Svetlana Cenić

Bosnia and Herzegovina: development versus progress

Abstract

The system of social protection and social assistance in BiH is highly fragmented and comprises thirteen almost independent systems, with a low level of co-ordination and co-operation between them. Even within the 'single' system, functions are overlapped and the division of responsibilities is unclear. These are just some of the reasons preventing equal access to the resources and services provided by the system. Poverty in BiH is deeper and more widespread than in any other country of former Yugoslavia (it is more widespread only in Kosovo), and some 20 % of the poor suffer serious shortages in all, or almost all, key aspects of welfare, ranging from acceptable housing and sanitary conditions and access to health care services, to literacy and integration into society. Thus, for Bosnia and Herzegovina the essential question is more one of development versus progress, while the question of equity versus efficiency is highlighted by the political structure – it is a highly ineffective system that produces inequality in many ways.

Keywords: *nationalisms, ethnicity, fragmentation, political structure, development, poverty, public governance, reform, unemployment, economic recovery, social security, social exclusion, pensions, education*

Basic facts about Bosnia and Herzegovina

The land that makes up today's Bosnia and Herzegovina was under the domination first of the Ottoman Empire (1463-1878) followed by the Austro-Hungarian Empire (1878-1918). Then followed a period of monarchic rule under the First Yugoslavia (1918-1941), succeeded by integration into the quisling Croatian state during the Second World War, then Yugoslav communism until the free elections of 1990 and the fragmentation of Yugoslavia. This was followed by internationally-recognised independence in 1992 leading to war and – most recently – the imposition of an external international administration.

In these circumstances, private entrepreneurship simply did not exist until the early 1980s and civil society was limited to small intellectual circles, respected but isolated, but with no real social movements to speak of.

Then, in the late 1980s, the opening up of political expression for Yugoslav society at large unleashed the contained pressure of national identities – distorted, repressed, and manipulated under communism.

Until the early 1990s, 'democratisation' was the loose term for describing the process of establishing liberal or constitutional democracies along the lines of western European or US models.

The republic election held in Bosnia in November 1990 – the only free elections before the imposition of the Dayton Peace Agreement – have been seen, nearly universally, as demonstrating the failure of democracy. The reason for this was the success of nationalist parties at the expense of cross-Yugoslav liberal-reform and reform-communist parties. Two hundred and two out of the 240 seats in the republic's two-chamber legislature, or 84 per cent, were won by the three leading ethnic party organisations: the (Muslim) Party of Democratic Action (SDA); the Serbian Democratic Party (SDS); and the Croatian Democratic Union (HDZ).

Prior to these elections, Bosnia and Herzegovina had been recognised internationally as a model of multicultural co-existence, symbolic of federal Yugoslavia's progressive minority policies.

The 1990 election took place as the Yugoslav state was fragmenting. The key political question was that of constitutional reform and a looser confederal arrangement. In Bosnia, the reform of the constitutional framework questioned the guarantees of security and equal treatment for the three ethnic groups. Croats, the smallest of the three ethnic groups, were in favour of a looser confederation and believed their interests would be more secure through closer links with Croatia. Muslims (now called Bosniaks) were more divided over the question of constitutional change. Serbs feared that any separation of Bosnia from Yugoslavia would place them in a worse position.

Therefore, voting along nationalist lines (i.e. for nationalist parties) was a rational response to the uncertainties of Bosnia's constitutional situation. Nationalism was an expression of identity and, via identity, of dignity and self-esteem. When one's country becomes smaller, one's self becomes smaller.

The political structure in Bosnia set by the Dayton Peace Agreement is extremely complicated and is something that is, in a way, an experiment as well as a legal novelty. It divided Bosnia into two entities: the Serb Republika Srpska; and the Federacija Bosne i Hercegovine (the Bosniak-Croat Federation) which have 'quasi state status' with governments independent of one another. Republika Srpska is composed of municipalities, while the Federation is further administratively divided into ten cantons, of which six are predominantly Bosniak, two are Croat and two are mixed. Each canton is then divided into municipal governments with independent ministries, and judicial systems, which requires judicial co-operation laws between cantons and entities such as those in place between sovereign states. In addition, there is Brčko District, which is a small, self-governing region managed by the three ethnicities together with the international community. Finally, there is a government at the state level, the Council of Ministers.

The Chair of the Presidency of Bosnia and Herzegovina rotates between three members (Bosniak, Serb, Croat), each elected for an eight-month term within their four-year term as a member. The three members of the Presidency are elected directly by the people (residents of the Federation vote for the Bosniak and the Croat members; those resident in Republika Srpska for the Serb).

The Chair of the Council of Ministers is nominated by the Presidency and approved by the House of Representatives. He or she is responsible for appointing a Foreign Minister, a Minister of Foreign Trade and others as appropriate.

The Parliamentary Assembly is the law-making body in Bosnia and Herzegovina. It consists of two houses: the House of Peoples; and the House of Representatives. The House of Peoples has fifteen delegates, two-thirds of whom come from the Federation (five Croats and five Bosniaks) and one-third from Republika Srpska (five Serbs). The House of Representatives is composed of 42 members, two-thirds elected from the Federation and one-third from Republika Srpska.

The Constitutional Court of Bosnia and Herzegovina is the supreme, final arbiter of legal matters. It is composed of nine members: four selected by the House of Representatives of the Federation, two by the Assembly of Republika Srpska and three by the President of the European Court of Human Rights following consultation with the Presidency.

However, the highest political authority in the country is the High Representative in Bosnia and Herzegovina, the chief executive officer of the international civilian presence in the country. The High Representative has been able to bypass the elected parliamentary assembly since 1995 and to remove elected officials since 1997. The methods selected by the High Representative have been criticised as undemocratic. International supervision will end when the country is deemed politically and democratically stable and self-sustaining.

The role of the Office of the High Representative in post-Dayton Bosnia was not just about state-building, but was equally aimed at the construction and stabilisation of a democratic institutional framework for Bosnia. From its very beginning, this task has been extremely hard, bearing in mind that the solutions had to be acceptable to all three ethnic groups and to be oriented towards setting the grounds for the country's inclusion in the institutions of trans-European co-operation. Satisfying all three parties was exceptionally difficult considering that they were divided and polarised on the most basic issues, such as the question of the legitimacy of the state and its common institutions and borders (Bose, 2002).

Bosnia has thirteen constitutions: one for each entity, canton and the state. There are thirteen governments and thirteen assemblies, operating through approximately 150 ministries (Popović, 2005).

