common Agricultural Policy (CAP) and its provisions on agriculture and rural development, Bosnia and Herzegovina is still in the early stages of preparation with minimal progress towards alignment with the *acquis* (European Commission, 2022^[8]). Furthermore, the Strategic Plan for Rural Development should be harmonised with the second pillar of the EU CAP;² yet it is currently aligned with a three-year programme framework extending until 2027, rather than the desired seven-year alignment.

MoFTER is the key state institution tasked with the creation of agricultural policy for the economy, including the harmonisation of plans of the two entities' authorities and institutions. Within MoFTER, the Office for Harmonisation and Coordination of Payment Systems in Agriculture, Food and Rural Development is responsible for the harmonisation of agricultural policies with EU CAP as well as the co-ordination of the payment of agricultural subsidies. At the entity level, both RS and FBiH have a dedicated ministry that oversee their respective design and implementation of agricultural policies.

In terms of funding, agricultural policies and programmes are financed through at least thirteen distinct budgets across various administrative units, reflecting a decentralised approach to budget planning and execution. Notably, the state level does not maintain its own budget for this purpose. Moreover, Bosnia and Herzegovina does not benefit from funds through the Instrument for Pre-accession Assistance for Rural Development (IPARD) programme, as it lacks the institutional framework required to implement the programme's newest cycle, IPARD III.

Bosnia and Herzegovina's agricultural information systems are less developed than those of other Western Balkan economies, highlighting a significant opportunity for improvement. Currently, there is no unified farm register; instead, separate registries exist without interoperability or harmonised methodologies for data collection. These registries contain data on planned sowing and planting of crops, type and number of livestock, and land ownership and agricultural land use. Registration is mandatory for all farmers seeking government support; however, Bosnia and Herzegovina lacks essential systems like a functional Farm Accountancy Data Network (FADN) (now replaced by the Farm Sustainability Data Network [FSDN]), Land Parcel Identification System (LPIS), Agricultural Management Information Systems (AMIS), Geographic Information Systems (GIS), and other integral components necessary for implementing the CAP. The stagnant development and absence of progress in these platforms hinder the systematic monitoring of policy support implementation and assessment of policies.

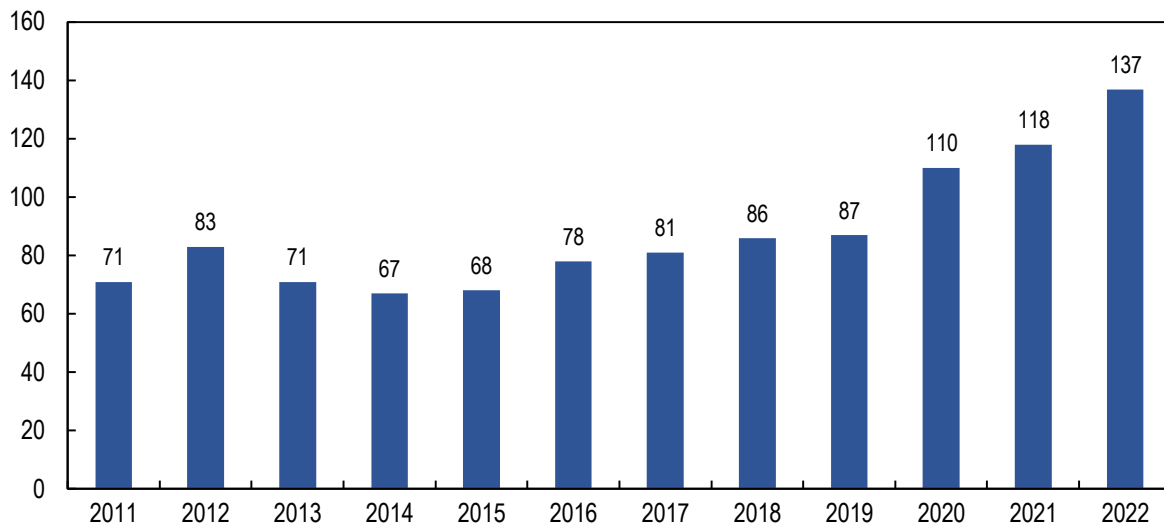
Producer support instruments are widely available in both RS and FBiH and have been undergone substantial updates since the last assessment cycle. This support includes direct payments (either per hectare or per head of livestock), payments or premiums based on the level of output production serving as incentives, market support measures, and reimbursements for inputs. Direct payments constitute a majority of the support offered by both entities, capturing nearly two-thirds of aggregate budgetary support. However, the structure of these payments differs by entity: while FBiH most frequently offers payments based on land area or livestock heads (as outlined in its Annual Support Payment Programme), incentives offered in RS are primarily based on output.

The indicative financial framework for implementing the Strategic Plan for rural development of Bosnia and Herzegovina from 2023 to 2027 encompasses funds from agricultural development strategies of FBiH, RS, and Brcko District of BiH, along with allocations from the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER BiH) and state-level agencies, totalling BAM 1.78 billion (EUR 0.91 billion), with an additional BAM 533 million (EUR 273 million) expected from other sources, making a total of BAM 2.24 billion (EUR 1.15 billion) over five years. Budget allocations for agriculture and rural areas are also planned to increase by an average of 4.6% per year, with modest contributions from the state level (1.0%) and the largest portion from entities like the FBiH (42.7%), RS (18.1%), and other sources including EU grants and loans.

Budgetary support for the agricultural sector in Bosnia and Herzegovina has been increasing since 2019 (Figure 15.3). However, both RS and FBiH identify insufficient financial resources as a primary factor limiting the ability of agricultural support policies to adequately meet the needs of the sector, which hinders the provision of greater support for farmers. This is particularly evident in RS, as the amount of support instruments varies annually based on the size of the agricultural budget.

Figure 15.3. Budgetary support for the agriculture sector in Bosnia and Herzegovina (2011-22)

In millions of EUR



Source: Information provided by national authorities for the Competitiveness Outlook 2024 assessment.

Many instruments have undergone changes since January 2021. In FBiH, several reforms were introduced in response to the adverse consequences of the Russian war of aggression against Ukraine. For example, numerous direct payments were increased due to inflation, particularly surrounding energy (and consequently agricultural input and fertiliser) prices, as a result of the conflict. In RS, the MAFWM recently increased direct payments supporting wheat and sunflower cultivation. The entity also introduced a new eligibility parameter that offers additional assistance to several target groups, including young farmers, women, and those living above 600 metres.

Another prominent type of instrument involves supporting risk management in the agriculture sector. In FBiH, there is an arrangement with the Development Bank of FBiH that grants guarantees to farmers that commercial banks will provide loans to support activities in the agriculture and food industry. In RS, the MAFWM pays insurance premiums to subsidise this protection for farmers. Additionally, the government of RS pays for damages caused to fruit by frost.

Regarding alignment with the EU CAP, direct payments in Bosnia and Herzegovina are not decoupled, indicating a continued link between payment receipt and the production of specific products (European Commission, 2022^[9]), in contrast to the decoupled schemes promoted under the EU CAP. This lack of decoupling, if not properly managed, creates an environment prone to market distortions and undermines farmers' ability to effectively respond to challenges such as climate change and market fluctuations. Additionally, the monitoring and evaluation of these payment schemes are largely underdeveloped and underutilised, although both entities conduct annual monitoring of the implementation activities and outputs of these support programmes. Furthermore, both RS and FBiH generally do not incorporate conditionality into the eligibility parameters for these instruments. In FBiH, only the direct payments based on livestock heads are subject to compliance with animal health requirements; no available instrument is tied to environmental standards. In RS, there are no producer support instruments that are subject to either environmental or animal and plant health requirements.

Concerning **agricultural trade policies**, the economy is a signatory to both the Central European Free Trade Agreement (CEFTA) and the Stabilisation and Association Agreement (SAA) with the EU. The SAA aims to create a free trade zone between Bosnia and Herzegovina and the EU by facilitating the elimination of custom tariffs and quantity restrictions in the exchange of goods. According to this agreement, all agricultural products originating in Bosnia and Herzegovina can enter duty free, with the exception of beef, sugar and wine,³ for which import quotes exist.

Both entities lack a dedicated **agricultural tax regime**. In FBiH, farmers applying for public support must fulfil obligations for both value added tax and income tax. Additionally, under the Law on Agricultural Land, landowners that do not cultivate their land face a tax of EUR 100/ha for arable land and EUR 150/ha for perennial crop plantations. In RS, while there is no specific fiscal policy, farmers still benefit from lower obligations for health insurance and pension contributions as well as no taxes on arable agricultural land. Neither entity defines small farms or implements specific tax provisions for them. Moreover, neither conducts impact assessments on these tax policies' environmental or natural resource implications, despite the significance that their respective agricultural policies assign to these areas.

There is substantial scope to improve the **research, innovation, technology transfer and digitalisation** (RITTD) of Bosnia and Herzegovina, given the absence of a well-developed policy framework and dedicated government programmes. Notably there is no agricultural RITTD policy at either the state or entity level; instead, the most relevant document is the Science Development Strategy 2017-22, which contains a section delineating priorities in the field of agricultural sciences.⁴ Moreover, there is no dedicated budget for agricultural RITTD; instead, these activities are funded from the broader research and development budget.

The absence of a dedicated policy framework has resulted in a lack of government programmes that directly contribute to RITTD (apart from the provision of advisory and extension services). More specifically, there are no programmes that seek to promote farms' adoption of innovations and knowledge transfer. However, while RS and FBiH may not directly offer such initiatives, the EU has undertaken an active role in addressing this gap, particularly in order to encourage innovations related to climate change adaptation and mitigation. For instance, under the four-year EU4Agri project, the EU has allocated funding to enhance climate change resilience in Bosnia and Herzegovina's agricultural sector (Box 15.1).

