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**THE ACCESSION PROCESS AND IPA FUNDS IN BOSNIA
AND HERZEGOVINA – AN OPPORTUNITY FOR
RESTRUCTURING PUBLIC SPENDING AND
CONVERGENCE TOWARDS THE EU**

Abstract

The opportunity for submission of B&H's application for EU membership was opened with the entering into force of the Stabilisation and Association Agreement, and was carried out in February 2016. The membership application must contain European affiliation of the applicant country, inclusion in the European Union as a policy objective of the applicant country, as well as readiness for assuming all objectives and commitments ensuing from membership in the EU. B&H is at the very bottom compared to Central European countries, and is below 30% of European Union average in view of level of development. That points to the necessity of implementation of structural reforms in order to mobilize the private sector, which must be the main generator of growth and increase in employment, and which will gradually bring B&H closer to the EU average. 165,8 billion euros are intended for B&H from IPA II programme for the period 2014-2017, whereas the amount of available funds for the period 2018-2020 will be defined subsequently. It has been decided that 13,7 million euros will be allocated annually for socioeconomic and regional development in 2016 and 2017. In 2014, 4 million euros were allocated for undertakings regarding employment, active social policy, education, research and development, promotion of gender equality and human resources development, and 11 million annually in the following years, including 2017. Reforms financed from IPA

should provide citizens with better opportunities and allow for development of standards equal to those of EU citizens.

Keywords: *accession proces, BiH, EU, IPA*

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1. INTRODUCTION

The process of accession to the European Union (hereinafter: EU) places numerous challenges before candidate countries, primarily manifested in the need for building democracy and rule of law, observance of human and minority rights, institutional development and building administrative capacities in order for them to be able to successfully participate in European policies. In order for them to be able to achieve the status of a candidate country, they must meet the basic conditions relating to the functioning of democracy, observance of human rights, respect for fundamental rights of all people and rule of law as defined by Article 49 of the basic Treaty on European Union¹. Every European country can submit an application for EU membership if it respects the common values of Member States and obliges itself to promote them².

Based on the benchmark system which the EU places before candidate countries, an all-encompassing framework allowing for implementation and sustainability of reforms is created in order to achieve high level and quality adjustments, convergence, harmonisation, but also Europeization; candidate countries must fulfil political, legal, economic (defined in Copenhagen in 1993) and administrative criteria (defined in Madrid in 1995). **Political criteria** demand from candidate countries stability of institutions ensuring rule of law, observance of human rights, protection of minorities, as well as introduction and observance of democratic standards. Fulfilment of

¹ Treaty on the Functioning of the European Union, Official Journal of the European Union C 326/13. Available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012M/TXT&from=en>

² European Parliament (2013) A short guide to the European Union. Luxembourg: The Publications Office of the European Union

legal criteria demand integration of the EU legal framework in the national system and quality implementation of rules. Within the framework of **economic criteria**, candidate countries must ensure the existence of a functioning market economy and enable itself for equal participation in the EU single market. Fulfilment of **administrative criteria** entail ensuring institutional stability and building administrative capacities for fulfilling commitments ensuing from membership in the EU³.

In order to acquire the status of an EU candidate country as well as in addition fulfilling the Questionnaire, Bosnia and Herzegovina (hereinafter: B&H) needs to solve two important issues. The first one relates to resolving the Sejdić-Finci dispute, that is, amendment of the B&H Constitution in order to allow members of national minorities to be elected to B&H Presidency and the House of Peoples of the Parliamentary Assembly. The second issue the EU demands to be solved relates to the coordination mechanism. The mechanism concerned would contribute to easier and faster decision-bringing between different government levels in the process of accession to the EU, as well as to quality implementation of adopted laws. It is precisely these two conditions put before B&H that show how important legal and political criteria are in the process of accession to the EU.

Membership in the EU is extremely important for B&H because it would open up numerous opportunities for a stronger positioning on the European and international scene and for long-term sustainable and continued growth and development. Opportunities opening with membership in the EU are: access to the single market comprising half a billion consumers, funds from EU funds, favourable financing sources, opportunities for exchange of knowledge, experiences and new technologies, as well as encouraging innovation, research and modernization. However, for a country which is not ready and does not implement the necessary reforms, these opportunities turn into

³ For more detailed information on membership criteria see Negotiations for the Accession of the Republic of Croatia to the (2006) Zagreb: Ministry of Foreign and European Affairs. Available at: http://www.mvep.hr/files/file/publikacije/MEI_hr_web_pass.pdf

large obstacles. Precisely for that reason, very demanding criteria are put before the candidate country during negotiations, from which Member States and the Commission do not deviate. With the aim of fulfilling set criteria, the European Union financially supports reforms implemented in the country prior to and during the negotiation process through pre-accession assistance programmes. An overview of the process of B&H's accession to the EU and changes required in order to achieve stronger and faster convergence are presented hereafter. An overview of main challenges in the context of improving B&H's competitive position and economic circumstances is also provided. It is apparent from all of this that fulfilment of political and legal criteria directly related to equality of constituent nations and observance of human and minority rights are the basic preconditions for all processes: from convergence towards the EU to economic and social prosperity.

2. BOSNIA AND HERZEGOVINA'S WAY TO EUROPE

The process of accession to the European Union (EU) is a long-term process comprised of three phases, each of which is subject to approval by all EU Member States. In the first phase, opportunity for membership is opened to the country⁴. In accordance with the Treaty on European Union, every European country can submit a membership application if it respects the democratic principles of the EU and is dedicated to promoting them. In the second phase the country becomes an official membership candidate, followed by the third phase comprising of formal membership negotiations⁵. During the process of accession to the European Union, every country must take several steps. The first step is the signing of a Stabilisation and Association Agreement, establishing cooperation relations.

⁴ Strohmeier, R.W., Habets, I. (2013.) EU Policies: an Overview. Brussels: Centre for European Studies

⁵ European Neighbourhood Policy And Enlargement Negotiations: Steps towards joining. Available at: https://ec.europa.eu/neighbourhood-enlargement/policy/steps-towards-joining_en

2.1. Stabilisation and Association Agreement

The first phase in the process of B&H's accession to the EU commenced with negotiations on the Stabilisation and Association Agreement in 2005, following which the European Commission estimated that B&H had made satisfactory progress in implementation of reforms defined in the Feasibility Study for a Stabilisation and Association Agreement (SSP)⁶. A feasibility study is a document in which the capability of countries for realization of contractual relations with the EU in the stabilisation and association process is analysed and established. Negotiations were closed in 2006, however the Agreement between the EU and B&H was signed together with the Interim Agreement on Trade and Trade-related Matters (hereinafter: Interim Agreement) as late as in 2008, when the Interim Agreement also entered into force.

