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B O S N I A A N D H E R Z E G O V I N A



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Report

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B O S N I A   A N D   H E R Z E G O V I N A





**ECONOMICS INSTITUTE SARAJEVO  
TEAM FOR PREPARATION OF HUMAN DEVELOPMENT REPORT  
BOSNIA AND HERZEGOVINA 2001**

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*The Economics Institute Sarajevo dedicates this study to Dr ESAD VILOGORAC, recently died colleague, for his extraordinary professionalism and warm friendship. His contribution to this study had been of extreme importance.*

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It is, once again, a pleasure to introduce the National Human Development Report and I must state up front that the authors are to be congratulated on the quality of the research. Their analysis is impressive and much light is shed on the state of the State of BiH. Unfortunately, their analysis also reveals clearly how much we do not, and under present circumstances, cannot know.

After a review of economic progress over the last few years, the report looks at major critical areas, like privatization, unemployment, the grey economy, corruption, education, social welfare, healthcare, pensions, gender equality and crime. These, the authors argue, form a nexus of social and economic disease, a national pathology which requires radical surgery if the patient is to be restored to health.

As explained in the introduction, this pathology is encapsulated in the Human Development Index (HDI) for BiH, presented here for the first time. This is a moment of particular significance for UNDP, as formulation of the index is perhaps the major reason the reports were launched in the first place. Just as little else in BiH is simple, neither has calculation of the HDI been, and the problems we have faced in preparing and in presenting it are a fair symbol of the problems facing economic and social policy in the country as a whole.

At first and even second glance, the figures appear alarming. Not merely is the HDI for BiH far below the European Union average, which is not particularly surprising, but the country appears to be in worse shape than almost any other country in the Southeast Europe Stability Pact, Central and Eastern Europe or even in the Commonwealth of Independent States. To cite only the most striking element, the GDP per capita component, the calculations presented in the annex, place BiH 61% below the EU average, 21% lower than the world average and 19% lower than the Stability Pact average. This is not good for a country that, 15 years ago, enjoyed a standard of living among the highest in the region. How sharp the decline has been is revealed by comparison with the data for Slovenia and Croatia, who, along with Hungary, lead the regional table. They are ranked 22% and 12% ahead of BiH, respectively.

This is surely a sad state of affairs – if the picture is accurate. And because of the legacy of war and poor post-conflict governance, one is tempted to assume it must be. But that is precisely the problem – it is not accurate. The data is simply not available to allow accurate calculation. The authors are aware of this and the readers should be too.

This begs the question – why present and analyze data we know to be questionable? What use is the admittedly inaccurate picture thus gained? Well, a first step is a first step and even data one knows to be distorted may be useful, if one can compensate for the distortion. The major achievement of the authors has been precisely to focus their analysis on key areas of distortion and to correct for it. There are thus extensive passages in the main text and the annexes that discuss the inadequacy of official figures and attempt to provide more realistic estimates. Of course, we have not been able to incorporate these estimates into the HDI, which must be based on official data. We are however in a position to use it more intelligently.

What, then, are the major problem areas for data gathering and analysis encountered in preparing this report?

The fundamental problem is the number of people actually resident in BiH. In the absence of a post-war census, no one really knows how many there are. As discussed in the annex, Dr Bošnjovič has argued the real population may be 10% lower than the official figures. The Living Standards Measurement Survey (LSMS) suggests a figure somewhere in between. All other statistics, from life expectancy to GDP per capita to the gender breakdown to unemployment to the percentage of elderly, etc., depend on good population figures. For this reason, our adult literacy and gross enrollment indices almost certainly also underestimate reality, as they are partly based on pre-war figures.

Secondly, there is the impact of the grey economy and invisible transfers from abroad, which our author on GDP suggests could mean as much as 20% more money being generated than is represented in the official GDP figures. Recalculating GDP per capita using 20% higher overall GDP spread over 5 or 10% fewer people could revise the position of BiH on the HDI ladder radically upward. It also helps us square the circle produced by apparently very high unemployment figures but surprisingly low numbers in poverty found by the LSMS (no one in extreme poverty, only 19% in relative poverty).

Lack of good statistics in the end means we really cannot tell how well or badly the government is performing. In the absence of facts, we rely on our prejudices and political preferences, starting with the population figures. No further delays should therefore be tolerated in ensuring a census on which accurate knowledge of conditions in BiH can be based. UNDP makes a strong appeal for this need to be met and I hope the whole international community and all responsible local politicians will likewise call for it.

On a final note, the focus of this report on diagnosing the national pathology seems to me to be particularly fitting, as the country prepares to elect the first government with a full, four-year mandate. The best election result would be a government with a clear, constructive mandate to pursue reform actively, rather than one that will have to be passively reformed by external pressures. This would be a major step towards shedding the mantle of semi-protectorate status.

In the absence of such a result (which is uncertain given the fragmentation of the BiH electorate), the leading politicians of BiH must show the maturity to work together to prevent a further slide down the human development ladder. We all want BiH to move up the H.D. index by way of real human development rather than by "sleight of hand" in manipulation of uncertain data. This is where the census comes in so that the HDI for BiH can become reliable.



Henrik Kolstrup  
UNDP Residentni Predstavnik

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# INTRODUCTION

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The peace has now lasted longer than the war. For some time the choice facing people and more specifically politicians in BiH seemed to be whether to pull together or to pull apart. Recent changes in the region have ensured that this question is no longer relevant. For BiH, anxious to join the world economy, to participate in Europe, to get transition behind her and fading out of the international spotlight, this marks a critical juncture. Talk of recovery is being replaced by talk of human development, but there is a lack of a real sense of resolution, normalization or new direction. In place of the expectations and vibrancy of transition, there is concern over corruption and stagnation.

This frustration is understandable, as is the discounting of whatever progress has been made. Understandable however is not the same as justifiable. Such allegations are themselves part of the political game. It is therefore worth stressing at the outset that progress has been made over the last six years. Whether that progress can be called sustainable human development is, of course, a different question.

In answering that question, we need to look at where we have been, how far we have come and, if possible, where we want to go. We may find the pessimism justified, but it will be on the basis of analysis and our purpose will be to counter the causes of pessimism.

There is perhaps no better way of starting this process than through consideration of the Human Development Index and this report in fact introduces an HDI for BiH for the first time.<sup>1</sup> Inadequate though the data that the HDI is based on are<sup>2</sup>, our results show clearly that the real choice facing us is between cooperation and emigration. Shall the politicians find the will to cooperate, or shall the exodus of the young and the talented continue?

What, then, is an HDI and why does it matter? Obviously enough, it is an index that allows one to rank the countries of the world in terms of development. Although it includes an economic dimension, it is far from being a purely economic index. It was introduced because standard economic indices and ways of ranking countries left out the human dimension or, in simpler terms, ignored whether a country was a good place for the average citizen to live in, how open it is as well as how prosperous.

The HDI de-privileges the dollar and integrates additional dimensions. It measures access to education, to information, healthcare and other social services. The analysis, if not the index itself, also takes into account discrimination, by age, gender or ethnicity, denial of human and social rights and the repression of diversity and self-development. Finally, by comparing countries it is an antidote to exaggeration. It reminds us that human development is a human achievement. Placing our achievements in context is an incentive to do better. This report therefore reviews each of the issues relevant to the HDI for BiH. The underlying argument of the report relates however to the HDI itself and the three sub-indices of which it is an aggregate.

According to our calculations, the HDI for BiH is 0.718. This is almost exactly the world average of 0.716 and so places BiH among the countries of middle human development, ranked number

<sup>1</sup> Calculations for the HDI and more detailed discussion of these issues are given in Part III of this report

<sup>2</sup> As noted in the final paragraphs of this section, it would almost certainly be revised upwards if proper statistical data were available

## INTRODUCTION

99 out of 166, 2.8 times better off than Sierra Leone, the country with the lowest index, but 30% below Norway, the country with the highest (no.1/0.942).

At first glance and given recent circumstances, this does not seem too bad. But Sierra Leone is a very unfortunate exceptional case, and it is more useful, if less cheering, to compare BiH with its own neighbors. The HDI for BiH is 27% lower than the EU average (0.914) and 22% lower than Portugal (no.28/0.88), the EU member with the lowest HDI. This is hardly encouraging, for a country that considers itself a potential candidate for EU membership some day. Comparison with other members of the South East Europe Stability Pact confirms the picture. It so happens that BiH is also 22% below Slovenia (no.29/0.879), the leader of the Pact in development terms and the closest to EU membership. BiH is 7% below the group average (0.770), just below Albania (no.92/0.733) and outperforming only Moldova (no.105/0.699).

Rank	Country	HDI
1	Norway	0.942
2	Sweden	0.941
3	Canada	0.940
4	Belgium	0.939
5	Australia	0.939
6	United States	0.939
28	Portugal	0.880
29	Slovenia	0.879
48	Croatia	0.809
62	Bulgaria	0.779
63	Romania	0.775
65	Macedonia TFYR	0.772
92	Albania	0.733
98	Iran, Islamic Rep. of	0.721
99	Bosnia and Herzegovina	0.718
100	Jordan	0.717
105	Moldova	0.699
166	Sierra Leone	0.258

Again, this is hardly good, but does not seem to call for excessive pessimism either. After all, relatively low HDI is not in itself an obstacle to development. The HDI is an aggregate of three sub-indices. They measure the level of resources available to a society and the extent to which those resources are reinvested to provide a sound basis for economic development, to ensure a fair level of social development and to offer the opportunity for individual development. It is the balance between them that indicates to us whether a situation is sustainable and whether further growth is likely to be positive or negative. When we look at the figure for BiH sub-index by sub-index, things get clearer, uncomfortably so.

First is the index for life expectancy, which is relatively high at 0.81. It is in fact 15% higher than the world average and 4% above the average for the Stability Pact, trailing the EU average by only 9%.

Second is the index based on access to education. It is a combination of the level of literacy among adults and current enrolment in education and is also relatively reassuring, at 7% above the world average, though it is 19% lower than the average for the Stability Pact and 21% lower than the EU average.

Third is the index for GDP per capita. At 0.56, it is alarming, a full 61% lower than the EU average, 21% lower than the world average and 19% lower than the Stability Pact average. These findings are confirmed by the results of a recent living standards measurement survey carried out jointly by the World Bank, UNDP, DFID and the entity statistics offices, which found that approximately 19% of people in BiH are living in absolute poverty.

Importantly for BiH, life expectancy and education react more slowly to changing circumstances than GDP per capita. Such calculations in BiH are still based on pre-war data. Current levels in BiH are still based on pre-war structures and levels of expenditure. In fact our calculations even use certain assumptions based on the pre-war situation.<sup>1</sup> On the other hand, GDP pc in ppp US\$ is not low merely in comparison with our neighbors. It was 65% lower in 2000 than in 1990, (US\$4,370 as against US\$10,725).

It is worth spelling out the consequences of these disparities between the sub-indices. It encapsulates how lack of economic and social policy interact to create a potential human development crisis for BiH:

- Maintaining achieved levels of human development depends on having adequate GDP pc available for redistribution.

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<sup>1</sup> The figures are based upon the available official statistics. There has been no census since before the war and the life expectancy and education indices therefore use estimates from before the war. The real figures for life expectancy are therefore probably somewhat lower, while those for education may in fact be higher, as there was a concentration of illiteracy among elderly women before the war. The figure for GDP pc, which uses the present official figure for the resident population probably underestimates reality somewhat, but not enough to affect the main thrust of the argument. Lack of census data and the impact on GDP p/c calculations are discussed in Part II, page 72, and in Annex 2.

- But BiH has an aging population because of relatively high life expectancy inherited from the pre-war system and the many young educated people who have left during and after the war<sup>1</sup>,
- Which means increased calls on GDP to pay pensions and fund healthcare and social services<sup>2</sup>,
- At a time when GDP per capita has more than halved over the last ten years
- And the human capacity for growth is fast draining out of the country.

It requires little imagination to see how these factors form a mutually reinforcing vicious cycle with the most serious possible consequences for social security and the pensions system. Less GDP is being produced by fewer, but shared by more. To evade obligations, labor shifts to the grey market. While in the short term this may act as a social palliative, in the longer run it threatens the sustainability of the pension insurance, health insurance and social insurance systems and may ultimately trigger their bankruptcy. The implications for investment and future growth are little less serious.<sup>3</sup>

Ignoring this conflict between the requirements of economic and the requirements of social policy or trying to solve it through short-term and ultimately counterproductive measures like overstaffing at state-owned companies due for privatization or tolerating the grey market for its palliative effects, are actions only liable to make the situation worse.

There is apparent hope in the relatively high education index, also a hangover from the previous system. Education, when combined with youth, is a potent potential source of entrepreneurship and can be used to attract vital direct foreign investment. At present it serves as a development resource more for other countries than for BiH. Our analysis in the main text indicates that this is a rapidly closing window of opportunity. Secondary enrolment levels are currently only 56%, compared to primary enrolment above 90%. We are obviously failing the worst affected of the war-generations. Aside from the human cost to those involved, it does not bode well for any attempt at economic revival in the medium term.

This combination of low secondary enrolment and emigration of the talented is not merely a missed opportunity for BiH. Unless it is halted, it can only worsen the imbalance in the population structure and the prospects for GDP growth, leading per capita spending on social and educational infrastructure to fall even lower, and eventually the impact will begin to show in life expectancy and education levels and BiH will start further down the HDI ladder.

This scenario is not inevitable. It is just one possibility, or, better, one option, one we do not have to choose. After all, human development is, as we have said, a human achievement. Significant investment in the formal economy or in educating and retaining a workforce that

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<sup>1</sup> 372,200 of the 1.2 million war refugees had returned by the beginning of 2001. They were mostly the elderly and poorly educated, who were unable to integrate or unwanted by their host societies. Since the war ended, it has been mostly the educated that have been able to move abroad.

<sup>2</sup> As our main text makes clear, it is precisely these areas of social policy that are major centers of crisis.

<sup>3</sup> We have in mind here, primarily, the unfair competition to foreign investors represented by an unregulated grey economy and large-scale use of informal labour and the fact that the grey economy is service and construction oriented rather than production oriented.

would be attractive to foreign investors is likely only as a result of deliberate and determined policy. And only politicians who are willing to work together in the common interest to design and implement rationally coordinated socio-economic policy for the country as a whole will attempt to pursue such a policy.

There is some economic room for action. If between 1990 and 2000 GDP fell 65% overall, between 1998 and 2001, it actually grew a not wholly negligible average of 3.6% in US dollar terms and 10.5% in KM terms each year. More impressive steps forward have been made in other areas of macroeconomic stability. Foreign reserves grew 840%, in the same period. The money supply (M1) grew 770%. Personal savings grew 200%. The ratio of public expenditure to GDP fell from 65% to 48%. And all this with average annual inflation of only 4.5%. Unfortunately we must admit that these successes were due less to astute action by local politicians than to high volumes of international aid, the strict independence of the Central Bank, the statutory limits on its freedom of action and the role of the international financial institutions in economic management. Nonetheless, it indicates that there is hope for sustainable growth under the right management.

Other problems include an average trade deficit at 50% of GDP and official unemployment growing faster than registered employment. The central issue, not just for the economy but for sustainable development as a whole in BiH, is the contradiction between rigid adherence to macroeconomic stability targets and the need for a strategic and institutional basis for industrial development and employment creation. Accepting the grey economy as the solution is to throw in the towel, but running the risk of inflation and allowing Keynesian measures would require a belief in good faith and a will to cooperate which still seem all too absent from our fragmented political scene.

In the end, then the politicians must persuade the people and the international community that they have understood the need for responsible leadership in facing the central choice for BiH: cooperation or continued emigration.

Before continuing to the main text, a note of caution must be sounded. Any attempt at discussing levels of human development in BiH or comparing BiH and other countries depends on access to trustworthy national statistics. Such figures are not available for BiH from official sources for almost any of the relevant fields, including GDP (possibly underestimated by as much as 20%), unemployment (possibly overestimated by as much as 20%), gender, income levels or poverty.<sup>1</sup> Most important of all, no census of the population has been carried out since

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<sup>1</sup> See sections 1.4, 1.10, 2.2 2.10 and Part III generally for discussion.



before the war. The actually resident population may be 10 to 15% lower than official estimates.<sup>1</sup> As a result, significant distortion is introduced. The above picture and the percentages of figures presented should be taken as a contributing only a first approximate description of a situation, which is almost certainly significantly better than they portrey. We do not expect the overall thrust of the argument presented above or the identification of crisis areas in this report would be significantly changed bz better data. It would, however, define the extent of current problems better and allow a better and no doubt more positive assessment of progress over the last six years.

As noted above, this report reviews each of the issues relevant to the HDI for BiH and provides suggestions as to how more realistic working figures could be arrived at. This is not a substitute for carrying out a census. Only then will we have a true idea of how BiH is doing in human development terms. For any government interested in tackling the real problems of BiH, a census should be an immediate priority.

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<sup>1</sup> See the annex on population for discussion

# PART 1

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## ECONOMIC CHALLENGES AND HUMAN DEVELOPMENT



- 1.1. THE CONSTITUTION
- 1.2. THE ECONOMY - OVERVIEW
- 1.3. THE ECONOMY - BASIC DATA for 1998-2001
- 1.4. GDP: AN INFORMAL PERSPECTIVE
- 1.5. GDP: PROJECTIONS
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- 1.11. EDUCATION
- 1.12. YOUNG PEOPLE AND THE "BRAIN DRAIN"
- 1.13. ECONOMIC RECOMMENDATIONS



## **PART I ECONOMIC CHALLENGES AND HUMAN DEVELOPMENT**

Although the concept of human development was created to free development thinking from domination by the economic dimension, any approach to human development must start from an assessment of the economic conditions within which it unfolds. In our treatment here, we start with an overview of the constitutional characteristics and other features which structure (or fail to) the economic scene in BiH and so act as the framework for definition and attainment of fundamental social and economic rights. This is followed by a review of socio-economic challenges now facing stakeholders in human development in BiH.

Finally, in Part III, we present the calculations for the Human Development Index and the relevant sub-indices on which it is based. We use this opportunity to see how BiH stands relative to the other countries of Southeastern Europe, the Stability Pact, Central Europe and the Commonwealth of independent States in human development terms.

### **1.1. THE CONSTITUTION**

As is well known, political organization and government structures in Bosnia and Herzegovina are based upon the provisions of the General Framework Agreement for Peace in BiH (GFAP/Dayton). The constitution was in fact agreed at Dayton and is incorporated in the agreement as annex 10. The system bears the flaws inherent in its genesis. It was designed to stop the war and the negotiators were naturally concerned to maintain as much power in their own hands as possible.

There are a number of levels of authority, namely the state of BiH itself, the two constituent entities, the Federation of BiH (FBiH) and the Republika Srpska (RS), cantons, cities and municipalities. Dayton referred the status of the Brčko area to international arbitration, which made it a district with its own bureaucracy, political authorities and a form of autonomy. It is not under the jurisdiction of either entity.

Unsurprisingly the state level was vested with the minimum powers and authorities possible. Power is concentrated at or below the entity level. This has proved to be a potent source of contradictions, not merely in economic and social policy, but between them.

The state authorities include a three-member Presidency, the Council of Ministers of BiH and the independent Central Bank of BiH. In essence, they are responsible for foreign policy, foreign trade, common customs policies and a single monetary policy.

While the state level cannot arrogate to itself additional responsibilities, there is no impediment to the further pooling of authority at that level by the entities, though there has, as noted, been great resistance to doing so. Three new state ministries, the Treasury, the Ministry for European Integration and the Ministry of Human Rights and Refugees, were nonetheless created in 2000 modestly increasing the role of the central level.

More significantly, the State Border Services finally started work in late 2000. This is a clear example of a serious contradiction which arose because control of a state function, the borders, was in the hands of lower level authorities, which were to a degree in competition with each other for the revenue, which is paid directly into the budgets of the entities. Rates were therefore unharmonized and import procedures were subject to abuse. This has led to a massive expansion of black marketeering and BiH developing into a major transit country for the trade in women and in drugs. Customs policy is now set at the state level, but complete control of the borders has not been assumed as yet.

Another example is that the state does not enjoy fiscal sovereignty. Its limited powers are reflected in the absence of practically any direct sources of revenue. As we shall see, revenue collection is not the only problem this created. This has meant the existence and manipulation of several economic areas in BiH, with different tax rates and different rates of inflation. Again, as explained below, this problem is on the way to being solved, but many issues remain to be ironed out.

While, monetary policy and the introduction of a single currency (the convertible mark) were both entrusted to the central level, in the form of the independent Central Bank of BiH (CBBiH), its freedom is strictly limited by its statutes. It was established in August 1997 as a currency board and it must remain so for six years. This means it cannot act as a lender of last resort and has no discretion in managing the money supply. The only way it can influence the level of liquid funds in commercial banks is through the rate for required reserves. This has been an important stabilizing factor, but the main purpose was clearly the negative one of preventing irresponsible and inflationary policy at the entity level and enforcing use of a single currency. The state therefore lacks a central authority which can use the money supply to stimulate growth – this is a point to which we shall return.

The entities are in a stronger economic and political position. They have their own presidents, governments and parliaments/assemblies, military forces, police forces and bureaucracies. The main difference between them is that there are cantons in the FBiH but not in the RS. This reflects the fact that the cantons were established in the FBiH explicitly to be the level at which the vital interests of the constitutive peoples would be safeguarded and implicitly to allow a transformation of the de facto division of territory at the time of Dayton into a de facto delimitation of spheres of influence. The administrative and political structure of the RS is far simpler than that of the FBiH, largely because the ethnic structure is far 'cleaner'. As a result, the entities budgets and expenditures are structured in slightly different ways, making coordination and harmonization more difficult to achieve.

Perhaps the major flaw, from the perspective of human rights and human development, is that the entities are defined in terms of ethnicity. The constitution of the FBiH defines it as the entity of the Bosniak and Croat peoples, while the constitution of the RS establishes it as the entity of the Serb people. Thus, all the peoples of BiH are discriminated against in one or other of the entities. In fact, both entities and even individual cantons have pursued economic and social policies designed precisely so as to perpetuate and deepen these legal forms of discrimination.

A ruling by the Constitutional Court of BiH on the constitutive status of the three peoples of BiH has found these aspects of the entity constitutions to be in conflict with the BiH constitution, which has priority. This offers an opportunity to resolve in part this fundamental weakness, an opportunity which is slow to be taken up.

The division into entities has, furthermore, led to fragmentation in the approach to human development issues such as education, foreign investment, privatization, etc, as each entity has been pursuing economic and social policies separately. Access to basic services and basic rights are also difficult to exercise, as a result of being defined in terms of area of 'belonging'. As we shall see from the text, much work has been done to bridge these contradictions in approach and introduce a sufficient degree of harmonization to ensure that all citizens have access to their basic rights in all areas. Much work however remains to be done.

## 1.2. THE ECONOMY - OVERVIEW

The economy was, then, damaged by the war, but has been further disadvantaged by the framework within which it has been forced to develop. Between 1996 and 1999, the international community, under the lead of the World Bank and the European Union organized a series of donor conferences to raise funds for reconstruction. Around US\$ 3.5 billion was invested in infrastructure<sup>1</sup> and in laying the foundations for economic re-development. As the focus has shifted from humanitarian to development assistance, awareness grew that recovery could not be approached in isolation from the wider issue of transition. In particular, the need to develop legal and institutional frameworks for the creation of a market economy was recognized.

Other areas to which aid has increasingly been directed include facilitating private investment, including foreign investment, supporting export-oriented development projects, establishing a better balance between State and Entity institutions, building a single economic space in BiH and developing new democratic institutions and processes in BiH.

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<sup>1</sup> Production of electric energy is at 80% of the pre-war level, water supply at 90%. Over 90% of roads are in good condition and a significant portion of the housing fund has been rebuilt (over 30% in the FBiH and 15% in RS). Source: The Entrepreneurship Society: A Global Framework for the Economic Development Strategy of BiH 2000-2004.

In the next few sections of this part, we will be looking at how the economy of BiH has responded to this treatment, first with a review of the basic macroeconomic parameters of development and then by looking at potential for GDP growth. Then we look at how government have handled public finances and reform of taxation, before passing on to three related issues of vital importance for development, namely corruption, foreign direct investment and the ongoing privatization process.

### 1.3. THE ECONOMY - BASIC DATA FOR 1998-2001

As noted above, there has been significant macroeconomic stabilization over the past few years. This is reflected in some basic trends in the BiH economy over the last three years (1998-2001):

- Net foreign reserves in BiH – up 840%,
- The money supply (M1) – up 770%,
- The money supply (M2) – up 200%,
- Average annual GDP growth – 3.6% in terms of USD and 10.5% in terms of KM,
- Average annual public spending – 48% of GDP,
- Average annual trade deficit – 50% of GDP,
- Foreign debt at about 45% of annual GDP,
- Average annual growth in retail prices – 4.5%,
- Average annual salary growth – 9.5%,
- Average annual employment growth – 1.8%, according to official statistics, and
- Average annual unemployment growth – 2.7%, also according to official statistics.

The main achievements have been introduction of a single currency (KM), abolition of the multi-currency giro-based payment operations system and the stable functioning of the Central Bank as a currency board. They are behind the growth of the foreign currency reserves, growth in the money supply and price stability.

#### The money supply

Item	31.12.1998	31.12.1999	31.12.2000	31.12.2001
MONEY – M1	310	1,100	1,405	2,691
NEAR MONEY- QM	1,237	1,065	1,109	1,980
MONEY SUPPLY (M2)	1,547	2,165	2,514	4,671

– in millions KM

Source: BiH Central Bank, Bulletin 4/1999, p. 47; Bulletin 4/2000, p. 17; Report on Monetary and Economic Movements for the period of January–October 2001, and movements in October, December 2001, p. 3.

Low average inflation over the past four years is also important, particularly given the pre-war



economic history of the region. Very significantly, although the rates differed by entity to begin with, this has evened out in 2001. This is a result of conscious political decision, the single currency, convergence of prices and increasing economic integration between the entities. In fact it is a major indicator that a single economic space is being created in BiH.

### Retail Price Inflation

	1998	1999	2000	2001
Federation of BiH	5.1	- 0.9	1.2	0.3
Republika Srpska	-	15.1	13.6	2.2

In %

The BiH Central Bank: Bulletin 2, January – June 2001, Tables 20 and 21

BiH is also the first country in transition to transfer internal payment operations fully from the payment bureaus to commercial banks. Regulatory institutions have been established for banking and insurance and reputable foreign commercial banks and insurance companies have begun to operate on the financial market of BiH. This an encouraging sign. It will stimulate competition in the medium and long term and cause a further fall in interest rates, already lower in 2001 than in previous years. Poor liquidity has however reduced the credit-worthiness of companies and stopped commercial banks from increasing loan making to enterprises significantly.

