

Poverty Profile of Bosnia and Herzegovina

A. Introduction

1. Poverty in BiH

The Living Standards Measurement Survey -LSMS that was conducted in BiH between September and November 2001, as the first representative welfare survey at the household level, has served as the most important source of information for the preparation of this overview of the poverty profile in BiH. The survey was conducted on a sample of 5.400 households in 25 municipalities of both BiH Entities, with special attention paid to obtaining representative results both at the Entity and at the BiH level.¹ Using the modular survey approach in thirteen areas (demography, housing, education, employment, migrations, health care, privatization, loans, social welfare, expenditure, non-agricultural business activities and individual agricultural activities) data were collected on households and individuals, as well as on access to and utilization of services and government programs. The data collected made it possible to assess the poverty level in BiH, the composition of the poor, the relative extent of the poverty threat for individual categories of the population and the causes of poverty.² It should be made clear that, although the Survey currently constitutes the most reliable source of statistical data in this field, it is nevertheless only a provisional research instrument and cannot provide answers to all important questions posed in the development policy formulation process.

The data from the Living Standards Measurement Survey (LSMS) made possible the poverty demarcation in BiH needed to establish the number/percentage of the population falling into the category of the poor. The poverty line facilitates the identification of the population that sunk into poverty, as well as monitoring changes in their situation over time, making it easier to assess the effectiveness of the measures taken.³ Although a detailed analysis of the Living Standards Measurement Survey (LSMS) is still ongoing, it has been possible to draw preliminary conclusions necessary for determination of the poverty line.

There are two basic poverty lines: the relative and the absolute. In determining the relative poverty line, the basic approach is to establish how the standard of living of one population category can be compared with that of other population categories within the same society, and it is usually based on a certain percentage of average income or expenditure in the country concerned. This method has some advantages, above all that it is easily determinable and that it automatically tracks increases in the standard of living. However, this kind of demarcation is not adequate for monitoring changes over time, since a rise in the standard of living in a given country may result in a rise in the standard of all population categories, without the relative situation of the poor altering, or even with a deterioration in their situation.⁴

Bearing in mind the limited availability of data in BiH, as well as its suitability as an instrument for defining the poverty reduction strategy and the subsequent monitoring of its results, when conducting the Living Standards Measurement Survey (LSMS), the researchers chose the absolute poverty line as the most appropriate instrument for defining and monitoring poverty in our country. The absolute poverty line is determined according to the value of expenditure needed by each individual regardless of the place and time he/she lives in.

The absolute poverty line itself may take two forms: the extreme poverty line or the general poverty line. The extreme poverty line - or nutritional poverty line - is determined on the basis of the value of the food package that contains the minimum of necessary calories and nutritive substances. In order to determine the poverty line, an indicator of the well-being of an individual needs to be determined. In the analysis of the Living Standards Measurement Survey (LSMS), annual consumption per person was selected as the indicator. The data on the surveyed individuals were then ranked by consumption level. To determine the expenditure of the poor on food, the data referring to 30% of those surveyed with the lowest annual expenditure were chosen. The data referring to the bottom 10% were then excluded because of the risk that they were so poor their consumption would not correspond to normal consumption levels. It was calculated that the average minimum nutritional needs, taking into account the differences between demographic groups, are around 2.240 calories a day.⁵

The determination of the general poverty line takes into account that an individual also has survival needs other than nutrition, such as housing, clothes, etc. Since it is almost impossible to objectively determine a uniform consumer "basket" of non-nutritional goods and services that would be representative for the majority of the population, the general poverty line for BiH is the total consumption of households whose consumption of food enables them to meet the minimum nutrition

¹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 2.

² Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, pp 3-4.

³ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 5.

⁴ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 6.

⁵ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 5.

and caloric needs. In other words, the general poverty line is established by adding the monetary value of non-food goods and services consumed by the households whose consumption of food equals an absolute minimum of nutritional needs (which represents the extreme poverty line), to the value of that minimum, i.e. to the monetary value of extreme poverty line.

The Living Standards Measurement Survey (LSMS) has estimated the level of the total expenditure (including non-food goods) of the households that spend the absolute minimum on food, measured by its caloric and nutritive values (about 2.100 calories per person daily). The total expenditure arrived at in this way amounts to 2,198 KM per person per annum, and this is the general poverty line for BiH (while expenditure on minimum nutritional needs, i. e. the extreme poverty line, amounts to 760 KM per person per annum). The fact that food expenses constitute only about 34.5% of the sum representing the poverty line of BiH indicates that non-food costs are of very considerable importance in ensuring survival.⁶

Table 1: Composition of Household Consumption^Z

Consumption Categories	Composition of Household Consumption	
	Annual Household Consumption, KM	Percent of total consumption
Food consumed at home	3,766	32.5
of which: own-production	911	7.9
of which: received as gift	118	1.0
Food consumed outside	552	4.8
Housing	3,920	35.6
of which: paid rent	68	0.6
of which: imputed rent	2,316	20.0
of which: utilities	1,536	13.3
Imputed consumption flow from durables	330	2.9
Other non-food	3,002	25.9
of which: goods and services purchased	2,066	17.9
of which: expenditures on education	246	2.1
of which: daily non-food expenditures	544	4.7
of which: gifts of non-food goods and services	145	1.3
Total	11,571	100.0

Note: Amounts are expressed in KM.

The analysis of available statistical data on annual expenditure per person in BiH has not shown that there are groups in our country whose standard of living is close to or below the extreme poverty line, but **it has been determined that the living standard of around 19,5% of the population of BiH is below the general poverty line (25% in RS and 16% in FBiH).**⁸ The limited format and coverage of the survey inevitably result in a wide margin of tolerance of +3,6%. The percentage of citizens who are below the general poverty line differs for different community types, being lowest in urban communities (14%), higher in rural communities (around 20%), and highest in mixed local communities (near 24%).⁹

The Survey results have also shown that a further 30% approximately of the BiH population are just above the general poverty line determined in this manner (with annual expenditure below 3,297 KM, i.e. in a range only 50% higher than the amount constituting the general poverty line). The vulnerability of this group to potential economic shocks that might push them below the general poverty line is very high.¹⁰ The research by UNDP and the BiH authorities for the needs of the Early Warning System, although conducted in accordance with a different methodology, confirms that poverty is widespread and serious, and indicates a rising trend in the numbers of the poor.¹¹

In many surveys, a distinct majority of those polled assess themselves as poor. Although the reasons for subjective poverty as a phenomenon are numerous, among the most important are comparisons with the pre-war era and reliance on the standards of that time, as well as higher

⁶ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 5.

⁷ Bosnia and Herzegovina: Poverty Assessment, Volume II, World Bank, Report No. 25343-BIH, p. 32.

⁸ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 6.

⁹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 9.

¹⁰ Bosnia and Herzegovina: Poverty Assessment, Volume II, World Bank, Report No. 25343-BIH, p. 46.

¹¹ Early Warning System, Quarterly Report April – June 2002, UNDP and BiH authorities, pp. 15-16.

expectations and the inability of many households to afford the variety of goods available on the market.

