Report on the strategy paper on progress in the enlargement process

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PURPOSE: presentation of the 2005 progress report concerning **Bosnia-Herzegovina**.

CONTENT: This report provides a balance sheet of the progress made by Bosnia-Herzegovina with regard to the Copenhagen fundamental criteria:

1) political criteria: Bosnia and Herzegovina has made progress in further consolidating the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Most of the Council of Europe post-accession commitments have been fulfilled. Nonetheless, continued efforts remain necessary in order to ensure a non-reversible, self-sustaining state able to assume full responsibility for government. Efforts need now to continue to increase the effectiveness of the executive and legislative bodies, to ensure that State-level institutions are properly equipped to implement their tasks and to strengthen co-ordination between State and Entities. Increased efforts are now necessary to create a modern and effective civil service. Building up training capacity for civil servants is also crucial. The legislation establishing a single High Judicial and Prosecutorial Council has strengthened the independence of the judiciary throughout the country. Bosnia and Herzegovina is progressively taking over responsibility from the international community for the management of its judicial system. Further efforts are necessary to fight corruption. Positive developments have taken place regarding the defence and police reforms through the adoption of the legislation necessary for the establishment of a single smaller and professional army, in line with NATO's Partnership for Peace requirements. The outstanding legislation supporting refugee returns has been adopted and the Refugee Return Fund has been made operational. The priority should now be to complete the process and to work towards socioeconomic integration of returnees. Continued progress is necessary in order to meet international standards in the area of human and minority rights. In this respect, due attention should be paid to avoiding division of schools along ethnic lines. Efforts should also be devoted to improve the integration of the Roma minority.

Co-operation with ICTY has seen improvements. However, further efforts should be made to achieve full co-operation with the Tribunal so that all indictees be brought to justice. Constructive co-operation with neighbouring countries has continued. Nonetheless, proper implementation of the regional Free Trade Agreements should be ensured.

2) economic criteria: Bosnia and Herzegovina's economy operates only to a limited degree within the framework of functioning market principles. Further vigorous reform efforts are necessary to address the serious shortcomings in competitiveness of the economy. Economic growth rebounded in 2004 and industrial production picked up. Inflation remained low while inflows of foreign direct investments were significant. Further harmonization between the Entities took place, in particular in the area of indirect taxation. However, unemployment and external imbalances have remained very large and fiscal challenges have risen. To maintain macroeconomic stability and safeguard the sustainability of the currency board a prudent macroeconomic policy mix will be imperative. In order to strengthen the productive base of the economy, the largely loss-making corporate sector must be urgently and profoundly restructured and privatisation be accelerated. In addition, actions to reduce the overall government interference in the economy and to improve the business climate will be essential. The flexibility of the labour market should be enhanced and the judicial system, in particular the handling of bankruptcies and property rights, be strengthened.. These demanding tasks will require swift action and firm political commitment and cooperation between different levels of government.

3) meetingEuropean standards: Progress has mainly consisted in adoption of new legislation and the establishment of a number of new institutions. Some efforts regarding the strengthening of administrative capacity have also been registered. It is now necessary to ensure sustained efforts in order to increase its implementation capacity, in particular with a view to a future Stabilisation and Association Agreement.

The main areas requiring reform are the following:

- *internal market*, proper implementation of the principles of free movement of goods and capital;
- *customs and taxation*: ensure effective application of VAT law and revenue collection, improve customs valuation (the use of price lists is of great concern);
- *competition* and *public procurement:* establish the public procurement agency and the public procurement review body and to make them operational, enhanced implementation and enforcement of IPR legislation.
- *agriculture*: improved State-Entity and inter-Entity co-ordination in the veterinary, phytosanitary and food safety areas;
- *environment:* the establishment of a well equipped State Environmental Agency is a priority;
- *transport*: need to enhance strategic planning, to further improve infrastructure and to ensure the progressive alignment, notably as regards technical and safety standards, social standards and market liberalisation.
- *energy:* rapid implementation of liberalization in the electricity sector;
- *information society and media*: no progress has been made regarding the liberalisation of the oligopoly fixed-line services. entity-level legislation regarding public broadcasting should be passed;
- *justice, freedom and security*, progress has been made in relation to visa requirements, border control, asylum and migration but staff shortcomings at the Ministry of Security endanger proper implementation of tasks; need to improve enforcement of money laundering legislation; need to develop a State-level drugs policy, adopt adequate legislation on drugs and precursors and establish a State-level office for narcotics; There has been some progress in the area of police but in the area of the fight against organised crime and terrorism, increased efforts are necessary to ensure Bosnia and Herzegovina’s stability and overall socio-economic development.. Proper implementation of laws and prosecution of criminals is paramount.