

## Bosnia and Herzegovina – future stuck in the past

### Abstract

*Bosnia and Herzegovina has the worst economic and social indicators in the whole of south-east Europe. A complicated, complex and expensive state structure as a result of the Dayton Peace Agreement is a major barrier to the necessary social, structural and economic reforms. The country is mired in the past and almost all social energy is focused not on resolving problems but on the question of who is to blame for the lack of performance and the poor economic and social results. More and more people are leaving the country and working in the grey economy in western countries. The way out of this situation lies in changing the way of thinking of people who still live in Bosnia and Herzegovina. The first and most necessary change has to happen in people's minds. A job, existence, family and personal future have to become a priority. After that, all kinds of reforms in almost all sectors are required. Perhaps it seems too complicated, too long and too complex? Yes, indeed. But there are no simple solutions for a problem as complex as Bosnia looks today.*

**Keywords:** unemployment, employment rate, public sector, education, labour market institutions, active and passive labour market policies, pensions, tripartite institutions, trade unions, employer associations, social dialogue

### Introduction

Bosnia and Herzegovina is a country with a complicated structure, created by the Dayton Peace Agreement in 1995. It consists of three nations, two entities, one district and ten cantons; and has thirteen constitutions and parliaments, and thirteen governments with 158 ministers and thousands of government officials. This has to be borne in mind when we are discussing and analysing the labour market and employment policies in BiH.

### Labour market situation (development between 2006 and 2010)

The main generator for new jobs in BiH has lain, for the last five years, in the growth of the public sector during 2006-2010 and the private sector up to the 2008 crisis. According to the most recent data on employment trends, new jobs have been opened mainly in the public sector or in the private services sector. Most of these jobs have been obtained via private-political recommendation, which represents a significant obstacle to unemployed people of a mature age or, more especially, for young/educated people, for both groups of whom the only way out of such a problem is to move abroad or to become a member of a political party. Both such decisions would carry serious consequences for the current market labour situation.

**Table 1 – Main labour market indicators for Bosnia and Herzegovina, 2006-2010**

	2006	2007	2008	2009	2010
Economic activity rate <sup>1</sup> (15-64)	51.3	52.2	53.5	53.2	54.0
Employment <sup>2</sup> rate (15-64)	35.0	36.8	40.7	40.1	39.0
Employment rate, male (15-64), %	46.1	48.7	52.9	51.2	49.6
Employment rate, female (15-64), %	24.0	25.0	28.7	29.3	28.6
Employment rate of older workers <sup>3</sup> (55-64), %	30.6	31.9	34.4	34.0	26.8
Employment by main sectors, %					
Agriculture	20.5	19.8	20.6	21.2	19.7
Industry	22.0	22.9	21.7	21.2	21.9
Construction	8.8	9.6	10.8	10.3	9.1
Services	48.4	47.3	46.7	47.1	49.1
Unemployment rate, <sup>4</sup> %	31.1	29.0	23.4	24.1	27.2
Share of unemployed in male labour force, %	28.9	26.7	21.4	23.1	25.6
Share of unemployed in female labour force, %	34.9	32.9	26.8	25.6	29.9
Unemployment rate of people <sup>5</sup> aged below 25	62.3	58.4	47.5	48.7	57.5
Long-term <sup>6</sup> unemployment rate, %	26.7	25.0	20.2	20.0	22.3

Source: Statistical Annex of BiH Progress Report 2011 – EU Commission Staff Working Paper, Brussels, pages 60-63.

These data for the percentage level of unemployment are according to the ILO methodology. Other data show that the official unemployment level in BiH for 2011 is 42.5 %, while the predicted level for 2012 is 41.5 %.

Employment offices in both entities registered a significant increase in the number of unemployed people in 2010. This number increased by 3.9 percentage points in the Federation of BiH (the Federation) compared to 2009. The reasons for losing a job are, for 59 %, the termination of a fixed-term contract or the agreed termination of a work contract or a breach of work duties. According to the evidence of the Employment Office, 38 % of those newly entering unemployment declared themselves as redundant,

- 1 Share of the population aged 15-64 that is economically active.
- 2 Share of the population aged 15-64 in employment.
- 3 Share of the population aged 55-64 in employment.
- 4 Share of the labour force that is unemployed.
- 5 Share of the labour force aged under 25 that is unemployed.
- 6 Share of the labour force that has been unemployed for 12 months and more.

while 3 % lost their jobs as a result of bankruptcy, liquidation, or the restructuring or privatisation processes of their company.