Although it is almost impossible to express quantitatively many important non-material aspects of poverty, such as insecurity, exposure to various dangers, restricted availability of social services and degree of integration into society, a qualitative analysis of those aspects provides a more comprehensive explanation of the poverty phenomenon and is of particular importance for the pursuit of adequate measures for fighting poverty.¹² Insecurity is an additional burden for the poor, but also for many others who do not officially fall into that category. Personal insecurity resulting from the declining influence of society and the authorities leads to rising crime and is an impediment to the integration into society and the equal economic opportunities of minorities and women in particular. Economic insecurity is reflected in exposure to various economic shocks, insecurity in terms of property or housing rights (especially displaced persons), and exposure to corruption.¹³

The poor are also seriously affected by the feeling of powerlessness and inability to make their voices heard in communication either with other members of the community or with the authorities. Even given the extensive decentralization of the resources distribution system, the poor frequently have difficulty gaining access to the institutions responsible for the decisions and rulings that have a significant impact on their lives. This problem too, affects women in particular.¹⁴

Poverty in BiH is deeper and more widespread than in any other country of former Yugoslavia (it is more widespread only in Kosovi),¹⁵ and some 20% of the poor suffer serious shortages in all or almost all key aspects of welfare, ranging from acceptable housing and sanitary conditions and access to health care services, to literacy and integration into society. In addition, the current relatively low poverty rate of the population is the result of expenditures far exceeding current production level capacities, and financed so far by extensive international aid. This will soon cease to be possible, and unless the BiH authorities find ways relatively quickly to lead the country to sustainable economic growth, there is a real danger of a dramatic increase in the poverty rate.

2. UNDP Report on Human Development in BiH

In view of the lack of reliable and accurate information and statistical data in BiH already referred to, the activities of UNDP, in collaboration with the BiH authorities and with the assistance of the domestic statistical and research institutions, make a major contribution to filling the information gaps and providing a fuller picture of the situation in our country. UNDP's activities in this field are formulated as quarterly reports within the Early Warning System, where a number of essential trends from the economic and social sphere are monitored continuously. The second major contribution is the publication of the Human Development Reports that constitute comprehensive research into key areas of society and phenomena that have an impact on the quality and standard of living of the members of society.

The Human Development Report, published in September 2002, introduced the Index of human development for BiH for the first time. This index is a scale that enables ranking of individual countries by their level of development compared with other countries of the world. It includes the economic dimension, but it is specifically adapted to encompass human dimensions of development that could not be adequately represented by other statistical and research methods and procedures. The human development index takes into account the issues of accessibility of education, health care, social services and information, as crucial for the successful and viable development of any society. Although issues such as human rights, oppression and discrimination of all kinds cannot be easily included in the index itself, they are also subject of analyses. In that regard, the possibility of comparison with other countries of the world (166 countries are included) facilitates the identification of specific weaknesses and provides an incentive and guidelines for improvements.

The human development Index for BiH is 0.718, but it is only by comparison with the indices for other countries that the index can be properly understood. At the same time, bearing in mind the often incomplete and imprecise statistical data available for our country, we are not in a position to rank ourselves precisely on the HDI scale, and this number should be regarded as preliminary only.

B. Most Vulnerable Categories of the Poor

Although the identified poverty rate in BiH is lower than had been presumed, the essential conclusion is that the threat of poverty in BiH is widespread among the population and that the poor are a heterogeneous group, so that even a typical household bears a considerable risk of declining into poverty.¹⁶

¹² Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, pp. 9-10.

¹³ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 13.

¹⁴ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 22.

¹⁵ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 7.

¹⁶ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 11.

Below the poverty line are most frequently children, persons with low education levels, the elderly and the disabled as well as the rural population. An analysis of data for the population as a whole indicates that children, especially those under 5 years of age, displaced persons and returnees, the unemployed, and persons with low education levels, are particularly exposed to the risk of poverty. Contrary to received wisdom, the elderly are less threatened by the risk of poverty than the average person, and the same can be said for the disabled and war veterans. Those least at risk are the employed, both those in the non-economic sector and those in the "grey economy".¹⁷

Another surprising conclusion is that poverty is not primarily a problem of the unemployed, displaced persons, the disabled, or the families of soldiers killed during the war. All these groups combined constitute less than half the poor. The majority of the poor in BiH are employed persons living in families with children, the result of low wages and the fact that one wage is inadequate to keep a household above the poverty level.¹⁸

It has also been noted that the poor can be divided into two groups on the basis of the cause of their impoverishment. The smaller group are poor as the result of a number of circumstances to which they have been exposed for a long time; their chances of emerging from poverty are very small. The second and larger group consists of those who have become impoverished as the result of a specific problem; they can be regarded as having greater potential for benefiting from the revival of the economy for the betterment of their own position. This category might be referred to as the "temporary" poor.

1. The Young Generation and Poverty

Children are one of the categories that are most at risk of having a standard of living below the poverty line. The children in RS are particularly vulnerable, since around half of this age group lives in poor families, while in the FBiH this holds for around one-third of all children.¹⁹ Around 13% of children live in families that fall into the category of the poorest, and 29% in households that are on the poverty line. Poverty of families with children is at its most pronounced where none of the family members are employed, and the situation is particularly difficult for displaced households, where the head of household is unemployed.²⁰

Children under 5 years of age are particularly at risk. This threat takes many forms, such as: very low access to preschool education (less than 9% of children attend a preschool education institution), lower access of poor children to secondary education, very low health insurance coverage, especially in rural areas. Surveys conducted among the population also confirm that the absence of health care affects young children of both sexes most seriously, since children are seen as more susceptible to accidents and illness, and as less resistant than adults.²¹

Children without parental care and other children in care (in the care of social welfare institutions) are at even greater risk than children living in poor families, since the social welfare systems are financially too weak to provide appropriate care. According to available official sources, in 2000 there were 9.718 children in the care of social welfare institutions in FBiH. In addition, 19.423 single-parent children are also seriously at risk. In the RS, 821 children without parental care are in the care of the social welfare service, as well as 2.515 children with developmental problems and 1.837 with behavioural disorders.²²

Unemployment is probably the major problem affecting the young generation, equally in urban and rural areas of BiH. When this is combined with housing problems, the lasting economic crisis and political manipulation, young people become depressed and desperate and turn to drugs and alcohol, or make plans to emigrate as the only way to secure a better future.²³ According to the available data, 92,000 young people left BiH between January 1996 and March 2001, and surveys show that 62% of the young would emigrate if they had the opportunity.²⁴ This is probably the most detrimental trend for the long-term revival and viability of economic development of BiH. The fact that there are fewer women among newcomers to the labour market (19 to 29 years of age) is interesting, since this means that a larger number of women than men are leaving the country.²⁵

¹⁷ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 12.

¹⁸ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 36-37.

¹⁹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 35.

²⁰ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 36.

²¹ Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 6.

²² Reform of the development of social security in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, pp. 9-10 and Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

²³ Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 6.

²⁴ Human Development Report, UNDP, September 2002, page 42.

²⁵ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 111.

The most serious problem facing Bosnia and Herzegovina in the long-term is the departure of young and educated people abroad. Because of unemployment, the economic crisis, their inability to afford adequate housing conditions, and the political instability in the country and personal insecurity, over 92,000 young people left the country in the first five years after the end of the war, and many thousands are trying to obtain a visa. Almost two thirds of the young in the country are ready to emigrate if they get the opportunity. Despite this alarming situation, no government in the country has adopted, nor even prepared any strategy to prevent the "brain drain" and retain the young, who are the most important resource of any country.