Since the war, both Entities and BiH have run high balance of payments deficits in both the current account and foreign trade.<sup>1</sup>

### Balance of payments of BiH

	1998	1999	2000
A. Balance of trade in goods	-1,959	-1,852	-1,617
B. Balance of trade in services	378	324	264
C. Current account transfers	791	557	443
I. CURRENT ACCOUNT BALANCE	-789	-971	-909
II. CAPITAL ACCOUNT BALANCE	868	954	821
III. Errors and omissions	-197	233	73
IV. BALANCE OF PAYMENTS – TOTAL	-117	215	-15

- US\$ millions

In mid-2001, BiH's foreign debt stood at KM 4.3 billion or about 45% of annual GDP<sup>2</sup>. This data does not include debts contracted independently by the Entities or foreign loans for which the State is not guarantor.

Budget deficits have been financed at both state and entity levels with foreign aid and budgetary support credits.

<sup>1</sup> IMF: Bosnia and Herzegovina – Sixth and Seventh Reviews Under Stand-by Arrangement and Request for Waiver of Performance Criterion, May 2001, Table 9.

<sup>2</sup> On the basis of incomplete data from the BiH Treasury.

BiH and Entity revenues and expenditures

- KM millions

	1997.	1998.	1999.	2000.	2001
<b>1. BiH (without Entities)</b>					
- revenues	50.0	138.0	218.3	263.0	335.5
- expenditures	110.0	138.0	218.3	266.9	351.5
- foreign aid	60.0	0.0	0.0	3.9	16.0
<b>2. FBiH</b>					
- revenues	610.5	682.0	723.7	826.8	1,061.2
- expenditures	641.1	781.8	800.5	976.4	1,169.0
- foreign aid	2.0	34.9	14.7	61.1	16.3
- credits	28.6	65.0	62.2	88.5	91.5
<b>3. RS</b>					<i>Estimate</i>
- revenues	209.3	356.8	652.2	718.9	775.0
- expenditures	209.3	446.0	765.8	793	825.0
- foreign aid	0.0	31.1	277.7	48.2	N/a
- credits	0.0	58.1	85.8	25.9	N/a

In contrast to sound monetary trends, trends in business indicate stagnation. With industrial production in mid-2001 at 38.6%, GDP in 2000 at 41% and GDP/pc at 47% of pre-war levels, the economy of BiH is seriously behind most other transition countries and far from sustainability. GDP has in fact grown by only 16.5% over the past three years, which is unsatisfactory given the low starting point. As noted in the introduction, this is at the heart of the human development dilemma facing BiH.

GDP in total and per capita (resident population)

Year	GDP (US\$ million)	GDP/pc (US\$)
1990	10,725	2,450
1995	2,029	615
1996	2,778	830
1997	3,773	1,075
1998	4,245	1,180
1999	4,548	1,246
2000	4,370	1,164
2001	4,700*	1,255

\* For 2001 GDP figure is an estimation

This situation is hardly helped by the fact that over the last two years, loans to the business sector have been shrinking steadily as a percentage of total bank assets in both entities. They are down from 65% in early 2000 to less than 48% in December 2001. This is a major problem for employment growth.

There has been higher growth in personal loans (valid for the FBiH only), and in foreign currency assets. Thus the sources of financing for working capital and investment in the business sector are drying up, just as the sources of consumption growth are being increased through personal loans. Unsurprisingly, the balance of trade deficit is by far the largest among the countries in transition.

The commercial banking sector is in a much worse situation in the RS than in the FBiH, due to the delays in privatizing state-owned banks discussed below and insufficient capitalization of both private and state-owned banks. Provisions of business loans are declining due to the poor creditworthiness of enterprises, as a result of undeveloped management structures and the unclear situation in which enterprises being privatized find themselves.

This review makes clear that certain fundamentals are being kept within sound limits and that integration of BiH as a single economic space is happening. They relate however almost entirely to monetary discipline. Problems with the balance of trade are a clear result of the catastrophic situation with and the absence of domestic production sufficient to meet primary domestic demand for basic foodstuffs, clothing, etc. Even if foreign debt is not out of hand, the outflow of hard currency on imports is extremely debilitating. It underlines the need for production, but removes the means for stimulation of it. Whatever way individuals are financing their consumption, it is not sustainable in the absence of significant revitalization of production soon, which must be oriented towards meeting both domestic needs and penetrating neighboring markets.

The fiscal data indicate the high level of decentralization that is the subject of section 1.6. First however we will discuss GDP in more depth.

#### 1.4 GDP: AN INFORMAL PERSPECTIVE

The above indicators suggest considerable slowing down of growth and that foreign investors see limited prospects for investment. Official statistical data for GDP are, however, far from adequate and do not take into account a number of alternative sources of purchasing power which affect calculation of GDP and suggest a potential for greater return on investment than the official figures. As the following text argues, additional cash flows of as much as 20% of official GDP maybe available to contribute to GDP growth. This has significant implications for GDP p/c figures and for levels of poverty<sup>1</sup>. Problems with the population figures discussed in annex 2 suggest this higher than estimated GDP may be spread over between 10 and 15% fewer people, thus raising the GDP per capita estimate of US\$1,255 given on the preceding page even further. These additional sources of cash include:

- Transfers by BiH citizens abroad to family in BiH;
- The incomes of employees in micro and small companies who are not officially registered;
- The undeclared revenues of companies;
- The existence of informal markets in goods and labor.

<sup>1</sup> See the discussion in section 2.2 for a discussion of various estimates of poverty levels and the problem of making them fit with the official GDP and GDP p/c figures.

- In 1991, 141,500 BiH citizens were permanently employed abroad. In 1996, there were 750,000 refugees living abroad. Taking into account returns by end-2000, 450,000 still appear to be. Around 150,000 of them have found employment abroad or are in some form of social care. These figures together make approximately 300,000 BiH citizens abroad with regular income. Most transfer money to family in BiH. Making the (realistic) assumption that these transfers are 200 KM a month, the total annual inward transfer from citizens living abroad may be around 720 million KM. Given that more than two thirds of these transfers do not go through financial institutions, around 500 million KM annually is not being registered but is having a direct impact on the purchasing power of BiH citizens.
- According to the BiH Chamber of Commerce, there were 43,815 companies registered in the FBiH in 2001. More than 75% of them are micro and small companies. The practice in such companies is to report salaries at the minimum wage in order to reduce social insurance obligations. The actual income of those employed in these companies is on average twice that officially reported. In other words, unregistered incomes would therefore exceed 500 million KM annually. Using similar figures, unregistered income in the RS may be around 200 million KM. Given that there were a further 41,000 independent small shopkeepers and craftsmen in 2000, according to the FBiH Association of Independent Entrepreneurs, this figure is a clearly conservative estimate of additional spending power in this sector.
- The annual balance sheets of small and medium-sized companies, especially in the private sector, are very often significantly lower than the real ones, in order to evade sales and profit tax. The amount of undeclared revenue is very difficult to assess, but the High Representative Wolfgang Petritsch in an interview to Dnevni Avaz on 25 July 2001 cited an assessment that more than 500 million KM is lost annually to the budgets at various levels because of evasion of the tax on tobacco.
- The size of the grey labor market and revenue lost as a result is discussed below. Using the same figures, unregistered income would be around 350 million KM.

This gives around 2 billion KM unaccounted for but potentially contributing to purchasing power in BiH and so available to stimulate GDP. At least it makes clearer how the balance of trade deficit is funded.

### 1.5. GDP: PROJECTIONS

When projecting growth rates in a country like BiH, embarking on the introduction and development of a market economy, transition in ownership and problems of post-war renewal and reconstruction, one must keep in mind structural conflicts between the objectives of economic efficiency targets and maintaining an acceptable distribution of income in society. It is not realistic to expect high GDP growth rates between 2001 and 2004, as privatization and restructuring lead to surplus labor being laid off in what are now state-owned companies, and more people being employed in small and medium-sized businesses. It is realistic to assume that rapid growth on a sound economic basis will follow, from 2005 to 2007, with somewhat slower rates from 2008 to 2010. Lower growth rates can be expected in

areas where surplus labor is currently concentrated, such as processing and mining. Significantly slower growth may also be expected in public services and defense, as numbers there are cut. Faster growth is to be expected in construction, catering, transport and communications and financial and business services.

#### Bosnia and Herzegovina: GDP projections

- in millions KM

Sector	2001	2004	2007	2010
1 Agriculture, hunting, fisheries and forestry	1.255	1.515	1.975	2.350
2 Mining	175	205	245	295
3 Processing	1.805	2.075	2.650	2.825
4 Power, gas and water	766	905	1.275	1.550
5 Construction	536	670	965	1.325
6 Trade and motor-vehicle repairs	1.595	1.945	2.450	2.750
7 Catering	240	325	450	625
8 Transport, warehousing and communications	974	1.275	1.650	2.145
9 Financial services	400	550	775	1.025
10 Business services and real estate	230	325	480	675
11 Public administration and defense; Mandatory social insurance	1.105	1.270	1.525	1.815
12 Education	567	665	865	1.050
13 Health and social security	500	600	775	975
14 Other areas	202	325	450	615
<b>TOTAL</b>	<b>10.350</b>	<b>12.650</b>	<b>16.530</b>	<b>20.020</b>

Source: Research staff of the Economic Institute Sarajevo, February 2002

### 1.6. PUBLIC FINANCES

As noted in section 1.3 the fiscal structure of BiH reflects the constitutional division made at Dayton. The budget of the common institutions is relatively small, around KM 351.5 million in 2001. KM 204.5 million went to service foreign debt and KM 147 million was for remaining expenses. It is financed largely (76.6%) by transfers from the FBiH and RS budgets. Even customs accrue to the entities rather than the state. Almost all spending is consequently in the hands of the entities.

#### BiH public sector accounts (as % of GDP)

	1996	1997	1998	1999	2000
Outgoings	65	51	53	49	45
Public investment	24	24	20	16	13
Revenue	37	28	33	32	32
Deficit	-28	-23	-21	-17	-13
External financing	28	23	21	17	13

Redistribution of GDP through public spending fell from 65% in 1996 to 45% in 2000. According to the World Bank, it should be 35% of GDP by 2005.

As can be seen from the table, external financing of the budget (WB, EU, and IMF) is still a very significant percentage of GDP.

### Description of the entity structures

Each entity has a different structure of both revenue collection and public spending. As noted above, the main difference is the presence of cantons in the FBiH.

Taking all levels together, budgetary income in both the FBiH and the RS accounts for more than 60% of all public revenue. The remainder comes mostly from social insurance contributions. Budgetary income to the FBiH level comes largely from customs (44.5% in 2001) and excises (38.9%). Income from corporate tax from companies in the infrastructural sector, financial institutions and games of chance is symbolic (4.1%). There is some additional income from administrative and court fees collected at the federal level.

The FBiH finances payments to war invalids, war widows and their families, the FBiH Army, the federal police and the civil authorities at the Federal level. Transfers and subsidies (46.8%) and defense (24.8%) are the main lines of expenditure.

The canton budgets receive their revenue from sales tax, corporate income tax from companies not paying into the federal budget, income tax and contributions for healthcare. They finance education, healthcare, social welfare for vulnerable groups (in co-operation with the municipal authorities), the canton police and the civil authorities at that level.

In the RS, sales tax is the most significant source of budgetary income (25.1%), followed by customs (15.3%) and excises (14.9%). Corporate tax provides 1.9% of total domestic revenue. Other sources of income are the special tax to finance the RS Army, salary tax and personal income tax. Income accruing to the cantons in the FBiH accrues to the entity budget in the RS, which covers expenditure for primary, secondary and higher education. Social security is co-financed by both the entity and the municipal authorities.

### Analysis

Clearly, it is very difficult to build instruments of fiscal standardization into such a structure or to allow for transfers between the state and the entities or between municipalities, cantons and the entities. There are major structural inconsistencies in the tax system<sup>1</sup> and a lack of room to increase the tax burden, as well as a failure to establish more efficient revenue collection.

<sup>1</sup> Among other issues, this relates to the many parallel accounts for the transfer of both budgetary and extra-budgetary funds that exist because of the ethnicisation of politics mentioned in the section on the Constitution.

Transfers are mostly *ad hoc*, based on interventions by central government (entity level) downwards. As a direct result, the entities, and to a lesser degree the cantons have very different budgetary capacities, as they do populations, employment levels and expenditure on education, culture, health, the police, and so on.

The expenditure side in both entities is normal enough for countries just emerging from war. The main items are clearly the military and disabled veterans (nearly two thirds of the federal budget). Complexity and the sheer number of layers of political organization, however, make officialdom very expensive (see the figures given below for public sector employment). This is reflected directly in the wages bill of the RS (46.2% of expenditures). Room for stimulating the economy with incentives, etc. is therefore symbolic.

The tax structures in both entities also share similarities, based mainly on customs, excises, sales tax, and profit tax. Although the tax burden on business has been significantly reduced, the grey market undercuts the competitiveness of the formal private sector in both entities. Poverty and the weak economy prohibit greater application of direct taxation (income tax, corporate tax, property tax, inheritance tax). This is why indirect taxation (customs and sales tax) dominates the tax structure.

The difference in income to the social insurance funds in the two entities is very striking. It is four times greater in the FBiH than in the RS. This is because, while average salaries are 50% higher in the FBiH, tax and contribution rates are lower in the RS, as is fiscal discipline. The social insurance base is also relatively wider in the FBiH, where official employment figures in late December 1999 were 82% higher than in RS, 21% more than supposed differences in population would warrant.<sup>1</sup>

## Reform

The entities have begun harmonizing<sup>2</sup> tax legislation, in order to escape the mutual competition which dominated the first few years after the war and to remove obstacles to the free flow of goods, capital and people. Full harmonization of excises, in terms of agreeing which products to levy excises on and the levels of duty, is underway.<sup>3</sup> The process is almost complete regarding sales tax, with identical definition of the tax base, tax exemptions and tax rates (two for products, with 10% and 20% respectively, and one for services, with 10%). These rates give BiH some advantage in comparison to the rates of value-added tax in neighboring countries. As a retail tax, however, it does place some burden on both goods and services provided to businesses, increasing their costs and affecting competitiveness.

VAT is generally accounted a better system. Its introduction in BiH would certainly bring benefits. It would involve a single structure of bases and rates, which could be applied in a

<sup>1</sup> See appendix for a discussion of population estimates in the entities.

<sup>2</sup> This means identical definition of taxes bases, exemptions and tariffs, with tax rates deviation of up to 2% tolerable.

<sup>3</sup> Excise duties are paid on both domestic and imported oil and oil derivatives, tobacco and tobacco products, alcohol, alcoholic beverages, beer, non-alcoholic beverages and coffee, at the same level per unit (kilogramme or litre) in both entities.



uniform manner throughout the country. Given the current economic situation and living standards, a zero rate and two tax rates could be retained, even though a single rate has significant advantages. It would simplify taxation for the tax administration as well as for taxpayers. It is however probably impossible to introduce under current circumstances and it is worth noting that no European country applies a single tax rate, all of them preferring zero, preferential and base tax rates. The zero rate could cover basic agricultural products and items like orthopedic aids, medicines etc. Cultural products, newspapers, books, professional literature could be taxed at the preferential, if not the zero rate.

It is worth stressing at the end that BiH is one of the transition countries placing the least fiscal burden on the cost of labor. Salary tax in the FBiH is 5%. It was also cut in the RS at the beginning of 2000.

### 1.7. CORRUPTION

Corruption has been the rule for post-communist countries in transition. The war, its aftermath and the dissolution of the Former Yugoslavia as a single economic and political space and the problems in creating one out of BiH have ensured that we are no exception.

As noted above, the balance struck at Dayton resulted in the development of three ethnically-based spheres of influence dominated by party organizations and not necessarily congruent with the formal structures of government. These informal units in many ways determined the level of rule of law and the role of politics in legal process. Public business has been far from transparent, as a result. Actions by the international community in 2001 have led to partial dismantling of this system, particularly in Mostar and Western Herzegovina.

By its nature, corruption evades statistics. They include only such cases as are prosecuted and in BiH this is assumed to be merely the tip of the iceberg. Estimates can of course be made, but there are no reliable ones for the actual incidence of corruption, only for public perceptions of its prevalence, which reflect general attitudes to politics and life as much as concrete experiences. In reviewing opinion poll figures, one must keep in mind, that corruption is used in BiH as a reflex explanation for any type of political action that does not fit with the observer's preferences, whether moral or political. It is as much a reflection of mind-set and frustration with official procedures as a problem of political structures.

The findings of UNDP-sponsored research in April 2001 for the Early Warning Systems report confirm the degree to which people believe corruption to be an integral part of everyday life in BiH. 98% of respondents believe that corruption is present to some degree in politics; 31.7% believe that politicians are very prone to corruption. No institution is considered free of the taint. 68.8% believe in corruption in health care, 66.2% in the judiciary, 63.0% in the police and 63.6% in the media. 58.5% believe that corruption is somewhat, moderately or very

present in education. Unsurprisingly, corruption is also believed to exist in international organizations operating in BiH. 57% of respondents believe that corruption is somewhat, moderately or very present in OSCE, 56.1 % in UNMIBH and 55 % in OHR. People in the RS are more likely to believe in corruption than those in the FBiH.

For the average citizen, therefore, it seems that corruption has broken down all barriers and dictates the rules of life. That is not very different from saying that they interpret life in terms of corruption. As long as bureaucratic practice remains unreformed and there is a lack of transparency and accountability in public business, this will continue to be the case. People will use whatever mechanism they think will bring them an advantage and those in office will take advantage of that in their turn. Eradication thus involves not merely official and political authorities, but all relevant institutions and actors and the public themselves.

Good governance that tackles corruption is a prerequisite for sustainable economic and human development. Failure to fight corruption systematically leads to wasting of resources and deters foreign investment. As argued above, however, we should be wary of assuming that public opinion is an entirely reliable guide to reality. It is indicative for example that people in both entities are more likely to believe in corruption in the institutions of the other entity than in those of the entity where they live. Allegations of corruption clearly function as a stick to beat politicians and other authority figures with, a way to express dissatisfaction. Nonetheless, the fact that the matter is of such widespread public concern and is a sort of barometer of public dissatisfaction means that it requires thorough investigation and, where uncovered, decisive action. Only in that way can confidence be restored not merely with the public, but with foreign investors.

Needless to say, Caesar's wife must be above suspicion. Government must first clean their own house. This applies to international institutions as well as to local ones. In doing so, an independent authority of some kind would be useful. As noted above, the GFAP allows for the establishment and strengthening of State institutions. A well-managed and independent state-level institution could be a strong deterrent and, if endowed with the appropriate authorities, be effective in eradicating structural causes.

## 1.8. FOREIGN DIRECT INVESTMENT

For a country like BiH with extremely limited resources for inward investment at its disposal, the major sources of growth are local entrepreneurship and innovation and foreign aid or credits and foreign direct investment.

How well has BiH done in attracting FDI? Statistical data are incomplete and have been recorded systematically only since 1998. Nonetheless they are good enough to make clear that BiH has not done too well. Total investment from abroad between 1994 and 2001 has been

only 835.4 million KM, according to the BiH Ministry of Foreign Trade and Economic Relations.<sup>1</sup> The countries with the greatest potential interest in BiH already stand out clearly – Croatia, Germany, Austria Slovenia, Italy, France and Yugoslavia. The order varies by entity and certain countries, such as Kuwait or China have a surprising prominence on the list in certain years because of the impact of special interest projects. Good knowledge of the situation in BiH, proximity and traditional economic ties seem to be the common factors. Expectations of a spectacular influx of foreign capital once privatization began (1999) have proved unrealistic.

As we shall see below, foreign money has gone into the banking sector, where over 50% of capital is under foreign control. If industry in BiH is in a far from similar position, the reasons are relatively obvious.<sup>2</sup> To attract and manage FDI properly, a stable business environment and free and fair market competition are minimum requirements. This exists in banking, not in business. What is more, there must be a comparative advantage to investing in BiH rather than somewhere else. Perceptions about corruption and the fact that privatization, as we shall see below, has been neither efficient nor transparent certainly do not provide that. Nor do neglect of reform of the economic system, a lack of legislation to stimulate private entrepreneurship and the fact that BiH is not yet a single economic space help.

There are signs that this is beginning to change. Decreasing foreign aid is bringing greater awareness by the authorities that FDI is a prerequisite for economic sustainability in BiH and that a systematic focus on developing comparative advantages would help. The Law on Foreign Direct Investment Policy in BiH was adopted in March 1998. Incentives in both entities related to privatization have facilitated more significant entry of foreign capital. The establishment of the Foreign Investment Promotion Agency in 1999 by the Council of Ministers could have been an important step in this direction, but it has received little practical support in the pursuit of its basic goals.

It is too early to say yet, and much depends on the how the remainder of the privatization process goes and on foreign assessments of stability in BiH, the performance of the governments formed during 2001 and whether they will do anything to counter BiH's international reputation for corruption (keeping in mind that where DFI is involved, corruption is not a moral, but an economic issue related to fair play in the market and a factor that cuts into profit margins). If the complicated procedures for registering new businesses and registering property rights are removed and the privatization of infrastructure is completed, it is not unreasonable for it to even double during the last phase of privatization (the next three years). In fact this prediction may be used as a yardstick for government success in selling BiH abroad.

The role of FDI in stimulating economic growth encapsulates the contradiction between economic and social policy goals in a broke BiH. In combination with local initiative it can

<sup>1</sup> Data published in *Oslobodjenje*, 31 Dec. 2001.

<sup>2</sup> The reasons are the usual ones in BiH– damage to infrastructure and production capacity, the flight of educated and trained labour, broken economic ties with both local and world markets, long isolation from scientific and technical developments and public ownership of industry.

perform economic wonders. But, it is the case that DFI is likely to bring long-term benefit only when there is a strong local base for the economic activity being invested in.

What is more there are negative effects and they are largely social: redundancies (particularly during privatization) or closure of uncompetitive companies, etc. Dependence on FDI as a source of growth thus threatens government with loss of control over transition processes and reduces their ability to soften the negative social impact of restructuring. Failure to attract it, on the other hand, will stimulate only emigration by those who should be the leaders of growth, the young and the talented. We believe the way to square this circle is for government to take an active role in identifying areas where trained human capital for development already exists and where there is a potential role to engage the young. Partnership in the development of such centers of excellence is a key way to create a more attractive environment for FDI.

### 1.9. PRIVATIZATION

Privatization is a major part of the "entrance exam" set by the international financial institutions and donors to the countries in transition. In BiH it refers to three main types of capital: state-owned businesses, banks and housing. While sometimes condemned as flogging off the family jewels, under circumstances like those in BiH privatization is one of the only ways to strengthen or better create the market. It is imperative for the state to transfer idle or decaying capital that it cannot maintain or make use of, as quickly as possible, in the hope that the new buyer can. The second major benefit is putting an end to the idea that it is the duty of the state to support the economically indefensible. At worst, false hope is unmasked. At best, such disillusionment can be the seed of entrepreneurship.

If poorly handled, this process can have devastating effects on the individuals and communities involved. Of course, so would the inevitable economic collapse. The key is to manage the transition, so that alternatives can be found for the most affected in time. Unfortunately, by definition, the countries in transition lack the institutions, legal framework and traditions required for. This is therefore an area where special help is needed, and has been given by the international community.

The implications of privatization of housing are discussed in the section of refugees and displaced persons below. Here it is enough to point out that it is far from straightforward and that the scale of the problem has prevented the development of a regular market in real property in BiH.

#### Privatization of enterprises

Pretty well all industry in BiH before the war was state-owned. Our GDP pc index (down 65%) reminds us that less than half of that capacity is now operating. In fact, since there is now a

significant private sector and since certain utilities, like the PTT and the electricity companies, remain major employers, the decline in the rest of the state sector is even sharper. With GDP per capita as low as it is, revival of growth depends not merely on privatization, but on DFI.

Privatization started before the war in 1990.<sup>1</sup> In 1997, a set of new laws was enacted, enabling a new process to begin. It is being implemented at the entity level, with Brčko District separate.

"Mass privatization" was the basic model chosen. Certificates or vouchers were issued by the Entities to citizens on four bases<sup>2</sup>. These could be used to buy non-residential property belong to state-owned companies, part or the entire public share in an enterprise or, as mentioned above, to purchase apartments. Individuals could use them to purchase company capital either directly or by joining privatization investment funds (PIF). The intention was a quick and simple conversion of public to private ownership under circumstances where relatively little cash was available and the public could not otherwise have been able to play a role. It proved too easy to manipulate the process and once it was realized that the basic goal of creating a shareholding culture was not likely to be attained, amendments gave more importance to "sale by tender".

### The Federation of BiH

The legal framework for the privatization of enterprises in the FBiH has been supplemented by more than thirty new pieces of legislation, causing confusion and harming transparency. Enactment of laws on restitution, concessions and regulations for the privatization of public utilities<sup>3</sup> is delayed. This will no doubt affect some companies already privatized.

Enterprise privatization in the FBiH has two phases, a "small-scale" and a "large-scale" one.

Properties for sale in the small-scale phase are companies with assets under KM 500,000 and fewer than 50 employees or assets/parts of larger companies. In general they are not particularly attractive and require significant investment. Many have not sold. Those that did raised 196 KM in certificates and 114.8 million in cash – about 7% above expectations.

Properties on offer in the large-scale phase are larger companies. The total book value is KM 17.3 billion. Demand in the form of certificates is KM 16 billion. The results have been mixed:

- 36.9% of public capital is for sale by public share offer (PSO). The invitations have been relatively successful. The first one closed in June 2001. All 537 companies sold, fetching

<sup>1</sup> Audit in the FBiH has confirmed that about 1.4 billion KM in share capital, or about 7.5% of total capital, was privatized during this process.

<sup>2</sup> General claims, old foreign currency savings, in lieu of pension arrears and in lieu of salaries to members of the armed forces. This was thus a way of writing off public debt to citizens.

<sup>3</sup> No strategy has been determined for the privatization of companies working in electricity, telecommunications, waste disposal and public works, gas, forestry, water and mines.

88% in excess of the asking price. The second invitation is set to close by the end of 2001. A third (and final) invitation is set for mid-2002, pending adoption of the strategy for the privatization of public utilities.

