

Chapter 8

The Reform Agenda and Beyond: Transitional and Structural Reforms for the New Generation of Bosnia and Herzegovina

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Bosnia and Herzegovina, a country in southeastern Europe with a thousand-year turbulent history, builds its modernity under many burdens of the distant and near past. The nation's culture has been marked by the 415 years of feudal Ottoman-Turkey rule (1463–1878) and afterwards, by the 40 year-rule of a hybrid Austro-Hungarian (1878–1918) occupation. The authoritarian Yugoslav monarchy (1919–41), as well as the totalitarian communist dictatorship (1945–91) have significantly derogated the social substance abilities for a timely modernization. An almost uninterrupted series of 550 years of foreign authoritarian and/or totalitarian rule with unfinished nation-forming have reduced the possibility for a quick transitional success after the fall of communism and the dissolution of socialist Yugoslavia in the early 1990s. Instead of a transformation modeled after other countries of the Eastern bloc, the first stage of transitional modernism in Bosnia and Herzegovina was marked by a brutal perennial war (1992–95) with elements of aggression from neighboring countries, and an internal civil war which NATO ended by intervening after 200,000 fallen victims, over a million refugees, and a committed genocide. Following this, the Dayton Peace Agreement and a new constitution came to life.

The new constitutional solution established a very complex and asymmetric institutional structure with two equal entities: a decentralized Federation of Bosnia and Herzegovina (FBiH) (51 percent of BiH territory with a Bosnian and Croat ethnic majority), comprised of 10 cantons for which the federal level shares almost all prerogative authorities, and a second, centralized entity—Republika Srpska (RS) (with a Serb ethnic majority), with prerogatives on the entity level. The highest, national level of government, with a complex composition and mechanisms of decision-making in a bicameral parliament, a tripartite rotating Presidency and a Council of Ministers established on a partite ethnic filling and decision-

making. The national level has significantly reduced jurisdictions, a very complex and long decision-making process, and possibilities of veto blockades from the lower levels of government, ethnic parliamentary clubs, mono-ethnic parliamentary parties, and even from individuals in the highest executive positions.

The first post-war decade (1996–2006) was marked by visible reconstruction, political and economic consolidation, as well as a slow but present inter-ethnic reconciliation. In this period, international presence in BiH, in the form of the Office of Higher Representatives (OHR), ensured a national continuity, institutional and legal reconstruction, as well as starting up postponed, but basic transitional reforms—primarily legal-political and economic ones. It is worth noting the success of the reforms and unification of the military, establishing dozens of new institutions, a tax system, conducting the first wave of (controversial) privatizations, holding legitimate elections, etc., yet all of this with the OHR often in the role of lawmaker.

However, after 2006, largely due to the failure of some structural reforms (most notably the reforming of the constitution), the OHR started to shift its action and decision-making strategy to be completely left to the local institutions and political actors, which produced eight years of almost complete political and economic stagnation, frequent blockages, and internal political crises. Combined with the global recession, in the period 2008–14, the economy recorded serious falls, very low investments, and unemployment and social inequality that were not only an economic, but also a political problem.

In early 2014, mass street protests erupted, and citizens violently expressed their dissatisfaction with the social, economic and political situation in the country. The tripartite ethnic division of the government, media and public opinion, the political manipulation and particular interests of individuals, groups and political parties, trumped general interests and the necessity of reforms and opportunities for prosperity, which threatened this social unrest to explode into a political and inter-ethnic confrontation.

Reform Agenda: Genesis

Directly after these unfortunate events, at the initiative of the Office of the EU Special Representative in Bosnia and Herzegovina (EUSR),

with an active role of the World Bank (WB) and International Monetary Fund (IMF), the “Compact for Growth and Jobs” was created from a set of recommendations from the so-called “Forum for prosperity and employment.” This forum brought together a group of representatives from domestic institutions, civil society, and the international community in Bosnia and Herzegovina (BiH) with the common aim of achieving a consensus on the necessary reforms in several areas of public policy.

The inauguration of the diplomatic project called “The British—German Initiative,” in late 2014 after the general elections in BiH, later to become the initiative of the European Union (EU), placed BiH on the fast track towards EU candidate status. Certain political conditions for unblocking the euro-integrational process ceased to be predominant, and the level of readiness of the local political authorities to implement primarily economic reforms was established as a causal instrument of EU integration, as well as a condition for the support of the international community for the transition reforms in BiH.

The Compact for Growth, a conceptual framework of reforms needed in order to significantly stabilize social conditions, enhance economic growth and development, and improve the standard of living, was a prelude to the initiation of a comprehensive package of reforms passed at the beginning of 2015, called the *Declaration of the Presidency of Bosnia and Herzegovina*. This initiative was publicly supported by the signatures of 14 parliamentary party leaders. Further clarification of the provisions of the Statement in measures of public policy were made in the document “Reform Agenda for Bosnia and Herzegovina 2015 to 2018,” which was officially passed by the Council of Ministers and entity governments in the period July–September 2015. Governments committed to the imperatives and objectives of the Agenda to be translated into action plans. Between August–October 2015, the BiH Action Plan was passed, and the Federation of BiH (FBiH), the Republic of Srpska (RS), and subsequently all cantonal authorities in FBiH started developing and implementing their own Action Plans.

The purpose of the Action Plans was to ensure, through concrete legislative and other measures, the implementation of the principles and objectives contained in the Reform Agenda, with the aim of stopping the economic downturn, starting the process of rehabilitation and modernization of the economy, fostering sustainable, efficient, socially just and balanced economic development, reducing public consumption, primarily overpriced and inefficient administrative apparatus, job creation, improve-

ment and proper routing of social protection, the creation of a favorable and equitable social environment, and, perhaps most importantly, strengthening the rule of law, and introducing zero tolerance of corruption.

Why is the Reform Agenda so important? The Reform Agenda, despite being the overarching opinion of the general public on internal inconsistencies and the “wish list” syndrome, is much deeper and has a much wider framework than mere economic-social reforms. The principles and objectives of the Reform Agenda interfere with the ideological values, historical heritage, and political beliefs of those who govern and those who are governed. Therefore, it is important to track, measure, prove, improve and accelerate the transition, mentality and cultural reforms that BiH citizens and the society as a whole, even after 25 years of transition—have not yet gone through. After 10 years of stagnation, an absence of legal, political, economic and other reforms, and a very sluggish and often blocked process of EU integration, the Reform Agenda is for many players from the EU, but also from Bosnia, perhaps the last great opportunity to overcome disintegrating vectors, and to step aboard the high-speed train towards full EU membership, and ultimately, to allow its citizens and future generations for a dignified, secure and prosperous life.