2. Refugees and displaced persons

The data of the Office for Displaced Persons and Refugees of FBiH indicate that 281.652 displaced persons reside in FBiH (35% from the territory of FBiH and 65% from RS). It is estimated that 624.250 BiH refugees live abroad, of whom some 297.550 have no permanent solution to their status, and therefore the possibility of their return must be envisaged. In addition, at this moment, 243.386 displaced persons live in the RS and around 23.500 in Brcko District.²⁶ According to the data of the Ministry of Refugees and Displaced Persons of BiH and UNHCR, by end-2002, 686,650 refugees and displaced persons returned to the FBiH, while 225,616 refugees and displaced persons went back to their homes in the RS, and 19,422 refugees and displaced persons to Brčko District.²⁷

In all parts of the country, these categories, who are frequently without any stable source of income and not being covered by the existing social welfare systems, are considerably more vulnerable to poverty than the population that was not forced to move. In the case of returnees, the picture varies: in the RS returnees are extremely exposed to the risk of poverty, while in the FBiH that risk is even lower than the average, which is certainly a result of different conditions for returns and differing attitudes towards returnees in the two entities.²⁸ Displaced persons constitute around 45% of the extremely poor in the FBiH, while in the RS, the displaced population accounts for only 21% of all those falling into this category. Eight percent of the poorest and 37% of persons on the poverty line live in a joint household with at least one displaced person. By far the most difficult is the situation of displaced persons still living in collective centers, 40% of whom fall into the category of the poorest and 39% are just above the poverty line. It should be pointed out that this analysis is based on data originating from a survey conducted in 1998, and that it is probable that significant movements within those groups have occurred since.²⁹

An additional problem of displaced persons results from the fact that they emerged as a vulnerable group during the war, and their position in the social welfare system and other social support systems has not been adequately resolved. They have been to a great extent dependent on humanitarian aid and the support of international organizations. Housing conditions are mainly poor, regardless of whether they are in collective centers or other people's apartments allocated for temporary occupancy.³⁰

In the circumstances of radical cut-backs and the imminent cessation of these types of assistance, the displaced are in an especially difficult position, as there is no organized system at the entity and cantonal level that could take over the role of financing the needs of the displaced. The displaced therefore represent a charge on the municipalities which, in most cases, are unable to provide them with even the minimal conditions for survival.

Displacement had an impact on the stratification of the labour market: the displaced are in a much more difficult situation, facing greater difficulties in finding a job and often forced to accept jobs that other groups were not interested in. In view of the difficult economic situation as well as continued ethnic tensions, returnees almost never manage to return to their previous jobs. Single mothers in displaced persons or returnee households face particularly serious problems since, in addition to all the other aspects of discrimination, they do not have access to even the basic forms of social welfare provided to other population groups.³¹

The Living Standards Measurement Survey did not include the most vulnerable group of the displaced, those who are still residing in collective centers. According to official data, there are still around 1000 displaced persons in collective accommodation in FBiH and some 2000 in the RS. In the continued elaboration of the Poverty Reduction Strategy this population group will also be covered by the research so that their specific problems can be taken into account.

²⁶ Reform of social security development in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, p. 28 –29.

²⁷ UNHCR Mission in BiH, www.unhcr.ba

²⁸ Bosnia and Herzegovina: Poverty Assessment, Volume II, World Bank, Report No. 25343-BIH, p. 38.

²⁹ Poverty and inequality in BiH: Legacy of the War, World Bank, December 1999.

³⁰ Reform of social security development in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, p. 29.

³¹ Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 2.

3. Classic social welfare cases

There are around 260.000 beneficiaries of social welfare in BiH, i.e. around 7% of the population from each Entity. Additional 125.000 beneficiaries were registered for child care programs (2% of the population in FBiH and 6% in RS)³². The categories of social welfare beneficiaries (in both Entities) are children without parental care, educationally neglected children, children whose development is disrupted by their family situation, the disabled and persons with mental and physical developmental problems, persons incapable of working and without any material insurance, elderly persons without any family care, persons with anti-social behaviour as well as persons and families in social need due to special circumstances.³³

Although 2% of the BiH population is registered as receiving financial benefits as a social welfare right, the reality is that funds are not available for everyone to exercise that right. For instance, only 13% of those registered in the RS are actually receiving welfare payments, and in some municipalities the percentage of those registered that are actually receiving welfare payments is as low as 2-3% while in others it may be over 20%.³⁴

Before any consideration of individual categories of social protection, one must take into account the inadequacy of the existing statistical data on social welfare beneficiaries. Given the circumstances of a decentralized social welfare system in both Entities, mass population movements, difficulties in the standardization of disability degree assessment, as well as data collection in terms of different categorizations (military war disabled, civilian disabled, civilian victims of war)-which opens up the possibility of some beneficiaries using more than one source of assistance -the reliability of the existing data is very limited. For the same reason it is not possible to establish an accurate categorization of beneficiaries.

4. The unemployed

According to official statistical data, in December 2002 the official number and rate of unemployment (unemployed registered with employment bureaus) were 435,505, or 41.1% (42.7% in the FBiH and 38.2% in the RS) of active population.³⁵ Women represented 46,3% of the overall number of unemployed. Approximately one third of the unemployed were demobilized soldiers, while 4% were family members of killed soldiers and military war disabled.³⁶ About 34% of the population (38,6% of the FBiH population and 26,7% of RS population) regard unemployment as the single most serious problem faced by the country. As a result of cuts in military personnel, as already announced, as well as the impact of privatization, jobless numbers are expected to continue to rise

In December 2002 in the FBiH there were 21,711 more unemployed persons, or 8.1% more compared to December 2001. In the same period, the number of people in employment was 390.201, a drop of 15.488, or 4%.³⁷ The observed trend of rising unemployment can be attributed, in the long term, to privatization and the slow pace of economic reform and, in the period in question, to the demobilization of a part of the professional soldiers of the FBiH Army. Subject to certain conditions, the unemployed who previously had jobs have the right participate in the safety net which provides benefits of between 117 and 240 KM, payable for a period of between 6 and 12 months. Insufficiency of funds for this purpose led to only 3, 320 people receiving these benefits in 2002.³⁸ Unemployed persons in the FBiH are entitled to health care on condition that they are registered with one of the cantonal employment institutes. The resources for paying health care contributions for this category are provided from part of the unemployment insurance contribution levied on wages.³⁹

In the RS, at the end of 2001 there were 147.749 unemployed persons, i.e. 40%. In 2002, unemployment continued to decline gradually, falling to 144,790 or 38%.⁴⁰ It should be noted that the data of the RS Statistical Institute on the unemployed and the June data from the records of the RS Employment Institute, which point to a drop in the number of registered unemployed, are not confirmed either by the data on the real decline of industrial production in the RS, nor by the findings of polls carried out amongst the population.⁴¹ Of the overall number of unemployed persons registered at the Employment Bureau, 43% are women. Demobilized soldiers account for 38.7% of registered unemployed persons, military war disabled 4, 5%, and members of families of killed soldiers 5.1%.

³² Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 127.

³³ Reform of the development of social security in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, pp. 7-8 and 11, and Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

³⁴ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 127.

³⁵ Bulletin 4, January – December 2002, Central Bank of BiH, pp. 148-149.

³⁶ Education in Poverty Reduction, Federal Ministry of Education, Science, Culture and Sports, May 2002.

³⁷ Bulletin 4, January – December 2002, Central Bank of BiH, pp. 148-149.

³⁸ Reform of the development of social security in FBiH, Inter-ministerial Working Group for Social Policy, February 2002, pp. 19,

³⁹ Employment Bureau of the Sarajevo Canton.

⁴⁰ Bulletin 4, January – December 2002, Central Bank of BiH, pp. 148-149.

⁴¹ Early Warning System, Quarterly Report April – June 2002, UNDP and BiH authorities, p. 14.