Co-operation between the two entities has typically been minimal:

> With the institutions of the state little more than phantoms on paper. (Huddleston, 1999)

From the outset, the parties were not ready to co-operate with each other and Carl Bildt, the first High Representative, expressed in his first Report to the Secretary-General of the UN his major concerns about the will of the Bosnian parties in this area:

> What is required for peace to last is not only formal compliance with the provisions of the Peace Agreement but a genuine commitment to reconciliation and to the building of a future in com-

mon. Without an active effort at reconciliation and co-operation, there will be distinct limits to what the international community can do.[1]

Bosnia is formally a unitary state, but the two entities within it enjoy many of the privileges of being a sovereign state in so far as they possess separate administrations, distinct citizenships (as well as a common citizenship), their own armies and the right to form 'special parallel relationships with neighbouring states'. Local politicians have consistently opposed legislation that would enhance the capacity of the state at the expense of the entities. Even political authorities at the state level have refused to co-operate in support of the functioning of the central government institutions (Caplan, 2004).

In theory it seemed an effective solution to Bosnia's internal conflicts, at least from some perspectives, but this 'federation within a federation' form of governance has presented serious problems. Both the local and the international officials of the time had no experience with this model of inter-governmental relations and the constitutional allocations of authority within Bosnia, while clear enough on the surface, were considerably vague underneath (Huddleston, 1999).

According to the 1991 census, Bosnia and Herzegovina had a population of 4 377 033. Ethnically, 1 902 956 (43 %) were Muslim, 1 366 104 (31 %) Serb and 760 852 (17 %) Croats, with 242 682 (6 %) being Yugoslav. The remaining 2 % of the population – numbering 104 439 – consisted of various other ethnicities. 99 % of the population spoke Serbo-Croatian. According to data for 2000 from the *CIA World Factbook*, Bosnia's largest ethnic groups are Bosniaks (48 %), Serbs (37.1 %) and Croats (14.3 %). There is a strong correlation between ethnic identity and religion in Bosnia and Herzegovina: Muslims constitute 45 % of the population, Serb Orthodox 36 %, Roman Catholics 15 % and other groups, including Jews and Protestants, 4 %.

Large population migrations during the Yugoslav wars of the 1990s have caused demographic shifts in the country. No census has been taken since 1991 and political disagreements have made it impossible to organise one. A census has been planned for 2011 but, due to the current political circumstances and the absence of a relevant such law thus far, the chances of having one are very small. Almost all post-war data is simply an estimate, so a census would be a statistical, inclusive and objective way to analyse the demographics of Bosnia and Herzegovina. Most sources, however, estimate the population to be about four million, representing a decrease of 350 000 since 1991.

According to BHAS (the Agency for Statistics of BiH), the estimated population as at 30 June 2009 is 3 842 566.

The national currency is the (Euro-pegged) Convertible Mark (KM), controlled by a currency board.

The 1990s war brought about a dramatic change in the Bosnian economy. GDP fell by 75 % and the destruction of the physical infrastructure devastated the economy. The Bosnian economy still faces considerable difficulties.

1 Office of the High Representative (1996) *1st Report of the High Representative for Implementation of the Bosnian Peace Agreement to the Secretary-General of the United Nations* Sarajevo, 14 March 1996.

Figure 1 – Bosnia and Herzegovina in brief
General facts

Population: 3.8m (est.)
Capital: Sarajevo
Area: 51 197 km²
Currency (€1 = KM1.95583)
Complex state structure:

- 3 nations
- 2 entities plus 1 district
- 13 governments

Development vs. poverty

One crucial area for analysis in all such developing societies is the relationship between poverty and development. It might appear at first that the two are virtually opposites: poverty means a lack of development; whereas development implies moving towards getting rid of poverty, as the Copenhagen Summit target noted. However, in historical practice it has proved quite possible for development to occur without alleviating poverty.

Over the past decades, the increasing inequality in wealth between different parts of the world, the spread of localised wars and the emerging importance of issues such as environmental degradation, international debt, religious fundamentalism and other forms of competing collective identity all demonstrate the potential for social dislocation to turn into worldwide chaos. Thus, it is ever more urgent to address such issues, and declarations such as that at Copenhagen are to be expected. Indeed, since 1995 development goals and targets have been reiterated in several areas in connection with the alleviation of poverty. Nevertheless, national governments and international agencies remain apparently unable to mount a concerted and successful development effort to remedy the situation.

By whom is development being done? To whom? These questions should be particularly asked when solutions are put forward that start with 'we should' without making it clear who 'we' are and what interests 'we' represent.

We have to bear in mind that poverty applies to individuals and households, whereas development also refers to large-scale processes of change at societal level. The World Bank does this in economic terms by measuring a person's income and establishing a 'poverty line' which represents an income level below which a person is held to be in

extreme poverty. The global target for reducing poverty uses a single poverty line for the whole world; those in extreme poverty are those whose incomes are less than $1 per day (measured in 1985 purchasing power parities). It is then possible to think of measuring the proportion of a country's population which is below that poverty line – or otherwise estimating it, since there are enormous difficulties associated with the direct measurement of individuals' incomes on a large scale (i.e. in Bosnia and Herzegovina the census has not been held since 1991 and normally we are talking about estimates, not exact or reliable data).

The corresponding indicator used by the World Bank as a measure of the development of different countries is gross national product (GNP). GNP uses market valuations and is, in practice, a measure of national income. GNP per capita provides an indication of the average material living standard of a nation's people. An increase in GNP per capita could indicate development, implying an increase in prosperity or economic well-being and, hence, less poverty. However, a measure such as GNP per capita has limitations in this regard. Given that GNP per capita is a measure of average income based on market valuations, there are, consequently, several ways in which the measure fails to give a full indication of the incidence of poverty. Being an average, GNP per capita says nothing about the distribution of wealth between rich and poor. Also, in general, GNP as an indicator under-estimates both subsistence and collective goods whereas it over-values whatever is commercialised, individualised and organised.

The concept of who is poor is different in different societies and is likely to depend on value systems as well as economic factors.

> For long, and in many cultures of the world, poor was not always the opposite of rich. Other considerations, such as falling from one's station in life, being deprived of one's instruments of labor, the loss of one's status or the marks of one's profession… lack of protection, exclusion from one's community, abandonment, infirmity or public humiliation defined the poor. (Rahnema, 1992: 158)

There are some drawbacks to the use of income as the sole way of measuring poverty (or development). One point is that what is regarded as poverty may differ relative to the norms of each particular society. A second is that income measures only one dimension of well-being, such that a broader view would take it to form only part of any definition of poverty (or vision of development). At the same time, the notion of relative poverty has gained widespread acceptance. Thus, the World Bank uses a figure of $14.40 per day (in 1985 PPP dollars) to calculate the numbers in poverty in industrialised countries (rather than the $1 per day which is the measure for the world as a whole).