Data for Republika Srpska (RS) are only slightly different. The number of unemployed people in 2010 compared to 2009 was higher by 4.2 percentage points. More than one-half came to the RS Employment Office because of the termination of their jobs: 31 % of them were declared redundant, 26 % signed to agree the termination of their work contract and 18 % signed the termination of a fixed-term contract.

If we want to observe the level of unemployment according to canton/region, the lowest level of unemployment is still in the biggest cities in BiH – the region of Banja Luka (28.8 %) and Sarajevo canton (36.3 %), where there is still a demand for labour. On the other hand, the highest levels of unemployment are in Una-Sana canton (55 %) and Tuzla canton (53 %). The regions of Prijedor (46 %) and Bijeljina (41 %) represent the regions of Republika Srpska which had the highest level of unemployment in 2010.

The result of the economic crisis is that the level of employment in the private sector has decreased. The only evidence of an increase in the level of employment is found in the public sector.

Data for private sector industries show a decrease in employment, as follows:

- industrial sector: 3.8 %
- construction sector: 7.0 %
- retail sector: 1.3 %
- catering: 7.4 %

From another side, the public sector shows an increasing level of employment in 2010 of 1.9 %, especially in education and government sectors.

According to the most recent data<sup>7</sup> of the Agency for Statistics of Bosnia and Herzegovina (BHAS), the structure of employment changed between 2008 and 2010. In the agriculture sector, the number of employees decreased from 183 000 to 166 000, with a significant number coming from the male labour force (accounting for 18 000 of the jobs lost in the agriculture sector). Additionally, the male labour force lost 20 000 jobs in industry between 2008 and 2010 while, in the same period, 8 000 jobs were lost from industry's female labour force.

Figure 1 presents an interesting comment: we can see a very modest percentage of employed women (36.9 %) in comparison to the total number of employees, bearing in mind that the female population represents 51 % of the total population and 51.5 % of the population of working age.

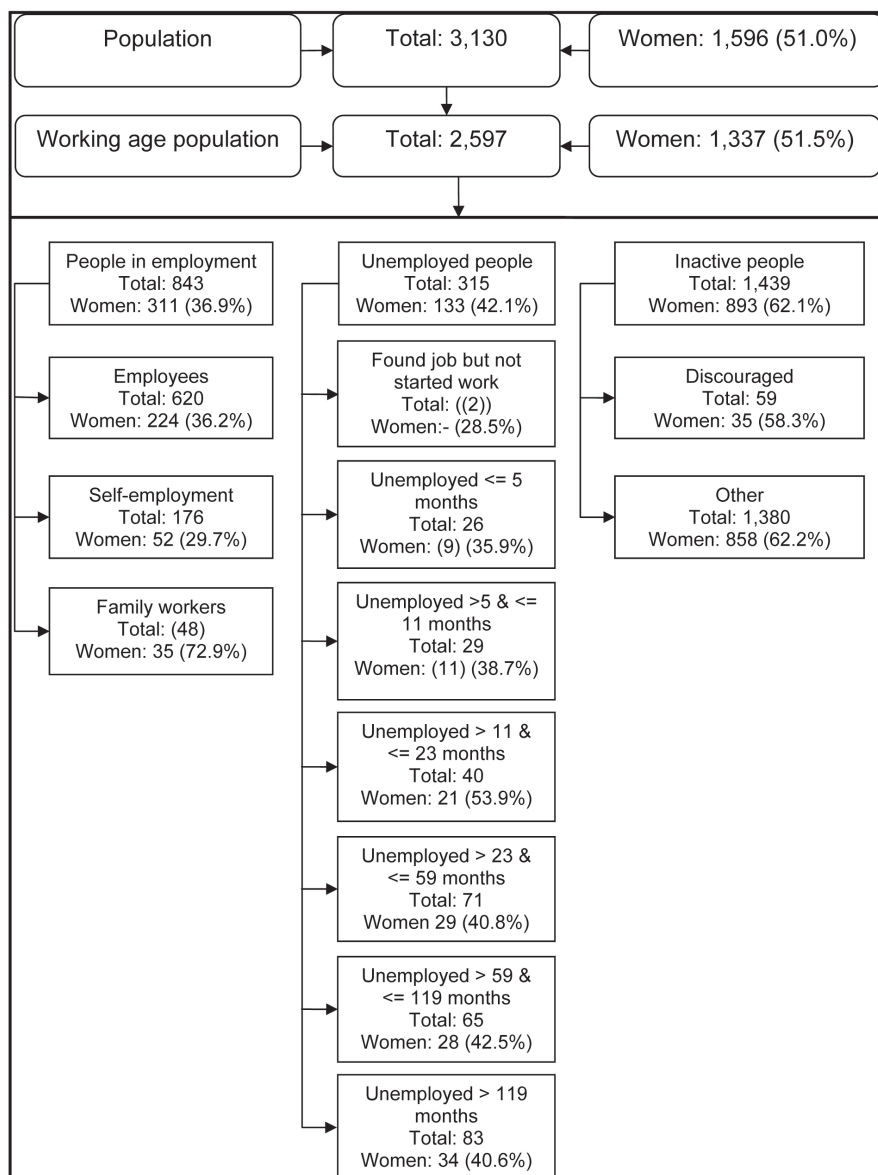
Table 2 shows that the educational level of the labour force in BiH is very low: just 13.3 % of all the labour force has graduated from higher education. The problem is even worse if we consider that every fifth person in BiH has only a primary level of education or none at all. It is encouraging that, in the period between 2008 and 2010, the percentage of the workforce with only primary education steadily decreased.