A Turbulent 2016: Unplanned Aggravating Circumstances

At the time of the finalization of this article, the situation in Bosnia is a multi-controversial, complex and unpredictable one. On the other hand, a year and a half after the inauguration of the Reform Agenda and a year of very active work on implementing the action plans, there are several reasons for optimism.

Some reforms that have been delayed more than a decade are finally launched, such as a new labor legislation, reform of the pension system, and the simplifying of procedures for starting a business. Also, some economic indicators such as GDP growth, export growth and industrial production, and the number of employees, even though not drastic, recorded significant growth compared to the previous year.

It is indicative that the European Union accepted the application for full membership of Bosnia and Herzegovina into the EU in September 2016, recognizing the credible progress in the implementation of the Reform Agenda. This is the first step in a long and complex accession process. It is expected that the European Commission Delegation will

soon deliver a comprehensive questionnaire to local authorities to assess BiH's suitability for EU membership. The status of a potential candidate, as a feature of Bosnia for ten years, will therefore remain at least a year in force, by which Bosnia remains on the list as a secondary priority of EU enlargement policy, as opposed to all the neighboring countries which do have candidate status and open negotiations with the EU—Serbia, Montenegro, Macedonia, and Albania.

The acceptance of the application for candidate status is so far the biggest step towards EU membership. Even though the acceptance of the application was preceded by several important internal compromises (coordination mechanism of decision-making in the EU accession process at the national level, the publication of the census results, the revised trade agreement with the EU), internally, this plan did not contribute to political stabilization and the focusing on reforms and objectives arising from the application for membership. On the contrary, RS failed to recognize integrated census results, and instead published their own census several months before the local elections on February 10, 2016, which instigated a harsh political crisis.

At the same time, the entities' authorities refused to implement the decision of the Constitutional Court on the unconstitutionality of a holiday—the so-called Republika Srpska Day, and have now scheduled a referendum on the decision of the Court. The referendum itself was declared by the Constitutional Court as an unconstitutional action and ordered its banning. The entity authorities ignored this, and a week before the local elections, they held a referendum. The election resulted in favor of the nationalist parties in both entities, which we can largely attribute to the preceding referendum. The international community of BiH, including the EU Delegation, the EU diplomatic presence in the country, the US Embassy, OSCE, Council of Europe, and others, with the exception of Russia, pointed to a breaching of the rule of law, institutional order, the Constitution, and thus the Dayton Peace Agreement. The political debate on the referendum led to tensions between political actors, not only in BiH, but also in the region. For the first time in 20 years of public discourse, threats of a new war were uttered, and the RS government voiced intentions to call for referendums on other matters outside their jurisdiction, including a referendum on its secession from Bosnia and Herzegovina.

Such rhetoric and obvious unconstitutional action have produced quite aggressive reactions in the other entity, as well as calls from the OHR to punish violators with the highest legal means (because only the OHR has

this authority) disable the anti-constitutional precedent, and ensure the protection of the Constitution and the Dayton Peace Agreement. The OHR was unable to reach consensus after 60 days of the referendum, due to the widely different opinions of members of the Council for Peace Implementation Council (PIC), the supervisory authority of the OHR. It should be noted that several judges of the Constitutional Court had political careers in the current ruling political parties, which nominated them for these positions.

In addition to the negation of this order, there are 90 other verdicts, which have been either partially implemented or not implemented at all. One of the verdicts instructed the Bosnian authorities to ensure the implementation of the local elections in the City of Mostar without discriminatory provisions in the Statute, which the Constitutional Court revoked in 2011. Due to this, Mostar's inhabitants are unable to choose local authorities for the past two election cycles, and for the fifth year in a row, they do not have representatives in the local parliament. This is just one event that has marked the recent local elections and the overall political discourse of 2016.

The Successes and Failures of the Reform Agenda

What effect could the Reform Agenda possibly have in this contaminated political context? To understand the success and failure of the previous implementation of the Reform Agenda, we need to understand the structure, objectives and expected outcomes.

The reform agenda outlines precise medium-term priorities divided into six areas of public policy:

1. Public Finance, Taxation and fiscal sustainability;
2. Business climate and competitiveness;
3. Labor Market;
4. Reform of the social security and pensions;
5. Rule of law and good governance;
6. Reform of the public administration.

The agenda places a priority on the public finances for all levels of government, as these have been very weak for many years. It is necessary to implement fiscal consolidation, which will then gradually lead to a reduction of the budget deficit and public debt levels. In order to amortize the

pressure on the monetary and financial system and the fiscal disorder that will inevitably happen with implementing these reforms, a new loan agreement worth 560 million dollars, was signed with the IMF in September 2016, while additional financial support is also expected from the World Bank and the European Commission.

As stated in the Reform Agenda, “Fiscal consolidation aims to ensure a stable macroeconomic environment, but for a stable, positive real growth in the medium and long term, it is necessary to implement a number of structural labor law, public administration, social benefit and employment policy reforms, improve the business climate and private sector competitiveness, restructure public enterprises, and increase the rule of law.”¹ Thus, there are strong causal links between the different areas of Agenda, so it is an understandable interpretation of equal importance and the need for parallel action in all fields simultaneously.

There are 170 short, medium, and long-term adopted action plan measures within the above-mentioned areas, which if implemented, would achieve the expected results. Before we provide a qualitative assessment of the implementation and effectiveness of the Reform Agenda, it is important to analyze the creation and implementation process.

The adoption process of the Reform Agenda, especially at the state and entity levels, was extremely non-transparent and one-sided. The action plans of the Council of Ministers and the RS government were not publicly available two months after the adoption, which further derogated the public trust in good and honest intentions of government. The action plans only became publicly available in December 2015.

A year and a half after its adoption, 46 percent of the Reform Agenda has been implemented at the BiH, FBiH and RS level, i.e., 79 out of 172 measures. More specifically, 52 percent of the planned measures (17 of 33) has been implemented at the state level, 36 percent (22 of 61), at the FBiH level, and 51 percent (40 of 78) at the RS level.