Development may entail the disruption of established patterns of living, and there are huge disagreements about how this is achieved, or even whether it is actually occurring at all. Nevertheless, over the long-term, it implies increased living standards, improved health and well-being for all and the achievement of whatever is regarded as a general good for society at large.

The two words 'good change' already combine quite different ideas which can cause confusion between the different meanings of the term 'development'. 'Good' implies

a vision of a desirable society ('well-being for all'); something to aim at; a state of being with certain positive attributes which can be measured so that we may talk of 'more' or 'less' development. 'Change', on the other hand, is a process which may entail disruption and which it may or may not be possible to direct. The term 'development' also embodies competing political aims and social values and contrasting theories of social change.

We can distinguish three main senses in which the term 'development' is used:

1. as a vision, description or measure of the state of being of a desirable society
2. as an historical process of social change in which societies are transformed over long periods
3. as constituting the deliberate efforts aimed at improvement on the part of various agencies, including governments and all kinds of organisations and social movements.

The three senses in which 'development' is used are, of course, related. Being a desirable society is supposedly the result of historical processes of development; and the vision of a desirable society may form an aim towards which to direct improvement efforts. The idea of development as historical social change does not negate the importance of 'doing development'. Historical processes incorporate millions of deliberate actions. Conversely, one's view of what efforts are likely to succeed in leading to 'improvement' is bound to be coloured by one's view of history and how social change occurs.

A vision of a desirable society already hides a number of debates. Different political ideas clearly lead to different visions of what is desirable, while one person's utopia could be a nightmare for another. For example, what aspects should be included when considering development, and how should it be measured? Is it primarily an economic concept? Or should social aspects be of equal, or even of greater, importance? Should questions about what is politically feasible be allowed to constrain one's vision of a desirable, 'developed' society? If, for example, ideals such as equity, political participation and so on are in conflict with the achievement of development in an economic sense, should the former be included in a definition of development – or regarded as additional desirable elements?

For many proponents of development as economic well-being, a developed society is a modern industrial society, and this is not just one which has reached certain levels of wealth, but one which is continually growing in economic terms and thus improving further. To some extent, the same is true of those who base their vision more on social factors or on human needs. A third, more prosaic vision could be of the amelioration of poverty and other problems via measurable improvements to a number of indicators (possibly including GNP per capita, but certainly not only that).

In his paper *The meaning of development*, Dudley Seers points out the importance of value judgments in deciding what is, and what is not, 'development'. Seers suggests that:

> The realization of the potential of human personality… is a universally acceptable aim,

and development must therefore engage us in ensuring the conditions for achieving this aim. The first three conditions are:

- the capacity to obtain physical necessities (particularly food)
- a job (not necessarily paid employment and including studying, working on a family farm and house-keeping)
- equality, which should be considered as an objective in its own right.

Seers also recognised the political dimension and suggested further conditions for development in addition to those mentioned above:

- participation in government
- belonging to a nation that is truly independent, both economically and politically
- adequate levels of education (especially concerning literacy).

Seers's formulation was designed to challenge the economic basis of the type of vision of development outlined above, with its emphasis on productivity, growth and increasing GNP per capita. Economic development of this type does not necessarily reduce the numbers in poverty, let alone meet other human needs such as those pointed to by Seers. However, Seers was an economist arguing for an emphasis on human needs and equity alongside economic growth, and, as such, he did not go far enough for many in seeking an alternative which would provide a clearer break from economistic development thinking. After Seers wrote his article (in 1969), three further aspects have gained recognition:

- relatively equal status for, and participation by, women in society
- sustainable development (safeguarding the environment)
- freedom from social dislocation, violence and war.

These now make up nine conditions for what we might call a human needs-centred development.

The effects of civil war and ethnic essentialism on development

Several studies have convincingly demonstrated that civil wars can have a highly negative effect on economic growth and welfare indicators. However, it would be an error to see only war as the cause of impoverishment. Economic deprivation may also, in itself, be a cause of war. Obviously, social dissatisfaction linked to highly inequitable distributions of income is not something new and has often been a cause of violent conflict in the past. In recent decades, however, the exclusion of the population from the benefits of economic growth has taken on a more overly structured and regional dimension.

In recent decades, open market economic strategies, multinational companies, the large-scale migration of populations and far-reaching new media technology have all helped undermine the notion of national sovereignty. So have international aid agencies. In some places, and former Yugoslavia is one example, the lifting of Cold War constraints has combined with these factors in encouraging demands for greater autonomy for populations within states as well as for the restricting of central government controls.

One effect of the weakening of the institutions of statehood has been to highlight the superficiality of formally (internationally) recognised national collective identities.

With the collapse of services and the inability of central government to maintain a rule of law, the tendency is for people to emphasise other notions of ethnicity.

It is very important to recognise that ethnic distinctions do not always relate to long-standing social divisions. It is, for example, bad history to suggest that the ending of the Cold War has lifted the lid on the pressure cooker of ancient ethnic divisions in eastern Europe. Current politicised ethnic categories are indeed largely the product of policies implemented under Communist rule, media coverage and the machinations of leaders seeking a power base.

However, when ethnicity is asserted to be a primary reason for conflict by many of the protagonists themselves, perceived ethnic differences are likely to be essentialised (i.e. qualities associated with an ethnicity are articulated as if they are primordial, or natural). Once the ideologies of internal wars become closely bound up with such localised notions of ethnic essentialism, it is exceedingly difficult to contain the spread of violence. Whatever an individual's own views, participation in the struggle or migration are likely to be the only options.

Enemies during the Cold War era often used to label each other as politically misguided imperialists or communists, partly to obtain Soviet or western support, but they can now vigorously promote views of each other as inherently inferior or evil. National or international constraints on such assertions have been eroded. Combatants have always found ways of emphasising the brutality of their opponents and ethnic genocide is nothing new. Now, war can only be explained with reference to identities. To suggest that people kill each other in Bosnia and Herzegovina because Serbs are Serbs, Croats are Croats and Bosniaks are Bosniaks is no more insightful than to suggest that the Iran/Iraq war was fought because Iranians were Iranian and the Iraqis were Iraqi. Nevertheless, the protagonists themselves openly place greater emphasis on apparently immutable ethnic characteristics as justifications for slaughter – something which can make reconciliation all but impossible.

