



THE POLITICAL-ECONOMIC AND SOCIAL STATUS OF BOSNIA-HERZEGOVINA*

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Bosnia and Herzegovina was a part of the former Yugoslavia as an independent Republic, with a constitutional and functional status equal to that of any other federal unit. It established its autonomy and independence through a referendum administered on March 1 1992. That same year, on April 6 1992, Bosnia and Herzegovina was recognised internationally and universally as a sovereign, independent and territorially-integrated state within its historical borders, and as a member of the United Nations.

Geographically, Bosnia and Herzegovina is a European country. It is situated in the south-eastern part of the European continent and in the north-western part of the Balkan Peninsula, at the crossroads of the Mediterranean, east European and north-western territories. It is a country rich with a diversity of geographical, climatic, cultural and historical aspects which, in turn, contributes to a variety of historical and cultural peculiarities. On its borders with the Republic of Croatia, Bosnia is both a northern and a western country. In the east and south, it borders Yugoslavia, meaning the Republics of Serbia and Montenegro. Bosnia and Herzegovina has its natural borders stretching

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along the rivers and blending in the adjacent mountains. As such, the state borders have already been long established.¹

As per the 1991 census, the population of Bosnia and Herzegovina was 4,427,000 citizens. In terms of ethnic structure, of that number 17.3% were Croats, 31.2% Serbs, 43.4% Moslems (Bosniaks), and 8.1% others.² According to the incomplete data for 2000, as per the figures provided by the Agency for Statistics, there were around 3,724,582 citizens in Bosnia and Herzegovina. Of this number, 1,448,537 lived in the Republika Srpska and 2,276,245 in the Federation of Bosnia and Herzegovina. No breakdown is yet available to depict the present ethnic structure of the population.³ The presented figures, although incomplete, show the loss of over 700,000 citizens.⁴ The consequences are not only a loss of population of this size but also a huge number of displaced people within the country and having refugee status abroad. This ensues clearly from the data pertaining to the number of people living in the Entities.⁵

The process of acquiring the independence of Bosnia was followed by strong resistance, primarily by forces in Serbia and some internal elements within Bosnia and Herzegovina. Their resistance grew into a difficult and long-lasting war which ended with the signing of the Dayton Accords in late 1995 which restructured the constitutional and political order within Bosnia and Herzegovina. Bosnia and Herzegovina is regulated as a state without a prior definition of the type of state it is in terms of the terminological meaning of the word 'Republic' or 'Federation'. Its nominal definition is 'Bosnia and Herzegovina'. Its internal organisation was established in such a way that the state of Bosnia and Herzegovina consists administratively of two Entities: the Federation of Bosnia and Herzegovina; and the Republika Srpska; as well as a special territory known as the Brčko District.

¹ For geographical, demographic and cultural facts relating to Bosnia and Herzegovina, see Muhamed Filipović (1997): *Bosnia and Herzegovina – the most important geographical, demographic, historical, cultural and political facts*, Compact: Sarajevo.

² See *Statistical Annual Book R BiH*, 1992.

³ According to one assessment, by the end of 1999 there were 1,698,760 Bosniaks, 504,711 Croats, 72,762 Serbs and 21,541 Others in the BiH Federation. There is no assessment of the number of minorities in the RS; according to some assessments, their number is almost negligible.

⁴ This is the number either killed or who went missing, were displaced or otherwise died of natural causes, etc. A precise death toll, giving an accurate number of those missing as a consequence of the war, is not yet available. Instead, there are varying estimates, ranging from 120,000 to 250,000, depending on the source and purpose of the information.

⁵ Institute for Statistics of BiH (1999) *Statistical Bulletin*, No. 5

The Dayton Accords established a new constitutional order which defines the responsibilities of BiH, its Entities and all other bodies established under it. In view of the war, which lasted from early 1992 until the end of 1995, leaving behind some critical, still pending controversies and causes, the mere signing of the Peace Agreement did not lead to an end of the disputes which had emerged during the course of the war and the serious atrocities that marked it. However, the Dayton Agreement did regulate many issues and attempted to annul the aftermath of the war – ethnic cleansing, evictions, occupation and atrocities – through the new legislation.

The implementation of peace involves numerous troops and institutions of the international community. It is, first and foremost, NATO that is in charge of providing military security; OSCE has a role in the democratisation of society and in the preparations and administration of elections as a presupposition for establishing new and legitimate representatives of authority and the administration of the country; the United Nations exercises its control over police structures; while there are many other international forces, institutions and organisations.

The Dayton Agreement also established the role of the High Representative for Bosnia and Herzegovina as a neutral person invested with certain responsibilities and powers in the implementation of the Dayton Agreement. Notwithstanding the huge international engagement in military, police and financial sectors in the wake of the signing of the Dayton Agreement, the process of the normalisation of life and, thereby, of the overall circumstances in the country, has been slow and has produced imbalanced results. The process of the return of those people who were expelled from their original homes and properties is carrying on only at a slow rate, as is the process of reconciliation and normalisation of security and economic conditions. The non-functioning administration, which is continually a reflection of the political forces which generated the war and which have subsequently failed to demonstrate a sufficient degree of willingness to implement the peace, contributes to that reality.

