



Integrated Country Strategy

Bosnia and Herzegovina

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1. Chief of Mission Priorities

Embassy Sarajevo's mission is to advance U.S. interests in Bosnia and Herzegovina (BiH). The most effective way to accomplish that is to partner with the citizens of BiH to build a prosperous and democratic future that is tolerant, secure, and firmly anchored in Euro-Atlantic institutions. Our diplomatic engagement and foreign assistance of over two billion dollars over 22 years directly support the National Security Strategy goal of Preserving Peace through Strength and all elements of the State-USAID Joint Strategic Plan (JSP).

Twenty-two years after the terrible war of the 1990s, Bosnia and Herzegovina (BiH) remains at a crossroads. The path to Europe is open on one side, paved by the EU to encourage BiH accession in every way. The path backward to ethnic division and conflict is on the other, lined with long-serving politicians seeking personal and political gain, now joined by external forces seeking to capitalize on Bosnia's disarray.

The Dayton Peace Accords that brought an end to the conflict led to significant progress in the first decade after the war, from the rebuilding of BiH's infrastructure, to the establishment of state-level judicial institutions and the 2005 formation of the unified Armed Forces and Ministry of Defense. The second decade, from the failure of the April 2006 effort at constitutional reform until the 2014 launch of a new push toward European integration led by the UK and Germany, was largely one of stagnation. The last three years have seen limited but important progress on Bosnia's Euro-Atlantic path. The European Union (EU) accepted BiH's membership application in February 2016; BiH delivered coordinated responses to over 3,000 questions on the EU Questionnaire in 2017; and there is a solid, but slightly declining rate of support for European integration of over 70% of the population. On the NATO front, the Presidency of Bosnia-Herzegovina completed the first-ever Defense Review in 2016, and the Ministry of Defense and Armed Forces made significant progress toward meeting NATO conditionality to activate their Membership Action Plan; the United States and UK are now working toward Allied consensus to allow BiH to submit its first Annual National Plan to NATO. Failure to reach agreement on amendments to BiH's Election Law could spark a political crisis after the October 2018 general elections, potentially derailing recent progress toward the EU and NATO.

The United States placed the President of the Republika Srpska, Milorad Dodik, under OFAC sanctions in January 2017 when he directly threatened the Dayton structures of BiH. We also consistently defend civil society, freedom of the media, and U.S. investments from attempts at political manipulation and control. On the positive side, we support the development of a robust and growing economy, reflected in a growth rate of around 3% annually and an 82% increase of U.S. exports to BiH in 2017, as well as an uptick in two-way trade. To ensure security, we help BiH advance inter-ethnic reconciliation, maintain peace

within its borders and contribute to regional and global stability. Bosnia and Herzegovina's stability is critical for the future of Europe, and for ongoing U.S. political engagement in the region. Although progress has been made, challenges continue and our commitment is essential to further progress and to sustain the gains made thus far.

The last years have seen some positive steps against worrying trends. Economic and social reforms, including new labor laws, some pension reform, and a new fuel excise tax have unlocked 1 billion Euros of new EU funding. Technical economic reforms, many supported by USAID, have reduced nuisance taxes, opened up the rural economy to EU markets and funding support, and tackled the growing influence of Russia and China in the energy sector.

Our active engagement has led to a growing partnership on countering terrorism, including information-sharing and IT agreements to increase Bosnia's vulnerable border security. Police training has strengthened functionality, interoperability and communications. Carefully nuanced countering violent extremism programs have given us access to communities at the heart of the problem and allowed us to build economic and social partnerships there to prevent radicalization. We are about to launch Bosnia's first prison de-radicalization program, and have worked with the Ministry of Justice to strengthen sentencing guidelines. Three years ago, BiH was the country with the highest per capita number of Foreign Fighters traveling, and in 2015 two lone-shooter attacks caused three deaths in BiH. In 2016 and 2017, our efforts helped ensure that there were no attacks and no foreign fighters traveled. Like other European countries, the focus now is on returning fighters and preventing further radicalization.

Education is seen by many as the key to Bosnia's future stability, because young people are taught to hate each other in divided classrooms. Embassy Sarajevo has launched a broad effort to coordinate support to improve education. The international Education Reform Working Group promotes unity of effort among 15 missions in BiH on the political and substantive issues affecting education, and the Business Council on Education brings together leading Bosnian and U.S. companies committed to building a stronger workforce. Adult unemployment of almost 40 percent is severe, and youth unemployment hovers around 60 percent, but companies from IT to woodworking look elsewhere for workers, or construct post-graduate training programs because graduates are unprepared for the workforce. Improving this will have major economic, social and security benefits.