Additionally, some progress has been achieved through initial steps to establish a formalised Agriculture Knowledge and Innovation System (AKIS). Over the past few years, the Regional Rural Development Standing Working Group (SWG RRD) has undertaken a project requiring each Western Balkan economy to formulate an action plan for implementing such a system (Kasimis et al., 2022^[10]). Separate roadmaps and action plans have been developed for RS and FBiH, aiming to serve as foundational documents for the future design and implementation of the AKIS. Notably, the newly drafted Agriculture and Rural Development Strategy and Law on Agriculture in FBiH incorporate more concrete measures for the future establishment of an AKIS.

Box 15.1. Fostering climate change resilience: EU4Agri in Bosnia and Herzegovina

The EU launched the EU4Agri project in Bosnia and Herzegovina to modernise the economy's agrifood sector and foster the rural economy. This project aims to enhance competitiveness in agricultural production, rural jobs, and services. The initiative was launched in 2020 and is expected to conclude at the end of 2024. Its total value is approximately EUR 20 million, with most of this funding coming from the EU under the Instrument for Pre-Accession Assistance.

In June 2023, a new Public Call was published for potential beneficiaries (including small and medium-sized enterprises engaged in agricultural production, agricultural co-operatives, and independent entrepreneurs). BAM 1 million (EUR 512 000) were allocated to invest in tools and technologies that improve climate change adjustment and consequently bolster the resilience of businesses in this sector. Applicants are eligible to receive between BAM 30 000 (EUR 15 350) and BAM 300 000 (BAM 153 500).

Source: European Union (2023^[11]).

Extension and advisory services play a significant role in defining the economy's RITTD landscape, as they are widely utilised in the two entities as well as the Brčko District. The public sector directly provides these services in both FBiH (through the Agricultural Extension Service Division) and RS (via the Department for Agriculture Extension Services). However, private agricultural advisory services maintain a limited presence. In FBiH, the Law on Agricultural Advisory Services outlines the process for registering private extension services, but none have been registered as of January 2024. In RS there are some private services, although they are few in number and operate only on a commercial basis.

Sub-dimension 14.3: Food safety and quality

Progress in strengthening policies related to **food safety, animal and plant health** has stagnated since the last assessment cycle, resulting in a relatively low level of alignment with EU legal bases. At the state level, laws pertaining to food safety, plant health, and animal health and welfare⁵ do not fully align with the EU *acquis*, particularly considering recent changes to EU laws. However, there have been efforts to update the legal framework on plant health to better align with the newest EU standards, as evidenced by the new draft law on plant health protection.

The institutional framework overseeing food safety, animal and plant health is relatively complex. State-level institutions, including the Food Safety Agency, MoFTER's Veterinary Office, and the Administration of Bosnia and Herzegovina for Plant Health Protection Administration (PHPA),⁶ are primarily responsible for co-ordinating policies in this sector. At the entity level, FBiH largely complies with the state-level legislation, while RS has developed its own parallel framework. Specifically, RS has established regulations such as the Law on Food and the Rulebook on microbiological criteria for food, which serve as the basis for the entity's food safety framework. The entities are responsible for inspection and overseeing the implementation of state and entity laws and other regulations.

Risk-based inspection in Bosnia and Herzegovina is largely guided by the Guidelines for risk classification in food business and frequency of inspections,⁷ which aim to provide a consistent approach to inspection planning and resource allocation. The guidelines outline five levels of risk, ranging from "very high" to "very low", with the greatest degree of attention directed towards higher risk facilities. Ongoing efforts, supported by the German development agency GIZ, seek to develop risk assessment and management procedures in line with the World Trade Organisation's sanitary and phytosanitary (SPS) rules using international methodologies.⁸

Information systems – including those for notifying animal diseases or the central systems for the identification of certain livestock – are still not fully aligned with the EU (European Commission, 2023^[12]). However, one recent advance has been the ongoing development of the CEFTA SEED+ project (Systems for Electronic Data Exchange). The project aims to enhance trade facilitation and regional integration, partly through cross-border data and information exchange. In September 2023, a training session was conducted to instruct participants on using the SEED+ platform to ease the trade of animal products while ensuring compliance with veterinary health and safety standards (CEFTA, 2023^[13]). The training focused on the use of the new software, CEFTA TRACES NT (Trade Control and Expert System New Technology), covering aspects such as registering shipments, managing certificate templates, entering data and, more broadly, accurately assessing the health status of animals and animal products to enhance food safety.

Bosnia and Herzegovina houses several laboratories dedicated to food safety, animal and plant health.⁹ These include the Agricultural Institute of Republika Srpska (Banja Luka), the Faculty of Agriculture at the University of Banja Luka, the Federal Institute for Agriculture (Sarajevo), and the Federal Agro-Mediterranean Institute (Mostar). All laboratories are accredited and authorised to perform tests, with their results recognised by CEFTA parties. Despite this, there is as yet no national system of reference and official laboratories for analysis of food and feed, hygiene, veterinary and phytosanitary checks in BiH, and progress remains slow due to a lack of alignment with the EU *acquis*.

There has been minimal progress in improving the economy's **food quality** policy framework, primarily due to the limited efforts to align legislation with the EU legal base. At the state level, the Law on Food and the Law on Genetically Modified Organisms form the foundation for food quality policy. However, food marketing standards are only partially harmonised with EU regulations. Of note, as with food safety, RS has its own food quality policy, which is defined by the Rulebook on providing information to consumers about food.¹⁰ This Rulebook is also only partially aligned with the relevant EU legislation. There is no existing or planned legislation on common market organisations (CMOs), which aim to create a single market for agricultural products, at the state or entity level (Box 15.2).

Box 15.2. Adoption of the Law on organisation of the wine market in BiH

In 2023, Bosnia and Herzegovina passed a law (designated as "EI") to bring its wine market organisation into alignment with EU and international standards. This law outlines principles for the organisation and details regulations on grape and wine production, addressing concerns raised by winemakers regarding global competitiveness. With around 18 million litres of wine produced annually by approximately 70 registered producers, this awaited legislation systematically regulates designations of origin, geographical origin, labelling, presentation, advertising, market placement, supervision, and control of wine products, including provisions for organic, aromatised and fruit wines. Implementation regulations, including finalisation of necessary bylaws (rulebooks), are expected to be completed within 12 months of the law's enactment. This timeline is crucial to ensure that domestic producers can continue exporting after the European Commission's deadline in November 2024 for harmonising Bosnia and Herzegovina's legislation with EU standards in wine and viticulture.

Source: Information provided by national authorities for the Competitiveness Outlook 2024 assessment.

Regarding geographical indicators (GIs), state-level legislation is again only partially aligned with EU standards. Policies on GIs include the Ordinance on quality systems for food products and the Ordinance on the appearance and manner of using the protected mark of origin, geographical origin and guaranteed traditional specialty of food products. As outlined in these documents, obtaining a GI requires a detailed description of the product's production method, specific characteristics or qualities (supported by data), and who wields the right to use the GI. However, the absence of comprehensive legislation on official

controls throughout the agrifood chain, a crucial aspect for EU alignment, negatively impacts various policy areas, including those related to the environment.

There is no state-level legislation guiding organic production; that remains within the entities' competencies. RS has the Law on Organic Production, while FBiH developed the Law on Agricultural Organic Production.¹¹ Several local organic certification bodies operate in Bosnia and Herzegovina, such as the Organic Control System in Laktaši, Organska Kontrola in Sarajevo, and Ecocert SA in Mostar, playing a crucial role in this process. As of 2021, FBiH had 67 registered certified organic producers or processors while RS reported an additional 64 (Matavulj, 2022^[14]).

Bosnia and Herzegovina possesses significant potential to advance its organic farming sector, which is currently in the early developmental stages. The estimated organic production area is less than 1 700 ha, constituting less than 0.1% of the economy's total agricultural land (Matavulj, 2022^[14]). Notably, both entities have made recent strides in promoting organic production. In FBiH, although public sector support remains relatively limited, an allocation of BAM 70 000 (EUR 35 800) was dedicated to supporting the certification of organic production. Similarly, in RS, the MAFWM provided certification support covering 50% of the certification cost, up to a maximum of BAM 10 000 (EUR 5 115) per user in 2022.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Bosnia and Herzegovina has made limited progress in implementing the past CO Recommendations. Namely, challenges such as constrained financial resources and issues with harmonising legislation with the EU *acquis* have prevented further advances. Table 15.2 shows the economy's progress on implementing past recommendations for agriculture policy.

Table 15.2. Bosnia and Herzegovina's progress on past recommendations on agriculture policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Increase investment and improve the implementation of rural infrastructure policy	Rural infrastructure remains underdeveloped due to limited resources at both the state and entity level.	Limited
Harmonise rural development programmes across the economy	Internal harmonisation of legislation, as well as harmonisation with EU legislation and implementation, has been undermined by the fragmented institutional landscape.	Limited
Implement a common market organisation regulatory framework	Regarding the Common Market Organisation (CMO), no progress has been made in preparing and establishing the regulatory framework in accordance with the EU <i>acquis</i> . The parliament has adopted a state-level Law on the organisation of the wine market, but the necessary bylaws are yet to be adopted for it to be implemented. The establishment of a register for grapes and wine producers, as well as a vineyard register, is still pending.	Limited
Set up the institutional framework for IPARD funding	Bosnia and Herzegovina did not utilise the Instrument for Pre-accession Assistance for Rural Development (IPARD) funds during the period of 2011-22, and currently lacks the institutional framework required to implement the IPARD III program. To access the benefits of IPARD, authorities must establish the necessary institutional structures, including a unified IPARD institutional framework, which is challenging due to the fragmented institutional landscape.	Limited
Speed up the process of the preparedness of domestic reference laboratories.	The inter-laboratory comparative testing system in Bosnia and Herzegovina has not yet been established, which means that not all laboratories can regularly participate in disease validation and verification. Additionally, the full national system of reference laboratories has yet to be implemented.	Limited.

