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This Mission Report is presented for information only and does not represent the official view of the Assembly. This report was prepared by Paul Cook, Director of the Economics and Security Committee.

1. Bosnia and Herzegovina (BiH) is coping with the most severe political crisis since the country emerged from the ashes of a bitter civil war almost thirty years ago, a delegation of the NATO Parliamentary Assembly (NATO PA) learned during a visit to that country from 7-9 June 2022. After a decade of mounting internal tensions and a clear lack of international focus, political fissures in BiH have deepened while Russia's war against Ukraine and its meddling in the Western Balkans have exposed the country's vulnerabilities.

2. In an effort to learn more about these worrying developments and to express solidarity with all citizens of BiH, the delegation, which consisted of over 20 legislators from the NATO PA's Sub-Committee on Transition and Development (ESCTD) and partners from the Western Balkans, met with a range of key decision makers in BiH including representatives of the diplomatic community, members of the Parliamentary Assembly of Bosnia and Herzegovina, Officials from the Ministry of Foreign Trade and Economic Relations, the Ministry of Foreign Affairs, the Commander of NATO Headquarters in BiH and the commander of EUFOR, the Presidency of BiH, the Head of the EU Delegation to BiH, the High Representative for Bosnia and Herzegovina and local officials in Kresevo, a town in Central Bosnia where, unlike in much of the country, the private sector is driving job creation and demonstrating the country's potential to flourish when and where good governance is practiced.

3. The head of the Bosnian delegation to the NATO PA, Nikola Lovrinovic, accompanied members of the Sub-Committee, which was led by ESCTD Chair Ivans Klementjevs (Latvia). The visit sought to generate information for the final draft of a Sub-Committee report by Michal Szczerba (Poland) entitled [The Western Balkans: Russia's War on Ukraine and the Region's Enduring Challenges](#).

4. The delegation arrived in BiH at a moment of crisis. Powerful secessionist sentiments in Republika Srpska and dissatisfaction with the scheme of representation has led to a paralysis of government and budgetary gridlock. This blockage has impeded the country's democratic and economic development on a range of fronts. The constitutional order set up in the Dayton Accords cannot function without intercommunal cooperation and this simply is not present today. Indeed, the Republika Srpska has embarked on an effort to construct parallel institutions which would lead to a de facto secession. The Croatian community's leadership meanwhile is pushing for the establishment of a third constitutional entity which would leave the state even less functional and would certainly trigger new tensions. There is almost no constructive dialogue among these communities, and this is feeding suspicion and stoking serious political, social and economic tension. Russia is only encouraging these tensions as it seeks to sow disorder in Europe. There are concerns that now a single incident could trigger significant violence. At the same time, however, Russia's war on Ukraine has concentrated the minds of allied governments about the need to preserve peace and stability in the Western Balkans. In a sense the crisis has created a new opportunity to stabilise a region that has been neglected in recent years and destabilised as a result. NATO allies are now pushing for a tailored support package for BiH to foster reform and to shore up the delicate security situation in the country.

5. Parliamentarians from BiH told the visiting delegation that the country's military needs to be modernised but the budget is now blocked due to a political stand-off which has only worsened as national elections approach. It is nearly impossible to engage in longterm defence planning due to this budgetary uncertainty. Soaring global prices are only making matters worse. Several speakers noted that military salaries are now so low that it has become difficult to attract young people to join the armed forces. Currently defence spending stands at only 1% of GDP. Although the national defence review called for a significant modernisation of the armed forces as part of an effort to join NATO, the political stand-off has blocked modernisation and undermined the position of those working for eventual accession to NATO. Although there is nominal agreement on eventual accession to the EU, there is

opposition to joining NATO in Republika Srpska. As for the EU, the country has not implemented the kinds of reforms needed to make its candidacy viable. That 2022 is an election year has made it more difficult to achieve compromise on any of these matters.