In addition to implementation of reforms, amendment of the Constitution in accordance with the Sejdić – Finci⁷ verdict was one of the conditions for the Stabilisation and Association Agreement to enter into force. Political leaders in B&H did not reach a definitive agreement on the implementation of the Sejdić-Finci verdict, as well as on the establishment of a coordination mechanism for EU issues. Yet, in December 2014, following a visit by High Representative of the Union for Foreign Affairs and Security Policy Federica Mogherini and Commissioner for European Neighbourhood Policy and Enlargement Negotiations Johannes Hahn, it was decided that a new approach be applied to B&H, including complete fulfilment of all criteria and a written confirmation of B&H's commitment to the way to Europe. Thereby on 1 June 2015 the B&H Presidency and both houses of the B&H Parliamentary Assembly confirmed and adopted the Joint Statement on the commitment to undertake the necessary

⁶ Centre for European Studies: Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, of the other part. Available at:

http://www.dei.gov.ba/bih_i_eu/ssp/doc/default.aspx?id=743&langTag=bs-BA

⁷ European Court of Human Rights: Sejdić and Finci v. Bosnia and Herzegovina (Applications No. 27996/06 and 34836/06). More information available at:

http://www.mhrr.gov.ba/ured_zastupnika/novosti/default.aspx?id=1008&langTag=bs-BA

reforms in the EU accession process, in accordance with the Conclusions of the EU Foreign Affairs Council. On the same day, 1 June 2015, the EU allowed for the B&H Stabilisation and Association Agreement to enter into force.

2.2. Submission of EU membership application

The opportunity for submission of B&H's application for EU membership was opened with the entering into force of the Stabilisation and Association Agreement, and was carried out in February 2016. The membership application must contain European affiliation of the applicant country, inclusion in the European Union as a policy objective of the applicant country, as well as readiness for assuming all objectives and commitments ensuing from membership in the EU⁸.

Following the reception of the application for membership, the Council calls on the European Commission to draw up an opinion on the application for membership (avis). During that process the European Commission sends to the applicant country a questionnaire consisting of a general part (common for all countries) and a special part (questions regarding the country which the questionnaire relates to). The European Commission's questionnaire which the government of B&H had to respond to within a three-month deadline was delivered on 9 December 2016. An overview of key developments in relations between B&H and the EU is provided in Table 1 hereafter.

After B&H delivers its answers to the Questionnaire, the European Commission will bring an opinion (avis) on its preparedness for acceptance and fulfilment of conditions for membership, which can be positive or negative. Based on European Commission's opinion, the European Council approves the status of a candidate country to the applicant country.

⁸ Initiative for Monitoring BiH's EU Integration Process: Steps Towards EU Membership. More information available at: <http://eu-monitoring.ba/koraci-ka-clanstvu-evropskoj-uniji/>

Table 1: Key developments in relations between B&H and the EU

Date	Development
1997	Council of the European Union sets the political and economic conditions for development of bilateral relations. Bosnia and Herzegovina is provided with the opportunity of using autonomous trade measures.
1998.	Setting up of the EU – B&H Consultative Task Force – CTF, which ensures technical and expert assistance in the areas of administration, legal framework and policy.
May 1999	Commencement of the Stabilisation and Association Process - SAP. The Stabilisation and Association Process offers a clear opportunity for EU integration to Bosnia and Herzegovina, as well as the other five countries in the Western Balkans Region.
June 1999	Commencement of activities of the Stability Pact for South-Eastern Europe, whose strategic objective is stabilization in South-Eastern Europe through approaching countries in the region to Euro-Atlantic Integration, as well as strengthening regional cooperation. In June 1999 in Sarajevo a summit of heads of countries and governments from Europe, Canada, Japan and USA took place, at which the establishment of a Stability Pact for South-Eastern Europe was upheld.
March 2000	Publication of the EU Road Map. This document defined 18 key conditions which Bosnia and Herzegovina must fulfil in order for the drawing up of a Feasibility Study for opening negotiations on the Stability and Association Agreement (SAA) to commence.
2000	Introduction of a duty-free access of products from Bosnia and Herzegovina to the internal market of the European Union (Autonomous Trade Measure – ATM).
December 2000	Council of the European Union adopts Regulation 2666/2000 on Community Assistance for Reconstruction, Development and Stabilisation – CARDS programme . CARDS was a European Union programme for reconstruction, development and stabilisation intended for Albania, Bosnia and Herzegovina, Croatia, Macedonia and Federal Republic of Yugoslavia (Serbia and Montenegro).
March 2003	Commencement of work on the Feasibility Study. The European Commission delivered to the Council of Ministers of B&H a questionnaire with 346 questions covering the area of economic and political organization of B&H, which were relevant for the conclusion of the Stabilisation and Association Agreement.
November 2003	The European Commission adopts the evaluation of the Feasibility Study. The Feasibility Study identified 16 priority areas basic reform progress in which would serve as a basis for the European Commission to recommend opening negotiations on the Stabilisation and Association Agreement with B&H to the European Council.
March 2004	European Council adopts the first European Partnership with Bosnia and Herzegovina
November 2005	On 25 November negotiations on the Stabilisation and Association Agreement officially opened in Sarajevo.