Data for the labour force by the highest level of education attained and sex show that women have tended to increase their level of education in the last few years. If we compare university-obtained education, the female population is almost on the same

7 November 2011 *Demography*, issued by the Agency for Statistics of BH, Sarajevo.

level as the male, but the percentage change is stronger for women, i.e. from 14.5 % to 17.0 %, compared with the increase among men which has risen from 9.3 % to 10.9 %. This is an excellent indicator because the educated female population is demonstrating the confidence that, only by obtaining a higher level of education will they be in a position to become more competitive on the labour market, in a country with a traditionally-oriented labour market, compared with their male colleagues.

The number of employed people in BiH decreased by 5.3 percentage points in the two years to 2010. In other words, 47 000 jobs were lost compared to 2008 (see Table 3). It is very significant that 21 000 of the jobs lost, or 45 %, are represented by self-employed people – micro- and small businesses and farmers.

**Figure 1 – Population by type of activity, thousands**

Source: Agency for Statistics of BiH Labour Force Survey 2010 Sarajevo.

All the latest reports indicate that BiH has a major problem with youth (un)employment. Up to now, however, only a few studies have been seriously conducted.<sup>8</sup>

In particular, the CISP study<sup>9</sup> highlights (see Figure 2, which is taken from the study) that more than 48 % of the youth population were still in the education system, but 27 % were neither employed nor in education.