Another aspect of overtly ethnicised wars is that they are likely to spread into more stable areas. Refugees provide information about atrocities, engendering sympathy, anger and fear among groups culturally related to those caught up in the fighting. Nowadays, this tendency is exacerbated by widespread vicarious participation in violent events through the media. The superficiality of much international reporting is such that it can also have an important influence on the fighting itself. This is particularly so where coverage makes no effort to look beyond the public ideologies of the combatants, or where it highlights what appear to be the more exotic aspects of a conflict.

In former Yugoslavia, for example, the national media played a part in encouraging the emergence of populist nationalisms and in the creation of mass panics, which reinforced closed definitions of community. Little was done to reverse this trend in international coverage as warfare spread. The ethnicity of Serbs, Croats and Muslims was reported as if these were immutable, obvious and a natural focus for group division. Some newspapers and reporters did try to dig deeper into events, but the main thrust of international coverage was not to provide an alternative, more objective commentary on the fighting but to confirm as 'facts' the constructed populist nationalisms of local politicians and war leaders.

Good governance

The World Bank (1992) defined good governance as synonymous with sound development management in four areas:

1. public sector management – government must manage its financial and personnel resources effectively through appropriate budgeting, accounting and reporting systems and by rooting out inefficiency, particularly in the parastate sector
2. accountability – public officials must be held responsible for their actions. This involves effective accounting and auditing, decentralisation, micro-level accountability to consumers and a role for non-governmental organisations
3. the legal framework for development – there must be a set of rules known in advance, these must be enforced, conflicts must be resolved by independent judicial bodies and there must be mechanisms for amending rules when they no longer serve their purpose
4. information and transparency – here, there are three main areas for improvement:
   a) (a) information on economic efficiency
   b) (b) transparency as a means of preventing corruption
   c) (c) publicly-available information for policy analysis and debate.

Leftwich (1993) says that good governance for the World Bank involved an efficient public service; an independent judicial system and legal framework to enforce contracts; the accountable administration of public funds; an independent public auditor, responsible to a representative legislature; respect for the law and human rights at all levels of government; a pluralist institutional structure; and a free press. He identifies three strands of good governance:

- systematic (governance is broader than government, involving the distribution of both internal and external political and economic power)
- political (governance refers to a state enjoying both legitimacy and authority, derived from a democratic mandate)
- administrative (governance involves an efficient, open, accountable and audited public service which has the bureaucratic competence to help design and implement appropriate policies and to manage whatever public sector there is).

The tunnel effect

Hirschman and Rothschild (1973) used the example of a tunnel and a traffic jam to discuss an apparently very different issue: the tolerance for inequality in income distribution along the path of economic development.

You are driving through a two-lane tunnel where both lanes are in the same direction and, guess what, you are caught in a serious traffic jam. No car is moving in either lane as far as you can see. You are in the left-hand lane and your spirits are not exactly high. After a while, however, the cars in the right-hand lane begin to move. Do you feel better or worse? It depends on how long the right-hand lane has been moving. At first, you think that the jam has cleared further ahead and that your turn to move will come soon. Given the imminent prospect of movement, your spirits lift considerably, even through you have not yet moved. However, if the right-hand lane keeps moving for long enough with no sign of things clearing up in the left-hand lane, you soon end up frustrated and,

perhaps, gatecrash into the right-hand lane yourself. Of course, if many people switch lanes, everything will probably come to a halt anyway.

It has been experienced by several developing economies that the level of inequality in the distribution of income increases during the initial phases of development. Responses to such a rise in inequality have been varied, both across economies as well as within the same economy at different points of time, ranging from an enthusiastic acceptance of the growth process that accompanied the rise of inequality to violent protests against it in the form of social and political upheaval. Such differences in the tolerance for inequality may be explained with the help of the tunnel analogy.

Hirschman and Rothschild's tunnel effect hypothesis conveys an important lesson. If growth and equity in income distribution are considered to be the two principal objectives of the process of economic development, the development strategy has to be devised by keeping in mind the social and political context. If, given the social structure, the tunnel effect is weak (i.e. the tolerance for inequality is low), a strategy of 'grow first, distribute later' is unlikely to meet with success. Even with strong initial tunnel effects, the development process may be thwarted if ruling groups and policymakers are insensitive to the erosion of these effects over time.

Where is Bosnia and Herzegovina today?

There are ongoing (but, so far, failed) efforts to establish a new national constitution which would form the basis for increased cohesion and countrywide co-operation. Work is in progress to replace the rotating presidential system with one based on having one elected president and two vice-presidents for four years. Steps have also been taken to forge closer ties with Europe politically and economically, and in terms of security. In June 2008, Bosnia and Herzegovina signed a stabilisation and association agreement with the European Union.

Such political endeavours are, however, progressing slowly as divisions and mistrust still persist. The political impasse has had adverse effects on the level of economic and social development.

The country has a modest GDP per capita, at slightly above $4,485; unemployment is exceptionally high and corruption is a major challenge. Poverty is widespread and several groups face hardship and vulnerabilities. In 2009, the country experienced sharp increases in social spending as well as a fiscal crisis precipitated by the global economic downturn and bad governance (mismanagement). Both these causes are thus currently taking their toll on the country's economy. There are no national accounts statistics to confirm it (statistics are fragmented and unreliable), but the available data indicate that the economy is in recession.

Public sector and tax revenues have been dropping rapidly. Spending on social protection schemes remains large by international standards, so such trends may have serious social and humanitarian consequences if the sustainability of the social security system is put at risk. The public pension is below the official threshold of relative poverty and other state allowances are low, and thus already inadequate for maintaining a satisfactory standard of living for many. Thus, Bosnia and Herzegovina's most immediate task remains economic revitalisation. The country needs meaningful progress in structural reforms to strengthen the basis for sustained growth.

Private sector growth – especially among small and medium enterprises (SMEs) – and increased foreign direct investment (FDI) is needed to spur economic growth and job creation. The government's top economic priorities are to:

- accelerate EU integration
- strengthen the fiscal system
- reform the public administration
- deliver membership of the World Trade Organization
- secure economic growth by fostering a dynamic, competitive private sector.

To date, work on these priorities has been inconsistent. The country has received a substantial amount of foreign assistance and needs to demonstrate its ability to implement its economic reform agenda in order to advance its stated goal of EU accession. In 2009, the country took out an International Monetary Fund (IMF) standby arrangement in order to cope with the sharp increase in social spending and the fiscal crisis precipitated by the global economic downturn.