January 2006	The First Plenary Round on Negotiations on the SAA between the EU and B&H and the First Plenary Meeting of the Reform Process Monitoring – RPM, which replaced the former Advisory Working Body, held. The European Council adopts the second European Partnership with Bosnia and Herzegovina.
January 2007	Instrument for Pre-accession Assistance – IPA, intended for all pre-accession activities financed by the European Commission established.
February 2008	European Council adopts the third European Partnership with Bosnia and Herzegovina.
November 2007	Technical negotiations on the Stabilisation and Association Agreement closed, signing depending on fulfilment of political conditions.
December 2007	Stabilisation and Association Agreement concluded on 4 December.
February 2008	Framework agreement between BiH and Commission of the European Communities on the rules for cooperation to implement EC financial assistance to BiH under the Instrument for Pre-Accession Assistance (IPA) signed on 20 February.
June 2008	Stabilisation and Association Agreement signed on 16 June.
July 2008	Interim Agreement on Trade and Trade-related Matters enters into force on 1 July.
November 2008	The first meeting of the Interim Stabilisation and Association Committee, as the highest body within the framework of the stabilisation and association process, whose basic task (together with six interim sub-committees) was to monitor the fulfilment of obligations from the Interim Agreement, held.
June 2011.	The first meeting of the Structured Dialogue on Justice between Bosnia and Herzegovina and the European Union held.
27 June 2012	The first meeting of the High Level Dialogue on the Accession Process with Bosnia and Hercegovina held when the Road Map for BiH's EU membership application was delivered. The second meeting was held in November 2012.
01 July 2013	The Republic of Croatia becomes the 28th EU Member State, and Bosnia and Herzegovina borders with a European Union Member State for the first time
January 2014	The EU establishes the new Instrument for Pre-accession Assistance IPA II, for the period 2014 – 2020.
01 June 2015	Stabilisation and Association Agreement between the EU and Bosnia and Herzegovina enters into force
15 February 2016	In accordance with Article 49 of the Treaty on European Union, within the framework of the Netherlands EU presidency, B&H submits a formal „EU membership application“.
20 September 2016	The European Council calls on the European Commission to prepare an opinion on B&H's Application for EU membership
09 December 2016	The European Commission receives the Questionnaire

Source: Directorate for European Integration: Chronology of relations between B&H and the EU. Available at:

http://www.dei.gov.ba/dei/bih_eu/default.aspx?id=9808&langTag=hr-HR

2.3. Negotiations on the acceptance and application of EU acquis communautaire

After obtaining the status of a candidate country follows the opening of negotiations on chapters of the EU acquis, consisting of an analytical review and an evaluation of conformity of national legislation with the EU acquis (screening), as well as the substantive negotiations phase, during which conditions for acceptance and application of the EU acquis are negotiated, including transitional periods and exemptions⁹.

Negotiations are closed after all benchmarks have been fulfilled and all negotiation chapters closed. After the closure of negotiations follows the signing of the Treaty of Accession, which also comprises all results of the negotiations. The Treaty of Accession must be ratified by the European Parliament, parliaments of all Member States and the parliament of the acceding country. Full membership in the EU is attained with entry into force of the Treaty of Accession, that is, on the set date of accession.

In order to become an EU Member State, B&H must fulfil criteria (opening and closing benchmarks) from 35 chapters¹⁰. In addition to adopting the EU legal system through fulfilment of benchmarks from the chapters, B&H will implement numerous reforms in order to prepare for equal (compared to other Member States), active and successful participation in all common EU policies and in the European single market. Chapters to be opened first and closed last are Chapter 23 - Judiciary and fundamental rights and Chapter 24 – Justice, freedom and security. Through Chapter 23 strengthening of independence, impartiality and professionalism in the judiciary,

⁹ European Neighbourhood Policy and Enlargement Negotiations: Screening of the acquis. Available at: https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/screening_en

¹⁰ Ministry of Foreign and European Affairs: Summary of results of accession negotiations as per chapters. Available at: <http://www.mvep.hr/custompages/static/hrv/files/pregovori/120112-sazeti.pdf>

implementation of prevention measures, fight against corruption and preservation of high standards of human and minority rights protection in B&H are requested. Chapter 24 regulates state border management, visa and asylum policies, legal migration, suppression of illegal migration, organized crime, drug trafficking trade, terrorism, judicial cooperation in criminal and civil matters and cooperation between tax, customs and judicial authorities in order to enhance the freedoms and improve the security of citizens. Efficient control of EU outer land and maritime borders will additionally impede endangering of security from outside the EU. Through joint activities in the fight against organized crime, goods and human trafficking and drug trade, citizens of B&H will enjoy a higher degree of security.

Negotiations as per chapters and reforms which must be implemented during negotiations help the country to professionalize the administration, establish control and prevention systems as well as mechanisms to regulate business processes and procedures, improve the quality of management and work, regulate the market, improve public policies such as the healthcare system, education, science, culture, energy, foreign policy, introduce the rule of law and improve democratic standards etc. Precisely for these reasons the accession process is extremely important for B&H, which needs to introduce the partnership principle and clearly define the competences and responsibilities of each level of government. Equality of all three constituent nations, manifesting among other things in equal participation in all institutions and decision-making processes, is of the key importance for development of B&H based on European values.

3. PRE-ACCESSION ASSISTANCE PROGRAMMES IN B&H – SUPPORT TO CHANGES ON THE WAY TO THE EU

The budget of IPA programme for the period 2007-2013 amounted to 11,5 billion euros for all candidate and potential candidate countries, whereas the budget of IPA II programme for the period 2014-2020 amounts to 11,7 billion euros. The Framework Agreement represents

the basis for using IPA II (2014-2020) programme funds, and is concluded between the European Commission and IPA II programme beneficiary countries. The Agreement defines the principles of financial cooperation between beneficiary countries and the Commission¹¹. The IPA II Framework Agreement between Bosnia and Herzegovina and the European Commission entered into force on 24 August 2015¹². In addition to Bosnia and Herzegovina, the current beneficiaries of IPA II programme are Albania, Macedonia, Kosovo, Turkey, Serbia and Montenegro. The basic intention of IPA programme is to support beneficiary countries in the implementation of political and economic reforms, preparing them for the rights and obligations ensuing from membership in the EU. IPA II programme aims at reforms within the framework of defined sectors. Those sectors cover areas closely related to the enlargement strategy, such as:

- Democracy and governance - implying institutional strengthening, reform and improvement of economic governance, fight against corruption, better public finance management,
- Rule of law – implying improvement of judicial institutions and the principles of legal responsibility, efficiency, independence and impartiality. It also implies fight against organized crime, solving deficiencies in the protection of fundamental human rights and fight against corruption,
- Growth, competitiveness and innovation – implying better implementation of reforms in the area of economic governance in order to achieve a high level of competitiveness and development of human capital,
- Employment, education and better social policy – implying implementation of reforms regarding labour market institutions in order to set wages, establish syndicates and ensure better working conditions in a better and more just way.

¹¹ Defined under the framework of [Commission's Implementing regulation No. 447/2014 of 2. May 2014](#). on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession assistance (IPA II), Official Journal of the European Union, L 132, 03.05.2014., page 32–52

¹² http://www.dei.gov.ba/dei/direkcija/sektor_koordinacija/ipa_2/default.aspx?id=11610&langTag=hr-HR (reviewed at 8 September 2017)

A table overview of financial assistance for B&H from IPA II programme is presented hereafter.