Elections have been held on a number of occasions in post-war Bosnia and the authorities have been established according to the results, but the outcome of the changes cannot yet guarantee either the democratisation of the entire political life in Bosnia or the possibility of the new forces establishing a situation inclined toward real peace, democratic relations, respect for property rights, ethnic equality and tolerance. This position was maintained and the changes prevented by the situation which prevailed in Croatia during the rule by HDZ and Franjo Tudman, and by the policy pursued in Serbia and ex-

Yugoslavia under the aegis of Slobodan Milošević. Destabilisation and the obstruction of the implementation of the Dayton Agreement were the backbone of the political agendas of the neighbouring countries which had engendered the war and which continued to destabilise the peace in Bosnia, even though they had guaranteed and signed the Peace Agreement.

With the advent of new political forces in Croatia and Yugoslavia, the conditions have been created for the normalisation of the political situation, constitutional organisation, territorial integrity and a functional quality for Bosnia and Herzegovina as an independent state; they will also make the authorities and political forces responsible for the situation and for relations both towards its citizens and towards the neighbouring countries.

The normalisation of relations with the neighbouring countries is not only a territorial and security issue but also a socio-economic one. Economic stability as a prerequisite for the normalisation of the social status of the population, which is at present extremely poor or, more precisely, at the lowest threshold of social tolerance, is dependent on the establishment of normal inter-state relations. In the light of the economy and the entire infrastructure of the country being linked to the countries of the former common state, it would be natural for economic links to be congruent with existing presuppositions, the necessity of interconnectedness, the possibilities of production, etc.

The process of transformation which affects all the countries of the former socialist model of authority is called a transition. In Bosnia and Herzegovina, the process of introducing changes is much more complex and contains the elements of the implementation of the peace and the sweeping away of the results of the war, i.e. ethnic cleansing, the deprivation of human rights or, to put it in short, the causes of the war. In other words, in addition to what seems common for all the countries in transition, Bosnia is faced with the need simultaneously to establish normal relations with its neighbours and with a radically new internal organisation in accordance with the intentions and basic prospects envisaged by the Peace Agreement. This is the reason why the term 'transition' implies changes in the sphere of social relations, in the legislative, political and economic system, in the ownership basis, in the function and nature of the state administration and in the functioning of ordinary people, the rights and freedoms they are entitled to and which they will be able to realise under the new democratic circumstances.

Social status of the population

The social status of the population is extremely difficult. It can be illustrated by a number of factors. Firstly, more than one-half of the population is unemployed and are thus unable to provide for themselves or their families. That this is so is supported by the 264,585 people who were unemployed in the BiH Federation in mid-2000. The unemployment rate in the Republika Srpska is even higher.⁶ If we add to those numbers the figure of 100,964 people in the BiH Federation alone who are beneficiaries of veteran and disability allowances, or who are the beneficiaries of the child or social protection systems, we come to a very critical picture depicting the social situation of the population in Bosnia and Herzegovina.⁷

The picture is made even worse by the amount of average salary which, in 1999, was around 400 Marks in the Federation and below KM 150 in the Republika Srpska. An average salary, according to the statistical indicators, confirms that the majority is employed in other-than-economic activities funded from the state budget. This is how one arrives at an average which exceeds the real economic and financial situation faced by the greatest part of the population of working age. An average pension in 2000 in the BiH Federation is KM 176 while it is below KM 70 in the Republika Srpska.

A huge number of citizens do not live on their own earnings and employment-based sources of income such as the cultivation of land, as they are not in the possession of land and are thus unable to cultivate it. There are many pensioners,⁸ as opposed to the number of employees and those who pay contributions to the empty Pension Funds. In 2000, the contribution from one's salary to the Pension Funds amounts to some 25%, with a net reduction in take-home pay of 10.30%. This is a big concern. There is also a huge number of unemployed people who retain the formal status of employees – they are still registered as employed due to the incomplete legal regulation in the labour arena. There are about 200,000 actually unemployed workers in both Entities. In the BiH Federation, the Labour Law affects around 140,000 workers.⁹ We should add to this the existing inefficient employment rate and

⁶ According to the data, the unemployment rate in BiH is 39.1%.

⁷ According to the statistical data, the number of beneficiaries of social and child care in the BiH Federation in 2000 is 144,737 people.

⁸ In mid 2000, in the Federation alone there were 272,029 pensioners while the estimate is that, in the Republika Srpska, there are about 150,000. To this we should add the incomplete data provided by the Pensioners' Fund of Herzegovina.

⁹ According to the statements and analysis of the BiH Trade Union. See *Oslobodjenje*, 16 May 2000. Official statistics register in the BiH Federation 52,987 laid-off workers in companies in

the necessity for productivity improvements in jobs which will inevitably follow the privatisation process. According to the estimate of the trade union, over 80,000 currently employed people will remain jobless due to excess employment, in the process of the transformation of ownership and productivity improvements in jobs.

Moreover, a significant portion of the BiH population lived on the humanitarian aid provided by the international community during the war. The number of beneficiaries of that aid has been declining since 1995 and, as of today, it is only refugees and displaced people accommodated mainly in collective centres, and a number of elderly and infirm people, who are still covered by the aid programme.¹⁰

Various reasons have led the population into the difficult material and social status. We shall mention only those which, in our opinion, are predominant in determining the social status and state of existence of the population.

