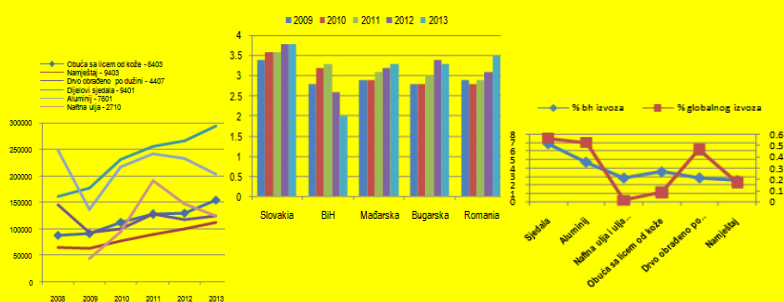




Bosnia and Herzegovina Report on Development

2014 Annual Report



Sarajevo, July 2015



BOSNIA AND HERZEGOVINA
DIRECTORATE FOR ECONOMIC PLANNING

**BiH REPORT ON
DEVELOPMENT
2014**

SARAJEVO, JULY 2015

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List of Abbreviations/Acronyms

HBS	Household Budget Survey
AROPE	At-risk-of-poverty-rate-and-exclusion
LFS	Labour Force Survey
LEA	Labour and Employment Agency
BAM	Bosnian Convertible Mark
BAT	Best available techniques
BD	Brcko District
GDP	Gross Domestic Product
GDP per capita	Gross Domestic Product per capita
BHAS	Agency for Statistics of Bosnia and Herzegovina
BLSE	Banja Luka Stock Exchange
CB BiH	Central Bank of Bosnia and Herzegovina
CDS	Country Development Strategy
CEFTA	Central European Free Trade Agreement
COST	International Framework for European Cooperation in Science and
CVW	Civilian Victims of War
DEI	Directorate for European Integration
DEP	Directorate for Economic Planning
DERK	State Regulatory Commission
DG ECFIN	Directorate General of the European Commission for Economic and
DCR	Diplomatic-Consular Representations
LC	Leasing Companies
EBRD	European Bank for Reconstruction and Development
ECTS	European Credit Accumulation and Transfer (points) System in Education
EFP	Economic Fiscal programme
EHEA	European Higher Education Area
EIB	European Investment Bank
DIR	Discount Interest Rate
EQF	European Qualification Framework
EU	European Union
EUROSTAT	EU Statistics Agency
FBiH	Federation of Bosnia and Herzegovina
ISF	Institute for Statistics of FBiH
FDI	Foreign Direct Investments
FP	EU Framework Programmes
FTE	Full (working) Time Equivalent
FC	Fiscal Council
GCI	Global Competitiveness Index
GCR	Global Competitiveness Rank
GGHE	General Government Expenditure on Health
GEM	Global Entrepreneurship Monitor
GIS	Base of land-mine contaminated and categorised areas
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit/ German Governmental Organisation
GWh	Gigawatt hour
HSEI	Social Exclusion Index
IDDEEA	Agency for Identification Documents, Registers and data Exchange BiH
ILO	International Labour Organisation

IPA	EU Pre-Accession Assistance Instruments
IPPC	EU Directive on Integrated Pollution Prevention and Control
R&D	Research and Development
IT	Information Technologies
ITU	International Telecommunication Union
ITS	Intelligent Transport system
SEE	South East Europe
CI	Cluster Initiatives
KM	Convertible Mark
LE	Life expectancy
MIPD	IPA Strategic Planning Documents
MIO/PIO	Pension and Disability Insurance
MCO	Micro-Credit Organisation
IMF	International Monetary Fund
SMEs	Small and Medium Sized Enterprises
NATO	North Atlantic Alliance
NCP	National Contact Points
SC	School Curricula
OECD	Organisation for Economic Cooperation and Development
OMC	Open Method of Coordination
EHBS	Extended Household Budget Survey
VAT	Value Added Tax
PDI	Pension and Disability Insurance
PPP	Public-Private partnership
PABiH	Parliamentary Assembly of Bosnia and Herzegovina
PvHE	Private Health Expenditure
R&D	Research and Development
RIA	Regulation Impact Assessment
ESEA	Early Stage Entrepreneurial Activity
DWV	Disabled War Veterans
RIS	Republic Institute for Statistics RS
SASE	Sarajevo Stock Exchange
SDR	Standardized Death Rate
FDI	Foreign Direct Investments
SEETO	South East Europe Transport Observatory
SILC	Survey on Income and Living Conditions
SIS	Social Inclusion Strategy
SPO	IPA Senior Programme Officers
SPS	Sanitary and phytosanitary measures
SAA	Stabilisation and Association Agreement
WTO	World Trade Organisation
SWOT	Strengths, Weaknesses, Opportunities and Threats
SCO	Saving and Credit Organisations
TBT	Technical Barriers to Trade
TEA	Total Early Stage Entrepreneurial Activity
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCED	UN Conference on Environment and Development
UNESCO	UN Educational, Scientific and Cultural Organisation
UNFCCC	UN Framework Convention on Climate Change
USD	American dollar

VET	Vocational education and training, Process of cooperation in vocational education and training
WHO	World Health Organization
WTO	World Trade Organisation
WUS	World University Service
ADIS	Agency for Development of Information Society in BiH
EI	Employment Institute /Bureau

Introduction

Development is a complex social and economic process which includes growth of quality of life of population over time. The example of fast growing economies show that long-term development has to be based on solid political foundations too. The decision makers in growing economies understand that development does not happen spontaneously, but it requires engagement of the overall community, particularly its leaders. "Fast, sustained growth does not happen spontaneously. It requires a long-term commitment by political leaders, commitment pursued with patience, perseverance and pragmatism."¹ This implies a long-term commitment and continuity in the values of better and higher quality of living standard for all citizens. We also need to be aware of the fact that, if we want growth and development, we have to turn a part of what we spend today into investment and higher living standard in the future. This kind of trade will be acceptable if the decision makers communicate a credible vision of future development that includes all citizens and a long-term strategy for its realisation.²

The Country's Strategy of Development (CSD) and the Social Inclusion Strategy (SIS BiH) are the most important development documents in BiH that define strategic directions of the country's actions pertaining to economic and social development in the coming period. These strategic documents show that BiH can make a breakthrough in economic and social development and in a relatively short period provide for better quality of life of its citizens.

This report presents a step towards the system of implementation, monitoring and reporting on development documents in BiH, thus strengthening the overall system of socio-economic planning in the country, which will be particularly important in the process of the EU accession. The report was prepared taking into account the division of administrative responsibilities in BiH (process of development planning in BiH on strategic level involves modular development of CSD/SIS as a strategic framework for socio-economic development of the country, as well as development of action plans for their implementation on the state, entity, level of Brcko District and cantonal level). Thus, Report on Development for 2014 also includes preparation of

reports on different government levels according to the EU principles of Open Method of Coordination (OMC).

The key purpose of preparation of annual Reports on Development is regular monitoring of development trends in socio-economic development of the country, BD, entities and cantons toward the defined strategic objectives, manner and process of implementation of the action plans, programmes and policies through a harmonised set of qualitative and quantitative indicators and identification of the key opportunities for action.

Monitoring and reporting enable governments and civil society to identify the key levers of and obstacles to growth, to learn from experience, to constantly improve public policies and allocation of resources (material, financial, human) in order to achieve the planned goals more effectively and more efficiently. Monitoring and reporting should be observed as a process that primarily enables the dynamics of management of the policy cycle, provides objective critical views, identifies weaknesses in the implementation of the programme in terms of selection of the instruments and the processes, and ensures the application of lessons learned.

This report consists of a review of trends and policies in specific areas, according to the objectives and recommendations of the Strategy of Development as well as the agreed set of quantitative and qualitative indicators of BiH development.

This report was prepared on the basis of cooperation with relevant institutions, available expert analyses, and analyses by experts in specific areas, as well as comments from the workshops held.

¹World Bank, Commission on Growth and Development, "The Growth Report Strategies for Sustained Growth and Inclusive Development", The International Bank for Reconstruction and Development / The World Bank 2008, pp. 2, date 20/05/ 2011 <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf>

² Ibidem, pp. 2

The goal of Development Strategy is to lead Bosnia and Herzegovina towards countries with high income, dynamic and competitive economy of the European Union, with sustainable economic growth, with more jobs, greater social inclusion for all, better infrastructure and better quality of environment

Executive Summary

The currency board arrangement has functioned successfully over the past period and its sustainability was not at risk despite different imbalances and shocks in domestic economy and international circumstances. The Central Bank of BiH has continued to consistently implement the legally prescribed rules and secure full convertibility of the local currency thus maintaining a high level of public confidence in the domestic currency.

By analysing the development of economic trends in Bosnia and Herzegovina in 2014, we can observe a slight rebound of economic activity. This results from increase in public consumption, private and public investments, with negative contribution of a foreign trade deficit.

Nominal GDP, according to the Central Bank BiH for 2014, was estimated to be KM 26,933 million. The real GDP growth rate was positive at annual level and estimated at 0.7%³.

Rise of the Euro area out of recession significantly stimulated economic activity in BiH, particularly in the first quarter of 2014, but heavy floods in May led to the abrupt standstill in economic activity in the second quarter of 2014. There was some progress in the second half of the year so the estimated real growth of GDP over the entire year was only very mild, considerably lower than planned.

Positive economic trend in 2014 was achieved due to 4% growth in processing industry, 1.7% rise in retail trade, and public works (to a large extent financed by foreign lending).

The current account deficit was estimated to be 7.7% of GDP (KM 2,066.8 million)⁴ which is a significant increase compared to the previous year (37%). Deficit in trade in goods increased by 14% whereas the percentage of coverage of imports by exports stood at 54%. This hike in deficit was mostly contributed by

growth in exports of goods of 7%, whereas the exports rose by 3%.⁵

The Labour Market in BiH is characterized by a high share of informal employment as well as high inactivity level of working age population. There is a decreasing trend in the number of the unemployed while the labour demand is still lower than in the pre-recession period.

In addition to being extremely high, what particularly causes concern is that the unemployment rate is mostly long-term, accompanied by extremely high inactivity rate of the BiH population. The number of the employed in 2014 slightly increased relative to the previous year, whereas the long-term unemployment rate ranges between one quarter and one fifth of the labour force.

Average net wage in BiH did not face any significant changes compared to 2013 and equalled nominal KM 830.

Given the mild increase in employment (2%) and average wages (real 1.3% increase), and rise in current inflows from abroad (7%), disposable household income saw a slight increase in 2014.

A modest increase in public revenue primarily led to rise in private investments and much slower expansion of public consumption. Investments in 2014 were additionally spurred by a leap in foreign direct investments which were 80% higher than the year before. The aforementioned factors, combined with strengthening of disposable income, contributed to real increase in public construction works by 6.6%, which also indicates to the overall expansion of investments in BiH.

General level of prices recorded deflation. Prices in December 2014 were on average 0.9% lower compared to prices in December 2013⁶.

³ www.cbbh.ba, Main economic indicators

⁴ www.cbbh.ba, Main economic indicators

⁵ Source: BH Agency for Statistics

⁶ Source: BH Agency for Statistics

BiH needs a high rate of economic growth so as to boost competitiveness by increasing productivity and ensure stronger economic and social inclusion by rising employment. It is of paramount importance to create favourable political and economic environment to achieve such growth rates through increased foreign and domestic investments. Key policy ingredients should be to decrease the non-wage related labour costs (fiscal and parafiscal allocations), to introduce incentives for attracting investments and to develop regional training centres, primarily those related to business clusters and international value chains, which would make labour force competencies more attractive. These could be built by using Public-Private Partnership projects.

The priority of BiH economic policy is to improve the business environment in order to reduce the gap in competitive capacity. It is necessary to reduce administrative barriers through legislation, to provide adequate labour force which follows up on the labour market developments, and more favourable sources of funding.

Small and medium sized enterprises in EU represent an important source of employment and value added. However, in order to use this potential, we need to have a coherent and transparent support for this sector's development and base it on the expected results, i.e. measuring the effectiveness of the incentives. Adjusting VET system, active employment measures and the education system as a whole is the key to making progress in this very important area. It is necessary to ensure systematic monitoring of SME indicators (including craft shops), ease access to SME funding, as well as facilitate availability of the required skills and knowledge for their faster development and new job creation, ease their establishment and development, particularly for youth and in the fields with high value added and potential of new employment.

Low investment rate in research and development leads to narrowing of innovativeness and patents, which are a key to progress. BiH requires years of excellent economic policies to reach the level of the least competitive EU member states.

It is necessary to introduce incentives for faster establishing of and linking research centres and technological parks with businesses, and increase allocations for applied research projects. In addition to other forms of funding, Public-Private Partnership should be used to enhance development of business infrastructure, with continuous commitment to improving

and simplifying the legal framework for business environment. We need to create conditions to activate diaspora resources, including networking of local experts and institutions with the experts originating from BiH and their institutions abroad, raise awareness on relations between migration development in all institutions, include migrations in strategies and policies in all sectors and at all governance levels (such as gender issues and environmental issues), and create conditions to engage financial and investment potentials of diaspora.

It is necessary to develop competencies and skills for a competitive knowledge-based society, through stimulating technical and scientific studies, development of entrepreneurial and creative skills, learning foreign languages, strengthening standards of teachers' competencies, research and technical equipment of educational institutions. We also need to reduce a share of early school leavers and drop-outs at all education levels, develop statistics of education, innovativeness and science and research, and get included in comparative assessments of the quality of education outcomes.

ICT infrastructure is the backbone of physical infrastructure of the modern, post-industrial society. Broadband internet access was additionally extended, but it is still at a relatively low level. Development and modernization of transport infrastructure (road, waterway, rail and air), as one of the preconditions for economic development, is not progressing as fast as in neighbouring countries.

Development of transport and communication infrastructure sector is necessary and assumes strengthening of strategic and institutional environment as well as a series of concrete projects. However, development must not be based solely on transport infrastructure disregarding the competitiveness and new employment.

The existing situation in the environment sector is the result of long years of economic development based on heavy industry and exploitation of natural resources, war inflicted devastations, uncontrolled post-war exploitation, use of outdated technology, insufficiently developed legislative and regulatory framework. There is also lack of education on the importance of rational use of natural resources, respect for nature and the need to preserve a clean and unpolluted environment for future generations. Following these indicators, we can understand how important it is for BiH to improve its energy efficiency.

Structure of energy consumption is very unfavourable (the main energy consumers are households) so we need to develop programmes for energy efficient buildings, appliances, etc. in order to meet relative EU level of household energy consumption in 7-10 years.

Investments in agriculture are low and cause both low competitiveness and relatively high foreign trade deficit in food sector. In the area of agriculture, energy and environment we need to empower strategic, institutional environment and clearly and transparently set priority actions and incentive policies.

We need to adopt a series of legislation and regulations in order to adjust and develop all the aforementioned areas, which are of crucial importance for BiH society. Failing to reach a consensus may lead to energy and food dependence and result in most direct negative effects on lives and health of BiH citizens.