Important measures, such as primarily laws, were often adopted without a public hearing, contrary to the parliamentary procedure and public interest. In the FBiH, five out of eight (or 63 percent) of the adopted laws were done so on an expedited basis, in the RS there have been 18 adopted laws, of which nine have been adopted on an expedited basis, or 50 percent,

¹ Reform Agenda for Bosnia and Herzegovina 2015–2018, p. 2. <http://europa.ba/wp-content/uploads/2015/09/Reform-Agenda-BiH.pdf>

while at the state level legislation related to the Reform Agenda was not recorded on an expedited basis.

In early 2016, the non-procedural adoption of legislation was challenged in constitutional courts, and the Constitutional Court of the Federation of Bosnia and Herzegovina challenged the adoption of the new Labor Code, and ordered the FBiH Parliament re-enforcement procedures. Another difficult case was registered by the decision of the FBiH Constitutional Court, in June 2016, which repealed key provisions of the new Law on Civil Servants, disputed both on a procedural and a content basis.

Part of the laws passed in its content did not follow the principles and objectives of the Reform Agenda, and there are increasingly more objections to political parties or individuals in power using the Agenda for private interests. The best proof of this is the previously mentioned law on civil servants FBiH, challenged at the Constitutional Court, which would have provided an even higher level of politicization of public administration, political appointments of senior civil servants, without any criteria of merit, qualification and ranking, contrary to the imperatives of the Reform Agenda.

A quarter of the action plan measures is inestimable and not able to be monitored or analyzed as the general formulations usually represent a process, not a measurable outcome, and neither is limited by a deadline. Action plans at the state and entity levels predicted 26 percent of the measures for which the implementation period of time is “continuous.”

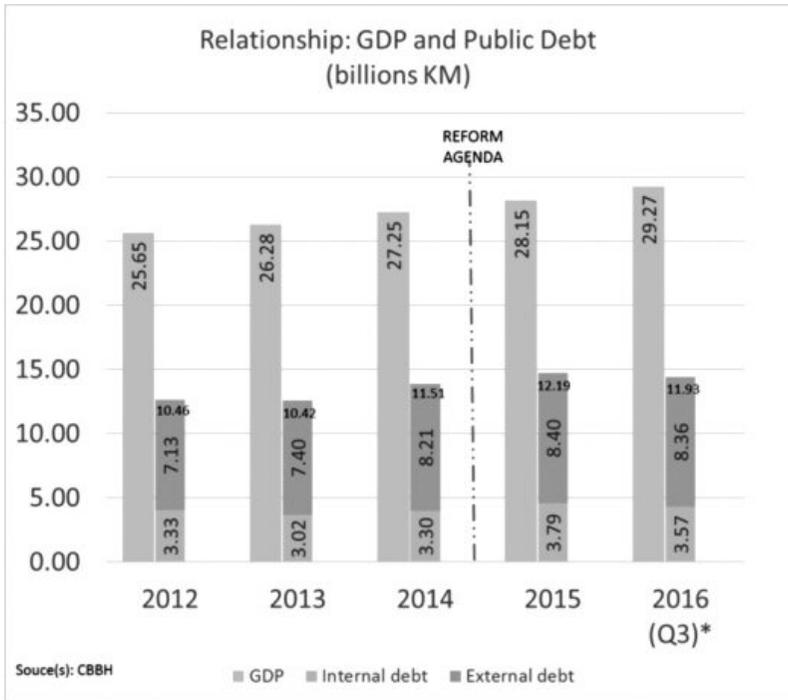
Section 1: Public Finance, Taxation and Fiscal Sustainability

The objective of the Reform Agenda is to bring public debt to a declining path, and to create space for increasing public investment and at the same time reduce the government sector’s share in the economy. Fiscal consolidation should be implemented by reducing public spending and increasing public revenues. The increase in revenues will be achieved by raising the tax revenue, broadening the tax base, reducing the gray economy, reducing tax exemptions and improving the tax administration’s work.

Below we will present trends in several indicators for a few years, that is, the situation before and after the adoption of the Reform Agenda.

The total public debt has been growing for six years, reaching a historic maximum of 43 percent of GDP in 2015, where it increased by 30 percent

Figure 1. GDP and public debt



in the period from 2010 to 2015. This trend is unsustainable, and without a very serious approach to reforms, it will likely lead to extreme budget cuts, and extreme tax increases. In addition to borrowing from international financial institutions, which can even be considered as a stabilizing element, the majority of borrowing falls under unsustainable and expensive internal and commercial borrowing, which has multiple negative consequences.

Figure 2 provides an overview of the public debt and budget deficit to GDP ratio during a period of six years, where we see progress over several years. These are also critically important macroeconomic indicators, since they are part of the EU (Maastricht) criteria. For the years 2015 and 2016, official data on the budget deficit has not been published, which is yet another example of the outdated and inefficient public statistics in BiH.

Debt per capita has seen a consistent increase until 2015, and now amounts to 3,370 BAM. During the six years measured (2010–2016), debt per capita increased by 911 BAM, or 37 percent, whereas the debt per