The basic factor in the serious material and social situation of the population is the inability of a great many people to return to their original homes and the places of their pre-war residence. According to some incomplete data, over 750,000 citizens of Bosnia are believed to be either displaced or refugees, and are still unable to repossess their properties, including land, houses, apartments and suchlike. According to certain data, around 900,000 people are believed to be refugees in third countries.

The returns process over the past several years has been extremely slow. However, the number of returns and their intensity was accelerated significantly after a series of actions taken by the High Representative for Bosnia and Herzegovina in early 1999 and following the considerable material assistance provided by the international community for the reconstruction and repair of the housing stock devastated during the war. Reconstruction was understood to be the major prerequisite for the process of the normalisation of the lives of those returning to their properties. True, data pertaining to the returns realised in 2000 are indeed encouraging; that same trend will be most desirable in the coming period.¹¹

a difficult situation; persons remaining jobless due to reductions in the military and the police were not taken into account.

¹⁰ The number of persons who have received humanitarian aid varied every year from mid-1992 to 1994; at one point almost one-half of the population lived on humanitarian aid, but the number has reduced and, today, only a small number is dependent on humanitarian aid.

¹¹ According to the data on achieved returns, more people have returned in 2000 than in the past four years.

This is why the implementation of Annex 7 to the Dayton Agreement is the priority of all the political forces and authorities. The international community rightly considers returns to be the key issue in its programme for the coming period of the implementation of the peace in Bosnia.

The second important issue concerns the impossibility of finding employment for young people and all those who are still unemployed. Almost all businesses and factories in the economy were destroyed during the war and the economic structure itself was incapacitated. That difficult situation is further complicated by another significant problem concerning internal obstacles, such as difficult or limited labour mobility and employment openings, which exist for various reasons, primarily national ones. Moreover, the authorities, either at the Entity level or at lower levels of the administration, have failed to introduce incentives; the transition and privatisation process is too slow and citizens are not used to taking private initiatives; and there is no source of capital which could serve as the basis of a new economy.

Thirdly, yet another serious obstacle to the improvement of the material and social status of the population is an inadequate tax system which discourages foreign investment. In addition to the unregulated legal relations concerning the stimulation of investment, there is no security or guarantees of equality between domestic and foreign invested capital.

The non-existence of a common BiH border and customs service has been a long-standing obstacle to the normalisation of economic development, the establishment of a tax system, and the prevention of corruption and different forms of crime. An uncontrolled state border and unrestrained import of goods, and the impossibility of protecting domestic products, are both seriously detrimental to the economy and to the business operations of numerous companies. The High Representative for Bosnia and Herzegovina established a common State Border Service early in 2000. However, the process of the control, the workload and the efficiency of this institution is continually conditioned by forces operating within the Entities; the amount of control exercised is still insufficient and not all forces have been involved in the protection of the internal order and the normalisation of relations with neighbouring countries.

Closely connected to this problem is the issue of inter-state co-operation and agreements between BiH and Croatia, and BiH and Yugoslavia. Parallel relations are used in reality primarily for the business operations of companies which are evading customs or other fees they should pay to the state. The issue of trade and economic and cultural relations between the countries in our neighbourhood is an important issue. It requires that these be normalised and

made transparent as soon as possible in order that they do not one day become an obstacle to the normalisation of the situation and overall relations, as well as this being in the interest and to the benefit of both citizens and the states concerned.

Many pensioners, laid-off workers, soldiers, disabled war veterans and other categories who have acquired certain rights in the form of 'privileges', and the inability of the economy and state budgets to reconcile financially those privileges, constitute a crucial complication in labour regulation. Up to now, it is only the labour market mechanism that has been established through some elements of the Labour Law, pertaining to the reduction of workers' rights and the simplification of the procedures of taking on and dismissing employees. There has been no labour legislation, such as a law on employees' Councils, on job placement or on pensions and disability insurance. Practice has shown that it is necessary to establish fully and to regulate legally the labour arena as a prerequisite of the transition and the new market mechanism in which labour will be only one category complementary to capital.

The excessive promises, and the numerous people with disabilities, pensioners and laid-off workers, etc., are a huge burden to the economy; this is reflected in taxes and contributions that are still too high, and in various debts.¹² That situation significantly reduces job opportunities. Inadequate privatisation and a lack of the fresh capital which would revive new companies and their production, and the heavy burden on personal income caused by the high contributions, are an obstacle to the creation of new jobs and, thereby, to significant change in the social status of employees and other sectors of the population.

The lack of labour regulation and a clear economic system has resulted in the exodus of many young professional people who have left the country for good. According to some unofficial data, more than 200,000 young people have left BiH since the signing of the Dayton Agreement, i.e. in the period between the end of 1995 and 2000. This has had far-reaching consequences for the structure of the economy and for the human potential which is necessary to its development and as a means of overcoming the serious situation.

The problem is also complex in the social sphere. In pre-war Bosnia and Herzegovina, there were close to 50,000 socially vulnerable people. The war destroyed the basis for existence of some 600,000 people, of whom 400,000 were of working age. The economy has no possibility, nor does the authority

¹² Contributions from personal income amount to 81%, which is still a high percentage. At the beginning of 1996, it was around 125%.

have the resources, to secure the necessary means for the increasing needs of the socially vulnerable population. This is why it is necessary to redefine minimum social protection on different lines for those categories in special need. This activity should naturally be followed by labour and social legislation, as well as the new functions and sources of state financing which must be taken over under the conditions of the market economy.