The way forward for agriculture policy

Considering the level of the previous recommendations' implementation, there are still areas in which Bosnia and Herzegovina could strengthen its rural development and infrastructure or its agriculture support system, or further enhance its food safety and quality policies. As such, policy makers may wish to:

- **Prioritise processes to support the implementation phase of the Strategic Plan for Rural Development of Bosnia and Herzegovina 2023-27.** As the adoption by the BiH Parliament of the new strategy is imminent, it will be important to adjust current processes and allocate adequate resources to ensure a smooth implementation phase. As such, MoFTER should prioritise its prompt adoption and implementation by setting clear and measurable goals leading to more benefits for agrifood operators and rural communities in the economy because of a more coherent and strategic sector approach.
- **Prioritise capacity building across the government to establish the necessary institutional capacity to benefit from IPARD funds.** Going forward, it will be important to strengthen administrative capacity at all levels of government and enhance related functionalities to fully benefit from this EU instrument. Concretely, developing a national payment agency to manage and disburse financial assistance to eligible beneficiaries, such as farmers and rural enterprises, will be central and requires achieving agreement and harmonisation among authorities in BiH. These efforts are beneficial for in helping the economy to qualify for and effectively utilise funding from the IPARD II programme to further develop the agricultural sector.
- **Further develop agricultural information systems, such as the LPIS and the FADN (recently renamed FSDN).** Given the lack of planned efforts to develop such systems, MoFTER should prioritise taking preliminary steps towards designing initiatives to launch their adoption. Creating an LPIS and FSDN would support evidence-based decision making and help strengthen property rights, thereby contributing to the overall efficiency and competitiveness of the agricultural sector.
- **Continue to align national food safety and quality legislation with EU standards.** Currently, state-level regulations for food safety, animal and plant health, and food quality are not fully aligned with the EU *acquis*. These reforms aim to enhance harmonisation with the EU, ensuring consumer protection and greater alignment across administrative bodies. Moving forward, it will be crucial to align state legislation concerning food safety, veterinary and phytosanitary measures, and agriculture with EU standards, including quality policies. National laws should align with EU regulations, and complementary legislation should be synchronised accordingly.
- **Improve the capacities of official laboratories for food safety and disease detection.** As evidenced by the limited progress made since the last CO assessment, further efforts are needed to secure adequate human and financial resources to ensure that these laboratories are able to achieve accreditation and subsequently carry out testing in an accurate and timely manner. Establishing a national system of reference and official laboratories for food and feed analysis, veterinary checks, and phytosanitary inspections, alongside investments in technology and personnel training, is crucial for advancing food safety and animal and plant health policies.

References

- CEFTA (2023), *Digitisation Will Help the Flow of Goods to be Faster, Simpler and Safer*, [13]
<https://cefta.int/news/digitization-will-help-the-flow-of-goods-to-be-faster-simpler-and-safer/>
 (accessed on 1 March 2024).
- EBRD (2022), *Bosnia and Herzegovina Country Diagnostic: Private Investment Challenges and Opportunities 2022*, [1]
<https://www.ebrd.com/where-we-are/bosnia-and-herzegovina/overview.html> (accessed on 12 April 2024).
- European Commission (2023), *Agri-food Trade Statistical Factsheet: European Union - Bosnia-Herzegovina*, [3]
https://agriculture.ec.europa.eu/system/files/2023-05/agrifood-bosnia-herzegovina_en.pdf (accessed on 28 February 2024).
- European Commission (2023), *Bosnia and Herzegovina 2023 Report*, [12]
https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf.
- European Commission (2022), *Bosnia and Herzegovina Report 2022*, [8]
https://neighbourhood-enlargement.ec.europa.eu/document/download/a113b381-3389-4be7-95b2-a4fb91c8c243_en?filename=Bosnia%20and%20Herzegovina%20Report%202022.pdf.
- European Commission (2022), *Coupled Income Support*, [9]
https://agriculture.ec.europa.eu/common-agricultural-policy/income-support/additional-schemes/coupled-income-support_en (accessed on 27 February 2024).
- European Union (2023), *European Union Allocates BAM 1 Million To Support Climate Change Resilience In Agriculture*, [11]
https://www.eeas.europa.eu/delegations/bosnia-and-herzegovina/european-union-allocates-bam-1-million-support-climate-change-resilience-agriculture_en.
- IFAD (2023), *Rural Enterprises and Agricultural Development Project*, [6]
<https://www.ifad.org/en/web/operations/-/project/2000001813> (accessed on 27 February 2024).
- Kasimis, C. et al. (2022), *Enabling Functional and Integrated AKIS Systems in the Western Balkans*, [10]
<https://seerural.org/wp-content/uploads/2023/01/Enabling-functional-and-integrated-akis-systems-in-the-western-Balkans.pdf> (accessed on 29 January 2024).
- Matavulj, M. (2022), *Country Report Organic: Bosnia and Herzegovina*, EkoConnect e.V., Dresden, [14]
<https://orgprints.org/id/eprint/46066/1/Country-Report-Organic-BOSNIA-AND-HERZEGOVINA-EkoConnect-2022.pdf> (accessed on 27 February 2024).
- SWG (2023), *Draft Technical Report on Agriculture and Rural Development Policies in Western Balkans*, [4]
- World Bank (2024), *World Development Indicators, DataBank*, [2]
<https://databank.worldbank.org/source/world-development-indicators> (accessed on 6 February 2023).
- World Bank (2024), *World Development Indicators, DataBank*, [5]
<https://databank.worldbank.org/source/world-development-indicators> (accessed on 6 February 2023).

World Bank (2020), *Implementation Completion and Results Report: Irrigation Development Project*, <https://documents1.worldbank.org/curated/en/104601601997109547/pdf/Bosnia-and-Herzegovina-Irrigation-Development-Project.pdf> (accessed on 27 February 2024). [7]

Notes

¹ Information on the EU4Agri recovery Initiative can be found here: <https://eu4agri.ba/en/about-eu4agri-recovery-project>.

² These nine EU CAP objectives include: ensuring a fair income for farmers; increasing competitiveness; improving the position of farmers in the food chain; climate change action; preserving landscapes and biodiversity; supporting generational renewal; protecting vibrant rural areas; protecting food and health quality; and fostering knowledge and innovation.

³ Information on agrifood trade with EU enlargement economies: https://agriculture.ec.europa.eu/international/agricultural-trade/bilateral-agreements/enlargement-countries_en.

⁴ These specific priorities include raising productivity, creating new high-yielding and high-quality hybrids to expand food quantity and improve food quality, develop new agricultural technologies, improve sustainable management knowledge, and strengthen research supporting rural development.

⁵ Laws guiding food safety, animal and plant health in Bosnia and Herzegovina at the state level include: Rulebook on food hygiene (*Official Gazette of BiH*, no. 4/13), Rulebook on hygiene for food of animal origin (*Official Gazette of BiH*, no. 103/12), Rulebook on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules (*Official Gazette of BiH*, no. 5/13 and 62/17), and the Law on plant health protection (*Official Gazette of BiH*, no. 23/03).

⁶ The Plant Health Protection Administration (PHPA) is central authority responsible for developing policy in the area of plant health protection, preparing legislation, and as well as information exchange and co-operation with international organisations (including the EU, the Food and Agriculture Organisation, the World Trade Organisation, and the European and Mediterranean Plant Protection Organisation) on phytosanitary matters.

⁷ <https://fsa.gov.ba/bs/smjernice-za-klasifikaciju-rizika-kod-poslovanja-s-hranom-i-ucestalost-inspekcija>.

⁸ These international methodologies include those developed by the European Food Safety Authority, the Food and Agriculture Organisation, and the World Health Organisation.

⁹ Laboratories accredited by the Institute of Metrology of BiH (IMBiH), including laboratories for food safety, and animal and plant health: http://www.bata.gov.ba/Akreditirana_tijela/Spisak-akreditiranih-tijela.pdf.

¹⁰ Rulebook on providing information to consumers about food, *Official Gazette of Bosnia and Herzegovina*, no. 68/13.

¹¹ To read the Law on organic production (Republika Srpska), see: www.fao.org/faolex/results/details/en/c/LEX-FAOC134796. To read the Law on agricultural organic production (Federation of Bosnia and Herzegovina), see: www.fao.org/faolex/results/details/en/c/LEX-FAOC197413.

16 Tourism policy

Sound and robust frameworks are essential for the tourism sector to drive positive economic development, enhance competitiveness, and strengthen resilience within economies, particularly those heavily reliant on tourism. This chapter assesses the comprehensiveness of the legislative structure and practices governing tourism across three sub-dimensions. The first sub-dimension, governance and enabling conditions, assesses the effectiveness of efforts aimed at strengthening strategic co-ordination and co-operation in tourism across governance, vertical co-operation, public-private dialogue, and data collection. The second sub-dimension centred on accessibility, tourism offer and human resources, examines progress and challenges in addressing the sector's connectivity framework and infrastructure, accommodation capacity and quality, and availability of qualified workforce. The third sub-dimension, sustainable and competitive tourism, explores the impact of tourism branding and marketing strategies, natural and cultural heritage valorisation frameworks, and operations promoting sustainable development.