- 41.2% is to be sold by tender, carried out at three levels. It has yielded modest results. By October 2001, only 129 enterprises had sold (74% certificates and 26% cash). 122 of them are from the portfolios of the cantonal privatization agencies (CPA). They brought in 8% above their book value.<sup>1</sup> The Federal Privatization Agency (FPA)<sup>2</sup> also sold four of the 10 companies it is responsible for by this method, realizing 44% more than book value.
- The main problem is at the third level of sale by tender, where the CPA and FPA are jointly selling 86 strategic companies, with support from the International Advisory Group for Privatization (IAGP)<sup>3</sup>. Of the 24 companies offered to date, only three had sold by October 2001, yielding a modest 3.8% of the book value. 11 tenders have been declared unsuccessful. This category of sales is particularly important, as the assets involved are valued at KM 9.5 billion and represent more than 50% of total public capital in the FBiH<sup>5</sup>.

To sum up, about 18% of public capital has been sold to date. As 21.9% of public capital has been reserved as minority public holdings in companies, this is 23% of the capital planned for privatization and the figure is expected to be 33% by the end of 2001. Talking numbers rather than value, approximately 50% of the companies have been sold.

### The Republika Srpska

In the RS, the model adopted was for 30.4% of public capital to be transferred to citizens by means of vouchers, 8.9% to the pension fund, 4.4% to the restitution fund and the remaining 56.4% to be privatized by free sale. Privatization is at three levels simultaneously:

- Sale of 276 companies valued at up to KM 300,000 by auction. 115 of them have been sold.
- Privatization of 774 companies by vouchers, with 55% of public capital being transferred to citizens, 10% to the pension fund, 5% reserved to allow compensation for property nationalized under the previous system and the 30% remaining for sale. This has been completed, except for a few cases where the 30% public share has not been sold. The government then appears as shareholder.
- Privatization of 44 strategic companies, where 65%<sup>5</sup> of the public capital is to be privatized according to the privatization programs and the goal is sale to strategic foreign partners. Only two companies have so far been successfully sold<sup>6</sup> to foreign partners, who accepted obligations to restructure production and increase capacity.

<sup>1</sup> The remaining 156 companies were to go on sale by the end of 2001.

<sup>2</sup> The Privatization Agency of the FBiH was responsible for 64 companies in total. 42 were privatized by public share offer.

<sup>3</sup> The IAGP includes representatives of USAID, GTZ and the EU. Credit support from the World Bank is expected at the end of 2001.

<sup>4</sup> A substantial proportion of the capital in the strategic companies has been reserved by the state.

<sup>5</sup> Of the total public capital, 20% goes to citizens (vouchers), 10% to the pension fund and 5% to the restitution fund.

<sup>6</sup> Birač Zvornik was sold to a partner from Lithuania and Celeks Banja Luka to a partner from Slovakia.

## Analysis

The apparent disparity in results between sales by tender of strategic enterprises in the FBiH supported by the IAGP and sales by the privatization agencies on their own might be embarrassing, if it were not so easily explained. It teaches an important lesson about what result to expect of privatization in BiH.

In cases of "local tender", payment is by a combination of cash and certificates, the balance being set by the privatization agencies. In cases of international tender, payment is exclusively by cash. The non-strategic companies were purchased by local tender and paid for partly through certificates, which could be bought easily from individuals in the street or through the newspaper small ads at a near 100% discount. We know that about 45% of all certificates issued have been used. Of the KM 5.66 billion generated so far on paper, only KM 215.6 million (3.8%) was in cash. Clearly, in spite of apparently exceeding their book value, these companies were effectively purchased for the cash component only and the avowed aim of transforming public ownership into ownership by the public can only be said to have failed. It is another question whether the new owners will have the capital to do anything with what they have managed to buy.

The strategic companies on the other hand have high valuations and are being sold abroad for cash. There is willingness on the FBiH side to make deals on the price in return for commitments regarding investment and production or employment deals. There appears to be little interest on the investor side however<sup>1</sup>. In 2001, foreign capital was involved in the privatization of 16 enterprises. Only KM 71 million was generated on the basis of the capital being sold and foreign partners committed to invest a further KM 191 million.

The slow pace of privatization is a major weakness. There have been delays in submission of opening balance sheets and privatization programs by companies, in announcing calls for tenders, in getting fund management companies and privatization investment funds up and running..... Some of these are the result of inertia, some of obstruction. In some enterprises, the existing management have obstructed privatization openly. When allowed to buy out "their" company, they have however proved ready to co-operate. A similar problem surfaces with employees who wish to retain "self-management" and protect their 'rights'. The overall impact on the efficiency and the value of the enterprises being privatized has been significant and harmful. As time goes by, the initial balance sheets and capital valuations have tended to lose whatever validity they had to begin with.

The impact of privatization on efficiency varies, depending on the period under consideration, the privatization model used and the nature of the "new" owners. These effects, in the short term, are measurable only for small companies without too much debt or too many surplus employees. Several sales by tender were on condition that the bidder keep all employees for a

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<sup>1</sup> Factors limiting foreign interest include the unattractive and unprofitable nature of the companies on offer, obsolete technology, out-of-date operational and management structures, serious debt and overstaffing, legal uncertainties concerning investment, the complex legal framework regulating business operations, poor tax policy, the "porous" border and the black market, poor transport infrastructure, and so on.

minimum of three years. They are therefore prevented from restructuring, damaging their efficiency. Companies sold by public share offer are said to be in the worst position. This is the most numerous and least profitable type of business, of no interest to strategic partners. They are the ones simply not classified for sale by the other methods. The owners are workers, ordinary individuals or the PIFs. None of these categories has taken on any responsibility to rehabilitate, restructure or inject new capital. They do not possess sufficient finances to restore the companies to health and lack access to good managerial staff.

As a parting comment, it is fair to ask why the privatization of enterprises was not synchronized with changes in other critical areas like the privatization of public housing, banks and the formation of the securities commission.

### Bank Privatization

Bank privatization is more problematic than enterprise privatization. The state however already had less of a role in banking.

In the FBiH, in mid-2001,<sup>1</sup> public capital accounted for only 37.2% of equity in banks with a total value of only KM 219.5 million. Only 6.7 million KM (1.6%) was invested in banks in majority private ownership. Public capital has not yet been entirely relinquished in any of the 10 state-owned banks, but some<sup>2</sup> are to be sold off by the end of 2001, along with part of the remaining public capital in the private banks.

The situation in the RS is critical. The banks were to be privatized before the enterprises. Deadlines have been extended by almost three years, more than halving bank capital. Problems in the exercise of basic business have brought the privatization model itself into question. The constant threat of liquidation has prevented them from developing regular banking activities.

It is indicative that foreign investors have entered the banking sector but have little interest in the privatization of local banks. They have set up their own banks or invested in existing private banks. One reason may be that they are wary of the still unclear status of the "nationalized" banks. Another is the issue of liability for guarantees issued previously. Although the banks have written off the liabilities, there is a real danger that they may be "re-activated" by foreign creditors, though the International Financial Corporation is working on resolving the issue. The liability sub-balance sheet of the "old" state-owned banks amounts to 1.18 billion KM.

Most likely, however, it is just the fact that Banks thrive on confidence, and the state-owned banks have little of that to sell. There is widespread skepticism and state-owned banks attract few clients of substance. Their customers are mostly old state companies themselves facing the uncertainties of privatization. This hurts rather than helps the market position of the state-owned banks.

<sup>1</sup> The FBiH Banking Agency, Report on the FBiH Banking System, 30 June 2001, Sarajevo, September 2001.

<sup>2</sup> In particular, the POSTBANK BH d.d. Sarajevo and the ŠIPAD BANK d.d. Sarajevo.



## 1.10. EMPLOYMENT

Employment is one of the most problematic of the areas of analysis in this section of the report. In the text below we focus on attempting to derive realistic employment figures from the morass that are official statistics in BiH and to estimate the extent of the grey labor market and its cost to the public purse. It is worthwhile prefacing this, by noting that employment and education, the subject of the next sector, are crucial to any assessment of how the state is serving its people. High official unemployment and high levels of grey labor indicate that access to social rights is in parlous condition. A poorly performing education sector indicates that the prospects for development are not bright. In short, this is field on which are to be found the casualties of the poor economic governance described in the preceding sections – the wait-listed workers, the prematurely redundant and the young being educated for emigration.

The first thing to mention is that we will be looking at three sets of figures.

Firstly, there are the official figures from the employment bureaus and statistics offices.

Then, there are estimates made by living standards measurement survey, commissioned by UNDP, the World Bank and DFID, in partnership with the entity statistics offices. These are based on household survey and they give us a clear picture of how many people are fully unemployed and how many are engaged in sufficient income generating activity to be considered employed by ILO criteria, so that it reflects part time and seasonal work, etc.

Finally, in order to provide a more balanced perspective, we present a set of calculations based on various official figures which allows us to estimate how many people may be in real jobs which might be incorporated into the formal employment sector.

### Official figures

In mid-1990 there were 1,054,000<sup>1</sup> people in registered employment in BiH. Real employment was a little higher due to self-employment in agriculture. 85% were in industry, 15% in the public sector. The ratio was 5.8: 1.

By the end of 2001, 633,860 people were in registered employment, 75% in industry and 25% in public sector employment. Around 410,000 fewer people were employed in industry than before the war, but there were around 10,000 more in the public sector. This gives a ratio of 3:1. The public sector figure however does not include the army or the police. They add approximately 60,000 more to the public payroll. The ratio becomes 2.2:1. Even though this does not represent the true employment situation, it does represent the ratios on which the funding of public services is based and is clearly unsustainable.

<sup>1</sup> Source: Statistical Yearbook for BiH 1991, BH Institute for Statistics, Sarajevo, 1994.

The picture differs by entity, showing very clearly the problem of government over-manning in the FBiH. 30% of employment there is in the public sector, while the remaining 70% in industry includes "wait-listed workers" who cannot be considered really employed. The public sector/industry ratio, not including the army, in the FBiH ends up as 2.3:1. The RS, on the other hand, is closer to the pre-war ratio (6:1).

According to the entity bureaus, the number of people officially unemployed in BiH is 421,198, which yields a narrow employment rate of 28.1%.

### LSMS Estimates

In fact, as indicated above, neither official employment nor unemployment numbers are realistic. They are both distorted by the same set of factors.

- The self-employed and those whose employers do not pay welfare or insurance contributions for them are not counted as employed. In fact they are often registered as unemployed because of health insurance. Thus they cause us to underestimate employment and overestimate unemployment.
- Conversely, people on "waiting lists", those who formally have jobs but do little or no productive work and workers whose salary is two or more months in arrears inflate the employment lists, when it would be better to count them as unemployed. Official data indicates that more than 35% of "officially" registered employees are in economically unsustainable jobs and that the salaries of around one quarter (150,000) are two or more months in arrears.
- Finally one should also take employment in the grey economy into account.

According to the LSMS, unemployment as defined by the ILO is at a relatively humble 16.1% in BiH. While this is a valuable corrective to the official figures, it must be kept in mind that this figure represents the percentage of the workforce with little or no access to regular income generating activity, rather than those not in secure and stable jobs. Many of those considered employed by the LSMS are in the twilight zone of informal subsistence income generation, with no access to labor or social rights.

As a logical consequence of the lower unemployment rate, the LSMS data show a third more people (920,000) generating some kind of income than the official figures. The structure of employment is also very different. According to the LSMS, those making their living from agriculture is as high as 15%, which compares to 3.3% in the official statistics. The LSMS places 20.7% of the employed in industry, while official data show 29.8%. Construction and trade also reveal major differences. The LSMS shows construction accounting for 11.7% of employment, compared to an official 5.8%. The LSMS also shows trade at 14.7%, while official figures show 11%.

These differences reflect the fact that 'wait listed' and other categories are in reality active in sectors different from the ones where they are officially registered. The official breakdown of employment by sector is derived from the annual reports of companies. All corporations or companies are obliged to present these reports, indicating the number of employees on the basis of an average number of hours worked. Workers on the formal labor market whose employees are obliged to pay social insurance contributions and salary tax are therefore covered by the official statistics. The LSMS has however captured both that category of employees and all those people employed on the informal or grey labor market. Comparison of the two sets of data shows that informal labor is most active in agriculture, construction and trade.

The basic conclusion to be drawn from this comparison is that an additional 55% of people generate income on the informal labor market over and above those working in the formal labor market. If we accept the LSMS results as a sound basis for extrapolation, then it is clear that income from the informal labor market should increase the GDP of BiH by more than 35%, which is in line with the findings of our informal look at GDP above. As noted above, this helps alleviate the vulnerable position of those employed on the grey labor market, but causes problems for the formal sector which ends up carries a disproportionate share of the burden of sustaining the current social insurance system.

It is worrying to note that according to the LSMS unemployment is 2.6 times higher among 19 to 24 year-olds than among 25-49 year olds and 3.6 higher than among 50 to 60 year olds.

#### Unemployment by age group, according to the LSMS

Age group	Unemployment (in %)
19-24	34.8
25-49	13.4
50-60	9.7
TOTAL	16.1

Source: LSMS BiH, May 2002.

#### Quantifying grey labor

Recent estimates,<sup>1</sup> published before the LSMS was available and summarized in the table below, suggested that some 580,000 people were offering their services on the grey labor market, which is only 10% less than the 633,860 officially registered as employed. Not all of them are working all of the time of course. It seems that an average of 150,000 of them work for six months of the year on the grey market. A further 170,000 work on it for an average of three months of the year. By ILO criteria these 320,000 people may all be considered to be in

<sup>1</sup> Fikret Causevic: The politics of international support to Southeast European countries - lessons (not) learned in Bosnia and Herzegovina - Chapter V, Open Society Fund BH, August 2001, p. 96-97

employment. This would give a figure of 953,860 for those with access to significant income generating activities. It is strikingly similar to the 920,000 estimated by the LSMS. Had these 320,000 been registered, they would have been paying social insurance and other contributions.<sup>1</sup> The loss to public revenues is somewhere around KM 250 million<sup>2</sup>.

#### Estimated unemployment in Bosnia and Herzegovina

	DESCRIPTION	FBiH	RS	BiH
1	Estimated population	2,400,000	1,450,000	3,850,000
2	Estimated population of working age (15 to 64)	1,650,000	970,000	2,620,000
3	Total work force	940,000	560,000	1,500,000
4	Official employment	412,805	228,834	641,639
5	Registered unemployment	267,934	153,264	421,198
6	"Waitlisted Workers "	40,262	32,000	72,262
7	Workers / salary two or more months in arrears	95,000	65,000	160,000
8	People working on the grey labor market for three or more months	200,000	120,000	320,000
9	Narrow rate of unemployment (5 / 3 x 100) commutative functions, notation was ok	28.5%	27.4%	28.1%
10	Rate of unemployment including "workers on stand-by" (5+6)/3x100	32.4%	33.1%	32.9%
11	Potential rate of unemployment, including workers whose salary is two or more months in arrears (5+6+7)/3x100	42.9%	44.7%	43.6%
12	Rate of unemployment taking grey market employment into account (5+6+7-8)/3x100	21.6%	23.3%	22.2%

Not merely are their real employers not paying tax for these individuals. Up to 170,000 of those working on the grey market for more than three months are in fact formally registered elsewhere, with a state company or under similar conditions, so that contributions are being paid for them out of the public purse or by state owned companies. Such obligations are normally marked off by the company as unpaid debt to the insurance funds and store up problems when it comes to privatization.

The result of all this analysis is to make clear, that under current circumstances in BiH, the traditional concept of employment has lost much of its meaning and that more and more individuals are finding themselves in a twilight world between formal employers who pay only their social and health insurance and real employers who provide them with no labor rights or social entitlements. The high unemployment figures trotted out are clearly unrealistic. The poor

<sup>1</sup> Our assumption is that averaging out, slightly more than half the number of people offering their labour on the grey market succeed in finding employment for slightly less than half out of every year.

<sup>2</sup> Assuming the employer registers a minimum salary of KM 200, and so pays KM 150 in tax and contributions, then  $320,000 \times 150 \times 5 = 240$  million in unpaid contributions.

are paying the toll of poverty in a different way, through insecurity, low and irregular income, lack of access to social and labor rights. Without reform the economy is condemned to reliance on a grey, trade-based, unsustainable economy rather than a production based one.

### Jobseekers

For the 16% who really are unemployed face serious problems finding employment. Research carried out by the employment bureaus looked at 252 occupations and involved 100,000 officially unemployed people gives us some picture of which occupations are in most demand and what training would help people with limited education/skills get jobs.

They have found that demand was focused on only 20% of the 252 occupations and on only four of the 32 occupations that require tertiary level training. In only one area was the entire labor supply absorbed, and even where demand does exist, supply is two to five times greater. Clearly, there should be a review of the profiles being produced by education.

School leavers and those graduating from tertiary education make up 62.6% of the officially unemployed. There is little difference between the entities in this regard and there are no signs that the proportion of young people among the unemployed is falling, or that society has any intention of addressing the problem at all seriously. This requires attention if the drain of young educated people abroad is to be halted.

### Official employment statistics for 2000

	Bosnia and Herzegovina	Federation of BiH	Republika Srpska
1. Registered labor needs	22,600	12,300	10,300
2. Officially unemployed (average)	414,800	265,400	149,300
3. First time job-seekers	259,700	168,100	91,500
4. Ratio (2:3) %	62.6	63.3	61.3

Approximately one third of the unemployed are demobilized soldiers.<sup>1</sup>

Unemployment is more critical in some areas than others. Certain areas (Posavina Canton, Central Bosnia Canton, Una-Sana Canton, Tuzla Canton, Trebinje, Visegrad ...) have too weak an economy to generate real job creation.

Employment growth would be possible in small and medium enterprises, in production and services and in the financial institutions that form the basis for development of a market economy. Such job creation, however, requires greater commitment to eliminating the gray labour market, soft loans for small and medium-sized enterprises and employee (re)education.

<sup>1</sup> After Dayton was signed, about 425,000 soldiers were demobilized from the various armies in BiH. Their reintegration into civilian life was supported by the World Bank Emergency Demobilization and Reintegration Project (EDRP). The Madrid Declaration obliged both Entities to undertake further military reduction in two phases of 15% each.

There are significant differences in BiH between lending to people in business for the first time and to people who have been trading for one or more years. Most commercial banks, in practice, require the presentation of at least one annual company balance sheet. Micro-credit schemes have a clear role to play here and the World Bank Local Initiatives Project is an example of how successful stimulation of micro and small businesses can help solve the problems of the unemployed through self-employment and family businesses. The first phase was from 1996 to 2000. Although the original target was between 7,000 and 10,000 loans, 68,000 loans had been granted by the end of 2000 and 34,000 new jobs created and 57,000 existing ones secured.

### 1.11 EDUCATION

Education is key for human development. This is why it is a core element of the HDI. Countries with high levels of economic and social development consider it a crucial resource. In underdeveloped societies, it tends to be treated as an "un-productive, expenditure-side, service activity." This has been the case in BiH recently and is very clearly reflected by a comparison of education before, during and after the war.

In 1990, the country was considered as having a fairly decent education infrastructure at all levels (in the middle rank of development in Europe). It was just embarking on a course of updating and reform, to which the war put a stop.

Primary enrolment then was between 96% and 98%, with 80% continuing to secondary school. At both primary and secondary level 49% of students were girls. At tertiary, 47% were. The gender ratio was therefore not too bad either. Illiteracy however was high at 14%. This was due mainly to high levels among the elderly, mostly female population.

Many schools were destroyed during the war and the number of students and teachers fell significantly. To use just primary schools to illustrate the point, the number fell 30%, from 2,202 in 1990/1991 to 1,555 in 1995/1996. Many schools of course continued to operate in improvised facilities out of necessity, but it was inevitable that quality of teaching and regularity of attendance suffer.

Primary enrolment in 2000/1 was 97%. Secondary enrolment was only 56% however. This low figure reflects the damage suffered by the war generations and those still displaced. Tertiary enrolment was 19.8%, but this number includes only full time students. This means that the gross enrolment ratio is a very worrying 64.1%. The adult literacy index of 0.859 compensates for it to give us our education index of 0.787. As pointed out in the introduction, even this index places BiH at a serious disadvantage in terms of our neighbors in the stability pact and the CIS. The human cost aside, a downward trend in basic education such as suggested by the secondary enrolment figure will make any economic recovery over the next decade very difficult. Remedial action is clearly called for.

Nor is enrolment the only problem facing the education system today. Infrastructure remains one, even though much reconstruction work has been done. Facilities at many schools and even universities are still far from adequate. Equally important is knowledge infrastructure like libraries and the Internet, where the education system in BiH is very poorly served both as a result of war damage and lack of ability to invest in new materials and technologies.

Another problem is that, during the war, three separate education systems were established, involving elements of apartheid. Indoctrination was extensive, especially in subjects like national history, language, literature etc. Such ideological contamination continues to be a problem today, though progress is being made by seeking common ground in European standards and curricula.

Differences also appeared in pedagogical standards, teaching quality, legislation etc., and it is fair to say that quality in general fell. There is a clear lack of common standards and quality control. There are no common regulations or coordination at the level of BiH, which is reflected in difficulties with scientific and technical collaboration with other countries. In general the interface in terms of curricula, norms and standards, financing, management, etc. with the education systems of European countries is poor, which will cause serious problems in future. Poor quality of education in particular localities is a specific problem and one that affects the displaced and returnees especially.

Along with this goes general incoherence. There is no longer a sense of system. The approaches are different in the two entities and even by canton. There is strong centralization in the RS, marked decentralization in the FBiH, where there are no less than four levels of education authority. The system of financing education institutions also differs between the entities and within the FBiH. It is worth stressing that no provision is made for joint financing of what should be national institutions like universities, the national library, museum, art gallery etc. It is left to the canton in which the institution happens to be.

If one thing is common to all areas it is that teaching is predominantly based on authority and learning by heart. Young people are rarely introduced to the material as active participants or taught to think creatively and independently, master modern communication systems and new technologies, and become rounded individuals. This is a particular problem at the university level. There is also strong resistance to even talking about continuous education and skills training for adults.

A start has been made with the amendment of legislation in both entities, offering some hope of eventual improvement. There is a Coordination Board on Higher Education in Bosnia and Herzegovina, whose main task is to prepare a framework for reform. The universities have also signed cooperation protocols with universities in Europe and elsewhere in the world, through which scientific and technical activities are being developed, experience exchanged, visits and so on.

As intimated above, official announcements have been made regarding the introduction of conformity with European norms and standards and the harmonization of curricula with European ones. This would allow for a higher quality of teaching and, in line with the 1999 Bologna Declaration, secure horizontal and vertical mobility for graduates and ensure the recognition of diplomas in the rest of Europe and the world.

International harmonization, networking and cooperation are also present at lower levels. For example, in certain secondary schools with standardized contents and teaching methodology will allow their diplomas to be recognized in other countries.

Given a population of 3.8 million on 51,129 km<sup>2</sup>, the particularly low level of material development and the recent war damage, the existence of seven universities, with an eighth under construction, must give pause for thought. Were this education infrastructure truly engaged as a "development tool" for society, then it would, together with the education capacity at lower levels, provide a solid foundation for developing a comparative advantage in education and a resource for recovery and the development of both society and the state. Unfortunately the facts tell another story. We have been providing education for young people largely as a 'development resource' for other countries or to swell the employment bureaus with overqualified applicants for non-existent jobs, as indicated above in the section on employment. Once powerful scientific and research centers, such as the Energoinvest center, have largely shut down. To make it even worse, awareness of the importance of science as a factor in social and political development is close to extinct.

### 1.12. YOUNG PEOPLE AND THE "BRAIN DRAIN"

Having looked at the major economic issues of interest to development, it is perhaps time to look at the results of economic and educational mismanagement and put a human face on it.

In the year 2000, 14.3% of the population was between 15 and 25 years of age, and 8.5% between 25 and 29. Unfortunately, there is little other reliable statistical data on the structure of the young population, their departures and destinations. More attention is clearly needed to young people and trends regarding them.

Being young is a transitional social status, and by definition, the young are fairly homogenous in terms of age but heterogeneous in all other characteristics. Their marginalization is therefore particularly important. In and of itself it leads to passivity, even apathy, which is a particular social and political problem in the countries of the former Yugoslavia. Young people must develop a clearer vision for themselves and their future. They must explore more active alternative forms of engagement, but so must politicians. The alternative to engaging them, is losing them.



On the positive side, dialogue has been increasing between young people across BiH and politicians and government officials as a result of public debates generated by the Human Development Report for 2000 on Youth. The Joint Program for Youth in BiH, involving the Open Society Fund, Care Int., UNV, UNICEF and UNDP is a case in point.<sup>1</sup>

Brain drain has, however, been a trend for many years now, pre-dating the war as the various ethnic diaspora show, and it is clear from the results on education and employment that war and its consequences have taken a particularly heavy toll on the young. Most of the refugees who stayed abroad and will not return are young. What is more, large numbers of young people, especially the well educated, continue to emigrate. Between January 1996 and end-March 2001, 92,000 young people left BiH. Even more alarmingly, UNDP sponsored research indicates that 62% of young people would leave if given an opportunity.

There are several clear reasons why the young are emigrating. Economic crises, scant financial resources, lack of employment, problems in housing and constant subjection to political manipulation all combine to drive the young overseas in search of 'better'. Developed countries need educated workers, especially in the field of new technologies, and are increasingly welcoming individuals with skills. The educated can be sure that their skills will be better rewarded abroad. Tens of thousands are currently in the process of obtaining visas for emigration.

The problem is getting worse every year. Yet, there is no sign of any attempt to develop integrated social policies to address the causes of emigration or, less altruistically, to see how their own country can take advantage of a resource that more developed countries are so willing to import.

### 1.13 ECONOMIC RECOMMENDATIONS

To sum up this part of the report, just as the economic situation in BiH has promoted alarming levels of youth emigration, that in turn is beginning to have a negative impact on the development of Bosnia and Herzegovina. We argued in the introduction that educated young people offer a window of opportunity for reversal of the slide of BiH down the scale of human development, but only if appropriate policies are pursued by a reform minded government which takes its responsibilities to the people seriously. We believe that the following recommendations may assist the government in creating the conditions for higher human development:

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<sup>1</sup> To date, cooperation has been established between 203 youth programs, more than 50 governmental institutions and more than 50 international organizations and donors both in and outside of BiH. 24 local youth councils have been formed along with six working groups for the development of youth politics on issues of particular relevance (education, employment, special needs, drugs and HIV, culture and local activism). The Youth Information Agency is ready to start offering eight services in the areas of information, consulting, training, advocacy, media relations, financial support, international networking and volunteering. As part of the JPY, a series of public debates were held in November and December 2001, involving young people from all across BiH on one side, BiH Presidency member B. Belkić, Council of Ministers Chairman Z. Lagumdžija, the Chair of the BiH parliament S. Tokić, the prime ministers of both entities, A. Behmen, M. Ivanić, the Federal minister for finance, N. Grabovac and the Vice President of the RS D. Čavić. It is clear that the authorities have difficulty accepting their responsibility for youth passivity, even though they are aware that the atmosphere is not conducive to youth participation.