In order to change the social situation of the population, it is necessary to establish both long-term and short-term programmes of measures at the level of the Entities and also at that of Bosnia and Herzegovina. These must constitute realistic programmes of reform with definitive means of implementation and clear deadlines and agents. It is also necessary that the programmes be designed so as to improve the labour situation and income, and to provide a possibility for the survival and functioning of the economic system without foreign aid, or along with its significant reduction. Under the current conditions, no Entity budget is self-sustaining and the Entities themselves are unable to fund their various liabilities out of original revenues. The Entities are only able to reconcile their liabilities with the significant help of the international community.

Under the existing circumstances, no government has a social programme or systemic measures for overcoming the situation in this sphere. All actions remain partial and are largely extorted by strong pressures, strikes, blockades, threats or political promises. It is necessary for that reason to adopt at the state level a clear economic and social policy programme, having sufficient regard to the Entities, and a practical implementation plan which will lead to a gradual overcoming of the prevailing material, social and economic situation. This would, in turn, help create the conditions for reducing the poverty rate to a tolerable level. This would be both a planned and a complete solution to the most complex problem which Bosnia and Herzegovina is facing today, providing more than just short-term aid and a temporary improvement in the situation.

The problem of the expelled population and refugees

The specific characteristic of Bosnia, which makes it different from any other country in transition and the replacement of one system by another, is the 1992-95 war, which left behind numerous displaced people and refugees. From incomplete data, over 1,500,000 people are believed to be refugees and displaced people. Of that number, over 700,000 have been registered within BiH as displaced. That number is subject to change, since a number have

returned to their original homes while the data are variable and dependent on the year in which they were collected. However, the number does not change so much as to reduce all the difficulties, or to affect analysis and the evaluation of the situation. There used to be some 700,000 to 800,000 refugees in third countries. That number is much smaller today, since many have returned to the places of origin while others have become displaced refugees. According to the statistics, albeit incomplete (though the data provided by UNHCR and by some other organisations are different), there were 520,000 displaced people in the BiH Federation as at 30 June 2000. By mid-February 2000, 207,000 people had returned to the Federation. According to other incomplete data – many applications are being processed – around 50,000 people returned to their original homes in 2000, a much smaller figure than the number of realised returns in earlier post-war years. The measures imposed by the High Representative for BiH have helped the return process and have prevented the Entity authorities from obstructing the return. However, apart from the said measures and the five year period which is behind us, the situation surrounding refugees and displaced people remains difficult. It has been assessed that as little as six per cent of that population has returned to their original homes and properties.

Numerous problems surround the issue of returns. However, there are some crucial ones which need to be eliminated in order that the fundamental human rights to possession and property, and the right to choose one's place of residence and to work, can be realised fully. The key problem lies in the lack of political will on the side of the Entities. The obstruction of returns is not equally strong everywhere: it has been stronger in Republika Srpska, and in areas which have a Croat majority and which are controlled by national parties. These are creating a political space for their own survival and not for returns. In pursuing that idea, they have chosen to build new ethnically-clean settlements for one ethnic group only. In achieving homogenisation, they are obstructing returns. Not infrequently, such settlements, constructed in the valley of the River Neretva and other places, have been funded through various programmes and forms by the authorities of the Republic of Croatia, and others even by the authorities in Yugoslavia.

In addition, there are different means of putting administrative blocks on the right to return to their own homes and land, and the repossession and use of one's own property. This can be supported by numerous regulations and requests by the administration that the possession of land or property be proved. The High Representative for BiH has been forced on a number of occasions to revoke some provisions and even regulations in both Entities, as a

means of preventing obstructions and creating the preconditions for faster returns and the realisation of the right to return. In addition, the High Representative has removed numerous officials who should have implemented the law but who have decided rather to obstruct or prevent its implementation.

It is obvious that Bosniaks demonstrate the strongest interest in returning. Then come the Serbs and subsequently Croats. This may not just be an expression of the determination of refugees and displaced persons, but which also reflects the policies pursued by the national parties which have prevented the normalisation of the situation and relationships in Bosnia and Herzegovina.

The return process is being made difficult by the status of refugees originating from neighbouring Croatia who are currently accommodated within Bosnia and Herzegovina. According to the incomplete data, it is estimated that there are between 400,000 and 500,000 refugees from Croatia. The accommodation of these people and their problems are considerably slowing down and complicating in political terms the implementation of Annex 7, which deals with returns.

In the existing situation, the Law on Refugees and Displaced Persons has been enacted at the level of BiH. However, the BiH institutions have neither the powers nor the institutional strength to implement the Law in practice. The role of the BiH institutions is reduced to the co-ordination of the authorities at the Entity level and the monitoring of the situation. In order to overcome a very difficult situation and to restore the right to many people, there is a strong need for increased financial assistance from the international community and for much improved co-operation between the Entity authorities in the implementation of the right to return, rather than the obstruction of that process. This, of course, also implies the possibility for the economic survival of those who return, i.e. the creation of conditions conducive to employment and, thereby, normal lives, as well as increased security and equality between citizens. Refugees and displaced persons are seen as a huge burden on the ruling authorities. In addition to being expelled from their pre-war homes, their employment is almost impossible while existing residents are still unemployed. This difficulty makes the return process itself – and its sustainability – further complicated.