Key policies that must be implemented are presented below:

Table 1: Overview of the most important recommendations

Overview of the most important recommendations		
Goal	Short-term	Medium-term
Macroeconomic stability	<ul style="list-style-type: none"> - Restrict all types of transfers and obtaining a preferential status (either through transfers or through PDI); - Reduce borrowings for current public expenditures except to overcome current lack of liquidity and direct them to financing of public investment expenditures; - Remove obstacles to implementation of mega-projects; - Strengthen transparency and efficiency in public campaigns; - Ease doing business of exporters by reducing the time limit for VAT refund; - Create the conditions for reducing the time limit for collection of claims if they are not disputed, guided by European standards. To this end, adequately discourage evasion of payments; - Analyse the impact/effects of public funds spending by improving evaluation practice; - Develop public administration capacities for greater absorption of the EU funds; - Ensure competition in the BiH market (regulate a monopoly position of suppliers; better protection against low quality imports in BiH – importers to a large extent do not certify their products in BiH institutions) 	<ul style="list-style-type: none"> - Conduct a thorough analysis of economic efficiency and effectiveness of public expenditures, both at aggregate level and on individual items; - Consider the possibility of ensuring counter-cyclical through budget execution; - Establish stronger coordination within the BiH Fiscal Council; - Enable faster development of secondary capital market; - Encourage reduction of concentration in the banking system and strengthen support to development of non-banking financial operations; - Harmonise regulation on the financial markets with global and European standards; - Ensure incentives for targeted export categories of high value added, initiate establishing of the venture capital funds; - Create the conditions to activate financial and investment potentials of diaspora; - Strengthen the statistical system in order to provide for key indicators to be monitored in various areas of development and functioning of society;
Competitiveness	<ul style="list-style-type: none"> - Increase share of investments and teaching aids in the overall amount of education funding; - Introduce incentives for faster start-up and linking of research centres and technological parks with enterprises; - Increase allocations for applied research projects; - Strengthen and encourage new design, innovations, patents and standardisation; - Network domestic experts and institutions with the experts originating from BiH and their institutions abroad; - Raise awareness on the link between migrations and development in all institutions, and include migrations in strategies and policies in all sectors and all government levels (such as gender issues and environmental issues); 	<ul style="list-style-type: none"> - Encourage establishment and development of clusters and adequate training centres that fit into global value chains; - Reduce labour non-wage related costs (fiscal and para-fiscal allocations); - Use public-private partnership projects; - Reduce the share of school leavers and those who do not continue schooling on all levels of education, develop statistics of education, innovations and scientific and research work as well as get included in comparative measurements of the quality of the learning outcomes; - Establish a new system of evaluation of scientific and teaching staff, which will stimulate competencies, scientific work and the achieved results; - Strengthen the development of business infrastructure with an ongoing commitment to improving and simplifying the legislative framework for business environment - It is necessary to initiate the establishing of the venture capital funds to finance SMEs and fast growing companies;
Employment	<ul style="list-style-type: none"> - Development of sector-based regional centres for professional education and training - Accept the concept of lifelong learning through development of adequate centres and VET legislative framework and institutions; - Put institutions in the labour market in the function of dealing with active employment policies instead of their current role of providing social transfers; 	<ul style="list-style-type: none"> - Provide for systematic monitoring of SME development indicators (including craft shops); - Ease access to SME financing, as well as ensure availability of the needed know-how for their faster development and creation of jobs; - Ease their start-up and development, particularly for youth, in the sectors of high value added and with high potential for new employment;
Sustainable development	<ul style="list-style-type: none"> - Consolidate sectors and enable easier financing for the purpose of overall development ; - Implement the acquis of the Energy Community concerning measures to safeguard security of natural gas and electricity supply ; - Adopt the Transport policies of Bosnia and Herzegovina. 	<ul style="list-style-type: none"> - By development of e-governments, encourage the introduction and the development of IT technologies in the BiH society, in public administration, in order to ease and simplify the administration procedures and make them cheaper; - It is necessary to ensure the adoption and implementation of a range of activities, from strategic framework through legislative framework to incentives for informatisation of the society, particularly higher education institutions, health and other services to business community and citizens; - In agriculture, energy and environment, it is necessary to strengthen strategic and institutional environment and set the priority action lines; - A whole range of legal solutions has to be adopted in order to adjust and develop these sectors, which are of the utmost importance for the BiH society; - Development of transport and communications infrastructure.

1. Macroeconomic framework

Real growth of the BiH economy by 0.7%⁷ in 2014 was spurred by increase in public spending, private and public investments, with negative contribution of a foreign trade deficit. At the same time, the contribution of public consumption was quite weak with the real growth of as little as 1.5%.

Positive trend in 2014 was achieved in BiH, despite the catastrophic natural disaster that struck BiH in May, primarily due to growth in processing industry (4%), retail trade (1.7%), and public works (to a large extent financed by foreign lending).

Private and public spending record a slight real growth followed by a modest increase in investments, primarily in public works.

In 2014, the foreign trade deficit has increased by 11%. Export amounted to KM 8.7 billion, which is 3.6% higher than in the same period of 2013, whereas the imports reached the amount of KM 16.2 billion, which is by 6.8% higher than in the same period of the previous year⁸.

Inflationary trends in 2014 were determined by external factors such as global prices of food and oil while the year ended with a 0.9% deflation. The largest reductions of prices were recorded in the sections of food and non-alcoholic beverages, clothes and footwear and transport⁹.

Compared to the EU and the neighbouring countries (except for FYR Macedonia), BiH had the **highest unemployment rate** in 2014. According to the Labour Force Survey¹⁰ the number of the unemployed persons in BiH decreased relative to 2013, with the unchanged unemployment rate.

For the first time since 2009, BiH recorded a **decrease in the average number of unemployed persons**¹¹. The number of the unemployed in 2014 decreased by 0.5% y-o-y and stood at 549.5 thousand, which is a consequence of the reduced unemployment in RS (3.6% y-o-y). The average number of the unemployed in FBiH is still on the rise (0.7% y-o-y). In 2014, the **average number of employed persons** in BiH was increased by 1.7% y-o-y and stood at 701.617 thousand¹².

Average **net salary** in BiH in 2014 did not change significantly relative to 2013 and stood at KM 830. The highest average net salary in BiH was recorded in financial activities and insurance, whereas the lowest salary was recorded in construction¹³.

According to data of BHAS for 2014, **Bosnia and Herzegovina recorded stagnation in physical volume of industrial production** with a slight 0.18% growth rate relative to the same period of the previous year. Such a weak growth in physical volume of industrial production at an annual level is a consequence of extremely high growth rates recorded in 2013.

After a constant decline recorded over the past five years, in 2014 the **construction works** in BiH have finally seen a real growth of 6.6%. Expansion of works was also recorded in the domain of building construction (7.3%) and civil engineering (5.6%), apparently within a framework of an increase in both private and public investments¹⁴.

⁷ www.cbbh.ba

⁸ Data source for foreign trade – BH Agency for Statistics

⁹ BHAS

¹⁰ BHAS: Labour Force Survey 2014

¹¹ Annual comparison

¹² BHAS, provisional data

¹³ BHAS

¹⁴ BHAS

2. Macroeconomic stability

Macroeconomic stability is one of the basic prerequisites for sustainable economic growth and increased employment. Macroeconomic stability will be achieved by more efficient management of public finances, by improving the process of the state budget management, fiscal consolidation and efficient management of public debt, strengthening of internal financial control and internal audit, and development of macroeconomic statistics. Macrostability is maintained by strong and adequate internalisation of the economy, its openness to the ideas of what the world needs so as to incorporate it in competitiveness and export of BiH goods and services using modern technologies and equipment.

Social crisis, as a product of economic crisis, requires careful balancing of measures so as to achieve re-distribution effects in favour of groups of population with lower income and earnings. Fiscal deficits and assumed commitments require urgent measures of budget re-structuring at all levels in order to ensure their sustainability. Due to deficits inherited from the previous period, it is necessary to aim at a mild fiscal deficit in the coming years in order to ensure fiscal sustainability in line with the EU criteria.

The Governments' budget re-structuring towards reduction of social transfers will create space for implementation of structural reforms, relaxation of social contributions and reduction of the tax burden on workforce in BiH.

There was progress in the field of free movement of goods in the region, where custom duties and quotas were fully abolished on industrial products and to a large extent on trade in agricultural products. A new **Law on Customs Policy** aiming at convergence to the EU customs regulations needs to be adopted, which will create conditions for fast, efficient and consistent implementation of the European customs rules in practice and fulfilment of one of the obligations assumed under the Stabilisation and Association Agreement.

The most important objectives of strengthening the sustainability of external accounts are to narrow the size of the trade deficit and the current account deficit and to maintain a steady level of foreign currency reserves.

According to the latest analyses, the BiH credit rating is stable, as can be seen from the reports of the two international rating agencies, Moody's Investors Service and Standard & Poor's, which publish their analyses on. According to the latest analyses and the published report, on 13 March 2015, the Agency Standard & Poor's confirmed the sovereign credit rating "B with stable outlook". The Agency Moody's Investors Service, in July 2012, assigned to Bosnia and Herzegovina the sovereign credit rating "B3" where it changed the outlook from "on-watch – negative" to "stable outlook".

Table 2: Credit rating of BiH

Agency	Date	Rating	Activity
Standard & Poor's	13 March 2015	B/stable outlook	Rating affirmed
Standard & Poor's	27 September 2013	B/stable outlook	Rating affirmed
Standard & Poor's	27 March 2013	B/stable outlook	Rating affirmed
Moody's Investors Service	10 July 2012	B3/ stable outlook	Rating affirmed /Outlook revised
Standard & Poor's	30 November 2011	B/ on-watch - negative	Lowered rating
Standard & Poor's	28 July 2011	B+/ negative outlook	Outlook revised
Moody's Investors Service	16 May 2011	B2/ negative outlook	Outlook revised
Standard & Poor's	08 December 2009	B+/ stable outlook	Rating affirmed
Standard & Poor's	22 December 2008	B+/ stable outlook	Rating assigned
Moody's Investors Service	17 May 2006	B2/ stable outlook	Rating upgraded
Moody's Investors Service	29 March 2004	B3/ positive outlook	Rating assigned

Source: Moody's Investors Service; Standard & Poor's

Analysis of trends

Comparing the average economic growth of five comparator countries from the European Union (EU-5), namely: Bulgaria, Hungary, Croatia, Romania and Slovakia, with the BiH economic growth in 2014, we can conclude that the growth rate in BiH was far lower, i.e. it amounted as little as one third of the average growth in the aforementioned comparators¹⁵.

Growth of the EU 28 economies stood at 1.3%. Of our main trading partners, Germany recorded a 1.6% growth, Slovenia 2.6% and Italy and Slovenia a decline by 0.4% respectively.¹⁶

According to the Eurostat estimate, in 2014 gross domestic product per capita against purchasing power standard in BiH was at a level of 28% of the EU 28 average, which is the lowest level compared to the countries in the region. Albania is ranked a bit higher (29% of the EU 38 average), as well as Serbia (35%) while FYR Macedonia and Montenegro are at a level of 36% of the EU 28 average.

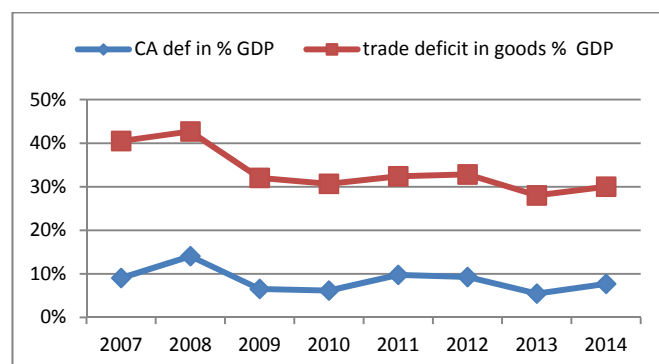
2.1. External sector

The BiH external sector is characterised by a **high level of openness of the BiH economy**, which was reaching 90% over the past three years¹⁷.

According to data of the BiH Central Bank, the **BiH balance of payments** in 2014 points to deterioration in current payments with foreign countries. In 2014, the current account deficit amounted to around KM 2 billion and increased by 37% relative to the past year.

The BiH current account deficit as a share of GDP in 2014 was estimated at 7.7%¹⁸. In 2013 it stood at 5.7% of GDP. This deterioration of the external position of the economy is a consequence of several unfavourable factors over the year, but it also partly reflects the more intensive investment activity financed from abroad.

Graph 1: Deficit in current account and commodity balance as a share in BiH GDP (2007-2014)



Source: Central Bank BiH

¹⁵ While growth in 2014 reached 0.7% in BiH, the average growth in five comparator countries amounted to 2.2%.

¹⁶ Eurostat data base

¹⁷ Overall foreign trade balance (imports + exports)/GDP

¹⁸ Data source on the balance of payments - the Central Bank of BiH

The main cause of an increase in the aforementioned deficit is deepening of the **deficit in foreign trade** in goods, which recorded a growth of 11% y-o-y. The foreign trade deficit in the observed period amounted to KM 7.5 billion¹⁹.

With regards to **services**, the surplus achieved in 2014 amounted to KM 1.82 billion, which is at approximately the same level as in previous years. Inflows based on exports of services stood at KM 2.63 billion and rose by 3% relative to 2013. Export of services has increased in all categories, except telecommunication services, which keep declining for the fourth consecutive year. The import of services amounted to KM 813.4 million and increased by 7% relative to the previous year. The highest increase was recorded in the transport related services, which rose by 17%, and construction services which rose by as much as 60% (but their share in the overall import of services is relatively low).

A 5% (y-o-y) increase in **current net inflows** from abroad (primary and secondary income) is a result of rise in cash inflow to households by 6% (from KM 4.311 billion in 2013 to KM 4.584 billion in 2014) and noticeable growth of compensations of the BiH seasonal migrant workers abroad by 10% (from KM 694 million in 2013 to KM 765 million in 2014). Personal transfers from abroad also visibly rose by 6% (y-o-y).

With regards to **current outflows**, there is an evident increase in financial sector outflows, which are almost five times higher relative to the previous year and mostly caused by income outflows related to equity capital.

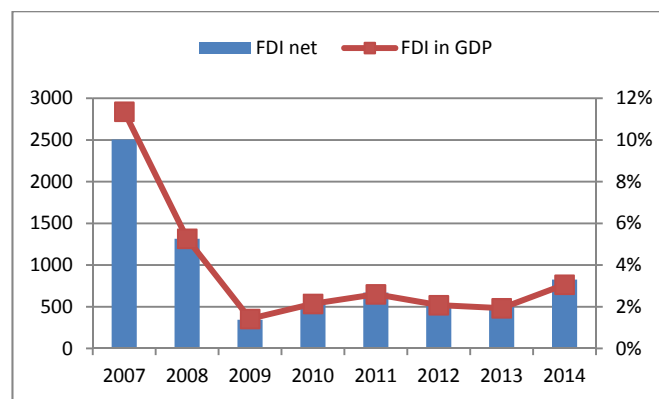
With regards to **financing of the current account deficit**, there was a fall in financial net assets investment abroad by KM 557 million as well as new liabilities to non-residents in the amount of KM 1.428 billion.

Three tranches from the stand by arrangement with the IMF were allocated in the amount of KM 465.5 million, which significantly contributed to stabilisation of financing the balance of payments of Bosnia and Herzegovina.

According to CBBH data, the inflows of **foreign direct investments** in the country amounted to KM 819 million, which represents a rise by KM 386 million, or

88% relative to the previous year. Most investments were concentrated in mining activities (in a form of equity shares) and oil production (related to inter-company flows), than financial services (but mainly based on re-invested profit, without new investments in equity shares except in cases of required recapitalisation).

Graph 2: Net FDI inflow in BiH in million KM and % share in the BiH GDP



Source: Central Bank BiH

At the end of 2014, **gross foreign currency reserves** amounted to KM 7.82 billion KM and increased by 10.7% or KM 757.25 million relative to end 2013, which is the highest increase since 2008. With regular seasonal impact of foreign currency purchases (tourism, remittances, etc.) there was a significant expansion of public foreign debt. This expansion of public foreign debt is a result of the transfer of the aforementioned tranches from the IMF, as well as additional funds intended to mitigate the effects of natural disaster in the total amount of KM 373.3 million.

Foreign currency reserves expressed in months of imports have exceeded the 6 month amount, which is the highest amount over the recent years. In 2014, the average daily balance of foreign currency reserves was around KM 7.34 billion, which is by KM 764 million higher than the average daily balance of foreign currency reserves in 2013.²⁰

Given that **foreign trade exchange in goods** is the most important part of the BiH balance of payments, we shall consider it in more detail below.

According to data of the BiH Agency for Statistics, **the imports of goods in 2014 amounted to KM 16.2 billion**, which is 6.8% more than in 2013. **The exports reached KM 8.7 billion**, which represents a

¹⁹ Given the complexity of the theme foreign trade exchange in goods, more details will follow below

²⁰ Source: CBBH

3.6% y-o-y growth. Trade deficit increased by 11% and stood at KM 7.5 billion. The percentage of coverage of imports by exports contracted to 53.6%.

If we observe trade exchange by the structure of products, more than one third of the BiH foreign trade is made up by semi-manufactured goods and products with low value added (so called intermediary products), non-durable consumer goods account for 21%, whereas capital goods make up 14% and energy 10% of the total trade exchange in 2014²¹.

If we observe the structure of the BiH exports in 2014 by products, it is evident that the highest share was made up by base metals (KM 1.1 billion), furniture (KM 855 million), footwear (KM 690 million), metal products (KM 658 million), machines and appliances (KM 546 million) and car components (KM 350 million).

If we observe the growth rates and contribution to exports growth in 2014, the highest contribution of 1.3 pp was recorded in the category of footwear where the exports increased by over 20% relative to the previous year.

A significant rise in exports was also recorded in categories of machines and appliances and finished metal products with annual growth rates of 10.5% and 6.5% respectively.

Furniture has been an important item within the BiH exports for many years. Positive results in this item were also recorded in 2014 where exports increased by 5% relative to the previous year.

In 2014, the highest negative contribution to growth of BiH exports was achieved in the category of electricity where, due to unfavourable hydrological situation and decreased generation, exports dropped by over 30% while its negative contribution to exports growth stood at almost 2 p.p. Weakened demand and fall of global index of metal prices of around 10%⁶⁷ negatively affected the operations of the BiH companies in this sector which resulted in decline in production and exports in 2014. This particularly pertains to production and exports in the field of aluminium industry where the recorded contraction of production and exports stood at 7%.