- The privatization of enterprises and banks is indispensable for future economic development. The privatization process should be accelerated, the procedures for privatizing strategic companies should be improved and accelerated and restrictions which discourage or prevent foreign investors from participating in the privatization of companies and banks should be removed.
- Harmonization of the entity tax systems must be continued and the introduction of value added tax seriously considered, with due regard for the specificities of BiH (a "zero" rate and several tax grades), so that direct taxes can contribute a higher proportion of overall public revenue. The number of recipients of public revenue and their rights must be brought into line with the fiscal capacity of the economy in general.
- The grey economy is a problem for all the transition countries, but it is also a kind of social "buffer." Its transformation into a formal sector is a priority task of economic policy in BiH and should not be reduced to a matter of efficiency in inspection. Success will depend on general economic and legal issues.
- Obstacles to direct foreign investment, whether political or administrative, are numerous, rendering the competitive advantages of BiH (market size, labor costs, location, etc.) very disputable. It is not possible to remove all the restrictions and obstacles within a short period, as some of them stem from the very nature of the economic system. However, current administrative obstacles to entry to and exit from the market can and should be removed quickly and institutions responsible for regulating the establishment, operations and winding-up of businesses should be made more effective.
- A small and open economy which aims at becoming a part of the integrated European market must accept the rules set by the international financial institutions. The confidence of strategic investors will depend upon strict implementation of laws and regulatory frameworks which ensure the required degree of investment security on a long-term basis. To this end, strong meaningful state and entity structures will be vital. The creation of a favorable environment for growth in direct investment will most likely require a medium term outlook.
- Cash proceeds from the privatization of infrastructure and large enterprises should be used to establish special institutions to finance restructuring and export-oriented projects of medium and large companies. The interest rates, deadlines and grace periods of these loans should allow time to restructure and for financial inflows to start coming in. There would of course have to be very tight control of the use of the funds. The institution might be a state-level development fund/bank, coordinating with entity development funds/banks. Attracting foreign investment companies and experts to join domestic counterparts in establishing joint venture companies specializing in restructuring will be of paramount importance for the economic future of BiH.

- The displaced, refugees and returnees should be provided access to special funds for free training/retraining programs. The entity governments should establish funds for starting small businesses, with preferential arrangements for returnees and displaced persons. Such funds should provide softer repayment schedules and charge symbolic interest rates, given that the benefit resulting from job generation will be much higher than any possible damage caused by low revenue from interest. The funds could be sourced from the cash proceeds of companies being privatized by the Entity privatization agencies.
- Stimulating employment growth based on new, flexible forms, shorter working hours, contract employment and incentives for self-employment, produces better results. This can be stimulated fiscally, with newly established small and medium-sized companies in both Entities fully exempt from profit tax for two to three years and partially exempt for a further two years. A useful measure intended to suppress the grey market would be partial or total exemption of newly established companies from wage tax for the first two years of operations or, in cases of employment generation, as a consequence of restarting capacity.
- The educational system needs to be approached as a "development resource for society", and not as a "non-productive" activity. The educational system in BiH is not compatible with European educational systems in terms of curricula, norms and standards, financing, management, etc. In addition to work on harmonization, the educational system must be made more dynamic and flexible, if it is to meet the actual needs of the economy and society and respond to growing demand for continuous training and refreshment of skills and knowledge, that is, to respond to the challenges of the increasingly attractive global concept of "life-long learning."
- There are too many educational facilities, particularly in tertiary education, for so small and underdeveloped a country as BiH. They should be adjusted to the real needs of society. This should not be done by administrative and political decisions, but by stimulating competition among institutions of higher education and setting standards for them to meet. The existing structure should also be upgraded and made serve the development of the economy and society. In terms of quality, curricula need to be modernized, harmonized with the educational norms and standards of developed European countries and freed from anachronisms and political or ideological influence.
- Allocation of a minimum of 0.5%–0.7% of GDP for financing both development and applied projects to be carried out by the universities and the business sector should be a priority for the entities and cantons. Given that no country has yet managed significant growth without investment into research and development, this should be seen as a way to stop the "brain drain" and the departure of the young.

# PART 2

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## POVERTY AND HUMAN SECURITY



- 2.1 CAUSES OF POVERTY
- 2.2 POVERTY LINES
- 2.3 THE CONSEQUENCES FOR VULNERABLE GROUPS
- 2.4 THE CONSEQUENCES FOR PUBLIC HEALTH
- 2.5 THE CONSEQUENCES OF POVERTY FOR SOCIAL SECURITY
- 2.6 SOCIAL WELFARE REFORM
- 2.7. HEALTH CARE REFORM
- 2.8 PENSION FUND REFORM
- 2.9 REFUGEES, DISPLACED PEOPLE AND RETURNEES
- 2.10 GENDER EQUALITY



## PART II - POVERTY AND HUMAN SECURITY

Increased poverty in BiH is an undeniable fact. The trend regarding GDP per capita from 1990 to 2001 presented in the table on page 14 makes this crystal clear in both historical and comparative terms, even if, as discussed in section 1.4, neither the GDP nor population data on which it is based can be considered fully trustworthy.

On the basis of per capita GDP, the country is 65% poorer than it was before war and it is close to the bottom of all the regional rankings, whether Countries in Transition, former Communist Countries of Central and Eastern Europe or Stability Pact member countries.

To find a solution to poverty is the great challenge for BiH society. Society has to assume the main responsibility for enhancing domestic resources and building a sustainable economic, social and political system that offers its people a chance to free their creativity and gain access to the resources needed for a decent standard of living. It is not simple, but also not impossible, providing that political leaders create a more sober approach to realities and raise their public duties to a higher level.

Revival of the middle class is a fundamental precondition for the country's economic development and prosperity. This means that, within the limits of available resources, this problem should be given a central position in social policy. Anything that leads towards the integration of society has a sure role to play in putting Bosnia and Herzegovina back on track towards economic, social, political and moral sustainability.

Globally integrated development and mutually reinforcing economic, political and social reform are important ways to promote more rapid transformation and reduction of the various economic, political, ethnic, religious, social, cultural and other differences.

In this part of the report, we will, therefore, first review general causes of this increase in poverty. Then we will look at the impact on the household level and review the situation of both the new and the traditional categories of vulnerable group. Finally we will consider the impact on public health and other environmental factors.

In the remaining sections of Part Two, we will look at the various elements of the social safety net, namely social insurance, health insurance and pensions. Finally we consider in more detail two issues of particular importance to the profile of poverty in BiH: the status of refugees and the displaced and gender equity.

### 2.1 CAUSES OF POVERTY

Conflict and polarization on ethnic, religious, political and socio-cultural grounds remain a reality. There are at least three processes at work undermining the social cohesion and stability, on which structural reform and democratic consolidation depend. They are all related to poverty.

One is the emergence of new social groups in very vulnerable economic and social positions. This has had a significant impact on BiH's social structure and is a challenge to social policy and social reform generally.

The second is the gradual disappearance of the middle class, mostly downwards to lower social levels or out through emigration. This removes a classic engine of development.

The third is the aging of the population, again as a result of the war and emigration<sup>1</sup> and premature redundancy of many under current depressed economic conditions.

Among the causes of increased poverty in BiH, we single out the following three from section one:

- Firstly, the collapse of the economic system normally associated with transition;
- Secondly, the war, which went hand in hand with transition here;
- Thirdly the less than optimal economic management that has resulted from political stagnation in ethnically fragmented post-Dayton BiH.

As discussed in the previous section, transition means more than just the transformation of structures of state ownership and markets. It brings new causes of poverty, including chronic unemployment, failure of the social safety net, changes in patterns of family solidarity, economic emigration and brain drain, and a greying population. There is an increase in social dependency just as welfare and state-backed forms of social insurance are disappearing. There is also less and less financial, material or human capacity to fuel reconstruction and development. There is thus a clear need for more and better planning just as corruption and government by vested interests are peaking.

Ethnic politicking has resulted in a failure to focus on revitalization of the economy and employment. The situation regarding business sector restructuring and privatization can at best be called confused. It arises, in part at least, from a reluctance to face the fall-out of the collapse of "full employment", i.e. surplus employees, "wait-listed workers" and poor distribution of skills in privatized companies. Another major problem is straightforward obstructionism. Aside from the economic and business irrationality produced by delaying restructuring, access to fresh capital and development potential are practically at ground zero.

While most of this would have come with transition anyway, the War has aggravated matters, shattering the social cohesion necessary for a consensual approach to national development.

The inconsistent approach to the transition in ownership is largely a result of the refugee/displaced situation and the agenda of the ethnic extremists. Violations of economic, civil and social rights have become widely institutionalized, with poor regulation of access by returnees to employment or welfare, never mind their property. As a result, patterns of return

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<sup>1</sup> We remind the reader that, between the end of the war and 2001, 92,000 people of working-age left the country. UNDP's polls show that 42% of respondents would leave for another country if given an opportunity. See EWS Annual Report for 2000, pg. 31.

are asymmetrical and the aim of many of those returning is simply to sort out ownership or occupancy rights and other similar issues, rather than to take up permanent residence.

A large number of households were also left without breadwinners, with disabled members or simply as orphans. The disabled and war invalids have joined the ranks of social welfare beneficiaries, alongside the "working poor", pensioners, the displaced and minority ethnic groups.

As noted above, planned cuts in the army are further swelling their numbers. The skill base of demobilized soldiers is poor. Many young people joined the professional army because of their low qualifications, in the hope of further training. While some such projects exist, more will be needed as these recruits return to the streets.

It is not all black, however, as governance does appear to be getting stronger. Communication between the entities is becoming more open and direct, with fewer reservations and less obstruction. The influence of extremist ethnic, religious or other similar factions has diminished and tolerance has been increasing gradually. The conditions are being created for the political reconstruction of society, social security and public services and for the development of civil society.

New laws on social security, health care and pensions have been passed in both entities. These reforms have been rather piecemeal than radical. Reasons are lack of resources and the realistic demand by the international financial institutions that redistribution be reduced. There is considerable discrepancy between social security rights as defined in law and the resources available, as delivery has been devolved to the local level without sufficient provision for transfers or subsidiarity. Access to social rights thus varies significantly by region or local authority.

Till the end of 2001, there had, however, been little evidence that the development of specific programs to fight poverty was considered a priority. The Program for the Economic and Social Development of the FBiH to 2005 neither mentions nor calls for a special program to reduce poverty. There are some signs that this may be changing, as work on the PRSP, supported by the World Bank, UNDP and other UN agencies, among others, is expected to result in a draft strategy in late 2002. It remains to be seen whether it will issue in practical solutions.

## 2.2 POVERTY LINES

In this section we will be using two basic sources to provide a general picture of the impact of impoverishment on households in BiH. They are the UNDP Early Warning System reports and the Living Standards Measurement Survey mentioned above.

The LSMS survey is particularly important, as it has established for the first time a properly researched and calculated absolute poverty line for BiH. It defines extreme poverty as inability



to provide oneself the minimum food required for survival.<sup>1</sup> This is set at an equivalent of 747 KM per person per year or 2.05 KM (just under 1\$) per person per day. This gives 8.2 KM per day for a four-person family, and 249 KM per family per month.

The LSMS also calculates a general poverty line on the basis of the ability to provide for both minimum annual food and non-food (goods and services) needs. According to World Bank experts the general poverty line for BiH is 1,843 KM per person per year or 5.05 KM (just above 2\$) per person per day. Food thus accounts for 40.55% of basic living costs, non-food for 59.45%. For a household of four, we are therefore looking at a daily cost of 20.2 KM or a monthly cost of 606 KM.

It should be stressed at the outset that whether one is considered to be below a poverty line depends on whether one is considered able to meet certain needs, which would cost a certain amount if purchased with cash. The 747 and 1,843 KM figures thus represent an estimate in cash terms of the cost of basic food and non-food items. Household ability to meet these needs is measured by combining cash income with non-cash supplements like agricultural produce, by giving the latter a cash value. This allows the interviewed households to be assigned an income level in cash terms, which may be very different from what the household would report as its cash income.

#### The poverty line in BiH in KM

Extreme poverty – per person/year	747
General poverty – per person/year	1,843
Extreme household poverty – 4 members/month	249
Household poverty – 4 members/month	606

Source: LSMS 2001 – Poverty, May 2002

According to the LSMS no one in BiH is living in extreme poverty. Everyone has the resources required to meet minimum recommended annual food needs, which would cost 747 KM if purchased. This is consistent with BiH's HDI ranking.

19.1% of people, however, do live below the general poverty line of 1,843 KM per person per year. The LSMS also reveals a marked difference between the FBiH and the RS, with only 15.6% of people in the FBiH but 24.8% of people in the RS living below the 606 KM a month line. This mirrors the differences between the entities discussed in part one regarding salary levels, public revenues and unilateral transfers.

Generally speaking, the LSMS estimate of people living in poverty seems surprisingly low compared to the unfounded estimates which are liable to circulate on this topic. They should be welcomed as providing a valuable corrective, but one should beware of letting them lull one

<sup>1</sup> Based on expenditure required to secure minimum recommended food needs of 2100 calories a day. It is worth noting that survival is possible with lower consumption, but leads to malnutrition, etc.

into a false sense of complacency about poverty in BiH or supposing that the situation is much better than one had thought. At first glance, the LSMS results appear to be in strong contrast with the findings of the Early Warning System Annual Report for 2001. The EWS report shows 21% of people in the FBiH and 29.6% of people in the RS living in households with less than 300 KM a month in income.<sup>1</sup> This is a higher percentage than the LSMS apparently sees living with twice the amount. The EWS figures were based on self-assessment gathered by doorstep polling and, though one may suspect them of presenting an overly pessimistic picture, they have been relatively consistent over the year and it would be rash to dismiss them without further consideration.

A major source of the apparent discrepancy between the EWS and the LSMS is that the 300KM limit means something different in each case. They are based on much more stringent criteria than have previously been applied and one is in danger of comparing apples with pears. As noted above the LSMS do not measure cash income, but ability to satisfy consumption needs, however supplied. Not all consumption is paid for in cash. The EWS figures, on the other hand, do not attempt to account for the impact of non-monetary income and the various forms of exchange both of goods and services.

There is a different figure from the EWS reports, which is from this point of view more directly comparable with the LSMS results. Respondents were asked to assess the material conditions in which they were living in surveys carried out on a quarterly basis. In the December 2001 survey, 9.4% of people in the FBiH and 21.8% of people in the RS said they have difficulty covering all their food needs. Clearly this group corresponds approximately to the general poverty line established by LSMS. Further investigation is needed into the value of the non-cash supplements to household income of the poorest families before one can attempt a final reconciliation of these figures, or indeed get a proper picture of the true impact of impoverishment in BiH.

For the sake of completeness, we may note that according to the EWS, a further 39.7% in the FBiH and 49.1% in the RS said they had enough to eat but could not cover clothing needs. 40.8% in the FBiH and 25.9% in the RS could afford food and clothes and even save a bit. Very few families said they could afford expensive things (FBiH 8.7%, RS 2.6%) or whatever they wanted (FBiH 0.8%, RS 0.2%).<sup>2</sup>

When asked to indicate cash income to the household, as mentioned above, 24.6% of households said they were bringing in less than KM 300 a month, a further 46% said they were bringing in less than KM 1000 (FBiH 65%, RS 80%).<sup>3</sup>

To sum up, then we may note that there seems to be no extreme poverty in BiH in the sense of inability to meet minimum nutritional needs, in the absence of significant other calls on

<sup>1</sup> UNDP Early Warning System in Bosnia and Herzegovina, Annual Report, 2001. The data is based on the analysis of public opinion polls.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

income. Secondly, between 19% and 25% of the population lives in general poverty, defined in absolute terms. They have difficulty managing their food budget when other calls on income come into play. A further approximately 40% live on a fairly day-to-day, consumption oriented, basis, while the remaining 35% to 40% are able to accumulate capital through savings. The levels differ very significantly between the FBiH and the RS, with levels of poverty consistently higher in the RS.

It is therefore very interesting that, according to the LSMS a higher proportion of people in towns in the FBiH seem to live in poverty than those in towns in the RS, while the opposite is true of rural areas.

#### Percentages for BiH living below the poverty line by area

AREA	Urban	Mixed	Rural	Average
BOSNIA AND HERCEGOVINA	14.5	22.4	19.4	19.1
Federation of BiH	15.3	13.5	16.9	15.6
Republika Srpska	12.3	30.5	24.3	24.8

Source: LSMS 2001 – Poverty, May 2002

At first glance, the data for urban areas in the RS and FBiH may surprise. It is confirmed by the basic patterns reported through EWS. A high percentage of people live in urban areas in the FBiH, particularly in areas which were developed before the war as part of the primary industrial sector of the former Yugoslavia (Zenica, Tuzla, parts of Mostar, etc). Zenica is the most populous municipality in the FBiH. Tuzla is second. Zenica depends on the economic future of the metal production and finishing industries. As three times fewer people work in this sector than before the war, poverty in this municipality is a direct consequence of above average unemployment and below average salaries.

Tuzla is facing employment problems because of the uncertain future of its chemical industries and mines, as well as the very large number of people displaced from Eastern Bosnia still there, who as we note below are a particularly vulnerable group.

These facts may explain to some degree why the levels of poverty in towns in the FBiH are so relatively high. While urban areas in the RS face similar problems, there are fewer of them and post-industrial concentrations are relatively rare.

Again, it seems strange that rural poverty levels are higher in the RS than in the FBiH, given that there is far more arable land in the RS. However, rural people are a far greater proportion of the population in the RS than in the FBiH, which has some implications for access to land and the demand on local markets. It is also significant that it is largely from the areas in the FBiH that people went to the West in the sixties and seventies as *guest workers*. The economic

well-being of rural families in Western Herzegovina and North Western Bosnia is strongly connected to income sent by family members who have been abroad for decades, mostly in western Europe. Far fewer of the rural inhabitants of areas now comprising the RS went abroad to work at that time, so that transfers from abroad of this type are far less significant. Nonetheless, this discrepancy deserves further investigation.

Interestingly, both Entities have very high and nearly identical Gini coefficients, (FBiH 26.5 and RS 26.8), indicating that social stratification is very advanced in both entities. These findings correspond with the results of the Early Warning System public opinion polls, namely that around 3% of respondents can afford whatever they want while 16% find it difficult to feed themselves regularly.

### 2.3 THE CONSEQUENCES FOR VULNERABLE GROUPS

Several groups in Bosnia and Herzegovina are particularly susceptible to poverty.

As one of the largest population subgroups, returning refugees and displaced people face many problems related to basic human security and leading to poverty. They, particularly minority returnees, are among the most vulnerable of the population as they often have practically no income and are not adequately integrated into the social security systems. Those returning from abroad are in a slightly better position. In terms of employment, however, they share the destiny of the displaced. Special returnee employment programs have done little to improve the situation. Their situation is considered in more detail separately below.

The elderly are another very vulnerable group. The population of BiH is greying by the day. It is estimated that more than 12% of the population in BiH are older than 65. The main reasons for this imbalance are a declining birth rate, a longer lifespan and emigration by the young. The RS has a much older population than the FBiH (around 15% over 65). Average life expectancy at birth is 73.3 years, 74.8 for women and 70.8 for men. Women therefore make up 58% of the elderly and above the age of 75 the percentage of women grows steadily.

There is little reliable data to base further description of the elderly on. Some research suggests that more of them live in villages. The very old are mostly women and very frequently alone. Almost two thirds of the elderly in villages and one quarter in cities are illiterate, again mostly women.

For many of the elderly, their status as beneficiaries of various rights determines their financial/material situation. More than 80% receive pensions. Around 10% have some rights as disabled veterans, 5% are beneficiaries of social welfare. Only 2% are employed.

No more than elementary mathematics is needed to demonstrate that life in old age is one of poverty and misery for many, given that the average pension in the RS for the first six months

of 2001 was 110 KM and 170 KM in the FBiH, social welfare ranged from 10 to 100 KM, and most municipalities did not pay any anyway, the consumer basket cost 446 KM in the RS and 434 KM in the FBiH, health insurance is of questionable value, the scope of the health services are decreasing and most medicines are sold at market prices.

Their situation has been made worse, at least initially, by reforms of pension and invalidity insurance. Pension fund revenues are dependent on contributions from formally registered employees and are insufficient to provide normal pensions. The aging population combined with the collapse of the formal employment sector means more pensions are being claimed on the basis of fewer contributions. Traditional alternative sources of support are not available. Pre-war savings were long ago wiped out by bank failures. Family solidarity has weakened. Pensioner associations are only getting off the ground and the NGO sector is underdeveloped.

A more traditional category is the unemployed and their families. Unemployment is a leading cause of poverty everywhere in the world. Unemployment benefits here have fallen to minimal levels and the criteria are extremely strict. Many of the unemployed are of course working without being registered, which alleviates the situation somewhat for individuals, but reduces revenue to the government and the pension and social insurance funds. It also deprives them of basic social and labor rights.

A newly vulnerable group deserves special attention, as it is both worrying in itself and indicative of the extent of deterioration. We are referring to children. They include orphans, children of unknown parentage and those abandoned by their parents or taken into state care. In 2000, there were 2892 such children in the FBiH alone.

Poverty is a major cause of neglect/truancy, juvenile delinquency, growth in drug abuse and other forms of addiction and of juvenile prostitution. In the FBiH in 2000, correctional action was taken against 1756 juveniles. There is however no juvenile correction facility operational in BiH. Correctional actions should be only part of the answer, if disadvantaged youths and children are not to remain in the poverty trap.

The final very large and very vulnerable category is traditional social welfare beneficiaries. They are those who cannot work, have no income from property and no relatives to help them. They usually live in very poor accommodation, with young children or other dependents unable to work. Welfare benefit is vital to their survival strategies, as are (increasingly rare) occasional assistance in kind from the non-governmental sector and use of public kitchens.

Among this group are people with physical and mental disabilities, the elderly without family care, the socially maladjusted and so on. There are 191,841 such people in Bosnia and Herzegovina, 106,855 in the FBiH and 84,986 in the RS. Consistent with our comments above, the number of elderly without family care is growing.

### Social Welfare Recipients

Beneficiary type	1998	2000	VII/2001
Invalids – civil victims of war	67,060	10,301	10,823
Regular welfare beneficiaries	196,082	18,082	13,226
Intervention assistance beneficiaries	22,585	25,072	18.807
<b>Total</b>	<b>285,727</b>	<b>53,455</b>	<b>42,856</b>

The downward trend in beneficiary numbers might lead one to think that poverty is falling sharply. What the figures in fact show is rather different. In 1998, large numbers of the general population received social benefit. The 1974 Law on Social Security began to be applied again in both Entities in 1999. The drop in numbers is a result of more stringent application of the criteria, not of increasing prosperity.

#### 2.4 THE CONSEQUENCES FOR PUBLIC HEALTH

Poverty and war have had significant consequences for public health in BiH. Migration, disability and new environmental factors (living conditions, drinking water, nutrition etc.), devastation of health care facilities and the emigration of trained health care professionals are only some of the more important factors. The worsening social and economic conditions outlined above have also led to unhealthy lifestyles spreading, resulting in more chronic non-infectious disease especially among poorer groups.

Levels of smoking, alcohol and narcotics abuse are all higher, while poverty is leading to less healthy nutritional habits and lack of physical exercise. The people of BiH were among the leading cigarette consumers in Europe in 2000, with annual consumption of six billion units, or 4–5 cigarettes per person per day, and alcoholism is known to be a leading cause of traffic accidents and injuries at work, violent attacks and bloodletting. Targeted research has confirmed widespread and steadily increasing consumption of alcohol by able-bodied males.

Given these trends, it is worrying that a survey conducted by the BiH Health Insurance Institute in 2000–2001 suggests that 48% of the population in BiH are still being deprived of the right to work and so direct access to health care.

#### Mortality

It is no great surprise then that mortality is rising. In 1981 it was 6.3/000, in 1991 7.2/000, and in 2000 7.9/000. Data on the main causes of death have not been updated for 2000 at the level of BiH, but expert estimates suggest no important changes in either breakdown or ranking compared to before the war, when it was similar to other European countries.

## Main causes of death in Bosnia and Herzegovina in 1990

Cause of death		
1.	Circulatory diseases	31.1%
2.	Malignant growths	13.8%
3.	Unknown	13.3%
4.	Injuries and poisoning	7.9%
5.	Respiratory diseases	7.0%
6.	Other causes of death	26.7%
Total		100%

## Infant mortality

The data here is, at first glance, more encouraging. The infant mortality rate in BiH in 1991 was 14.5/000. The average for central and eastern Europe was 17.5/000, while the overall European average was 9.3/000. In 1998 a rate of 11.7/000 was reported. This data must be treated with caution. Registration is unsatisfactory and the rates presented by the cantons vary clearly in reliability.

## Diseases

Rates of disease in BiH, like mortality, were almost identical to those in other parts of Europe before the war. Risk factors arising from unhealthy lifestyles and chronic diseases were widespread in BiH even then. The table below shows how the ranking of major diseases in 1990. It has not changed significantly between 1990 and 2001.

## Morbidity in Bosnia and Herzegovina in 1990

Diseases		
1.	Respiratory diseases	31.55 %
2.	Cardiovascular diseases	15.50 %
3.	Diseases of the muscular-skeletal system	9.62 %
4.	Disease of the nervous and sensory systems	9.32 %
5.	Digestive diseases	8.45 %
6.	Urinary and genital diseases	5.50 %
7.	Skin diseases	5.22 %
8.	Injuries and poisoning	4.29 %
9.	Unknown	2.78 %
10.	Infectious and parasitic diseases	2.56 %
11.	Other diseases	5.20 %

### **Infectious diseases and immunization**

The main infectious diseases are influenza, enterocolitis, scabies, chicken pox, pharyngitis and streptococcal tonsillitis, measles and tuberculosis. They are largely attributable to socio-economic factors – poor living and hygienic conditions after the war. This is clearest with scabies, which was not among the top ten diseases in BiH before the war. Another problem is diseases such as zoonosis, brucellosis, Q-fever etc., which have appeared as a result of poor control of livestock during importation into Bosnia. In 1998, 93 persons were registered with Q-fever (25 in 1999).