For the time being, it would be absurd if citizens returning from one Entity to another become an ethnic minority, less protected than others and, therefore, less safe. This is why it is necessary to undertake a series of political and constitutional actions to allow the implementation of the BiH Constitutional

Court's Decision on Equality of the Peoples across the whole territory of the country as fully and as quickly as possible.

Problems concerning employment, education, labour market and employment policy

According to the International Labour Organisation, the unemployment rate in BiH, in both Entities together, was around 40% in mid-2000 – 15% of the population of working age. This is the largest unemployment rate in European countries.¹³ The total number of unemployed people, according to the data of the BiH Employment Bureau, amounts to close on 410,000 and is higher by around 40% in comparison with the number of unemployed before the war, despite the population having decreased by almost one-third. The number in employment, in comparison with the number in 1991, has been reduced from 1.04 million to 630,000. At the same time, the number of employees in the public sector has increased by 15,000 and reaches a total of 165,000, while the number of employees in the economy has been reduced by 430,000 nowadays to equal 460,000.

The existing magnitude of the economic activities established after the war places BiH at the bottom of the list not only of European countries but also of those which are in transition. In the pre-war period, the economic development of BiH was proportionate to that of other Republics. It used to export 20% of its social product outside the borders of the former Yugoslavia and import slightly less; exports amounting to some \$300m. This, plus almost the same quantity of goods exchanged within the former Yugoslavia, makes it clear that the success of the BiH economy was dependent on foreign markets.¹⁴ Until 1992, the BiH economy was based on economically large systems employing over 700,000 people, or around 70% of the total number of employees. They were the key companies which not only employed the majority of the labour force, but also participated significantly in export and foreign trade. Their infrastructure (staffing, financial, space and technological) was devastated during the war or otherwise removed from its original location or used for some other purposes required by the war. After peace had been established, no support was given by the local authorities or foreign investors to their rehabilitation. Instead of financial support and their rapid transition or privatisation by companies with capital, those enterprises were blocked legally

¹³ See: UN (2000): *Monthly Bulletin of Statistics*, Vol. LIV No. 6, June: New York.

¹⁴ For more details see the study of the BiH Employment Bureau (2000): *Politics and Employment Programme in BiH*, Sarajevo, September.

and financially and left to an undefined status in terms of ownership and management structure. This is the main reason why it is not possible to count on a faster growth in employment. Most of these companies are barely subsisting, while their workers are receiving no salaries and their technologies are already outdated. In addition, almost nothing has been done to restructure the market.

It follows clearly from the above that there is a need to take action in order to establish new ownership structures matching the economic capacities and to take measures which will ensure the start-up of production and modernisation, technological and market orientation on different bases, and the creation of all other conditions conducive to the employment of the unemployed population. By mid-2000, the number of employees in the country increased by some 7,000 in comparison with the same period the previous year. Annual labour inflow in the employment office records is around 120,000 of which 10,000 are net inflow, i.e. people who have been registered for the first time. If we compare the number of new jobs with the inflow in employment office records, new labour inflow exceeds net outflow by some 40%.

The tendency of an increasing unemployment rate has continued as a result of the privatisation process. According to the data of the Employment Bureau, some 150,000 currently employed workers will remain jobless in the process of large-scale privatisation.

On average, it usually takes three years to get a job while senior generations (those 35-55 years of age) have to search for more than five years. Their retraining, a necessity in normal economic conditions, makes no sense since new jobs are not being created at the desired pace.

Of the total number of unemployed, 65% are people who have completed their education and are seeking employment for the first time. With the exception of information scientists, professors of English and certain professions in the field of civil engineering, most educational institutions are teaching students who will end up in the Employment Bureaus. In market economies, a margin of six months for the employment of skilled people is considered tolerable. Here, they have to search for employment for more than two years. Adding to this problem the issue of refugees and unemployed demobilised soldiers, the overall problem of unemployment becomes a huge one and one that is overwhelmingly complex for all authorities and for the establishment of an economic system.

There are no mechanisms or procedures for stimulating the growth of less developed areas in the country. The economy provides no possibilities for

faster employment and there are no facilities or incentives for a free market and tax concessions. This further complicates the social situation in Bosnia and discourages young people and entrepreneurs from engaging in this field.

Under the conditions of mass unemployment, it is not possible to establish a functioning labour market. The labour market does not exist when there is an excess labour supply and the price of the labour force under such conditions is not defined realistically – nor can it be a basis for social dialogue and negotiations between governments and trade unions. A starting point for trade union and workers' rights, and the labour market, is the laws enacted through the parliamentary procedure. It is only through legislation that the labour market can be protected. But there is also significant neglect of the free market, the rights of companies and the possibilities for labour mobility.

The problem of employment in Bosnia is obviously the most serious economic, social, developmental and political problem. It affects young people in the country. The State of BiH, its Entities and the Brčko District share this problem and its seriousness in equal terms. In order for this situation to change for the better, it is necessary for the governments at all levels to draw up a strategy for the economic and social development of the country in which the basic economic aims are:

ownership transformation

modernisation

establishment of the conditions for economic development and the encouragement of employment.

