

***Bosnia & Herzegovina***  
***Brief Update of the May 2008 Full Gap Analysis***  
***June 8, 2009***

***Economic and Democratic Reforms:*** Bosnia & Herzegovina (BH) has far to go in completing the transition to a market-oriented democracy. Of the Southern Tier Central and Eastern Europe (CEE) countries, only Kosovo lags more than BH in economic and democratic reforms. This is despite recent progress in trade and foreign exchange reform and banking reform as measured by the EBRD in 2008.

Reforms in 2008 are starkly different than the 1998 picture. The Northern Tier CEE countries were much less homogeneous in 1998, and there was considerably more overlap in the range in reform progress between the Southern Tier CEE countries and Eurasia than exists today. Since 1998, BH made good reform progress on both dimensions.

***Economic Reforms:*** While good economic reform progress has been made in recent years in BH by EBRD measures, significant economic reform gaps exist in both first stage and second stage reforms. BH's business environment is among the worst in all of Central and Eastern Europe, ranking 119 out of 181 countries across the globe by the World Bank.

***Democratic Reforms:*** The most significant democratization gaps by Freedom House measures are in local and national governance, though challenges remain across the board, in rule of law, the development of independent media, civil society development, and the electoral process. Although progress has been made since 1998, democratic reform has stagnated since 2005.

***Economic Performance:*** BH is roughly at the Eurasian average in its economic performance, and well below CEE standards. Private sector share of GDP at 60% is relatively small. BH remains poorly integrated into the world economy, with little foreign direct investment coming in and a low though growing export share of GDP. Labor market challenges are very significant. The unemployment rate is likely anywhere from 18-27%. Only Kosovo, Macedonia and Armenia have higher rates in the transition region. Youth unemployment rates (62% in 2006 according to the IMF) and long term unemployment rates (68% in 2005 according to the UNDP) are very problematic.

***Economic Growth:*** The IMF now estimates (as of May 29th, 2009) that the world economy will contract by 1.3% in 2009, the biggest drop in 60 years. The E&E region outperformed the world average in economic growth every year from 2000 to 2008. This trend is predicted to change in 2009 with the E&E region forecast to be disproportionately adversely affected by the global financial crisis. The IMF expects Central and Eastern Europe to decrease by 2.9% in 2009 and Eurasia to decrease by 4.7%. BH is predicted to drop from 6.8% growth in 2007 to negative 2.0% in 2009.

Much of the growth in BH was driven by remittances, with estimates ranging from 17% of GDP (World Bank) to 30% (IMF). Such remittance rates are unsustainable given in the current state of the world economy. A further vulnerability is highlighted in Bosnia's financial markets. Bosnia is one of several E&E countries characterized by significant international financing needs, demonstrated in large part by current account deficits (-12.5% of GDP), often coupled with large external debt (48.5% of GDP).

***Human Capital:*** BH is roughly Southern Tier CEE average in its development of human capital. Health conditions in BH are roughly at Southern Tier CEE average. Though the data are scant and/or of questionable reliability, the most significant human capital gaps in BH appear to be in education. School enrollments are low, particularly in pre-primary and tertiary education. The quality and relevance of education appear to be lacking as well. Public education expenditures, while relatively high, are very inefficiently distributed.

***Peace & Security:*** The MCP team has unveiled the fifth and newest index, Peace and Security (P&S). Gaps in peace and security in Bosnia exist in five of six components when compared to Romania, Bulgaria

and Croatia in 2006. With the exception of Kosovo, Bosnia is the worst performing country in Central and Eastern Europe on the peace and security index.

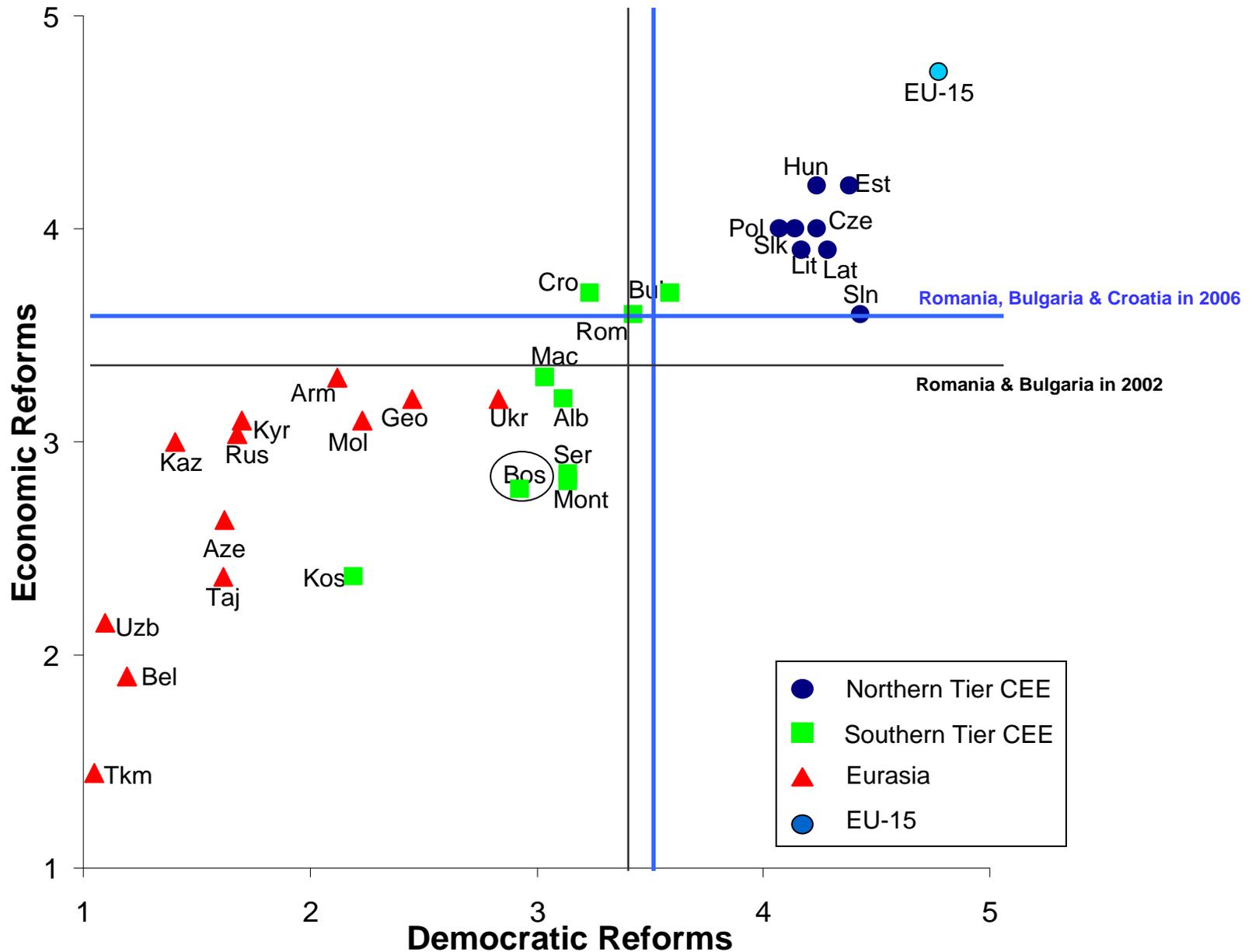
# Monitoring Country Progress in Bosnia-Herzegovina

Program Office & Office of Economic Growth  
Bureau for Europe and Eurasia  
U.S. Agency for International Development