Tuberculosis is also becoming more common, reflecting social conditions and inadequate treatment. The 1999 level of 70.66 cases per 100,000 people is considerably higher than the EU average (11.96) and the rates in neighboring countries (Croatia – 35.66; Slovenia – 19.78).

The risk of contracting venereal disease seems to be relatively low in BiH. Only 20 syphilis cases were reported in 1998. There were 33 cases of gonorrhoea and three cases of AIDS. Social factors may influence the levels of registration of these diseases.

80%–90% of children were immunized before the war. During and immediately after the war, coverage with vaccines was significantly reduced. An accelerated immunization program, implemented with UNICEF support, began in 1997 and a satisfactory level of vaccination has been reported.

### **Mental health**

The incidence of mental illness has increased considerably as a direct consequence of the war, especially among more vulnerable groups, such as the displaced, refugees, orphans, the elderly and demobilized soldiers. 15% of people in BiH are estimated to have suffered psychological trauma, in particular post-traumatic stress disorder. Rates vary by region/canton. The most common diseases are neurotic disorders associated with stress and affective mood disorders, 61% and 14% of all cases respectively. There are no accurate data on any increase in violence –murders and suicides – as a result of mental illness.

### **Environmental factors**

Before the war BiH suffered from a concentration of large industrial polluters and poor environmental protection legislation. The traditional polluters are slowly reactivating. Together with other factors, some of them discussed in the following text, this represents a serious problem for public health.

For example, the issue of wastewater has not been dealt with and there is no city in BiH that has found a real solution to the problem of public water and sewage. The beds of many rivers are being turned into dumping sites. The Una and Neretva rivers require protection if they are to be resources of clean drinking water.



Similarly BiH has not regulated the disposal of hazardous waste adequately. The 1989 Basel Convention on control of the movement of hazardous waste across international boundaries and its disposal is not really being implemented. There is no register of polluters and there are no waste recycling plants. The types and quantities of hazardous waste are not known, mechanisms for management of it have not been developed and there are no environmentally acceptable disposal sites. Until quite recently regular movements across the border were not regulated adequately. Illicit dumping sites exist around the country (e.g. Tomislavgrad, Bosansko Grahovo, Šipovo and Bosanski Petrovac) and a lot of liquid hazardous waste is released directly into the sewage system, without any collection of information beforehand, i.e. on toxicity.

BiH also received huge quantities of medicines and medical supplies as humanitarian relief during the war, a substantial part of which aid was unusable (large amounts of expired or irrelevant medicine like tablets for malaria or for losing weight, etc.). The World Health Organization calculated that 15% was perished and 30% was unusable. As a result new WHO rules were issued for the donation of medicines, in force since 1994. At the end of the war, rough estimates indicated that around 8,000 tons of medicines remained to be destroyed in BiH. These quantities are still stored in temporary ad hoc warehouses and they must be destroyed. Practical guidelines for disposal and destruction have been developed and tested, allowing classification and destruction of the waste without special incinerators and at a far lower cost than is usual elsewhere. Funds, however, are lacking.

Procedures now exist for the registration and control of medicines imported and produced in the FBiH, but testing to WHO standards is possible only in the FBiH. The parallel systems for drug registration are a problem unique to BiH and need to be addressed.<sup>1</sup>

### Drug Abuse

Before the war, the sale and use of narcotics in BiH was fairly successfully controlled. There was no local production of drugs such as cannabis and opium. War however led to the creation and entrenchment of the current network of weapons and drug smugglers in the wider region. The "Balkan corridor," (a route taken by drug traffickers from the Middle East to Western European), passes through BiH. The clandestine manufacture of illicit drugs emerged and evolved very quickly alongside consumption. Police data does not yet allow the people living off the drug trade to be identified, nor can they make a profile of the average 'neighborhood'

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<sup>1</sup> EU PHARE launched a project to draft environmental legislation in August 2001. These proposals should be adopted by the Entity and BiH Parliaments in the near future. The FBiH has enacted the law on ionized radiation, but laws and regulations on toxins, chemicals and chemicals management have not yet been developed. In November 2001, the FBiH adopted a law on drugs. More efficient environmental protection in BiH requires the status of environmental legislation at the level of BiH particularly laws on chemicals and chemical management and on toxins to be sorted out. A substantial set of laws in this field has been prepared and adoption of by-laws should be insisted on. The environmental body set up in 1998 at the State level should be set to work. Public awareness of environmental protection should be raised, dumping areas arranged and recycling programmes started from the municipal to the state level.

drug dealer here. Prosecutions have been principally of drug abusers, low level dealers and couriers and dealers. The fact that no one has been arrested so far who has not been a drug addict makes clear the limited results of action to date.

There is however reason to believe that those behind the drug trade are almost exclusively members of former (para)military groups. Close links with politics have helped them escape punishment.

Although somewhat limited, the results of seizures to date reveal that the drug business and consumption are rapidly expanding. Official estimates suggest that only about 15% of cases are being discovered at present. An assessment based on police and intelligence data suggests that hundreds of kilograms of heroin are being smuggled in and out of BiH on a yearly basis. Sources in the Federal Ministry of the Interior are convinced that this country is a huge storage depot for narcotics. Large consignments find their way to BiH quite easily, where they are divided into smaller parcels, normally about 30 kilograms, for further transportation to the West by couriers. This is a major reason why there are no seizures of large quantities. The porous borders are another serious problem. There are still about 100 illegal border-crossing routes not controlled by the state, making complete control of the entry of drugs into BiH impossible. Seizure is thus limited to drugs already imported.

Cannabis appears to be the main raw drug in BiH. A number of attempts to cultivate it in BiH have been intercepted (Gradačac, Bihać, Stolac, Doboj East, Bijeljina, Trebinje, Doboj). There are large plantations in southern BiH (around Mostar and Stolac). Most locally produced cannabis is distributed in Croatia (Zagreb, Split) and proceeds are used to import hard drugs into BiH. The city of Mostar suits the drug trade for geo-political reasons and the range of drugs on offer is fullest there, whence it is easily distributed to other areas.

In 1997, an ampule of morphine in BiH cost DM 10, three grammes of marijuana cost DM 10, a gramme of hash cost between DM 14 and 20, which was also the price of a tablet of ecstasy. A gramme of heroin sold at DM 100. Consumption of cocaine was also significant and its price ranged between DM 300 and 350 per gram. These prices have been stable and are the market ones today. They represent a significant incentive to developing the market.

BiH is in a particularly unfavorable position with respect to combating organized crime. The division in entities means there is no common approach and there is no national strategy for the fight against drugs, nor are there any indications that one will soon be in place. BiH has not yet passed a law on drugs and pre-war legislation, which is not in compliance with the international conventions, is being implemented instead. Given that drug trafficking is one of the most profitable businesses in the world, it involves well-organized criminal groups at the global level, which is why cooperation is required with the countries in the region and beyond. A prerequisite for such cooperation is the drafting of a national strategy, which would involve the following elements:

- A law on trafficking in and the use of chemical substances which can be used for illicit drug production in line with the relevant international conventions;
- A structure and a network for the implementation of official strategy
- Better cooperation between the police and the judiciary;
- Cooperation between the Interior Ministry/police, the Ministry of Health, the State Customs Service, the Ministry of Trade and Industry etc. at the state and the European levels;
- Membership of the international organizations combating drug trafficking.

Shorter-term practical measures include:

- Raising the awareness of those employed in health care and the pharmaceuticals industry of the possibilities for abuse of substances which can be used to make synthetic drugs;
- Organizing information and education centers for the fight against drugs and raising public awareness, especially among young people;
- Procuring the technical aids needed for drug discovery and testing and creating greater technical capacity for the analysis of bodily fluids;
- Establishing full control of the borders.

## 2.5 THE CONSEQUENCES OF POVERTY FOR SOCIAL SECURITY

Mass impoverishment, the war, the economy and poor public administration created new conditions for the social welfare and health care systems. Reform based on a realistic assessment of the level of social security that the state can afford to offer in future is the precondition of sustainable functioning. This is one of the greatest and most urgent challenges facing BiH, given that fact that cut backs will occur at precisely the moment when justified need for such services is greatest. International humanitarian aid has had an important role to play in softening the transition, particularly in health care.

During and immediately after the war, about US\$500 million was secured from donors or as credits for the rehabilitation of victims of the war, repair and development of health care facilities and the reorganization of health care services, health insurance and education. This amount was equivalent to the total annual resources of the health insurance funds of Bosnia and Herzegovina.

Rehabilitation and reconstruction of the pharmaceutical sector took about 10% of these funds and were relatively successful. Today, this sector meets nearly 40% of local demand. The reform of health care, health insurance and health education has only started (with another 10%).

Bosnia and Herzegovina will continue to need international cooperation and assistance in health care. Potential projects include working on the introduction of the international nomenclature for diseases, injuries, conditions and causes of death, reform of medical education, upgrading

medical technology, taking reform of primary care further towards family medicine, identification of harmful environmental substances (radiation, poison, mines, and so on).

As argued below however, the focus now needs to be on wholesale reform of the system, with international help or without.

International aid was in many respects less successful for the centers for social work, which were made responsible for distributing humanitarian aid subventions and other material benefits but not given much help in addressing their core tasks. The social welfare system was clogged with 'new' beneficiaries who would normally fall under other forms of social security. Anyone exposed to risk or encountering problems in their everyday lives that they were unable to overcome without organized assistance and support came to be considered a social welfare beneficiary. The provision of expert services was sidelined as too much of their time and energy was spent on assessments, administrative and legal technicalities and distribution.

Still today, the dominant forms of social welfare are financial benefit, provision in kind, institutional care and legal activities (deciding on rights and child care in terms of family and criminal law, etc.). Residential institutions, relying heavily on international assistance, faced a struggle just keeping their beneficiaries alive.

As the role of humanitarian aid has gradually reduced, domestic, local resources are nonetheless being used more and more. There is however still an outdated and exaggerated belief in institutional and public systems. There has certainly been no transition to market conditions. Non-institutional, alternative forms have been developed only to a rudimentary level. Human resources in society, which are potentially vast and include families, relatives and other micro social networks, have not been accessed adequately. There are still very few non-governmental humanitarian organizations and civil associations in municipalities and those that do exist depend mostly on donations and other external sources of revenue.

As with health care the condition of the system itself is an unanswerable argument for reform.

International assistance has not played as significant a role in the pension insurance system. The decision of the High Representative discussed below has however been critical in initiating reform of the system. If it has led to increased hardship for pensioners in the short term, it has at least prevented further manipulation of this form of basic benefit and has opened the way for further reform on market lines which is needed if a viable form of pension insurance is to be established which can meet current obligations towards the past subscribers and attract the confidence of current subscribers.

We will now review the processes of reform in each sector.

## 2.6 SOCIAL WELFARE REFORM

The state is responsible for the basic rights of individuals, and social rights are basic human rights. Post-Dayton BiH lost the social role of the state, as that responsibility was delegated to the entities and cantons. The Council of Ministers does not have a relevant ministry. Under present conditions one may look at social welfare (and pension reform) only at the entity level.

Decentralization has been accepted in principle by both entities and key responsibilities have been devolved to the municipalities (and the cantons in the FBiH). Although a basically sound model, this has created a diverse and fragmented system with very uneven levels of services. A modern, sustainable system however requires public consensus on the fundamental principles and goals of social welfare provision and in particular on breaking free from an outdated philosophy of paternalist welfarism and beneficiary passivity.

Legal reform has begun, with the enactment of a number of framework laws of importance to individual and family-level social security, in particular framework legislation for social welfare in both entities. But politicians have yet to present the essence of new social policy to the public. Progress is slow and, in an attempt to provide continuity, a large number of obsolete social and legal institutes, categories, forms and contents have been retained. Existing legislation has merely been amended and new beneficiary categories added, without fundamental change. In particular, welfare for the war-affected is regulated either by special provisions (disabled veterans) or they are added to the list of social welfare beneficiaries (refugees, the displaced, civilian victims of the war, families in need etc.). Under conditions of general impoverishment and marked social problems, it is not possible for the social welfare system to meet these needs with existing capacities.

The centers for social work retain a pivotal role, as the experts in the field, but neither entities nor municipalities are capable of ensuring adequate conditions for their work and there is a lack of readiness among those responsible for social welfare, from state to canton to municipality, to shoulder their responsibilities regarding social welfare needs and problems. In the FBiH, only four out of the ten cantons have enacted the relevant laws. They justify the situation by lack of funds for provision of the minimum rights envisioned in the "umbrella" legislation. There are also considerable differences between the laws in terms of the extent and scope of rights. Many municipalities have felt that the presence of international humanitarian organizations and the assistance they provide "released" them from these obligations.<sup>1</sup> Core institutions have thus been formally preserved, but poorly housed with poor technical and general working conditions, except for an initial fitting out with computers. Financial, organizational, technical and staffing conditions have deteriorated everywhere. Staffing problems are a serious obstacle to real modernization.<sup>2</sup> There is a shortage of certain skills, particularly graduate social workers,

<sup>1</sup> Many do not set aside funds for social welfare and delay any payment of benefits. Others set aside only a small portion of their funds for the centres for social work, anything between 0.2% and 12% of their budgets. Regular financial aid varied from 2 to 50 KM in different municipalities in 2001, while provisional or intervention financial aid is either not paid at all or in amounts anything between 5 and 42 KM.

<sup>2</sup> For example centres for social work in the RS employ a total of 347 workers, 64.3% of them trained, 25.7% with no training. The age structure is poor, as over 60% of employees have more than 30 years of work experience.

psychologists, special education teachers and pedagogues. Further technical training and re-education are neglected.

In all debate, the need to achieve an agreed level of solidarity in both entities, if minimum rights in this area are to be roughly similar, is stressed, but subsidiarity funds and funds from contributions and other resources intended for social welfare are often used for other purposes.

Finally, the entities, the cantons and even the municipalities are without developed modern systems for recording and tracking social welfare needs, social change or problems, so that very often the complete, valid data needed for the exercise, planning and development of social welfare activities are just not available (there is a need for research and planning institutions in this area).

### Recommendations

Given that reform is still at so rudimentary a stage, one may hazard a few general recommendations.

There must be a single social policy in both Entities and minimum joint standards of services throughout BiH. Other systems of social security must be developed so that social welfare can be separated from redistribution and in-kind and cash relief and the burden regarding non-traditional beneficiaries be reduced.

A good social welfare model, given current realities, would be a "mixed" one in which the public (state), non-governmental (civil), and private sectors all find their place in an equal partnership. In principle, the existing decentralized social welfare system has a sound base. Given agreement, coordination and joint action on the part of all three sectors, the resources do exist for such reform. Regular basic sources of financing must be provided for the social welfare services, stimulating the development of private services and the civil sector.

During transition, a realistic, sustainable and efficient system of basic social welfare for all individuals and their families needs to be built, through a system of minimum social insurance, with further rights being confirmed, as the capacities of the providers (local communities, municipalities and cantons) allow. The resources and obligations of municipalities and cantons need to be determined, accountability mechanisms established and support provided to associations, organizations and other forms of civil society at the local level in tackling social problems on terms of equality with public services. This would allow real decentralization, retaining the role of the Entities in ensuring a basic minimum of social and legal welfare for all citizens in social need and subsidiarity for local communities unable to provide for their members.

More room should be given to diversified and specialized services and less to material assistance and benefit payments. The role of the individual as a beneficiary of social welfare provision must move from a protected, passive one of tutelage towards an active, responsible and self-motivating one, both as regards the self and others. Through the development of forms of civil society by individuals organized around common needs, problems and interests, he must become an active creator of the conditions whereby his needs may be met. Precedence should be given to innovative projects, which will meet the social needs of individuals and their families as efficiently and effectively as possible and contribute to the prevention and reduction of social problems.

This is why it is a priority in the reform process to define social welfare beneficiary categories, while the rights of beneficiaries from the other social security systems (pensioners, uninsured persons, unemployed persons etc.) should be solved through special programs in which the other systems participate as well.

Institutional care of beneficiaries was a central characteristic of the pre-war system of social welfare in BiH. Even though in some cases it is the form of social care needed, it is nonetheless expensive and often ineffective. A series of "care options" should be developed, including the creation and development of a comprehensive and integrated network of agencies to offer various services and meet the needs of the vulnerable. This would be a dynamic network, made up of complementary inter-relations within and between the various social services and the beneficiaries – the family, the NGO community, private and state services. In particular, support and care should be provided for the elderly at home and in the community. The family as a basic unit of society and basic source of solidarity and assistance across the generations should be strengthened. It should also be given back responsibility for its members and its 'welfare' function, while the community must and should strengthen and support the family, devising different ways to support families.

Institutions have an important role to play in social welfare provision, in particular the centers for social work. These should be multifunctional central institutions in the local community. They can retain that function by opening up towards citizens, civil organizations and associations (NGOs), local communities, municipalities and their structures.

## **2.7. HEALTH CARE REFORM**

Health care before the war had significant achievements but also suffered from complex systemic weaknesses. The system was intervention oriented and hospital based with a high-tech bias. Primary health care was understressed. Preventive measures, health education and health promotion did not receive enough attention. Rising costs were outstripping resources. The State capped funds, but simultaneously extended free access to all forms of health care.

War did serious damage to health sector infrastructure. About 30% of facilities were destroyed and about the same percentage of health staff left the country or fell victim to the war.

The current system is locally/regionally oriented and financed through mandatory contributions, so there are several funds, i.e. one for each region. Individuals cannot choose which health insurance fund to make their compulsory contributions to. The contribution rate is higher than before the war (from 12% to 17%). Income from compulsory health insurance has been growing steadily since the war, but resources are still very limited compared to before.

#### Health care funding in BiH in 1991 and 2000

Funding sources	Amount per capita in \$			
	1991		2000	
	\$	%	\$	%
Health insurance funds	234	78.3	81.47	88.8
Other funds	15	5	0	0
Charges	10	3.3	5.99	6.6
Local levies	15	5	0	0
Budget	10	3.3	2.11	2.4
Humanitarian aid	0	0	1.38	1.3
Other sources	15	5	0.84	0.9
<b>Total</b>	<b>299</b>	<b>100.0</b>	<b>91.79</b>	<b>100.0</b>

The regulations governing health insurance affirm the principle of "universal public coverage." Insured individuals and their families are referred to indiscriminately as "insurees." Nonetheless, around 26% of people do not enjoy the status of insurees. Coverage varies by canton and region and even more noticeably by municipality.<sup>1</sup> Cost sharing (charging patients) has also been introduced. Broad-based exemptions are intended to alleviate unfairness for those on low incomes, as well as unequal access to health care for the elderly, children and the chronically ill.

Inequalities nonetheless exist, even within social welfare beneficiary categories, such as disabled veterans or financial aid beneficiaries.

Decentralized tax policy in the Federation also means that people in different cantons are treated differently. The cantonal assemblies determine who is required to make contributions for compulsory health insurance, with only the upper limit at which the contribution rate may be set specified by law (13% of salary or other forms of earned income and a further 4% paid by the employer). Inter-regional subsidiarity is therefore problematic, as rates are not the same everywhere.

<sup>1</sup> The data on insuree numbers must be treated carefully, as health insurance contributions are not paid for all categories with equal regularity. The unemployment bureaus, pension insurance funds or similar institutions are obliged to make contributions for the health insurance of unemployed individuals, soldier and conscripts, etc. The self-employed, such as farmers or craftsmen, are obliged to contribute on their own behalf.



Contribution collection practices also vary significantly from area to area and do not accord fully with the legal provisions. For example, in the first half of 2001 the health insurance offices in the FBiH collected only 61.3% of what they could have under the laws in force (195,908,258 KM out of 319,630,614 KM). The pension funds, the Federal Employment Bureau, the army and employers with obligations for "wait-listed workers " simply failed to meet their obligations.

There is, therefore, a clear need for rationalization and explicit determination of health care priorities under conditions that will strengthen mechanisms for subsidiarity and equality of access.

While, Dayton recognized the organization of health care and its financing as the responsibility of the Entities, as with Social Welfare, health care professionals and decision-makers have both accepted the need for thoroughgoing reform and fairly similar strategic objectives of health care reform and development have been adopted in both Entities.

The Ministries of Health of the FBiH and of the RS, in close cooperation with various international institutions and organizations, particularly the WHO, have in fact made significant efforts towards reform and restructuring.<sup>1</sup>

The main aim of health care reform in both Entities is to establish a more efficient, financially sustainable, patient-centered system that will provide quality care with a focus on public health and primary health care. Two practical documents have been developed to serve this reform.

- The Strategic Plan for Reform and Reconstruction of the RS Health Care System in 1997-2000; and
- The Strategic Plan for Reform of the FBiH Health Care System in 1998

In the FBiH, the most important component is decentralization, with delivery provided in the cantons but coordinated at the federal level, where strategic decisions will be harmonized with regard to resource development, public safety related to infectious diseases and the monitoring of public health. This should lead to more rational health care provision. As in social welfare,

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<sup>1</sup> In 1994, the FBiH Health Ministry initiated a process of reorganization of health care. In 1996, a Federal Health Care Program was drafted. In 1997, the Federal Parliament adopted the Law on Health Care and the Law on Health Insurance. The World Bank commenced implementation of the Essential Hospital Services Project in the FBiH in 1997. The Primary Health Care Project of the World Bank became operational in 1999. This culminated in 2000 in the FBiH with the Federal Ministry of Health, in cooperation with the WHO, developing a Strategic Plan for Reconstruction and Reform of the Health Care System. In the RS, the Ministry of Health and Social Welfare drafted the Development Strategy for Health Care to 2000 in March 1996. In 1997, the RS Government adopted the Health Care System Strategic Development Plan for 1997-2000. In 1997, the World Bank funded the Essential Hospital Services Project in the RS. An Act on Health Care Financing Reform in the RS was adopted in 1998. In 1999, the RS National Assembly passed the Law on Health Care and the Law on Health Insurance. The Primary Health Care Project of the World Bank became effective in 1999.

there will also be a move to shift responsibility onto the individual, the family, and the local community and so mobilize previously underutilized resources. As there are no cantons in the RS, there is no corresponding division of responsibilities.

Other goals in the FBiH include the development of a system of packages of essential services, accessible by all on the basis of solidarity/subsidiarity at the federal level, funded by compulsory insurance and with a better balance between the rights and duties of individuals and health care professionals. An agreement has been signed by the cantons on access to health care outside the area covered by the cantonal health insurance office under which an individual is insured. Another agreement is to be signed soon, on access to health care outside the entity (or Brčko District) in which they are insured. In the RS work is going ahead on defining an essential package of health care services accessible by all, including pharmaceuticals.

The main goals of **health care funding reform** in the FBiH and the RS are the same: consolidating resources within the compulsory insurance system, safeguarding funds by earmarked distribution and introducing complementary insurance on a voluntary basis, among other new methods and forms of funding such as budgetary subventions, donations and charges. A number of proposals have also been made regarding resource allocation, including the financing of health care providers by contracts with the health insurance funds. Transition from a system based on salaries to a mixed system, involving payment for services and on results, is planned. The entities are at different phases of implementation of these activities. The World Bank PFSAC II project has defined the method for collection of health care contributions, the functions of the auditor and the macro-distribution formula for allocation to the various health care levels.

In the RS, an independent health insurance fund has been established with branches in every municipality. It has started to pay health service providers on the basis of new contracts, which review and determine the scope and cost of the services. In the FBiH, the canton health insurance funds collect and distribute health insurance resources at the canton level, while the federal health insurance fund collects and disposes of part of the resources of these funds on the basis of subsidiarity at agreed percentages. With the exception of attempts in two cantons, no model has been developed for the new approach to contracting service providers.

Reform of **health care delivery** is being successfully implemented at the central level, but progress at the level of health institutions and health service providers has been rather slow. The lack of trained health care managers and the incompetence of existing management in health care institutions is a serious obstacle to the implementation throughout BiH.

**Primary health care reform** is however giving the patient more choice, strengthening the continuity of care, establishing more efficient systems of control over entry into the health care system and renovating infrastructure at the primary level. The emphasis is on family medicine

teams and further training and specialization. Health centers will coordinate work within a municipality, or wider area, and back up the family medicine teams.

Proper definition of the network of health care institutions in both entities is very important for the implementation of these reforms, in particular with regard to hospitals and specialized institutions. The health care institutions network plan specifies the number, structure and distribution of health care institutions to be maintained by the entity governments and the canton or municipal authorities. The system must be defined in such a way to ensure fair, accessible, good quality and comprehensive health care. The establishment of an efficient system of referrals, new mechanisms for the management of health care facilities and new payment methods are steps towards reorganization of the structure of health care institutions along these lines.

For such a system to work, health care information systems should answer practical questions such as who is providing what type of care to whom, at what price and with what results. Instead, congestion and the accumulation of manually or semi-automatically processed data, which become outdated rather quickly, are the rule. Existing data relate to hospitals rather than primary health care, and the existing health care information system does not obtain reliable data on people without access to health care or who use private services.

The objectives of health care information systems reform are similar in both Entities, namely to set up a network of individuals, skills and instruments for the collection, processing and analysis of the information needed for proper functioning of the health system and to train essential staff and medical personnel at all levels to ensure efficient, high quality performance of basic functions. Activities have not yet started on developing integrated and comprehensive information systems in the Entities, despite the fact that internal networks have been defined in pilot institutions under PHARE projects.

To sum up, achievements in reform are not spectacular in either entity but should not be underestimated either. Anywhere in the world, health care reform is a long term and painful process, with many obstacles in its path. It often threatens the interests of individuals and privileged groups in the system, which results in silent obstruction. Fragmentation of the health care systems of both entities and the lack of authority in central institutions over lower levels further exacerbate the implementation of reform. Inadequate leadership and inadequate staffing present additional obstacles to effective and faster implementation of reform.

### Recommendations

BiH policy regarding health insurance should aim to provide universal access for the population to health insurance and equality of access to health services for all citizens of BiH. As noted above, funding through compulsory health insurance implies a "basic package of health care

rights". Services not financed under the "basic package" may be left to the individual to deal with through private/voluntary insurance with "competitive profit-making private health insurance funds." They could cover additional risks on a voluntary basis, but not services already included under the compulsory scheme and so not be in direct competition with the compulsory insurance funds. There should however be no freedom to renounce the compulsory social coverage and take private insurance only.