Table 1 – Bosnia and Herzegovina in brief: key macroeconomic data

	2006	2007	2008	2009	2010
Nominal GDP (€, bn)	9.8	11.1	12.6	12.2	12.6
Real GDP (%, year-on-year)	6.9	6.8	5.4	-4.0	1.0
Household consumption (real, y-o-y)	4.5	8.3	7.1	-5.7	2.0
Industrial output (%, y-o-y)	11.0	6.0	10.2	-5.0	3.0
Consumer prices (av %, y-o-y)	6.9	1.5	7.4	0.5	1.3
Unemployment rate (av, %)	45.5	43.9	40.1	42.0	41.0
General budget balance (% of GDP)	2.9	1.3	-2.0	-4.2	-3.6
Current account balance (% of GDP)	-7.9	-10.4	-14.9	-9.3	-10.8
Public debt (% of GDP)	21.3	29.8	27.5	35.0	40.0
Official FX reserves (€, bn)	2.8	3.4	3.2	3.2	3.4

Source: Thomson Reuters

With an unemployment rate of 40 %, and with about 20 % of the population living below the poverty line and another 40 % living on the brink of poverty, the most pressing need for people is the creation of jobs and income, i.e. the recovery of the economy.

The high rate of unemployment in Bosnia and Herzegovina must surely represent one of the country's greatest macroeconomic problems. It is true that the increase in the number of registered unemployed noted over recent years came to a halt during 2008, and that the number of unemployed people had begun gradually to reduce during the year. Unfortunately, in 2009 we again saw an increase in the number compared to the previous year, no doubt as a consequence of global economic events. Thus, some 480 000 people were unemployed in Bosnia and Herzegovina at the end of 2008, but

the number had passed back above 500 000 by October 2009; furthermore, the number in June 2010 was officially 516 045, but the actual estimate is around 600 000.

Unemployment is probably the major problem affecting young people, as much in the urban as in the rural areas of BiH. When this is combined with housing problems, the lasting economic crisis and political manipulation, young people become depressed and desperate, and turn either to drugs and alcohol or else start making plans to emigrate as the only way of securing a better future.

Table 2 – Unemployment in Bosnia and Herzegovina

	2007	2008	January 2009	October 2009
Total unemployment in BiH	520 432	480 313	488 496	503 979
Unemployed women in BiH			247 279	254 274
Unemployed men in BiH			241 217	249 705
Unemployed highly skilled people in BiH			12 516	16 083
Federation BiH			342 174	351 444
Republika Srpska			134 798	143 305

Sources: Statistics Agency of BiH Statement Registrirana nezaposlenost u Oktobru 2009 No. 10, Year III; Federal Statistics Office Mjesečni statistički pregled broj 12 Year XIII, December 2009; Statistics Office of Republika Srpska (www.zzrs.org), December 2009.

The UNDP's *Early Warning System* report in 2009 concluded that this was the poorest assessment of the economic situation in Bosnia and Herzegovina to date. Some 46 % of the overall sample expressed the view that the situation in the economy had worsened, while the percentage describing it as having improved was the lowest yet (5 %) (see the tunnel effect).

Figure 1 – Assessment of the economic situation over the previous year

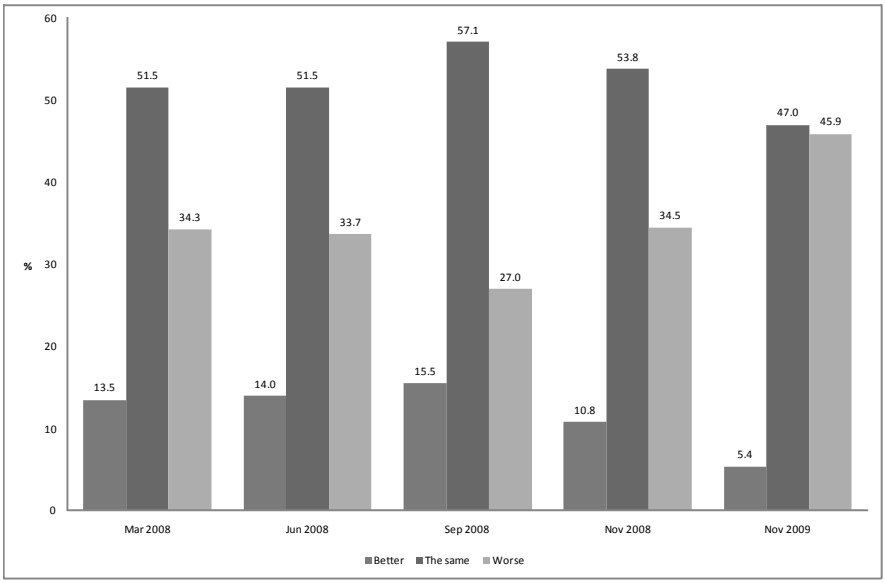

Figure 2 – Number of low income households (in %)

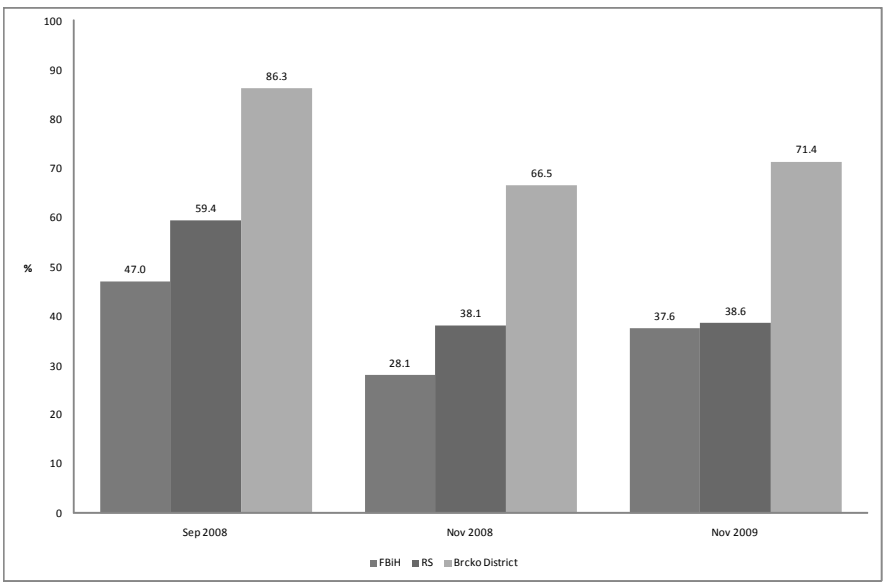

Figure 3 – Average salary trends in FBiH and RS (first ten months of 2009)