Bosnia and Herzegovina has recorded an **increase in exports of steel and iron** by 10% relative to the previous year.

Observed by countries, **the most significant share of the BiH exports, specifically 72% was placed on the market of the EU countries.** In 2014, it increased by 1.6% relative to the previous year. Within the EU, our most important export markets are Germany (KM 1.3 billion), Italy (KM 1.2 billion), Croatia (KM 955 million), Austria (KM 755 million) and Slovenia (KM 697 million).

The most important **rise in exports was registered to Italy 19.4% and Austria 10%**, while exports to Germany stagnated at 0.5%. Exports to Croatia were significantly reduced, by around 20%, due to change of the foreign trade regime as a result of accession of Croatia to the EU.

CEFTA countries make up for 16% of the BiH exports. During 2014, exports to these markets rose by 1.7% relative to the previous year. The most important share is made up by Serbia in the amount of KM 800 million and increased by 4.5% while exports to Montenegro amounted to KM 293 million and increased by 8.5% relative to the previous year.

There were no significant changes in the **structure of the BiH imports** in 2014. The main import items are: food – KM 1.75 billion, chemical products - KM 1.2 billion, oil and petroleum products – KM 1.16 billion, machines and appliances - KM 1.14 billion, motor vehicles - KM 975 million, base metals (with dominant aluminium, iron and steel) – KM 950 million. As compared to the previous year, the highest import growth rates were achieved in categories: electrical equipment – 28%, machines and appliances and finished metal products – 25% and motor vehicles – 10%. In 2014, the imports of capital products achieved a rise of 20% and their contribution to growth of 3 percentage points was the key generator of imports growth at the level of BiH.

If we observe geographically, **67% of the BiH imports in 2014 were registered from the EU countries.** The most imports come from Germany (KM 1.87 billion), Croatia (KM 1.85 billion), Italy (KM 1.65 billion), Slovenia (KM 763 million) and Austria (KM 543 million).

BiH imports from the EU countries increased by 4.8%, and observed by countries, the highest growth rates were achieved in imports from Italy (11.6%) and

²¹Source of data for foreign trade exchange is the BiH Agency for Statistics

Germany (7.8%), whereas imports from Croatia decreased by 5.4% relative to the previous year.

CEFTA countries make up for 11% of the total BiH imports, where the majority pertains to imports from Serbia (KM 1.63 billion) with an increase by 10% relative to the previous year. With regards to other BiH imports, a significant share in the structure is accounted for by: Russia (KM 1.3 billion), China (KM 1.35 billion) and Turkey (KM 580 million). In the course of 2014, given the fall in oil prices relative to the previous year, imports from Russia decreased by 15% while there was an increase in imports from China - 48% and Turkey – 18%.

To develop a strategic product policy, for the sake of safe and sustainable development, the country needs to establish a balance of needs and conditions where a special part will include an overview of the key export and import products. The following strategic export sectors have been identified within the BiH Export Growth Strategy:²² wood processing sector, agricultural and food sector, metal sector, construction sector and tourism.

In 2014, the customs tariff in BiH was also fully aligned with the EU Combined Nomenclature.

Recommendations:

- Adopt BiH Export Growth Strategy
- Systematically develop distribution channels (joint representation of firms, diplomatic and consular missions network, representation of business and other associations) on foreign markets, starting with the countries within the triangle Rome-Berlin-Belgrade which cover most of exports of the BiH producers' outputs;
- Amend the Law on VAT to enable shortening of time limit for VAT refund to exporters from 30 to 15 days;
- Increase the IGA's guarantee fund and amend the Law on IGA (award the mandate to issue guarantees on behalf of the state);
- Strengthen capacities of BiH for promotion of exports;
- Enhance activities of FTC BiH on promotion of exports (joint representations of FTC and companies)
- Strengthen capacities of Department for Export Promotion in MOFTER BiH.

²² Export Council BiH, Council of ministers BiH

2.2. Public finances

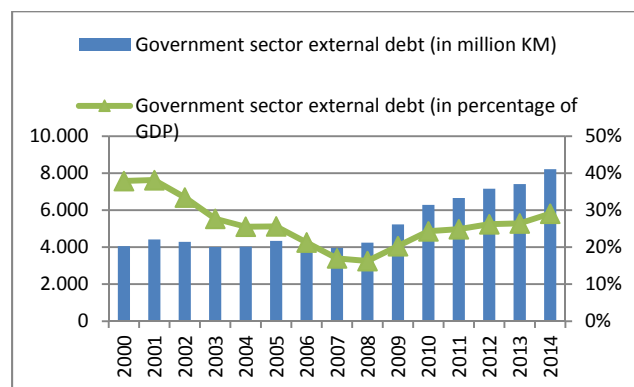
Available data for 2014 indicate that in 2014 **public finances in BiH achieved a general government sector deficit accompanied by a 9.4% foreign debt increase**²³. According to preliminary data consolidated by the BiH ITA Macroeconomic Unit²⁴, public revenues of all government levels record a 3.7% growth.

The state of BiH **public debt** on 31 December 2014 was KM 11.5 billion²⁵. In the total amount of public debt at the end of 2014, FBiH accounts for 55.23%, RS for 43.94%, BD BiH for 0.32% and the Institutions of BiH for 0.51%. In the structure of the overall public debt at the end of 2014, the share of foreign debt accounts for 71.36% (KM 8.2 billion), while the share of internal debt accounts for 28.64% (KM 3.3 billion). With regards to the total internal debt, the Federation BiH makes up for 33.63 percent, Republika Srpska for 65.74% and Brcko District BiH for 0.63 percent.

According to data of the Central Bank BiH, **the state of BiH total public external debt at the end of 2014 amounted to KM 8.2 billion, which is about 30.4% of the estimated GDP for 2014**. The recorded growth of external indebtedness equals 11% y-o-y.

The increase in external debt, in addition to new borrowing, was affected by **changes in the euro exchange rate against the dollar** in 2014.

Graph 3: State of public external debt BiH and share in GDP



Source: CBBH

Foreign debt at the end of 2014 rose by KM 809.45 million or 10.9% relative to 2013 due to engagement of the contracted funds of the International Monetary

Fund, the European Investment Bank, the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development in the total amount of around KM 1.1 billion, reduced by the amount of the paid principal.

The average maturity of outstanding loans is 7.6 years while the average contracted grace period is 6.6 years. By the end of last year, foreign loans were contracted in the total amount of around KM 12.9 billion, of which KM 10.9 billion were engaged, while around KM 2 billion are available for release according to implementation of the approved projects. Over 53% of new loans are intended for the implementation of infrastructural projects, approximately 35% of new loans are intended for the public sector, while over 11% are intended for economic activities.

Over the past year, **liabilities that matured for payment based on the state external debt** were regularly serviced in the total amount of KM 761 million.²⁶

With regards to **indirect taxes**, 2014 was marked by the 3.8% rise in net revenues on the SA of the ITA BiH and the 3.6% increase in the amounts intended for the budgets (after settling the reserves on the SA and external debt servicing). Despite the significant rise of 17.6% in refunds from the SA and the modest 2.9% growth of indirect tax revenues allocated for external debt servicing, the growth of net revenues was driven by a 6.0% rise in gross revenues from indirect taxes. Thereby, the increasing trend of the share of refunds in gross revenues has continued (from 16.7% in 2013 to 18.5% in 2014).

Rise in gross revenues was driven by increase in consumption, imports of capital goods (investments) and imports of raw materials for the export production, as well as changes in customs and VAT regimes from companies dealing with internal processing.

The result of the rise in net revenues from collected indirect taxes is the growth in all categories of revenues, particularly revenues from VAT by 3.4% and customs of as much as 11.5%. At the beginning of 2014, the alignment of the BiH excise policy with the EU policy on excise duties on

²³ Economic trends for 2014

²⁴ Macroeconomic Unit of the ITA Governing Board

²⁵ Ministry of Finance BiH

²⁶ Source: Ministry of Finance and Treasury BiH

cigarettes has continued²⁷ and resulted in rise of excise revenues by 3.2%.

In 2014, at the level of BiH, according to the entity level tax administrations, **revenues from direct taxes, contributions and other revenues recorded a 5% growth.** Rise in these revenues is primarily a result of increase in collection of revenues from contributions by 5.5%, but also from collection of taxes, penalties and fees by 12.1%. At the same time, revenues collected from direct taxes record a decrease by 2.5%, primarily due to decrease in collection of direct taxes in RS (7.2%).

The Council of Ministers of BiH has adopted the Framework Budget Document for the BiH Institutions for the period 2015 - 2017²⁸ based on the Global Framework of Fiscal Balance and Policies for the period 2015-2017.

BiH is faced with a number of shortcomings in the field of statistics of public finances and the economy as a whole which significantly complicates the analysis of public finances. The fact that the size of public expenditures expressed in GDP significantly differs on whether GDP is calculated by production or by the expenditure approach can serve as an example. In addition, at the level of Bosnia and Herzegovina, there are no consolidated and coherent data on the government expenditures by functions based on the COFOG classification.

BiH has to continue with the implementation of restrictive fiscal policy measures and cuts in public expenditures in order to improve its fiscal stance. A particular challenge that BiH is facing in this domain are the conditions within the stand-by arrangement with the IMF.

Recommendations

- Conduct an in-depth analysis of economic efficiency of public expenditures and detect size of productive and unproductive public expenditures;
- Pass laws on prohibition of the state borrowing for current public expenditures except for the purpose of overcoming current liquidity (enable public borrowing only to finance the investment public expenditures);
- Continue the social sector reform so that social benefits are more needs-based (and less the acquired rights-based) and start assuming a form of social investments;
- Continue privatization process of the state-owned capital
- Develop a transparent system for assessing the impact of government programmes and activities that would enable the effectiveness and efficiency of their implementation. Analyse consumption, in terms of energy efficiency and costs of premises and vehicle fleet;
- It is necessary to consider the possibility of providing counter-cyclical programmes and measures through budget execution at all levels;
- Undertake necessary measures for more efficient collection of taxes (reduce the number of tax debtors and size of tax debts);
 - Carry out with restrictive fiscal policy and decrease the share of public expenditures in GDP;
 - Work on fiscal sustainability on the long run.

²⁷ Official Gazette BiH No. 88/13 of 12 November 2013. On 24 June 2014 the Official Gazette BiH No. 49/14 published the Law on Amendments to the Law on Excise Duties in BiH which came into effect on 2 July and is being implemented as of 1 August 2014 (with regards to tobacco); this Law presents a continuation of alignment of the excise policy in BiH with the EU policy of excise duties on tobacco products. Also the Amendments to the Law on Excise Duties in terms of beer are in effect as of 1 September 2014.

²⁸ www.mft.gov.ba

2.3. Development of financial markets

The most developed and the most important part of the financial market in BiH is the **banking sector**.

Due to capital fall below the statutory minimum and unsuccessful recapitalisation, one bank's licence was revoked – hence, at the end of 2014 there were **26 banks in business in BiH**, most of which are in foreign ownership.

Capital adequacy ratio for the previous year stood at 16.3% which is above the statutory minimum of 12% but still somewhat lower than in 2013 when it stood at 17.8%.

Despite the recorded weak economic activity in BiH over 2014, which reflected on low credit activity of the banks, **the banking sector achieved the total financial performance of KM 177.6 million**.

However, despite the positive performance, unlike the year before, the total revenues still recorded negative growth (-0.7% y-o-y), but the total expenditures recorded a much higher fall relative to 2013 (-13.8% y-o-y).

The fall in total expenditures primarily results from decrease in costs for general credit risk and potential credit and other losses, and reduction of operational expenditures and expenditures per interest on deposits. The fall in total revenues was primarily caused by reduced revenues based on interest on loans and leasing activities, which is a consequence of low credit activity and reduction of interest rates on loans.

The balance sheet total at the end of 2014 amounted to KM 24.5 billion and recorded an annual growth of 44%. On the assets side, receivables from domestic sectors as well as reserves had a positive trend (4.5% and 7.1% y-o-y respectively) while foreign assets recorded a slight decrease relative the year before (-0.4% y-o-y).

On the liabilities side, all items except foreign liabilities and received loans, recorded positive growth rates. As already stated, there has been a declining trend in foreign liabilities for several years due to the efforts of foreign banks to reduce their exposure outside their home countries. Furthermore, two banks have sold and transferred a share of their

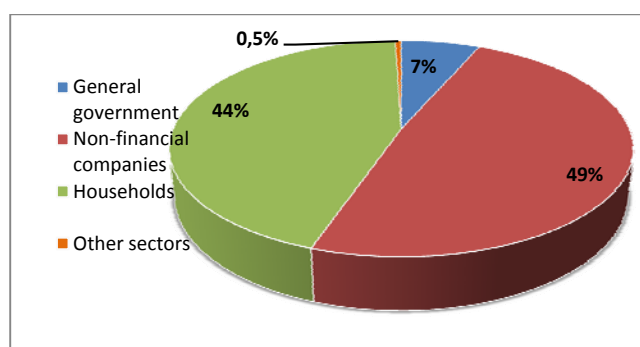
loan portfolio, which led to decline in foreign liabilities side of commercial banks by KM 101 million²⁹.

Total loans at the end of the year amounted to KM 16.9 billion and accounted for 69% of the assets of commercial banks. Relative to 2013, they recorded growth by 2.9%. Loans to non-financial private companies account for a significant share in the total loans (43.7%).

Loans to the household sector and general government sector had a positive trend throughout the year. At the end of the year, loans to households amounted to KM 7.5 billion and increased by 5.7% y-o-y.

The structure of loans placed on household sector is dominated by consumers' general purpose loans (74%), housing loans (19.7%) and other non-housing loans (6.3%).³⁰

Graph 4: Sectoral structure of loans



Source: Central Bank BiH

Both passive and active interest rate recorded slight declines relative to the previous year. The total average weighted effective interest rate on loans in 2014 stood at 7.22% and decreased by 0.5 p.p relative to the previous year. The same trend is recorded in EIR on both short-term and long-term loans.

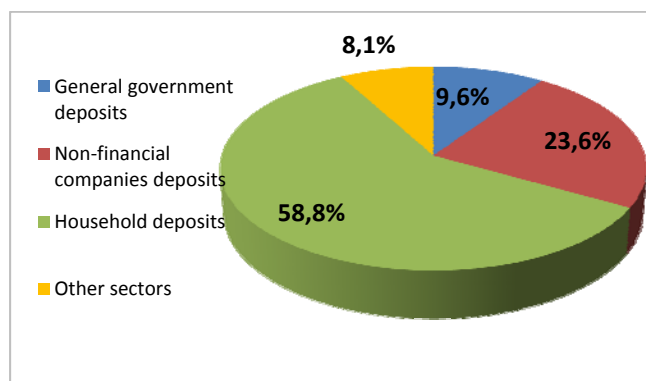
Domestic sector deposits at the end of 2014 stood at KM 15.4 billion and made up for 62.8% of liabilities of commercial banks in BiH. Relative to 2013, they increased by 7.9%, i.e. KM 1.1 billion. Out of this amount, the household sector deposits account for KM 678.1 million, general government deposits account for KM 307.5 million, non-financial

²⁹ CBBH

³⁰ Data on structure of household loans represent a sample of 10 banks.

companies' deposits account for KM 80.6 million, whereas other sectors' deposits account for KM 53.7 million.

Graph 5: Sectoral structure of deposits



Source: Central Bank BiH

Household sector deposits continue to account for the highest share in the total deposits, and thereby mostly contributed to growth. At the end of 2014 they reached the amount of KM 9 billion and exceeded the previous year's amount by 8.1%.

Deposits of non-financial companies record rather modest growth rate (2.4% y-o-y) compared to household deposits. In 2014, they reached the amount of KM 3.6 billion.

General government deposits at the end of the year reached the amount of KM 1.5 billion.

The total average weighted effective interest rate on deposits in the observed period stood at 2.29% and recorded a decrease by 0.4 p.p. The same trend is recorded in EIR on both short-term and long-term deposits as shown in the graph below.

In 2014, **the total turnover recorded on the BiH stock exchanges** was KM 1,205.5 million, and represented an increase by 94.1% as compared to turnover in 2013.

In 2014, **the total turnover on SASE** reached KM 618.9 million, and made up for 51.3% of the total turnover in BiH and recorded a 2.5 times higher growth as compared to the same period of the previous year. Of this amount, 61.2% is accounted for by public offering of bonds and treasury notes.

In 2014, **capitalisation** of SASE rose by a minimal 1.1% while on BLSE it increased by 7.5%, thus the overall capitalisation on BiH stock exchanges achieved a minimal growth of 4.1%.