Decentralization must certainly be a key element of this reform. The system has already been decentralized to the level of the Entities and the District of Brčko. Analysis is needed of reforms carried out in the period between the adoption of strategic plans and documents and today. On the basis of updated strategies for development of the health care systems, new strategic and operational plans for the implementation of health care reform will need to be developed and adopted. A clear division of responsibilities for public health is essential. In particular, effective coordination requires explicit definition of the responsibilities of the state, of the network of state institutions and of their terms of reference. The knowledge and skills base for health care management at the cantonal/regional level must also be adequately developed.

Social and economic determinants of health, such as employment, income distribution (social policy), housing and education, have a great effect on public health. Health policy should give priority to these health related factors among returnees, the displaced and other vulnerable groups – pensioners, invalids and war victims, the unemployed, women and children. Old age brings special health care needs, especially in a context of impoverishment and isolation. Health care provision for the elderly should be reviewed with this in mind, especially access to primary health care in the community and at home.

Further institutional strengthening is needed to establish a system of continuous training for health professionals; to communicate with the public and to present a vision of the future health care system, to raise awareness of the need for health care reform among political decision-makers, to seek domestic sources to finance reform and to reduce dependence upon foreign assistance;

## **2.8 PENSION FUND REFORM**

The pension system has improved since Dayton. The funds have stabilized; payment of pensions is more regular (regular in the FBiH; one month late in the RS). The debt to pensioners is being reduced (four outstanding in the FBiH; four and a bit in the RS). Inter-entity coordination is better. And so forth.

This falls far short of the actual problems, however, reflecting the attitude of state and society to the pension system and demonstrable weaknesses in the system itself. Changes to legislation have resulted in some improvements and standardization, but in principle the old model based

on intergenerational solidarity remains. The funds are fragmented, with incompetent management boards stuffed with political appointees. Other problems include the aging population, high unemployment, low salaries, excessively high levies<sup>1</sup>, and poor collection. Finally, there is excessive reliance on pensions as the only source of income in old age.

The minimum pension averages 98.5 KM (117 KM in the FBiH and 80 KM in the RS). This is sufficient to keep pensioners out of extreme poverty, but not above the general poverty line. Many individuals suffer sudden impoverishment on retirement due to great differences between final salary and provisional pension calculations.

Further reform of the pension system is inevitable. Some initial measures have been taken, with laws passed in both entities on pension and disability insurance (in 1998 in the FBiH, in 2000 in the RS). The High Representative's Decision on the Law on Organization of Pension and Disability Insurance (PIO) established a single Federal PIO Institute and set out its internal structure. In the RS, a Commission for Reform of the Pension and Disability System was created to produce a strategy, following on earlier legal amendments regarding the harmonization of pensions, the way in which funds obtained from the sale of public capital in privatization should be managed, and so on.

### Recommendations

The creation and implementation of a policy regarding the elderly is both a sovereign right and a responsibility of Bosnia and Herzegovina. We feel that there is a tendency to underestimate both the potential danger to society of implosion of the pension insurance system and the potential benefit to the economy of a vibrant insurance sector with funds to invest. State-wide targets and relevant strategies should be drawn up as an integral part of overall development plans, on the basis of specific national needs and goals and incorporating UN principles regarding the elderly (independence, participation, care, self-fulfillment, dignity).

For radical long-term reform, an expert group should be formed and an analytical review carried out of the experiences of other developed and transition countries, with a view to selection of the most suitable pension system model. Investigating the applicability of the model used in the neighboring Republic of Croatia would be a good start.

This reform can be a major development opportunity for BiH. If properly approached, it can enhance and strengthen capital markets, development of the banking and financial sectors and stimulate employment. All of which would in turn create fresh income for the funds. Competition by private pension funds would make fund management more rational and contribute to higher overall economic development. Care is, however, required. Pension reform legislation should be prepared with attention to detail so as to rule out possible abuses and

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<sup>1</sup> The rate at which pension insurance contributions are set is high, 24%. The rate in Croatia is 19.5%. However, this level is not sufficient for definite consolidation of the funds in BiH.

build confidence among potential insurees. To that end, laws on compulsory and voluntary pension funds and on pension insurance societies and the payment of pensions on the basis of personal savings would need to be drafted. New institutions needed include a central register of insurees, pension societies and pension funds, an agency for the supervision of pension funds and insurers, etc.

As with medical insurance, a reformed pension system should have both compulsory and voluntary aspects, reflecting intergenerational solidarity, reciprocity, capitalization, set contributions, the application of actuarial calculations, the spreading of risk and taxation of pensions arising from previously untaxed income.

Of special appeal to young insurees would be a three-tier pension system, in which the first level would be that of intergenerational solidarity, while the second would be that of personal savings. Both these systems would be compulsory. The third would be voluntary and would allow an individual to plan several pensions. Older pensioners would benefit from the stronger pension funds.

#### Basic data on pensioners, pensions and resources needed

	Republika Srpska	Federation of BiH	Bosnia & Herzegovina
Average pension (in KM)	110	196.98	140
Lowest pension/June 2001 (in KM)	80	117	98.5
Highest pension/June 2001 (in KM)	597	533.64	565.32
Guaranteed pension/June 2001 (in KM)	80	144.72	112.36
No. of pensioners in 2001	179,904	281,024	460,928
No. with minimum pension	54,179	75,800	129,979
No. with average pension	105,596	50,628	156,224
No. of pensioners/ social welfare beneficiaries	8,535	---	---
Total needed monthly to pay pensions (in KM)	30,753,943	47,774,080	78,528,023
Average amount paid out for monthly pensions (in KM)	19,840,693	42,000,000	61,840,693
Obligations outstanding from 2000 (in KM)	111,869,196	191,096,320	302,965,516

	FBiH	RS
Number in employment	410,808	221,628
Number of pensioners	271,199	179,904
Pensioners/employee	0.66	0.81

### Concluding remark on social security and health care

As is clear from the above, we now have enough experience to tackle the creation of a sustainable modern social welfare system adapted to the needs of most citizens in social need, with a clean cut of dependency on international donations and humanitarian aid. There is still a long way to go before we reach the goal and the process will involve controversy, obstacles and misunderstandings.

Prerequisites for progress are

- Reform must be simultaneously economic, political and social. Social policy should try to anticipate the social consequences of transition to a market economy and confront both the prolonged and the retarded effects of the war. It can contribute to social reconstruction and reducing social differences, if equal access by citizens to social benefits, facilities and services is ensured. The "somebody else should deal with my personal and family problems" type of mentality should be discouraged in social welfare, while non-state forms of insurance should be developed in healthcare and pensions.
- Special attention should be devoted to socially vulnerable and deprived individuals and families in the name of social integration and the establishment of a more equal society.
- The development of civil society is important for the creation of a more active, responsible and socially involved citizenry. This is not possible without strengthening the role of citizen in all matters of public or common interest. Development of various forms of local organization and association requires direct support and an understanding of both state and local government structures, of political players, domestic donors and sponsors, professional institutions and professional associations and the use of previous positive experiences in the establishing local civil initiatives and activities in the non-governmental sector.

## 2.9 REFUGEES, DISPLACED PEOPLE AND RETURNEES

Six years after Dayton, the return of refugees and the displaced is still a vitally important issue for BiH. Unfortunately, results are unsatisfactory for a variety of reasons. The process has involved a triangle in which there has been little or no synergy- the refugees and displaced, the local authorities and the international community. When the international community was providing funds for return, the governments of the entities did everything possible to hinder the process. Now, as political relations thaw and the powers-that-be are beginning to accept the new realities, it seems, unfortunately, that the international community is drawing back. The international funds that would finally bring the whole process to completion appear to be running out.

This raises questions about how the international community intends to closeout its presence in BiH, given that one reason it is here is to enable all those expelled to return to their homes. For the moment however, let us review each group separately.

## Refugees

There are still 613,700 refugees<sup>1</sup> accommodated outside BiH.

328,900 have permanently solved their status in the countries hosting them and are no longer potential returnees to BiH. It can be assumed, although data is not available, that these are mostly young, educated people, a heavy demographic loss for BiH with lasting negative consequences.

The remaining 284,800 refugees are in need of a permanent solution, which means that unless conditions are created in BiH for their sustainable return, most of them will try to integrate locally. 78% of them live in either Yugoslavia or Croatia.

Around 372,200 refugees have returned to BiH since the signing of the Dayton agreement. 342,848, or 92.12% returned to the FBiH. 29,345 or 7.88% returned to the RS. 68.98% of returning refugees were Bosniaks, 19.31% Croats, 10.68% Serbs, while 1.03% were "others." Of those who returned to the FBiH, 73.18% were Bosniaks, 20.30% Croats, 5.53% Serbs and 0.99% were "others". Of those who returned to the RS, 84% were Serbs, 19.94% Bosniaks, 7.74% Croats and 1.49% were "others"<sup>2</sup>.

As noted above, it was those with secondary and tertiary qualifications who succeeded in fleeing the country. The individuals accepted were the ones who suited the needs of the host countries and their models of assimilation. They represented, to a large extent, the population section capable of adapting to new technologies, upsetting the balance of skills available in BiH. The skills that helped them find asylum abroad have helped them adapt to life there. Mass repatriation has in general affected the older and less skilled.

## Displaced People

There are currently 555,700 displaced people in BiH, 283,900 in the FBiH, 248,300 in the RS, and 23,500 in Brčko District.

One hundred percent of all displaced people in the FBiH are Bosniaks or Croats. There are no Serbs among them. In the RS displaced people are exclusively Serb.

The return of a total of 368,898 displaced persons in BiH has been registered since the signing of the Dayton Agreement. Adding to this the number of refugee returns one gets a total of 741,091 returns in and to BiH. As 2.2 million were forcibly expelled at the beginning of the war, return so far amounts to a mere 30% or so. There is an obvious disparity between registered returns to the FBiH, 79.28%, and to the RS, 19.83%. The main reason is political obstruction at all levels of

<sup>1</sup> Information on the implementation of Annex VII of the General Framework Agreement for Peace – Ministry for Human Rights and Refugees.

<sup>2</sup> Ibid



government in the RS, which generates a general atmosphere of fear and insecurity among returnees. The indecisiveness of the international community and the lack of a systematic approach to the problem have only cemented the existing unfavorable ratio of returns.

The displaced were in a different situation from refugees, as their skills and orientation were not usually well suited to their new environment. This was particularly the case for those who fled rural areas and settled in cities. Today, when the time has come to return to their original homes, however, many are reluctant to go. Their attitude is justified in so far as return to villages is impossible unless agricultural tools are provided, cattle supplied and the land demined.

### Minority returns

As minority returns are by definition those involving the most hardship it is on them that we will now focus. Between Dayton and March 31st 2001, there were 210,759 minority returns, which is 28.44% of all returns by refugees and displaced people. 149,715 were to the FBiH (33,019 Bosniaks, 56,749 Croats, 59,153 Serbs and 794 others), 71.04% of all minority returns. During the same period, there were 54,408 minority returns to the RS (49,635 Bosniaks, 4,209 Croats and 564 others), 25.82% of the total. All returns to Brčko have since last year been registered as minority returns by displaced people. They make up 3.15% of the total.<sup>1</sup>

The pattern is one of improvement.

In the three years from 1996 to 1998, minority returns<sup>2</sup> involved only 86,714 people, making up 15% of all returns at the time. This was disappointing and they acted as an indicator of the political maturity of the entity authorities and their commitment to cooperation. There was clearly no political will at any level in either of the entities. In fact everything possible was done to discourage return, from putting the returnees in physical jeopardy to the adoption of laws on abandoned property, and other administrative measures.<sup>3</sup>

The unsatisfactory dynamic of returns led to a search for appropriate political and socio-economic solutions in 1999–2001. Flaws in the previous policy, basically the lack of an integrated approach and the lack of a BiH-level return strategy, led to concrete new activities.

There was in fact a significant turnaround in 2000 and 2001. There were 67,445 minority returns reported in the year 2000, a 64.79% increase on 1999. The same trend continued into 2001.

<sup>1</sup> Ibid.

<sup>2</sup> "The return of members of an ethnic group to areas where a different ethnic group is in the majority," according to the Human Development Report 1998.

<sup>3</sup> The task of tackling the problem of the restoration of property rights to all persons who have temporarily lost them has been entrusted to the Commission for the Real Property Claims of Refugees and Displaced Persons (CRPC).

Among the activities which may have helped were the establishment of a Ministry for Human Rights and Refugees at the state level to protect the rights of refugees and displaced persons and coordinate the activities of the relevant entity ministries and of international and national organizations. State law was passed to regulate this area<sup>1</sup> and an Instruction<sup>2</sup> issued which deal with return in a concrete manner.

New laws<sup>3</sup> have also been passed at the entity level, with the aim of defining clearly the status of refugees and the displaced and specifying in legal terms procedures for their return. These include "the laws on amnesty in the FBiH and the RS, on property legislation in both entities, then the regulations guaranteeing the right to restoration of occupancy right and the right to purchase socially-owned apartments, facilitated registration following return, customs regulations, establishment of multiethnic authorities, the police, the judiciary etc."<sup>4</sup> A "Protocol on Simplified Return Procedures," has also been drafted, to make it easier for returnees to prove citizenship and obtain travel documents.

This has created a comprehensive legal framework to enable the return process to function unhindered.

To achieve cohesion between the continuously resident and the returnee population in BiH is not an easy task. It depends on the existence of a conducive social atmosphere in BiH. One must identify integrative forces that bring the members of these groups together, and by properly orienting them influence the social atmosphere and strengthen social cohesion.

Better mutual cooperation between the state and entity ministries, with the constant presence of the Office of the High Representative, has created a climate of much greater political tolerance for returnees. Regional activities of the Ministry for Human Rights and Refugees within the framework of the Stability Pact are also particularly significant. Cooperation with neighboring countries has been established and will be formalized by bilateral agreement. This is a *sine qua non* if return is to be dealt with in a satisfactory manner. Finally, the BiH Constitutional Court has issued a decision on harmonization of the entity constitutions, which will be important to successful return throughout BiH.

In short, "the real reason for the increase in the number of returns is threefold: the impatience of refugees; a new, more efficient approach by the international community; changes in the psychology of the majority and minority population."<sup>5</sup>

<sup>1</sup> The Law on Refugees from BiH and Displaced Persons in BiH (Official Gazette BiH no. 23/99).

<sup>2</sup> Instruction on the return of refugees and displaced persons on BiH territory (Official Gazette BiH no. 22/99).

<sup>3</sup> The Law on Displaced Persons – Expelled Persons and Refugees – Returnees to the FBiH, and the Law on Displaced Persons and Refugees – Returnees to the RS.

<sup>4</sup> Information on the implementation of Annex VII of the General Framework Peace Agreement – Ministry for Human Rights and Refugees

<sup>5</sup> ICG Report, no. 95/May.

## Obstacles to Return and Reintegration

### Repossession

For those who do return, the first problem is shelter. Many still have difficulty in re-establishing possession of property, unless it is uninhabitable.

The slow implementation of the property laws in both entities is a concrete obstacle to the return of refugees and the displaced. Returnees have been facing deliberate delays in the processing of their claims, postponements of scheduled evictions, slow or no resolution of multiple occupancy cases, and other forms of obstruction. Five international organizations dealing with the return of refugees and displaced persons and the repossession of their property (UNHCR, OHR, OSCE, CRPC and UNMiBH) created the Property Legislation Implementation Plan (PLIP) to tackle this issue directly. As a result the percentage of solved property cases has increased from 18% to 21%, but the "overall implementation rate has remained unacceptably low."<sup>1</sup>

A total of 253,914 property claims have been filed. 110,525 relate to socially-owned property and 143,389 concern private property. 120,262 decisions have been issued, so that 47% of cases have been solved. 77,608 relate to property in the FBiH, 41,202 in the RS, and 1,452 in District Brčko. These figures do not include the repossession of destroyed property, business premises or land.

### Reconstruction

Returnees do of course receive help in repairing their homes. Assistance is mostly in kind, rarely in money. A significant increase in the number of minority returns over the past two years has not been accompanied by the provision of funds for reconstruction. According to International Crisis Group estimates, "the available donor assistance is sufficient to support reconstruction for only 10% of spontaneous returns."<sup>2</sup> According to the High Representative, "at the moment, international and national donors have approved funds for the reconstruction of 7,500 homes, but 19,000 more families are waiting for assistance."<sup>3</sup>

55 million KM have been set aside from the state and entity budgets, which is not nearly enough for the actual needs for return. A Council of Ministers working group is currently undertaking activities aimed at finding ways for BiH to take credit-loans of up to 200 million KM for the needs of reconstruction.

For many, the investment in both money and work required to repair a home and to support one's family while doing so is impossible and can lead them deeper into poverty.

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<sup>1</sup> HRCC Report on the human rights situation.

<sup>2</sup> ICG Report, no. 95/May.

<sup>3</sup> Dnevni Avaz, no. 2160, of 2/11/2000, Petrisch seeks money for successful returns.

### Employment

In the absence of adequate support, how people who do recover possession of their property under fairly hostile conditions are to support themselves is an increasingly pressing problem. Whatever one may think of the practice, those who recover possession of urban properties can sell them and use the proceeds to build a life for themselves in their new environment. This is not the case for rural returnees.

Those who can work are rarely able to return to their former workplaces. The existing employment legislation in both entities stipulates that priority in employment should be given to demobilized soldiers, disabled veterans and the families of fallen soldiers. This basically constitutes discrimination against minority returnees, as they were by definition on the "other side." These laws also ignore civilian victims of the war, so that this category is rendered even more marginalized and vulnerable.

Given the condition of most state owned companies, this would not be much of a solution in any case. But they can not expect to find employment easily with local entrepreneurs, as tensions between them and the host population have tended to harden into lines of division.

Of, course, many returnee families depended on agriculture before the war, but reestablishing such a livelihood requires significant investment in barns and tools and equipment, livestock, seeds, etc, not to mention fair access to local markets and the ability to survive until the land or animals begin to provide their fruits. Nor should one ignore the fact that most families involved in agriculture before the war used it to supplement income from employment in industry. Even for families that can exploit this source of income (i.e. have able-bodied members, access to land and to agricultural inputs), it can mean reduction to subsistence well below the poverty line, as the LSMS figures on poverty in rural and mixed urban/rural areas show. Returnees attempting to establish their own companies face a similar lack of capital.

A Labor Law is needed at the state level to regulate fundamental employment rights. There is clearly also a great need for more financial assistance and the provision of feasible alternatives like start up schemes for Microenterprises and SMEs. Integrated policies have not been fully developed yet.

Other basic problems include:

- The ethnic division of the education system and the lack of schools in minority return locations.
- The lack of any legislation to allow transfer of health care contributions from one entity to the other represents an obstacle to accessing health care for anyone insured in one entity but resident in the other. This is a particular problem for returning pensioners.
- The entities allocated disproportionate numbers of vouchers to their respective soldiers, which constituted discrimination against citizens who fled or were forced to leave their homes during the war.

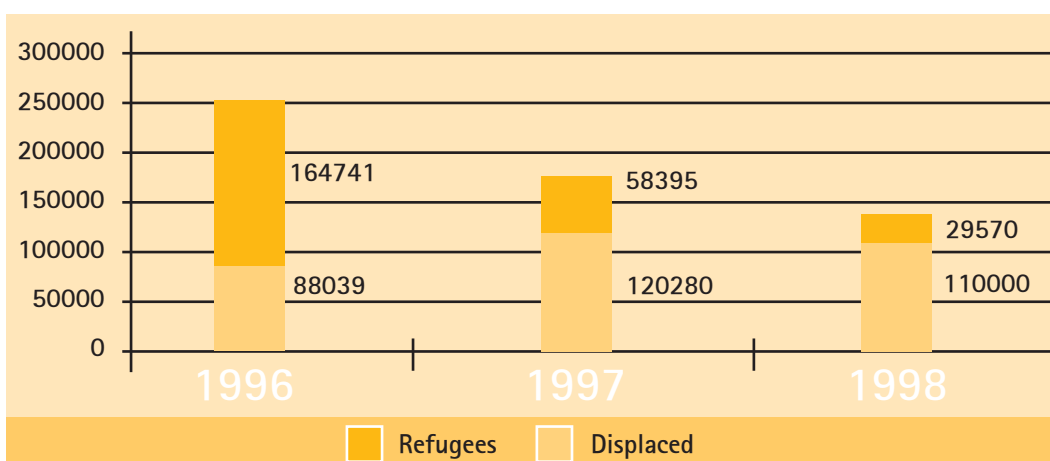
On a more positive note, and Agreement on Mutual Rights and Obligations in the Implementation of Pension and Disability Insurance, signed in May 2000, allowed pensioners receiving pensions from one fund to continue receiving from the same fund, regardless of residence. This allows returnees to continue receiving pensions from the same fund even after they return to the pre-war homes. Unfortunately there is no mechanism for inter-entity transfers. The problem has been solved by an agreement between the funds and the public enterprise PTT BiH (Postal Bank) and the RS Post Office.

This overview has reviewed the most important, but not all the areas of concern to normal returnee life. Unless these concerns are dealt with, disintegrative forces will continue to be at work. Unable to meet their normal needs, returnees as a group will find themselves in a collectively frustrating situation.<sup>1</sup> Their most likely escape route out of such a situation is migration, or more specifically emigration for those for whom that is an option.

The return process has been learning to take its first steps for seven years now. It has failed conspicuously to stand firmly on its own legs. There is an evident need for redefinition of the roles of the main actors, and tired refugees and displaced people have been taking things into their own hands. If the international community wants to preserve what results there have been in the field of refugee return and complete its mission in BiH, it will have to offer more substantial financial support.

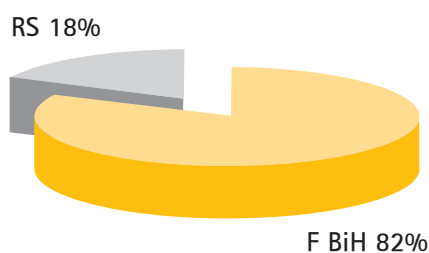
On the other hand, the BiH authorities must realize the significance of the return of refugees and displaced persons for the future of BiH. They must develop a vision, methods and instruments for the implementation of planned activities. Restoration of social cohesion in BiH is the *sine qua non* of overall social prosperity and entry into Europe.

**Return to BiH 1996-1998**

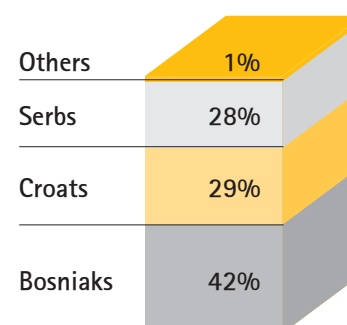


<sup>1</sup> Social Psychology – M. Zvonarević (The Group in Frustrating Situations)

## Return by Entity % 1996-1998



## Ethnic composition of "minority returns" in/to BiH

IMPLEMENTATION OF PROPERTY LAWS  
- GENERAL OVERVIEW as of 31.03.2001

	Public property			Private property			TOTAL			Current effectiveness rate *
	No. of claims filed	No. of decisions	No. of repossessions	No. of claims filed	No. of decisions	No. of repossessions	No. of claims filed	No. of decisions	No. of repossessions	
Federation BiH:	79,818	48,576	23,015	45,450	29,032	17,351	125,268	77,608	40,366	
%		61%	29%		64%	38%		62%	32%	32%
Republika Srpska:	28,594	10,738	5,097	92,177	30,464	12,457	120,771	41,202	17,554	
%		38%	18%		33%	14%		34%	15%	15%
District of Brčko	2,113	608	590	5,762	844	745	7,875	1,452	1,335	
%		38%	18%		33%	14%		34%	15%	17%
TOTAL BiH:	110,525	59,922	28,702	143,389	60,340	30,553	253,914	120,262	59,255	
%		54%	26%		42%	21%		47%	23%	23%

Source: Local authorities/ PLIP focal points (Property Legislation Implementation Plan)

\* Efficiency percentage = number of repossessed units/number of property claims filed

## 2.10 GENDER EQUALITY

The statistics offices do not provide sufficient gender aggregated data for BiH to allow adequate presentation of the situation in the country.<sup>1</sup> Our own calculations indicate that the Gender Development Index, at 0.707 is a touch lower than the HDI of 0.718. Not surprisingly, then, this again places BiH at the bottom of the ranking tables for Central and Eastern Europe and the Stability Pact, though lack of data for other countries makes comparison with the other CIS states less clear. While there are some grounds for supposing that the reliance on pre-war figures for some of the calculations, particularly regarding female illiteracy, which was concentrated among elderly women, may have lowered the result, the main damage was done by the index of equality of distribution of income, which is very low. In this section, we will review how this fundamental inequality is reflected in politics, education and the feminization of poverty. As an issue of increasing concern which results directly from the feminization of poverty and reveals the vulnerability of women's rights once the rule of law begins to lose ground, we take a final look at BiH as a haven for trafficking in women.

### The Political Framework

Communism was the official ideology in BiH from 1945 to 1990. This meant official, constitutional and legal equality, the interests of men and women being considered identical and subsumed under common class interests. The traditional role of women, oriented as it had been almost exclusively towards house and family, began to change. Compulsory free primary school education, employment and, from 1974, participation in self-management, helped create an image of the class-conscious and emancipated woman: mother, worker and stakeholder. Positions were reserved in parliament for women, (24.1% of the BiH Assembly in 1986, 17.3% of the local authorities).<sup>2</sup>

Communist ideology however relied on an authoritarian, patriarchal culture, so that in reality gender inequality was merely expressed in another form. Woman kept her primary role as housewife and mother, and so had two work places: a full load in the house and under the same terms as men at work, but in lower paid jobs. In politics and in decision-making, women's presence was symbolic, as they had no serious impact.<sup>3</sup>

The first multiparty elections in 1990 reflected this reality. Out of 240 elected representatives in the BiH parliament, only 7 were women (2.92%). Women held only 315 (5%) of the 6,299 municipal assembly seats. The elections were held on a proportional representation model – closed party lists – indicating that the political parties, regardless of political orientation, were

<sup>1</sup> One of the conclusions of the round table on "The Gender-based Approach to Social Policy," organized on 26 Oct. 2001 in Sarajevo by IBHI (the International Bureau for Humanitarian Issues)

<sup>2</sup> NGO Report on the Human Rights of Women in Bosnia and Herzegovina.

<sup>3</sup> See: Franjo Kozul: Self-management and the working status of women in Bosnia and Herzegovina, p. 12, – Research results, Sarajevo, 1972.

not putting women on their lists, or were putting them towards the bottom, with very slim chances of being elected.<sup>1</sup>

Given that elections were not held again until November 1996, women were barely present on the official political scene during the war. Conservative leaders saw a chance to restore the "natural order," with the house and the family allocated to women, and the economic, political and public spheres of life belonging to men.