Figure 2. The share of the public debt and budget deficit to GDP

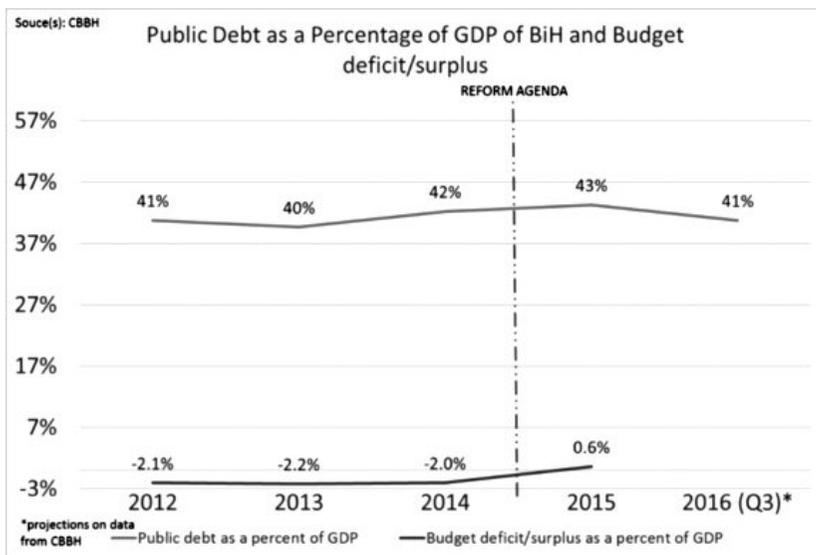


Figure 3. Indebtedness per capita in Bosnia

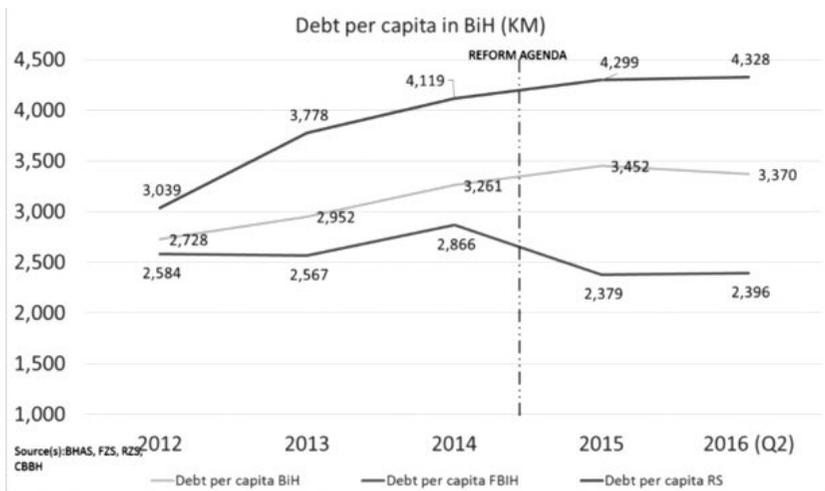
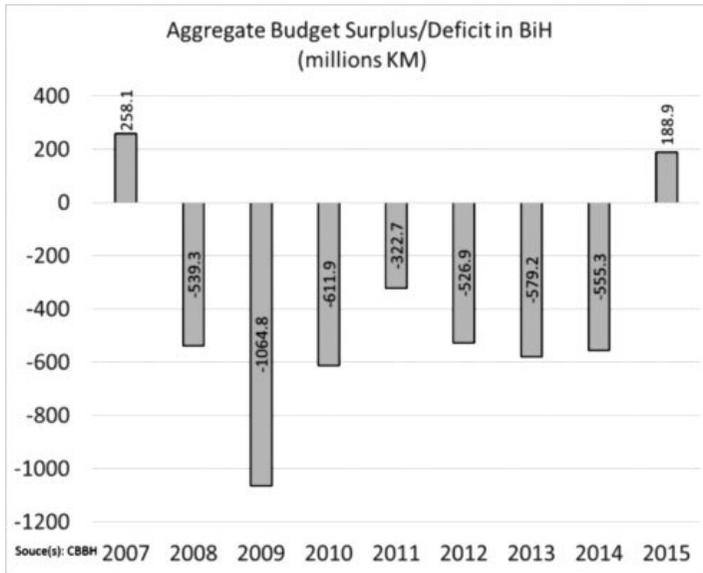


Figure 4. The aggregate surplus / deficit in BiH



capita in the RS entity is higher by 180 percent compared to the F BiH entity. Indebtedness at the end of 2016 was significantly increased by the new tranche of credit arrangement with the IMF, agreed after June 2016.

Figure 4 shows a trend in the cumulative budget surplus/deficit measures for the entities, which shows that the last recorded surplus was in 2007. From 2008–14 there has been a steady budget deficit. In 2015, a minor surplus was recorded in the F BiH, mainly as a result of IMF pressures for fiscal tightening. The situation for 2016 is impossible to understand completely, as there are no official reports of the competent institutions on the state budget surplus/deficit for the last 12 months.² What we can see is an enormous debt servicing burden share in the budgets of the entities, particularly in the F BiH,³ shown in Figures 4a and 4b,

² However, analysis of the budget implementation for 2015 and the planned budget for 2016 is a visible continuation of the enormous debt for current consumption most often and in larger extent by issuing securities with short maturities, thereby destabilizing budgets, and makes the financial and monetary system unstable.

³ However, a lower share of the burden of debt in the RS is actually relative because revenue from pension contributions in RS amounts close to 800 million, which is not the case in the F BiH because its off-budget fund.

Figure 4a. Servicing of Government Debt and Budget Revenues in Federation of BiH

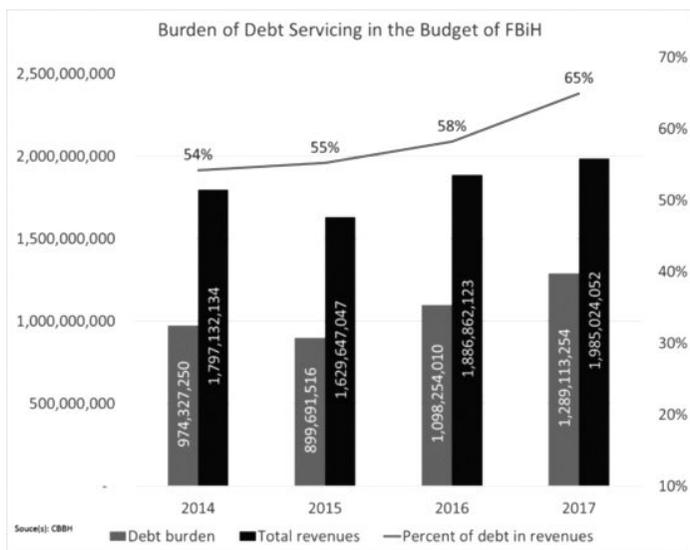
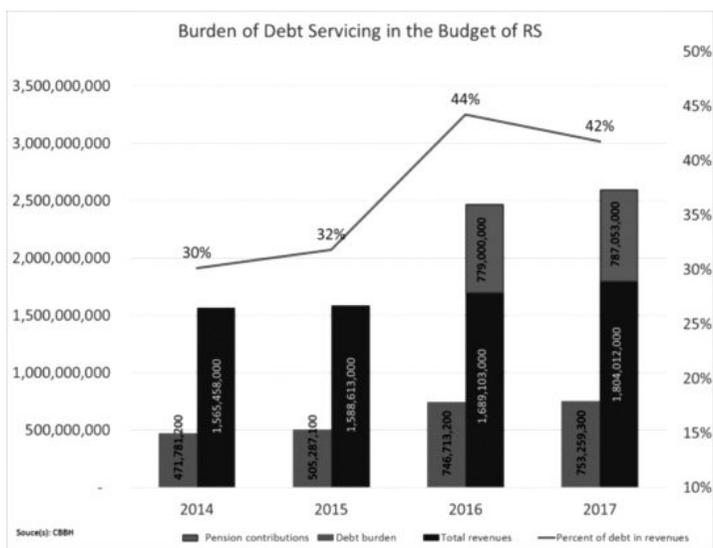


Figure 4b. Servicing of Government Debt and Budget Revenues in Republika Srpska



instead of seeing a downward trend, one of the priorities of the Reform Agenda.