Table 1. Indicative allocation of funds to Bosnia and Herzegovina (excluding allocation of funds for cross-border cooperation), in millions of euros

Areas/years	2014	2015	2016	2017	Total for the period 2014-2017
Reforms in preparation for EU membership	11	17	18	18	64
Democracy and governance	31				31
Rule of law	33				33
Socioeconomic and regional development	24,7	11,7	13,7	13,7	63,8
Competitiveness and innovation: local development strategies	63,8				63,8
Employment, social policies, education, research and development, promotion of gender equality, human resources development	4	11	11	11	38
Education, employment, social policies	38				38
Total	39,7	39,7	42,7	43,7	165,8

Source: Author according to data available on European Commission website (2017), “Bosnia and Herzegovina - financial assistance”, available at: https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country/bosnia-herzegovina_en, reviewed on 8 September 2017.

165,8 billion euros are intended for B&H from IPA II programme for the period 2014-2017, whereas the amount of available funds for the period 2018-2020 will be defined subsequently¹³. Allocation of funds for reforms in the preparation for EU membership has grown from 11 million in the initial year to 18 million euros in the last year observed. In the area of socioeconomic and regional development, 24,7 million

¹³ https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country/bosnia-herzegovina_en (reviewed at 8 September 2017)

euros were allocated in 2014, however in time the amount decreased to 11 million euros in 2015. It has been decided that 13,7 million euros will be allocated annually for socioeconomic and regional development in 2016 and 2017. In 2014, 4 million euros were allocated for undertakings regarding employment, active social policy, education, research and development, promotion of gender equality and human resources development, and 11 million annually in the following years, including 2017. Reforms financed from IPA should provide citizens with better opportunities and allow for development of standards equal to those of EU citizens.

The most important novelty with regard to IPA II programme is its strategic focus. Strategic documents for beneficiary countries are specific planning documents drawn up for each beneficiary country for a 7-year period. IPA programme consists of five policy areas within the framework of which different interventions will be carried out: 1. The process of transition towards membership and capacity building, 2. Regional development, 3. Employment, social policies and human resources development, 4. Agriculture and rural development, 5. Regional and territorial cooperation.

B&H has not yet established the structure required for independent management of IPA funds under control of the EU Delegation. The EU Delegation in B&H is responsible for implementation of financial support, meaning that it contracts and implements all projects in B&H financed from IPA funds, in addition to ensuring coordination of support with Member States.

Establishment of a coordination mechanism for issues relating to the EU and sectoral strategies for the entire country remain the key conditions for realising full benefit of financing from IPA programme. It is necessary to make progress in the establishment of required institutional structures which would allow for the use of the Instrument for Pre-Accession Assistance in Rural Development (IPARD). B&H has not yet drawn up a strategic rural development plan at state level. A revised agriculture, food and rural development harmonisation programme, as well as laws on the production of wine and organic food at state level, are yet to be adopted, Administrative capacities and coordination structures in the agriculture and rural

development sector, including support measures, require further strengthening. B&H participates in the following EU programmes: Horizon 2020, Creative Europe (which merges former Culture and MEDIA programmes), Fiscalis 2020, Customs 2020, Europe for Citizens and COSME programme.

4. COMPARISON OF BOSNIA AND HERZEGOVINA WITH OTHER COUNTRIES BASED ON INTERNATIONAL COMPETITIVENESS ANALYSES

Through analysis of B&H's competitiveness and its comparison with other countries in the world, a quality basis for continued monitoring of competitiveness in terms of quality of factors on which the attractiveness of the area for business start-up and living depends is gained. Competitiveness analyses provide a clear overview of key weaknesses and advantages of each country and recommendations for strengthening the competitiveness of the economy at the national level. Fast changes are lacking in B&H, and therefore so is visible progress in competitiveness and attractiveness to investors. National competitiveness could be increased through the use of territorial advantages and resources, elimination of obstacles to growth and encouraging potential sources.

With the aim of increasing national competitiveness, it is necessary to focus on implementation of structural reforms, especially in those segments in which B&H is lowest evaluated according to international competitiveness analyses, such as labour market efficiency, regulatory burden, public trust in politicians, efficiency of legal framework, intensity of local competitiveness, ability of the country to attract and retain motivated individuals, high unemployment rate, low cluster development level, low innovation capacity and many others.

Table 2 shows that in a ten-year period B&H has dropped by 18 positions according to the Global Competitiveness Report and by 23 positions according to the Social Development Report. Its position improved according to the Doing Business Report, however only by 6 positions, and B&H is still ranked lowest compared to other surrounding countries observed. It is clearly visible that compared to

observed countries the difference has increased and that B&H has fallen behind in the ten-year period, and newer Central and Eastern European Member States, as well as surrounding non member-countries were included in the analysis.

Table 2: Position of B&H in international competitiveness rankings

Country	Global Competitiveness Report			Doing Business Report			Global Information Technology Report			Social Development Report		
	2006	2016	Change	2006	2017	Change	2005	2016	Change	2006	2015	Change
Czech Republic	29	31	-2	41	27	14	33	36	-3	30	28	2
Poland	48	36	12	54	24	30	47	42	5	37	36	1
Hungary	41	69	-28	52	41	11	36	50	-14	35	44	-9
Romania	68	62	6	78	36	42	61	66	-5	60	52	8
Slovenia	33	56	-23	63	30	33	30	37	-7	27	25	2
Croatia	51	74	-23	118	43	75	48	54	-6	44	47	-3
Estonia	25	30	-5	16	12	4	25	22	3	40	30	10
Lithuania	40	35	5	15	21	-6	42	29	13	41	37	4
Slovakia	37	65	-28	37	33	4	41	47	-6	42	35	7
Bulgaria	72	50	22	62	39	23	67	69	-2	54	59	-5
Macedonia	80	68	12	81	10	71	75	46	29	66	81	-15
Latvia	36	49	-13	26	14	12	35	32	3	45	46	-1
Montenegro	87	82	5	92	51	41	77	51	26	/	49	/
Serbia	87	90	-3	92	47	45	77	75	2	/	66	/
Bosnia and Herzegovina	89	107	-18	87	81	6	/	97	/	62	85	-23
Albania	98	80	18	117	58	59	/	84	/	73	85	-12

Source: Global Competitiveness Report¹⁴, Doing Business Report¹⁵, Global Information Technology Report¹⁶, Social Development Report¹⁷

¹⁴ World Economic Forum: Global Competitiveness Report. Available at: http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

¹⁵ World Bank: Doing Business Report. Available at: <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>

¹⁶ World Economic Forum: Global Information Technology Report. Available at: http://www3.weforum.org/docs/GITR2016/WEF_GITR_Full_Report.pdf

¹⁷ United Nations Development Programme: Social Development Report. Available at: http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf

Competitiveness analyses of B&H show that political stability, legal security and predictability, fight against corruption and fraud, observance of human rights and freedoms are extremely important for strengthening entrepreneurship. It was expected that a favourable business environment, fast and efficient public administration, availability of financing and a regulated market would be the most important factor for competitiveness, however analyses presented hereafter show that political and legal criteria are prominent as more important than economic criteria alone.