Key findings

Bosnia and Herzegovina exhibits progress in its tourism policy dimension, achieving an overall score of 1.3 in the CO 2024 assessment – a slight improvement since 2021 but lower than the WB6 average of 2.5 (Table 16.1). While there has been some advancement in accessibility, the tourism offer, and human resources since the CO 2021 assessment, particularly with regard to the accommodation framework and the needs assessment for the availability of a qualified workforce, progress remains limited. Moderate advances have been made in governance and framework conditions due to improvements in tourism strategies, public-private partnerships and data collection. However, overall progress remains relatively low.

Table 16.1. Bosnia and Herzegovina's scores for tourism policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tourism	15.1: Governance and enabling conditions			1.4	2.8
	15.2: Accessibility, tourism offer and human resources			1.8	2.7
	15.3: Sustainable and competitive tourism			0.8	1.9
Bosnia and Herzegovina's overall score		1.2	1.2	1.3	2.5

The **key findings** are:

- The surge in tourism in Bosnia and Herzegovina has prompted efforts to reinforce the strategic frameworks within the sector, with both entities enhancing their respective strategies. In September 2023, the House of Representatives of the Parliament of the Federation of Bosnia and Herzegovina approved a new Strategy for Tourism Development 2022-27, while RS unveiled its own strategy for tourism development covering 2021-27, delineating strategic priorities and objectives. However, successful implementation of these new strategies will require robust monitoring mechanisms, commitment from leadership at the highest levels, and allocation of adequate resources.
- At the national level, there is currently no established public-private partnership model in Bosnia and Herzegovina. However, promising examples at the destination level, such as the Unasava or Herzegovina tourism clusters, present potential pathways forward for collaboration between public and private sectors.
- Natural and cultural heritage feature prominently in the tourism strategies of both Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH), with a strong emphasis on preservation. RS prioritises management plans for protected areas and cultural sites such as Kozara National Park and Sutjeska National Park, while the FBiH focuses on sustainability and the conservation of cultural, historical, and natural values.
- Efforts to modernise data collection have been witnessed at both state and entity levels, with varying degrees of progress. However, several limitations, particularly technological constraints, remain significant obstacles for impactful and informed decision making. An overhaul of the current data collection platforms, incorporating interactive options, would significantly benefit the sector.
- Initiatives to anticipate human resource needs and bridge skill gaps have been launched by the FBiH. In conjunction with the development of its tourism strategy, the United States Agency for International Development (USAID)'s tourism project conducted an assessment and forecast of

human resource needs in tourism spanning from 2021 to 2027, encompassing analyses of employment and training requirements in the tourism sector as well as an evaluation of tourism education and training.

- FBiH has an established tourism brand identity with recognised tourist brands, including the Sarajevo Film Festival, Herzegovina Wine Route, and Via Dinarica. A formal marketing co-ordination body is in place, with the Tourist Organisation of RS (TORS) responsible for tourism branding and marketing. At BiH state level, the economy does not have an established tourism brand identity that is well articulated and maintained.
- Digital marketing, an important part of FBiH's tourism development strategy, focuses on digital transformation. Challenges include inadequate digital infrastructure, lack of skills, resistance from stakeholders, high costs, unequal access to technology and limited training in digital marketing.

State of play and key developments

Bosnia and Herzegovina's tourism sector is experiencing a dynamic period, with the industry growing significantly over the past ten years. Most notably, in 2022, tourism made a contribution to the economy's GDP, both directly and indirectly, accounting for 7.4% or BAM 377.1 million (EUR 192.8 million). Forecasts for 2023 point to a potential increase to 7.7%, underlining the sector's important role in the national economy. Spending by international visitors totalled BAM 2 120 million (EUR 1 083 million) in 2022. The tourism sector provided employment for 83 900 individuals in 2022, representing 10% of total jobs, including jobs indirectly supported by the industry. Projections for 2023 suggest an increase to 10.1%, reflecting the sector's role in offering livelihoods (WTTC, 2023).

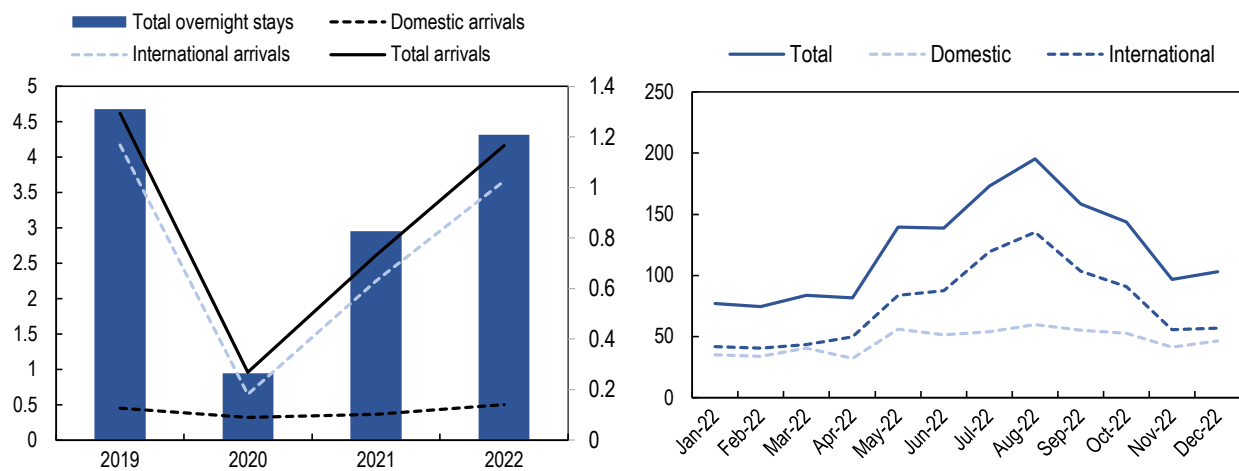
In 2022, Bosnia and Herzegovina (BiH) recorded 3 194 681 overnight stays, with international tourists accounting for 61.2% of arrivals, particularly during the summer months (see Figure 16.1), with an average length of stay per tourist calculated at 2.18 nights (Agency for Statistics of Bosnia and Herzegovina, 2023^[1]).

As shown in Figure 16.1, BiH exhibits a more evenly distributed seasonal pattern of arrivals compared to other Western Balkan economies (WB6), with increased arrivals both preceding and following the summer season. In the World Economic Forum's 2022 report, BiH's seasonality indicator ranks it 91st out of 117 economies, second only to Serbia (76), while Montenegro (106) and Albania (108) trail behind BiH (World Economic Forum, 2022^[2]).

The number of accommodation establishments, available rooms, and guest beds in hotels and similar facilities experienced notable increases from 2021 to 2022, alongside significant growth in room and bed occupancy rates (World Economic Forum, 2022^[2]). Parallel to this growth, the occupancy rate of rooms increased from 17.4% in 2021 to 30.0% in 2022 and that of beds from 21.3% in the previous year to 23.0% in 2022 (World Tourism Organisation, 2023^[3]).

Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-22) and seasonal distribution of arrivals (2022) in Bosnia and Herzegovina

Stays and arrivals are expressed in millions (left); seasonal arrivals are expressed in thousands (right)



Source: BHAS (2024_[4]).

StatLink  <https://stat.link/gakcvt>

Sub-dimension 15.1: Governance and enabling conditions

Given the decentralised nature of the economy and the high degree of autonomy entities possess in setting policies, regulations and institutions, the economy has established a tailored framework for **tourism governance**. At the state level, the tourism department, operating within the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER) co-ordinates the activities and harmonises the plans with both entity authorities and international tourism institutions. Meanwhile, at the entity level, the Ministry of Environment and Tourism of FBiH, the Ministry of Trade and Tourism of the RS and the Department of Economic Development, Sports and Culture of Brčko District are responsible for the legal framework, adoption of the tourism strategy, and overall development.

Furthermore, to enhance the co-ordination among lower levels of government, under the supervision of MoFTER a tourism working group has been formed, comprising representatives of the MoFTER, the Federal Ministry for Environment and Tourism, the Ministry of Trade and Tourism of the Government of RS, and the Foreign Trade Chamber of BiH (Center of Excellence for Evaluation and Policy, 2022_[5]). As of 2023, tourism in the Brčko District is managed by the Tourist Organization of Brčko District of BiH rather than the Department of Economic Development, Sports, and Culture. Although there are some initiatives to enhance co-ordination vertically in place, there is no official state-level interministerial body. This horizontal gap at the state level might hinder the prioritisation of initiatives to attract investment and promote innovation in tourism. BiH's tourism sector faces a highly fragmented governance structure, which is costly and inefficient. This complicated setup leads to slow economic transformation and creates an unfavourable environment for the business sector (World Bank, 2020_[6]). According to the World Economic Forum (World Economic Forum, 2022_[2]), BiH ranks an extremely low 111th out of 117 economies in terms of government spending on travel and tourism, between North Macedonia (105th) and Serbia (116th) (World Economic Forum, 2022_[2]).