Recommendations:

- Develop offer of other banking products, in addition to traditional collecting deposits and placing loans;
- Develop non-banking areas of financial market;
- Develop a single platform for regulation and supervision of non-banking and banking financial market;
- Encourage large public companies to issue securities when funding great investment projects;
- Promote use of municipal bonds as source of funding for local community projects;
- Ensure liquidity of the bond market in FBiH through the engagement of the FBiH Development Bank, which would provide the issuance of the FBiH treasury notes or bonds based on the RS experiences;
- Perform recapitalisation of stock exchanges as was partly done on Sarajevo Stock Exchange³¹ in order to improve the stock market operations;
- Create conditions to activate financial and investment potentials of diaspora;
- Further harmonisation and alignment with global standards of legislation for securities trading, and thereby harmonisation between FBiH and RS;
- Build stimulative framework for activities of informal investors and thereby enhance volume of informal investments and venture capital for financing new and emerging businesses;
- Initiate a venture capital fund to finance for transfer of research and SME development with high potential;
- Design regulatory action for the guarantee funds and redirect government credit programmes in the guarantee funds.

³¹ The Istanbul Stock Exchange, Takas Bank Istanbul and Central Securities Register of the Republic of Turkey bought shares of Sarajevo Stock Exchange in the amount of KM 420,000.

3. Competitiveness

Analysis of trends

Over the recent couple of years there were no major positive developments in creating better business climate or environment in BiH to make it more attractive to the investors. Particular issues concerning competitiveness relate to getting credit, starting a business, hiring workers, overall tax rate, registering property, getting permits and general quality of infrastructure. According to *Doing Business 2015* Report, getting permits, getting electricity supply and paying taxes are the weakest spots of our companies' competitiveness.

According to ease of doing business, BiH is ranked 107th among 189 countries where, according to the monitored indicators, it is ranked worst in getting permits (182/189), getting electricity (163/189), paying taxes (151/189) and starting a business (147/189). In order to start a business in BiH, one has to go through 11 procedures that require 37 days to be fully completed.

External and internal competitiveness of a country's economy refers to the ability of a society to provide its citizens with higher living standard on a sustainable basis as well as to provide access to jobs, and all this based on the frameworks of institutions and policies that support continuous and sustainable productivity growth. Competitiveness requires knowledge-based strategies, thorough knowledge of consumers, cooperation among companies, external orientation and a positive, constructive relationship between the government and the private sector.

The main BiH export sectors take a 0.02-0.75% share in global exports. They are ranked from 30th to 93rd position on the global list of export sectors. According to Global Competitiveness report of the World Economic Forum for 2013-2014, of the European countries only Albania and Serbia have less developed value chains.

According to Global Innovation Index, BiH is ranked 81st among 143 countries climbing up the list relative to the previous year, but according to this list BiH is the worst ranked country from the Balkans, where only Albania is ranked worse as 94th. Estimated government investment into research and development is as low as 0.03% of GDP, with 763 researchers per million population. Investments in research and development should be increased to a minimum of 1% of GDP.

According to the reports of INSEAD (Leading international business school) and WIPO (World Intellectual Property Organisation), the key to making progress in innovations and technological research is the country's political stability and education.

Tourism generates over a half proceeds of the BiH service sector. For its further development, it is necessary to improve its competitiveness. According to Travel and Tourism Competitiveness Report, Bosnia and Herzegovina is ranked 90th among 140 countries based on the average of the assessed indices such as regulatory framework, business environment and infrastructure, human, cultural and natural resources. By prioritising investments in tourism, BiH is ranked 129th among 140 countries.

3.1 Clusters

Clusters are very important for **competitiveness of an economy** since the aim of their establishment is to increase productivity that will make companies more competitive. It is a concentration of interconnected companies, specialised suppliers, service providers, advisory, scientific and other institutions in a specific sector. Cluster development in BiH has decreased over the past couple of years as many of them stopped working, i.e. became inactive.

Table 3: Clusters BiH, 2014

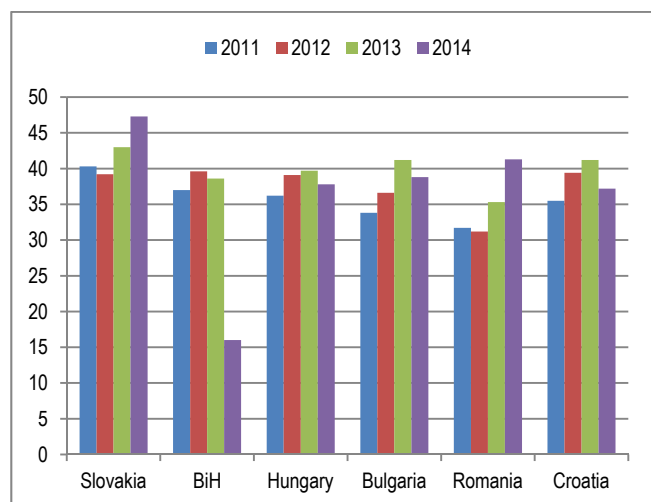
NAME OF CLUSTER	ESTABLISHED				STATUS
	Year	No. of memb ers	Year	No. of memb ers	
FBIH					
Automotive cluster BiH, Sarajevo	2004	23	2010	17	UNDEFINED
Wood cluster in BiH, Sarajevo	2008	20	2012	n/a	INACTIVE
Cluster of plastic producers and tool makers BiH, Gračanica	2007	9	2014	27	ACTIVE
Graphic design cluster BiH, Zenica	2008	5	2014	n/a	INACTIVE
RS					
Wood cluster "Drvo-PD", Prijedor	2005	17	2014	40	ACTIVE
"Wood cluster", Banja Luka	2008	9	2014	9	ACTIVE
Association of wood processors Mrkonjić Grad	2007	14	2014	18	ACTIVE
Cluster "Drina-drvo" Srebrenica	2007	23	2012	n/a	INACTIVE
Cluster "Invent group", Doboj	2007	n/a	2012	n/a	INACTIVE
Cluster "Solar group" Banja Luka	2009	4	2014	4	ACTIVE

Cluster car service of the city of Banja Luka	2012	n/a	2014	n/a	ACTIVE
Cluster Car system "Autosistem" Gradiška	2012	11	2014	11	ACTIVE

SOURCE: IRBRS

The presence of **developed clusters in BiH** has **significantly decreased as compared to the past years**. According to the Global Innovation Index, in 2014, the distribution of the developed clusters in BiH has been significantly lower compared to 2013 and also decreased relative to the comparator countries. **The share of exports of the BiH clusters in the structure of the total exports ranges between 2 and 7%**. The highest share is accounted by aluminium, car seats and wood clusters.

Graph 6: Cluster development situation, BiH and comparators



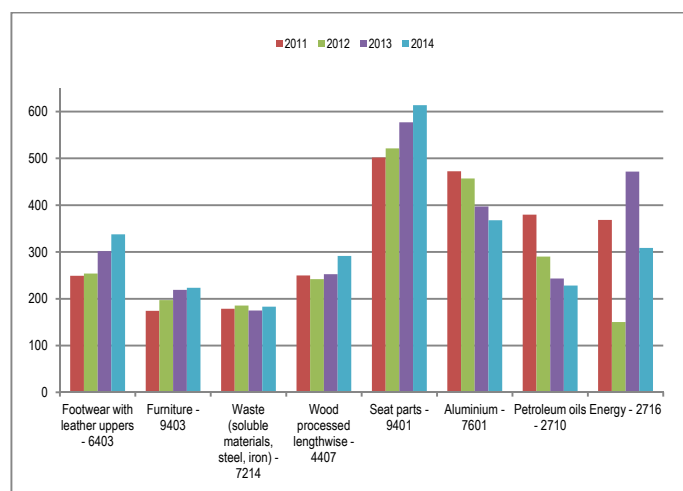
Source: GII 2014

BiH is an exporter³² of a small market power. It is struggling for market positions in the market niches where its market share, according to the state in 2013 stands at 0.02-0.75%, i.e. in absolute amount it ranges between US\$ 80-300 million. The highest share in overall exports is accounted by the car seats, including those that can be turned into beds and their parts, accompanied by aluminium and its raw forms and energy. BiH mainly exports to Germany (car seats), Croatia (aluminium), Italy (footwear with leather uppers) and Serbia (processed wood).

The total foreign trade exchange volume in 2014 stood at KM 24.88 billion, which is by KM 1.33 billion or 5.66% more relative to volume of trade achieved in 2013. Of our main trading partners, we have the highest coverage of imports by exports with: Austria – 142.04%, Slovenia – 91.42%, Italy – 72.43%, Germany – 70.47%, Croatia – 51.58%, Serbia – 49.14%, and

Turkey – 40.27%. In 2014, BiH mostly exported to the following countries: Germany, Italy, Croatia, Serbia, Austria, Slovenia, Montenegro, Turkey, Hungary and Switzerland. The share of exports to these countries accounts for 75.97% of the total BiH exports³³.

Graph 7: Leading export sectors of BiH economy (in 000 KM)



Source: International trade and statistics, MFTER

Products that mostly contributed to 2014 **exports growth** in BiH are insulated wire, wood sawn or chipped lengthwise, car seats, footwear with outer soles made of rubber and plastics. In 2014, electricity made up a share of around 3.55% in total BiH exports and recorded a significant fall in exports of 34.59% relative to 2013. However, 2013 saw an enormous growth of electricity exports of 214.26% relative to 2012.

Growth rate of BiH exports in 2013 stood at 6.64%, while in 2014 it decreased by 3.02% and stood at 3.62%. The product that mostly contributed to decrease in growth rate of BiH exports in 2014 was electricity³⁴. The aforementioned groups of products that BiH exports to the EU account for 26.96% of the total BiH exports and they are all industrial products.

Car seats make the highest share in the total exports to EU in 2014, namely 9.06% and record a rise of exports by 1.62% relative to 2013³⁵. Their share accounts for 7.07% of BiH exports in 2014.

In the total exports to EU in 2014, aluminium in its raw forms accounted for around 5.65% recording a 9.09% fall relative to the previous year and participates in BiH exports with 4.24%.

Footwear exports accounted for 5.31% of the total exports to EU in 2014 recording a 11.64% increase relative to 2013 and participate in BiH exports with 3.89%.

³² There is no empirical valorisation of clusters or cluster policies in BiH, so statistical clusters were constructed in the Report, based on the value of exports.

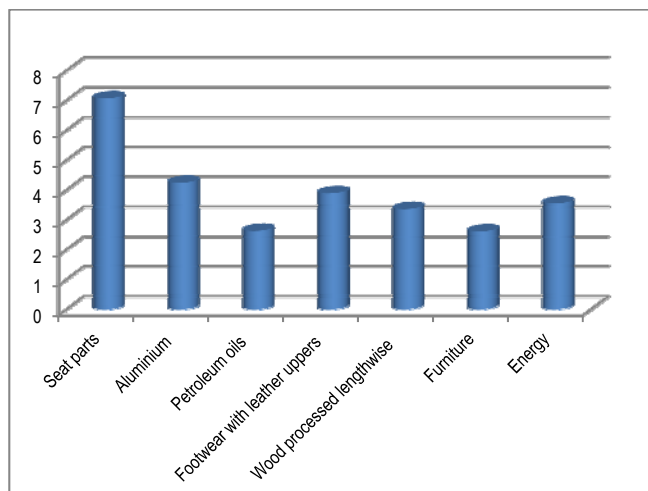
³³ Analysis of foreign trade exchange BiH, MFTER, 2014

³⁴ Analysis of foreign trade exchange BiH, MFTER, 2014

³⁵ Analysis of foreign trade exchange BiH, MFTER, 2014

Products that mostly contributed to BiH exports in 2014 are also leather by 3.89% and electricity by 3.55%.

Graph 8: Shares of major export products in BiH exports, 2014

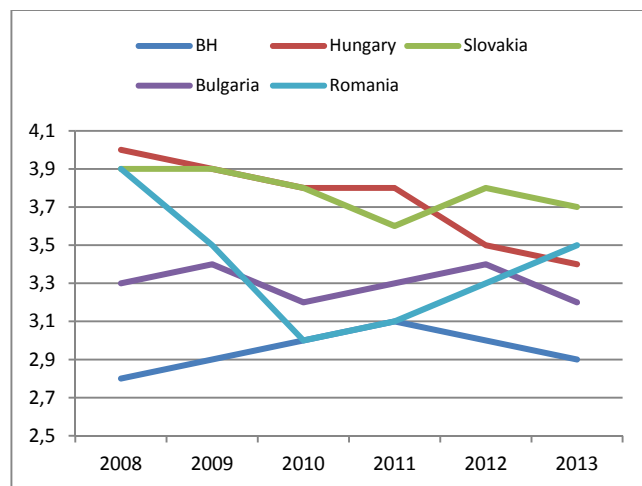


Value chains aim at improving the competitiveness of small and medium sized enterprises in order to create and sustain jobs, reduce poverty and improve economic status. They represent a series of organisations and institutions involved in the process of manufacturing and delivering the products. Some of the value chains in BiH are the following: value chain for poultry meat and poultry meat products; value chain for beef and pork meat and beef and pork meat products; value chain for solid wood furniture; value chain for hot water tanks and stainless steel boilers; value chain for footwear production; value chain for milk and dairy products; value chain for fruits and vegetables, etc³⁶.

Milk and dairy sector is the most competitive value chain in BiH. Sector of meat and meat products, except for poultry production which reveals high RCA, seems to be less important for agricultural development in RS but very important for FBiH. Fruit and vegetable sector, although ranked third, should not be underestimated since specific products show high RCA indices at both global market and the market

of EU-27. Smaller but fast growing fish and wine sectors are ranked last.³⁷

Graph 9: Value chains, comparator countries, 2008-2013



As for the services sector, tourism deserves special attention. In December 2014, tourists recorded 56,250 visits, which is by 5.9% higher relative to December 2013. Foreign tourists' arrivals have doubled over the past five years. According to the analyses of the World Travel and Tourism Council (WTTC), the foreseen proceeds from international visitors and the BiH tourist output could generate 15% of the BiH exports by 2019.

According to the World Economic Forum Report, we can see that Bosnia and Herzegovina improved its rank in the tourism sector in the period 2013-2014 climbing by 7 positions up relative to 2011, i.e. it progressed from 97 to 90 position.

Recommendations for improving the development of clusters, their stronger integration into global value chains and strengthening competitiveness are:

- Set up a programme of support for the establishment of cluster coordination;
- Establish training centre/s for clusters;
- Support innovative activities and international marketing for 40 basic cluster products;
- Participate, with international development agencies, in establishing of the venture capital funds to finance rapidly growing enterprises, quickest to fit into global value chains.
- It is necessary to link clusters with (global) value chains in order to increase the quality of interaction by their redirecting from domestic to foreign companies

³⁶ Analysis of value chains, Banja Luka, 2014

³⁷ Competitiveness Assessment of Three Agribusiness value Chains in Bosnia and Herzegovina, MFTER 2012

3.2 Human resources competencies

Low competitiveness of BiH economy has its roots *inter alia* in the low education coverage, particularly by secondary and higher education, as well as poor education structure of human resources, and the education system that does not appropriately prepare workers for the modern labour market. In 2014, only 10.1% of the working age population had post-secondary or higher education, whereas the percentage of the working age population was much higher and amounted to 48.7%.- This shows that many people do not pursue further education after acquiring vocational secondary qualification.

The enrolment structure at universities does not follow the development needs of BiH or the defined global and EU trends. Department for Statistics and Informatics has been established within the Ministry of Civil Affairs BiH, whose task is to assist in statistical reporting on education in accordance with the Eurostat standards. Eight of ten cantons adopted their laws on higher education. The Law on Higher Education Institutions was adopted in RS, which is not fully harmonised with the Framework Law, and enables for the entity-level agencies to be established in parallel to the state institutions. Some provisions of the Framework for Qualifications in Higher Education were implemented too.

BiH established two state level agencies for higher education: Agency for Development of Higher Education and Quality Assurance and Centre for

Information and Recognition of Qualifications in Higher Education. The Agency is the associate member of the European Association for Quality Assurance in Higher Education. We are faced with the brain-drain, especially of young and well educated people, which is considerably lowering the quality of human resources in BiH. A great number of young people with higher education are leaving BiH in search for better living conditions and employment.

Development of entrepreneurial competencies is not paid enough attention to, thereby this needs to be developed through the education system as well. The Strategy for Entrepreneurial Learning in education systems in BiH 2012-2015 was adopted. Opportunities for business start-up in BiH have been assessed as unchangeable over the past couple of years and one of the reasons is a lack of people who could become entrepreneurs. According to the estimates of experts in BiH, there are very few people with specific abilities and knowledge to start-up a business in the region. A fall is also evident in support to women in starting their business, as well as in government support to enterprises with great growth potential.

In addition to approach to education based on the key competencies and life skills, the elements of career development need to be included in the education system. This process should ultimately result, in line with the EU policy, in opening the career development centres, which would support human resources development.