27% of the unemployed are refugees, 10, 6% are displaced persons and 1, 8% are returnees.⁴² A further problem is the estimate that over 50% of the approximately 223,000 employees in RS are in fact on "wait-lists".⁴³

During 2001, an average of 1.586 persons per month received unemployment benefits, averaging some 70 KM in the RS. Eligibility for unemployment benefits, which are payable over a period of between 3 and 12 months, depending on years of service, is based on a specified number of years of employment during the period preceding the claim. All registered unemployed persons have the right to health care, and their contributions are paid from the RS Budget.⁴⁴

The Poverty Assessment Study, drafted by a team of World Bank experts using data collected under the auspices of the Living Standards Measurement Survey (LSMS) and in collaboration with domestic experts, has reached a surprising conclusion in the preliminary phase that poverty is not primarily a consequence of unemployment. This conclusion is based on findings that less than 20% of the poor live in households in which the head of the family is not working, while more than double that number live in families in which the head of the family has a job. About 63% of the poor live in households in which at least somebody is employed. On the other hand, 28% of the unemployed are poor⁴⁵, while the unemployed represent only about a third of the overall number of the poor.⁴⁶

An explanation for such a wide incidence of poverty among the employed and among members of their households should be sought in the difficult conditions in which the BH economy functions. Average wage in the FBiH in December 2002 amounted to 513 KM, and in the RS to 356 KM⁴⁷ (in comparison with the estimated monthly price of the consumer basket, which is 459 KM in the FBiH and 458 KM in the RS).⁴⁸ At the same time, a significant number of businesses are showing very poor trading results and pay low wages, often in arrears by several months.

Along with the data on average earnings, the structure of employees in BiH is also of relevance: of the overall number of employees, 27% work in the public, or non-economic, sector (28% in the FBiH and 24% in the RS). This high proportion of public sector employment is attributable to the slow recovery of the industrial sector and the development of the post-war administrative apparatus. The extent to which the ratio has changed is demonstrated by the fact that the pre-war ratio of employees in the non-economic and economic sectors was 1:5.6, while now, in the post-war period, it is 1:2.8. It is revealing that the young predominantly work in the informal sector: over three-quarters of the employed young people aged between 15 and 24 are employed in the 'grey economy'.⁴⁹

In combination with the very high rate of non-economic employment in comparison with other countries in transition, the wide wage differentials in favour of earnings in the public sector (in FBiH, remuneration in the public sector are 67% higher than industrial wages, while for the RS the figure is 85%) result in the public sector wage bill amounting to about 20% of GDP, or more than 33% of total budget expenditure in the year 2000 (compared with an average of 17.3% for the countries of Central and Eastern Europe). Furthermore, these numbers do not include the defence sector, where almost 1% of the population is currently employed.⁵⁰

Bearing in mind that women account for only a third of the employed in BiH, and 45% of the officially unemployed are women -as well as the fact that they certainly form a majority of the population fit for work (ages 15 to 64) that is not seeking employment and has excluded itself from the labour force -one of the solutions to the difficult position of families with working members is to promote a more active role for women on the labour market. However, the current state of the economy means that increasing the number of employed women will be a difficult and long-term process.⁵¹

The Poverty Assessment Study also showed that, although all unemployed persons do not fall into the category of the poor, they are at significantly higher risk of seeing their standard of living falling to below the poverty line than any other category of the population.

⁴² Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

⁴³ Transition of Social Protection in BiH, IBHI, February 2002, Page 145.

⁴⁴ Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

⁴⁵ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 33.

⁴⁶ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 38.

⁴⁷ Bulletin 4, January – December 2002, Central Bank of BiH, pp. 153.

⁴⁸ Monthly Bulletin of the Federal Statistical Bureau, June 2002, page 55, and Early Warning System, Quarterly Report April – June 2002, UNDP and BiH authorities, p. 36.

⁴⁹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 39.

⁵⁰ BiH: From Aid Dependence to Fiscal Sustainability, World Bank, draft, pp. 35-36.

⁵¹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 120-121.

5. Low Income Pensioners

The data from the Living Standards Measurement Survey (LSMS) point out that the elderly, as a group, do not belong to the most vulnerable category, mostly because the level of pensions, especially in the FBiH, is above the poverty line. Only 17% of the poor are of retirement age.⁵² However, the members of that group are mostly concentrated just above that line. Belonging to a higher age group is, however, a common enough characteristic of the poor, and their specific needs and dependence on assistance from other people mean that this group is in exceptionally difficult circumstances. According to the findings of the team in charge of the Poverty Assessment Study, as many as 20% of the poor are either retired or incapable of working. In addition, at least 25% of the poor over the age of 60 are from the category of those who have not acquired the right to a pension.

In comparison with the year 1991, when the ratio of pensioners and employees was 1:3, by the end of the year 1995 the ratio had decreased to 1:1.3, after which it stabilized at about 1:1.4 in the FBiH. The level of pensions in the FBiH (an average pension of 186 KM was disbursed in December 2002) reflects the strength of the post-war recovery. Owing to the tripling of wages, and the 25% increase in the number of people paying insurance, the average pension has tripled by comparison with 1996 levels. By 2001, the average pension in the FBiH had reached 2/3 of average income per capita, which is above the ratio in most countries in transition. However, average pensions are still only around 36% of an average wage in FBiH (513 KM)⁵³ this solid average conceals significant differences in pension levels, so that older women, widows of pensioners, are to a significant extent exposed to the risk of poverty, while a household receiving two pensions can enjoy an income significantly above the FBiH average. In addition, women pensioners are, in general, in a more difficult position than men, given that women's pensions are lower because, in general, they had lower-paid jobs.⁵⁴

The situation in the RS is significantly more difficult, with each person paying insurance contributions supporting more than one pensioner: a ratio of 1.08:1. As a result, even the very high contributions and transfers from the budget do not make it possible to pay average pensions of more than 30% of average income per capita. The level of pensions in the RS is half of what it is in the FBiH (an average pension in December 2002 as 120.18 KM), i. e. 34% of the average wage of 356 KM).⁵⁵ Despite this, the RS pension system can function only with significant transfers from the entity budget.

The pronounced imbalance between revenues and expenditures is the main source of difficulties in the pension insurance, delays and reduction in the level of pension payments, which increases the vulnerability to poverty for the majority of pensioners.

C. Specific Issues Related to Poverty in BiH

1. Education and Poverty

About 60% of the poor live in households in which the head of the family has primary education only, or not even that. The probability of a household falling into the category of poor households is almost tripled if the head of the family has completed primary school level education only.⁵⁶ High-school level education is already a major guarantee of the family's avoiding falling into poverty. This indicates the importance of the improvement of the educational system for young people, as the basic tool for the long-term eradication of poverty. In the medium term, creating new options for adults with lower educational levels would yield positive results for a large proportion of the poor.

One of the basic findings of the majority of studies relates to the negative correlation between the level of education and poverty. In general, the higher the level of education, of either an individual or a household, the lower the probability that they will end up unemployed, and therefore that they will fall into the category of the poor. Even in the 25-35 age group, half of all the poor are persons who have primary education only.⁵⁷ Lower education levels are linked to working in the "gray economy" - more than a half of the employees with primary school level of education work in the informal economy, while for categories with higher levels of education that indicator is under one fourth.⁵⁸ Education level is single most significant of all factors affecting the poverty risk.⁵⁹

The coverage of primary education in BiH is about 94% of children between the ages of 7 and 14, and of children who enroll in first grade, 99% reach grade 5. This data applies to the entire

⁵² Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 35.

⁵³ FBiH Retirement Fund, April 2003.

⁵⁴ Human Development Report, UNDP, September 2002, p. 86.

⁵⁵ Payment of retirement benefits, RS Retirement Fund, December 2002.

⁵⁶ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 32.

⁵⁷ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 44.

⁵⁸ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 60.