Section 2: Business Climate and Competitiveness

In the private sector, the Reform Agenda stands on the imperative that growth and prosperity must be based on attracting investments. There is a need to improve competitiveness by eliminating the well-known and documented obstacles to investments, such as political instability, corruption, red tape, cumbersome procedures, and complex tax systems. In addition, the inconsistencies and complexities of the regulatory framework and tax systems are often the main problems for potential investors, and are accompanied by high administrative barriers. Therefore, the Reform Agenda in this area tends to focus on simplifying procedures, strengthening motivation, and improving the overall environment for investments and start-ups.

Below are some indicators showing the trends in the last six years, including the year of the adoption of the Agenda.

Figure 5 shows the comparative ranking of BiH in the Global Competitiveness Index (GCI), the World Economic Forum (WEF), the Index of Doing Business (DBI), and the World Bank (WB), in the period 2010–2015/2016. The scale bar represents 140 countries worldwide. The higher the position on the scale (closer to the value of 140), the worse the country's ranking, while a lower position indicating a better global ranking. The general impression is that the past six years saw no significant changes if we look at the ranking of the WEF methodology. On the other hand, the WB provides quite optimistic indicators for the last two years, although the best ranking (79th global position in 2016), is still considered a poor global position on average.

The level of foreign investment is proportionally affected by the business climate and ease of doing business in a country. Figure 6 depicts the Foreign Direct Investments (FDI) share of GDP of BiH during the period 2010–16, for the two entities and for BiH as a whole. It is evident that during the six years shown, the share of FDI oscillates between 1.69 percent and 2.72 percent of GDP, whereby in 2015 a serious decline is recorded. Compared to the region, (Serbia's FDI accounts for 5.3 percent of GDP, Slovenia for 2.1 percent of GDP), we demonstrate a very serious challenge that BiH must face in attracting FDI. Especially indicative is an insight

Figure 5. Business Environment in Bosnia according to the WB and WEF

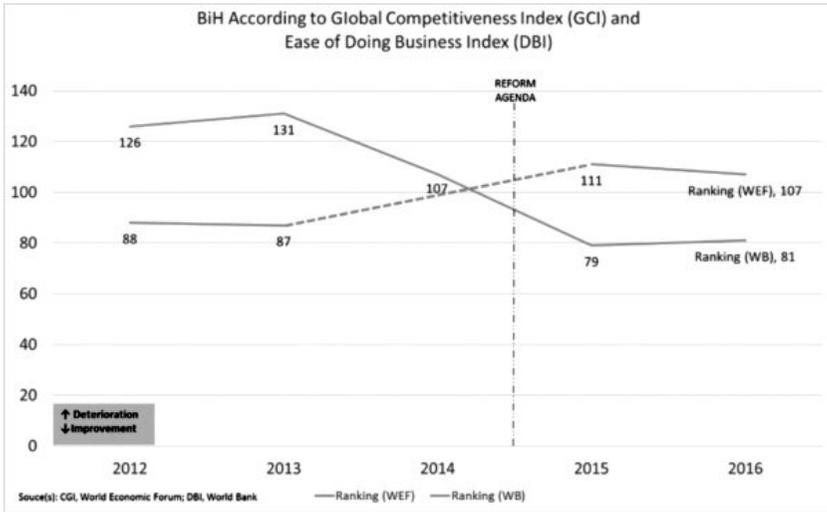
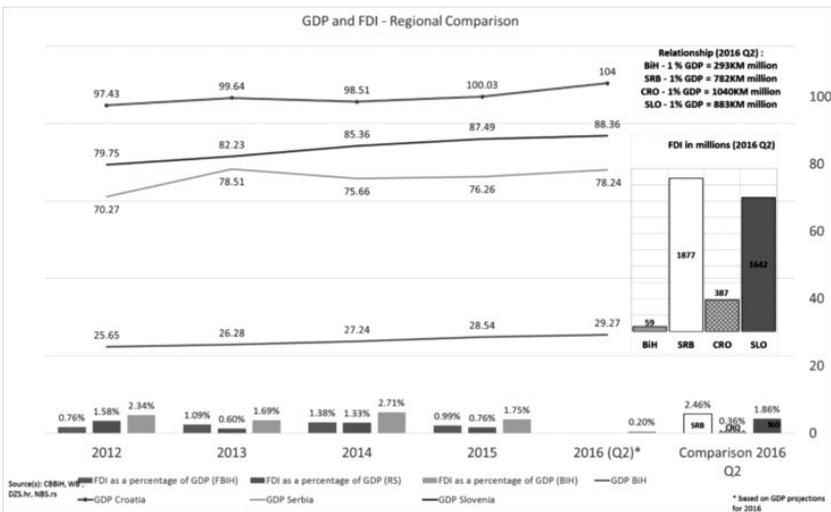


Figure 6. FDI share of GDP—comparative regional representation



into the real value of GDP of the mentioned countries, where it is visible that Slovenia, whose population is smaller by three times, and Croatia almost four times higher GDP. In view of this their ability to attract FDI flows is much higher in absolute terms compared to BiH.

Section 3: Labor Market

The Reform Agenda aims for the revitalization of the labor market, primarily by activating the underutilized labor force. The low activity rate of the working age population and the country's high unemployment rate, which is to a large extent the result of a mismatch of supply and demand for the qualified labor force, limits the possibilities for development. In BiH, there is a large number of long term unemployed and discouraged workers, and the unemployment rate is among the highest in Europe. New labor legislations and other policy reforms should provide an incentive for the labor market, increase the amount of work places, and decrease unemployment rates.

Figure 7 compares the active labor force to the total working age population. The share of the working-age population to the total labor force is worryingly low, only 45 percent, which means that as many as half of the working age population is not active in the official labor market. A large number of them is either under social welfare programs, in the gray economy, or socially excluded. Such a high inactive labor rate is the highest in Europe,⁴ so this indicator is often used as a crucial instrument of showcasing the poor economic situation in the country, critically large gray economy, rigid labor market, and poor living standards.