June 2009 Update

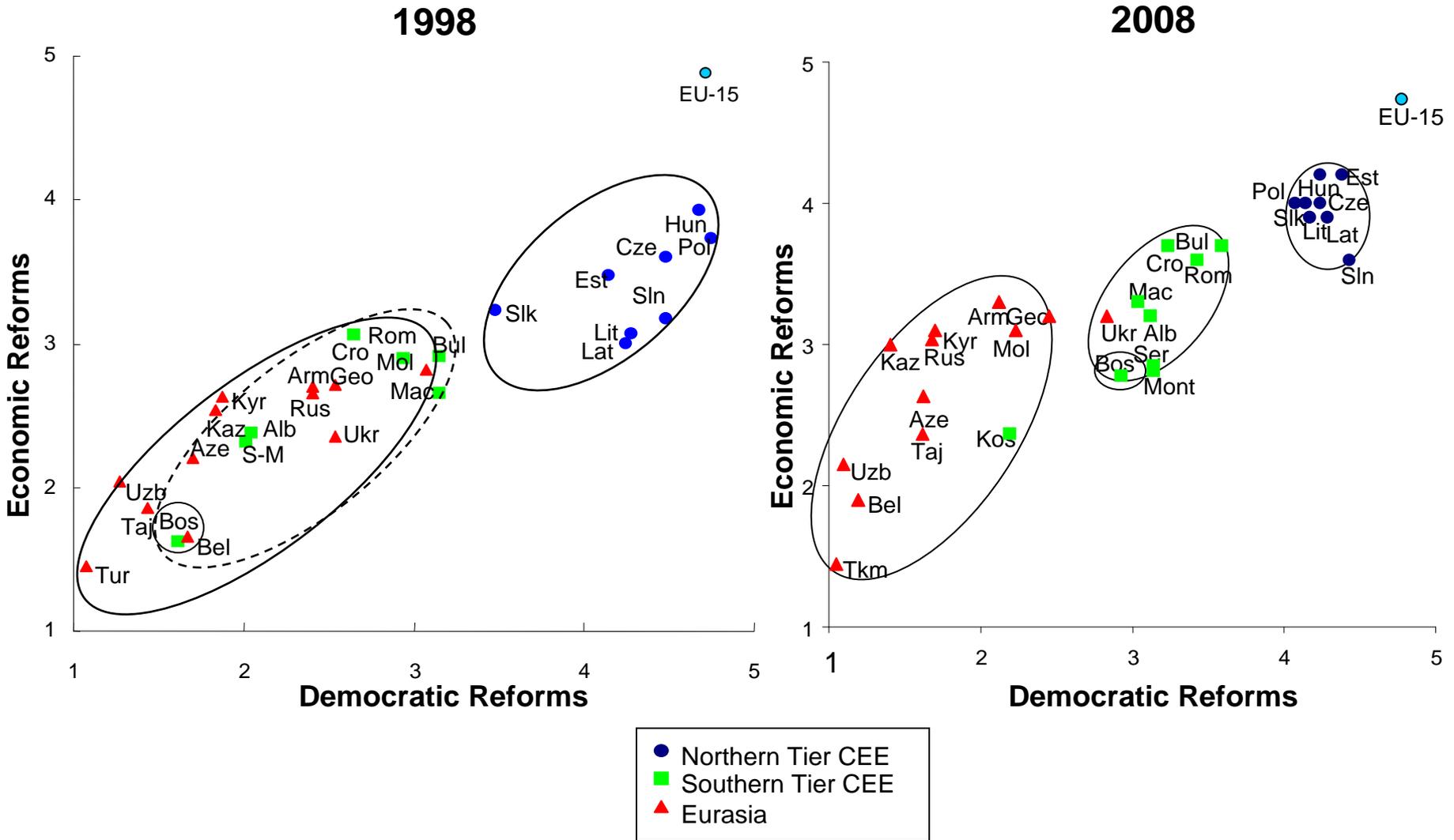


# Economic and Democratic Reforms in 2008



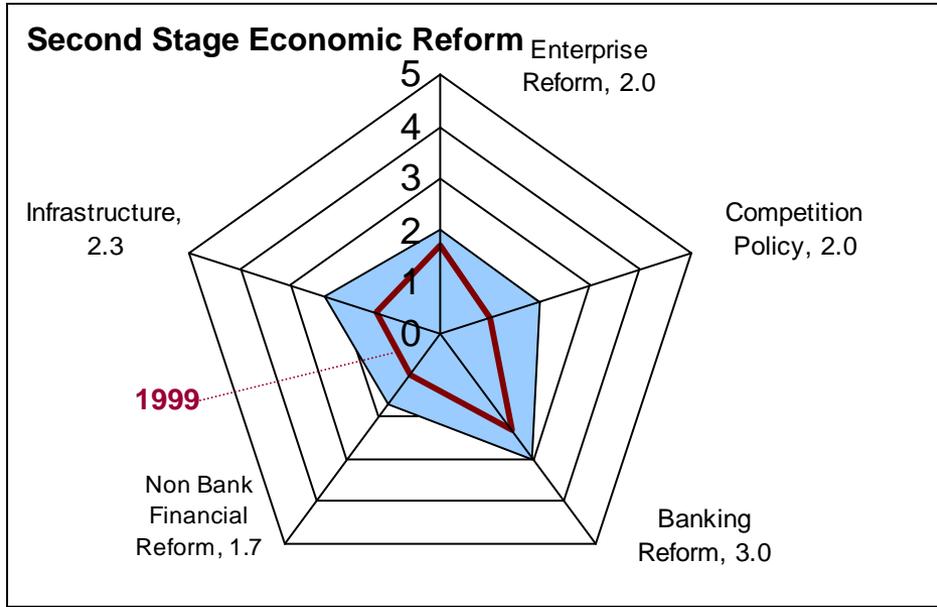
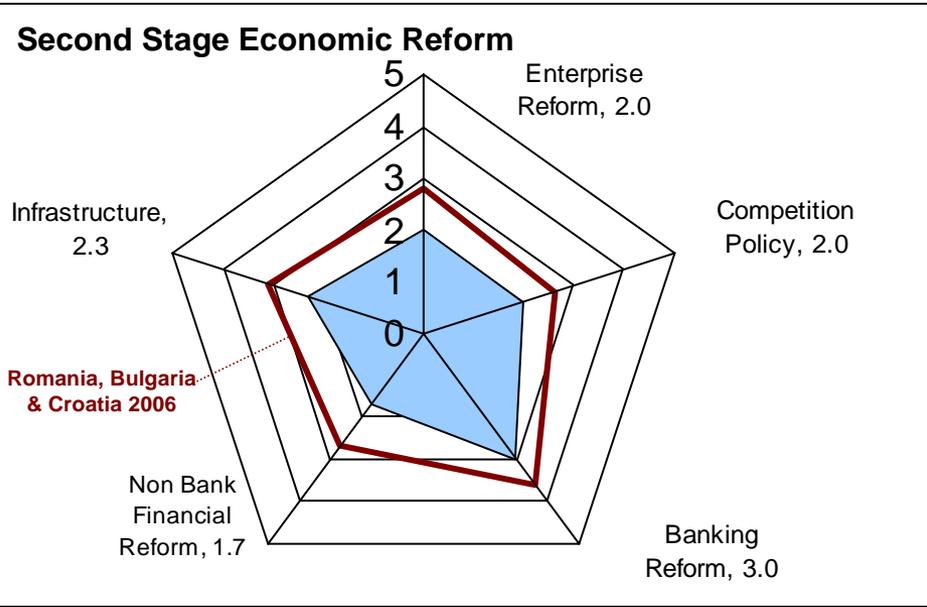
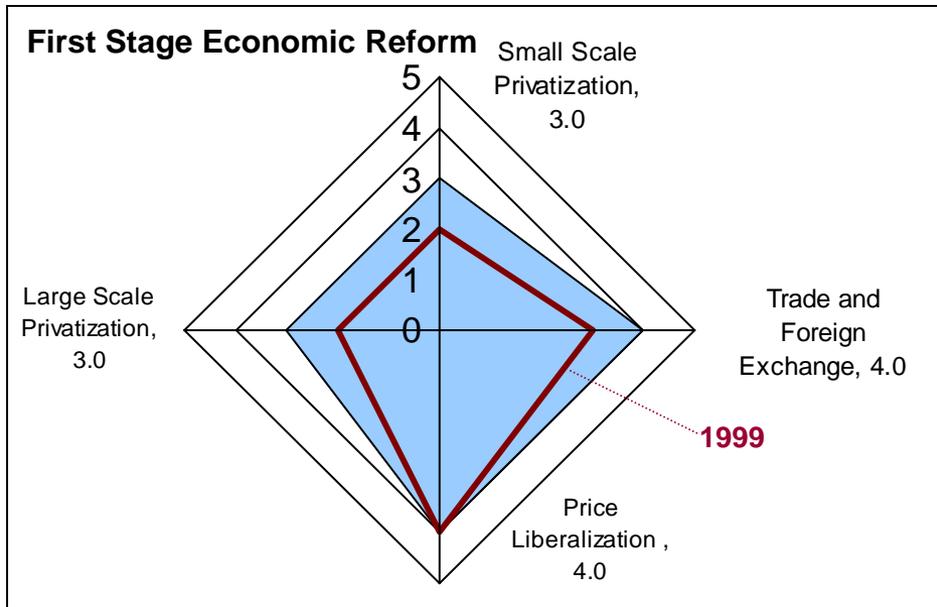
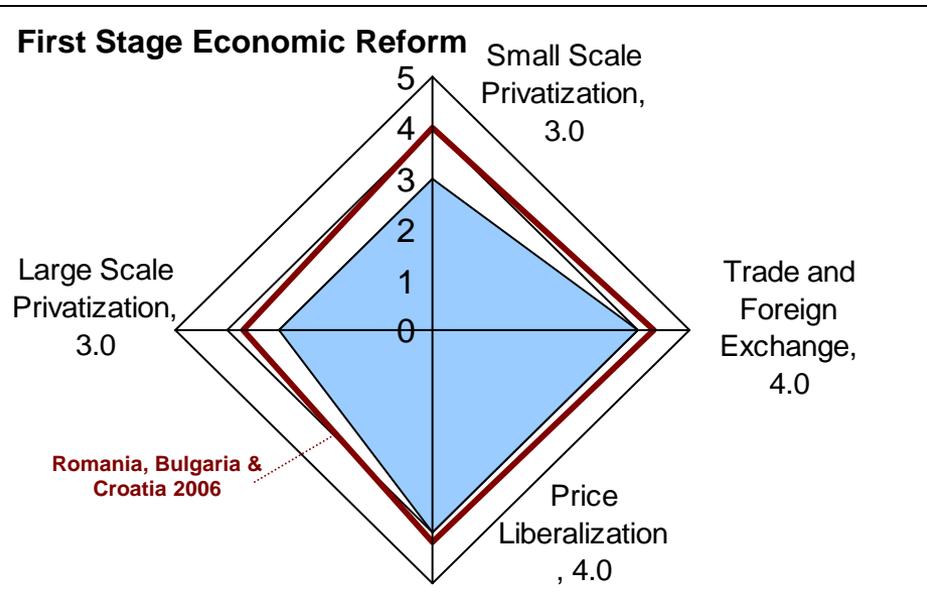
Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2008* (June 2008); *Freedom in the World 2009* (January 2009); and EBRD, *Transition Report 2008* (November 2008).