6. The delegation also met with the Deputy Foreign Minister Josip Brkic, who is double hatted as head of the NATO Cooperation Committee in the Council of Ministers – an interagency body engaging relevant state level institutions. The Committee has been developing a reform program as part of the annual national program. But this effort, like so many other government initiatives, is currently blocked. The Minister said under these circumstances, it is important to think outside of the box to keep cooperation with NATO alive and visible. The goal of accession remains very important to many in the country although it is not universally welcomed. The problem, however, is that the country is now in a crisis deeper than any since the signing of the Dayton agreement, the Minister said, and this has inevitably slowed progress toward this goal. The government is engaged in an ongoing dialogue with NATO Headquarters on the future shape and definition of the partnership and there are expectations that the Madrid Summit will register new advances despite the lack of consensus within the federal structures of the state. The 2022 reform package will be important to this process, although the war in Ukraine is now causing new problems in BiH itself. The Minister noted that the country relies on Russia for 100% of its gas and it must quickly find alternatives to reduce any possible Russian leverage.

7. BiH ultimately hopes to have a clearer commitment from NATO on its accession path and greater assistance to help it shore up its security. BiH needs to upgrade its military equipment but most importantly it wants political support and deeper engagement. The military has been the center of reform efforts in the country, and it is now one of the country's anchors. This is a success story according to officials and should provide a foundation for further institutional development. Several speakers suggested that more public discussion about NATO's contribution to regional peace and security is needed. The public level of understanding about NATO remains low and the public level of engagement in discussions about security is not sufficient to generate strong support.

8. The Deputy Foreign Minister, Josip Brkic, said the government also remains very focused on making advances towards EU memberships and worries that engaging in sub-regional groups might distract its focus on this goal. The EU has elaborated 14 priorities that the country must make progress on to move to become candidate for membership. The Minister added that when the EU and United States are focused on the Western Balkans, progress is made. When they do not, backsliding becomes more likely. He said that bold steps are needed now to move the region towards deeper Euro-Atlantic integration. He suggested that his country must remain focused on deepening ties to the EU rather than embracing sub-regional blocs like the Open Balkans initiative, which he said was an effort that reflected impatience with the slow rate of integration into the EU. BiH has limited human, material and financial resources and so many of its leaders want to focus those resources and attention on EU accession.

9. The EU has not yet accorded BiH official candidate status and here too the blockage in the country's coordination mechanism to harmonise policy throughout the various institutions of this highly federal state is impeding progress. The delegation learned that the governing parties have been unable to agree on fundamental economic policy and reform, and this, in turn, undermines BiH's progress toward achieving candidacy status. Several speakers suggested that the EU should find new ways to incentivise this cooperation so that BiH can move toward its aspiration for EU membership.

10. It was also suggested that greater EU support for BiH's quest to diversify its energy mix is needed. More specifically, BiH requires external support for specific energy

infrastructure projects that could make this happen. But it will need to harmonise the energy policies of the constituent elements of the federal state, including the cantons. There are serious concerns that Bosnia could confront daunting energy shortages or serious price spikes this winter and efforts are underway to reduce the risk of this transpiring. There are also concerns about rising food prices, particularly for the more vulnerable sectors of a society which spends a significant share of income on food. Foreign assistance will likely be needed, and Türkiye has already provided support for the purchase of fertilizers needed to boost domestic food production. Turkey has a free trade agreement with BiH and has become an important market for BiH agricultural production. BiH has rich soil and a potential comparative advantage in producing a range of organic agricultural products, but progress here will require a more stable regulatory environment, political stability and ensured access to large markets.

11. The country is highly dependent on trade with the EU, which accounts for roughly 70% of overall trade. It has managed to become a part of the supply chain for automobile parts and for the metal, wood processing and electrical industries. One of the paradoxes here is that large numbers of those living in the Republika Srpska undervalue this important trading relationship and tend to see Russia as a more important economic partner, which, the statistics suggest, is not at all the case. This is one of many indications that there is a serious deficit of accurate information about public policy in Bosnian society, and this is because there are powerful forces with an interest in distorting information deemed inconvenient. There is also a need to further develop trade among the Western Balkans states and an agreement among BiH, Serbia, Moldova, North Macedonia, Albania and Kosovo could help generate deeper trade cooperation among these non-EU member states. This is part of the Berlin Process Common to foster close regional cooperation to build capacities that will ultimately facilitate accession to the EU. But, again, some in BiH worry that regional initiatives could distract focus from the more enduring goal of EU accession.