Women did begin to organize themselves in the non-governmental sector. During the war, more than 50 different women's organizations were established in the Federation of BiH alone. All sorts of issues came within their scope: women and violence<sup>2</sup> (particularly mass rape and the abuse of women in the politics of genocide and ethnic cleansing)<sup>3</sup>, women refugees<sup>4</sup>, women and the economy<sup>5</sup>, women and social issues<sup>6</sup>, women and politics<sup>7</sup>.

Gender equality has been on the margins of political interest, compared to other issues facing the state. One can, however, see positive change and it has become increasingly relevant as a political issue. With international support, local women's and other non-governmental organizations have made the issue of gender a political one, launched demands for greater political participation by women in elected political bodies and led campaigns promoting women's inclusion on party lists, to make public opinion more sensitive to gender equality and to the issues of domestic violence, discrimination and the human rights of women.

This is clearly illustrated by comparing the results of post-war elections. In 1996, according to the OSCE, the situation was as follows:

- BiH House of Representatives: 1 woman out of 42 seats (2.38%);
- FBiH House of Representatives: 7 women out of 140 seats (5%);
- RS National Assembly: 2 women out of 106 seats (1.89%).

Obviously, regardless of claims to heterogeneity in other respects, political attitudes towards women and political participation were more or less standard. This was a reflection of relations inside political parties and women's lack of influence on the creation of party policy and putting together election lists. The elections also reflected the political marginalization of women during the war. The lists were of candidates who were politically active, had high profile and had 'proved themselves' during the war.

<sup>1</sup> See: Jasna Baksic-Muftic: Election Analysis and Election Law – Political Representation of Women, Human Rights, no. 3, Sarajevo, 2001.

<sup>2</sup> The issue of violence has been particularly dealt with by the "Medica" Association of Women from Zenica.

<sup>3</sup> Judgments related to rape crimes, delivered by the International Criminal Tribunal for the former Yugoslavia (The Hague Tribunal).

<sup>4</sup> An example is "Mothers from Srebrenica."

<sup>5</sup> E.g: "Tera" from Sarajevo, bringing employed women together.

<sup>6</sup> Associations "Summeja," "Women to Women," "Bar," "Biser."

<sup>7</sup> The Association of Women-voters.



The 1997 municipal elections did not change much. Women accounted for 6.15% of local representation in the FBiH, 2.4% in the RS.

Among other voices, the First Conference of BiH Women<sup>1</sup> called for women to be equal partners in the creation of a democratic Bosnia and Herzegovina and, as experience elsewhere showed that a critical mass is required for women to exert influence on political life, for women to make up 30% of all elected political bodies. As a result, the Provisional Election Commission adopted Rule 7.50, obliging political parties to include at least 3 women among the top 10 candidates. After the 1998 elections, the situation was as follows:

■ BiH House of Representatives:	26%;
■ FBiH House of Representatives:	15%;
■ RS National Assembly:	22.8%;
■ Cantons in FBiH:	18.46%.

BiH was now 10<sup>th</sup> in the world in terms of women in parliament.<sup>2</sup> The quota introduced women into political life despite resistance from political parties<sup>3</sup>, strengthening their overall position and breaking up the exclusively male image of politics and increasing public awareness of individual women in politics.

In 2000, a proportional representation model of open lists was applied. This yielded the following results:

■ BiH House of Representatives:	2 seats (4.76%).
■ FBiH House of Representatives:	24 seats (17.4%) in 5 out of 17 parties.
■ RS National Assembly:	14 seats (16.86%) in 7 out of 13 parties.
■ Cantons in FBiH:	57 seats (18.59%).

In traditional environments, the open party list system disadvantages women and minorities, so these results may be considered positive. Women's representation is less than under the quota and closed lists (1998), but still much better than after the first post-war elections. As regards women's representation in parliament, Bosnia and Herzegovina is the leading country in the region.

<sup>1</sup> The conference of women, held on 28 June 1996 in Sarajevo, on "Women Transforming Themselves and Society," was the first such conference involving women from both entities.

<sup>2</sup> Data obtained from IDEA (International Institute for Democracy and Electoral Assistance).

<sup>3</sup> Certain international organizations involved in election monitoring reported manipulation attempts by political parties, some openly ignoring the rule, others excluding experienced women politicians from the top-ten positions, putting forward younger female members instead who they assumed would be more susceptible to influence or more easily replaceable by male colleagues after the elections (although the OSCE applied the same rule wherever such changes were attempted) - NGO Report on women's rights situation in Bosnia and Herzegovina, p. 46

### The Constitutional Framework

The BiH Constitution confirms the equality of women and men through a provision banning discrimination, and indirectly through international human rights instruments. Article II relates entirely to human rights. Item 4 stipulates that "the enjoyment of the rights and freedoms provided for in this Article or in the international agreements listed in Annex I to this Constitution shall be secured to all persons in Bosnia and Herzegovina without discrimination on any ground such as sex, race, color, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status.."<sup>1</sup>

Article II, Item 2 further stipulates that "the rights and freedoms set forth in the European Convention for the Protection of Human Rights and Fundamental Freedoms and its Protocols shall apply directly in Bosnia and Herzegovina. These shall have priority over all other law."<sup>2</sup> Item 6 of the same Article stipulates that: "Bosnia and Herzegovina, and all courts, agencies, governmental organs, and instrumentalities operated by or within the Entities, shall apply and conform to the human rights and fundamental freedoms referred to in paragraph 2 above."<sup>3</sup> The guarantees of human rights and freedoms in the BiH Constitution are binding on both entities.

A draft "Law on Gender Equality" has been drawn up by a working group (BiH Ministry for Human Rights, Ministry for European Integrations, NGOs and experts). It is expected to work on gender integrated laws and state-level legislative harmonization.

For the time being, the Ministry for Human rights and the Ministry for European Integration are responsible for gender equality issues at the level of the state. The FBiH Gender Center deals with gender equality issues and the formulation and exercise of equal opportunities policy in that entity. In the RS, a Commission for Gender Equality has also been established.

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<sup>1</sup> Constitutions of Bosnia and Herzegovina, Federation of Bosnia and Herzegovina, Republika Srpska, and cantons of the Federation with amendments, Federal Ministry of Justice, Sarajevo, 1997. Among the agreements on human rights set forth in the Annex is the Convention on the Elimination of All Forms of Discrimination against Women. According to this Convention, Article 1: "discrimination against women shall mean any distinction, exclusion or restriction made on the basis of sex which has the effect or purpose of impairing or nullifying the recognition, enjoyment or exercise by women, irrespective of their marital status, on a basis of equality of men and women, of human rights and fundamental freedoms in the political, economic, social, cultural, civil or any other field." See the Convention on the Elimination of All Forms of Discrimination Against Women – published in Sevima Sali and Zlatan Terziž's International Documents on Human Rights – Instruments of the Constitution of the Federation of Bosnia and Herzegovina, Legal Center FOD BiH, Sarajevo, 1996. Article 3 of the Convention is also of interest, as it obliges the state to "take in all fields, in particular in the political, social, economic and cultural fields, all appropriate measures, including legislation, to ensure the full development and advancement of women, for the purpose of guaranteeing them the exercise and enjoyment of human rights and fundamental freedoms on a basis of equality with men."

<sup>2</sup> Constitutions of Bosnia and Herzegovina, Federation of Bosnia and Herzegovina, Republika Srpska, and cantons of the Federation with amendments, Federal Ministry of Justice, Sarajevo, 1997

<sup>3</sup> Ibidem.

Clearly, the debate on gender equality is gradually shifting from the sphere of non-governmental and women's organizations to the political and state authorities, which are beginning to take some action.

### Education

At the beginning of the 20<sup>th</sup> century, the literacy rate was 30%. Under communist rule the education structure of the population changed drastically. According to the 1991 census, the literacy rate was 91.1%. Of the 370,000 illiterate people older than 10, however, 305,000 were women (83%).

#### Illiteracy by age group in 1991

Age group	Illiteracy (%)
between 10 and 19	1.0%;
between 20 and 34	2.8%;
between 35 and 49	11.9%;
between 50 and 64	43.5%;
65 and over	40.8%.

Clearly, illiteracy is higher among older groups. Rural-urban differences are also important. Education, particularly of female children, was not a recognized need when most of the elderly rural population were growing up. Women, with or without schooling, were directed towards marriage, housekeeping and child-raising. Compulsory eight-year schooling, industrialization, and rural-urban migration changed the education structure of the female population.

Again, analysis of the 1991 population above 15 years of age gives the following:

	Men	Women
No schooling (1-3 primary school grades)	7.8%	25%
4-7 primary school grades	15.3%	19.1%
8 years of primary school	25.4%	23.5%
Secondary school	40.5%	24.9%
Technical college and university education	8.0%	4.7%
Unknown	2.9%	2.7%

In 1991, almost 70% of adult women in BiH had no more than primary education. The figure for adult men was 47%.<sup>1</sup>

The picture was better for the younger generations. Primary school enrolment in the late 1980s and early 1990s was between 96% and 98%. In 1991, girls were 49% of the secondary school population and 47% of the student population at the 45 technical colleges and universities.

<sup>1</sup> This and the following data is taken from: 1991 census of the population, households, apartments and farms, Statistical bulletin 265, Sarajevo; FBiH statistics Office, 1998 (text by Prof. Dr. Snjeđana Mrđen: Literacy of South Eastern Europe

1999–2000 data indicates that the trend for balanced enrolment has continued. 49% of secondary school students in the Federation were girls, 50% in the RS. Women accounted for 52% of enrolment at technical colleges or university. Professional orientation is however determined by gender and there are male and female professions. Female students usually opt for pharmacy, education, the natural sciences, mathematics, philosophy, dentistry and journalism. Male students opt for areas like physical education, electrical, mechanical and civil engineering, communications, criminology, mining, geology and metallurgy.

Bearing in mind that the balance in higher education is fairly even, it is revealing that of the 114 persons who received PhDs between 1996 and 1999, 91 were men and only 23 women. One possible explanation is a poor division of household and family obligations. Women are regarded first as housewives and mothers, and only then as businesswomen. The weak network of state services and benefits for employed women and mothers further diminish opportunities for continuous education. Nor does the traditional manner of bringing up girls build confidence for professional success in women.<sup>1</sup>

### The Social Sector

The feminization of poverty is a global phenomenon. Due to the overall inequality in which they live, women tend to be more affected than men. Female pensioners are generally worse off than male ones and their pensions are lower, as they were normally employed in lower paying jobs and conditions were different.<sup>2</sup>

Given that there are more women among the elderly (58%), that they have little or no education, that solitude and poor financial conditions are basic features of their lives, and that, on top of all that, in the FBiH 6,278 or 64.94% of the 11,425 elderly people without family care are women, we get a fuller idea of feminized poverty.

Transition has an unequal impact on men and women regarding labor and employment. It is well known that women were the first to bear the brunt of reform and redundancy and that it is more difficult for them to find new jobs. One reason is traditional attitudes regarding maternity leave, sick leave on account of children, limited availability for retraining and further education (due to family obligations), and the perception that men will do their job with more commitment and dedication. Another is the tradition that it is easier for the family if the woman is unemployed than if the man is, as he is considered the main provider.

There has been a noteworthy increase in single-parent households (mostly women) as a result of war deaths and because the refugee population includes a large number of single mothers whose male relatives were either killed or are missing (e.g. Srebrenica, Bratunac and neighboring areas), etc. An illustration from the FBiH, is that in 2000, 26,122 children were missing one parent. In 22,774 of these cases it was the father.<sup>3</sup>

<sup>1</sup> One of the conclusions from the round table on "the Gender-based Approach to Social Policy," held in Sarajevo on 26 Oct. 2001 as part of an IBHI Project.

<sup>2</sup> Women retired after 35 years of work, at 60, while men had 40 years of work, retiring at 65.

<sup>3</sup> Data from the round table on "the Gender-based Approach to Social Policy", organized on 26 Oct. 2001 by IBHI.

There is mounting evidence that domestic violence has become a serious problem, as a consequence of the war, destruction, poor economic and social conditions, alcoholism and the patriarchal culture, but there are no indicators precise enough to allow quantification. All research so far has been based on small samples, insufficient for detailed description of the phenomena. Even though the problem existed earlier, it was not spoken about in public. This is changing, partly thanks to a campaign by women's and non-governmental organizations and support from the international community. The draft Law on Gender Equality deals with issues of gender-based violence.

### Trafficking in Women

A newer and very serious problem in BiH is trafficking in people<sup>1</sup>, especially women. First reported in the early 1990s, shortly before the break-up of the former Yugoslavia, such trafficking has reached worrying levels in BiH over the past few years.

Europe is divided into "supplier" countries (Russia, Ukraine, Romania, Moldavia), transit countries (including the countries of the former Yugoslavia and Albania) and final destination countries (including both some transit countries and Western Europe). It is estimated that "around 200,000 women originating from Eastern European countries end up in the hands of European pimps every year." "The main reason is that this business is much less dangerous than drug trafficking, as there is still no international legal framework for its suppression."<sup>2</sup>

BiH is firstly a country of destination, and only then of transit. This is partly because of the market represented by the international community and SFOR, but also because of evident local demand for the services of prostitutes. Brutalization of attitudes towards women caused by the war, the break-up of families that resulted from ethnic cleansing, flight abroad or internal displacement (more often than not, it was the men who stayed behind), the loose legal situation and weaknesses regarding the rule of law have all contributed to the development of this form of "entrepreneurship". No data are available to suggest that local women are being recruited to perform this activity in BiH or in foreign countries. Lack of information does not mean that the phenomenon does not exist at all, but if it does, it is less developed.

Prostitution is carried out mostly in nightclubs and bars. According to UNMiBH, some 260 nightclubs in BiH are either known or suspected traffickers (Banja Luka 82, Bihać 20, Brčko 9, Doboj 23, Mostar 8, Sarajevo 23, Tuzla 95).

There are two ways to obtain a "workforce" for bars and nightclubs. One is for the owners to abide by the existing employment regulations and ask the employment bureaus for dancing girls. Given that no such occupation exists on the unemployment lists, the owners have the

<sup>1</sup> "Trafficking in people" relates primarily to people whose migration involves elements of coercion and exploitation. It involves the forced prostitution of women, children and men, slave labour in factories and on plantations, trafficking in children, trafficking in human organs, etc. See the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially in Women and Children, UN Convention against Transnational Organized Crime - Palermo 12 - 15 Dec. 2001.

<sup>2</sup> Ibidem.

right to employ foreign workers, engaged via agencies in Eastern Europe. This is the "legal," but more expensive way.

It is much simpler just to buy women on the markets at Timisoara (for Romanian and Moldavian girls), in Debrecin in Hungary and on the border between Serbia and Bulgaria. These women are resold at "slave markets" in Novi Sad for prices of around 1,000 DM and transported to Albania or BiH, for further resale at the "Arizona" and "Virginia" markets near Kalesija or "Crni pauk" in Orašje.<sup>1</sup> "The Swedish Justice Minister met a girl in Sarajevo who had been resold 18 times."<sup>2</sup>

On reaching their destination: "their personal documents are immediately taken from them, they cannot go out without escort, they are mostly not paid at all, or are paid very little, and they are very often forced to have sex without protection. One result is that almost every week one or other of these women has to undergo an abortion."<sup>3</sup>

Accurate figures are not available regarding BiH's role as a transit country, but it is estimated that "last year 10,000 women passed through BiH."<sup>4</sup> The route is Bijeljina, "Arizona," the Croatian border.

Earlier police practice was to arrest these women for prostitution and illegal stay (60 days imprisonment in the FBiH and 30 days in the RS, followed by deportation to Serbia, in effect returning them to the hands of pimps and people-traffickers). In October 1999 the High Representative issued a decision banning such deportations without previous consultation with the UNMiBH/IPTF. The arrested women were, as a result, offered the option of returning home.

In July 2001, the UNMiBH inaugurated a new program to combat trafficking, called S.T.O.P. It is the most comprehensive and probably the most effective approach to date. The local police are now obliged to report every case of arrest to the IPTF, who, following verification as to whether the person in question was a trafficking victim, organize transport to Sarajevo. They are accommodated in purpose-built shelters, which operate under the auspices of the International Organization for Migrations and the UNMiBH. IOM organizes their safe trip home (329 women to date, 10% under 18 years old). NGOs like the RING network, which was established with the aim of collecting information on trafficking in women and educating the victims, play an important role. The OHCHR coordinates international and non-governmental organizations and provides training for IPTF, local police, judges and prosecutors.

BiH has no law treating human trafficking. The BiH Constitution stipulates that "BiH and both Entities shall ensure the highest level of internationally recognized human rights and fundamental freedoms" and that "the rights and freedoms set forth in the European Convention

<sup>1</sup> "Nasi Dani," no. 86, "White Slavery in Sex Houses" - Dz. Karup.

<sup>2</sup> Ibidem.

<sup>3</sup> Report on Combating Trafficking in Women for the purpose of Forced Prostitution in BiH, Mara Radovanović, Ludwig Boltzmann Institute of Human Rights.

<sup>4</sup> Le Monde Diplomatique, "Europe and Sexual Abuse," no. 009, November 2001, pp.20-21.

for the Protection of Human Rights and Fundamental Freedoms and its Protocols shall apply directly in BiH. These shall have priority over all other law."<sup>1</sup> BiH has ratified a number of UN conventions relating to human rights including the Palermo Convention against Organized Transnational Crime (December 2000). BiH also signed the protocols on human trafficking and the smuggling of migrants. The former protocol on requires a comprehensive international approach in the countries of origin, transit and destination. An innovative element was the recommendation that trafficking victims be given residence permits. Domestic legislation has yet to be passed.

A working group was recently established comprising representatives of the justice ministries and the police departments from both entities, the OHR, OHCHR, UNICEF, and the non-governmental organizations IHRLG and the RING coalition. Their task is to draw up the National Action Plan for combating human trafficking and protecting victims of human rights violations.

### Conclusion

A significant step forward has been made in Bosnia and Herzegovina with regard to gender equality. The status of women has been improved in many sectors, but as the low GDI and our analysis above suggest, many questions have merely been broached. For Bosnia and Herzegovina to integrate with Europe, gender awareness must develop, which means acquiring knowledge about differences in men's and women's roles and relationships, and also about how those differences relate to power, status and privilege. Gender-based analyses are required, identifying differences, appropriate needs, the roles, statuses, positions and privileges of women and men, with a view to achieving equality. This requires a gender strategy, to study the implications in all areas and at all levels on women and men of taking action to prepare laws, policies or programs. If this is not done, the consequences of unequal position and unequal opportunities for men and women will only deepen existing differences and generate social injustice, which will again result in an insufficient use of the total potential which the state has at its disposal, and will eventually move the country further away from democracy, which presupposes an equal attitude by the state towards both female and male citizens.

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<sup>1</sup> BiH Constitution, Article 2, Para 1 and 2, respectively.

# PART 3

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## THE HUMAN DEVELOPMENT INDEX FOR BIH - METHODOLOGY AND CALCULATION



### INTRODUCTORY NOTES

1. THE POSITION OF BOSNIA AND HERZEGOVINA  
IN HUMAN DEVELOPMENT





**PART III  
THE HUMAN DEVELOPMENT INDEX FOR BiH -  
METHODOLOGY AND CALCULATION**

**INTRODUCTORY NOTES**

The human development index (HDI) is a composite. Of itself, it does not present a full picture of the overall level of development. It must be supplemented by other indicators, which provide more detail by demographic group, gender structure and so on. For human development tools to serve a practical purpose, adequate statistics are needed, in particular on population size and structure (age and gender breakdowns and proper figures by entity).

The HDI also relates to data on education, adult literacy, and so on. This underlines the urgent need for a census in BiH and for significantly expanded monitoring of indicators at all levels (state, entity, canton). As a result we must stress that the figures given here are very provisional and will be subject to significant adjustment once adequate data is available. Our assumption is that adjustment will be upwards, as we assume (see annex 2) that the population is in fact considerably smaller (as much as 15%) than official figures suggest. The calculation of the HDI and the other indices and the methodology used are given in full in annex 1.

Our estimate HDI for BiH in 2000 of 0.718 is slightly higher than the world aggregate, 0.716. Subject to revision based on better data, this places BiH provisionally among the countries of medium human development.

## 1. THE POSITION OF BOSNIA AND HERZEGOVINA IN HUMAN DEVELOPMENT

We can now place BiH in terms of human development. One must bear in mind that, given the data we used in our calculations, this is only an estimate and must be treated with caution. The following table compares BiH and the aggregate indices for the different levels of human development.<sup>1</sup>

### Bosnia and Herzegovina's position in human development

Group of countries according to human development	GDP per capita PPP \$	Life expectancy index	Education index	GDP index	HDI
High HD countries	23,410	0.87	0.96	0.91	0.914
Medium HD countries	3,850	0.70	0.75	0.61	0.684
Low HD countries	1,200	0.46	0.45	0.41	0.442
Norway	28,433	0.89	0.98	0.94	0.939
Sierra Leone	448	0.22	0.30	0.25	0.258
World	6,980	0.70	0.74	0.71	0.716
Bosnia and Herzegovina	2,875	0.81	0.79	0.56	0.718

Norway ranked first by human development in 1999

Sierra Leone ranked last by human development in 1999, in 166th place

Source: Human Development Report 2001, UNDP, pg.141.

The HDI for BiH is a touch above the world aggregate HDI, about 63% higher than the aggregate for low human development countries and more than 2.7 times higher than the country with the lowest HDI (Sierra Leone). The high human development countries are about 27% above the BiH average, while Norway, the country with the highest HDI in 1999 is about 31% above BiH.

The life expectancy index is 15.7% higher than the world aggregate life expectancy index, while the education index is also higher than the world aggregate education index, by 6.7%. The GDP index for BiH is lagging behind the world aggregate by as much as 21.1%. These results are in line with the analyses of the first part of the Report, which identified that the human resources required for faster economic growth exist, but that market imperfections and the absence of institutions to finance development and export-oriented projects reduce the potential for faster employment growth.

As can be seen from the following tables, according to the HDI, BiH is lagging behind every other member of the Stability Pact, with the exception of Moldavia. There is an even greater

<sup>1</sup> High human development countries have HDI above 0.800, medium human development countries have HDI between 0.500 and 0.799 and low human development countries have HDI below 0.500. Human Development Report 2001, UNDP, pg. 257.

gap between BiH and the remaining countries of Central and Eastern Europe, while BiH does not rank much better in comparison to the countries of the Commonwealth of Independent States. While this is not to be treated as a final analysis, due to the quality of the data, it is indicative of relative position. As noted in the introduction, this low standing of BiH is largely a result of the apparently catastrophically low GDP per capita. In section 1.4, we suggest arguments which lead us to believe that this figure might be adjusted upward were data of appropriate quality available.

#### BiH ranking among Stability Pact countries

Stability Pact Members	GDP per capita PPP \$	Life expectancy at birth	Education index	GDP index	HDI
Slovenia	15,977	0.84	0.94	0.85	0.874
Hungary	11,430	0.77	0.93	0.79	0.829
Croatia	7,387	0.81	0.88	0.72	0.803
Bulgaria	5,071	0.76	0.90	0.66	0.774
Romania	6,041	0.75	0.88	0.68	0.772
Macedonia	4,651	0.80	0.86	0.64	0.766
Turkey	6,380	0.74	0.77	0.69	0.735
Albania	3,189	0.80	0.80	0.58	0.725
Bosnia and Herzegovina	2,875	0.81	0.79	0.56	0.718
Moldavia	2,037	0.69	0.90	0.50	0.699

Yugoslavia: no data available

Source: Human Development Report 2001, UNDP.

#### Human Development Index for other countries of Central and East Europe

Central and East European countries	GDP per capita PPP \$	Life expectancy at birth	Education index	GDP index	HDI
Czech Republic	13,018	0.83	0.89	0.81	0.844
Slovakia	10,591	0.80	0.91	0.78	0.831
Poland	8,450	0.80	0.94	0.74	0.828
Romania	6,041	0.75	0.88	0.68	0.772
Bosnia and Herzegovina	2,875	0.81	0.79	0.56	0.718

Source: Human Development Report 2001, UNDP,

### Human Development Index of the Commonwealth of Independent States - CIS

The CIS (Commonwealth of Independent States)	GDP per capita PPP \$	Life expectancy index	Education index	GDP index	HDI
Estonia	8,355	0.76	0.94	0.74	0.812
Lithuania	6,656	0.78	0.93	0.70	0.803
Latvia	6,264	0.75	0.93	0.69	0.791
Belarus	6,876	0.73	0.92	0.71	0.782
Russia	7,473	0.69	0.92	0.72	0.775
Armenia	2,215	0.80	0.92	0.52	0.745
Kazakhstan	4,951	0.66	0.92	0.65	0.745
Ukraine	3,458	0.72	0.92	0.59	0.742
Georgia	2,431	0.80	0.89	0.53	0.742
Azerbaijan	2,850	0.77	0.88	0.56	0.738
Turkmenistan	3,347	0.68	0.92	0.59	0.730
Kyrgyzstan	2,573	0.71	0.87	0.54	0.707
<b>Bosnia and Herzegovina</b>	<b>2,875</b>	<b>0.81</b>	<b>0.79</b>	<b>0.56</b>	<b>0.718</b>
Moldavia	2,037	0.69	0.90	0.50	0.699
Uzbekistan	2,251	0.73	0.84	0.52	0.698
Tajikistan	1,031	0.71	0.88	0.39	0.660

Source: Human Development Report 2001, UNDP

The GDI for BiH in 2000 is 0.707 and it is 1.5% lower than the HDI for BiH. The GDI is simply the HDI adjusted downward for gender inequality. Therefore, the GDI indicates inequalities between men and women in basic dimensions of human development – health, education and standard of living, or employment. Accordingly, there is significant gender inequality in BiH, specifically in the dimensions of literacy and economic activity.

BiH's ranking in comparison to the Stability Pact, the other Central and Eastern European Countries and the CIS is similar to the ranking by HDI.