# Economic and Democratic Reforms 1998 vs. 2008



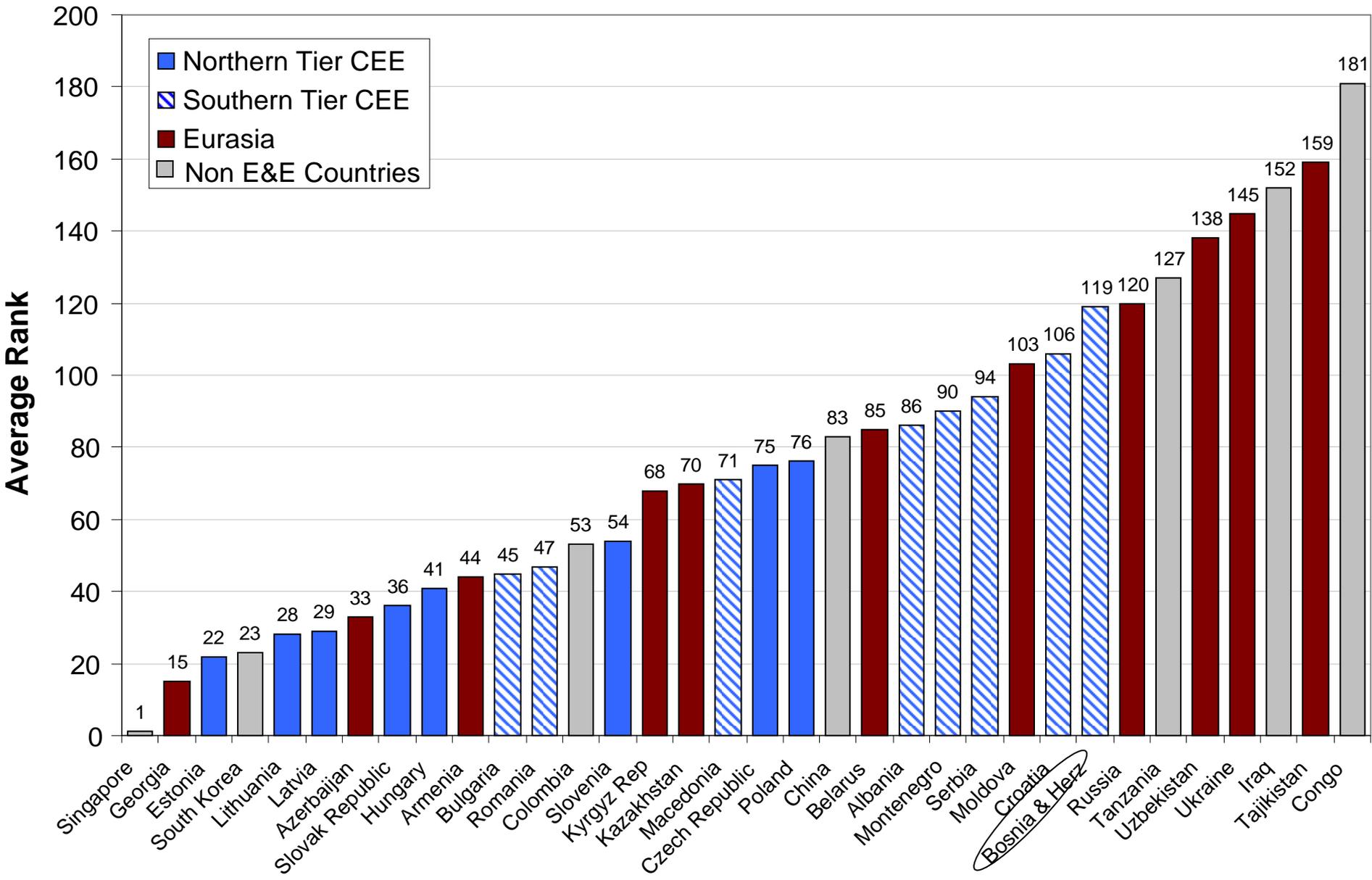
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# Economic Reform in Bosnia & Herzegovina in 2008



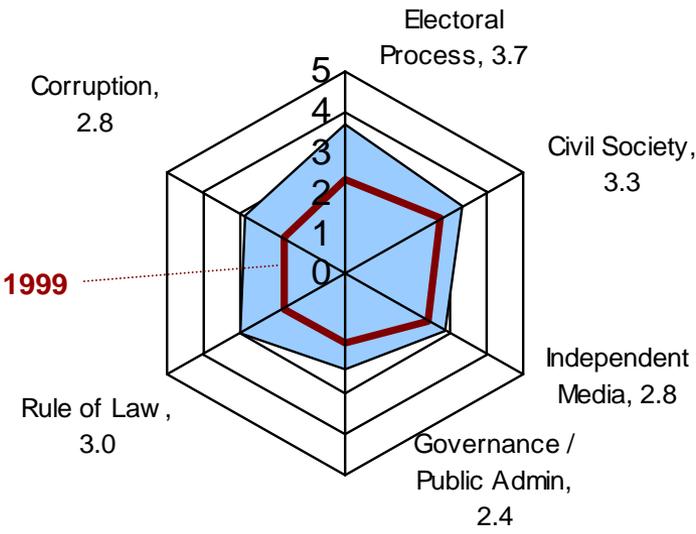
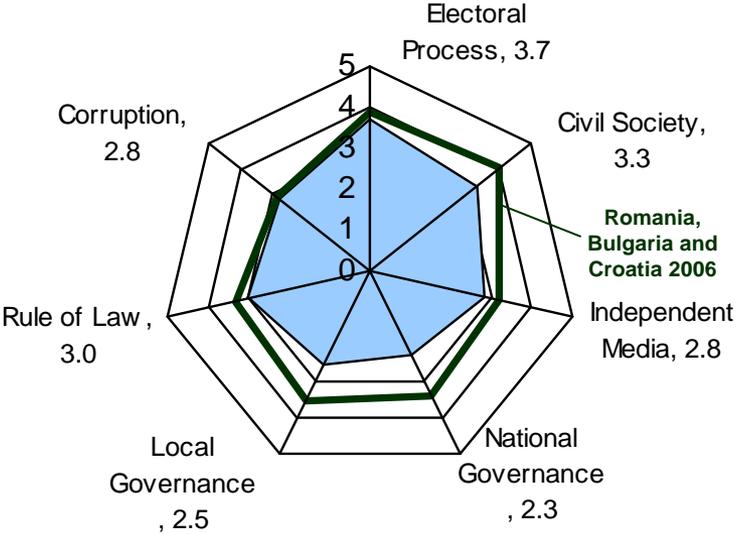
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #11* (December 2008) drawing from EBRD, *Transition Report 2008* (November 2008).