**Table 2 – BiH labour force by highest level of education attained and sex (000 and %)**

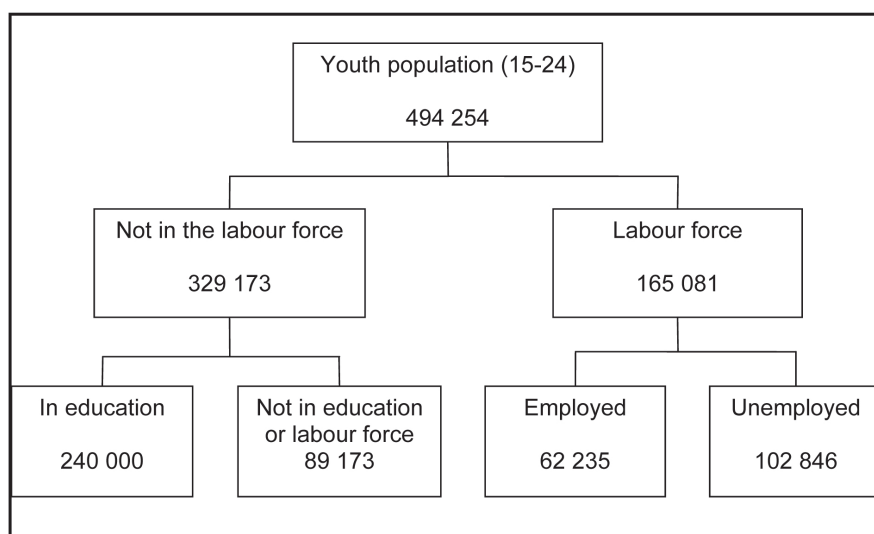
	Total			Men			Women		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Total	1 162	1 132	1 158	729	703	734	433	428	444
Primary school and lower	279	259	238	165	149	137	115	110	101
Secondary school	753	736	766	497	481	499	256	254	267
College, university, masters, doctoral degrees	130	137	154	68	73	78	63	64	76
<b>Structure (%)</b>									
Total	100	100	100	100	100	100	100	100	100
Primary school and lower	24.0	22.9	20.5	22.6	21.2	19.1	26.5	25.6	22.8
Secondary school	64.8	65.0	66.2	68.2	68.4	69.9	59.2	29.4	60.2
College, university, masters, doctoral degrees	11.2	12.1	13.3	9.3	10.3	10.9	14.5	15.0	17.0

8 Two such reports have been issued by UNDP, Sarajevo, 2000 (see: [www.undp.ba/NHDR](http://www.undp.ba/NHDR)); and by CISP, Council of Ministers of BiH and the Commission for the Co-ordination of Youth Issues in BiH, December 2006.

9 CISP-Comitato Internazionale Per Lo Sviluppo dei Popoli, Council of Ministers of BiH and the Commission for the Co-ordination of Youth Issues in BiH *Study on Youth Employment in BiH* December 2006.

**Table 3 – People in employment in BiH by employment status and sex**

	Total			Men			Women		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Total employment	890	859	843	573	541	531	317	318	311
Employees	645	625	620	416	401	395	230	224	224
Self-employment	197	176	176	143	122	124	54	53	52
Unpaid family workers	48	58	(48)	(15)	(17)	(13)	33	41	35
<b>Structure (%)</b>									
Total employment	100	100	100	100	100	100	100	100	100
Employees	72.5	72.8	73.5	72.5	74.2	74.3	72.5	70.3	72.1
Self-employment	22.1	20.5	20.8	24.9	22.6	23.3	17.0	16.7	16.8
Unpaid family workers	5.4	6.8	5.6	(2.6)	(3.2)	(2.4)	10.5	12.9	11.1

**Figure 2 – Young people and participation in the labour market**

## Employment policies and labour market institutions

### *Labour market institutions*

The Public Employment Services of BiH consist of the State Employment Agency of BiH, the Labour and Employment Agency of the Federation, the Employment Agency of Republika Srpska and the Employment Agency of the District of Brčko. Apart from that, the Labour and Employment Agency of the Federation has one employment agency in each canton and 74 municipal employment offices. The Employment Agency of Republika Srpska is organised into six regional offices and 63 municipal employment offices. The State Employment Agency of BiH is responsible for international representation, the signing of international agreements and monitoring the implementation of international labour standards and those programmes that are country-wide in scope. The entity-level public employment services are mainly responsible for job brokerage, the implementation of active labour market programmes, the dissemination of labour market information and the delivery of unemployment benefit but at different authority levels, such as the cantonal or municipal level.

The revenue structure of the public employment services mainly comes from a wage levy. The lowest revenue is about KM 87 (€44) per registered unemployed person (in RS), while the highest is in Sarajevo canton, at KM 560 (€286). On average, the available financial resource per registered unemployed person in BiH is KM 213 (€109), i.e. just one-quarter of the amount spent in Croatia or Montenegro.<sup>10</sup>

Expenditure on employment services consists of administrative costs, unemployment benefit and active measures. The ratio of front-line staff to the total personnel of the employment services varies widely throughout the country, with an average of 52 % in FBiH and 67 % in RS.