12. The banking sector of BiH is relatively resilient, privatised, largely foreign owned and well capitalised. The greatest problem it confronts now is a lack of compelling investment opportunities. This too is a problem that can be linked to blocked government reforms, legislative gridlock and BiH's poor progress towards Euro-Atlantic integration. The relative dearth of investment opportunities has led to a situation of excess capital.

13. Although the economy was slated to recover from the COVID-induced slowdown and had begun to do so in 2021, 2022 has proven a significantly more difficult year due to rising inflation and pressures arising from the war in Ukraine – a situation which has impaired trade and lowered remittance payments. Political blockages including fundamentally different outlooks on the constitutional order established by the Dayton Peace Agreement have only worsened, and it has proven very difficult to achieve agreements on matters like Value Added Tax or policies to support sectors of society bearing the burden of soaring energy prices, the BiH Deputy Foreign Trade Minister Ljiljana Lovrić told the delegation. She added that putting in place the infrastructure needed to deploy more sustainable energy policies could become an engine of growth if parliament could move in a way to facilitate cooperation with the EU and investors.

14. Officials in BiH see the ongoing restructuring of the international trading order as potentially advantageous. The crisis in supply chains has led to a reappraisal of over-relying on inputs from countries like China which are not only geographically distant, but also distant in terms of their values. As European firms move to make supply chains more resilient, the Western Balkans could become an attractive alternative. But the country needs to make sure its business climate is properly adapted to take on this role as near-shoring begins to unfold.

15. Russia's war on Ukraine has exposed additional rifts in the society of BiH. Some political forces, according to parliamentarians who spoke with the delegation, refuse even to

characterise it as a war and rather employ Putin's terminology in calling it a "special operation." This is a view that is widely aired in Republika Srpska. Elsewhere in the country, Russia's war is generally seen as a dangerous violation of Ukrainian sovereignty. The RS, however, has resisted adopting sanctions against Russia and Russian Foreign Minister Lavrov has spoken very favorably of the government of Milorod Dodic, the Prime Minister of RS.

16. During discussions with the High Representative for Bosnia and Herzegovina, Christian Schmidt invoked the so-called Bonn Powers to ensure allocation of sufficient funding to the Central Election Commission to prepare and organise elections on 2 October. The BiH Council of Ministers had failed to allocate full funding the previous day. Schmidt told the delegation that "nationalist narratives will not bring reconciliation nor promise a future. I don't know who will win, who will run, and what I did was to ensure that there is paper for ballots. The tensions are getting higher. We have to try to cool this situation down. We have to bring cooperative understanding" to this country. Last year, the office of the High Representative, then led by Valentin Inzko, had felt compelled to impose a ban on genocide denial and the glorification of war criminals.

17. In July, the Russian government announced that it would no longer recognise the authority of the High Representative and suspended support for the office. Russia's war has increased economic pressure on the country, and it will find it increasingly difficult to cover its energy and food bills. BiH depends on Russian gas and now must begin to diversify its supply base.

18. The Office of the High Representative is deeply concerned about the exodus of young people from the country. Many of the best and brightest in that society no longer see a future there and are voting with their feet. Reform is essential to stem this outflow of talent which is obviously undermining the country's development prospects. Mr Schmidt told the delegation that the international community must strive to cool the situation down in BiH and to encourage a far higher degree of cooperative understanding.

19. The delegation heard from several observers that BiH's political system is handicapped by a political elite that purposefully ratchets up ethnic tensions to perpetuate their positions in power and to expand their privileges and access to an overly large public sector. At a moment of grave international tension in Europe linked to Russia's war on Ukraine, the internal crisis in BiH is now generating serious concerns in NATO and EU capitals.

20. The mass emigration of young and talented people from BiH represents one of the most worrying trends in the country, Ivana Korajlic, Executive Director of the BiH chapter of Transparency International (TI), told the delegation. She said that pervasive corruption has closed off opportunities for the most dynamic elements in society, leaving many little choice but to emigrate to the EU. They are, in essence, voting with their feet and feel that they can no longer afford to wait for positive changes and economic opportunity in a heavily statist national economy which corrupt leaders exploit while undermining the private sector.