# Business Environment in 2008



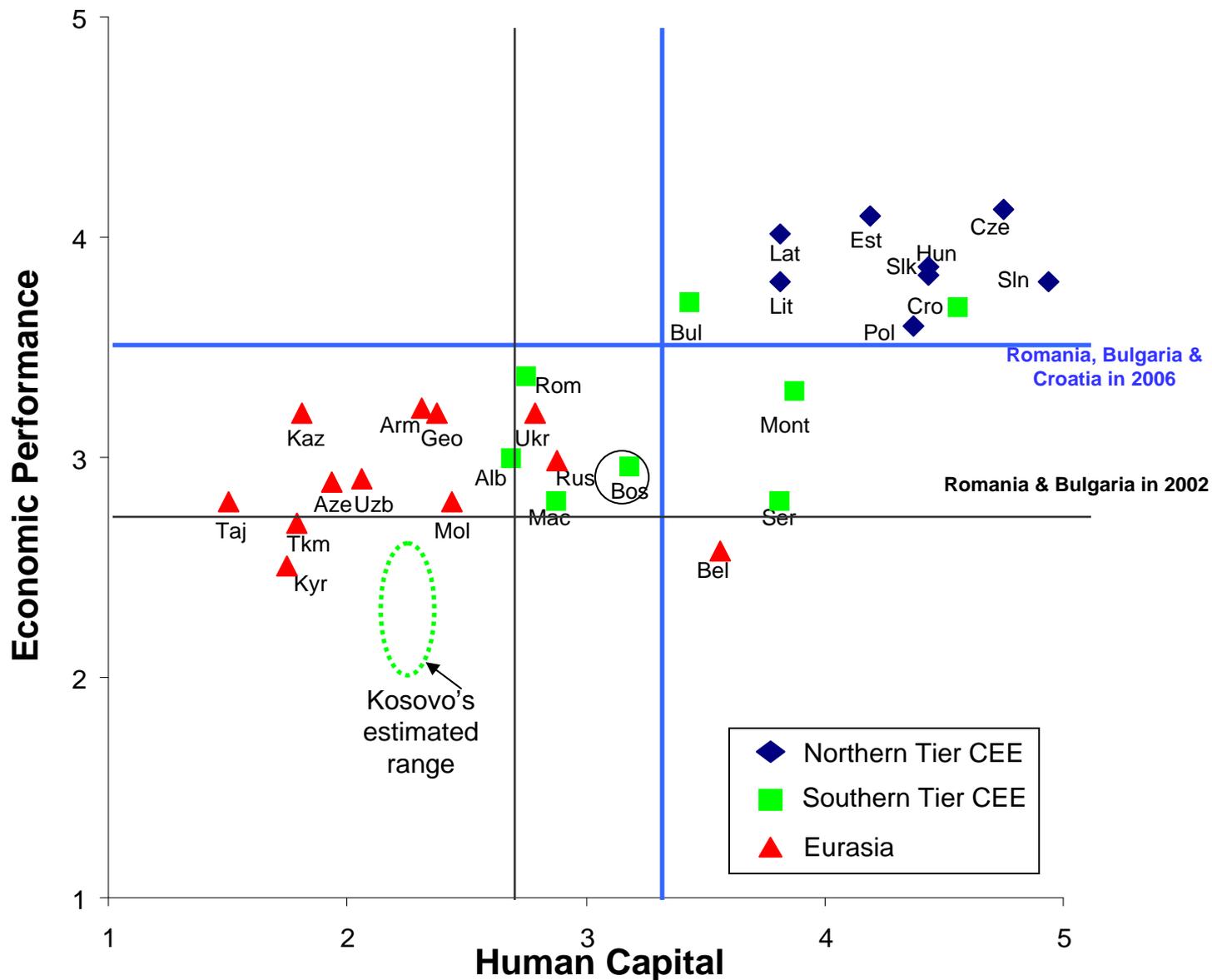
World Bank, *Doing Business in 2009* (2008). Worldwide scores range from 1 to 181 and include 10 topics: starting a business, dealing with construction, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

# Democratic Reforms in Bosnia & Herzegovina in 2007



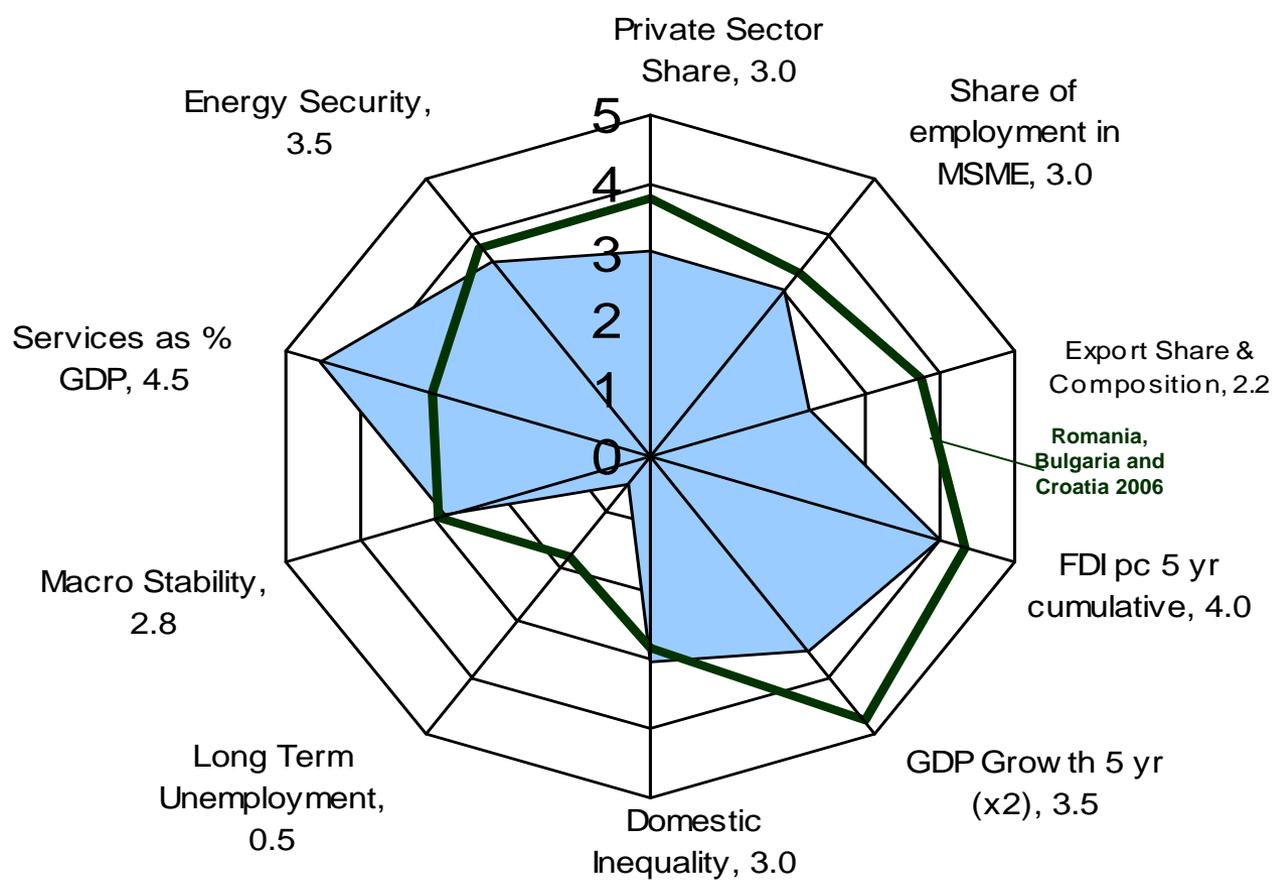
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #11* (December 2008) drawing from Freedom House, *Nations in Transit 2008* (June 2008).