In BiH, the governance framework and strategic approach are primarily defined at the entity level rather than through an overarching national strategy. In the FBiH, a Tourism Development Strategy 2022-27,¹ developed in collaboration with USAID, outlines strategic priorities and objectives and has been approved

by parliament. An Action Plan for the implementation of the 2023-26 Cultural Policy Strategy is also in progress, although its adoption is not yet foreseeable. Other positive progress includes the adoption of the Tourism Development Strategy for 2021-27 in RS, which aims to connect tourism with other sectors of the economy, foster and boost new investments, provide access to finance through private-public partnerships and create further employment. The strategy aims to achieve several key targets by 2027, including a 20% increase in tourism's contribution to nominal GDP; a 20% rise in overnight arrivals compared to the 2019 baseline; extending the average length of stay to 3 nights; boosting domestic and foreign investment by 15% annually; expanding protected areas to cover 15% of RS territory; and generating 6 010 new full-time jobs to enhance employment (USAID, 2021^[7]). Furthermore, monitoring mechanisms on its implementation are currently in place, focusing on the effectiveness and efficiency of the planned measures and priorities. Challenges persist in the effective implementation of its promising mandate due to issues like the absence of a dedicated department or interministerial body, limited commitment from top officials, and inadequate resources. Furthermore, the lack of integration with trade policy and innovation initiatives, and gaps in visitor management, climate adaptation, and risk mitigation demand attention. This is particularly the case in RS, where capacity issues, insufficient government ownership, and the lack of integration of tourism policy into broader strategies exacerbate challenges in implementing visitor management, climate adaptation, and risk mitigation measures.

Positive developments can be seen in the FBiH with the introduction of a new strategy.

The Tourism Development Strategy for 2022-27 was officially adopted in 2023 by both the House of Representatives of the FBiH Parliament and the House of Peoples. The implementation process of the strategy, including a draft Action Plan, is currently under way and nearing completion. This strategic document clearly defines the priorities: the development of tourism products, the marketing of destinations and human resources, and the improvement of framework conditions for the development of sustainable tourism. It includes clear guidelines for continuous monitoring to assess relevance, coherence, compliance, and effectiveness throughout implementation. Nevertheless, there are still challenges to be tackled at present, including the lack of a dedicated tourism organisation, robust co-operation channels, frameworks for green investment, innovation, comprehensive monitoring, and climate resilience strategies for sustainable tourism development. In 2022, efforts were made to promote and support investments in tourism in the FBiH. In accordance with the decision of the FBiH Government, funding was approved by the Chamber of Commerce for the programme "Improving and increasing the attractiveness of FBiH as an outstanding tourist destination", to mitigate the impact of COVID-19 on the tourism sector.

Vertical co-operation and information sharing in the field of tourism administration in BiH at state level remain notably underdeveloped. Major challenges include the lack of a planning framework for destination management structures and limited progress in co-ordination between tourism administrations. BiH has yet to create a destination management planning framework; promote co-operation among tourism administrations; establish a formal vertical co-ordination body; invest in a comprehensive tourism information system; or introduce robust monitoring mechanisms – all of which thwart opportunities for a more integrated and visitor-friendly tourism landscape.

In RS, vertical co-operation and information sharing in tourism administration have seen both progress and challenges. Despite the absence of a planning framework for destination management structures, there have been notable improvements in co-ordination between tourism administrations, particularly at the local and regional level. However, many hurdles are yet to be overcome due to persistent issues, including the lack of a formal vertical co-ordination body for tourism, limited resources, the limited involvement of local communities, and limited use of local tourism strategies and public-private co-operation mechanisms. Additionally, lack of implementation of a comprehensive tourism information system, monitoring mechanisms and independent evaluation studies is currently hindering the potential to establish a well-co-ordinated and informative tourism landscape.

In the FBiH, while the absence of a planning framework persists, the engagement of local municipalities and regional authorities in the national tourism strategy is a positive development. Improvements include the inclusion of local and regional tourism strategies in the national plan and notable co-operation between the public and private sectors. However, the FBiH still grapples with challenges such as the lack of an official vertical co-ordination body for tourism, limited crisis management plans, and lack of mechanisms for public-private co-operation. Clear deficiencies are also evident in the development of comprehensive tourism information systems, monitoring mechanisms, and complementary independent studies on information quality, all of which are necessary for a more integrated and informative framework for tourism.

In Bosnia and Herzegovina, **public-private dialogue** in the tourism sector is characterised by the commitment of private sector representatives who are actively involved through a number of state initiatives notably centred around issues related to hotels, restaurants and trade. Limited evidence of clear progress can be observed at the state level, particularly concerning the absence of a formal tourism management and co-ordination body at the national level that includes representation from the private sector, highlighting a significant gap. That absence poses a potential risk to strengthening dialogue and improved co-operation, as does underdeveloped monitoring mechanisms.

In RS, public-private dialogue in tourism is associated with active representation from the private sector, particularly from hotel and restaurant businesses and the Chamber of Commerce. The private sector appears nonetheless restricted to advisory roles, as it lacks considerable formal decision-making authority. This has been evident in the development of the national tourism strategy, where the private sector has not been assigned a formalised role; its contribution is limited in shaping the tourism sector. Similarly, progress in public-private dialogue seems to be stunted by various shortcomings, such as again the lack of a formal tourism management and co-ordination body involving the private sector, insufficient structures for public involvement in destination planning, and an underdeveloped model for public-private partnerships.

In the FBiH, the dialogue between the public and private sectors in the field of tourism is solid and the private sector is strongly represented in the national tourism strategy across different areas and associations. As such, the 2022-27 Tourism Development Strategy of the FBiH was developed in consultation with the private sector, the academic community, and local communities. This partnership, known as the Coalition for the Competitiveness of Tourism (TCC), engaged over 150 stakeholders from ten cantons through meetings, focus groups, surveys, and consultations to address key challenges and opportunities in the tourism sector. However, challenges persist in establishing a comprehensive and effective public-private dialogue in the tourism sector in FBiH due to several factors, including the absence of a comprehensive tourism framework that integrates education and civil society, limited mechanisms for public engagement at the destination level, the lack of a model for public-private partnerships, and underdeveloped monitoring frameworks.

The **data collection framework** in BiH's tourism sector involves multiple institutions like the Agency for Statistics and the Central Bank, adhering to international standards. Regular updates on tourism statistics are accessible to the public through monthly surveys, yet methods lack modernisation, relying on paper surveys. Challenges persist, including a shortage of human resources and expertise, and limited use of electronic systems. The online data portal lacks interactive tools for easier access. Economic analyses of tourism contributions remain underdeveloped, hindering informed decision making.

Data collection in the tourism sector of RS is comprehensive and allows for collaboration and integration of data from various sources with the aim of increasing their effectiveness and analysis. However, there remain technological limitations even as the institutions adhere to international standards; the absence of electronic systems for data collection indicates minimal technological advancement and innovation. A public online portal reporting tourism statistics regularly and co-operation among sectors show positive progress. Data collection surveys conducted in RS also cover important factors in the economic contribution of tourism such as gross value added, investment and employment, therefore covering a wide

range of economic impacts reported regularly to the public. The monitoring mechanism and reports on the quality of the surveys are commendable.

In the FBiH, various institutions contribute to data collection, but a lack of resources and technological advancement remain primary obstacles to an efficient and effective process. Significant progress has been made in certain aspects of the process, such as the establishment of a permanent data repository and the monitoring of economic contributions, particularly within the hospitality sector. Additionally, the implementation of a structured timeline for data collection and publication of key data such as tourist arrivals and overnight stays on a monthly basis ensure a positive level of transparency. However, limited use of electronic systems and slow progress in technological advancement remain critical for obstacles to ensuring the efficiency and robustness of the data collection process.

Sub-dimension 15.2: Accessibility, tourism offer and human resources

The **connectivity framework** for tourism in BiH has shown minimal progress since 2021, suggesting a lack of priority for this area. There is scant evidence of the implementation or revision of state-level initiatives concerning regulations, or involvement in regional efforts to foster a more tourist-friendly and accessible environment. Moreover, the failure to update visa requirements and regulations, along with the absence of special arrangements for tourists crossing the border, underscores a lack of proactive efforts to improve accessibility. BiH has the potential to be a hub between Western Europe and the Balkans, but its transport infrastructure, especially the airports, needs to be significantly modernised and expanded. This would increase efficiency and regional connectivity and boost tourism and economic growth. The hospitality industry is growing, driven by the private sector, but the overall lack of connectivity (not only air but also road and rail infrastructure) is hampering tourism growth. The market for international air passengers in BiH is the smallest in the region. (World Bank, 2020^[6])

In RS, the framework for tourism connectivity has not shown progress since 2021. The lack of a regional strategy to facilitate travel and specific targets for reducing transport-related emissions is a cause for concern. Despite accessible destinations, the lack of sustainable transport initiatives is notable.

In the FBiH, there is evidence indicating significant improvements in the infrastructure facilitating access to main tourist destinations by air and road. There are still problems in rural areas due to factors such as distance, limited public transport and geographical barriers. The lack of information on the monitoring and evaluation of measures to improve accessibility suggests the need for a comprehensive assessment.

In the context of connectivity, Bosnia and Herzegovina can learn from Albania, particularly through the example of the digital platform "eTransport - Simplifying Travelling in Albania" (Box 16.1).

Accommodation capacity and quality frameworks are primarily established at the entity level rather than at the state level. These frameworks aim to improve availability and quality across various types of accommodations. Additionally, specific policy measures have been implemented to support these objectives.

RS has made progress in the accommodation capacity and quality framework by implementing measures to facilitate investment in private accommodation and maintain uniform quality standards. The mandatory categorisation and assessment processes, supported by special commissions and municipalities, ensure a structured approach to quality. The inclusion of requirements for people with disabilities demonstrates a commitment to accessibility. Challenges remain however, such as unclear implications of the sharing economy, the lack of explicit requirements for energy efficiency, and the lack of explicit information to assess the framework for facilitating accommodation. The risks are that these shortcomings are not addressed, that there is a lack of clarity regarding the integration of the sharing economy, and that energy efficiency regulations are not sufficiently improved. Together these could hinder the development of a comprehensive framework for accommodation in RS.