Figure 8 indicates that the unemployment trend remained steady for several years without significant changes, indicating a worrying stagnation in the labor market with an extremely high unemployment rate and very low employment rate. However, in the last 18 months, the negative trend has stopped, and the unemployment rate was lowered by 2 percent. The public expects much better results in this area of the Reform Agenda, especially according to the opinion of "common citizens."⁵

The salary difference between the public administration and the private sector is worryingly high in favor of the public administration (51 percent),

⁴ World Bank, Organization's Open Knowledge Repository.

⁵ USAID Project JSDP II, public opinion survey, www.usaidjdp.ba.

Figure 7. Labor Force Activity

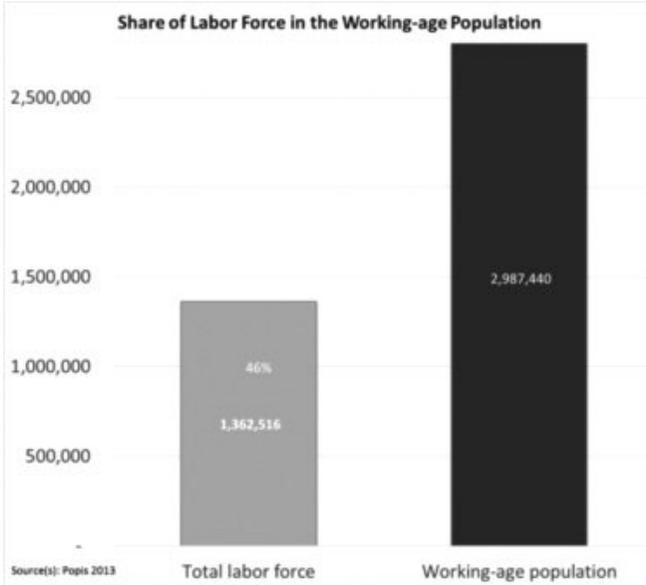


Figure 8. Number of Employed/Unemployed and the Rate of Unemployment

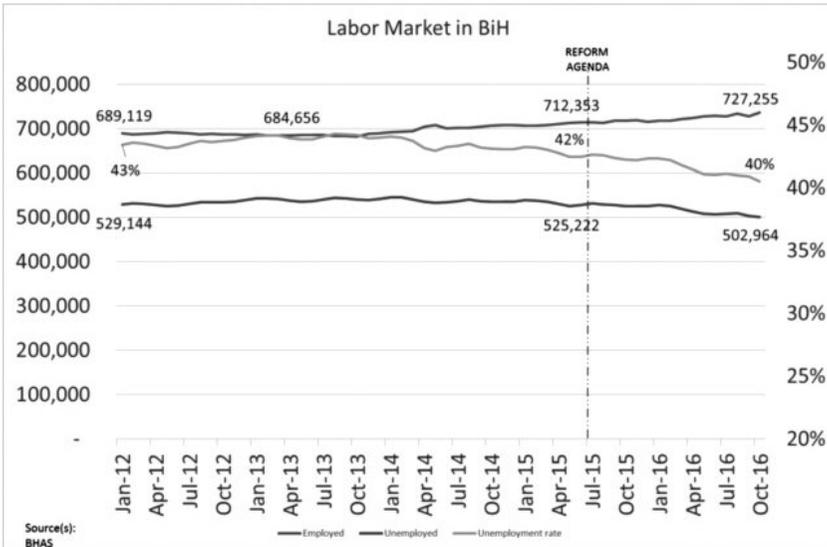
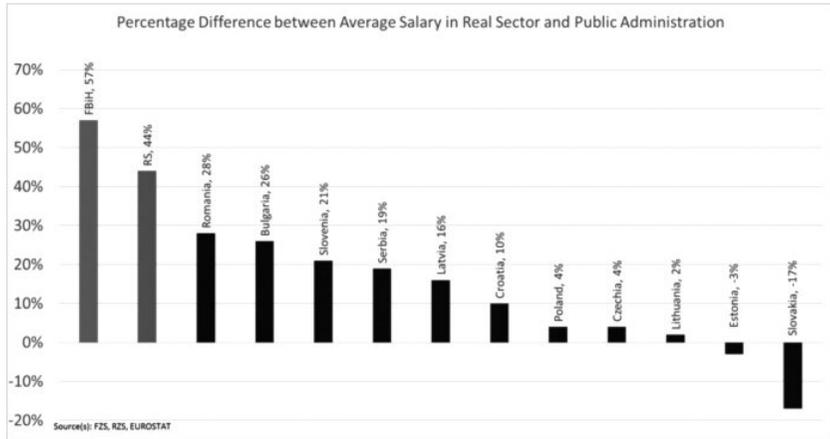


Figure 9. Difference in Wages between Public Administration and Real Sector



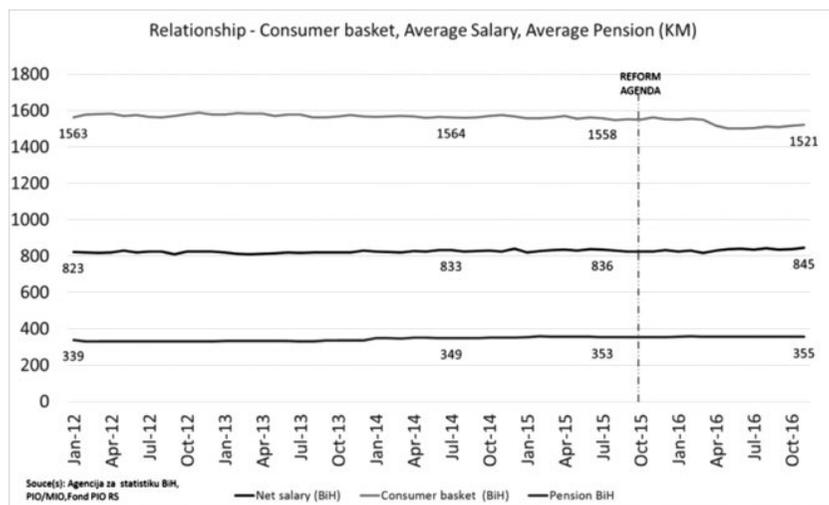
and as such, it is the highest in Europe. This area has recorded minimal changes in the last six years, and the sporadic movement of government savings had no significant impact on this relationship. The Reform Agenda is expected to contribute a significant change in this relationship.