Rule of law is becoming an existential issue in BiH, as political influence and corruption corrode the judicial sector. A U.S.-led "Friends of Bosnia" effort has put the UK and Germany in the lead to counter this trend. Initial efforts in 2017 included preventing a new requirement demanding ethnic identification of judges and prosecutors; the establishment of a professional selection process for a new chief prosecutor, and a sustained international effort to prevent amendments to Bosnia's criminal procedural code that would erode state-

level jurisdiction. The embassy's current efforts to launch the first forensic accounting program in BiH universities, place a resident legal advisor in the Prosecutor's office, and support public monitoring of corruption cases will in time lead to change, but sustained support for rule of law will be critical to preventing political capture of the justice sector in BiH.

Across Europe, Russian influence is increasing, and Bosnia-Herzegovina is no exception. Mission programs are focused on helping media across the region sustain an independent business model and objective content, promoting U.S. culture and English language, and helping citizens of BiH build a vision of a shared future.

As we look ahead to that future, our goals are clear. Countering corruption and building rule of law remain key, because all of our other efforts will be weakened or derailed until we eliminate this obstacle to political, economic, and social reform. Education reform is essential. Political reform is desperately needed to streamline elections, remove layers of government and create a more rational decision-making process in the government. Continued economic reforms are needed, including critical help to Bosnia's broken health-care system.

Bosnia-Herzegovina, more than two decades after the war, is a country that has made extraordinary progress, re-building lives and infrastructure to allow citizens to enjoy a simple but positive day-to-day lifestyle. But much remains to be done. Much of today's wealth is funded by remittances that are estimated to be as much as \$2 billion a year, while another \$3 billion is locked in savings accounts because citizens are afraid to invest. To advance further, leadership and tough decisions will be needed in a country not known for either. General elections in October 2018 are heavily contested, but still highlight long-standing entrenched politicians. Some citizen activism is beginning to have an impact, but much more will be needed to create real change.

Thoughtful citizens across both the Federation and the RS emphasize the importance of continued U.S. engagement and commitment; they count on the United States to continue our leadership role and to support the people of Bosnia-Herzegovina until the country overcomes its current challenges and achieves Euro-Atlantic integration. While Bosnia and Herzegovina sees its future in Europe, citizens still see the United States as the one country that has consistently and effectively supported peace and progress in BiH. Our political support, assistance programs, legal and defense programs and public leadership are all essential to ensuring BiH continues to advance as a territorially intact, historic state, moving beyond its 1,000 years of complicated history to take its place alongside its Balkan neighbors as a member of the European Union and NATO in the 21st century.

2. Mission Strategic Framework

- Mission Goal 1:** BiH is a more democratically and economically robust state guided by Euro-Atlantic norms.
- Mission Objective 1.1:** Promote the rule of law and improve the effectiveness and accountability of institutions of governance.
- Mission Objective 1.2:** Promote American business and encourage a business environment that improves competitiveness, creates jobs, and increases incomes.
- Mission Objective 1.3:** Increase citizen support for a pluralistic and tolerant society.
- Mission Goal 2:** BiH establishes a resilient security environment
- Mission Objective 2.1:** BiH increases its domestic security and its contributions to regional and global security.
- Mission Objective 2.2:** Support continued development and integrity of strong military, law enforcement, and border security institutions on the path to Euro-Atlantic integration.
- Management Objective 1:** Develop long term solutions to address security and welfare concerns at all USG facilities in BiH.
- Management Objective 2:** Develop a system to provide an orderly succession of our Locally Employed (LE) staff that allows for continued excellent service provision and prevents the loss of institutional knowledge as our LE staff retires.

3. Mission Goals and Objectives

Mission Goal 1: BiH is a more democratically and economically robust state guided by Euro-Atlantic norms.

Description and Linkages: Mission Goal One directly supports the National Security Strategy (NSS) by advancing American influence in Bosnia and Herzegovina (BiH), strengthening its commitment and capacity to advance our common interests and values, and speeding its progress on the Euro-Atlantic path. By bolstering rule of law and strengthening public institutions, encouraging a business environment that improves BiH's economy while creating opportunities for U.S. businesses, and increasing citizen support for a tolerant and inclusive society, we will ensure BiH contributes to a prosperous and stable Europe as called for in the NSS.