Box 16.1. eTransport - Simplifying travelling in Albania

Albania has developed eTransport, which serves as a secure travel ticket and is the national digital platform designed to enable travel throughout Albania. This innovative online platform, aims to improve services for both transport operators and citizens.

As an interactive hub, eTransport connects travellers, transport companies, agencies and national terminals, improving the overall travel experience in Albania. The eTransport platform serves as a communication bridge that guides travellers to their favourite destinations and cultural events in tourist Albania.

This national digital platform, launched in collaboration with the Directorate-General for Road Transport, the Ministry of Infrastructure and Energy and the National Agency for the Information Society, aims to improve public transport services. The Ministry of Tourism and Environment, in collaboration with the Directorate-General for Road Transport, officially recognised the eTransport platform through a co-operation agreement.

This innovation provides a comprehensive, centralised source of information for local and foreign citizens, with details on lines, routes, timetables, terminals and more. The eTransport platform introduces online ticketing for the first time, guaranteeing a complete control circuit and seat selection.

The eTransport platform is transforming transport services - not only has it changed travel planning, but it also is an environmentally friendly solution that contributes to the reduction of air-polluting emissions from the Albanian transport sector. The platform is becoming a key player in promoting sustainable and user-friendly travel experiences in Albania.

Source: E-Transport (2023^[8])

The FBiH has made progress in the accommodation capacity and quality framework, with the government supporting investment in private accommodation and maintaining uniform quality standards. Mandatory categorisation and regular inspections contribute to high standards. Challenges include a lack of information on training for businesses and potential gaps in understanding and implementation. While accessibility requirements for people with disabilities are integrated, there is a lack of explicit requirements for energy efficiency. Limited information is available to assess the framework for facilitating accommodations. The risk is that these challenges are not adequately addressed, comprehensive training is not provided, and the integration of energy efficiency measures into quality standards is overlooked, all of which could hinder the further improvement of accommodation standards in the FBiH.

In BiH, the education system is characterised by its complexity, with competencies organised at entity level. The **availability of a qualified workforce** in the tourism sector in RS is facing challenges. While a working group for a white paper is being prepared to address human resources issues, there is no specific information on the adoption of a human resources policy and plan for tourism, indicating a possible gap in strategic planning. Although a skills gap assessment and training needs analysis was conducted in 2022, resulting in the training of tourist guides, there are limited efforts to facilitate foreign workers' access to the labour market. The lack of consultation and dialogue with stakeholders and the lack of evaluation of the human resources policy pose risks. Although budget allocation was in discussions, there is no agency responsible for quality assurance and accreditation in vocational education and training (VET) or higher education for tourism, which has seen a decline in recent years.

The availability of skilled labour in the tourism sector in the FBiH presents a mixed picture. Positive aspects include a specific human resources policy and plan for tourism, coverage of key aspects of human resources development, consultations and dialogue on human resources planning, and an existing

framework for vocational and higher education in tourism. As part of the development of the FBiH's tourism strategy, the United States Agency for International Development (USAID)'s tourism project prepared an assessment and forecast of the related human resource needs for the period 2021-27. This assessment included an analysis of employment and training needs in the tourism industry and an analysis of tourism education and training. Challenges include the lack of a quality assurance agency for vocational and higher education in tourism, outdated curricula that are not aligned with the needs of the industry, and unclear budgets for human resource development activities. Addressing the challenges indeed requires updating curricula and ensuring an adequate budget. The obstacle lies in the need to establish a quality assurance agency and improve co-operation among stakeholders to achieve a comprehensive approach to developing a skilled tourism workforce in the FBiH.

Sub-dimension 15.3: Sustainable and competitive tourism

Tourism branding and marketing in BiH faces challenges, as there is limited evidence of progress in establishing a tourism brand identity and marketing strategy. This poses a challenge for effective promotion in the global tourism market, which is reflected in the country's relatively low brand strategy ranking of 104th (World Economic Forum, 2022^[2]), behind stronger competitors in the Western Balkans such as Albania (18) and Montenegro (48). A comprehensive digital marketing strategy and the utilisation of digital tools are not integrated into the overall strategy. While several promising regional initiatives to establish common tourism brands are in place, such as initiatives in the European Union Strategy for the Adriatic Ionian Region (EUSAIR), they lack a structured monitoring and evaluation system, limiting the potential of the tourism sector in BiH.

RS faces branding and marketing challenges in tourism due to the absence of a well-defined tourism brand identity and a comprehensive marketing strategy. Although the Tourist Organisation of RS (TORS) exists to handle tourism branding and marketing, efforts often lack centralised co-ordination, with individual stakeholders within the tourism sector executing marketing initiatives independently. Additionally, inadequate digital skills and financial resources pose obstacles to the effectiveness of digital marketing activities.

The FBiH has strengths in tourism branding and marketing, with an established tourism brand identity and recognised brands, including cultural events and attractions, such as the Sarajevo Film Festival, Herzegovina Wine Route, and Via Dinarica. A comprehensive marketing strategy targets various global markets and destinations and actively engages in various marketing channels, including digital platforms. During the development of the FBiH's 2022-27 Tourism Development Strategy and in conjunction with Priority 2 Destination Marketing Development, USAID Tourism conducted an analysis of detailed market information and other market research. Challenges include inadequate digital infrastructure, insufficient digital skills and resistance to change. Addressing infrastructure challenges, promoting the development of digital skills and exploring government incentives for private sector participation are key challenges for the FBiH. Furthermore, establishing a robust monitoring and evaluation system is an additional challenge for maximising the effectiveness of branding and marketing efforts.

Natural and cultural heritage valorisation frameworks have been incorporated into various strategic documents at both the state and entity levels, such as the Strategy of Cultural Policy in Bosnia and Herzegovina (adopted in 2008), the Biodiversity Strategy and Action Plan for the period 2015-20 (adopted in 2016), and the Tourism Development Strategy of RS for the period 2021-27 and the Tourism Development Strategy of the FBiH for the period 2022-27. The last comprehensive strategic document on cultural policy in Bosnia and Herzegovina, adopted in 2008, was followed by the implementation of Action Plans extending from 2011 to 2018, alongside the adoption of a strategic framework in 2015 that aligns with EU obligations and includes the goal of improving culture and the creative sector. In the two entities of BiH, cultural policies are managed differently.

RS has potential and challenges in the **natural and cultural heritage valorisation framework** that require a comprehensive approach to sustainable development. While the tourism strategy addresses cultural heritage issues, there is a lack of clear and measurable implementation plans for specific frameworks and strategies for natural and cultural heritage. The lack of a dedicated cultural and historical heritage strategy within the Department of Trade and Tourism is a gap. Private stakeholders, local communities, academia and NGOs are not involved in the formulation of heritage strategies. Challenges include securing budgets and qualified staff for protected areas, and there is a lack of essential legal frameworks, leaving aspects such as trade in artefacts and visitor management unregulated. The lack of systematic adaptations based on monitoring and evaluation hinders the adaptive management of cultural heritage sites. The risk lies in the failure of RS to effectively strengthen cultural heritage strategies, as this requires the involvement of different stakeholders, the implementation of specific plans within broader strategies and the elimination of regulatory gaps. Without the implementation of effective monitoring mechanisms and conservation initiatives, responsible tourism practices may be jeopardised.

FBiH is committed to the valorisation of natural and cultural heritage as part of its national tourism strategy. It prioritises the preservation of cultural, historical and natural values that are in line with the principles of sustainability. However, there is a lack of concrete details on the strategies for engagement and implementation, as well as on adaptation of the strategies based on monitoring and evaluation. The finer details of cultural heritage strategies are the responsibility of the Federal Ministry of Culture or the Ministry of Foreign Affairs. There is evidence indicating weak collaboration channels among ministries, communities, and stakeholders, hindering the implementation of sustainable practices and plans for the valorisation of natural and cultural heritage in the FBiH.

Efforts on promotion of sustainable development and operations initiatives predominantly originate at the entity level in BiH. There is no policy framework that includes clear measures for the promotion of sustainable tourism and operations. In Bosnia and Herzegovina, public sector tourism associations are designated as destination management organisations (DMOs) but primarily focus on promotional activities rather than comprehensive destination management functions. While the FBiH lacks active tourist associations at the entity and municipal levels, in RS there are local tourism organisations at the city or municipal level, along with an umbrella tourist association representing municipal tourism associations. Although sustainable development in BiH has become an important objective that is strongly supported by the World Bank and the EU, integration of the concept of sustainability in tourism strategies and policies is still absent. Consequently, sustainability assessment and monitoring have not yet been established. Given the lack of a strategic framework for sustainable development and assessment, sustainability in tourism arises from individual business initiatives, destinations and NGOs.

Initiatives concerning **promotion of sustainable development and operations** primarily stem from individual business endeavours, destinations, and non-governmental organisations at entity level.

RS is committed to sustainable tourism development in its official documents but faces challenges in fully implementing the policy. As such, the government has yet to adopt a policy framework for the promotion of sustainable tourism with clear policy actions and an allocated budget. Similarly, environmental measures have been referenced as part of the national environmental policy and/or tourism strategy but there is a lack of progressive implementation, monitoring and evaluation mechanisms. In striving to bolster the sustainability of tourism developments, the government has implemented various initiatives. These include setting standards for tourist destinations aligned with international norms such as certification and labelling schemes, providing subsidies, conducting awareness campaigns, and investing in infrastructure to bolster sustainable tourism development. However, the absence of independent assessments and a sustainable tourism observatory restricts the comprehensive evaluation of impacts and the capacity for sustainable practices among tourism businesses in RS. This hampers the potential for more effective and widespread adoption of sustainable tourism practices.