In BiH, the ratio of staff to unemployed people is 1:1,100 which is quite unfavourable in comparison with the ratios in other countries of the region. However, in BiH there are a few private employment agencies, although these mostly specialise in searching for suitable employees for client employers.

Every registered unemployed person has health insurance. The employment services estimate that 30-40 % of unemployed people are registered only to have access to health insurance and that as many as 50 % of the registered unemployed are, in reality, not actively seeking a job. About 60 % of the working time of employment services staff is spent on registering unemployed people and providing them with basic information.

The employment services do not formally accept reform processes and are performing as active players in different projects, but they remain inefficient and slow, compared to the real needs of unemployed people, in answering the real challenges of the labour market in the current business environment.

10 Source: ILO and the Council of Europe (2009) *Employment Policy Review Bosnia and Herzegovina*.



*Active labour market policies*

Active labour market policies are aimed at reducing labour market imperfections and are geared to the alleviation of inequalities and social exclusion through the better integration of job seekers and workers in the labour market and through fairer income distribution.<sup>11</sup> We mentioned above that the revenues of the Employment Agencies are intended to cover both administrative costs and expenditure on unemployment benefit.

The allocation for active labour market programmes is residual. The budget is modest and represents less than 0.3 % of BiH GDP. The active labour market measures that are in place could be grouped as follows:

1. Loans to companies for job creation programmes (in FBiH). These loans amounted to KM 8.5m (€4.3m) and covered 68 borrowers in 2006, and were expected to create more than 500 new jobs. In RS, more than KM 200m (more than €100m) of loans was distributed to businesses on the precondition that they employed new workers in the next four years. However, the results were very poor and the goals were not achieved.
2. Employment subsidies are the most common type of active labour market measure. They tend to reduce firms' hiring costs. Participants are mainly young, highly-educated people, workers with disabilities, older workers or demobilised soldiers. It also includes some training components. During 2006, such measures created 4 198 jobs at an overall expenditure of KM 12m (€6m) across both entities. The RS Employment Agency, with an annual budget of KM 2m (€1m), covers the cost of insurance and provides a small amount for interim schemes for nine or twelve months for young graduates under 30 years of age employed mainly by the government. In the District of Brčko, the Agency co-finance the wages of workers newly-recruited from the employment register for a period of twelve months.
3. The World Bank has implemented SESP programmes in both entities with a mix of employment services, such as counselling, training, labour market training, employment subsidies and self-employment assistance. This programme is aimed at the needs of long-term unemployed persons.

Employment counselling, vocational guidance and job-search assistance in BiH appears to be limited by the huge number of individuals registered with the employment services, and to the lack of skills and training opportunities of the staff of the Employment Agencies.

Besides BiH spending significant resources on loans and grant programmes, it seems that only a limited number of participants have benefited.

On the other hand, employment programmes for people with disabilities are not developed sufficiently enough, bearing in mind that BiH is a post-war country with a huge number of people with disabilities.

Only KM 1m (€500 000) was implemented in FBiH during 2006 on such specific needs. In RS, public companies and institutions have the obligation to employ one person with a disability in every fifty workers. Private employers, however, can choose between the hiring of a person with a disability (one in every fifty employees) and

11 ILO.

making a payment of an additional contribution of 2 % of the salaries of existing workers.

If we compare employment measures for young people, it seems that policy only encourages young people to have a university degree. In contrast, active labour market policies for individuals with a low level of education, displaced people, refugees and the Roma population are only slowly becoming a reality.

One active measure was that taken by the RS Employment Agency in 2009, when it implemented a project for the employment of the Roma population. The project was, however, not generally successful. Only eighteen participants left the project with a job to go to. Some of the reasons for this were: the low level of qualifications of those involved; most of the Roma population do not register with the Employment Agency; the project grant for employment was low; etc. The same project has continued during 2011 with a higher budget,<sup>12</sup> but it is too early to draw conclusions as regards its success.

### *Passive labour market policies*

In BiH, these comprise social insurance schemes funded from payroll contributions and programmes funded from general revenues. The social insurance system provides pensions, unemployment benefit and health insurance. In RS, the system also provides child allowances and maternity benefit. Programmes funded from general revenues provide benefits for war veterans and surviving families, social protection and, in FBiH, child and maternity benefit.