⁵⁹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 46.

country, without any significant differences between the sexes, entities, rural or urban areas.⁶⁰ However, the rate of high-school enrolment is significantly less satisfactory, at about 73% (74% in FBiH and 71% in the RS), while the rate of enrolment in tertiary education institutions is approximately 24% (26% in FBiH and 22% in the RS).⁶¹ The structure of those enrolled in high schools is an even more significant problem: only 14% of overall number of young people eligible for high school education (17% in the FBiH and 7% in the RS) are enrolled in high schools which prepare them for tertiary education, while all other pupils attend various forms of vocational and technical schools, which are to a large extent ill-adapted to the needs of a modern economy and do not provide the type of training and qualifications which would make it easier for their graduates to find jobs.

The reform of the educational system is of crucial importance if education is to play a successful role in the structural decrease of poverty: according to data from the public employment institutions in BiH, out of 252 professions for which students are trained in secondary schools, there is demand for only 20%. Out of 32 university level professions, there are job vacancies for just 4.⁶² High school and university graduates account for 62.6% of the registered unemployed. Among young people just completing their education (ages 19 to 24) the unemployment rate is twice as high as the rate for the age group 25-49, and as much as 3.6 times the rate for those aged 50 to 60.⁶³

2. Gender Equality and Poverty

Although there is not enough data to enable an analysis of poverty from the aspect of gender, existing studies point out that poverty takes the same toll amongst women and amongst men. Both men and women believe that the causes of poverty are the war, poorly conducted privatization, lack of the skills in demand on the labour market, corruption and the absence of the rule of law. Divisions of other kinds, for example on the grounds of ethnicity, differences between local population, refugees/displaced persons and returnees, differences between the employed and the unemployed, between politicians and voters, are all seen as more important than gender-related conflicts. In addition, both women and men seek their way out of poverty in an improvement of their employment options, the solution of their housing problems, adequate access to health and educational services, as well as the mobilization and activation of the society itself. It is interesting to note that all the groups consider that the alienation and poor cultural life are some of the important consequences of poverty.⁶⁴

According to the findings of IBHI⁶⁵ researchers, the impact of poverty is different on men and on women: men often fall into a depression over unemployment or inability to support their families, while women are more inventive and ready to accept all kinds of jobs, but are prone to stress and tend to sacrifice their own health. In our new social circumstances, women often take on additional responsibilities for supporting their families, together with their traditional roles of mother and housewife.⁶⁶ Their ways of coping with the problems of poverty also differ: while men work at more than one job, start up in business and put more effort into forming informal contact networks outside of the family, women lean on their own resources more, and deal with the problems in a strategic fashion

Women are 44.6% of the overall number of unemployed, which is more evident than their share of overall employment (34.4%).⁶⁷ This is the lowest proportion of women in the total active labour force of any country in South Eastern Europe. However, this has proven to be a major contributory factor to the circumstance that one wage is often insufficient to maintain the household at above poverty levels. Low employment rates among women are a problem for two reasons: first, the decline of real wages in comparison with the pre war period indicates that one wage can hardly meet all the demands of a family now; second, the ravages of war and the post war cuts in social benefits for family support have forced families to take on additional domestic responsibilities, without any additional revenues.⁶⁸

The gender gap in employment and income in BiH are, however, not so high as to explain the wide differences in participation in the actively working population. The traditional division of labour, which keeps the women in the house, has been retained to a large extent, especially in poorer households, because such families cannot afford to purchase household appliances or to pay for babysitting.⁶⁹

⁶⁰ Household study on women and children in BiH, UNICEF and BiH Statistics Agency, December 2000, pp. 47 and 112.

⁶¹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p.

⁶² Education in Poverty Reduction, Federation Ministry of Education, Science, Culture and Sports, May 2002

⁶³ Human Development Report, UNDP, September 2002, p. 36.

⁶⁴ Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 25.

⁶⁵ Independent Bureau for Humanitarian Issues.

⁶⁶ Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 1.

⁶⁷ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 38.

⁶⁸ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 38-39.

⁶⁹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 40.

Women suffer discrimination in employment, in both the private and the public sector, they receive lower wages than men for the same work and they have fewer opportunities for promotion, which has a direct impact on their financial position and makes it harder for them to maintain a satisfactory standard of living. Women are first to be fired during times of restructuring and reform and it is harder for them to find new employment. The available data lead to the conclusion that female-headed households are exposed to significantly higher risks of falling into the category of the poor than male-headed households. However, younger women, being more adaptable and often better educated, are in demand in the private sector. But even this advantage is accompanied by low wages and job insecurity. A further problem that is a particular barrier to employment for women is the almost virtual non-existence of childcare institutions.⁷⁰ For all these reasons, it is not surprising that the data indicate that women in the 19 to 29 age group are less represented in the category of new entrants to the labour market, although it may also indicate that some of the best educated are leaving the country in search of better living conditions.

Even the fact that women have a longer life expectancy contributes to significantly higher exposure of older women to the risk of falling below the poverty line. Women account for 58% of the population over 65. It is very common to find women living alone, without a pension or any other regular income, especially in rural areas.⁷¹ Even when they have acquired the right to a pension, women pensioners receive lower pensions, having as a rule had lower-paid jobs. Bearing in mind that low education levels and illiteracy are the most frequent among the members of this group, it becomes clear how hard it is for such women to make use even of the options that exist for them to receive assistance.

Poor women are especially stricken by the sense of disempowerment and inability to express their opinions, either in their own surroundings or in relation to the authorities. Single mothers and women in rural areas have special difficulties, due to poorer communications, tradition, and, most often, poorer education. Women in returnee households are in by far the worst position of all, due to their minority status and, often, their total isolation from the surroundings to which they have returned. However, female-headed households in BiH are not poorer than other categories, which is different from the situation in other countries. Most frequently this is a result of the situation that war widows receive significant government transfers and enjoy the support of their communities.⁷²

Poll findings reveal that people do not regard gender as playing a significant role with children. They are often at risk from poverty, but there is no clear indication of boys being favoured over girls, or vice versa. If only one child can continue his/her education, most often preference is given to the child who has been the most successful in school so far. However, in rural parts of the country a difference is noticeable among older children: boys are more likely to continue with their education while the family makes arrangements for the girls to marry.

3. Elderly People and Poverty

The BiH population is a rapidly aging one, due to the declining rate in the natural increase of population, increasing life expectancy and emigration of the young. It is estimated that more than 12% of the BiH population is aged over 65, and for the RS the estimate is 15%. A large number of elderly people live alone. Most of them are women, who, as a result of their longer life expectancy, account for 58% of the elderly, and frequently live alone. Over 80% of elderly persons are pensioners, about 10% of them receive benefits as war disabled, and about 5% are receiving social assistance.

Bearing in mind that pensions are low and social welfare is often irregular, being under the jurisdiction and depending on the capacity of the municipalities, elderly people are one of the potentially most vulnerable groups. Although precise data are not available, some groups, such as elderly women living alone in villages, find it very hard to cope, due to the lack of access to social services, while the isolation of their homes and their own illiteracy often means they have no way of seeking assistance.⁷³

4. Poverty in Rural and Urban Areas

The consequences of the war have extremely complicated the situation in BiH and the position of its rural population, where the level of poverty is significantly higher. Although BiH has no pronounced potential for the development of agriculture, about half the rural population relies to a large extent on agriculture to survive. Many rural communities have been destroyed and their population displaced, either to third countries or within the country, where they are now largely living in cities. The slow pace of demining means that normal life is still impossible in many parts of the country, and a proportion of arable land cannot be cultivated.

⁷⁰ Gender and Poverty: A Qualitative Survey, IBHI, June 2002, p. 2.

⁷¹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 102-103.

⁷² Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 42

⁷³ Human Development Report, UNDP, September 2002, pp. 53-54.