This goal also augments the State-USAID Joint Strategic Plan (JSP) by helping ensure energy security, combating corruption, promoting market-oriented economic and governance reforms, improving commercial opportunities and access to open markets, and promoting healthy and productive populations, to encourage people to stay in the country and build a future for themselves and their communities. Further, Mission Goal one also counters instability by strengthening citizen-responsive governance, democracy, human rights, and the rule of law, while promoting American prosperity by securing commercial opportunities and fostering investment to contribute to U. S. job creation as called for in the JSP.

Mission Goal One supports the State Department and USAID Joint Regional Strategy (JRS) for the European region by advancing BiH's EU integration, strengthening responsive governance, and confronting corruption. It also supports the JRS by strengthening and balancing the transatlantic trade and investment relationship.

Mission Objective 1.1 Promote the rule of law and improve the effectiveness and accountability of public institutions. (USAID CDCS DO 1)

Justification: Weak rule of law is evidenced by endemic corruption at all levels of society and the pervasive sense that high-level corrupt politicians are above the law. Corruption is a cross-cutting issue that affects nearly every sector, both public and private. Corruption cripples BiH's ability to grow economically, to improve social services such as health care and education, and is a significant obstacle on BiH's path to the EU. It also could contribute to political destabilization, as the population becomes more frustrated with the lack of basic governmental services. While many anti-corruption laws already exist in BiH (at both state and entity levels) the problem is implementation. The current system is supported by the ruling elite; changing that system and cracking down on corruption will affect these leaders both financially

and politically, and thus they have no incentive to change. Combating corruption in BiH means tackling it at all levels and will require a stronger civil society and a public which increasingly demands accountability from its political elite.

Mission Objective 1.2 Promote American business and encourage a business environment that improves competitiveness, creates jobs, and increases incomes and enhances energy security through energy sector reforms. (USAID CDCS DO 2)

Justification: Scores of people are voting with their feet and leaving BiH due to a lack of hope – in large part an economic problem, as well as a political one. BiH has a large and expanding “gray” market economy, endemic corruption, high unemployment (particularly among youth), a complicated regulatory framework, weak commercial law, and a high concentration of production under direct government control. Access to capital remains constrained and the lack of a single economic space in BiH creates difficulties for companies trying to do business across the entire country.

The country’s political environment and complex government structure create significant disincentives to legitimate private sector economic development and investments, and the government has made few improvements to the business environment. High unemployment remains the most serious macroeconomic problem; while the number of registered unemployed is close to 40 percent, unofficial unemployment estimates that take into account the gray economy are approximately 27 percent. Youth unemployment sits even higher, at an estimated 60 percent. Unemployment is partly a legacy of the economic transition and war, but is also impacted by an onerous social benefit regime for war veterans, widespread nepotism.

Mission Objective 1.3 Increase citizen support for a pluralistic and tolerant society. (USAID CDCS IR 1.2 and Cross-Cutting Initiatives, “Interethnic-Cooperation,” “Women’s Empowerment,” and “Youth.”)

Justification: Citizen support for a pluralistic and tolerant society in BiH promotes U.S. values of freedom and inclusion, ensures stability and a strong U.S. partner in the Balkan region, and establishes a country that is open to American institutions, businesses, and other international partners who support BiH’s chosen path of Euro-Atlantic integration. Community activism, an inclusive education system, and a vibrant civil society are needed to improve the trust and reconciliation among people of all ethnic groups. Continued societal divisions could be made permanent if not countered, further weakening BiH institutions and hampering the development of a tolerant, multi-cultural Bosnia and Herzegovina. Although the war ended more than 20 years ago, ethnic divisions remain firmly entrenched and politicians use these divisions for their own ends. The divided education system is used to further

exacerbate ethnic differences. Greater public participation, civic education and engagement, and the development of a shared future are necessary to support a more pluralistic and tolerant society.

Mission Goal 2 BiH establishes a resilient security environment.

Description and Linkages: Although BiH has maintained peace in the post-war period, the overall security situation remains fragile. Ethnic divisions remain and are frequently enflamed by current political forces seeking to retain power. Additionally, weak rule of law, high levels of unemployment, and corruption in public institutions characterize the current status quo in BiH, which creates a very unstable basis in society. The number of malign foreign actors interested in BiH also pose a risk to the country's stability. These foreign players seek to combat the country's trajectory towards integration with Euro Atlantic institutions and spread their cultural influence throughout the region. These challenges have created an environment conducive to the proliferation of extremist ideologies across BiH, where small, yet vocal and active, extremist groups have sprung up. These concerns spread beyond BiH's borders, as weapons used in recent terrorist attacks in France were found to have originated in BiH. Therefore, it is essential for the USG to continue strengthening BiH institutions, communities, and individuals' capacity to ensure stability, not only for BiH itself but also for regional and global security.