## BiH's ranking among Stability Pact countries by GDI

Stability Pact Members	Life expectancy (yr.)		Adult literacy rate (%)		Combined gross enrolment ratio (%)		Estimated earned income PPP US\$		GDI
	women	men	women	men	women	men	women	men	
Slovenia	78.9	71.5	99.6	99.7	85	80	12,232	19,942	0.871
Hungary	75.4	66.8	99.2	99.5	83	79	8,381	14,769	0.826
Croatia	77.6	69.6	97.6	99.3	69	68	5,300	9,612	0.799
Bulgaria	74.8	67.1	97.7	98.9	76	69	3,951	6,251	0.770
Romania	73.3	66.5	97.1	99.0	70	68	4,441	7,711	0.769
Macedonia	75.1	70.9	.	.	70	70	.	.	.
Turkey	72.1	67.0	75.9	93.2	55	68	3,937	8,772	0.726
Albania	76.1	70.2	76.9	90.9	71	71	2,248	4,088	0.721
<b>BiH</b>	<b>75.0</b>	<b>71.0</b>	<b>78.0</b>	<b>94.1</b>	<b>65</b>	<b>64</b>	<b>1,793</b>	<b>4,135</b>	<b>0.707</b>
Moldavia	70.3	62.8	98.1	99.5	75	70	1,618	2,495	0.696

Yugoslavia: no data available

Source: Human Development Report 2001, UNDP 2001.

## BiH's ranking among other Central and East European countries by GDI

Countries	Life expectancy (yr.)		Adult literacy rate (%)		Total combined enrolment rate (%)		Estimated earned income PPP US\$		GDI
	women	men	women	men	women	men	women	men	
Czech Republic	78.0	71.2	..	..	70	69	10,214	15,980	0.842
Slovakia	77.0	69.1	..	..	77	74	8,393	12,912	0.829
Poland	77.3	69.0	99.7	99.7	86	83	6,453	10,561	0.826
<b>BiH</b>	<b>75.0</b>	<b>71.0</b>	<b>78.0</b>	<b>94.1</b>	<b>65</b>	<b>64</b>	<b>1,793</b>	<b>4,135</b>	<b>0.707</b>

... 99 used in calculation

Source: Human Development Report 2001, UNDP 2001.

GDI of the CIS countries

Countries	Life expectancy (yr.)		Adult literacy rate (%)		Combined gross enrolment rate (%)		Estimated earned income PPP US\$		GDI
	women	men	women	men	women	men	women	men	
Lithuania	77.0	66.5	99.5	99.6	83	77	5,406	8,055	0.801
Latvia	75.6	64.3	99.8	99.8	83	80	5,021	7,716	0.789
Belarus	74.4	62.8	99.4	99.7	79	75	5,373	8,599	0.781
Russia	72.5	60.1	99.4	99.7	82	75	5,877	9,283	0.774
Armenia	75.6	69.6	97.5	99.2	77	82	1,775	2,685	0.742
Ukraine	73.5	62.7	99.5	99.7	78	77	2,488	4,576	0.739
<b>BiH</b>	<b>75.0</b>	<b>71.0</b>	<b>78.0</b>	<b>94.1</b>	<b>65</b>	<b>64</b>	<b>1,793</b>	<b>4,135</b>	<b>0.707</b>
Moldavia	70.3	62.8	98.1	99.5	75	70	1,618	2,495	0.696
Uzbekistan	71.7	65.8	84.0	93.1	74	79	1,769	2,740	0.695
Tajikistan	70.4	64.5	98.7	99.5	63	72	769	1,295	0.656
Azerbaijan	74.8	67.7	.	.	72	70	,	,	.
Estonia	75.8	64.8	.	.	89	84	,	,	.
Georgia	77.0	68.8	.	.	71	69	,	,	.
Kazakhstan	70.2	58.9	.	.	81	73	,	,	.
Kyrgyzstan	71.4	63.4	.	.	70	65	,	,	.
Turkmenistan	69.3	62.5	.	.	81	81	,	,	.

Source: Human Development Report 2001, UNDP 2001.

# PART 4

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## CONCLUSION



CONCLUSION





## PART IV - CONCLUSION

It was once the proud boast of Bosnians and Herzegovinians that their country, the former Yugoslavia, was the America of Eastern Europe. The position of Slovenia today and to a lesser extent Croatia shows this to have been true, once. The Human Development Index and the level of GDP, however, now place BiH among the less developed countries of Europe. In fact, as the tables in Part III show clearly, they place BiH among the last two or three of whatever comparative group one chooses, be they the Countries of Eastern and Central Europe, the CIS or the Stability Pact. And as we have seen, at the heart of this decline, is prolonged economic dysfunction.

As noted in the main text, this is partly a consequence of inherited problems and transition. But transition is common to all the groups of countries mentioned above. Even more so it is a result of four years of war. But not all the blame can be placed on those factors. The fact of the matter is that the seven post war years and the massive injections of aid received from the international community have been to a large extent frittered away in ethnic politicking and the pursuit of vested personal and group interests. One sees all round the results of physical reconstruction of houses and facilities and we have all experienced the improvements in utilities like electric power, the water supply and the telephone networks. These signs of change are however belied by a more general stagnation in industry and the economy and crisis in education and the social sector. The list of problem areas is not endless, it is well represented by the section headings of this report: public finances, privatization, employment, education, public health and healthcare, social security, the pension funds, emigration. At the root of it all have been manipulation of the constitutional compromises required at Dayton to stop the war.

Whether it has been consciously or not, between the end of the war and 2001, politicians in BiH have failed to accomplish the creation of a viable state or to establish the preconditions of human security and human development. No significant steps were taken towards building a sustainable economy. International assistance is reducing and the high level of foreign debt will prevent contraction of substantial new debts. Domestic accumulation is hardly sufficient for accelerated economic growth. Had the post-war governments been trying on purpose they could hardly have made a less attractive environment for foreign direct investment or found a better way to prolong the social agonies of transition and ensure that the industrial capital of the country devalued in idleness, becoming a burden rather than an advantage.

Lest this appear overly rhetorical, let us remind ourselves of some of the economic findings of the report:

In spite of the high levels of international aid, between 1998–2001, average annual GDP growth was only 3.6% in US dollar terms and 10.5% in KM terms, the average annual trade deficit was 50% of GDP, while public spending was 48% and the foreign debt was 45%.

Of course, these figures do not take into account the grey economy. It is possible that as much as 2 billion KM or approximately 20% more is available annually to stimulate GDP, based on transfers from citizens abroad to dependent family at home and on small trading companies. This is not however based on production of anything and can hardly be considered a sustainable resource for growth, especially as it does not enter into the public revenue system. According to our, optimistic, projections, pre-war levels of GDP will not be reached until well after 2010, and that in nominal rather than real terms.

The situation is similar when it comes to employment figures. Again, we have argued that real unemployment is rather lower than official figures – somewhere between 16% and 22% – mainly as a result of employment on the grey market. This is a main reason why there is no extreme poverty and a lower than expected level of absolute general poverty (19%). Many of these grey sector jobs are, however, seasonal, unsustainable and deprive workers of labor rights. They are not enough to raise those lucky enough to have them out of relative poverty, given that around 60% of people claim to have difficulty buying clothes and other basic items.

What is more, the reliance on informal employment and the ease with which individuals can carry out social insurance fraud (by false registration as unemployed or as employed in a state-owned enterprise) are major sources of hardship for both themselves and others. Pensions are miserable because contributions are not being made at adequate levels. There is a similar crisis in funding and access to health care, which is opening more and more room for corruption within the medical services and leading to deteriorating services. Regarding the social welfare system, the best one can say is that it is in disarray.

A final word should be said about education. Given GDP levels and the low prospects of significant foreign investment in the short term, education policy must become the motor of development. What is needed is a highly educated future workforce of interest to investors from abroad with standard skills and a broad base of reliable knowledge who must be kept in the country rather than exported. That means developing opportunities for their employment once they have been trained. It also means ensuring that their education serves their needs not the needs of those who would manipulate them.

Plans to maintain parallel institutions and even open new ones (universities) for every group which deems itself to have special cultural and educational interests are counterproductive and wasteful. The country cannot afford the luxury of separate curricula in mathematics, sciences, geography and foreign languages for each of the constitutive peoples. It simply makes neither pedagogical nor financial sense. There is plenty of room in a joint system for the preservation, exploration and celebration of cultural diversity. In fact, it is only when different groups are together that diversity can be appreciated. Educational apartheid serves only the interests of those who would make their ethnic groups in their own harsh, prejudiced image, rather than see them develop as true sources of living culture. Let those who wish to isolate their children from diversity, pay for private schools to do it in.

This comprehensive failure to govern by the governing classes must be addressed if a further slide down the human development scale is to be avoided. In fact, as indicated in the report, reform has already begun in certain areas, but normally at the instigation of outside agencies. During 2001, government showed itself more responsive to the needs of the country and governance improved in both entities and at state level, as shown by improving management of public finances and macroeconomic indicators (rising money supply and foreign reserves, stable inflation, better collection of budgetary revenue and falling public spending). There has been significant progress in reform of the health care system and in management of the pension insurance funds. There are signs that poverty, corruption and gender issues may be attracting more serious attention from senior government. As the analyses in the text show, however this is only a beginning and a late one at that. Much more and faster reform is needed to bridge the widening human development gap separating BiH from its fellow countries in transition.

We are now in an election year, this time to elect the first government with a full four-year mandate. Whatever the results and whoever is elected, after so many years of war and waiting and waste, it is vital that the new government be leaders for all the people and tackle the problems of the country as a whole with a common vision of the common good and how to attain it through radical, comprehensive and well planned reform. For, as Bill Clinton told the American public in his election campaign, if there is a single key to successful reform and development, 'it's the economy, stupid'.



# ANNEX

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## ANNEX 1.

1. CALCULATING THE HDI FOR BOSNIA AND HERZEGOVINA
2. THE POPULATION OF BOSNIA AND HERZEGOVINA 1991 - 2001

## ANNEX 2.

THE POPULATION OF BOSNIA AND HERZEGOVINA 1991 - 2001



## ANNEX 1.

## CALCULATING THE HDI FOR BOSNIA AND HERZEGOVINA

In spite of our awareness that certain of the data are inexact and the result will be at best an approximation of the real value, in calculating the HDI for Bosnia and Herzegovina we have followed standard method and used official figures, where available.<sup>1</sup> As the census planned for 2001 was not conducted, we have used estimates of the actually resident population from the FBiH and RS statistics offices<sup>2</sup> to estimate the actually resident population of BiH, 3,756,806 even though, as Annex 2 makes clear, the real figure may be as much as 10 to 15% lower than that.. Data and estimates relate to 2000, as the most recent GDP data is for that year.

GDP in BiH has been calculated by the SNA (System of National Accounts) method since 1997. GDP per capita has been recalculated using the above population estimate. BiH has never published data on purchasing power parity (PPP) in US\$, so we have used a weighted average for the transition countries of the 1998 Group (the Czech Republic, Estonia, Hungary, Poland and Slovenia) and the 2000 Group (Bulgaria, Latvia, Lithuania, Romania and the Republic of Slovakia).<sup>3</sup> In 1999, it was 2.48.

1. As GDP per capita was US\$ 1,159 in 2000, using a coefficient of 2.48, GDP per capita (PPP US\$) was 2,875 US\$ PPP.
2. Average life expectancy at birth in 2000 was 73.3 years.<sup>4</sup>

Given that data on literacy change at a slower pace than other variables, the 1991 census has been used as the basis for estimating the literacy rate. BiH then had 471,182 illiterate citizens aged 15 and over. The total number of people in that age group was 3,349,642. (Source: The Federation of BiH Almanac 2000, pg. 55 and 54). This gives an illiteracy rate of 14.06%, from which it follows:

### 3.1. The adult literacy rate is 85.94%.

This result should be treated with some caution, as illiteracy was concentrated among older women. It is nonetheless sufficient to serve the purpose of comparing BiH to other countries and to provide a basic impetus to direct development policy.

Enrolment data by education level:

Age groups	Number	Students, school year 2000/01	Enrolment rate %
7-14	403,536	391,533	97.0
15-19	281,660	160,173	56.8
20-24	254,084	50,261	19.8
Total	939,280	601,967	64.1

Source: Statistics Offices of the FBiH and the RS

<sup>1</sup> See items by Anand Sudhir and Amartya Sen in bibliography

<sup>2</sup> FBiH - 2,287,624, RS - 1,469,182.

<sup>3</sup> See the IMF's World Economic Outlook, October 2000, pg. 140, for the average coefficient for recalculation of PPP for the countries concerned.

<sup>4</sup> Human Development Report 2001, pg. 238



The number of students includes only full-time students. The breakdown of the population within the 7-24 age group, who are 25% of the total population, is based on the age structure established in the 1991 census, as well as on the overall age structure of the population in 2000.<sup>1</sup>

### 3.2. The gross enrolment ratio for all three education levels is 64.1%.

Now, we will calculate the dimensional indices, using the given minimum and maximum values for the variables.

$$\text{Life expectancy index } I_L = (73.3 - 25) / (85 - 25) = 0.805$$

$$\text{Adult literacy index } I_P = (85.94 - 0) / (100 - 0) = 0.859$$

$$\text{Gross enrolment index } I_K = (64.1 - 0) / (100 - 0) = 0.641$$

$$\text{Education index } I_E = 2/3 (0.859) + 1/3 (0.641) = 0.787$$

$$\text{GDP index } I_{GDP} = (\log 2.875 - \log 100) / (\log 40,000 - \log 100) = 0.561$$

Finally, we can derive a Human Development Index for BiH:

$$\text{HDI}_{\text{BiH}} = 1/3 (0.805 + 0.787 + 0.561) = 0.718$$

$$\text{HDI}_{\text{BiH}} = 0.718$$

## 2. CALCULATING THE GDI FOR BOSNIA AND HERZEGOVINA

Calculating the country's gender-related development index (GDI) requires more comprehensive statistical data than calculating the HDI. The following indicators were used for 2000:

1. Population in BiH: 3,756,806
2. The gender ratio of the population<sup>2</sup>:
  - Number of women: 1,893,430 or 50.4%
  - Number of men: 1,863,376 or 49.6%
3. Average life expectancy at birth<sup>3</sup>:
  - women: 75 years
  - men: 71 years
4. Adult literacy rate<sup>4</sup>:
  - women: 78.0%
  - men: 94.1%

<sup>1</sup> Source: Statistical Almanac of BiH 1992, pg. 242, BiH Almanac 1993-1998, pg. 44 - data on the 7-14 age group. Interestingly, they are not significantly different from the results of the LSMS.

<sup>2</sup> Source: World Bank Development Indicators 2001, pg. 20

<sup>3</sup> Source: World Bank Development Indicators 2001, pg. 20

<sup>4</sup> Source: the 1991 census in BiH; Statistical Almanac 1993-98, the FBiH Statistics Office, pg. 46

According to the 1991 census, 372,762 women were illiterate (adult illiteracy rate of 22%, based on women over 15 years of age) as were 98,420 men (adult illiteracy rate of 5.9%, based on men over 15 years of age).

5. The gross enrolment ratio for women and men, based on data for the 2000/01 school year and estimates for the gender structure of the population.

#### Enrolment in schools by gender

	male students	female students	total
primary	201,700	189,833	391,533
secondary	80,872	79,301	160,173
tertiary	24,323	25,938	50,261
<b>Total</b>	<b>306,895</b>	<b>295,072</b>	<b>601,967</b>

Source: the FBiH Statistics Office, the RS Statistics Office

#### Gender structure of the population, estimated

age groups	men	women	total
7-14	205,803	197,733	403,536
15-19	143,647	138,013	281,660
20-24	132,124	121,960	254,084
<b>total</b>	<b>481,574</b>	<b>457,706</b>	<b>939,280</b>

#### Consequently, enrolment rate by education level and gender (%):

education level	men	women
primary	98.0	96.0
secondary	56.3	57.5
tertiary	18.4	21.3
<b>total</b>	<b>63.7</b>	<b>64.5</b>

The combined gross enrolment ratio for women: 64.5%.

The combined gross enrolment ratio for men: 63.7%.

6. For calculation of participation in GDP by gender, the following data have been used:

GDP per capita = 2,875 PPP US\$

Estimated earned income ratio  $W_f / W_m = 0.75$

The ratio of economically active men to women has been based on statistics for employment by age. According to the FBiH Statistics Office, in March 2001, women accounted for 32.9% of all people in employment, while the RS data gave 41%.

	Total in employment	of which women
FBiH	410,808	135,456
RS	196,535	80,756
total	607,443	226,212

Source: Bulletin No.40, FBiH Statistics Office, Sarajevo 2001  
 Monthly Statistical Review 2/2001, RS Statistics Office, Banja Luka, 2001

The female economic activity rate is therefore 37.24% and the standard indicators are:

$$EA_f = 0.37$$

$$EA_m = 0.63$$

We can now start calculating the gender-related human development index for BiH for 2000.

Calculating the equally distributed life expectancy index (IEDL):

$$\text{for women } I_{Lf} = (75 - 27.5) / (87.5 - 27.5) = 0.792$$

$$\text{for men } I_{Lm} = (71 - 22.5) / (82.5 - 22.5) = 0.808$$

The equally distributed life expectancy index (IED<sub>L</sub>) is calculated by applying the formula:

$$IED_L = \{ n_f * I_{Lf}^{-1} + (n_m * I_{Lm}^{-1}) \}^{-1}$$

where  $n_f$  and  $n_m$  stand for the male and female population shares.

$$IED_L = \{ 0.504 * (0.792)^{-1} + 0.496 * (0.808)^{-1} \}^{-1}$$

$$IED_L = 0.800$$

Calculating the equally distributed education index (IED<sub>E</sub>):

women:  $I_{Ef} = 2/3 I_{Lf} + 1/3 I_{Kf}$ , where  $I_{Lf}$  is the female adult literacy index and  $I_{Kf}$  the female gross enrolment index

$$I_{Ef} = 2/3 * 0.78 + 1/3 * 0.645$$

$$I_{Ef} = 0.735$$

men:  $I_{Em} = 2/3 I_{Lm} + 1/3 I_{Km}$ , where  $I_{Lm}$  is the male adult literacy index and  $I_{Km}$  the male gross enrolment index

$$I_{Em} = 2/3 * 0,941 + 1/3 * 0,637$$

$$I_{Em} = 0.839$$

$IED_E$  is calculated by applying the following equation:

$$IED_E = \{n_f * I_{Ef}^{-1} + (n_m * I_{Em}^{-1})\}^{-1}$$

where  $n_f$  and  $n_m$  again stand for the female and male population shares.

$$IED_E = \{ 0.504 * 0.735^{-1} + (0.496 * 0.839^{-1}) \}^{-1}$$

$$IED_E = 0.783$$

Calculating the equally distributed income index ( $IED_{GDP}$ ):

a) first, we calculate total GDP:

$$Y = 2,875 \text{ PPP US\$ } * 3,756,806 \text{ people}$$

$$Y = 10,800,817,250 \text{ PPP US\$}$$

b) then, the female share of the wage bill:

$$S_f = 0.75 * EA_f / [ ( 0.75 * EA_f ) + EA_m ]$$

$$S_f = 0.75 * 0.37 / [ ( 0,75 * 0.37 ) + 0.63 ]$$

$$S_f = 0.306 \Rightarrow S_m = 1 - 0.306 = 0.694$$

c) then, estimated earned income per capita:

- women:  $GDP_f$

total female earned income  $Y_f = S_f * Y = 3,305,050,080 \text{ US\$ PPP}$ , and

$$GDP_f = Y_f / N_f = 1,746 \text{ US\$ PPP}$$

- men:  $GDP_m$

total male earned income  $Y_m = S_m * Y = 7,495,767,172 \text{ US\$ PPP}$ , and

$$GDP_m = Y_m / N_m = 4,023 \text{ US\$ PPP.}$$

Now the GDP per capita indices can be calculated:

$$I_{GDPf} = ( \log 1.746 - \log 100 ) / ( \log 40.000 - \log 100 ) = 0.477$$

$$I_{GDpm} = ( \log 4.023 - \log 100 ) / ( \log 40.000 - \log 100 ) = 0.617$$

The equally distributed income index  $IED_{GDP}$  is calculated by applying the following formula:

$$IED_{GDP} = \{n_f * I_{GDPf}^{-1} + (n_m * I_{GDPm}^{-1})\}^{-1}$$

Where  $n_f$  and  $n_m$  again stand for the female and male shares of the total population.

$$IED_{GDP} = \{ 0.504 * ( 0.477 )^{-1} + 0.496 * ( 0.617 )^{-1} \}^{-1}$$

$$IED_{GDP} = 0.537$$

We now have all the elements needed for calculation of the GDI for BiH:

$$GDI = 1/3 (IED_L + IED_E + IED_{GDP})$$

$$GDI = 1/3 (0.800 + 0.783 + 0.537 )$$

$$GDI = 0.707$$

This is lower than the HDI, which indicates significant gender inequality.

## ANNEX 2 THE POPULATION OF BOSNIA AND HERZEGOVINA 1991 - 2001

The four years of war in BiH had dire demographic consequences which will be felt for decades. As there has been no census since 1991, we can only estimate the scale of negative change. There are a number of estimates, but they vary significantly, which causes serious problems when looking for reliable data on the BiH population since the war.<sup>1</sup> Ilijas Bošnjović has been investigating this phenomenon in a systematic fashion, following these trends even during the war. Here we are concerned with three aspects of his research: demographic change by entity and by ethnic affiliation and making a demographic balance sheet for BiH.<sup>2</sup> These three aspects are interrelated and complementary, all yielding similar results.

Firstly, he estimates the population of BiH in 2001 as 3,364,825 people, compared to 4,377,033 people in 1991, a loss of nearly one million. An important aspect is that he places 68.7% in the FBiH and 31.7% in the RS. This is significantly different from the official figures of 3,756,806 people in 2000. A third estimate has recently been made through the Living Standards Measurement Survey, which found the population to be 3,514,945, (250,000 less than the official figures and 150,000 higher than Bošnjović's calculations). Equally significant is different distribution between the FBiH (62%) and the RS (38%) given by the LSMS. Naturally, choice of population base and structure has a serious impact on GDP pc, the human development and other indices and the relative weightings to be given to the different parts of the country. It is impossible to put too much emphasis on the need for a proper census.

### 1. Demographic change by entity, 31.3.1991 to 31.3.2001

	BiH	Federation of BiH	Republika Srpska
Population on 31.3.1991	4,377,033	2,783,711	1,593,322
Natural growth (+)	144,202	117,910	26,292
Return of refugees from abroad (+)	373,400	346,140	27,260
Dead, missing and higher wartime mortality (-)	269,810	149,860	119,950
Expelled by force (refugees) (-)	1,168,000	735,000	433,000
Voluntary emigration after Dayton (-)	92,000	64,400	27,600
Population on 31.3.2001	3,364,825	2,298,501	1,066,324
Structure			
1991	100	63.6	36.4
2001	100	68.3	31.7

Note: The number of inhabitants of the Republika Srpska does not include around 35,000 refugees, namely Serbs from Croatia who are now resident in the entity.

<sup>1</sup> His research has been published in part by International Forum Bosnia, in a French book, *La guerre aux civils – Bosnie-Herzégovine 1992–1996*, L'Harmattan, Paris 1997, in *Oslobođenje* and other daily and weekly papers in BiH.

<sup>2</sup> Ilijas Bošnjović, *The population of BiH, 1878–2001*. This project is still being researched.

## 2. Demographic change by ethnic affiliation, 31.3.1991 to 31.3.2001

	Total	Bosniaks	Croats	Serbs	Others
Population on 31.3.1991	4,377,033	2,012,718	805,892	1,447,384	111,039
Natural growth (+)	144,202	96,538	20,307	26,765	592
Return of refugees from abroad (+)	373,400	261,960	70,970	37,200	3,270
Dead, missing and higher wartime mortality (-)	269,810	157,313	31,831	73,921	6,745
Expelled by force (refugees) (-)	1,168,000	539,000	333,000	264,000	32,000
Voluntary emigration after Dayton (-)	92,000	48,060	12,860	30,480	600
Population on 31.3.2001	3,364,825	1,626,843	519,478	1,142,948	75,556
Structure					
1991	100	46.0	18.4	33.1	2.4
2001	100	48.3	15.4	34.0	2.3

Note: The category of Yugoslavs, who number 242,032 in 1991, have been distributed among Bosniaks, Croats and Serbs. The same procedure has been followed for all other demographic changes up to 2001.

## 3. A hypothetical demographic balance sheet of BiH on 31.3.2001

Hypothetical population of BiH on 31.3.2001, assuming the war had not happened: 4,539,457.

Lost natural growth:	157,472	3.5
Dead, missing and higher wartime mortality:	269,810	5.9
People Abroad:	749,700	16.5
People in-country (31.3.2001):	3,362,474	74.1
	<hr/>	
	4,539,437	100
	<hr/>	

### Explanation of figures

The population in the country on 31.3.2001 is calculated as the difference between the potential population number for that date had there been no war and the sum of demographic losses, understood loosely (lower natural growth, war-dead, missing and higher wartime mortality, population living abroad, etc.)

Demographic losses, understood more narrowly, are the war-dead, the missing and higher wartime mortality added to lost or lower natural growth. The components of lost natural growth have been very precisely determined, so that one can affirm that the figure given is realistic. The number of war dead, missing and higher wartime mortality are less precise, but sufficiently trustworthy to use as estimates. If these narrower demographic losses are subtracted from the potential population figure, one gets the population in the country and abroad:

$$4,539,457 - 427,272 = 4,112,185.$$

The question of how many people are normally resident abroad is now key, as it determines how large the population normally resident in BiH really was on 31.03.2001. As there are no trustworthy figures for the number of people from BiH living outside the country, one must use estimates. We find this part of the population to be 749,700. The total number of refugees between 1992–1995, according to our source, was 1,200,000. 372,200 of them had returned to the country by 31.03.2001, so the number remaining abroad was 827,800. Our source gives the following categories for refugees remaining abroad:

Status resolved in host country	323,900
Seeking resolution of status in host country	284,800
Number of refugees from BiH worldwide in 2000	613,700
Moved to third countries	214,100
Total	827,800

The category of those who have moved to third countries contains those who have changed country of residence twice or more times (e.g. from Croatia to Slovenia, from there to Germany and then to the USA). Every change of country of residence is recorded as though a new refugee were involved, so that this group has in fact been multiplied several times. One may legitimately suppose that the real number is no more than a fifth, or 44,000. Therefore the number of refugees from BiH abroad at the end of March 2001, on the basis of this source, was 657,700.

To this number we need to add the 92,000 who left BiH voluntarily after the Dayton agreement for economic reasons and now live in various countries around the world. The final number of people from BiH abroad on 31.3.2001 is therefore:

$$657,700 + 92,000 = 749,700.$$



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