Table 4: Human resources competencies BiH, 2006-2014

	Category	Level	Source	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/2014
1	Primary education and lower	BiH	LFS	47.6	46.9	45.3	42.7	43.2	42.6	41.7	41.2
2	Secondary education	BiH	LFS	45.9	46.4	47.6	49.1	48.0	48.6	48.6	48.7
3	Post-secondary, higher education, Masters, PhD	BiH	LFS	6.5	6.7	7.1	8.2	8.8	8.8	9.7	10.1
4	Number of enrolled students - total	BiH	BHAS	99,557	104,280	105,488	105,137	107,537	107,083	102,443	108,008
5	Number of enrolled students - male	BiH	BHAS	44,402	45,982	46,460	:	47,651	47,672	45,957	42,224
6	Number of enrolled students - female	BiH	BHAS	55,155	58,298	59,028	:	59,886	59,411	56,486	53,335
7	Number of universities	BiH	BHAS	:	:	20	22	22	25	25	:
8	Number of colleges	BiH	BHAS	130	140	139	147	158	189	189	:
9	Number of teachers and faculty in higher education institutions	BiH	BHAS	:	:	5,139	8,463	8,643	9,224	9,144	9,581
10	Number of graduates	BiH	BHAS	:	12,199	15,013	16,981	18,177	17,955	18,365	19,861
11	Number of masters	BiH	BHAS	:	436	576	752	1298	2100	2,630	3,364
12	Number of PhDs	BiH	BHAS	:	144	178	157	205	189	210	301

The processes of institutional capacity building in higher education in the course of the past three years had a positive impact on the important higher education components. The recognition of diplomas, management of universities, institutional development of the BiH universities, increased academic and labour force mobility within BiH and within the European labour market should be particularly emphasised.

As a consequence of fragmented structure³⁸ and lack of organisation of the BiH education space, many students upon completion of general education³⁹ do not acquire the required skills to cope with the labour market needs. Students' results are below standards, with significant geographic differences.

According to GCR⁴⁰ 2013-2014, the quality of education in BiH is at a very low level (see Table)

Table 5: Quality of education in BiH, 2013

No	Indicator	Score	Rank/148
1	Secondary education enrolment rate	89.3	73
2	Tertiary education enrolment rate	37.2	69
3	Quality of educational system	2.7	132
4	Quality of math and science education	5.4	13
5	Quality of management schools	4.7	41
6	Internet access in schools	4.5	61
7	Local availability of specialised research and training services	3.7	100
8	Extent of staff training	4.1	58

Source: World Economic Forum (2013) Global Competitiveness Report 2013.

Obligations under the Bologna Declaration have not yet been fully met. BiH is a signatory of the Bologna Declaration, and thereby committed to the establishment of the quality assurance systems, restructuring and modernisation of curricula and courses to facilitate the mobility of professors and students within BiH and beyond. The initiated reform of higher education financing is going on very slowly and still does not produce the expected results. The BiH statistics does not monitor the share of GDP for

³⁸ Legislative power and education policy are scattered in 14 administrative units: ten cantons in FBiH, FBiH, Republika Srpske, Brčko District and the Ministry of Civil Affairs BiH. Federal Ministry of Education and Culture plays a coordinating role among the cantons, while the Ministry of Civil Affairs BiH has a task to coordinate activities and harmonise the entity ones.

³⁹ WB: Addressing Fiscal Challenges and Enhancing Growth Prospects, A public Expenditure and Institutional Review, 2006.

⁴⁰ Global Competitiveness Rank

specific levels of education at the state level, while these data are available at the entity level.

The structure of the allocation of resources within the education sector is unfavourable. The current structure of expenditures in education leaves very little space for improving the education process through the purchase of teaching aids, teacher training and other

purposes that would encourage improvement of the learning process.

BiH has to apply the approach based on knowledge and competent human resources. Hence, the main directions in education have to be the same as in the EU countries.

Key recommendations should be focused on:⁴¹

- Improving quality of teachers and teacher trainers;
- Supporting opening and strengthening the career development centres
- Increasing the recruitment of students for scientific and technical studies;
- Introducing benchmarking and measurement of the efficiency of the education system.
- Supporting the development processes in education (new working methods, monitoring trends, evaluation of processes, quality standards, etc.) for the purpose of improving the supportive learning environment;
- Increasing mobility and staff exchange;
- Improving educational statistics and scientific and research work;
- Creating conditions for stronger activation of human resources of diaspora, including networking of domestic experts and institutions with the experts originating from BiH and their institutions abroad
- Ensuring monitoring of the Key EU defined indicators pertaining to competencies of human resources.

3.3 Scientific, technological and business infrastructure

Scientific and research process in higher education should be seen as an integral part of higher education and competitiveness of BiH economy. BiH maintains a scientific and technological system with several public universities, several special-purpose research institutes (for example in metallurgy and agriculture), and a limited number of industrial laboratories.

BiH does not allocate large funds for financing the research activities, which prevents renewal and development of scientific and research resources. A large part of the research infrastructure is outdated; many laboratories lack operating funds; there is no ability to subscribe to scientific journals; access to international communication system is not adequate; young researchers at universities have no funds for training in scientific research.

From the human resource development aspect, the existing situation undermines the development of higher education. BiH adopted the Strategy of Science Development in 2006, but it is not implemented. Such situation has not changed for years or the changes, where they exist, are extremely slow.

There are no significant improvements although the Framework Law on Scientific – Research Activities and Coordination of Internal and International Scientific and Research Cooperation in Bosnia and Herzegovina and the Strategy of Science Development 2010-2015 were adopted in 2009. The joint Western Balkans Regional Science Strategy was adopted and the BiH Council for Science established.

A network of focal points is established throughout the country in order to provide information on research cooperation in the FP7 Programme (2007-2013) and other research programmes (Cost, Eureka). Companies from BiH participating in FP7 are not limited only on specific programmes and scientific and technological cooperation anymore and have the opportunity to get included in all research actions of the European Commission. The BiH Council of Ministers awarded grants to 14 applicants from its Programme of support to preparation of projects for EU science programmes while it awarded 26 grants from its Programme of support to technical culture and innovations⁴¹. BiH representatives participate in the project Danube-INCO.NET and scientific cooperation within the Central European Initiative as well as activities related to Regional Western Balkans Research and Development Strategy for Innovation.

⁴¹ Progress Report, 2014

The structure for a new EU Research and Innovation Programme HORIZON 2020 has been established in BiH. The goal of the programme is strengthening cooperation of research and business sector to achieve concrete results, where innovative small and medium sized entrepreneurs will get numerous opportunities to get additional funding for their projects.

28 projects have been selected to be co-funded in the framework of cooperation between researchers working on the implementation of joint research projects within the framework of scientific and research cooperation between BiH and Slovenia for 2014 and 2015. The amount of KM 82,110.00 is allocated for this programme activity. 10 projects have been selected to

be co-funded funded in the framework of cooperation between researchers working on the implementation of joint research projects within the framework of scientific and research cooperation between BiH and Montenegro for 2014 and 2015. The amount of KM 9,135.00 is allocated for this programme activity.

In 2013, there were not any significant changes in inventiveness of BiH economy. The number of applications for patents rose to 70 in 2013 as compared to 66 in 2012. Applications for industrial design in 2013 slightly reduced compared to 2012, but not significantly.

Table 6: Number of applied patents, industrial design and trademarks in BiH, 2013-2000

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Patents	161	281	327	287	347	373	217	92	71	75	65	54	66	70
Industrial design	31	19	14	56	54	50	35	72	63	22	25	20	53	50
Trademarks	733	917	754	950	967	1197	1190	1375	1488	946	824	757	759	739

Source: Institute for intellectual property BiH

Unlike comparator countries, the investments in research and development are very low. BiH sets aside only 0.03% of its GDP for research and development, which results from the overall economic situation in the country. Investments in research and development in the comparator countries range between 0.4-1.5% of their GDP, while the EU average is 2.0% of GDP. BiH investments in science stand at 0.17% of GDP in both its entities.

In the period 2000-2014, the average number of researchers rose relative to the preceding years and amounted to 763 researchers per million population. Nevertheless, the number of researchers per million population in BiH is much lower than the EU average, and 8.3-17.7 times lower than in the comparator countries.

In 2014, there were still no specific programmes of support to companies in BiH regarding technological training. Situation was not notably changed as compared to the previous year, so the assessment remains that there are still great obstacles throughout the region to cooperation among universities, research centres and small and medium sized enterprises. The reasons behind this are weak and slow transformation of universities based on distribution function (distribution of knowledge) to universities based on production function (production of knowledge) and entrepreneurial function (fertilisation of produced knowledge)⁴². There is a small number of university-based and particularly independent research centres, while the existing ones are understaffed and underequipped.

Recommendations for improvement of scientific, technological and business infrastructure:

- Develop statistics of inventive economic activity and its financing;
- Support, by special programmes, linking of research centres with export companies, where the evaluation of the support programmes would be based on export growth and income (tax income) and employment;
- Support, by special programmes, joint investments of, on the one hand, foreign, and domestic SMEs on the other hand, through mentorship programmes, organisation of missions, etc. focused on "learning by doing" (particularly with the BiH diaspora);
- Develop public-private partnership programmes in the development of business infrastructure, where the programmes would be based on encouraging the innovative export activities.

⁴² GEM Report 2012

3.4 Single economic space

BiH needs a homogeneous, transparent and credible technical and business environment to be able to ensure confidence of its citizens and investors in the country and abroad. Harmonisation in introduction of the European standards has been very slow. Private sector development has been inhibited due to the unfavourable business environment.

BiH inevitably has to focus on assuming the EU acquis related to internal market and trade. At the beginning of 2015, the institute for Standardization of BiH (BAS) took over 29,871 international, European and other national standards⁴³. Out of this number, 18,143 standards are European (EN) standards⁴⁴ of which 4,465 are European harmonised standards and other European standards whose references were published in the Official Journal of the EU (C series). The percentage of European standards and harmonised documents taken over by BAS is 82.23%. Over 2014, BAS took over 21 standard as national using the translation method. In 2014, a new technical committee was formed: BAS/TC 59 – Social security and protection. The total number of active BAS technical committees is 52, while technical committee BAS/TC 28 – Explosives for civilian uses is dormant. In order to promote standardization, the Republic Institute for Standardization and Metrology of RS prepared and published a brochure "Guide through Standardization".

Free movement of goods is one of the key principles of the single European market, provided by the EU legislation. This entails the assuming of the required regulations, improving the system of quality infrastructure, ongoing improvements in business conditions and environment, as well as prevention of corruption and development and strengthening of the required institutions.

The business environment continues to be burdened with various administrative constraints at different government levels. There has been some progress in registration of property, but the companies still have to register in both entities if they want to do business throughout the country; registering procedures still differ, and there is no registration system for the whole BiH.

Survey of entrepreneurs' perceptions exhibits that the main problem of entrepreneurial environment in 2014

can be boiled down to government policies (taxation system and tax policy) that discourage entrepreneurial environment and continue to cause the main problem year after year while government policies pertaining to concrete policies, priorities and support to entrepreneurs scored better. The best scored conditions of entrepreneurial framework in BiH are commercial and legal infrastructure and internal market dynamics⁴⁵.

Table 6: Entrepreneurs' perception

	2013	2014
1	Government policies - regulations, taxes, etc. providing for entrepreneurial business environment	Government policies - regulations, taxes, etc. providing for entrepreneurial business environment
2	R&D Transfer	R&D Transfer
3	Internal market – openness	Education – primary and secondary

Source: GEM 2014

In addressing the issue of mobility of labour, as one of the preconditions for efficient use of this key resource in any country, there was no significant progress in 2014. A barrier to mobility of workers in finding the most suitable employment continued to be the legislative framework and the social insurance framework fragmented among the cantons and the entities. Employed persons continue to face difficulties when trying to exercise social entitlements. Legislative framework for social entitlements and pensions is still fragmented.⁴⁶ Tax administration is not only the main business environment problem for the BiH entrepreneurs but also for entrepreneurs of the region that BiH belongs to. The same applies for Croatia, Romania and Italy.

There was some progress in combat against corruption relative to 2014. In 2015 the Government of BiH has adopted the Anti-Corruption Strategy usvojila Strategiju za borbu protiv korupcije (2015-2019) and the action plan for its implementation. According to the BiH Anti-Corruption Strategy, business representatives in Bosnia and Herzegovina state corruption as the sixth most important constraint to doing business, after high taxes, complicated tax laws, political instability, labour regulations and limited access to funding.

Corruption in BiH has a negative impact on economic flows by causing the unexpected costs to the investors and discouraging their future investments, causes growth of informal economy and contracts the country's revenues based on unpaid taxes, customs

⁴³ uključujući amandmane, korekcije i druge standardizacijske dokumente

⁴⁴ korekcije nisu uključene

⁴⁵ GEM 2014

⁴⁶ GEM 2014.

and other fees, expands costs of administration, goods and services, and reduces productivity. Corruption Perception Index in 2013 was 4.2 while in 2014 it fell on 3.9. BiH scored worse in 2014 at the list of corrupted countries when it was ranked 80th among 175 countries as opposed to 2013 when it was ranked 77th among 177 countries.

Bosnia and Herzegovina became a member of the United Nations Convention against Corruption (UNCAC). The member states of the Convention introduced the mechanisms for the review of its implementation in order to assess the performance of the UNCAC provisions in the signatory countries. One of the goals of this mechanism is to encourage joint forces and efforts at national level in implementation of anti-corruption reforms.

Key recommendations for improvement of a single economic space:

- Prepare the analysis of the effects of tax administration activities and bring measures for its more effective and more efficient operations;
- Develop a transparent evaluation system of the government programmes, which would enable their efficient and effective implementation;
- Establish a venture capital fund as a product of public-private partnership and direct it to support to rapidly growing SMEs;
- Establish advisory services to provide information, advice and mentoring support to those interested in starting a business in BiH, with strong cross-sectoral cooperation (with regional development agencies, FIPA, chambers, associations of employers, etc.);
- Introduce IT technologies in order to ease and simplify the administrative procedures by developing e-government.

4. Employment

Analysis of trends

Employment and unemployment trends in BiH are monitored through administrative and survey data. According to the Labour Force Survey, the unemployment rate in BiH has not changed relative to the previous year and stands at 27.5 %. Administrative data exhibit a different picture where the unemployment rate of 44.5% in 2014 tells us that the percentage of the employed persons that affected the decrease in the survey unemployment rate actually represents the persons employed in informal economy. According to the Labour Force Survey, the employment rate in 2014 has not changed much relative to the previous year and stands at 31.7%, recording 812 thousand survey employed persons.

The number of registered unemployed persons in BiH in the records of employment institutes and services at the end of 2014 amounted to 549,522 thousand, which is by 0.5% less than in the same period of 2013, whereas the number of registered employed persons in December 2014 was over 707 thousand and increased by 2.9% relative to the same period previous year.

Table 7: Employment and unemployment rate in BiH, 2006-2014

Year	Unemployment rate	Employment rate
2006	31.1	29.7
2007	29.0	31.2
2008	23.4	33.6
2009	24.1	33.1
2010	27.2	32.5
2011	27.6	31.9
2012	28.0	31.7
2013	27.5	31.6
2014	27.5	31.7

Source: Labour force survey, 2006-2014

According to the Labour Force Survey for 2014, of the total of 2.5 million working age population, over 1.1 million is qualified as economically active while slightly over 1.4 million is qualified as economically inactive. Data indicate that less than half of working age population above 15 years of age in BiH is active. The activity rate of 43.7% is very low according to the international

standards. According to this Survey, the gender structure of the unemployed was as follows: 55.8% men and 44.2% women.

Based on the age intervals, the highest unemployment rate is in the age group 15-24, which amounted to 61% in 2013. The unemployment rate for the age group 15-24 has increased as compared to the previous year when it stood at 59.1%. The lowest unemployment rate characterises the age group 50-64 and equals 15.8%. Although the unemployment rate in the age group 15-24 is the highest, it significantly declines in the subsequent interval (25-34) and stands at 33.4%.⁴⁷

Of the total number of job-seekers, 279,083 or 50.73% are women. In the structure of job-seekers, as by February 2015, there are 148,834 non-skilled workers or 27.06%, 10,075 semi-skilled workers or 1.83%, 190,346 skilled workers or 34.60%, 3,193 highly skilled workers or 0.58%, 1,557 workers with primary education or less or 0.28%, 147,454 workers with secondary education or 26.81%, 7,499 workers with post-secondary non-tertiary education or 1.36% and 41,137 workers with tertiary education or 7.48%. The highest share in registered unemployment is accounted by persons with third education level - skilled workers 34.60%, and non-skilled workers 27.06%.⁴⁸

BiH has the second highest unemployment rate among the comparator countries in the period 2006-2014 with FYR Macedonia at the top while Croatia is third with the unemployment rate of 17.6%. **The unemployment rate in BiH is three times higher than the European rate**, although there have never been so many unemployed in the EU as at present, according to the analysis of the European Bureau of Statistics – *Eurostat*. According to these analyses, in 2014 there was the highest recorded job search in the EU, since 10.2% of population had no employment.