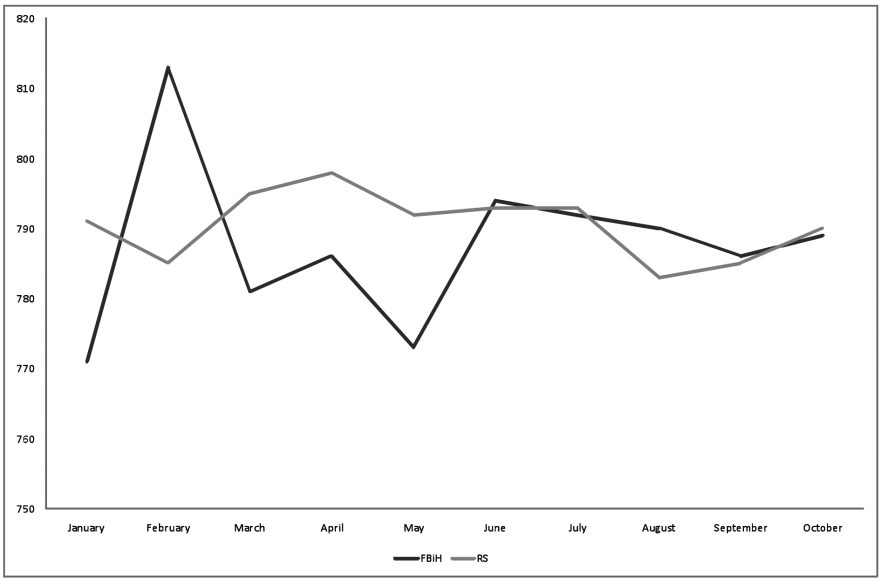

Table 3 – Monthly household income, including all household salaries and receipts, child allowance, pensions and any other sources of income (in %)

BiH														
	Urban		Rural		Male		Female		18-35		36-50		51+	
	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09
No income	2.0	3.9	4.4	5.0	2.8	5.7	3.9	3.4	3.3	4.7	2.9	4.7	3.8	4.3
< 100	1.3	1.9	2.7	3.7	1.9	3.0	2.3	2.9	0.9	2.0	0.5	2.5	4.4	3.9
101-200	2.4	8.6	6.8	12.6	4.6	9.5	5.3	12.2	0.6	2.0	0.5	2.5	4.4	3.9
201-300	6.6	5.5	8.9	8.6	6.9	6.4	8.8	8.1	2.0	4.8	5.5	2.1	15.6	11.7
301-400	10.7	10.3	14.5	11.1	13.9	10.9	11.9	10.5	9.4	9.2	12.5	14.5	16.8	10.1
401-500	2.3	2.7	1.4	2.7	1.6	2.3	2.0	3.1	1.0	2.6	1.4	3.5	2.8	2.3
Percentage of low income households in total	25.3	32.8	38.6	43.7	31.7	37.8	34.1	40.1	17.1	26.7	27.2	31.8	53.2	52.3

Source: public opinion polls conducted by PRISM Research

Table 4 – The social stability index for BiH

Date	Chain index	Composite index
Feb 05	92.00	46
Jun 05	97.83	45
Sep 05	93.33	42
Nov 05	102.38	43
Apr 06	104.65	45
Jun 06	102.22	46
Sep 06	100.00	46
Nov 06	102.17	47
Apr 07	104.26	49
Sep 07	91.84	45
Nov 07	95.56	43
Mar 08	106.98	46
Jun 08	97.83	45
Oct 08	100.22	46
Nov 08	100.00	46
Nov 09	100.00	46

Source: public opinion polls conducted by PRISM Research.

Poverty in BiH is deeper and more widespread than in any other country of the former Yugoslavia (it is more prevalent only in Kosovo), and some 20 % of the poor suffer serious shortages in all or almost all key aspects of welfare, ranging from acceptable housing and sanitary conditions and access to health care services, to literacy and integration into society. In addition, the current relatively low poverty rate of the population is the result of expenditures far exceeding current production capacities.

So far, extensive international aid has facilitated this level of consumption, but this will soon cease to be possible. Thus, it is extremely important to increase the rate of economic growth because the danger of a dramatic increase in the poverty rate is a very real one.

Table 5 – Household status: self-described (%)

	Urban		Rural		Bosniak majority areas		Croat majority areas		Serb majority areas	
	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09	Nov 08	Nov 09
Barely surviving	5.9	11.3	9.7	17.7	5.1	8.2	5.1	8.7	11.5	23.7
Well below average	10.9	10.8	11.8	13.0	0.4	11.7	8.6	11.4	14.3	11.6
A bit below average	23.3	17.4	25.0	25.5	26.3	24.3	17.0	28.1	24.1	17.7
Total below average	40.0	39.6	46.6	56.2	40.7	44.1	30.7	48.2	49.9	53.0

Source: public opinion polls conducted by PRISM Research.

Among the most vulnerable in Bosnia and Herzegovina are poor families with children; pensioners and elderly people; people with disabilities; internally displaced people (IDPs); and minorities. A substantial number of internally displaced people have returned but face legal, social, economic or political obstacles to their re-integration. People being at risk of being trafficked has emerged as a serious challenge. In addition to the political and socio-economic issues, various natural and man-made disasters hit the country almost every year; floods, for example, are becoming increasingly frequent. The level of poverty and the existing vulnerabilities in the country also increase risk and the potentially destructive effects of these phenomena as regards the most vulnerable.

In addition, the social protection and social assistance system in BiH is highly fragmented and comprises thirteen almost independent systems, with a low level of coordination and co-operation between them. Even within the 'single' system, functions overlap and the division of responsibilities is unclear. These are just some of the issues which prevent equal access to all the resources and services provided by the system.

In the attempt to address and deal with the grave consequences of the war, which heads the list of priorities of policy-makers, a regulatory framework that gives preference to certain groups of the population has been created. This approach has resulted in a status-based social protection system which has limited capacity to assist the most vulnerable groups of the population, thus limiting their access to resources and services. There are many examples of vulnerable groups which are not covered by the social protection and social assistance system due to the deficiencies in the existing legal and regulatory framework. According to a representative of the Association of people with mental disabilities, people with mental illnesses who need assistance from others are discriminated against since the existing legal framework does not provide them with the status of people with special needs, thus excluding them from social assistance. In addition, the system allows for the granting, or the limiting, of access to certain groups of the population (minority ethnic groups, Roma, internally displaced people and re-

turnees) on an arbitrary basis, thus openly discriminating against such groups. The existing fragmentation of the system only reinforces such practices.