Activities under this goal seek to sustain a safe and secure environment that is a prerequisite for political reform, economic growth, and integration into Euro-Atlantic institutions. Strong security forces reduce the potential of radical nationalist and terrorist groups destabilizing the country and sparking a resumption of ethnic violence. BiH's path towards NATO requires a self-sustaining military that can contribute to the common defense. This goal supports the National Security Strategy goals of defeating jihadist networks and dismantling transnational criminal organizations by increasing BiH's ability to detect and interdict their activities. This goal supports Pillar One of the NSS, the National Defense Strategy and the Joint Strategic Plan by increasing BiH's resilience against external coercion and malign influence and by impeding terrorist organizations from exploiting the population and resources of BiH to support operations against U.S. interests.

Mission Objective 2.1 BiH increases its domestic security and its contributions to regional and global security. (CDCS IR 1.2)

Justification: As a result of the challenges BiH faces in internal governance, it is uniquely vulnerable to external actors, pressure, and threats. In particular, action must be taken before BiH's vulnerabilities are exploited further by negative external actors or foreign terrorist fighters. This Mission Objective must therefore be to eliminate or mitigate existing vulnerabilities, especially those which could derail

BiH's European and NATO aspirations, while emphasizing progress toward Euro-Atlantic Integration.

This Mission Objective contributes to Goal Three of the State Department-USAID Joint Regional Strategy for Europe by helping secure and stabilize the Eastern and Southern Frontiers. This Objective also supports Goal One of the State Department-USAID Joint Strategic Plan to protect America's security at home and abroad. The USAID CDCS Intermediate Result 1.2, "Increased Citizen Participation in Government," contributes to this Mission Objective.

Mission Objective 2.2 Support continued development and integrity of strong military and law enforcement institutions on the path to Euro-Atlantic integration.

Justification: Progress along the Euro-Atlantic path remains the best way to ensure that BiH develops as a secure state and does not again become a source of instability in the region. Endemic corruption, weak rule of law, and limited economic opportunities remain significant challenges for the country. External actors increasingly disrupt BiH's progress towards Euro-Atlantic integration by exacerbating pre-existing ethnic divisions.

This Mission Objective contributes to Goal Three of the State Department-USAID Joint Regional Strategy for Europe by helping secure and stabilize the Eastern and Southern Frontiers. This Objective also supports Goal One of the State Department-USAID Joint Strategic Plan to protect America's security at home and abroad.

4. Management Objectives

Management Objective 1: Develop long-term solutions to address security and welfare concerns at all USG facilities in BiH.

Justification: While the embassy in Sarajevo relocated to a secure new compound in 2010, our facilities for mission personnel working in other cities, especially Banja Luka, are inadequate. The Banja Luka Branch Office facility does not meet Diplomatic Security (DS) standards and post believes that the location of the facility, the adjacent structures, and local zoning restrictions limit our ability to modify the facility to meet these standards. Available shared commercial spaces are the best option to provide safe and secure workspaces at reasonable cost to the USG. Post identified several shared commercial spaces similar to the Branch Office in Mostar worthy of consideration. In Sarajevo, the Chief of Mission Residence (CMR) also fails to meet DS standards, and OBO and DS have agreed to convert the old Chancery site into a new residence, have commissioned a design, and identified funding to build a new CMR.

Management Objective 2: Develop and implement a system to provide an orderly succession of our Locally Employed (LE) staff that allows for continued excellent service provision and prevents the loss of institutional knowledge as our LE staff retires.

Justification: The mission faces an impending wave of LE Staff retirements that will strain our ability to continue operating at the currently high level of effectiveness. At the spring 2017 awards ceremony, more than 60 LE staff were awarded 20-year pins, bringing the number of LE staff with at least 20 years of service to more than 85 percent. We are approaching a period in which roughly 60 percent of our staff will reach mandatory retirement. Another 36 percent will retire shortly thereafter. We need to develop a system that allows for an orderly departure of our current LE staff while allowing younger members of the local community to come on board before current employees' institutional knowledge leaves U.S. government service. Current Department employment policies provide mechanisms that could minimize the expected effect, but the current funding outlook will not support such an initiative.