#### Unemployment benefit

An unemployed person is obliged to report to the employment office every thirty days. Benefits will terminate in cases when the beneficiary finds a job, does not appear to report after thirty days or refuses to report when called, refuses a job offer that is suitable for his or her level of qualifications, or is found to be working in the informal economy.

In FBiH, unemployment benefit is equivalent to three months wages for an insurance period between eight months and eight years, rising gradually to 24 months for a service record longer than 35 years. The unemployment benefit replacement rate is a uniform 40 % of the average net wage paid in FBiH in the previous three months, irrespective of the number of years of service. In RS, benefits can be received for three months for an insurance period of up to five years, rising to twelve months for an insurance period of more than 25 years. Unemployment benefit amounts to 35-40 % of the individual's average salary over the preceding three months for those with ten years of insurance or more.

Generally, benefit coverage in BiH is lower than in neighbouring countries.

#### Early retirement

Both entities allow early retirement for certain categories of worker, or for people with at least forty years of contributions, which is possible at sixty years of age for men

12 Source RS Employment Agency web portal [accessed 25.12.2010].

and 55 for women. Individuals employed in arduous occupations or war veterans are entitled to bonuses on their insurance period, e.g. 12 months are counted as 18-24 months.

Both pensions funds in BiH have encountered difficulties in collecting funds for the payment of pensions and the governments have to make significant contributions to ensure that pensions will be paid every month.

There are several important reasons for this:

- the economic crisis and the reduced number of insured-employed people have led to a fall-off in revenues created on the basis of the contributions paid to the BiH pensions funds per employed person
- the number of pensioners has grown constantly, mainly because governments have given such a benefit to certain categories of people.

Even before the economic crisis, however, the funding sources based on the system of inter-generational solidarity (pay as you go) were limited and insufficient. The economic crisis has simply contributed to the worsening of the situation in the pensions system, as the already low basis for the payment of pensions has been additionally undermined.

In 2004, the pensions system in FBiH had 292 200 beneficiaries and 466 000 contributors, with a system dependency ratio of 0.63. In RS the ratio was 0.6, with 174 000 beneficiaries and 294 000 contributors. The average pension was KM 184, while the poverty line was set at KM 185 per month.

Data for 2010, covering both pensions funds in BiH, show that the number of retirements increased whereas the number of employees decreased. The average number of pensioners in BiH in 2010 was 587 600, which is an increase of 4.2 % compared to 2009. In the same period, the average number of contributors that have paid contributions to the pension funds decreased by 1.3 % in FBiH and by 4.2 % in RS. The ratio between the numbers of pensioners and employed persons is almost 1:1.

In addition, the average pension in BiH represents only 42 % of the average salary and it was 1 % lower in 2010 than in 2009. The minimum pensions in both BiH entities in 2010 remained the same as in 2008: KM 296 (equal to €151) in FBiH and KM 160 (equal to €82) in RS.

## Social welfare

Social transfers financed through general revenues amount to 4 % of GDP, with war veterans' benefits accounting for about two-thirds of the total. Social transfers have had only a modest impact on the alleviation of poverty. Military beneficiaries and survivor's benefits for family members are financed by the Ministry of Veteran Protection in FBiH and by the Ministry of Labour and Veteran-Invalid Protection in RS. Some municipalities and cantons also additionally co-finance benefits to people in these categories. In the table below, we can see those persons with different social and protective needs aged 27-45, representing the highest number of social welfare beneficiaries for 2010 in BiH.

## Socio-economic relations

Tripartism spreads gradually, even in BiH, but the system of relations between workers and the state remains undetermined while the representativeness of the social partners is still in question. On the one side, membership of trade unions is still mainly concentrated in the public sector and the privatised sector, where privatisation was carried out by mass privatisation, although its membership trend is decreasing in the latter. At the same time, there is a low level of trade union organisation in the private sector, where there is a concentration of employer associations. Evidently, employer associations and trade unions represent different segments of the labour market.<sup>13</sup>

### *Social dialogue at state/entity/local level*

International experience with respect to the systems of different industrial relations provides only suggestive guidance as to what level and kind of collective bargaining could be most appropriate for BiH. However, Bosnia and Herzegovina's economic transition is far from complete and substantial enterprise sector adjustment still needs to take place. This suggests that the tripartite parties could be best served by allowing for more rather than less flexibility on the labour market, which would promote better outcomes.