Section 4: Social Security and Pension Reforms

In this area, the Reform Agenda holds that a modern society should care for those who cannot look after themselves. However, the social welfare system should not interfere with incentives in the economy, and has to be fiscally sustainable. In order to achieve these objectives, the BiH government must improve social assistance targeting through a package of measures which will make the policy of social protection more efficient, effective and equitable. Pension systems should have a stable financial basis if the problem of a low living standard for pensioners is to be solved in the medium term.

Additional evidence for the stagnation in economic activity and a low living standard is provided in the relationship between the consumer basket, average salaries, and pensions (Figure 10). During a six-year period, net wages increased by about 4 percent in both entities, while the cost of the consumer basket grew until the beginning of 2015, when, due to deflation, it registered a decrease of about 4 percent. Average salaries and

Figure 10. Relation between the Consumer Basket, Average Salaries and Pensions

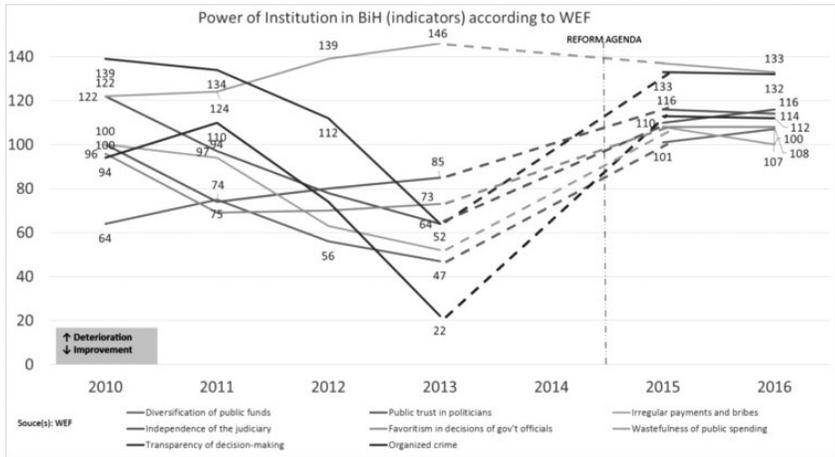


pensions remained stable throughout the period. Through these indicators we prove that there is economic stagnation and absence of the expected improvement in living standards, which would have been shown by an improved coverage of the consumer basket by average salaries and pensions.

The pension system in both entities is permanently destabilized and fiscally unsustainable. The best indicator for this claim is the ratio of the number of employees to the number of retirees. In the last five years, this ratio does not improve; on the contrary, the current ratio is completely unsustainable in the so-called system of intergenerational solidarity, which requires a minimum of three employees per retiree to remain sustainable for the economy.

Part of the problem with the pension system, is an accumulated deficit due to tax evasions. In fact, the tax debt of public institutions threatens the pension and health systems, produce a deficit, and result in the decline in quality and widespread corruption. The total debt due to unpaid taxes and social contributions exceeds 3 billion BAM. It is here that we can find part of the reason for the unregulated market, the negative public percep-

Figure 11. The power of BiH Institutions

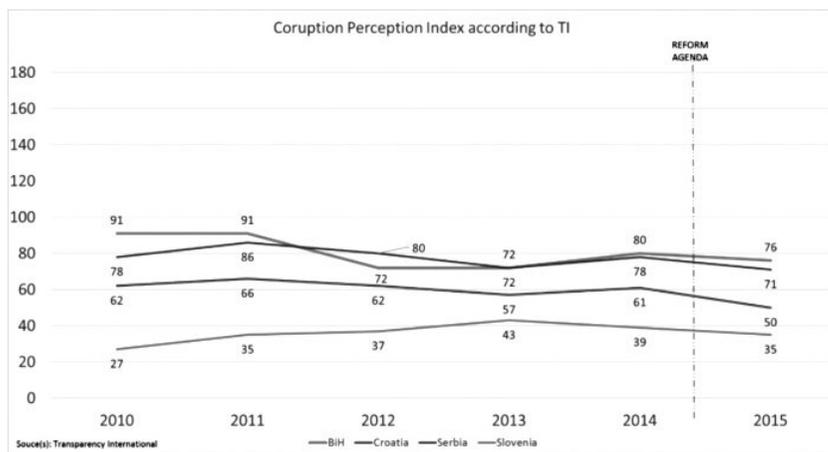


tion of public institutions and the legal system, and the most concrete source of the gray economy.

Section 5: The Rule of Law and Good Governance

The Reform Agenda in this area aims to strengthen the rule of law, which must be built on the basis of concrete progress in the fight against organized crime and widespread corruption. All operational and institutional activities will aim to provide citizens with a safer environment without corruption. At the same time, the authorities are expected to provide confidence in the institutions responsible for the rule of law, capacity development, accountability, professionalism, and integrity.

Figure 11 presents a package of indicators by the WEF, where we can see a poor overall performance, with somewhat more positive trends in the last two years. We see very low performance in the indicator of wastefulness of public spending, transparency of decision-making, independence of the judiciary and public trust in politicians, which give an accurate picture of the essence of the problem. The ratings on these criteria clearly indicate a serious challenge that lies ahead in building the rule of law, fighting against corruption and political patronage, and establishing an independent judiciary system. An independent and efficient judiciary, and

Figure 12. Corruption Perceptions Index—BiH and Countries in the Region

professionalized, efficient and de-politicized institutions are the only guarantors for a strong rule of law.