State-level institutions are not involved in the regulation or provision of social protection and social assistance in Bosnia and Herzegovina. To some extent, the state is involved in refugee, health, employment and labour issues through the Ministry of Human Rights and Refugees of Bosnia and Herzegovina, as well as through the Ministry of Civil Affairs of Bosnia and Herzegovina. However, the role of state-level institutions, even in the area of the co-ordination of the system and the setting up of basic principles and standards, is minimal or even non-existent.

Social protection assistance and social service policies are defined at the entity level (and at the cantonal level in FBiH), while responsibility for their implementation resides with the lower government tiers. Fragmentation and the de-concentration of the system, however, creates large territorial disparities in the availability and accessibility of social assistance and services. Ultimately, and as a result of the lack of financial resources, the lower administrative levels and the poorest communities are mostly unable to fulfil their mandated obligations (especially in FBiH).

In the Federation of Bosnia and Herzegovina, the main institutions within the social protection and social assistance system are:

a) Ministry of Labour and Social Policy of FBiH (MoLSP FBiH)
b) Ministry of War Veterans and Invalids of the Federation of Bosnia and Herzegovina (MoWVI FBiH)
c) Ministry of Displaced Persons and Refugees of FBiH (MoDPR of FBiH)
d) Ministry of Health of the Federation of Bosnia and Herzegovina (which is only responsible for the co-ordination of the health care system, while health care policies are created by the health ministries existing at the cantonal level)
e) Federal Health Insurance and Reinsurance Fund and the cantonal-level health funds
f) Institute for Pension and Invalidity Insurance of the Federation of Bosnia and Herzegovina
g) Employment Agency of the Federation of Bosnia and Herzegovina and the cantonal employment services
h) Centres for Social Work (CSWs).

Each canton has its own ministries in charge of areas such as the protection of war invalids and their families, displaced people and refugees, labour and employment, health care and social protection. The cantons do have legislative powers to adopt their own legislation in social security areas, but not all of them have social security laws, nor have those which have adopted such laws ensured they are harmonised with the Social Security Law of the Federation of Bosnia and Herzegovina. In some cases, even when there is a cantonal social security law, the necessary by-laws have not been adopted, thus blocking the implementation of the legislation to its fullest extent.

The absence of a legal framework at the cantonal level has resulted in the exclusion of certain vulnerable categories of the population. In these cantons, civilian war victims do not receive any assistance due to the absence of a social security law, even though they may have documentation confirming their disability. The absence of such laws also prevents access to some benefits, such as maternity leave, health care during ma-

ternity leave and access to health care for some groups of the population in a state of social need. In addition, one of the most vulnerable groups of the population comprises households with dependant children (especially households with two or more children) – in some cantons in FBiH, no benefits are provided to these households despite their need.

Republika Srpska has a more centralised system of social protection and social assistance, with the main institutions being:

a) Ministry of Labour and War Veterans of Republika Srpska
b) Ministry of Health and Social Protection of Republika Srpska
c) Ministry for Refugees and Displaced Persons of Republika Srpska
d) Pension and Invalidity Insurance Fund of Republika Srpska
e) Employment Agency of Republika Srpska
f) Health Insurance Fund of Republika Srpska
g) Public Fund for Child Protection of Republika Srpska
h) Centres for Social Work at the municipality level.

Owing to the centralisation of the system, access to some aspects of social protection is equal for all throughout the territory of Republika Srpska but, when it comes to services provided by the CSWs, the picture is quite different. Here, there are significant territorial discrepancies in the availability and accessibility of social assistance and services.

The system comprises a social protection mechanism based on social insurance schemes funded from contributions on wages (pension, health, unemployment and family and child protection benefits in Republika Srpska) and social assistance and services schemes financed from general government revenues. When it comes to contributory social protection schemes, the issues are mainly related to the adequacy and quality of assistance but, when we talk about social assistance financed from general budgets, the primary issue is the inequality in access to these services throughout the territory of Bosnia and Herzegovina.

The main characteristics of social exclusion in BiH are:

1. high unemployment, high inactivity rates, significant levels of employment in the informal sector and poor quality jobs that lead to economic exclusion and which in turn results in poverty
2. a large share of the population with low educational attainment, which leads to inactivity, long-term unemployment or employment in the informal sector, thus also resulting in poverty
3. ethnic exclusion and discrimination against 'minority' groups and returnee communities
4. an inadequate system of social protection with poor targeting and a low effective coverage, resulting in inequalities in terms of access to resources and services. The lack of financial resources for the provision of social assistance and the inefficiencies inherent in the functioning of the Centres for Social Work reinforce social exclusion.

A large percentage of the population is below the poverty threshold. Especially worrying is the level of persistence of poverty, with over 70 % of the population remaining below the poverty threshold over a period of three years. This is closely linked

with the issue of long-term unemployment, since 76 % of all unemployed people have been so for more than two years. A high percentage (41.7 %) of the population has a low level of educational attainment, lacks a lifelong learning approach and has limited opportunities for a fresh start, which significantly reduces the chances of this population group of breaking out of the poverty cycle. The rural population, suffering from limited access to the labour market, resources and public services, as well as from the unresolved status of farmers, is by far the most affected segment of the population.

The most affected groups are households from rural areas; households headed by someone with primary, or a lower than primary, level of education; households with elderly members; households with two or more dependant children; households headed by women and single-parent households with dependant children; the Roma population; people with disabilities; members of minority ethnic groups; and displaced people and returnees.

There are no social inclusion policies at any level of government in Bosnia and Herzegovina that would, in a structured way, address the underlying causes of poverty and social exclusion. It has already been mentioned that the system is poorly co-ordinated, vertically as well as horizontally, and is not capable of responding to the numerous challenges. The inherent flaws in the system, both institutional and regulatory, are, to some extent, reinforcing social exclusion. This results in measures which are reactive rather than proactive, addressing only the consequences of poverty and social exclusion instead of the causes.