4.1. Global Competitiveness Report

The Global Competitiveness Report measures the competitiveness of 138 countries in different phases of economic development. The methodology of the World Economic Forum is based on an analysis of 12 competitiveness factors, including institutions, infrastructure, macroeconomic environment, healthcare system, primary education, higher education, labour market efficiency, goods market efficiency, technological readiness, financial market, market size, business sophistication and innovation. Each competitiveness factor is analysed in more detail according to a series of indicators.

Table 3 shows individual evaluation for each area of competitiveness over a period of ten years. Due to unreliable data and assessments, Bosnia and Herzegovina was excluded from the Report for 2014. Although results from 2016 record improvement in several areas (institutions, macroeconomic environment, higher education, labour and goods market efficiency, technological readiness and business sophistication) compared to results from the preceding year, analysis of results from 2016 and their comparison with results from recent years show deterioration or stagnation in most areas. During that period, B&H was ranked above the 100th position in most categories, which makes it lowest-ranked in relation to surrounding countries. In order to achieve a visible advancement, intensive reforms are required in all areas, especially relating to strengthening institutions, infrastructure, goods and labour market efficiency, business sophistication and innovation. With regard to increasing the innovativeness level, the Global Competitiveness Report recommends more intensive use of ICT because widespread use of information-

communication technology contributes to new business models and progress of industries, thereby affecting increase in innovativeness, and consequently increase in competitiveness in the long term.

Table 3. Position of B&H in the Global Competitiveness Report in the period from 2010 to 2016 according to a series of indicators

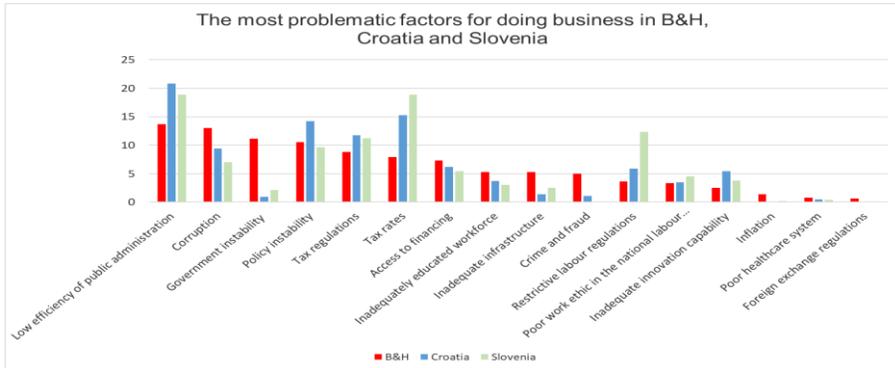
Područje	Global Competitiveness Report	Global Competitiveness Report n/134	Global Competitiveness Report n/133	Global Competitiveness Report n/139	Global Competitiveness Report n/125	Global Competitiveness Report n/142	Global Competitiveness Report n/144	Global Competitiveness Report n/148	Global Competitiveness Report n/140	Global Competitiveness Report n/138	Change in 2016 in relation t 2006	
	2007/2008	2008/2009	2009/2010	2010/2011	2006/2007	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	
1	Institutions	89	n/a	123	128	126	109	85	71	/	127	126
2	Infrastructure	96	n/a	123	128	98	99	94	83	/	103	105
3	Macroeconomic environment	45	n/a	57	69	81	78	97	104	/	98	76
4	Healthcare system and primary education	38	n/a	82	75	89	58	48	46	/	48	50
5	Higher education system and training	86	n/a	109	86	88	86	72	63	/	97	92
6	Goods market efficiency	93	n/a	123	125	127	115	109	104	/	129	129
7	Labour market efficiency	n/a	n/a	85	94	94	85	99	88	/	131	125
8	Financial market development level	n/a	n/a	86	104	113	124	119	113	/	113	101
9	Technological readiness	108	n/a	109	95	85	73	68	73	/	79	76
10	Market size	n/a	n/a	92	90	93	97	93	98	/	97	98
11	Business sophistication	92	n/a	125	117	115	108	109	110	/	125	115
12	Innovation	104	n/a	128	131	120	104	80	63	/	115	125

Source: Global Competitiveness Report 2006/2007¹⁸, 2007/2008, 2008/2009¹⁹, 2009/2010²⁰, 2010/2011²¹, 2011/2012²², 2012/2013²³, 2013/2014²⁴, 2014/2015²⁵, 2015/2016²⁶, 2016/2017²⁷

¹⁸ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf

The most problematic factors for starting a business in Bosnia and Herzegovina according to perceptual data obtained through an opinion survey carried out among 80 entrepreneurs are presented hereafter.

Figure 1. Entrepreneurial perception of the most problematic factors for doing business in Bosnia and Herzegovina according to the Global Competitiveness Report for 2016-2017.



Source: Global Competitiveness Report, Entrepreneurship survey carried out in 2017

In addition to analysing statistical data, the Global Competitiveness Report also provides insight into the most problematic factors for business start-up based on carrying out opinion surveys among entrepreneurs. With regard to the business environment in Bosnia and Herzegovina, the business sector points out low efficiency of public administration, corruption, government instability, policy instability,

¹⁹ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2008-09.pdf

²⁰ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2009-10.pdf

²¹ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

²² http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

²³ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

²⁴ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

²⁵ http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

²⁶ <http://www3.weforum.org/docs/gcr/2015->

<2016/GlobalCompetitivenessReport2015-2016.pdf>

²⁷ <http://www3.weforum.org/docs/GCR2016->

2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

tax regulations, tax rates and access to financing as the main problems.