The FBiH has outlined the principles of sustainable tourism development in its official documents but faces challenges in policy implementation. While environmental protection measures are integrated into the national environmental protection policy and/or tourism strategy, there is a lack of comprehensive monitoring and evaluation mechanisms for the practical application of environmental principles in tourism, as outlined in the Tourism Development Strategy for 2022-27. A significant gap lies in the absence of a sustainable tourism observatory to systematically assess the impact of implemented measures.

BiH can learn valuable lessons from Finland in promoting sustainable development and operations. For more details on the Sustainable Travel Finland Programme implemented by Visit Finland (Box 16.2).

Box 16.2. Sustainable Travel Finland Programme by Visit Finland

In response to the growing demand for sustainable travel products and the commitment to carbon neutrality by 2035, Visit Finland, the national tourism promotion body, undertook a pioneering initiative. Research in 2018 highlighted the potential for increased sales if Finland's supply of sustainable travel products were enhanced, garnering support from both tour operators and local stakeholders.

Visit Finland aimed to position the tourism industry as a contributor to environmental goals while facilitating the identification of companies and destinations committed to sustainable practices.

The organisation created the Sustainable Travel Finland programme, aligning with the United Nations Sustainable Development Goals. A comprehensive survey and needs assessment identified specific development needs among businesses and destinations, leading to the development of the programme, complete with a label and toolkit. Participation was made accessible and free of charge for any business or destination seeking to incorporate sustainability.

The programme featured e-learning, self-assessment tools, webinars, and workshops. Sustainable Tourism Indicators, developed in collaboration with the private sector, were utilised by destination marketing organisations (DMOs) to engage with small and medium-sized enterprises (SMEs).

Takeaways for national tourist organisations (NTOs) and DMOs:

- Implementation of such programmes supports comprehensive, consistent, and co-ordinated adoption of sustainable practices in the tourism and hospitality sector.
- Communicating the programme's results enhances standards across the destination's tourism sector, demonstrating the NTO's commitment to sustainable practices, and increasing the destination's appeal to visitors, inbound operators, and investors.
- Alignment with international standards, particularly the Sustainable Development Goals (SDGs), is vital, but customisation for national and regional needs is essential.
- The case underscores the crucial role that DMOs can play, provided they possess the necessary skills and funding, in supporting a comprehensive national sustainable tourism programme, led by the NTO.

Sources: European Travel Commission (2021^[9]); Visit Finland (2024^[10]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

BiH's progress on implementing past CO Recommendations has mostly been limited, even though the development of the tourism strategies at entity level is a promising start. However, progress on destination management and human resources has been rather slow, as evidenced in Table 16.2.

Table 16.2. BiH's progress on past recommendations on tourism policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Ensure that new tourism development strategies clearly define a governance structure and institutional setup at the entity level	In RS, a new Tourism Development Strategy (2021-27) has been introduced with a detailed Action Plan and clearly defined policy measures, implementing authorities and budget allocations. In the FBiH, the new Strategy for Tourism Development 2022-27 has been formally adopted in 2023.	Moderate
Further develop destination management, using best practice examples from the economy (such as the tourism clusters of Unasana and Herzegovina)	In the BiH, examples of public-private co-operation are the Unasana Tourism Cluster and the Herzegovina Tourism Cluster, which show potential models for future co-operation.	Limited
Develop a human resources development strategy in tourism or include human resources in the Tourism Strategy	In RS, a working group for a white paper is being prepared to address human resource issues in the tourism sector. As part of the development of FBiH's tourism strategy, USAID's tourism project prepared an assessment and forecast of human resource needs in tourism for the period 2021 to 2027. In the FBiH changes have been made in the framework of vocational and higher education for tourism since January 2021, particularly in high school programmes majoring in cooking.	Limited

The way forward for tourism policy

To ensure further successful development of tourism, policy makers should:

- **Create a dedicated governance structure with extended scope/mandate for the MoFTER and a state-level tourism organisation; these are crucial to enhance the implementation of tourism policies and co-ordination between government levels.** Simultaneously, fostering co-operation among tourism administrations is vital for efficient collaboration at national, regional, and local levels. This approach aims to streamline and improve the overall effectiveness of tourism management.
- **BiH should focus on attracting investment and promoting innovation in the tourism sector,** capitalising on its advantage of lower seasonality compared to other Western Balkan economies. By recognising tourism as a strategic sector and emphasising diversification into areas such as rural and cultural tourism and agritourism, BiH can promote growth and competitiveness. This means actively working on specific measures and initiatives to attract investment and promote innovation in the sector.
- **Develop a comprehensive planning framework for destination management.** Establishing that framework is essential for effective co-operation at national, regional, and local levels. Inspired by successful models such as the tourism clusters in Unasana and Herzegovina, the promotion of destination management should be based on best practices. At the same time, co-operative engagement will take place by sensitising and training public and private stakeholders.

- **Improve data collection through technological advances.** To overcome challenges in data collection, including limited human resources and the lack of interactive tools, BiH should focus on technological advances. Introducing electronic systems, developing interactive tools and conducting comprehensive analyses will contribute to a more advanced and insightful data collection system in the tourism sector. In the best-case scenario, the data collected by the entities can be better linked, processed and shared accordingly.
- **Develop a common strategic tourism brand identity.** The lack of an established tourism brand identity hinders effective promotion. Developing a clear tourism brand identity will help BiH to stand out in the competitive global tourism market, overcome branding and marketing challenges, and implement a marketing strategy that will effectively position Bosnia and Herzegovina in the global tourism landscape. Under the umbrella of a state-level brand, the entities could position themselves with their destination and product brands accordingly.
- **Build a programme to develop human resources for tourism in the FBiH/RS** to address the key findings through three pillars: a skills enhancement programme (including digital skills); a strengthened tourism education system with updated curricula, partnerships with industry and a new quality assurance agency; and policies to promote tourism careers through incentives, scholarships and lifelong learning opportunities.

References

- Agency for Statistics of Bosnia and Herzegovina (2023), “Agency for Statistics of Bosnia and Herzegovina”, <http://www.bhas.ba/Calendar/Category/19> (accessed on 28 January 2024). [1]
- BHAS (2024), *Business Statistics: Tourism*, <http://www.bhas.ba/Calendar/Category/19>. (accessed on 13 June 2024). [4]
- Center of Excellence for Evaluation and Policy, R. (2022), “Tourism in Bosnia and Herzegovina: In-depth analysis”, https://www.efsa.unsa.ba/ef/sites/default/files/peer_sebs_tourism_report_clean_2022.04.05.pdf. [5]
- E-Transport (2023), *Welcome to e-Transport*, <https://www.etransport.al/> (accessed on 13 June 2024). [8]
- European Travel Commission (2021), *Encouraging Sustainable Tourism Practices*, https://etc-corporate.org/uploads/2021/09/ETC_SUSTAINABLE_TOURISM_HANDBOOK_vs6_FINAL.pdf#page=61&zoom=100,0,0. [9]
- USAID (2021), “BiH Entity Adopts Tourism Development Strategy”, <https://turizambih.ba/en/bih-entity-adopts-tourism-development-strategy>. [7]
- Visit Finland (2024), *Finland- Sustainable Travel Destination*, <https://travel-trade.visitfinland.com/en/sustainability/> (accessed on 13 June 2024). [10]
- World Bank (2020), “Bosnia and Herzegovina systematic country diagnostic update. World Bank, Washington, DC.”, <https://openknowledge.worldbank.org/handle/10986/33870>. [6]
- World Economic Forum (2022), *Travel & Tourism Development Index 2021, Rebuilding for a Sustainable and Resilient Future, Insight Report May 2022*, <https://www.weforum.org/publications/travel-and-tourism-development-index-2021>. [2]

World Tourism Organisation (2023), “UNWTO Tourism Statistics Database”, [3]
<https://www.unwto.org/tourism-statistics/key-tourism-statistics> (accessed on 1 March 2024).

Note

¹ Information on the First Tourism Development Strategy in FBiH adopted: <https://turizambih.ba/en/the-first-tourism-development-strategy-in-fbih-adopted/>.

Annex A. Western Balkans Competitiveness Outlook (CO) 2024 assessment model for Bosnia and Herzegovina

Constitutional set-up of Bosnia and Herzegovina

The governance structure of Bosnia and Herzegovina (BiH) is highly decentralised, comprising the state-level institutions of Bosnia and Herzegovina, the governments of the two entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) – and the autonomous Brčko District. The FBiH and the RS have significant constitutional autonomy and responsibility for the matters that the Constitution of Bosnia and Herzegovina has not assigned to the state-level government. The entities have jurisdiction over a range of policies, among them healthcare, education, agriculture, culture, labour, police and internal affairs. Both entities have a president, a prime minister and their own governments. The FBiH is furthermore divided into ten federal units (cantons), each with its own government and constitution that defines the institutions and functioning of government authorities.

CO 2024 assessment of Bosnia and Herzegovina

As policy making in Bosnia Herzegovina is much more decentralised than that of the other Western Balkan economies covered by the *Western Balkans Competitiveness Outlook 2024* assessment, information from the FBiH and the RS as well as from the state level has been taken into account in assessing and scoring of policy dimensions. In other words, Bosnia and Herzegovina completed three sets of assessment materials, involving questionnaires and statistical sheets; information from all three sources has thus been considered in the analysis. While the Brčko District was not directly included in the assessment, its policies have been covered in various sections of the report, as appropriate. Policy recommendations have in many cases been formulated to emphasise the importance of policy co-ordination in Bosnia and Herzegovina in order to strengthen the single domestic market and the competitiveness of both entities.