21. The view from TI is that despite BiH's declarative intention to join the EU and to implement reforms needed to make this possible, the governance crisis and pervasive corruption are pushing the country in the opposite direction. This is supported by recent research conducted by TI. BiH is one of the lowest ranked countries in Europe on TI's Corruption Perception Index; only Ukraine and Russia rank below it. Bosnia has the profile of a country consumed by state capture and its highly federalised structure creates myriad opportunities for political elites and their patrons to wield power for corrupt purposes. This elite avails itself of ethno-nationalism to maintain its grip on power, the purpose of which is to

maintain access to state resources that for all intents and purposes are administered for private and not collective benefit.

22. This has a highly negative impact on the country and BiH citizens perfectly understand that this dynamic undermines their opportunities and leads to a kind of collective despair that manifests itself in the ongoing migration of thousands of young people each year. This exodus has been most evident in the Croatian community, most of whom are eligible for Croatian passports. They thus have the right to live and work in the EU. But those from other communities are also leaving. In 2021 an estimated 140,000 people left the country and that was reached by June of 2022, and the forecast is that the total for 2022 could rise to 350,000 by year's end. This is unsustainable in a country with an official population of 3.3 million – a figure that itself is likely overstated. If the rate of exodus continues, a number of economic activities will simply cease to operate because of a lack of workers. Already 25% of the population is living in poverty.

23. The high level of state capture dramatically raises costs to doing business in the country and it undermines entrepreneurial spirit, meritocracy and, indeed, any sense of opportunity. Politics is merely about the struggle to control patronage networks, and state resources are simply plundered in the process. Because the judicial system has fallen prey to this logic, political actors are positioned to act with impunity and with virtually no fear of legal consequences for their overt violation of the letter and the spirit of the law. The public sector accounts for roughly 40% of all jobs and the state is essentially choking the free market through its size and through the logic in which it is managed.

24. Powerful patronage networks ensure that a kind of jobs-for-votes exchange underlies the electoral system, making the prospect for positive change all the more elusive. The speaker suggested that the party system is infused with dark money that is used to bribe voters. Seats in parliament are often “purchased”, and influence peddling is rampant. Almost none of this illegal activity is prosecuted because the courts are compromised as well. Anti-corruption rules have no substance and are simply not enforced. Evidence sits in prosecutors' desks for years, and when cases are taken up, it is usually for political purposes. In those rare cases in which sentences are handed out, they are often conditional and it is common to buy off the prison sentences.

25. BiH also suffers from a lack of transparency. The media and particularly the broadcast media are often controlled by the very groups that should be scrutinised. Needless to say, those media outlets that do take on the problem of corruption have very few followers and readers. Ethno-nationalism and secession threats are tools to distract attention from rampant corruption. In this manner the political class has essentially evaded democratic accountability and created a closed system in which only insiders benefit. The rest of society pays an inordinately high price, and this is why polarisation is mounting, why progress towards EU candidacy has stalled, and why so many young people are fleeing the country.

26. The corrupt political landscape has also opened the door to Russian and Chinese influence. Russia has built influence beyond Republika Srpska, while China's business practices are almost never transparent and evade any kind of democratic scrutiny. This opens the door to corruption and one-sided deals that do very little for the greater interest of the country. China has begun to team up with Russia on certain political questions. Virtually all the investment contracts it signs are done in secret. BiH is not the only regional actor targeted for this kind investment. Montenegro's problems with Chinese highway investments are instructive in this regard. China has also invested in a large coal power project in Tuzla at a moment when the global trend is to move away from this highly polluting form of energy.

27. There are similar problems with Russian investment practices although Russia itself is much more inclined to advance its broader political-strategic agenda in BiH. Although

Russia is the source of very little investment and economic support to the country, Russia is an outside political factor in parts of the country, notably Republika Srpska, and contributes to hardening divisions and political instability, members heard. The head of the EU Delegation and EU Special Representative Johann Sattler noted that the EU worked hard to counter Russia's false narratives in the country, especially in the wake of its war against Ukraine.