On the other side, most Croatian entrepreneurs have agreed that the greatest obstacles to doing business are low efficiency of public administration, destimulating tax rates, policy instability, tax regulations and corruption. Slovenian entrepreneurs mostly criticise destimulating tax rates, low efficiency of public administration and restrictive labour regulations.

In all three countries observed entrepreneurs point out low efficiency of public administration as the key problem. With the aim of improving the business environment, building a fast and efficient public administration with emphasis on e-management at all levels should be in the focus of competent institutions in the countries observed. The countries observed should focus on elimination of regulatory and administrative obstacles, burden on doing business and development of electronic procedures for starting-up and doing businesses. In addition to efficiency of public administration, political stability and clear and predictable policy management and decision-bringing processes on the institutional level are of key importance for entrepreneurs in B&H. The analysis clearly shows that it is difficult to expect B&H to become attractive to entrepreneurs and investors without resolution of political issues and achieving stability.

4.2. Doing Business Report

The Doing Business Report deals with the ease or difficulty of starting and running businesses by entrepreneurs. Research carried out in 190 countries analyses changes in regulations affecting 10 business areas of small and medium-sized enterprises, relating to: business start-up, construction permit obtainment, electrical energy supply, property registration, credit obtainment, investor protection, tax payment, cross-border trading, trade dispute settlement and insolvency resolution. This year's Doing Business Report also contains revised data for 2016, considering that there have been changes in methodology during the last year.

Table 4: Results of the 2017 Doing Business Report with regard to Bosnia and Herzegovina and their comparison with results of Central and Eastern European Countries

Country	Ease of doing business	Starting a business	Dealing with construction permit	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Macedonia	10	4	11	29	48	16	13	9	27	36	32
Estonia	12	14	9	38	6	32	53	21	17	11	42
Latvia	14	22	23	42	23	7	42	15	25	23	44
Lithuania	21	29	16	55	2	32	51	27	19	6	66
Poland	24	107	46	46	38	20	42	47	1	55	27
Czech Republic	27	81	130	13	31	32	53	53	1	68	26
Slovenia	30	49	80	16	34	133	9	24	1	119	12
Slovakia	33	68	103	53	7	44	87	56	1	82	35
Romania	36	62	95	134	57	7	53	50	1	26	49
Bulgaria	39	82	48	104	60	32	13	83	21	49	48
Hungary	41	75	69	121	28	20	81	77	1	8	63
Croatia	43	95	128	68	62	75	27	49	1	7	54
Serbia	47	47	36	92	56	44	70	78	23	61	47
Montenegro	51	58	93	167	78	7	42	57	43	41	40
Albania	58	46	106	156	106	44	19	97	24	116	43
Bosnia and Herzegovina	81	174	170	123	99	44	81	133	36	64	41

Source: 2017 Doing Business Report²⁸

New Zealand is at the top of the ranking due to an exceptionally favourable business environment (a single document is required for starting a business, and the procedure lasts only several hours. In comparison, in Bosnia and Herzegovina 12 documents are required, while the procedure lasts 65 days). Singapore, Denmark, Hong Kong, South Korea and Norway follow. Of Central and Eastern European Countries, Estonia, Czech Republic, Lithuania, Poland and Latvia stand out, whereas Bosnia and Herzegovina is at the bottom of the ranking, 34 positions below Serbia. Libya(188), Eritrea (189) and Somalia (190) are at the bottom of the ranking. In this year's report it is stated that 137 world economies have implemented a total of 238 regulatory reforms during the last year, that is, 20% more in relation to the preceding year. The area of Europe and Central Asia which B&H belongs to is the area with the largest percentage of countries which have implemented at least one proposed reform this year also.

Of the surrounding countries, Serbia, which belongs to the group of ten countries which have made the greatest progress in relation to last year's position, adopted the largest number of reforms, recorded in

²⁸ http://www.doingbusiness.org/~/_/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf

three areas: business start-up, construction permit obtainment and property registration.

As the tenth country in the world with regard to ease of doing business, Macedonia continues with its positive trend this year also, and is best positioned in the area of ease of doing business, wherein it is fourth in the world, that is, starting a business requires two days. Furthermore, significant progress has been made with regard to access to credits, protecting minority investors and insolvency resolution.

As regards Montenegro, a three-position drop has been recorded, that is, it is ranked 51st in relation to the 48th position in last year's report. Progress has been made in only one area (tax payment), which has been eased with the introduction of an electronic system for submission and payment of value added tax. Montenegro is seventh in the world according to the credit obtainment indicator, whereas the lowest position is recorded in the area of electrical energy supply.

In this year's 2017 Doing Business Report, Bosnia and Herzegovina is ranked 81st out of 190 countries included in the research. Although with this score it has progressed by two positions, it is still lowest ranked in relation to all surrounding countries.

As regards individual evaluations (shown in Table 5), positive movements in two categories have been recorded. Doing business has been eased through reduction of required minimum capital for limited liability companies and increased efficiency of the public notary system. Furthermore, progress has been made in the „Tax payment“ category due to abolishment of charges for tourist communities. In all other areas B&H records lower ranking in relation to last year's results, for example in the „Electrical energy supply“ category, seeing that 8 documents are required for installation of an electrical energy connection, with the entire procedure lasting 125 days (in Korea, which is ranked first, the procedure lasts 18 days, with 3 documents required). In the area of insolvency resolution and credit obtainment procedure, B&H is ranked 41st, that is, 44th. An extremely low position is occupied in the area of construction permit obtainment, which requires 15 documents, with the entire procedure lasting 179 days (in comparison, the highest ranked country in this category is Singapore, where the procedure lasts 48 days, with 9 documents required).

Table 5. Results of the Doing Business Report for Bosnia and Herzegovina and comparison with last year's results

Area	DB 2016	DB 2017	Change
Business start-up	175	174	1
Construction permit obtainment	168	170	-2
Electrical energy supply	120	123	-3
Property registration	97	99	-2
Credit obtainment	42	44	-2
Protection of minority investors	78	81	-3
Tax payment	151	133	18
Cross-border trading	36	36	No changes
Contract fulfilment	63	64	-1
Insolvency resolution	40	41	-1

Source: World Bank, Doing Business Report

Finally, the presented analyses show that the main reasons for the drop in competitiveness of B&H are insecure and unpredictable government policies, inefficient regulative and legal framework, low crisis resilience, numerous market and administrative obstacles, unstable tax system, extremely high unemployment level, underdeveloped entrepreneurship, low level of investment into research and development and knowledge transfer. B&H must focus on implementation of structural reforms with the aim of mobilising investment and opening new workplaces in order for the economy to recover, and that includes fiscal discipline, export-oriented production and strengthening entrepreneurship.