The employment strategy should be based on a regulated macroeconomic climate, the social functions of the state being separated from economic and market trends and the encouragement of measures for the recovery of economic capacity and overall business activity, with a view to the employment of as many professional and capable young men and women as possible.

Pensions and health insurance; social and children's protection

A social picture of Bosnian society will be completed if we make an analysis of the situation facing the population approaching the end of their lives, living on social welfare or on a pension. In the process of economic transition which commenced in the early 90s, existing employees were given the opportunity to acquire the right to a pension under favourable conditions. Favourable

conditions implied having 30 years service or being 55 years of age as a condition for retirement – or even 20 or more years service in certain areas such as the administrative authorities, the military and the police, irrespective of one's age. Those measures were aimed at freeing a space for the transition and for a faster economic transformation. However, those favourable conditions continued to be applied until new regulations were enacted in the field of pensions and disability insurance in 1998. In respect of the number of employees and the manner of resourcing the pension funds, there is an extremely large population of pensioners in Bosnia. 272,029¹⁵ pensioners are registered in the BiH Federation and around 150,000 in Republika Srpska. Figures indicating the size of the pensioner population vary since they depend on the number of realised returns in the Entities and the acquisition of the right to pensions and disability allowance paid from the Fund of the respective Entity. An average pension in the BiH Federation in 2000 was KM 176, while in the Republika Srpska it was below KM 70.

The situation in pensions and disability insurance is made difficult by there being three separate funds: two in the BiH Federation and one in Republika Srpska. Moreover, the status of those who retired in Bosnia and Herzegovina after their service in other republics of the former Yugoslavia, e.g. in Slovenia, Croatia and Serbia, has not yet been regulated.

In view of the poor economy and its scope for meeting the needs of the pension funds, various possibilities have been identified so far as regards the payment of pensions and even for incremental increases from time to time. Nevertheless, such a critical problem cannot escape attention as it must be considered as a systemic issue. It is necessary to find answers to questions concerning how the Pension Funds can be self-sustaining and functioning. Contributions from employees' income amount to 25%, plus 10.30% netted from personal income. This is a heavy burden which the economy and employees will not be able to bear in the future. The unresolved status of the Pensions and Disability Funds is an additional burden on the privatisation process and the economic transition. In the privatisation and transformation process, 20% of the price of a company is invested for the improvement of the financial status of the Pension Funds. This is a short-term measure, insufficient for a solution to this complex and serious problem and the needs of the huge number of beneficiaries.

¹⁵ There are statistical data on the number of pensioners in the BiH Federation, but they are still not reliable since they do not cover those pensioners who are paid out of the Mostar Pension Fund.

The situation facing pensioners is even more complicated for those individuals with disabilities who worked under the difficult circumstances in Bosnia's economic structure and who have grown ill or who have become incapacitated for work. The pre-war Bosnian economy was mainly basic industry with difficult working conditions, resulting in frequent, serious injuries at work. Another category of individuals with disabilities include those who served during the war as military soldiers or who were its civilian victims. In addition, there is yet another category – people who lost one or both parents and who are entitled to one of the several allowances, be it the right to a family pension, disability allowance, child allowance, etc. In total, all three categories include, as of today, over 300,000 persons.

Apart from the systemic measures which need to be taken in this field, it is necessary to revise the acquired rights. This means there is a strong need to reduce the payments and to encourage the social integration of people with disabilities and the creation of the conditions for their employment and for their contribution both to their community and to their own existence.

Free health protection is an encouraging element in the current situation, making the lives of pensioners, people with disabilities and other socially vulnerable groups much easier. The health protection sector has not yet been restructured. The health services, either primary or secondary, are provided free of charge to pensioners, people with disabilities, children and other people in social need.

The health services are funded from the income of and the contributions paid by employees. Under the reforms, some steps have been made towards a gradual transfer of health services to new conditions combining the market and the level of contributions. However, the transition of education, health and some other sectors has been postponed for another phase, after the processes of small and large-scale privatisation have been completed. There is sufficient capacity for an adequate, even quality system of health protection across almost the whole country. True, the health funds are in a difficult situation as well and, consequently, the material and social position of those who are employed in the health sector is also difficult.¹⁶

¹⁶ Around 20,000 people are employed in health and social protection at the BiH level.

Transitional developments and the prevalence of political and economic difficulties

The transition of Bosnian society has been very slow in terms of the political transformation and democratisation of social relations and the institutional system, as well as in the sphere of the transformation of ownership and the establishment of a new basis for the economic system. An endless number of arguments and justifications can be found in support of the situation.

The term transition itself does not define the essence and the depth of the social changes which are urgently necessary in Bosnia in order to overcome all the negative consequences of socialism and the war. In reality, the transition is seen as a process of ownership transformation rather than one of the overall transformation of one society and system into another based on new conditions and behaviours, new values and bases, and a new logic and style of understanding both of laws and legal norms and the position of the state.