Although the poor are present throughout BiH, the poverty rate does vary from region to region, and is significantly higher in the RS. Only about 20% of the poor live in urban surroundings, and poverty is most present in smaller settlements throughout the country, which frequently suffered the worst damage during the war, as well as displacement and ethnic cleansing. The risk of falling into poverty in the RS is significantly higher in non-urban, than in urban areas: 27% to 12%., while in the FBiH this risk is balanced: 16% of the poor live in non-urban, and 15% in urban areas.⁷⁴

Practically all the aspects which influence household living standards are more unfavourable in rural areas. In many parts of the country the basic infrastructure is still lacking. Access to educational and health facilities is more difficult and more expensive, and the quality of those which are accessible is lower. The virtual absence of pre-school institutions is increasingly significant, as they could help children from rural areas to compensate for the limitations which are often the result of growing up in a village. Only 6% of children from rural areas attend such institutions, in comparison with 15% of city dwelling children.⁷⁵

The lack of a comprehensive agriculture development policy deters people from investing in that activity, while options for other types of employment in rural areas are minimal. All this prevents many displaced persons from leaving their temporary residences in the cities, which creates an additional pressure on the very small number of jobs, increases the cost of housing and gives rise to difficulties in the provision of educational, health care and social services.

Poverty has a significant regional dimension in BiH, being more pronounced in certain areas, depending on general circumstances such as the state of the local economy. Poverty is concentrated in certain areas, giving rise to a certain interaction that bwer the standard of living for even those households, that, on the basis of their own individual features, would not ordinarily fall into that category.⁷⁶

5. Ethnic and Religious Dimensions of Poverty

UNDP findings⁷⁷ prepared in collaboration with the BH authorities indicate that there is a correlation between the ethnic structure of certain parts of the country and levels of household income. In Croat-majority areas, 6.9% of households fall into the category of the poor based on income levels, in Bosniac-majority areas the percentage is between 22% and 25% , and in Serb-majority areas it is between 40% and 43%. Expressed differently, there is a growing gap in the economic development and standard of living between the different regions of BiH: Croat-majority areas enjoy the highest living standards, Bosniac-majority areas are in the middle, and RS has the lowest standard of living. Bosniac-majority Sarajevo Canton is the exception to the rule, thanks to its specific position as the capital and the presence of so many government authorities and international organizations. It is estimated that 15, 000 foreign nationals spend about 60 million KM per month, which amounts to about 150 KM per capita.⁷⁸

Almost everywhere in BiH minorities are much more vulnerable in regard to their financial status. By comparison with the above figures on the majority populations of the various areas, more than half of ethnic minority households in RS are poor, and in the Croat-majority areas of FBiH, 15.6% of ethnic minority households are poor. In Bosniac-majority areas, about 25% of ethnic minority households fall into the category of the poor, but the data from 2002 do not indicate any great differences between majority and minority ethnic groups.⁷⁹

A minority group that is almost entirely marginalized in BiH is the Roma population. Although it is impossible to ascertain the number of Roma living in BiH today with any degree of certainty (the estimates of Roma organizations range between 17, 000 to close to 80,000⁸⁰) it is almost certain that they represent the largest ethnic minority.⁸¹ The number of Roma is difficult to ascertain because many of them still live nomadically, although many have successfully integrated into majority communities. One of the reasons making it difficult even to provide a rough estimate of the number of Roma is that many of them declare themselves as members of another, majority ethnic group when answering census questions, hoping to at least somewhat improve their unenviable social status.

Although no in depth surveys of poverty among Roma have been conducted, all available information indicates that they are one of the most vulnerable groups, living in conditions below even the most minimal for survival and often without the resources to support their families and ensure that their children can receive an education. As a group, Roma have by far the lowest levels of education in

⁷⁴ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 42.

⁷⁵ Household Survey of Women and Children in BiH, 2000, UNICEF and Statistics Agency of BiH, December 2000, pages 47 and 111.

⁷⁶ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 44.

⁷⁷ Early Warning System, Quarterly Report April – June 2002, UNDP and BiH Authorities, pp. 16-17.

⁷⁸ ICG, Why will no one invest in BiH? Report No. 64, April 21, 1999., p. 5

⁷⁹ Early Warning System, Quarterly Report April – June 2002, UNDP and BiH Authorities, p. 34.

⁸⁰ Status of Roma in BiH (Poll Findings), Center for Protection of Minority Rights, Sarajevo, 1999, p. 14.

⁸¹ Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 34.

the country, their unemployment rate is almost 100%, and more than 90% have no health insurance. As a minority, they were displaced during the war from almost all areas, and as returnees in both entities they are very often faced with discrimination. Due to their minority status they are marginalized, and their lack of knowledge of the system means that they are effectively deprived of many legal rights, including the right to social welfare

Of the Roma families polled, 80% have no family members in permanent employment, and the majority mostly survive by doing temporary work or seasonal jobs, as small-scale traders in outdoor markets, or as scrap merchants.⁸² Roma encounter discrimination when job-hunting. A further problem is that very few have any formal education and even fewer have professional qualifications of any kind. The results of polls conducted among the Roma show them to be poorly integrated into the education system, with 23% illiteracy and low attendance rates at pre-school institutions and primary schools, resulting in their almost total exclusion from high school, vocational and university education.⁸³ By way of illustration, a poll by the Roma association "Our Future", covering 582 Roma children aged 7 to 18 in Sarajevo Canton during the school year 1995/1996 found that only 189, or 33% , attended school regularly.⁸⁴ As Sarajevo is an urban area in which the majority of children have the opportunity to attend educational institutions, one can assume that the situation in other parts of BiH is even worse. Confirmation for this can be found in a survey on the status of Roma in Tuzla Canton, which covered 189 families and established that only 10 families enrolled their children in schools.⁸⁵

Roma give as reasons for their children's failure to attend school: poverty, the necessity for children to start working and providing for the family at an early age, lack of confidence in the authorities (including schools), ill-treatment by their peers at school, and their inability to provide an environment conducive to study at home. Another reason often cited is the language issue: 86% of Roma polled give their mother tongue as Roma, which adds to their problems at school, where in the overwhelming majority of cases no special provision is made for pre-school assistance to Roma children.

A major obstacle to determining the priorities and the preparation of poverty reduction programs among the Roma, as a segment of the population, relates to their almost negligible coverage by official statistics. Many Roma live a nomadic life, their children and even adults have no identification papers, not even a birth certificate, and many Roma declare themselves as members of other, majority ethnic groups. Their marginalization in society and lack of education make it difficult for the Roma to fit into general social security programs and make it essential to draft specially adapted programs. The experience of non-governmental and international organizations, as well as of domestic institutions already engaged in assisting the Roma, should be drawn upon to help the Roma to combat poverty.

D. Causes of Poverty

On the basis of the data presented in this assessment, it is possible to identify the most common causes of the decline of households' and individuals' standard of living in BiH to the point where they fall below the extreme poverty line. These factors influence individual categories in different ways, either directly or indirectly, individually or in combination. An analysis of their effects provides the necessary guidelines and ideas for the formulation of adequate and efficient measures for a given category

Before the factors which cause poverty among certain categories of the population are taken into consideration, the historical circumstances of the region, as well as global circumstances affecting society as a whole, and which have given rise to such difficult circumstances for all citizens should also be taken into account: the war, transition, and post-war social and political divisions are the key determinants of the current situation in BiH

1. About 250.000 people lost their lives during the war in Bosnia between 1992 and 1995, and more than half the pre-war population of 4.4 million people became internally displaced or refugees abroad. The war caused immense devastation to manufacturing capacity and infrastructure, severed trade connections and put an end to the economic reforms that had just been launched in former Yugoslavia. Direct material war damage is estimated at between 50 and 60 bn. US\$, of which about 20 bn. US\$ relates to industrial capacity⁸⁶. Adding to this the loss of GDP from 1992 to date, overall damage amounts to more than 100 bn. US\$.