5. A COMPARATIVE ANALYSIS OF B&H AND CENTRAL AND EASTERN EUROPEAN COUNTRIES MACROECONOMIC INDICATORS

B&H is characterized by weak movements of macroeconomic indicators, especially compared to Central and Eastern European Countries. As stated in the 2016 Progress Report²⁹, labour market conditions in B&H have remained unchanged, while public finance, business environment and public sector management have deteriorated. Low level of investment in the private sector, which

²⁹ European Commission: 2016 Report on Bosnia and Herzegovina. More information available at:

http://www.dei.gov.ba/dei/media_servis/vijesti/default.aspx?id=17696&langTag=hr-HR

should generate economic growth, production, exports and creation of new workplaces, represents the main problem. Particular macroeconomic indicators, from economic growth and balance of payments to labour market indicators, point precisely at those weaknesses.

In 2015 B&H recorded a 2,8 percent growth of real gross domestic product (real GDP). In relation to observed Central European countries (Czech Republic, Slovakia, Poland, Hungary, Slovenia and Croatia), B&H grew slower than the observed countries by average, but recorded a higher economic growth rate than Slovenia and Croatia. According to IMF data³⁰, since the beginning of the crisis in 2008 to 2015 B&H grew by 6,3 percent, occupying the 144th position out of 189 countries, that is, 45 countries grew slower or recorded an economic downfall in that period. Only eight countries were lower ranked.

Figure 2: Real GDP growth rates (%)



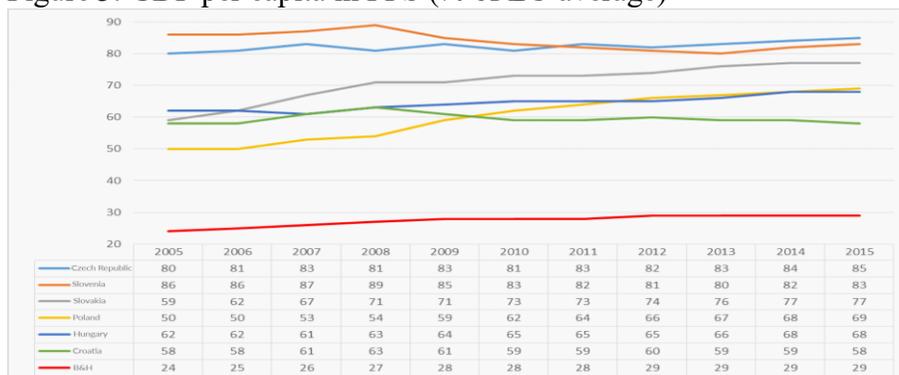
Source: Eurostat, IMF

With regard to GDP per capita in PPS in relation to EU28, B&H has been converging during the last ten years but with the characteristic of very slow growth. Thereby in 2005 B&H's GDP per capita in PPS in relation to EU28 amounted to 24%, whereas it amounted to 29% in

³⁰ <https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/download.aspx>, World Outlook Database April 2016.

the last four years, making it lowest ranked in relation to observed countries, which have recorded levels amounting to 58% and higher.

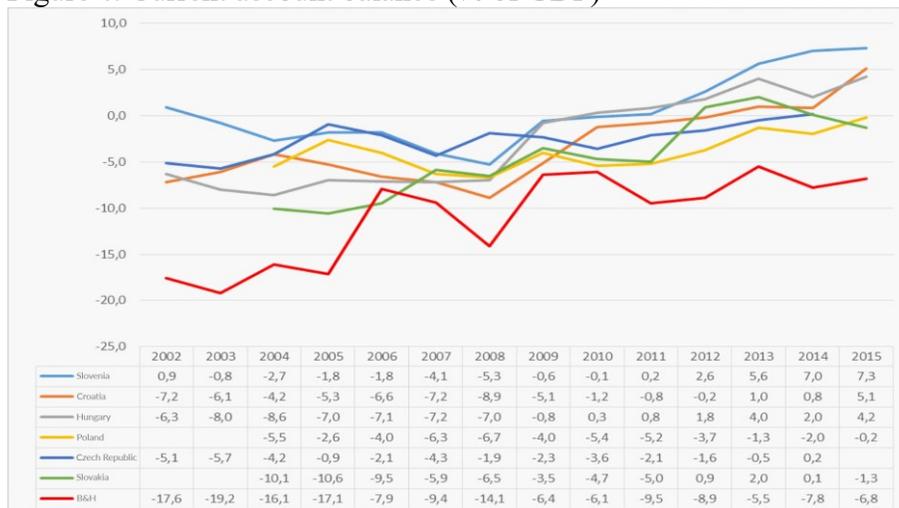
Figure 3: GDP per capita in PPS (% of EU average)



Source: Eurostat

B&H records the largest current account deficit in relation to observed Central European countries. Thereby in 2015 the current account deficit amounted to 6,8% of GDP, which represents a one-point drop in relation to the preceding year. The other observed countries recorded a significantly lower current account deficit, or even a surplus, as that is the case with Slovenia, Croatia and Hungary.

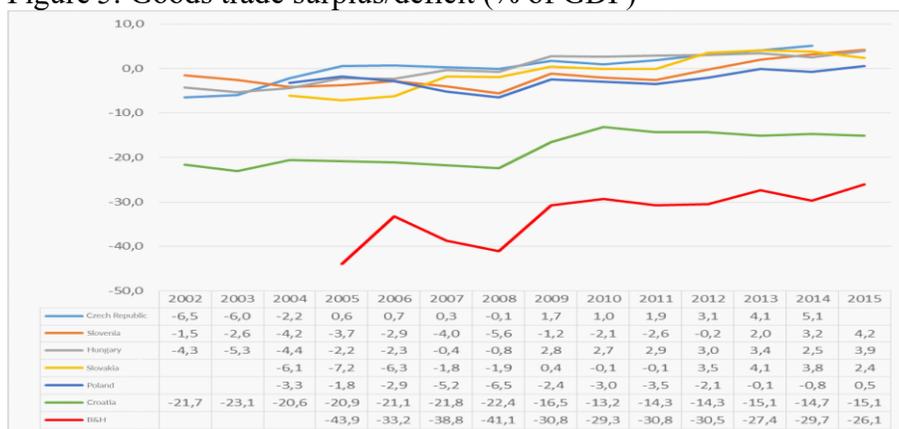
Figure 4: Current account balance (% of GDP)



Source: Eurostat, IMF

Bosnia and Herzegovina also records the largest goods trade deficit, that is, the difference between imports and exports of goods. In 2015 Bosnia and Herzegovina recorded a deficit amounting to 26,1% of GDP, whereas the other observed countries recorded a surplus, with the exception of Croatia, whose deficit amounted to 15,1% of GDP.