# Economic Performance and Human Capital in 2006-2008



Ratings are based on a scale from 1 to 5, with 5 representing the best score. World Bank, *World Development Indicators 2008* (April 2008); EBRD, *Transition Report 2008* (November 2008), UNECE, *Statistical Division Database* (2008); Fund for Peace, *Failed States Index* (2008); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (August 2008); World Health Organization European Health For All Database (2008); Murphy, Petric and Sprout, *Education in Eastern Europe & Eurasia*, USAID/E&E Working Paper #2 (October 2005); IEA, *PIRLS 2008 International Report* (2008) and OECD, *PISA 2006 Science Competencies for Tomorrow's World* (December 2007).

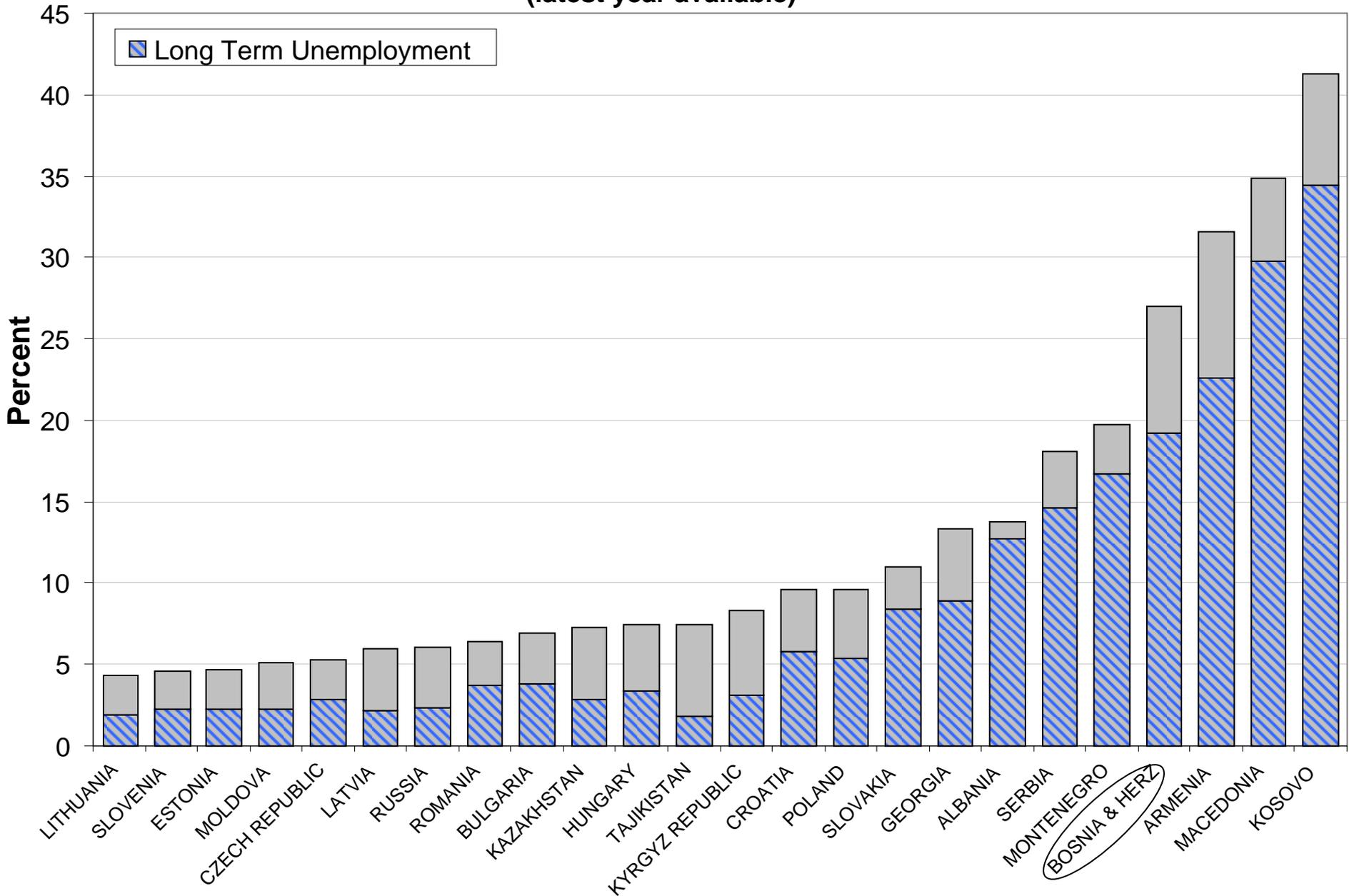
# Economic Performance in Bosnia & Herzegovina in 2006-2008



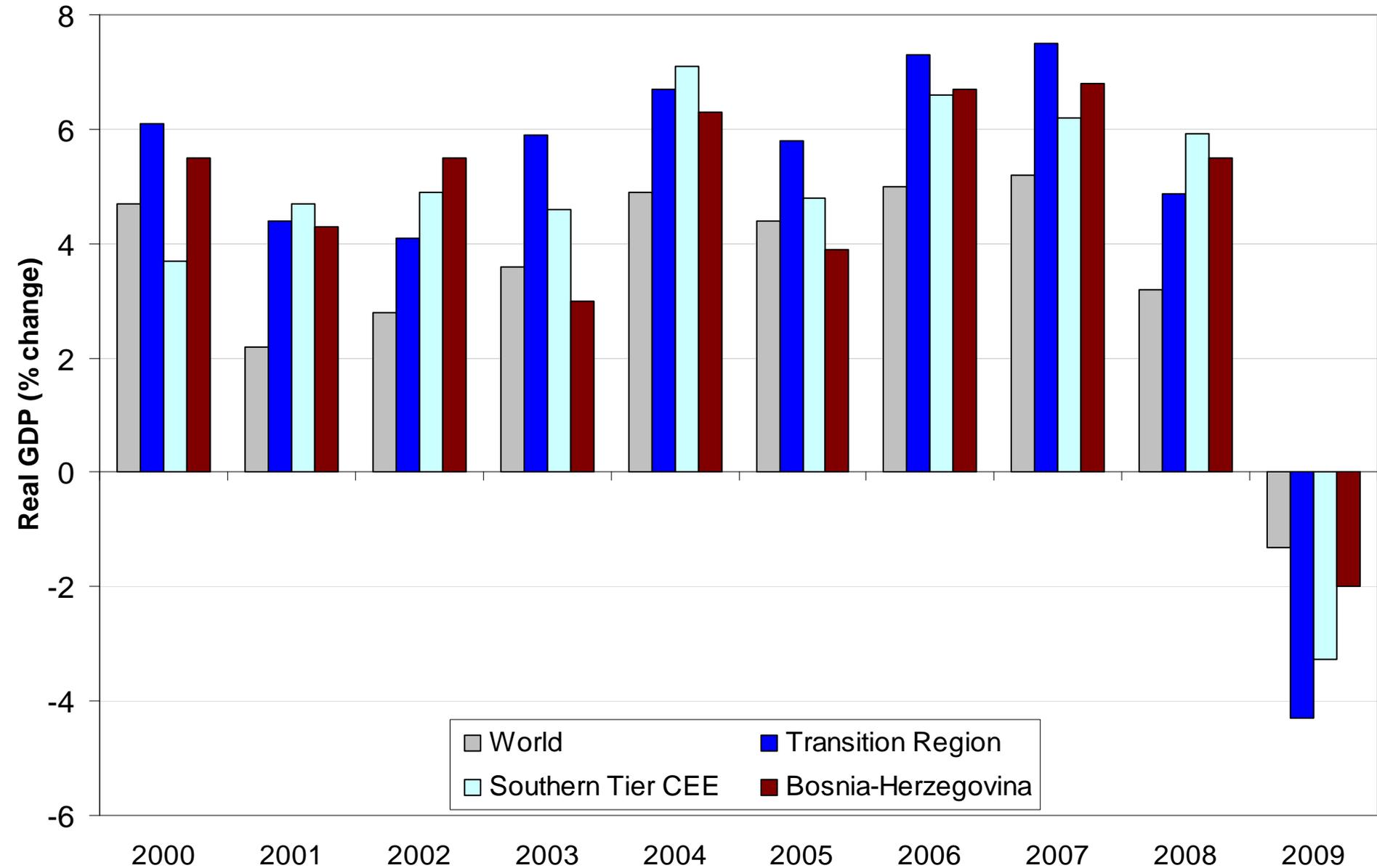
Ratings are based on a 1 to 5 scale, with 5 representing most advanced. EBRD, *Transition Report 2008* (November 2008); World Bank, *World Development Indicators 2008* (April 2008); Fund for Peace, *Failed States Index* (2008); and IFC & World Bank, *MSME Database* (2008).