The highest employment rate is recorded in the age interval 25-49 and in 2014 it stands at

⁴⁷ Data from BHAS, Labour Force Survey 2013.

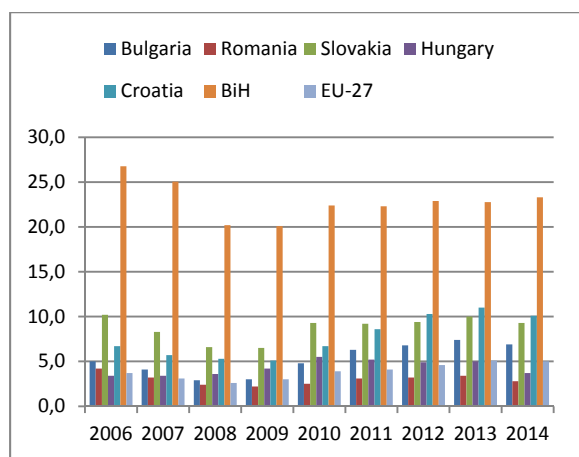
⁴⁸ Progress Report, 2014

53.3%. In EU28 the employment rate of age group 25-49 is 77.6% with Sweden accounting for the highest rate (85.5%), a Greece for the lowest (63.1%).⁴⁹ The youth employment rate is lowest, i.e. age interval 15-24 and it amounted to 10.9% in 2014, while the youth unemployment rate was higher than in the previous year and stood at 62.7 %. The youth employment rate has also been decreasing in the EU28.

Long-term unemployment is one of the most important challenges of both economic and social policy. In addition, long-term unemployment is a very good indicator of alignment of supply and demand in the labour market, and indirectly, a measure of success of formal and non-formal education in the country. The rate of long-term unemployment is ranging between one quarter and one fifth of the labour force, while in the comparator EU 4 countries it does not exceed one twentieth of the labour force.

The long-term unemployment rate in BiH is four times higher than the average long-term unemployment in the EU 27. The long-term unemployment rate in all the observed countries is very low, with only Croatia (10.1%) and Slovakia (9.3%) having higher long-term unemployment rate. BiH has a very high long-term unemployment rate standing at 23.3%. This rate has remained at the same level relative to the previous four-year period.

Graph 10: Long-term unemployment rate in comparator countries, 2006-2014



Source: Eurostat, for BiH LFS

Unlike previous year, the share of the self-employed in the total employment in BiH decreased by 2% to reach 19.1%. The remaining are the helping household members with the share of 4.0%, which has not changed as compared to 2013. The number of the self-employed in FBiH has decreased by 13 thousand, whereas in RS and BD it decreased by 1 thousand respectively. Gender difference is noticeable, since there are almost 2 times more self-employed men than self-employed women.

Table 8: Self-employed

Self-employed (%)	BiH	FBH	RS	BDBiH
2014	19.1	15.0	25.5	24.6
2013	20.7	17.4	25.7	31.5
2012	22.7	18.4	29.2	30.8
2011	20.0	15.3	26.8	25.0
2010	20.8	16.3	27.6	23.1
2009	20.5	18.3	23.4	25.2

Source: Agency for Employment BiH, Labour Force Survey 2014

Number of beneficiaries of cash benefits based on unemployment has decreased. In December 2014, this cash benefit was used by 12,171 persons or 2.2% of the total number of registered unemployed. As compared to the same period in 2013, when this benefit was used by 12,969 persons, this number has decreased by 798 persons or 6.1%. In December 2014, the right to health insurance based on unemployed was exercised by 430,137 persons, which accounts for 78.6% of the total registered unemployment in BiH.

In 2014, the total number of 103,577 unemployed persons from the records of the Federal Employment institute, the RS Employment Institute and the BD Employment Institute were employed. The number of employed increased by 12,766 persons or 14.1% relative to 2013.

The average net salary in 2014 amounted to KM 830 and nominally rose by 0.4% y-o-y, but the real growth is somewhat higher due to deflation. Growth of average net wages decelerated since net salary in FBiH was reduced by 0.2% y-o-y and amounted KM 833 KM. Quite the opposite, the average net salary in RS increased by 2.1%

⁴⁹ Ibid

(KM 825), but it is still nominally lower compared to the average net salary in FBiH⁵⁰.

Table 9: Nominal and real net wages growth in BiH

	2008	2009	2010	2011	2012	2013	2014
Nominal net wages growth in BiH (%)	16.6	5.1	1.0	2.3	1.2	0.1	0.4
Real net wages growth in BiH (%)	8.6	5.5	-1.1	-1.4	-0.8	0.2	1.3

Source: BHAS, DEP calculations

4.1. Functioning of labour market and active employment measures

On the basis of the provisions of the Law on the Agency for Labour and Employment of Bosnia and Herzegovina ("Official Gazette BiH" No. 21/03 and 43/09), the Agency for labour and Employment of Bosnia and Herzegovina, in cooperation with the Federal Employment Institute, the RS Employment Institute and the BD Employment Institute prepared a proposal of Plan for Guidelines of Labour Market and Active Employment Measures in BiH for 2015⁵¹.

This document presents guidelines for employment policies and active employment measures planned by the relevant state and entity level institutions in the field of employment in 2015. The baseline for creating policies and guidelines for labour market and implementation of active employment measures in 2014 were the priority objectives set in work programmes of the BiH Agency for Labour and Employment, Federal Employment Institute, the RS Employment Institute and the BD Employment Institute for 2015.

Sources of funding for implementation of these activities are primarily the budgets of the implementing institutions, with additional funds ensured through implementation of internationally funded projects and allocations from the budgets of the entity governments and Brcko District BiH targeted to support the implementation of the active employment measures in the labour market.

In 2014, after a long period, there were some positive developments at the labour market. The number of employed persons in the period January-December 2014 was on a continuous upward trend both on monthly and annual comparison, while the number of unemployed persons after March 2014, for the first time since 2009, recorded a continuous downward trend as compared to the same period of the previous year. This is why the employment institutes and bureaus, in planning their activities for 2015, decided to opt for the guidelines and labour market policies pertaining to⁵²:

- ✓ Taking measures on further improvement of the labour market trends
- ✓ Implementing the targeted programmes of active employment measures
- ✓ Implementing the social programmes in the labour market and facilitating the unemployed persons to exercise their rights based on unemployment
- ✓ Strengthening the mediation function of employment institutes and services in order to provide more efficient services to employers and the unemployed
- ✓ Implementing the function of professional informing and career guidance

The main objective of active employment policy measures is to contribute to raising the level of activity in the labour market, to stimulate new employment and increase the overall employment.

In 2015, active employment policy measures will be implemented through different forms of support in employment, self-employment, preparing the unemployed for the labour market and professional development and training in line with the Strategy for Strengthening the Mediation Function at Public Employment Services in the Federation of Bosnia and Herzegovina.

Measures intended for employers aim at influencing the demand for specific professional skills of workers to be met and, on the other

⁵⁰ Economic trends, 2014

⁵¹ Report on labour market situation, 2015

⁵² Plan for guidelines of labour market policies and active employment measures in BiH for 2015, Agency for labour and Employment BiH

hand, measures intended for individuals, i.e. upgrading their knowledge and skills, aim at improving the supply of available workforce. In 2014, the efforts will be focused on support to difficult to employ categories of the unemployed such as youth without working experience, the long-term unemployed, women, etc. The active employment policy measures were planned to include around 10,000 unemployed persons.

The planned programmes are:

- ✓ Programme of co-financing employment and co-financing the acquiring the first work experience
- ✓ Programme of employment and self-employment of Roma
- ✓ Programme of business start-up co-financing
- ✓ Career guidance (professional informing, training programme for active job search, etc.)
- ✓ Programmes of preparing for labour market (training, vocational education and upgrading skills)
- ✓ Programmes of public works
- ✓ Financing employment from the funds of earmarked deposit of the Federal Employment Institute
- ✓ Youth employment programme in Bosnia and Herzegovina (yep)
- ✓ Development, analysis, cooperation and transformation (project "rast")
- ✓ Project of support to social security and employment networks (ssnesp) – component "mediation and support in employment"
- ✓ Financing projects with other organisations and institutions.

Pursuant to the adopted Employment Strategy of Republika Srpska 2011-2015, the RS Employment Institute defines as the key activities active policy measures that contribute to raising the level of activities in the labour market, stimulate employment and increase the overall employment. According to the adopted Action Plan for Employment 2014, the Employment Institute is a bearer of the implementation of 4 projects in 2014 and projects that transfer into 2015, as follows:

- ✓ Project of support to employment and self-employment of children of the RSA fallen soldiers, disabled war veterans and unemployed demobilised RSA soldiers "Zajedno do posla" (together to work)
- ✓ Project of support to employment in the economy of Republika Srpska in 2014
- ✓ -"first job" – project of support to youth in acquiring work experience in the internship status in Republika Srpska in 2014
- ✓ Project of support to employment of Roma in Republika Srpska in 2014
- ✓ Projects financed from the funds of the Employment Institute of Republika Srpska
- ✓ Projects funded from the government transfers and other grants (grants of other institutions)
- ✓ Youth employment project in BiH - yep.

2015 Programme of work of the Employment Institute of Brcko District BiH defines tasks on implementation of the Law on Employment and Rights During Unemployment of Brcko District BiH, both in terms of exercising the rights based on unemployment that originally stem from the Law as well as in terms of the tasks that represent active employment measures. The planned programmes are⁵³:

- ✓ Programme of co-financing the employment of individuals from all target groups
- ✓ Programme of employment of persons of older age groups (men and women)
- ✓ Programmes of vocational education, training and preparing for job entry
- ✓ Programme of preparing for employment
- ✓ Re-training/additional training for the familiar employer

4.2. Passive employment measures

Every registered unemployed person, in accordance with the applicable laws on employment in BiH, is entitled to insurance in case of unemployment including the following cash benefits:

- Right to cash benefits,
- Right to health insurance based on the unemployment,

⁵³ Plan for guidelines of labour market policies and active employment measures in BiH for 2015, Agency for labour and Employment BiH

- Right to pension insurance based on the unemployment,
- Payment of contributions for PDI if this insurance fulfils the conditions for the old-age pension.

In planning the labour market policies, the employment institutes and services in BiH are faced with limited financial resources since the funding priorities are focused on implementation of legal obligations related to material and social protection of the unemployed persons (cash benefits, health protection, and social protection programmes), while active employment policies come after that.

Spending on passive measures in the EU countries in 2010 ranged from 0.31% of GDP (UK) to 3% of GDP (Spain). The average EU 27 spending on passive measures was 1% of GDP, whereas in **BiH** in 2012 it amounted to 0.3% of GDP. The BiH entity and BD institutes spent KM 59.2 million on cash benefits for the unemployed, which is an increase by KM 6.2 million relative to the previous year. According to 2012 data, the **total amount of KM 59.3 million was spent on cash benefits for the unemployed in BiH**. The unemployment benefit covered 0.8% of the total unemployed in 2012, whereas in 2006 this coverage was 0.6%.

This is the largest amount spent on cash benefits in the past five years. In 2012, the amount spent on cash benefits in the Federation BiH was KM

43.9 million, with an average number of 9,534 unemployed beneficiaries per month. In FBiH, the amount of cash benefits is determined, depending on the period of time spent in employment, for duration of 3-24 months. Current situation in FBiH equally treats the unemployed who had different amount of salary - thereby, they will all receive around KM 350 in case of unemployment, which **discourages persons who had lower salary to actively seek job**.

In RS, the amount of cash benefit depends on years of work and average salary that an unemployed person received during the last three months of employment. Period of receiving the cash benefit in RS can extend from one month to 12 months. In addition to cash benefits, a great motivation for the unemployed to register at the employment institutes is the right to **health insurance**. The employment institutes in FBiH spent KM 21 million solely for this purpose.

389.8 thousand of the unemployed persons registered at the bureaus in 2012 were health insurance beneficiaries as compared to 326.2 thousand in 2006, which represents an increase by 59.6 thousand. This makes it even more difficult for the bureaus to deal with active employment programmes, and additionally motivates the unemployed to register at the bureaus although they are not active job-seekers, in order to exercise this right.

Recommendations for better labour market functioning:

- Conduct analysis of the causes of long-term unemployment of persons in the most vital age in both entities, and develop a programme of measures for prevention of long-term unemployment with the activities for continuous activation and integration;
- Harmonize data of cantons and entities on the labour market and align them with EU methodology;
- Conduct impact assessments – evaluations of active and passive employment measures;
- Set up a system and continuously monitor needs for labour force;
- Ensure development of client-centred services of employment bureaus and ensure that their work is focused on mediation in employment;
- Address a mismatch between labour force supply and demand by faster reforms of the education system and rapid development of training centres for development of skills;
- Promote adaptability of labourers and enterprises to changes;
- Evaluate labour market functioning from the aspect of rigidity of contracts and expenses of hiring and firing;
- Evaluate working conditions of the employment services;
- Estimate impact of social benefits on active job seeking.

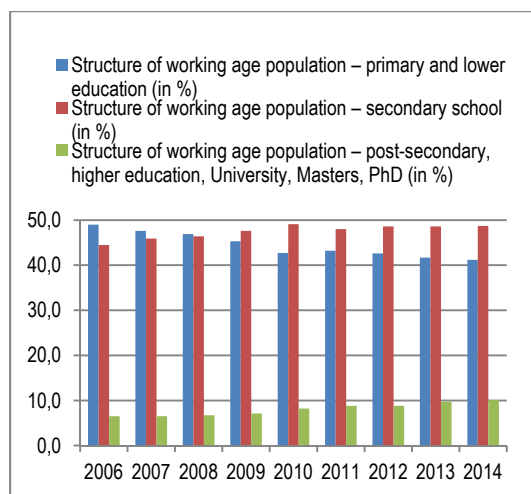
4.3. Improvement of skills in the labour market, vocational education and training

Improvement of labour market operations through development of entrepreneurial culture and continuation of reform of secondary vocational education and training are the key challenges in front of BiH that pertain to improvement of skills in the labour market, vocational education and training. The analysis of implementation of curricula in VET schools was carried out and the activities on development of occupational standards initiated, which will serve as basis for revision of the existing modular curricula.

The work of the Agency for Pre-primary, Primary and Secondary Education was promoted in 2012 by dissemination of standards and transfer of information to final school community users as to how to use and apply standards that would provide them with support in education process and raise the quality of education in BiH. This training is aimed to cover a large number of teachers and advisors from pedagogical institutes.

Education structure of the unemployed displays that the highest share of 68.3% is made up by persons with completed secondary school, 19.7% persons with primary education or less, while persons with college, academy, university, masters and PhD account for 12.0%⁵⁴.

Graph 11: Education structure of working age population in BiH



Source: LFS BiH, 2014

Regarding qualification structure of the registered unemployed persons in BiH, the highest share in the total unemployment is still made up by persons with the third level of education. Education structure of the unemployed displays that the highest share of 68.3% is made up by persons with completed secondary school, 19.7% persons with primary education or less, while persons with college, academy, university, masters and PhD account for 12.0% where this percentage grew by 2% relative to the previous year.

Underdeveloped professional skills are mainly the result of (1) absence of modern infrastructure for professional training (additional training, retraining, etc.) and lifelong learning (2) outdated programmes of professional development and development of key competencies for successful life in 21st century, (3) low participation of employees and unemployed persons in professional trainings, (4) lack of connection between VET and active employment measures, and (5) lack of access to quality training services to all groups of population.⁵⁵

Financing of VET is not given enough attention. While development of vocational education and training as a predominant part of lifelong learning is of critical importance for EU efforts to take the leading position in global economy and for responses to its major economic and social challenges, so development and funding of VET receive much attention, in BiH there do not exist even statistical data on the share of specific types of education in GDP. EU approach is illustrated by the indicator of share of funds for training of persons with disabilities in the labour market in total funds for active labour market measures, which shows that 43% of overall funds allocated for training of unemployed persons is targeted for these persons.

Financing of public secondary schools in BiH is provided through budgets of the competent ministries. Financing is organised at cantonal and entity level. With regard to funds from public sources, financing is usually carried out through

⁵⁴ Progress Report, 2014

⁵⁵ EU Support to vocational education and training in Bosnia and Herzegovina IV; Inception Report, 2011

employment bureaus for the purpose of training of unemployed persons. There are some training programmes that are free of charge for beneficiaries and they usually include learning of foreign languages, life-style, acting, etc.

Trainings organised by NGO-s are usually funded from various donors' sources. There are also companies that pay for training and development of their employees, but the most part of other trainings are paid by participants (in around 60% of cases). These indicators point to the fact that awareness of the importance of lifelong learning and training for labour market is still very low⁵⁶.