Detailed scoring criteria tables for all 146 qualitative indicators, a novelty of this assessment cycle, have been developed and adapted to accurately reflect the distribution of competencies in BiH. This was done in order to provide a comprehensive and precise portrayal of the design and implementation of policies across various levels of government. Figure A.1 illustrates an example of this design, focusing on the *climate change mitigation* indicator within the environment policy dimension.

Figure A.1. Example of scoring criteria differentiation between state and entity levels

	QL1. Climate change mitigation	Bosnia and Herzegovina		
		State level	RS	FBiH
Level 0 ↑	A policy framework for climate change mitigation is in place and public consultations have been conducted for its adoption. <i>*Not yet adopted but under development</i>	✓	✓	✓
	Climate change mitigation measures are integrated into existing plans and processes (such as spatial planning, infrastructure, transport, energy, etc.).	n/a	X	X
	Targets to cut greenhouse gas emissions have been defined to reach net zero by 2050.	✓	n/a	n/a
Level 1	The National Energy and Climate Plan has been developed, as required by the Energy Community. <i>*Not yet adopted but under development</i>	✓	n/a	n/a
	Requirements under the Paris Agreement are respected, including through updated Nationally Determined Contributions (NDCs) and Biennial Update Reports to the UNFCCC.	✓	n/a	n/a
	Good institutional co-ordination is in place among national government bodies which design policy and implement climate mitigation programmes (such as through a designated working group)	✓	✓	✓
	Capacity building and trainings are organised periodically to support staff working on climate change mitigation.	✓	✓	✓
	Mechanisms to mitigate the effects of climate change (such as through environmental impact assessment and strategic environmental assessment) are in place when developing other policies (agricultural, industrial, energy, transport, etc.).	X	X	X
Level 5 ↓	Climate change-related concerns are systematically introduced in regulatory impact assessments (in particular the impact of carbon emissions).	X	X	X
	Economic instruments and incentives to reduce emissions have been introduced to achieve decarbonisation targets (carbon taxes, the EU Emissions Trading System (ETS), incentives for renewables, etc).	X	X	X
	Monitoring systems are in place to assess the efficiency of climate change mitigation policies, programmes and funding. <i>*Under development</i>	X	X	X
	Most vulnerable groups of society are compensated by different schemes aimed at achieving decarbonisation targets.	X	X	X
	Strategy or policy measures have undergone an evaluation, drawing on data on greenhouse gas emissions, which informs policy design.	X	X	X

Table A.1 shows which scoring model has been applied in the 15 policy dimensions covered under CO 2024 as well as the rationale for its selection. For most of the 15, a score has been derived by giving one-third of the weight to each of the two entities and the state (“State and entities”), with the scoring criteria tables reflecting the competencies in greater detail.¹ For five of the dimensions (Access to finance, Tax policy, State-owned enterprises, Employment policy and Environment policy), a score has been derived by calculating a simple average of the two entities’ scores. This approach (“Entity only”) reflects that major policies, mechanisms and institutions in these policy areas exist mainly at the level of the entities.

Table A.1. Application of the scoring models to the Competitiveness Outlook 2024 policy dimensions

Policy dimension	CO 2024 assessment	Rationale
1. Investment policy and promotion	State and entities	Investment policy and promotion is managed at both the entity and state levels. The Ministry of Foreign Trade and Economic Relations (MoFTER) regulates the economy’s overall investment policy while the entities follow supplemental legislation on topics such as expropriation, contract enforcement, and alternative dispute mechanisms. Although the economy’s investment promotion agency exists at the state level, promotion activities, incentive regimes and investor targeting also occur at the entity levels.
2. Trade policy	State and entities	Trade policy is guided by the jurisdiction, framework laws and priorities put in place at the state level by the MoFTER. However, the entities have an important role to play as they adopt their own sectoral laws and regulations governing and affecting various aspects of trade. While digital trade policy is guided by legal frameworks at both state and entity levels, digital trade facilitation measures lie within the jurisdiction of the state level.
3. Access to finance	Entity only	Responsibilities under Access to finance are primarily at the entity level. Legal and regulatory frameworks are mostly established at the entity level (and by cantons in FBiH in the specific case of public-private partnerships).
4. Tax policy	Entity only	While the Indirect Tax Authority collects indirect taxes and is managed at the state level, the entities define their own taxation framework for direct taxes and are in charge of tax collection. Scoring was not provided at the state level; as the majority of tax policies remain at the entity level, scores for the tax policy dimension’s indicators and averages are based solely on FBiH and RS scores.
5. State-owned enterprises	Entity only	Bosnia and Herzegovina’s performance in the State-owned enterprises dimension is based on activities of the FBiH and RS. The assessment focuses mostly on state-owned enterprises (SOEs) held and managed

		by the governments of FBiH and RS rather than cantons and municipalities.
6. Anti-corruption policy	State and entities	The state-level Agency for Prevention of Corruption and Co-ordination of the Fight Against Corruption focuses primarily on developing an anti-corruption policy framework and on co-ordinating the anti-corruption efforts of the entities. Anti-corruption prevention and prosecution are dealt with at the state and the entities level. Regulation relating to business integrity exists only at the entity level.
7. Education policy	State and entities	Education policy is primarily under the responsibility of the entities (and cantons in FBiH). However, the state level does play a role by adopting important framework laws and through the Agency for Pre-school, Primary and Secondary Education; the agency is a state-level institution responsible for developing learning standards and common core curricula, as well as evaluating learning achievements for pre-primary, primary and secondary education.
8. Employment policy	Entity only	Employment, labour and social policy is within the competencies of the entities. The state level does not have competencies for those policies or social protection, but it does play a role in adopting policies and programmes related to migration and diaspora engagement. The Ministry of Civil Affairs of Bosnia and Herzegovina is assigned only a co-ordinating role when representing the economy's interests abroad.
9. Science, technology and innovation	State and entities	The strategic and institutional frameworks for science, technology and innovation (STI) are highly decentralised, with dedicated ministries in the two entities as well as at the canton level in FBiH. However, the state level plays a role, as the Ministry of Civil Affairs co-ordinates STI policy across Bosnia and Herzegovina and ensures international representation.
10. Digital society	State and entities	Digital society encompasses a number of different policy areas, such as data accessibility, digital skills development and privacy protection, in which policy frameworks are developed at the state or entity levels. Policies in different areas are guided by the state- and/or entity-level institutional and regulatory frameworks.
11. Transport policy	State and entities	Transport policy is guided by state-level framework laws and investment priorities. However, these are often implemented at entity level and the entities have a significant role to play in that they adopt their own laws and regulations governing different transport modes, make their own investments, and operate key publicly-owned enterprises.
12. Energy policy	State and entities	Energy policy is guided by legal and regulatory frameworks at both the state and entity levels. The state-level MoFTER plays an important role in co-ordinating energy policy between the entities as well as ensuring international co-operation and energy trade.
13. Environment policy	Entity only	Environment and climate policy are overseen by the two entities. Entity-level institutions manage strategic frameworks, policy setting, implementation, and reporting. The state-level authority (MoFTER) focuses on fulfilling BiH's international obligations and co-ordinating entity activities in environment-related sectors, such as energy and agriculture, subject to entity approval. The Focal Point at the Ministry of Physical Planning, Civil Engineering, and Ecology of the RS co-ordinates all United Nations Framework Convention on Climate Change (UNFCCC) activities and National Communications development.
14. Agriculture policy	State and entities	Agricultural policy is guided by framework laws and priorities established at the state level by the MoFTER. The ministry is responsible for defining and co-ordinating the state agricultural policy framework in co-operation with the relevant institutions of the entities. The entity institutions, on the other hand, are responsible for the management and implementation of policies, programmes and measures in their respective territories.
15. Tourism policy	State and entities	Tourism falls primarily under the jurisdiction of the two entities, which are responsible for the adoption of their own tourism strategies and the establishment of the governance structure and institutional setup, which differ in each entity. At the state level, the Tourism Working Group was established by the MoFTER to co-ordinate tourism activities between the entities. The state also retains its authority as the governing body for visa and border frameworks.

Note

¹ For some indicators, where the distribution of competencies was more concentrated at the state level or entity level, discretionary adjustments have been made to the scores to reflect the performance of BiH as a whole more accurately.

Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Bosnia and Herzegovina

Inclusive and sustainable economic growth in the six Western Balkan (WB6) economies depends on greater economic competitiveness. Although the gap is closing gradually, the standards of living in WB6 are well below those of the OECD and EU. Accelerating the rate of socio-economic convergence will require a holistic and growth oriented approach to policy making.

This is the fourth study of the region (formerly under the title 'Competitiveness in South East Europe') and it comprehensively assesses policy reforms in the WB6 economies across 15 policy areas key to strengthening their competitiveness. It enables WB6 economies to compare economic performance against regional peers, as well as EU-OECD good practices and standards, and to design future policies based on rich evidence and actionable policy recommendations.

The regional profile presents assessment findings across five policy clusters crucial to accelerating socio-economic convergence of the WB6 by fostering regional co-operation: business environment, skills, infrastructure and connectivity, digital transformation and greening. Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of their policies supporting competitiveness. They also track the implementation of the previous 2021 study's recommendations and provide additional ones tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socio-economic convergence towards the standards of the EU and OECD.



Co-funded by
the European Union



PRINT ISBN 978-92-64-80990-1
PDF ISBN 978-92-64-71843-2



9 789264 809901