⁸² Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 19.

⁸³ Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 9.

⁸⁴ Denied a Future? The Right to Education of Roma Childer in BiH, Save the Children, March 2001, p. 32.

⁸⁵ Analysis on the Current Status of the Roma Returnees to Tuzla Canton, Helsinški parlament građana i romska udruženja iz Tuzlanskog kantona, 1999.

⁸⁶ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 49.

2. The political and social paralysis resulting from the provisions of the Dayton Peace Accord made it impossible for the country to embark resolutely and consistently on the course of reconstruction and reform. Differing views on the future of BiH have been the fundamental barrier to successful collaboration between different political and ethnic groups, and were used as the pretext for retaining the advantages and positions acquired by the privileged and by politically well connected individuals and groups in the course of the economic transition so far.⁸⁷ It is also reflected in the slow pace of reform and, in particular, in delays and manipulation in the privatization process.⁸⁸
3. Unemployment (coupled with inactivity or exclusion from the labour force) are among the major immediate consequences of the difficulties facing BiH in the process of post-war recovery and the transition to a market economy. At the same time, unemployment is a shock to society and the individuals, which brought poverty and inflicted it, directly or indirectly, on members of virtually all categories of the population, although it is most widely spread among the young people and displaced persons. On the one hand, unemployment is the consequence of low demand for the skills and abilities of the poor, given that economic recovery is still far from complete; on the other hand, it reflects the inadequate skills possessed by the poor. This fact alone means that people with little education have markedly fewer job options open to them.⁸⁹ The unemployed do not in fact form a majority of the poor because many live in households where one or more persons are employed. Another significant factor is the very strong informal sector in BiH, which provides so many jobs that the true unemployment rate could be as low as 16%.⁹⁰
4. Human rights violations in BiH, whether ethnically based or not, impossibility of reclaiming the right to property (or occupancy rights), threats to personal security and obstacles to return to pre-war residences and jobs, as well as the general lack of employment options, push the members of minority ethnic groups, displaced persons and returnees into poverty, because they are unable to exercise their rights to the free and equitable enjoyment of their property, to acquire an education, to enjoy access to health care or social services or to participate in the labour market. The absence of security, both personal and economic, in the widest sense, was to be expected as a consequence of the weakening of social organization and the decline in authority of the government and institutions of society. Increased crime rates, accidents and disease create a sense of insecurity in the society as a whole, inhibiting the mobilization of social forces for the resolution of long-term problems. Economic uncertainty also manifests itself in various forms, ranging from inadequate wages, pensions and social welfare benefits to the failure to resolve fundamental property rights - which explains the incidence of poverty among all categories of the population.⁹¹
5. The social security system should be the last line of defence against extreme poverty for groups such as children without parents, persons with arrested mental or physical development, the elderly and infirm, displaced persons etc. The inadequate organization of social welfare in post-war conditions, together with the decentralized formulation and implementation of social policy, with policy determined on one level (entity) and implemented on another (canton or municipality), makes the adequate provision of assistance much harder, at a time when the population in need of assistance is so much more numerous now than it used to be. In the discrepancy between formally accepted responsibilities and capacity, and the subsequent "rationalizations" this entailed, the poor suffer the most, especially in local communities with more modest means. The peripheral municipalities, especially in the RS and Gorazde Canton, pose a particular problem, as many were created through a division of pre-war municipalities and most lack even the most basic physical infrastructure, let alone the capacity to organize social assistance and care for the poor within their jurisdiction.
6. The poor quality of education has a direct influence on employment options, but it also influences, albeit indirectly, areas such as health or knowledge of human rights. Poor or incomplete education also affects the young, preventing them from improving their employment prospects.
7. Corruption, too, hits the poor especially hard, whether it is related to visiting a doctor, acquiring rights to some form of social assistance, obtaining documents, education, return of property or employment, because they often have no other way to ensure the necessary services. Displaced persons, the elderly, the rural population, children and young people are often forced to pay for

⁸⁷ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 52.

⁸⁸ Human Development Report, UNDP, September 2002, Pages 47-48.

⁸⁹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 84-85.

⁹⁰ Human Development Report, UNDP, September 2002, Page 35.

⁹¹ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 110-112.

such services because they are not properly accepted or recognized by their communities, and lack the channels of communication that could enable them to demand their rights.

8. Inability to influence the authorities and to make their voice heard in society are both a cause and a consequence of poverty. In most cases the poor lack or are unaware of the means of communicating with the authorities and institutions that make the decisions and control the resources affecting their lives, which reduces their chances of breaking out of the "vicious circle" of poverty and participating in the formulation of policies and measures adjusted to their needs.

E. Existing Instruments for Poverty Reduction

The Entity social welfare systems are the basic instruments by which society strives to provide support to its citizens in social need. Although the categories of social welfare beneficiaries are not all evenly distributed among the poor, the limited resources and the still poorly adapted legal framework, together with the augmented need for social welfare, reduce to a minimum the capacity of the existing social welfare systems to meet such needs, which adds to the vulnerability of the living standard of the beneficiaries of social welfare.

Since the funds that could be earmarked for social, and particularly child welfare in line with this concept were utterly inadequate, a radical reform the laws in this area became inevitable. The amendments enacted in 2002 to the Law on Child Welfare of the RS reduced the scope of child welfare scheme beneficiaries, while preserving the focus on the most vulnerable categories of children. The changes and amendments to the RS Law on Social Welfare are still in the parliamentary adoption procedure, but it is expected that they will drastically reduce the number of beneficiaries and will establish the minimum wage as the basis for entitlements to social welfare benefits in the RS.⁹² In FBiH, welfare and child protection systems are the responsibility of the cantons, but these obligations were discharged only to an insignificant extent, with the exception of the Sarajevo Canton.

Child welfare is one of the key areas that necessitate adjustments to the previous policy -it is facing financial crisis, although the transition from humanitarian assistance to an efficient and sustainable system has not yet been made. In both Entities, the share of child and social welfare benefits is lower than in other transition countries. If we add to this the problems with decentralized financing mechanisms and the dominance of veterans' benefits (which in FBiH are almost thirteen times, and in the RS two times greater than the amounts directed to social and child welfare) in the government priorities, not only possibilities, but the necessity of undertaking political institutional reforms and reassessment of priorities in the use of resources becomes evident.

E.1. To what extent do the existing instruments effectively help the poor?

Overall, public transfers are a very significant factor in poverty reduction: recurrent transfers represent about 17% of GDP in BiH, of which transfers to households are the major proportion -about 15% of GDP in both entities is spent on them; one out of five inhabitants is a beneficiary of a transfer, in one form or another. Transfers represent about 11% of total consumption of households. For about 13% of those polled, the transfers represent a barrier against falling into poverty, because they increase consumption of this group by about 50% on average. Many households in BiH receive some kind of transfer, but only somewhat less than a half of poor households are included in those programs. However, the transfer system in BiH has a relatively limited impact on extracting households from poverty, in comparison with other countries of the region.⁹³

The existing system of social security is inadequate, since it is biased towards one group at the expense of others, and the social transfers are not distributed in a balanced way towards all who need them. Simultaneously, there are indications of abuse in awarding social benefits, and of a larger number of beneficiaries than is justified.