According to the 2012 GEM Report, education is one of preconditions for functioning of business environment. This precondition for entrepreneurial framework comprises two components: a) entrepreneurial education in primary and secondary schools, with the lowest score, and b) entrepreneurial education at a post-school level.

CoMBiH has adopted the Strategic Adult Education Platform in the context of Lifelong Learning in BiH for the period 2014–2020⁵⁷, and the Action Plan for Development and Implementation of Qualifications Framework in BiH for the period 2014-2020⁵⁸, where the IPA 2012 project "Development of Qualifications Framework for General Education" has commenced. The activities have continued within projects: "Strategic Development of Higher Education and Qualifications Standards" (IPA 2011) and "Entrepreneurial Learning in BiH Education Systems – phase II" (IPA 2011); Twinning Project "Strengthening Institutions and Capacities for Implementation of the EU Directive on Regulated Professions" (IPA 2011) as well as regional projects FRAME and "Regional Support to Inclusive Education"⁵⁹.

In line with the Lisbon Convention on recognition of qualifications, the following recommendations were issued: Recommendations on the Use of Qualifications Frameworks in the Procedure of the Recognition of Higher Education Qualifications in Bosnia and Herzegovina and

the Recommendations on the Recognition of Higher Education Qualifications in Bosnia and Herzegovina of People with Insufficient Documentation or Without Documentation⁶⁰.

The Government of FBiH adopted the Strategic Directions for Development of Career Orientation in FBiH 2015-2020⁶¹ and Strategic Directions for Development of Higher Education in FBiH 2012-2022 where, in order to implement the strategic directions, 23 projects of higher education institutions, professional associations and CSOs were co-financed⁶².

A baseline for aligning VET system with European guidelines was defined in the Strategy for Development of Vocational Education and Training in BiH 2007-13. It represents the main framework for modernisation of the system of public secondary and post-secondary vocational schools, and defines **four key principles of successful modernisation of the VET system**: (1) compliance with European standards of education quality, (2) operationalization of the system of corporative responsibility – management system according to the principle of public-private partnership (PPP), (3) establishing efficient and accessible information system, and (4) effective cooperation based on participatory approach and coordinating mechanisms.

BiH has still not developed a special set of indicators for monitoring various aspects of VET and it is a challenge that a statistical system and evidence-based policy have to face in the coming period. EU has defined a set of 15 key indicators whereas those left yet to be defined in BiH are the following:

- Percentage of persons age 22 who successfully completed secondary education;
- Share of participants in VET programmes per place of teaching (%);
- Share of participants in VET programmes per gender (%);
- Share of participants in VET programmes per education level and gender (%);

⁵⁶ Not a single research was conducted after 2005, so there are no new indicators on VET financing, thereby it is not possible to record changes or to define trends.

⁵⁷ 110 session of the Council of Ministers BiH (23/10/2014), "Official Gazette BiH", No. 96/2014

⁵⁸ 123 session of the Council of Ministers BiH (11/2/2015)

⁵⁹ Progress Report BiH, 2014

⁶⁰ "Official Gazette BiH", No. 81/14

⁶¹ 143 session of the Government of FBiH (10/12/2014)

⁶² Progress report BiH, 2014

- Distribution of participants in VET programmes per age groups (%);
- Enterprises providing continuing vocational training (CVT) as percentage of all enterprises;
- Enterprises providing CVT as percentage of all enterprises, per grade size;
- Enterprises providing CVT as percentage of all enterprises, per economic activity;
- Enterprises providing CVT as percentage of all enterprises;
- Enterprises providing CVT as percentage of all enterprises, per gender;
- Costs of CVT as percentage of total costs of all enterprises.

Recommendations:

- Establish systematic monitoring of the key EU VET indicators on the level of BiH;
- Develop sectoral regional centres for professional development and training.
- Complete the initiated activities on development of classification of occupations and adopt Standards of Occupations and the National Qualification Framework (NQF) for lifelong learning;¹
- Establish system of evaluation and quality assurance in vocational education and training;
- Ensure connection between vocational education and labour market, modernise system of career guidance and counselling, and include employment bureaus and social partners in the process;
- Establish transparent and functional system of institutions of VET sector¹, which include (1) modernisation of secondary and post-secondary vocational schools through introduction of European acceptable training standards, (2) development of network of centres for vocational development and training of working age population, (3) institutions for supervision and quality assurance of services; it is necessary to ensure regular statistical monitoring in this area and establish a system of supervision and forecast of market needs;
- Through greater coverage of working age population with vocational training and LLL, increase labour force competitiveness, establish a systematic approach to adult education, ensure greater mobility, and regulate a system of circular migrations;
- Ensure higher level of autonomy of vocational schools and institutions of vocational training.

4.4. SME development and job creation

Small and medium sized enterprises in EU represent an important source of employment and value-added. Starting from this, it is necessary to undertake activities through the education system, primarily primary and secondary education, that encourage entrepreneurial thinking. Some activities in BiH already exist, but on voluntary basis, so they need to be systematised and introduced in the school system as compulsory.

The website of the Enterprise Europe Network was created for Bosnia and Herzegovina. This is the largest network for support to SMEs in international business cooperation, innovations, transfer of know-how and technologies, and collaboration and participation in the EU programmes. The network comprises around 600 partner organisations from 53 countries, including the EU members and other countries from Europe and the world.

The implementation of a two-year EU funded programme "Support to SMEs competitiveness in BiH" has started in the total value of EUR, 2.65 million⁶³, of which EU provided EUR 2 million from the funds of IPA 2013 for provision of consulting services for SMEs so as to bring them closer to the best EU practices.

It is necessary to improve conditions for development of the existing SMEs. It is of paramount importance to further develop the rule of law and enhance system of collection in a business cycle. Furthermore, it is necessary to simplify and alleviate the tax system. SMEs are doing business in unfavourable climate and, according to 2014 *Doing Business* Report, BiH is ranked 107th, even worse than the year before, representing one of the worst places for doing business in Europe.

Due to a high unemployment rate and inability to find a job, there is an increasing number of

⁶³ EU Report for 2014

people who turn to starting their own business, i.e. to entrepreneurship. Although the interest for starting own business is quite high, there are many obstacles that hinder these efforts such as economic crisis and insufficient attention paid to entrepreneurial environment in the country. Entrepreneurial development requires favourable entrepreneurial framework conditions of which the best ranked in BiH, according to the GEM report, seem to be commercial and legal infrastructure and internal market dynamics, while conditions related to government policies – concrete policies, priorities and support to entrepreneurs scored the worst. A relatively small group of

potential and nascent entrepreneurs consists of those who turn to entrepreneurship out of necessity rather than perceiving business opportunities. According to the 2014 GEM Report for BiH, the percentage of these is 50% higher in BiH than the average of the countries BiH belongs to.

Entrepreneurial activity in BiH is still on a very low level. Regardless of the fact that some entrepreneurial activities have improved, the rate of nascent entrepreneurial activities and new businesses that make up total early-stage entrepreneurial activity in BiH has slightly decreased relative to the previous year.

Table 10: Total early stage entrepreneurial activity (TEA) in BiH, 2010-2014

	Nascent entrepreneurship rate	Rate of new business ownership	TEA ⁶⁴	Business discontinuation	Necessity driven EEA (% TEA)	Improvement driven opportunity (% TEA)
2014	4.5	6.7	7.4	4.5	50.8	25.2
2013	5.8	4.6	10.3	6.2	58.9	22.0
2012	5.0	3.0	8.0	7.0	58.0	20.0
2011	5.4	2.8	8.1	6.7	61.0	22.0
2010	4.1	4.1	7.7	3.3	46.5	29.8

Source: GEM 2014

BiH early-stage entrepreneurial activity rate in 2014, which shows a percentage of individuals actively running a business not longer than 42 months, was lower than in 2013 and stood at 7.4%⁶⁵ but still high as compared to the neighbouring countries. This is caused by increased activities of necessity driven entrepreneurship and new business ownership. According to the 2014 GEM report, established business ownership, businesses run longer than 42 months, stood at 6.7% and recorded increased relative to 2013. If we observe gender participation in early-stage entrepreneurial activity in BiH, it is noticeable that men engage in entrepreneurial activities more frequently than women, the same as in the countries of the region. Involvement of women in

entrepreneurship has mainly been contributed by different projects and programmes focused on women's entrepreneurship.

The most prevalent sector in early-stage entrepreneurial activity in all three BiH administrative units is the sector of consumer services, followed by manufacturing and construction sector, with much higher investments in entrepreneurship than the year before, followed by extraction activities. As compared to the countries of the region, BiH excels in sectors of manufacturing and construction, whereas it is worst in the sector of business services characterising the efficiency-driven economy.

The rate of business discontinuation has declined relative to 2014. In comparison with the countries of the region, the BiH rate of business discontinuation is higher than in other comparator countries and the EU average. Dominant reasons for discontinuation of business in BiH were lack of business profitability and problems in getting financial support. As opposed to 2013, the main reasons stated for business discontinuation in 2014 were "personal reasons".

The same as in other European countries, the prevalent age group of entrepreneurs is 24-54. There are many reasons behind this, but from various reports on youth entrepreneurship it can be concluded that youth find it much more difficult

⁶⁴ Total early-stage entrepreneurial activity

⁶⁵ 2014 GEM Report

to get a job in the labour market and they are more likely forced to involve in business. In the previous period, there was a considerable increase of early-stage entrepreneurial activity in the age group 45-65 observed, higher than the EU average. Possible reason for this may be the bankruptcy of large companies, which drives people to start a business in order to earn income. It is necessary to further encourage youth population to get involved in entrepreneurial activity, particularly in IT technologies and high-tech know-how.⁶⁶

It is necessary to improve conditions for creation of new SMEs. It is a priority to develop stronger mechanisms of financial support to establishment of SMEs, as well as training and advisory-consulting assistance to the existing SMEs. It is necessary to develop support services to emerging SMEs on local level, and the existing SMEs on the regional level, particularly through cluster training centres and guarantee funds. It is of paramount importance to support specific types of entrepreneurial activities such as women entrepreneurship, rural entrepreneurship, minority groups entrepreneurship and entrepreneurship of persons with physical disabilities.

Experiences of European countries show that an indispensable path to modern society is a path towards sustainable development and creation of new jobs, characterised by:

- a) Entrepreneurship which reflects in creating as many SMEs as possible and restructuring of the existing ones so as to include as many people as possible in order to actively influence their destiny, and
- b) New approach to regional and local development based on self-reliance.

SMEs are one of the main pillars of EU economy accounting for 67.1% of the private sector employment and, in some economic activities (metal processing sector, construction, furniture) as much as 80%.

⁶⁶ GEM, Umihanić 2011 Umihanić B. et al. (2011) GEM BiH 2010 – Entrepreneurship to new jobs, Tuzla: Entrepreneurship Development Centre, pp. 58

5. Sustainable development

Analysis of trends

Sustainable development encompasses development of environment and environmental infrastructure, energy and renewable sources of energy, transport infrastructure and communications, as well as agriculture and rural development for the purpose of diversification of economic activities, particularly increasing healthy food supply self-sufficiency in BiH.

The goal of **balanced regional development** is to contribute to the overall national growth and development by creating conditions to reduce the social and economic development disparities across regions, to enable all regions to become competitive and establish a framework for coordinated national, regional and local initiatives aimed at promoting economic and social development of the country.

One of the key approaches to balanced regional development is the **creation of polycentric economic centres and region-specific innovation systems**. This can be facilitated by mapping of the key region-specific existing and/or potential business clusters based on utilization of prevailing local resources (natural resources, traditional knowledge and skills, entrepreneurial potential of individual regions). We need to encourage local initiatives and integrated development approach and develop and modernize transport infrastructure.

BiH has an opportunity to invest in **clean and efficient technologies, renewable energy sources** as well as ecosystems' goods and services. Increasing its energy efficiency is of utmost importance for BiH.

The share of agriculture in the BiH GDP is significant, but continuously turning downwards. Size of arable land per capita is very low and the rate of employment in agriculture among the highest in Europe, which additionally indicates to a very low level of productivity. Investments in agriculture sector are low, resulting in low

competitiveness and relatively high foreign trade deficit in the food sector.

It is also necessary to introduce e-legislation and regulations more rapidly, in order to create a framework for development of e-business. Since ICT infrastructure represents a backbone of physical infrastructure of a modern, post-industrial society, the least that can be done in its development is regulation of e-legislation in BiH, which is lagging behind the region.

5.1. Agriculture, food production and rural development

The agriculture sector traditionally occupies an important place in the BiH economy in view of the geographical position and availability of natural resources. BiH has a number of advantages for development of agricultural production and rural areas, such as: natural resources, relatively low-cost labour, vicinity of the EU and Mediterranean markets, tradition of agricultural production, unpolluted land, good conditions for eco-food productions and agro-tourism, and the existence of a certain level of physical and social infrastructure in rural areas.

Agriculture and related activities are very important for a predominantly rural country and rural population, which make up around 60%⁶⁷ of the BiH population. Despite the fact that over a half BiH population live in rural areas, this industry employs only one fifth of the BiH labour force.

As for the **agriculture** related census, during the census of population, households and dwellings organised in the period 1-15 October 2013, by using a set of questions related to agriculture, we have collected data on the number of agricultural households. According to the preliminary census results, there are 340,000 of these households in

67 Source: UNDP BiH NDHR, Rural Development in Bosnia and Herzegovina: Myth and Reality, July 2013.

BiH (approximately 28% of the total number of households in BiH).

The share of agriculture, hunting, forestry and fisheries in BiH GDP was gradually decreasing in the period 2005–2012 from 8.5% in 2005 to a record low 6.2% in 2012 as a consequence of climate conditions⁶⁸. In 2013, the share of agriculture in BiH GDP stood at 7% with a 16% y-o-y real growth.

The declining importance of agriculture in BiH GDP is a result of stagnation as compared to other thriving sectors, where the most important causes are stated to be low sector productivity, extensive fruits and vegetables production, low level of subsidies, low average crop yields and the climate change impact.

Food production represents a top strategic interest of every country. Production of foodstuffs, beverages and tobacco accounts for a share of 2.6% in BiH GDP⁶⁹. Utilisation degree of many food industry capacities is low and, according to the UN Report (2013) BiH imports more than 65% of food necessary to meet its needs. The chain of command and the official food and animal feed control system have still not been aligned with the European standards to allow for exports of goods of animal origin to the EU market.

The number of persons employed in agricultural activities in 2014 stood at 139 thousand⁷⁰, with the share of 17% in the total employment. Compared to 2013, the number of persons employed in agriculture decreased by 10% y-o-y. Relative to the EU countries where the average number of persons employed in agriculture moves around 5%, we can conclude that agriculture is a very important activity for BiH.

Agriculture and food sector accounts for a significant share of the overall trade of. In 2014, the total import of agricultural products in BiH amounted to KM 2.75 billion while the total exports amounted to KM 649 million. In 2014,

trade deficit in agricultural output reached KM 2.1 billion. Coverage of imports by exports amounted to 23.6% which is 0.89% less than in the same period of the previous year when it reached 24.5%.

Observing the **structure of agricultural and food products** that we import for a series of years, it is dominated by almost the same ten chapters of the Customs tariff. The goods that we import most are beverages, spirits and vinegar, cereals, meat and other offal, miscellaneous edible preparations, residues from food industries, whereas exports are dominated with vegetable and animal fat, milk, eggs and honey, fruits, preparations of cereals, etc.

Current system of food safety in BiH did not meet all the criteria to allow for export permits for the EU market although competent institutions worked on preparation and alignment of domestic legislation with the EU regulations. The chain of command and the official food and feed system do not yet match European standards to allow for exports of goods of animal origin to the EU market, which means that there was no export of agricultural products such as milk and dairy products, meat and meat products, and potatoes to the European market.

In 2014 food prices in BiH recorded a contraction (-2.7% y-o-y). Price trends in BiH are mainly determined by the global food prices. On a global scale, food prices in 2014 recorded a fall by 4.2%⁷¹ y-o-y.

Competitiveness of the BiH agriculture remains low. Although farmers and food producers have the potential to supply domestic market, most domestic agricultural and food products are not cost-competitive, given the several times lower government budget allocations for subsidies to farmers relative to neighbouring countries.

An agreement has not yet been reached on the **structures for management of financial support of the EU Instrument for Pre**

⁶⁸ BHAS, GDP for 2013, production approach, preliminary results

⁶⁹ BHAS, Thematic Bulletin, GDP 2005-2012, data refer to 2011.-2012

⁷⁰ BHAS, Labour Force Survey 2014, Thematic Bulletin 10.

⁷¹ Source: Food Index, IMF database, DEP calculations.