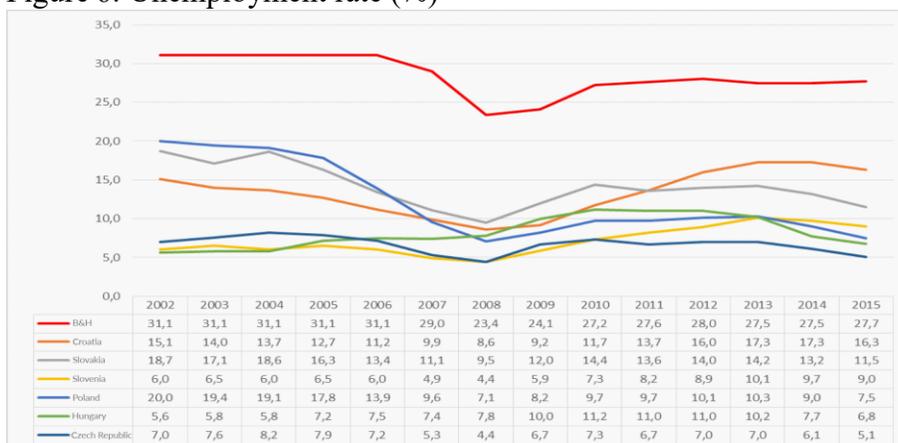
Figure 5: Goods trade surplus/deficit (% of GDP)



Source: Eurostat, IMF

According to labour market indicators Bosnia and Herzegovina is lowest ranked in relation to observed Central European countries. In 2015 Bosnia and Herzegovina recorded an unemployment rate of 27,7%, which has been stagnating for the last three years. In other observed countries unemployment rates are decreasing, whereby four countries have an unemployment rate under 10%.

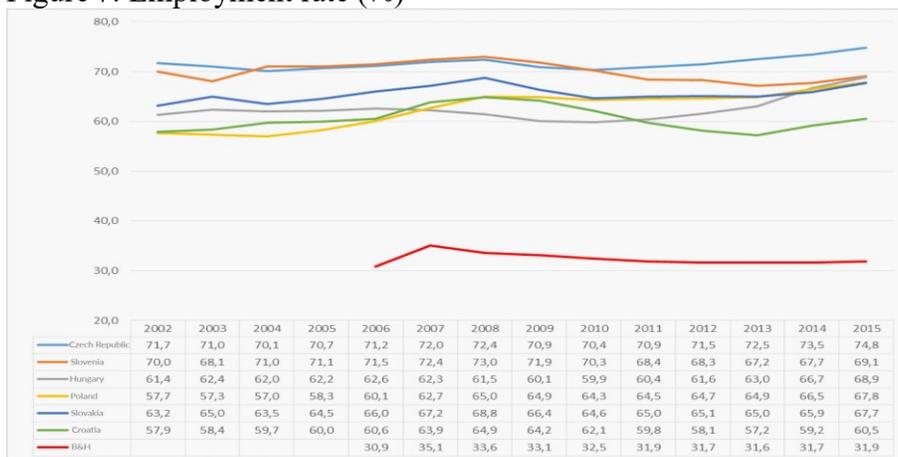
Figure 6: Unemployment rate (%)



Source: Eurostat, IMF

On the other hand, Bosnia and Herzegovina recorded an employment rate of only 31,9% in 2015, whereas the other observed countries recorded employment rates above 60%.

Figure 7: Employment rate (%)



Source: Eurostat, Agency for Statistics of B&H

B&H is at the very bottom compared to Central European countries, and is below 30% of European Union average in view of level of development. That points to the necessity of implementation of structural reforms in order to mobilize the private sector, which must be the main generator of growth and increase in employment, and

which will gradually bring B&H closer to the EU average. Negotiations with the European Union will significantly contribute to implementation of changes required in order to strengthen B&H politically, legally and economically.

6. CONCLUSION

B&H is facing the second phase on the way to the EU, which is the attainment of a „candidate country“ status. The common objective of the European Commission, B&H and EU Member States is that the process of preparation of answers to questions in the Questionnaire, but also analysis of the answers by the European Commission be fast and efficient, and that, with amendment of the electoral law and quality functioning of the coordination mechanism, B&H attains the status of a candidate country and swiftly passes into the third phase, which presents the formal negotiations. This is important for modernisation and democratization of the country, strengthening the legal and political system in which high standards of protection of human and minority rights and equal participation of all three constituent nations in institutions and decision-making processes in B&H. B&H's way to Europe is the key for the existence of constituent nations, especially for attaining equality of the Croatian nation and further development and stability of B&H.

According to economic strength, B&H's GDP per capita in PPS amounts to 29% compared to EU28 average, which is far below the least developed Member States, Bulgaria, Croatia and Romania. In addition to political and legal security, implementation of reforms and sizable investments into transport, environmental and public entrepreneurial and social infrastructure, modernisation of technologies, innovation and research and development are required. Investments in B&H are of great importance, which is why the European Commission should realize fast and quality implementation of IPA II programme in all areas/components in cooperation with B&H institutions. It is also important to focus other financial instruments developed at EU level, such as the European Fund for Strategic Investments (EFSI), on the B&H market in order to accelerate the process of encouraging economic growth and creation of workplaces in B&H. Structural reforms relate to: increasing the

efficiency of public administration; policy stability; easier access to financing; efficient labour legislation, workforce education including improvement in work ethics; attracting and retaining talented individuals; reduction of corruption, crime and fraud; improvement of infrastructure, especially technological infrastructure, improvement of innovation capacity; a more efficient legal framework, especially with regard to foreign investments; reduction of wastefulness of government spending; cluster development; fiscal discipline; a simple, stable and just tax system; reduction of tax burden on entrepreneurship; availability of venture capital; reduction of obstacles to foreign direct investment and technology transfer; improvement in access to credits, especially with regard to startups and small and medium-sized enterprises (SME); improvement of education system quality and reduction of the gap between the education system and the labour market; increase and reform of public investment in research and development.

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