A particular issue are the benefits provided to war veterans by the governments of both Entities. Contrary to conventional public opinion, the analysis of the data collected during the living standard survey (LSMS) has shown that war veterans and the war disabled face considerably lower poverty-related risks than the average BiH population, which might be explained by very high attention to these categories, because of past political promises and of the strength and high level of organization of these groups. The veterans benefits system in both BiH entities is one of the most generous in the world. The transfers to the war veterans represent the single largest form of social welfare transfers. These transfers, which amount to nearly 4 percent of GDP, are a major burden for the entity budgets, limiting the scope for the provision of assistance to other vulnerable categories of the population. In addition, considerable sums are being allocated from lower levels of government for financing the veterans' benefits. Nonetheless, it has been recognized that there are certain subcategories of the disabled (over 50% of disability). while benefits are channelled to many who are

⁹² Analysis of the situation in the social sector in RS with policy proposals, Working Group for Social Sector, June 2002.

⁹³ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 99.

work-capable. On the other hand, very limited funds are allocated for assistance to other categories, especially classical social cases.

The fact that the social welfare recipients are not in an even more precarious might be explained by other sources of assistance that they receive. In the war and postwar period, humanitarian relief was particularly significant, and beside food it frequently included other necessary articles, such as clothing and medicines. The humanitarian relief was distributed by both governmental bodies and NGOs, and was available to almost all who needed it. However, this form of assistance has been greatly reduced in recent years and it might be expected that very soon it will not play an important role in meeting the basic needs of the vulnerable categories of the population. This is increasingly putting additional pressure on the scant resources of the official social welfare system. On the other hand, other survival strategies are present: many poor rely on assistance from the family and extended family, and many also have access to arable land.

Transfers from abroad are also an important means serving as substitute or supplement for social welfare. The bulk of these transfers are made outside official financial channels and it is virtually impossible to precisely determine their size. An assessment of the Central bank of BiH is that private transfers from abroad in 2001 amounted to about 2.1 billion KM, i. e. 22% of GDP, which by far exceeds other countries in the region, but it is impossible to ascertain which percentage of it goes to the poor, or to those who would be poor but for those transfers⁹⁴

F. Conclusions

1. The most precise research on poverty in BiH to date has demonstrated, contrary to what was expected, that the poverty level is lower than anticipated, and that no one in BiH is below the lower limit of extreme poverty, i. e. unable to satisfy at least the minimum food needs. 19.5% of the BiH population is below the general poverty line. However, around 30% of the population are concentrated immediately above the poverty line and are vulnerable to falling below it.
2. More population is exposed to poverty in the RS (25%) than in the FBiH (16%). Inequality is also pronounced within each entity and there are major differences among areas populated by different majority peoples: Croat majority areas enjoy the highest standard of living, Bosniac majority areas are in between (with the exception of Goražde), while the living standard is the lowest in the RS. In Croat majority areas, 6.9% of households are in the group of the poor in terms of realised income, in the Bosniac majority areas this percentage varies between 22 and 25%, and in the Serb majority areas the percentage of such households is 40 -43%. In the RS, the living standard of the population is lower in the eastern parts than in the north-western parts around Banjaluka.
3. The fact that the young and educated are leaving to settle as emigrants in countries abroad, as a result of unemployment, the difficult economic situation, housing problems, political instability in the country and uncertain personal prospects, is in the long run the greatest threat to the successful development of the country. More than 92.000 young people left the country in the 1996 -2001 period, while many are still trying to obtain visas for foreign countries. Almost two thirds of the young in the country have stated that they would leave the country if they had the opportunity. Nevertheless, there is still no strategy to prevent the brain drain and preserve human capital as the most valuable resource of any country.
4. Contrary to widespread opinion, unemployment is not the most frequent cause of poverty. This conclusion is based on the findings that the unemployed account for only a third of the total number of the poor. Less than 20% of the poor live in households where the head of the family is unemployed, while there are twice as many in families where the head is employed. Around 63% of the poor live in families where at least someone works.
5. Violations of human rights, particularly in the case of minority returns, are one of the important causes of poverty. Returnees are frequently denied the right to personal safety, right to peaceful enjoyment of private property, right to work, right to education and access to health and social care services, as well as the right to equality before the courts of law. These citizens are frequently victims of discrimination, and their opportunities to influence the course of events in public life are almost nonexistent. As a result, returnees are one of the poorest and most vulnerable categories, especially in the RS.
6. The existing social welfare systems are completely inadequate to meet the greatly increased needs. The extremely limited means which the governments of the Entities can set aside for this purpose apart, the problem is compounded by the decentralization of responsibilities in the area of

⁹⁴ Bosnia and Herzegovina: Poverty Assessment, World Bank, Report No. 25343-BIH, p. 27.

social policy. This in the end results in a large number of beneficiaries entitled to social assistance who do not enjoy these benefits. This does not hold for the veterans and the war disabled, whose benefits system is, in comparison, generous.

7. The available statistical data are neither reliable nor exact to a degree that would enable successful formulation and conduct of the social and development policy. The LSMS, although a big step forward in itself, is not sufficient.

G. Recommendations

1. For both human and development reasons, BiH must come to grips with poverty. Poverty is so widespread in Bosnia and Herzegovina that there is a constant danger that it might lead to social unrest and upheaval. Such events might seriously jeopardize the chances for the country to establish a more favorable environment for investments and make it more difficult to ensure stable economic growth.
2. Long-term reduction of poverty will depend on sustainable economic growth. The best effects in terms of mitigation of poverty might be achieved by a combination of greater investment in agriculture, continuation of efforts on the reconstruction of physical and social infrastructure, revitalization of production capacities and further development and strengthening of financial system, especially in the area of micro-crediting, as well as on establishment of an adequate social welfare system. In the preparation of the strategy, it is of utmost importance to emphasize the measures for ensuring a more balanced distribution of the benefits of economic growth, i. e. prevention of further deepening of inequality in the society.
3. In the short term, it is urgent to build the capacity of the social welfare systems in order that they might fulfill their mission. It is particularly important to distribute the means available in such a way as to equitably support all the poor. It is also essential to improve the methods for identifying and targeting actually vulnerable groups.
4. Education and health-care expenditures are very high (education expenditures are 7% of GDP, and health-care amounts to 8% of GDP), and yet the education system is obsolete and insufficiently flexible: out of 252 vocations for which the secondary education students are being trained, only 20% are in demand in the labor market. There are jobs enough only for 4 out of 32 professions for which students are being educated in higher education institutions. Since education is the fundamental mechanism that ensures success in combating poverty in the long run, the educational system must adapt itself to the market economy demands.
5. Lack of respect for human rights, and particularly in the crucial issues of security and exclusion, represents a vast obstacle for the poor to help themselves. By enhancement of capacities of institutions charged with protection of human rights and by educating the public on links between human rights' protection and poverty reduction, a favorable environment will be created so that the poor may better use available resources to improve their situation.
6. As it has been demonstrated that, in most cases, poverty affects families where only one person is employed, greater participation of women in the workforce is not only an issue of equality, but also of poverty reduction. Other countries' experience demonstrates that this can be achieved only through a combination of targeted transfers and expanded access to adequate child care.
7. In order to plan and implement developmental and social policies successfully, it is necessary to continue collecting the statistical data on the living conditions of the BiH population through the Household Budget Survey, which is now in preparatory phase. A Labour Market Survey is also planned. However, the true basis for successful formulation and implementation of economic and social development policies will emerge only at the point when a full census is conducted in the country. As part of the preparatory activities for the census, it will be necessary to link more closely the existing three statistical agencies, as well as all other institutions involved in the data collection, in order to enable the compilation of relevant data for the whole country.