The process of transition and, especially, of privatisation was commenced and implemented in other countries, the societies of which had already been democratised and liberalised, and only thereafter privatised. Theoretically, such a process of transition is known as an open model. Here, that process was faced with considerable disorder from the start. Firstly, we had strong centralisation and the transformation of socially-owned property, or the property owned by workers, into state-owned property. Privatisation followed thereafter without a prior democratisation. This has yielded a closed transitional model. The characteristic of such a transition is that its processes are conditioned by a political transformation in which the balance is tilted in favour of the authoritarian power rather than democracy. Political transformation defines economic transformation, while the latter is unable to condition, change or encourage the former. This is a circle in which the chains of the previous misunderstandings and the lack of freedom in all spheres of life appear unable to be broken. They continue to be the principle mainstay of the nationalist concepts and the territorial self-containment of the respective areas.

A theoretical model does not have to be explained in Bosnia. The practical aspects justify the above evaluation. A fragmented authority, usually established at the level of the Entities, is not oriented towards a fast social transition and democratisation or entrepreneurship, but towards national domination and homogenisation. This is why the transition process is too slow and inefficient and why it maintains an old model of ideological concepts in which a class-based approach is replaced by a nationalist one. All changes in

society are reduced to the national dimension; they are also a starting point for the activity and effect of the authority and its political factors.

In order to ensure a consistent transitional system and to establish a new one, it is necessary that the BiH state functions as a whole. And this is exactly the major problem of the transition. Bosnia as a state is not functioning. No authority has the legislative backing to generate the dynamics for positive processes throughout the country. There are no strong institutions at the level of BiH, nor is there political agreement on the important changes that need to be made. The Entities intend to reduce the transition to the privatisation of what exists within their respective territories, and the entire privatisation process is being carried out in an ethnic-oriented, territorial and fragmented form. There is no law on privatisation at the level of the state; the Entities have enacted regulations at their level. In practice, privatisation often turns out as a political privilege – without money and fresh capital, reality or market value. The international community has pointed to this on a number of occasions and has taken steps to intervene in order to stop the unrealistic sale of companies.

Within the transition process, an alternative to a socialist social model in Bosnia is nationalism, and not social transformation and democratisation; it is the deprivation of human rights as opposed to the leveraging of one's fundamental rights; the undemocratic quality of the procedures as opposed to freedom and tolerance; social deprivation as opposed to national identity; etc. This model of transition will certainly bring about fear and aversion to the forthcoming changes. Based on the tragic experience of Bosnia, people are aware that changes take place only for the worse. This is why the key issue in the transition process is how to convince people, and not only the authorities, about the urgent need for change. The rights of people remain peripheral and never come to the foresight of those who need significantly to change their attitude and behaviour in that sphere.

Privatisation and economic reconstruction

The privatisation process in BiH is closely linked to the process of transition. The status of ownership transformation is undoubtedly very complex and difficult given the prevailing conditions in Bosnia. Those conditions are a legacy of a past which was neither very clear nor very prosperous for the destiny and rights of private ownership. However, this is not only the legacy of an ancient past, but also one of a recent – and tragic – one as well. At the beginning of the 90s, Bosnia and Herzegovina was faced with war instead of

transition, which was the path of all the other countries after the fall of socialism. The war devastated Bosnia. Companies were looted, over one million seven hundred thousand people were expelled from their homes, their private properties were looted and destroyed, business relations were broken, the communications infrastructure destroyed, etc. One of the characteristics of the war was the looting of the resources of BiH. However, not everything was destroyed by the war. This should be acknowledged for the sake of scientific truth. Much came to depend both on the then and the present authorities, and their ability and intentions to protect and revive a major part of economic capacity. This has further complicated the process of transition and the distribution of property of the state of Bosnia and Herzegovina.

No less important a cause of the slow and complex privatisation process lies in the lack of co-operation from the nominal authorities established after Dayton. The political scene is continually ruled by those forces which generated the war and the atrocities and which did all they could in order to cripple Bosnia and Herzegovina as a state. As in the past, the ruling authority survives on a national rather than on an economic, legal and social concept. Under such political circumstances were most of the laws enacted which facilitate ownership transformation and privatisation. Their solutions are the fruits of political settlements between the national forces, and not of a consistent system which would enable an efficient process of changing ownership structures, reviving the processes of employment and work, re-starting many companies and establishing both a new economic model and a labour and social one.

Ownership reform does not necessarily mean betterment. A different ownership identity is not the purpose but the model for a different and more consistent economic and political system. There still remains a lack of will for that model, as only a very small percentage of foreign capital has been invested through ownership relations, i.e. the purchase of a company or its shares, or the financing of new investment.

The privatisation process in Bosnia is being conducted in two separate stages. One is small privatisation, focusing on companies whose property is estimated at up to KM 500,000. The second phase is large-scale privatisation, involving all other companies and various forms of the sale, purchase, subscription and issue of shares. The entire process is slow. It complicates the social situation further – workers are being dismissed and new professions and technologies and a different manner of work are required, as are a much lower level of social and labour rights than those that workers used to enjoy before.

The Entities did not make an evaluation of their properties in the process of small and large-scale privatisation. In this phase, that which was purchased by the citizens is to be privatised, including companies, apartments and business premises. State-owned property will not be privatised; neither will monopolistic companies, the PTT, railways, mines, forests and the land owned by the state. Under the pressure of the international community, the ownership transformation process has commenced in some monopoly companies, although it is still marked by the slow nature of the privatisation process thus far.