The characteristics of an industrial relations system nevertheless change over time, both *de facto* and also because existing arrangements are being renegotiated. There is an emerging group of companies in the private sector, as well as new associations of employers. There are also changes in the trade union structure and, together with higher private sector participation, they have initiated negotiations for new general collective agreements to replace those agreed in 2000. In FBiH, the social partners agreed a new GCA in August 2005 and one was also agreed in RS in the autumn of 2007. In the District of Brčko, the GCA signed by the social partners in 2000 is still valid, including some amendments from 2004.

Employers are free to form or join any employer association, while employees are free to form or join any union. However, 'tripartism' is under-developed, partly because of the embryonic state of the conventional private sector, which mainly consists of small and micro enterprises established with private capital. Collective bargaining is still dominated by the government and worker representatives from the formal/public sector, while there is low, or minimal, representation of private employers.

### *Economic and social councils (ESCs)*

Such councils have emerged as the foundation for tripartite collective bargaining and a discussion of the economic and social trends applying to the BiH labour market. The ESCs convene government, trade unions and employer associations. Tripartism now benefits from more representative independent and private sector employer associations which have arisen from the growth of a new and mostly small- and medium-sized private sector.

- 13 Source: World Bank (2005) *Bosnia and Herzegovina Labour Market Update: The Role of Industrial Relations* Report No. 32650-BA, World Bank, December.

Both entities have formed economic and social councils, as has the District of Brčko. Tripartite bargaining is being strengthened through the entity-level economic and social councils, while the creation of a council at the level of the state is still anticipated, although the proposals that have been made in recent years are still waiting to be adopted by the Council of Ministers of BiH. We could expect that, during 2012, the Council of Ministers will adopt a final Agreement on an Economic and Social Council at the level of BiH.

### *Trade unions*

Trade unions in both entities mainly represent workers employed in public sector companies and in mass-privatised enterprises, as well as employees of the civil service.

There are two separate trade union confederations in BiH: one in FBiH; and another in RS. However, there is also a registered trade union for the District of Brčko.

The Confederation of Trade Unions of Bosnia and Herzegovina was founded on 24 June 2005 in Sarajevo. The main founding organisations are: the Confederation of Independent Trade Unions of BiH; the Confederation of Trade Unions of RS; and the Trade Union of the District of Brčko of BiH.

### *Employer associations*

The Association of Employers BiH (APBiH) consists of the Association of Employers FBiH; the Confederation of Employers of RS; the Confederation of Female Employers 'UNA', Zenica; and the Association of Employers of the District of Brčko BiH. Private sector employer associations have been gathering strength in recent years and are now involved in collective bargaining, but their representativeness remains limited because of the low level of private sector development and growth.

The Association of Employers FBiH (UPFBiH) represents approximately 4 100 private companies that employ around 90 000 workers mainly in central and western Bosnia and Herzegovina. The UPFBiH is geographically organised (not by sector or industry) and is essentially a confederation of regional small business associations. It was established in 2002 and accounts for about 2 000 individual members/enterprises, as well as having members from fourteen industry sectors.

In Republika Srpska, the Confederation of Employers of RS (SPRS) represents mainly private small- and medium-sized enterprises (SMEs) and voucher-privatised former state-owned companies. Founded in September 2000, SPRS is small compared to UPFBiH. It represents more than 8 000 companies, but only 180 companies<sup>14</sup> are membership fee-paying members and they employ only 6 000 people. Its member companies are mostly active in manufacturing and processing (such as wood, paper, food and drinks, and the metal industry) as well as the information technology, services, construction and wholesale sectors.

The Union of Employer Associations of RS (UUPRS) was established in 2004 and represents members from thirteen groups, mainly voucher-privatised enterprises, as well as companies with majority state ownership organised through a chamber system.

14 Source: database of ECRS, November 2007.

The Chamber of Commerce of RS, a signatory of the previous General Collective Agreement as a representative of employers, wanted to retain influence over collective bargaining and this was one of the main reasons why the Union was established: between one another, they represent sufficient enterprises no matter the structure.<sup>15</sup>

## Conclusions

Unemployment was, and still is, one of the main problems that Bosnia and Herzegovina has faced in its last sixteen years of post-war history, but it has never become a real issue for discussion in the country.