28. Ambassador Sattler noted that 2022 is an election year in BiH, and this has made progress on reform even more difficult. The EU has identified 14 priorities for reform in the country, but very little progress has been registered in these areas including the fight against corruption, conflict of interest law and judicial reform. Even properly funding the election has proven difficult and this ultimately inspired the intervention of the High Representative as gridlock was even preventing the preparation of ballots. The EU believes that the conduct of free and fair elections is essential, and the results of these elections need to be implemented quickly – something that has not always occurred.

29. The EU is not only the country's most important trade partner, but also the most important infrastructure partner and is dedicating significant resources annually to support infrastructure development like the Central Europe to the Adriatic highway. This highway will create new trading opportunities for the country and open it up for tourism. It provides significant sectoral support to projects to underwrite agriculture, tourism and the rule of law.

30. The EU is also providing support for education in BiH. But there are worrying trends here as well. The curricula of the schools are increasingly nationalist and operate as a kind of apartheid system separating school children by ethnicity and teaching history infused with ethno-nationalist mythology. This is only hardening divisions for future generations. Not surprisingly, the BiH education system scored very poorly in the OECD's Pisa assessment of how successfully schools are in preparing their young people for purposeful and productive lives.

31. There are myriad signs of recrudescence of nationalism. This has been particularly evident in Republika Srpska which recently celebrated a "national day" that included photographs of military formations and nationalistic songs. This has corresponded with a rise of ethnic incidents with repercussions for communities of returnees to regions that had once been ethnically "cleansed". Although people of different ethnicities continue to live side by side in the country without incident, politicians tempted by ethno-nationalism are positioned to poison the environment which could significantly undermine social peace. There are an estimated 1.5 million illegal weapons in the country and the concern is that these could be brought out if public security is threatened by rising radicalism. In those conditions, it might not take much to trigger serious violence.

32. The war in Ukraine has raised the stakes in BiH and there is an apparent determination in diplomatic circles in the country to ensure that the country is spared from a potentially devastating spill-over that might trigger domestic violence. In November the UN Security Council will decide whether to extend the EUFOR mandate, but there are clear indications that the EU will maintain a military presence in the country in any case.

33. Both NATO and the EU have expressed deepening concern about the security situation in BiH. On 23 February 2022, as a precautionary measure to strengthen stability, the European Union reinforced the EUFOR Althea mission by deploying about 500 personnel from EUFOR's reserves to BiH. EUFOR's Commander, Major General Anton Wessely, told the delegation that this was a "prudent measure due to tensions and spill-over potential of Ukraine". He added that the goal now is to make this increase a permanent signal of the EU's "100%" commitment to stability in BiH. Several speakers noted that there is very strong European and North American determination to maintain a military presence to safeguard the security of all in BiH.

34. NATO supports the EU-led operation EUFOR Althea, and the two Commands are based at Butmir Camp, which the delegation visited on the outskirts of Sarajevo. NATO provides some logistics support to the EU in Bosnia.

35. NATO Commander Brigadier General Pamela McGaha outlined a series of defence and security sector reforms its mission is supporting in BiH while pointing to key outstanding challenges. She argued that the creation of an integrated multi-ethnic military in a country that had been torn asunder by civil war, in itself, represented an important success story and indicated that the prospect of a continued NATO and EU presence in the country provides both reassurance and confidence to the country. NATO's Building Integrity program has reinforced the effort to enhance transparency and increase accountability in the military.

36. NATO is working together with BiH, a NATO aspirant country, to explore the possibility of expanding its personnel in the country and of a tailored assistance package to advance the reform and modernisation to advance its Euro-Atlantic aspirations, without prejudice to a final decision on NATO membership.

37. Indeed, the ambition to accede to NATO remains vibrant with a large majority of citizens, albeit not in the Republika Srpska. This lack of unity emerged as an important theme in discussions with Šefik Džaferović, the Bosniak member of the Presidency of BiH, and senior advisors to the two other members of the Presidency, Željko Komšić and Milorad Dodik. There is a greater consensus on the notion of EU Accession, but the country has made very little to no progress in meeting the 14 points that the EU has designated as essential before EU candidacy status could be considered. Mr. Džaferović said that his country relies on NATO and EU support. He added that BiH wants to contribute to the development of the next Strategic Concept to be adopted in Madrid. He affirmed that the Western Balkans should be treated as a region of vital interest to the alliance.