# Unemployment Rate

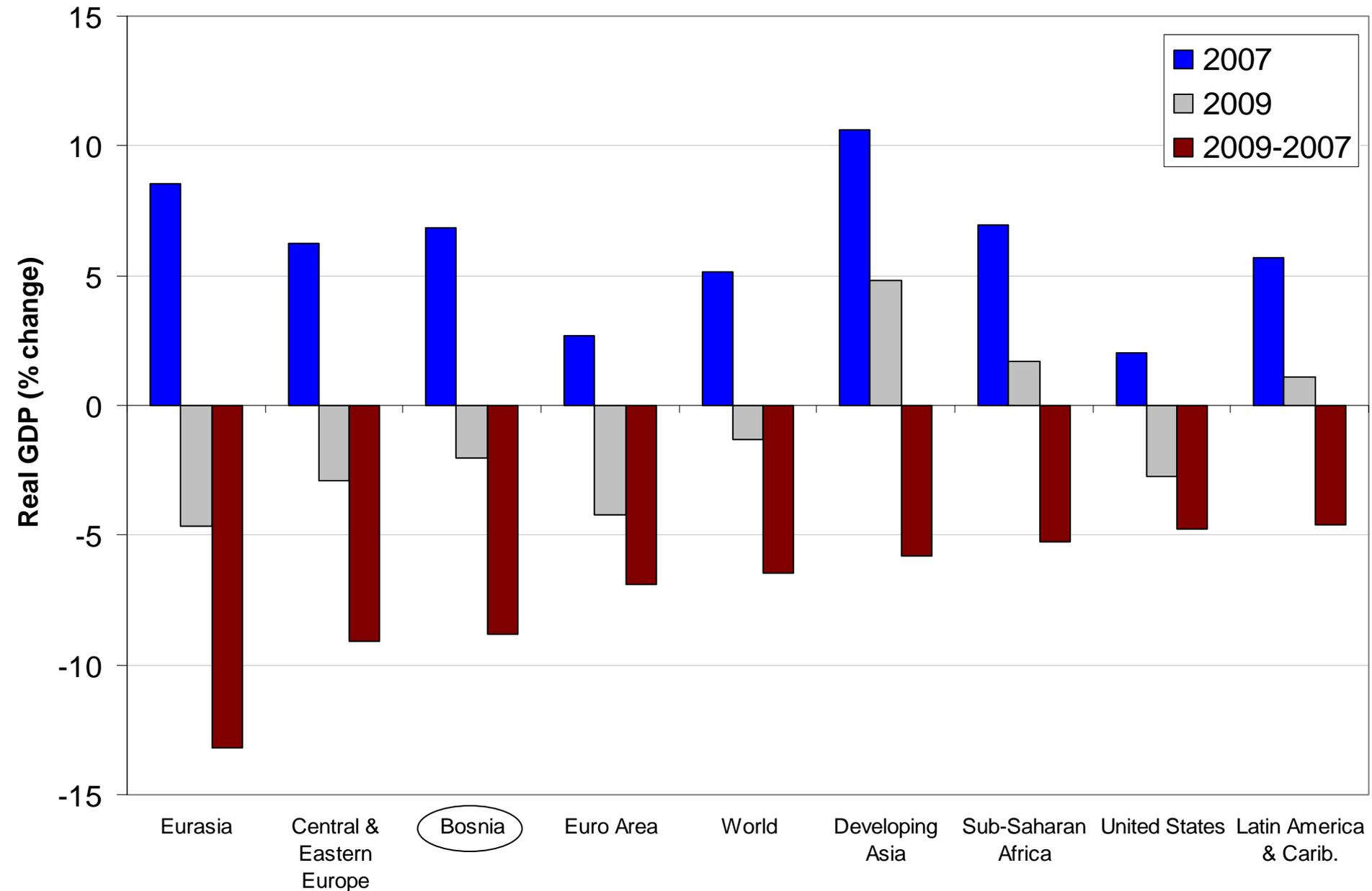
(latest year available)