Probably the highest unemployment rate in Europe in decades, a poor business environment, a huge foreign trade deficit and an extremely low level of foreign investment – none of these have been good enough reasons for Bosnian society to put these issues into the focus of discussion.

There are several reasons for this, but one is predominant. Post-war BiH has been driven mainly by the requests and leadership of the international community than by the real needs of the country and its citizens.

Official stages that BiH has proceeded through in the last sixteen years have been as follows:

- a) emergency help
- b) refugee return
- c) strengthening of institutions
- d) constitutional reforms.

A careful reader will notice that BiH has never been in a stage where the economy, employment and economic development have been at the top of the agenda. This is the result of the two completely wrong postulates which have been implemented in post-war and transitional BiH.

The first originates from a western way of thinking, which is not applicable everywhere, and which runs: ‘what is important is the establishment of governmental and other social systems, housing and the recovery of infrastructure. Businesses will be revitalised by themselves.’ This is completely wrong if you take into account that we are talking about businesses which were part of a war economy and which predominantly come from the socialist system. This has resulted in the loss of tens of thousands of jobs in a forced privatisation process which has had no benefit to anyone other than a few domestic tycoons.

The second comes from the mind of a few international bureaucrats, supported partly by Bosnian politicians, and runs like this: ‘a strong state and government will build a strong economy.’ This is false, of course. It is true, on the other hand, that only a strong and healthy economy can create a strong state and society.

The result of this wrong thinking and acting in the past years in Bosnia is a lack of performance as well as an inefficient and ineffective governmental and bureaucratic structure which spends more than 40 % of all budgets in BiH simply on the salaries of its officials.

15 Source: database of Union of Employer Associations of RS, November 2007.

The cost of administration and the functional complexity of the bureaucratic procedures is higher operating costs for Bosnian businesses. Costs have been raised to a level at which businesses can be competitive neither on the international market nor the domestic one. This is a reason why hardly any well-known international industrial company can be found operating in Bosnia, and this is also a reason why Bosnia is at the back when we talk about foreign direct investment.

Regarding employment and the general economic situation, 2011 seems to be worse than 2010. Governments at all levels have raised the level of debt financing by 50 % compared to recent years. Companies which survived the first wave of global economic crises are now suffering from low demand, lost markets, big debts and the closed doors of banks.

The BiH government has not yet been constituted<sup>16</sup> and the International Monetary Fund is not ready to continue with a stand-by agreement. Foreign direct investment is at the lowest level since 1996 and domestic investors are not investing any money in the real economy. The pensions and health care funds are empty and surviving on a monthly basis only through short-term commercial bank financing. The process of European integration has stopped and all reforms are in stand-by mode because politicians are waiting for the next local elections in 2012.

Nobody is ready to take any serious step or measure regarding unemployment and the bad economic situation. The country is anchored in the past and almost all its social energy is focused not on resolving the problems that exist, but on the question of who is more guilty.

More and more people are leaving the country and working informally in western countries or on the shadow labour market which has, up to now, been kept suppressed by a low level of taxation. However, financial burdens on salaries are starting to grow again, as governments are putting more and more financial pressure on companies. Strikes in companies and in the public utility sector are becoming an everyday reality.

For 2012, prospects are also poor: the state government is in limbo pending the constitution of the government, as mentioned above; local elections are approaching; a second wave of economic crises will hit the country in the spring of 2012; the economy is weakening every day; and the social funds will soon be empty.

Where lies a way out of this situation?

Primarily, there must be a change in the way of thinking of the people who still live in Bosnia and Herzegovina. Empty pockets, hunger and the loss of hope for and belief in the existing system will force people to start to think afresh about the real problems instead of thinking about who is to blame for the war, and who hates or who loves whom. The first and most necessary change has to happen in people's minds: a job, an existence, a family and a personal future have to become priority issues.

16 Editor's note: this was the case at the time this article was written. A government was finally formed at the end of December 2011, no less than 15 months after the election.



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