The pensions system in BiH has a long tradition, operating as a public pension pay-as-you-go type of financed system since the late 19th century. It is organised as a typical Bismarckian-type system. According to the Constitution of BiH, the pensions system, as with other sub-systems of the social insurance system, is organised at the entity level. For these reasons, one can discuss two separate pensions systems, with a minimal capacity at the level of the state that is nominally in charge mainly in terms of the representation of BiH abroad and of the task of co-ordination between the entities. The systems are separated in their organisational and funding terms, but both entity pensions systems are organised and function in almost identical ways.

Indeed, there are only minor differences between the two entity systems, such as:

1. the funding of the system: Republika Srpska has budgetary-based financing while the Federation is fully contributions-financed
2. the level of pension benefit is slightly higher in the Federation of BiH due to differences in the level of economic activity
3. in Republika Srpska, the pension fund is in possession of a significant amount of assets as a result of the privatisation process under which 10 % of the value of privatised assets was transferred to the pension fund; there is no similar provision in the Federation of BiH
4. minor legal provision differences, such as the eligibility of some groups, buy-backs of 'missing years', etc.

The legal framework for the pensions system is well-defined. The system is scoped by two entity pensions laws and a set of related legislation (a law on contributions, a law on central records, etc). The parameters of the pensions system are already adjusted to very sharp levels – moving the pensionable age to 65 for both men and women

(previously 60/55), with a very short transition period, and defining the full working life as the reference period for the calculation of the pension base (previously, it was the best 10/15 years).

In terms of financing, the main source of revenue for the pensions system is contribution revenues – almost 100 % of revenue in the Federation of BiH, and 65 % of revenue in Republika Srpska. Apart from this, the Republika Srpska pension funds receive budget subsidies (35 %), while the pension funds also collect up to 2 % of their source revenue via the issue of certificates and the provision of other services.

The health care system in Bosnia and Herzegovina is organised in accordance with the administrative country borders of entities, cantons and the District of Brčko. The current organisation of the health system evolved from the three main health finance systems that emerged at the end of the war. Two were in the Federation (Bosniak and Croat) and the third in Republika Srpska. At present, Bosnia and Herzegovina has thirteen health ministries, thirteen health funds and numerous institutes. In the Federation of BiH, each canton has its own health ministry and health fund, while there is a health ministry at the entity level, together with a solidarity health fund. Republika Srpska has its own health ministry as well as a special health insurance fund which covers the whole territory of Republika Srpska, while Brčko District has its own separate health fund which has existed since 2002.

It is well-known that various social groups are not covered by health insurance. These are, primarily, various groups of unemployed people but who are not registered as such, as well as those that are employed but whose contributions are not paid regularly by their employer. Also, the Roma population and minority ethnic groups in different parts of the country usually fall within this category of people excluded from the system. Currently, there has been some discussion over the passing of special legislation in order to ensure the health care rights of minorities. Most people believe that governments should subsidise health care expenses from general revenues and make health care accessible for everybody, at least in terms of a basic package of health rights. The government will need to find an appropriate and better way of financing health care, such that the burden of financing will be better levied across the population, while universal accessibility and basic health rights for everybody will be guaranteed. This can be achieved via financing out of general revenues. The government will also need to introduce supplementary health insurance on a voluntary basis.

According to the 2007 Labour Force Survey, the situation concerning the level of education of the working age population shows that it has, to some extent, been improved in comparison with 1991. The percentage of the population with tertiary level education has remained almost the same, but the percentage of the working age population with secondary level education has increased significantly (from 33 % in 1991 to 46 % in 2007).

However, an exceptionally high percentage of the working age population (48 %) has only a primary, or lower than primary, school education. Despite evident improvements and an overall increase in the level of education of the working age population, discrepancies in the educational level of men and women of working age remain high.

Compared to the EU-8 average and that of other countries in transition, BiH spends a higher proportion of GDP on public expenditure than any other country. In each of

the analysed areas, BiH spends a higher proportion of its GDP than other countries taken in comparison (EU-8 countries, Croatia, Slovenia, Poland and Slovakia). The exceptions here are social protection (where BiH spends slightly less than the EU-8 average, the same percentage as Croatia and a significantly lower percentage than Slovenia and Poland); and economic affairs (where BiH spends slightly less than the EU-8 countries and Slovakia). Bearing in mind that all the countries compared have a significantly higher GDP than BiH, and that the quality of services provided in BiH is not comparable either to the EU-8 average or to those of better-performing transition countries like Slovenia, one can estimate that social and other public expenditures in BiH are too high.

Conclusions

> The social and financial causes of public dissatisfaction that are likely to cause public unrest are more important, at least to some degree, than the political i.e. ethnic factors that are normally considered to play the dominant role in Bosnian and Herzegovinian society. The percentage of the public who would take to the streets over their national rights was considerably smaller than the percentage that would do so over job losses. The data from the reporting period thus confirms the primacy for the individual of social/financial status over political rights in BiH. Similarly, there is interesting data which indicates that those most prepared to protest come from the 36-50 age group; one might have expected, as a general principle, that the younger generation would be more ready to resort to such a form and expression of public discontent.

This is a quote from the UNDP's *Early warning system 2009* report and is the best description of the current situation in BiH. Furthermore, it provides a good answer to the development versus poverty question; it says a lot about the quality of governance; and it proves the presence of the tunnel effect which is now so obvious in Bosnia and Herzegovina.

References

Bose, S (2002) *Bosnia after Dayton: Nationalist Partition and International Intervention* London: Hurst & Co.

Caplan, R (2004) 'International authority and state building: the case of Bosnia and Herzegovina' *Global Governance* 10.

Huddleston, M. W (1999) 'Innocents abroad: reflections from a public administration consultant in Bosnia' *Public Administration Review* 59.

Hirschman, A. O and M. Rothschild (1973) 'The Changing Tolerance for Income Inequality in the Course of Economic Development' *Quarterly Journal of Economics* 87(4): 544-566, November.

Leftwich, A (1993) 'Governance, democracy and development in the Third World' *Third World Quarterly* 14(3): 605-24.

Popovic, B (2005) 'International Community in the Role of State Creator: The Experience of Bosnia and Herzegovina' *Whitehead Journal of Diplomacy and International Relations* Winter/Spring: 163-178.

Rahnema, M (1992) 'Poverty' in W. Sacha (ed.) *The Development Dictionary: a guide to knowledge as power* Zed Books: London.

Seers, D (1969, 1979) 'The Meaning of Development' in D. Lehmann (ed.) *Development Theory: four critical studies* Frank Cass: London.

UNDP (2009) *The early warning system*.

World Bank (1992) *Governance and Development* World Bank: Washington DC.