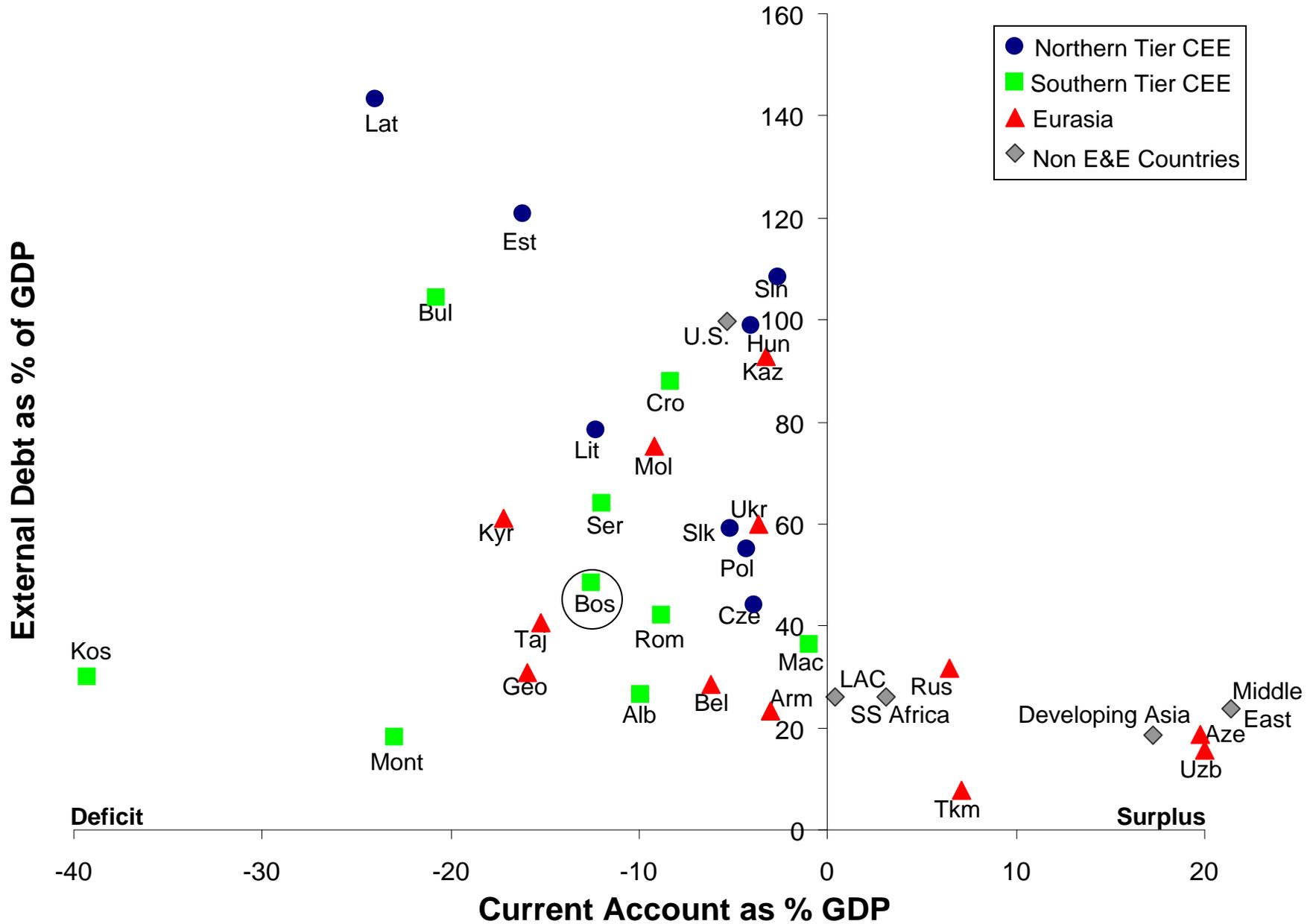
# Economic Growth Trends Worldwide



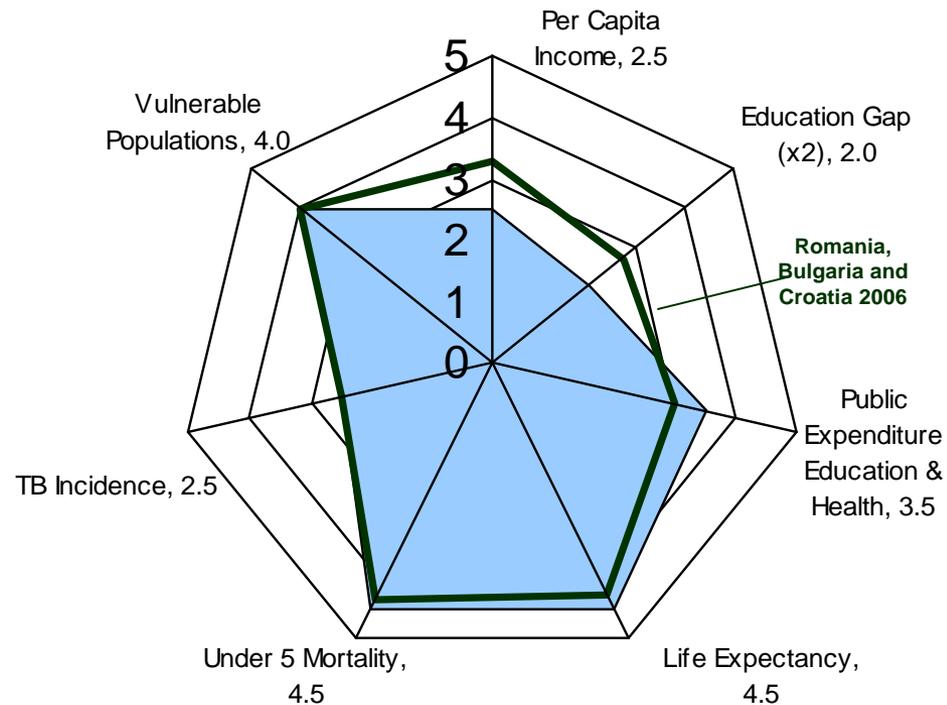
# Economic Growth: 2007 vs. 2009



# Current Account Balance & External Debt in 2007

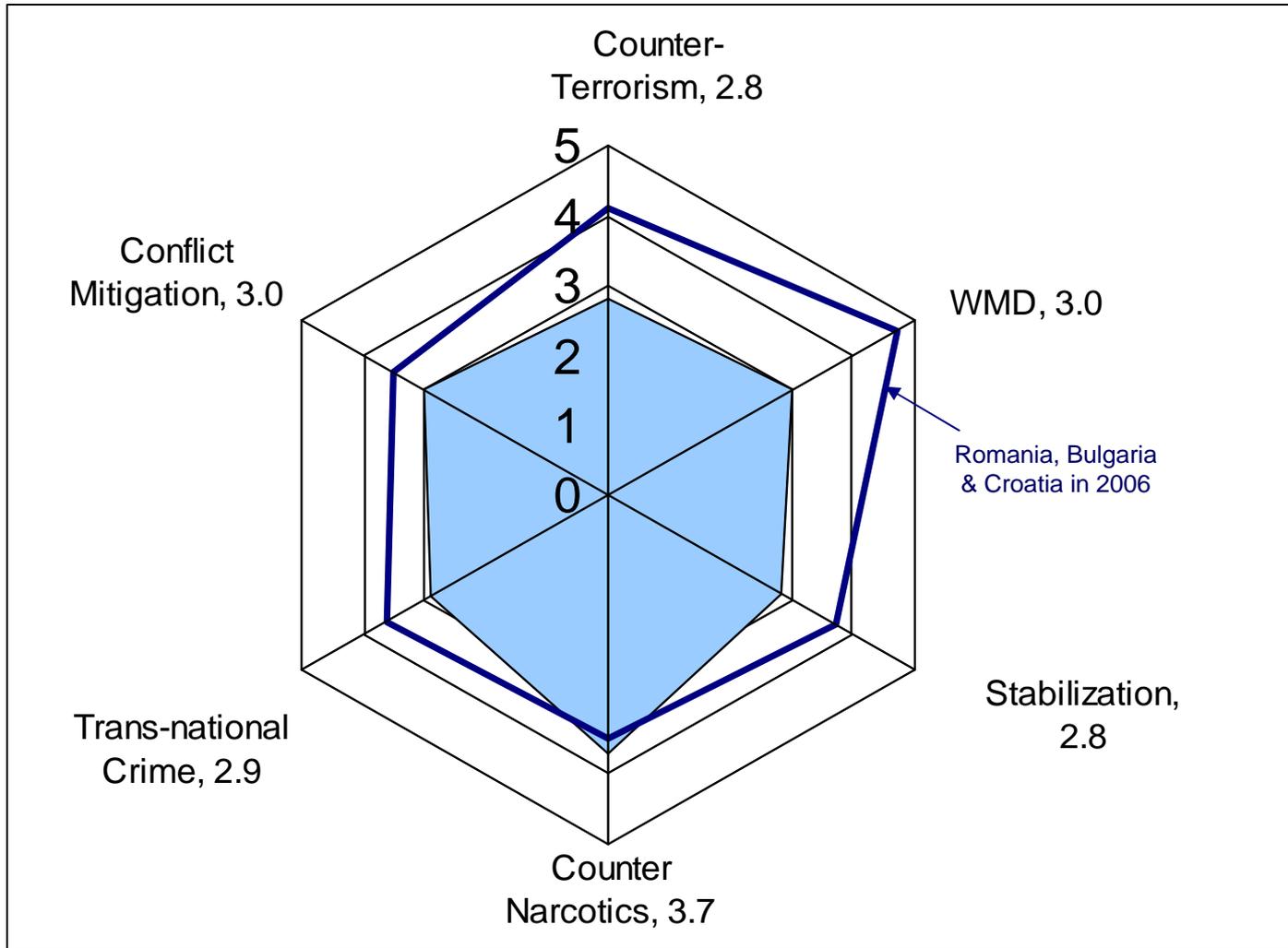


# Human Capital in Bosnia & Herzegovina in 2006-2008

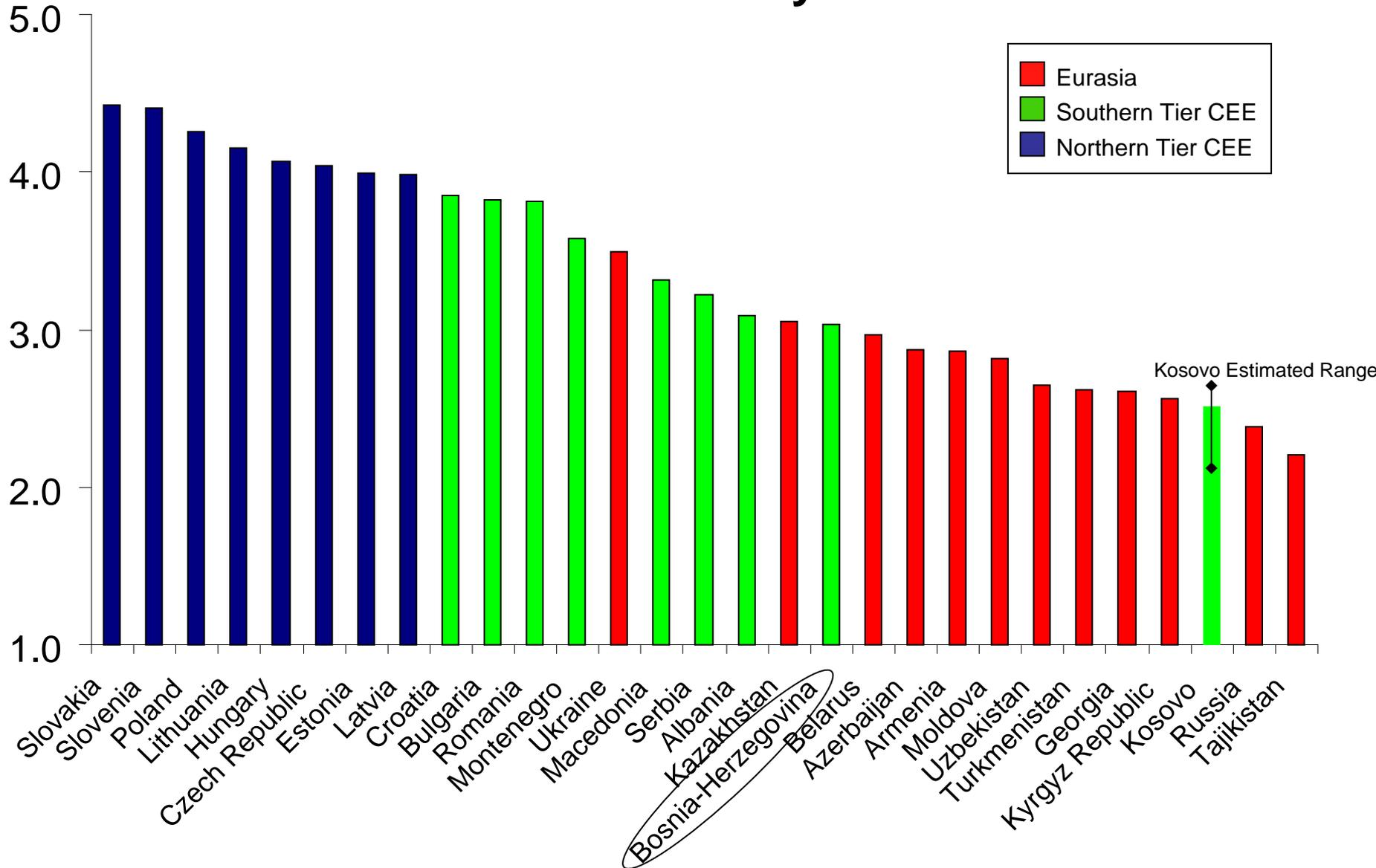


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# Peace & Security in Bosnia



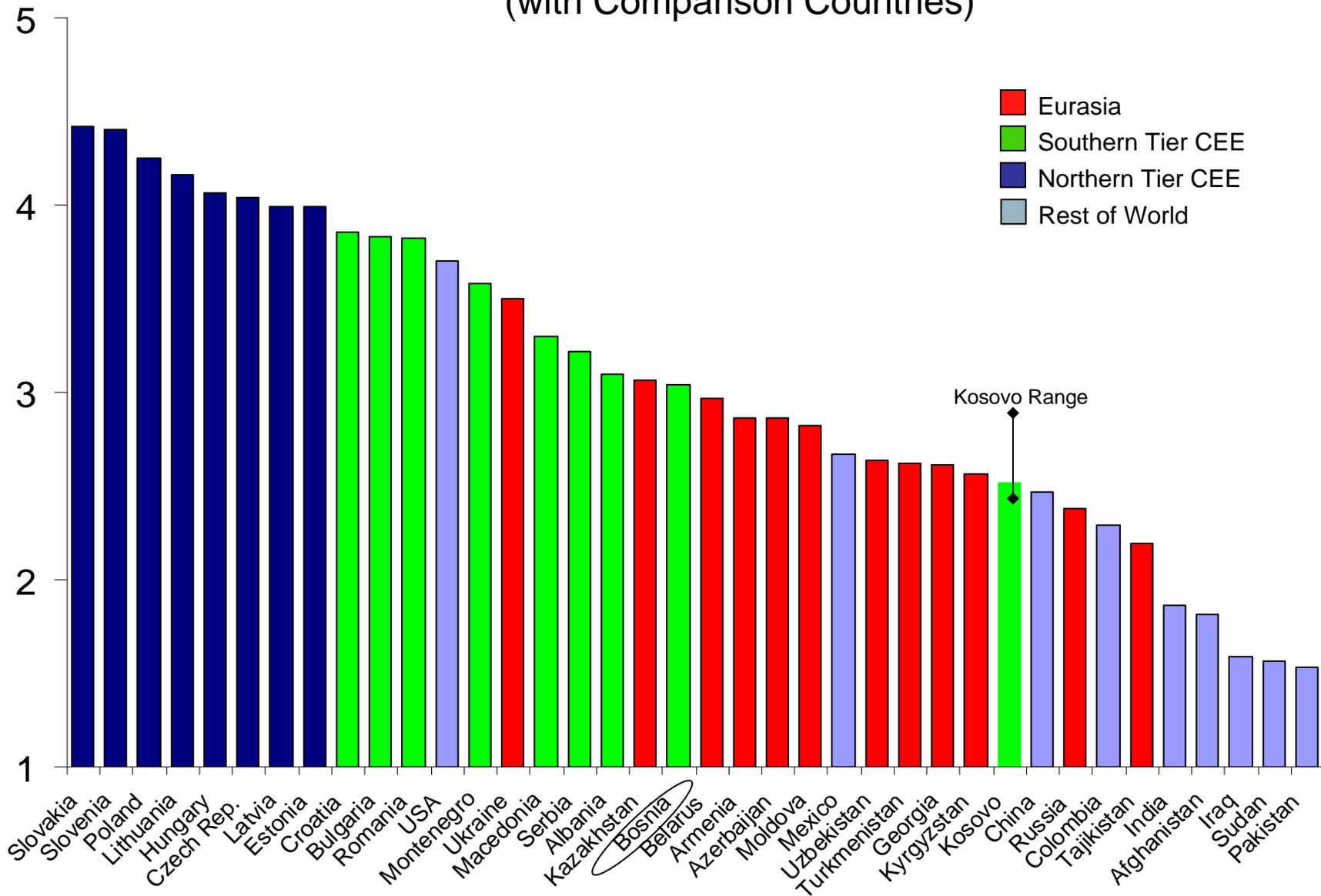
# Peace and Security – E&E



US State Department, *Country Reports on Terrorism* (2008); National Counterterrorism Center, (2007-2008); Foreign Policy Magazine and the Fund for Peace, *Failed States Index* (2008); World Bank Institute, *Governance Matters Indicators* (2008); US Commerce Department, *Export Control Policy*, (2008.) US State Department, *Export Control/Border Security Assessment* (2008) Binghamton University, Cingranelli-Richards *Human Rights Dataset*, (2007); UNICEF TransMONEE (2003-2004); World Bank, *World Development Indicators* (2008); A.T. Kearney/Foreign Policy Magazine, *Globalization Index* (2007) UNODC, *World Drug Report*, (2008) ; US Department of State, *Trafficking in Persons Report* (2008); USTR *Special 301 Report* (2008) ;US Department of State, *International Narcotics Control Strategy Report* (2008); Center for Global Policy, George Mason University, *Political Instability Task Force* (2006-08) USAID/DCHA/CMM *Instability Alert List* (2009)

# Peace and Security – Europe and Eurasia

(with Comparison Countries)



US State Department, *Country Reports on Terrorism* (2008); National Counterterrorism Center, (2007-2008); Foreign Policy Magazine and the Fund for Peace, *Failed States Index* (2008); World Bank Institute, *Governance Matters Indicators* (2008); US Commerce Department, *Export Control Policy*, (2008.) US State Department, *Export Control/Border Security Assessment* (2008) Binghamton University, Cingranelli-Richards *Human Rights Dataset*, (2007); UNICEF TransMONEE (2003-2004); World Bank, *World Development Indicators* (2008); A.T. Kearney/Foreign Policy Magazine, *Globalization Index* (2007) UNODC, *World Drug Report*, (2008) ; US Department of State, *Trafficking in Persons Report* (2008); USTR *Special 301 Report* (2008) ;US Department of State, *International Narcotics Control Strategy Report* (2008); Center for Global Policy, George Mason University, *Political Instability Task Force* (2006-08) USAID/DCHA/CMM *Instability Alert List* (2009).