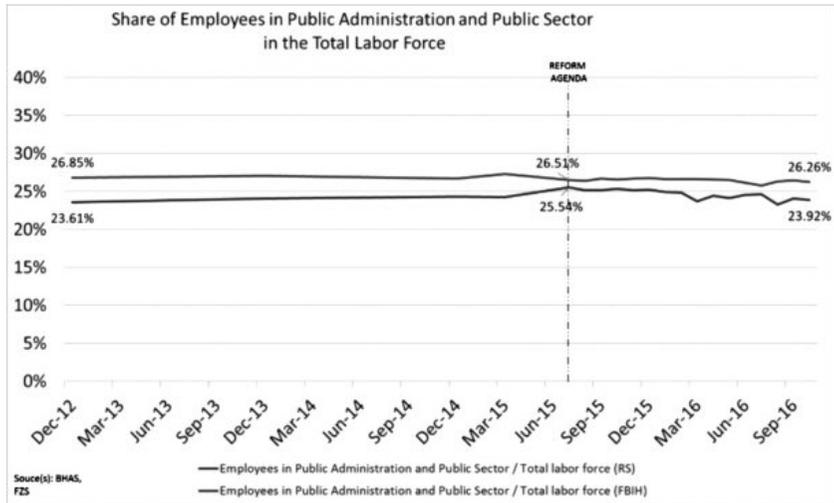
The fight against corruption is not yielding the expected results. Figure 12 provides a six-year trend of Corruption Perception Index (PCI) by Transparency International, with data for Bosnia and Herzegovina and three states in the region. The rank of BiH worsened by 4 positions in the last two years, and for two years in a row, Bosnia and Herzegovina, Albania, and Kosovo are the lowest ranked countries in the region, comparable to countries like Benin and El Salvador. Other sources⁶ that measure the level of corruption in BiH through empirical and other methods, equally lead to the conclusion that corruption is perhaps the greatest social disorder in BiH, negatively impacting the business environment, the rule of law, trust in government institutions, the existence of a free market, and so on.

Section 6: Public Administration Reforms

Public administration reforms are a key priority to ensure fiscal sustainability and quality service delivery to citizens.

⁶ See GRECO EVAL IV Rep (2015), www.apic.ba/izvjestaji.

Figure 13. Percentage of Employees in Public Administration and Public Sector



More than a quarter of the budget is spent on salaries of public servants. Figure 13 shows the ratio of employees in the administration to the total number of employees during the course of six years. Contrary to the declarative paragraphs of government and political officials, the changes are minor and prove perennial continuity. The number civil servants in the two entities is higher compared to countries in the region, and is also above the average of EU and OECD countries. The entities’ share of public officials to those employed is at approximately 25 percent, while the average EU and OECD countries share is below 15 percent.⁷

Beyond Reform Agenda—Back to the Future

Without structural, primarily constitutional and economic reforms, the future of Bosnia and Herzegovina is extremely questionable. Twenty years after the war, the present geopolitical and regional motives to destabilize the situation in Bosnia, the internal centrifugal forces and disintegration of society strongly determine almost all of the processes and phenomena

⁷ OECD statistics, “Government at a Glance,” 2015 edition, indicator Employment in Public Sector as a Percentage of Total Employment.

in the country. Due to the absence of the rule of law, equality before the law, an independent and efficient judiciary, an autonomous and efficient public administration, a regulated market and institutional system capable of protecting the public order, any attempt to reform public policy is sentenced to blockades, obstructions, deformities, and ultimately to limited or no success at all.

The de-politicization of the public administration and zero tolerance for corruption are a *sine qua non* for initiating and implementing further reforms, which have come to be considered the property of the new generation of leaders in Bosnia and Herzegovina, because the change of generations is a necessary precondition for the withdrawal of past goals, and focus on the future.

The Reform Agenda has the capacity to reanimate long-delayed, transitional reforms, but in the course of the implementation of the Agenda, it turns out that political will is one precondition for success, and the structural reforms beyond the Agenda, the other.

It is important to implement crucial constitutional reforms in two directions: on the one hand, towards ensuring equal political and human rights for all citizens, regardless of their ethnic group or the territory in which they live; and on the other, optimizing the political and electoral systems. This can be done by easing the decision-making process, reducing veto points for blockages, strengthening and de-politicizing institutional powers, strengthening the instruments of political responsibility (rapid recall of legislative and executive powers) towards higher levels of cohabitation of individual and collective rights and instruments of protection, and contributions towards minimizing ethnic tensions and the protection of people living on territories where they represent a minority.

Furthermore, fundamental reforms must take place guided by the imperatives of de-politicization, increasing the efficiency and effectiveness of the public administration, including the strengthening of the independence of the judiciary, civil, and public services (education, health, etc.). The high level of corruption, especially at the highest levels of decision-making, through the so-called systemic—or political—corruption, is a consequence of clientelism and political patronage, which must be overcome by creating a merit-based employment and decision-making systems, management of public funds, public policy and public goods, and by establishing an efficient system of prevention and sanctioning of irresponsible and damaging public practice.

The Reform Agenda, therefore, instead of being a limited medium-term program, should be recomposed into a more permanent and strategic “Vision 2022,” which will go beyond the current mandate, and commit to a new set of elected representatives in the elections of 2018 towards the continuity and intensification of reforms. In the first place, structural reforms should last until 2020, at least in the normative sense, and until 2022 in order to produce tectonic reformist changes that will ensure internal integration, growth and development, but also secure membership of BiH to the EU, NATO, WTO, and other global associations.

In addition to the imperatives, objectives, and expected outcomes of the Reform Agenda, great care must be given to a fair, more balanced, and stimulating distribution of social wealth through the adjustment of the tax system, social welfare and veterans’ benefits, and a significant reduction of the gray economy and efficient and effective market regulation. The redefinition of rules that define and govern the education system and public health care system should be put high on the agenda and become the top priority, especially in terms of bringing an end to the conflict between public and private motives of the holders of public service in the whole public sector.

The issue of efficient market regulation is a prerequisite for improving the business environment without unfair state interventions in public and publicly-favored private companies, and the elimination of corruption in public procurement, issuance of business permits, inspection, and process complaints. A causal link between reducing the gray economy and better regulation of the market will be reflected in the stabilization of public finances, social, health and pension funds, establishing a favorable business environment, investment growth and jobs. Again, a prerequisite for the modernization and regulation of markets and the elimination of the gray economy is responsible public policy, zero tolerance towards erosion in the implementation phase, which includes a de-politicization and professionalization of government agencies responsible for the implementation of the new reform vision.

Two decades after the Dayton Peace Agreement, Bosnia and Herzegovina is at a crossroads of ideological, cultural, constituent, political, and economic choices, upon which it must build its future. Completing the transition from a socialist planned economy towards market capitalism, from a one-party centralized policy towards a pluralistic constitutional parliamentarianism, from a de-nationalized authoritarian regime into a multiethnic community, from the culture of collectivism and totalitarian

dogma to a society of free speech, individual expression and association, and from a society with growing social stratification, segregation, and discrimination, into a society of equal opportunities, social justice and ethical motivations.