The state has skilfully incorporated its own liabilities, resulting from its promises and through the various privileges with which it has bought social peace, in the general privatisation. This primarily refers to the claims of citizens to money deposited in banks which was alienated during the war and which remained in states other than BiH after they became independent countries, leaving citizens without the right of access to their own money; and to unpaid salaries to soldiers, police officers, employees, etc. In essence, this concept refers to the reconciliation of the state's liabilities by its citizens and to the dispersal of state debt to citizens through vouchers in the form of a general statement of account. In this way, everything remains in an empty circle where there is no inflow of fresh capital. The state began the privatisation process with the purchase of apartments, indicating that it wanted to obtain capital from citizens, which it would use to invest in the empty funds under its responsibility. The privatisation of companies is left for a subsequent phase when citizens will have no money left, as everything will have been invested in the purchase of apartments and business premises and when all that remains is vouchers and promised claims. And companies cannot exist without a source of fresh and sound capital. Thus, companies are placed in an extremely difficult situation in which they cannot re-start the production process; in which they will have to yield again to the will and salvation of the state.

If we were to analyse the privatisation process in greater detail, we should notice straight away that there is no clear and consistent economic system desired in Bosnia. Privatisation is only one part of a broader system which accompanies a new business climate, the reduction of administrative norms and restrictions on activities, the reduction in and the new manner of establishing the rights of workers, a consistent and sustainable tax system, etc.

It can be concluded from the procedures and activities to date that the existing authorities are unable to carry out transition and ownership transformation without conflict between the labour force and the political elites. The authorities are purposefully obstructing each other at the Entity level. They

are persistent in favouring a national collectivist concept, tension, resistance, appeals, demonstrations and competition in extremism, and requests for concessions to the detriment of the rights of others. That Gordian knot remains tied. As such, these generated the war, and the tragedies and their consequences which were more than devastating for human beings. The end of the war did not mean clear cognition; rather, the same practice, the same behaviours and the same rhetorics and actions all continued.

If we want to make a consistent analysis, we cannot help warning of the situation produced in some socialist countries. This picture is dominated by the mafia which are closely connected with the political authority, to which every well-intentioned person feels abhorrent. Values have been totally destroyed while a new management and political elite is being established, seizing everything that socialism left behind. This is even more difficult in those countries in which war occurred and in which violence, plunder, betrayal, lawlessness and the connection between authority, crime and corruption are much stronger than a system in which at least some moral and legal rules exist. This situation is, naturally, conducive to those forces in BiH which are aiming at a continual destabilisation of the system and the obstruction of the realisation of human rights, thereby preventing the process of reconciliation.

In order to stop an adverse squaring of the circle, it is necessary to establish a minimum functioning of the state, its independence, a minimum of power and its legality within the whole territory, as well as an economic system and a functioning legal order, at least consistent to a certain extent and free from the domination of politics. A consistent economic system, freedom of the market and labour, and the competence of skills under strong pressure are a sound basis for breaking the circle of uncertainty and overcoming an inability to leave the tunnel of darkness in which Bosnia and its transition are continually tangled.

Functionalisation and institutionalisation of BiH

In reality, social transition should be an important aspect in any change in the role of the state and, generally, its administration *vis-à-vis* citizens and legal persons who are defined in terms of ownership.

Bosnia is faced with an extensive level of institutional organisation which represents a hindrance to the normal functioning of authority and of the lives of the people.

There are too many institutions inherited from the previous system, such as administrative bodies, payment bureaux and many other administrations, funds, etc. They are all rarities of the old system but they have not been abolished and their continuing existence only burdens economic and social development. If we add to that the structure of the organisation of BiH according to the Dayton Agreement, which is organised at several levels of authority, we get a picture of the over-institutionalisation of BiH. The state of BiH has its original functions and, now, a Council of Ministers with five ministries. The BiH Parliamentary Assembly is a bicameral state institution, while the constitutional and judicial systems have not been designed or established at the level of the state.

Bosnia consists of the two Entities which have separate autonomous governments, ministries, judiciaries and administrations. Both the Entity assemblies are different. The BiH Federation Parliament has two chambers, while the Assembly of Republika Srpska has only one. The Entity territorial organisation is also different: The BiH Federation has ten cantons, each of which has its own constitution, ministries, judicial bodies, etc., and a total of 84 municipalities. In Republika Srpska, there are only 64 municipalities and no cantonal model or mediation exists between the RS bodies and the municipalities.

In addition to the Entities, there is also the Brčko District in Bosnia and Herzegovina, which falls under the jurisdiction of the BiH state authorities and in which the Entities have no competence. The District also has its own assembly, government, administration and judiciary.

Many institutions which were functioning before the war remained under Dayton at the level of BiH. These are, for example, the Academy of Arts and Sciences, the Archives, the Institute for the Protection of Cultural Museums and Heritage, the Institute for Statistics, hydro-meteorological agencies and many others. Interestingly, many institutions function at the state and Entity levels, doing the same job in parallel.

If we want a swift transition, and an efficient state and democracy, it will be necessary to reduce the bodies covering the territorial organisation of BiH and its administration at all levels. This is not an issue covered by Dayton nor does it concern its revision; it is a matter of necessity for one state to be able to function and to serve the purpose of its own citizens.

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