Accession Assistance for Agriculture and Rural Development (IPARD), thus two IPA agricultural projects were cancelled in September 2013. It is required to fulfil specific conditions prescribed by the European Commission for the programming period 2014-2020, with regards to strategic preparations, institutional solutions and coordination as well as administration necessary for preparation and absorption of the IPARD funds.

Allocations for agriculture and rural development from the entity level budgets are less than sufficient while subsidies for agricultural producers have not been harmonised between the entities nor aligned with the EU *acquis*.

BiH is the only country in the region without the adopted Law on Organic Food Production. However, there is a growing interest in farming of organic products in the agricultural production in BiH. Increasing market demands for high-quality and healthy food present a development opportunity for rural areas, which can encourage development of branded products, tourism, and the whole supply chain thereby creating new jobs and generating income.

Clarification of the chain of command and removal of overlaps within the official food and animal feed control system remain a **priority in food safety**.

In the BiH **forestry** sub-sector, there is still a problem of underutilized forest potentials, since forests cover 43%⁷² of the BiH territory but their utilisation is not efficient. The reasons behind this are inaccessible terrain and landmines.

According to data of BHAS, **the total production of forestry assortments** in Bosnia and Herzegovina in 2014 decreased by 2% relative to 2013. Production of conifer assortments rose by 2% whereas production of broadleaves assortments fell by 6%.⁷³

Significant steps forward were made in the **veterinary** sector where implementing regulations were adopted with regards to control, prevention and eradication of certain communicable animal diseases. The new Animal Disease Notification and Outbreak Information Management System is now also operational.

Also, in the **phytosanitary** sector, we made progress by adopting the amendments to the Law on Protection of New Plant Varieties in BiH and endorsing a general operating action plan in case of emergency occurrences of organisms harmful to plants and plant products. Furthermore, registration of producers, processors, importers and distributors of plants, plant products and regulated objects has begun into phyto registries, while official controls and the situation as regards the main harmful organisms affecting potatoes were assessed as generally positive.

Priority of work of the competent institutions in the food network should focus on **ensuring the efficient food safety system and fulfilment of requirements for exports of animal origin products**, preparation of amendments to the Law on Food, Veterinary Law in BiH, and Law on Agriculture, Food and Rural Development, as well as harmonization of the role and competencies of the institutions in the food network.

According to the **European Commission's 2014 Progress Report** on Bosnia and Herzegovina, there was little progress in the fields of agriculture and rural development, food safety, veterinary, phytosanitary policy and fisheries. A pending country-wide rural development strategy and the designation of the central competent authority were particularly underlined. The country's capacity for official controls and the chain of command need to be upgraded. Preparations in these areas of the *acquis* need to be stepped. Implementation in the field of food safety and veterinary is still uneven.

⁷² Source: Millennium Development Goals BiH 2013, data for 2011.

⁷³ BHAS, Release, Forestry No.2, 2015

Recommendations for improvement of situation in the areas of agriculture, food and rural development are:

- Develop a plan for harmonisation/transposition of the EU acquis in the field of agriculture and rural development, veterinary, food safety and plant health protection;
- Submit the amendments to the Law on Food, Law on Veterinary and the Law on agriculture, food and rural development in BiH to the adoption procedure and adoption;
- Develop and submit to the adoption procedure the Law on wine and by-laws in line with the provisions of the Stabilisation and Association Agreement;
- Adopt legal framework required for development and strengthening of organic production in Bosnia and Herzegovina;
- Establish chain of command and official controls of food and animal feed control system aligned with the EU standards and a central data base;
- Accelerate activities on harmonisation of domestic legislation providing for the field of aquaculture and put additional efforts in implementing the acquis for this area;
- Find adequate model for establishing the IPARD operational structure in line with the EU requirements and constitutional competencies of BiH institutions;
- Establish and develop the Agricultural Information System;
- Draft the Strategic plan for rural development in BiH;
- Implement activities of harmonisation of incentives in order to set up equal conditions for all agricultural producers in the country and improve competitiveness of production;
- Develop activities for improving the conditions of foreign trade operations and protection of domestic agricultural and food production and continue the activities on development and adoption of regulations and measures for introduction of market quality standards in line with the EU and OECD standards (market standards for fruits and vegetables, cereals, meat and milk...) i.e. with the standards of the EU common market;
- Build capacities to mitigate the adverse effects of climate change and coping natural disasters in order to increase preparedness for prevention and protection from emergency situations that may affect the agricultural sector (irrigation, protection from floods, droughts, etc.)
- Establish a system of monitoring and evaluation in the sector of agriculture including the impact assessment of the support measures;
- Strengthen organisational and human resources in state and entity-level institutions, and improve coordination of activities in order to use the available EU funds;
- Prepare Strategies of rural development with harmonised measures and sub-measures with action plans and budgets and the IPARD programme;
- Prioritise demining of agricultural land and the key rural areas;
- The network of laboratories dedicated to phytosanitary diagnostic tests should be optimised in line with realistic analyses and inspection needs;
- Additional efforts are needed to improve the implementation of the integrated principle of pest control system.

5.2. Environment, energy and renewable energy sources

Most laws and regulations that BiH has yet to adopt on its path to the EU accession relate to **energy and environment**. Replacing obsolete equipment with the more efficient one and implementing steps to reduce harmful emission of gases and improve energy efficiency will directly contribute to economic development.

BiH has been invited to reflect on its **climate and energy framework** by 2030, in line with the Green Paper of the European Union on a 2030

Framework for Climate and Energy Policies. The new framework should contribute to further reducing of greenhouse gas emissions, securing energy supply and supporting growth, competitiveness and jobs through a high technology, cost-effective and resource efficient approach.

Energy

Energy sector in BiH is considered to possess the greatest long-term development potential. BiH has rich natural water resources and it is the only net exporter of electricity in the Western Balkans. Nevertheless, BiH is significantly lagging behind in

this sector, particularly since a country-wide energy strategy and policy has not been developed yet. Lack of cooperation and coordination between the entity-level development plans and investments is hindering the energy sector progress.

In the total BiH **industrial production** output (electricity, oil, coke and coal), the energy sector accounts for 30%.

In 2014, annual **energy sector exports** of almost KM 835 million accounted for 10% of the overall BiH exports, recording a 14% growth y-o-y⁷⁴. However, given the great dependence on the import of energy fuels (oil and gas) this sector recorded a significant deficit of almost KM 1.8 billion.

The share of electricity in the total BiH industrial output is around 23%⁷⁵. In 2014, due to a high base from the previous year and low level of generation in hydro power plants, the electricity generation sector recorded an annual production fall of around 10%. Share of electricity in BiH GDP accounts for around 4%⁷⁶, and the share in annual exports in 2014 accounts for around 3.5%⁷⁷.

In 2014, **hydro power plants** generated 39% of electricity⁷⁸. However, electricity is mostly generated from non-renewable sources of energy (60%) such as coal-fired thermal power plants. They are a significant source of pollution and greenhouse gas emissions.

As from 1 January 2015, **BiH has opened the electricity market** for buyers from the household category. The Decision on the Approval of the Long-Term Transmission Network Development Plan for period 2014 – 2023⁷⁹, and the Decision on the Approval of the TRANSCO Investment Plan for 2015 were adopted.⁸⁰

According to the target of the Europe 2020 Strategy on achieving 20% renewable energy in

the final consumption, **use of renewable energy** in BiH has been increasing. Regarding the sector of renewable energy, the respective laws on the exploitation of renewable energy sources and on efficient co-generation have been adopted in both entities.

However, there is no country-wide renewable energy action plan for the implementation of the obligatory renewable energy target which the country has to achieve by 2020⁸¹ (40% of final energy consumption).

Due to favourable incentives provided at entity level, growth in the development of facilities powered by renewable energy sources is increasing.

As a signatory of the **Energy Community Treaty**, BiH took a commitment to reduce end-use energy consumption by 9% by 2018⁸² (relative to the base status in 2010). The first BiH national energy efficiency action plan has been developed but still remains to be adopted. Energy efficiency in BiH is low, particularly compared to the developed economies⁸³.

The average **selling price of electricity** for households in 2013 fell by 0.3% y-o-y. On the other hand, prices of gas in 2014 fell by around 5.3% relative to 2013. Prices of both these energy products are within the average limits of the EU member countries.

The internal energy market is still not aligned with the EU *acquis*, nor it allows for development of a competitive countrywide wholesale market in BiH. Prices of energy and energy products are regulated (for energy, and partly for natural gas) and free (for petroleum products, etc.).

The main challenges in the energy sector are to adopt the required legislation or align the existing legislation with the Third EU Energy Package at all government levels as well as to adopt legal framework for its gas sector. The first step in creating the energy sector reforms is to review the situation and analyse resources in the whole country. Improving coordination

⁷⁴ BHAS, Release, Foreign Trade 2014

⁷⁵ BHAS, Release, Industrial production 2014

⁷⁶ BHAS, Release, Gross Domestic Product 2011-2012, and Gross Domestic Product 2013, preliminary

⁷⁷ BHAS, Release, Foreign Trade 2014

⁷⁸ SERK, Annual Report 2013, Electricity generation in BiH transmission network per type of sources.

⁷⁹ "Official Gazette BiH", No. 93/14

⁸⁰ "Official Gazette BiH", No. 1/15

⁸¹ EU Directive 2009/28/EC

⁸² In line with the commitments towards the Energy Community, by adopting the Energy Services Directive 2009.

⁸³ E.g. the efficiency rate of the existing coal-powered units in thermal power plants in BiH is around 30%, while, according to the Climate Change and Low Emission Development Strategy, the target for BiH is 40% by 2025.

between entities is of crucial importance. Reducing the carbon dioxide emissions with the increasing needs for energy requires new technological solutions and modernization of infrastructure.

Environment

BiH is still at an early stage in aligning its regulations with the EU *acquis* in the area of environment and climate change.

In 2013, the **BiH Council of Ministers adopted a Climate Change Adaptation and Low Emission Development Strategy for Bosnia and Herzegovina**. This strategy focuses on activities enabling economic growth and preventing environmental degradation in sectors such as: agriculture, biodiversity and vulnerable ecosystems, energy, forestry, population health, tourism and water management. The main emphasis is on two closely related components – climate change adaptation and reduction of greenhouse gas emissions.

The Strategy underlines the need of **replacing the existing coal-fired thermal-power plants with the new, more efficient ones that release less emissions**, and promotes use of renewable energy sources. Furthermore, the efforts should step up to improve energy efficiency in construction of buildings, since the buildings account for the most greenhouse gas emissions (60%). In the transport sector, the main goal is to reduce the expected growth of pollution from traffic gas emissions by investing in railways and public transport.

Climate models predict a 2°-4°C **increase in average annual temperatures** over the remainder of this century, with summer temperatures rising by as much as 4.8°C. This situation will require fundamental changes to agricultural, forestry and land management methods. The predicted reduction by 30% in annual precipitation and up to 50% in summer precipitation in the Posavina area and in the south of Bosnia and Herzegovina, will have negative implications for agriculture and forestry, as well as hydroelectricity⁸⁴.

In BiH, the most significant **source of carbon dioxide emissions** is the energy sector which contributes 74% of the total emissions.⁸⁵ Thereby, the potential for lowering the emission of harmful gases is the largest in this sector. Other emission sources include agriculture (12%), industrial processes (11%) and waste (3%). BiH has the potentials to lower the emissions of CO₂ since the 50% forest coverage of the territory represents a significant absorption potential.

Coal and fuel oil are still **predominantly** used for heating in BiH, which affects environmental pollution, particularly expressed during the winter (air pollution).

In 2013, the total calculated **greenhouse gas emissions in the BiH waste sector** amounted to 909,2 gigagram CO₂-eq (equivalent CO₂ emission). This represents a 2.7% decrease in greenhouse gas emissions from the waste sector relative to 2012. The reason for this is the reduction of CH₄ emission from landfills.⁸⁶

Analysis of data on the overall cross-border transport of non-hazardous **waste** in the period 2009-2014 generally indicates to fall in transport of six groups of waste (waste from incineration, metal scraps, glass, paper scraps and cardboard, textile and plastic wastes). Only some categories of waste recorded a moderate increase.

The total volume of **exported non-hazardous waste** in 2014 is 196,937 tonnes, which is by 16.1% more than the year before. Data on exported quantities of non-hazardous waste for the period 2009. – 2014 show a trend of gradual decline caused by reduced exports of non-hazardous slag and ash.⁸⁷

There is no systematic environmental monitoring in BiH nor a reporting system, due to complex division of responsibilities and obligations between the state, entities, cantons and municipalities. Lack of numerous data and indicators is a particular challenge, as well as insufficient capacities for data collection in order to get an overview of the state of the environment in BiH.

⁸⁴ Source: Climate Change Adaptation and Low Emission Development Strategy for Bosnia and Herzegovina, pp 11.

⁸⁵ Source: Progress towards the Realisation of Millennium Development Goals in BiH BiH, 2013
⁸⁶ BHAS, Environmental Statistics No. 1

⁸⁷ BHAS, Cross border transport of non-hazardous wastes

BiH Council of Ministers adopted **Flood Protection and River Management Action Plan** for BiH 2014 - 2017⁸⁸, which creates a framework where the issue of flood protection and river management will be treated in a harmonized and coordinated way both in BiH and at regional level. With regards to water quality, we still lack a consistent approach to water management at the state level. This includes implementing the water laws and monitoring and river-basin management plans.

Mines and unexploded ordnance as remnants of war pose a serious threat to the safety, health and lives of civil population and an obstacle to social and economic development at national and local level. Although the Mine Action Strategy

states that Bosnia and Herzegovina has to be cleared from mines by 2019, the current dynamics does not give reasons for optimism. Demining of the remaining contaminated areas requires considerable resources.

In addition to lack of alignment with the *acquis*, there is **no systematic monitoring and reporting of the state of the environment in BiH**, due to complex division of responsibilities and obligations between the state, entities, cantons and municipalities. Lack of numerous data and indicators is a particular challenge, as well as insufficient capacities for data collection in order to get an overview of the state of the environment in BiH.

Recommendations for improvements in sectors of environment, energy and renewable energy sources include:

- Develop and adopt the BiH Energy Sector Development Strategy BiH;
- Improve coordination between the relevant entity-level laws and policies;
- Adopt a National Energy Efficiency Action Plan (NEAP);
- Implement the Energy Community *acquis* on security of gas and electricity supply;
- Minimise losses of electricity in transmission networks;
- Continue with harmonisation of regulatory frameworks with the requirements of the Energy Community Treaty and the EU standards (including the use of biofuels);
- Develop a National Action Plan for Use of Renewable Sources of Energy;
- Draft regulations for issuing the concessions for use of renewable sources of energy;
- Educate on the importance of energy and energy resources for development of society and raise awareness on energy saving;
- Adopt a state-level Law on Gas;
- Prepare a feasibility study on inclusion of BiH in the Emission Trading System in accordance with the UNFCCC;
- Improve energy generation efficiency in coal-fired thermal power plants at least to 40% by 2025;
- Install at least 150 MW of new energy generation capacities by using renewable energy sources: biomass (in co-generation), hydro-energy and wind;
- Improve energy sector statistics;
- Improve environmental statistics;
- Establish a system for monitoring climate change and all environmental components;
- Improve mechanisms of environmental taxes/levies, fees for issuing concessions etc., in order to implement programmes and projects of environmental protection and increasing energy efficiency;
- Introduce and regularly monitor new, inter-dimensional indicators in accordance with the experience of the EU countries (collection of recyclable waste, water quality, impact of pollution on human health, etc.);
- Introduce and regularly monitor environmental barometer (which would provide an insight into implementation of environmental policies, taking into consideration the specificities of geographical regions, e.g. sensitive eco-systems, main economic resources, tourist potentials, etc.);
- Improve pollutant release and transfer registers;
- Strengthen capacities for preparation of a feasibility study on environmental impact assessment (EIA) at all levels and in the NGO sector;
- Discourage the uncontrolled export of natural resources such as timber in order to preserve forests and environment;
- Establish a practice of regular periodical thematic meetings of competent institutions, particularly between the entity and cantonal institutions, and between cantons and municipalities in the sector of water and environment;
- Develop a study on possibility to establish of a Regulatory Agency for utility sector, which would deal with the analyses and make decisions on justifiability of tariffs for enabling sustainable operations of water supply and utility companies.
- Analyse the implementation of the existing regulations providing for water and environmental protection, including the analysis of legislative and institutional framework for sector of water and water protection in BiH.
- Ensure conditions for establishing a state-level Environmental Protection Agency;
- Adopt a state-level Law on Environmental Protection.

⁸⁸ 119 Session of the Council of Ministers BiH, 21/01/2015

5.3. Transport and communication

Transport infrastructure is an important segment of economic development, creating a competitive business environment, as well as balanced regional development, and it is an important basis for sustainable country development. A developed transport system facilitates and supports mobility of people and goods and, through reducing traffic isolation, enables increased productivity and creates the conditions for balanced regional development..

One of the priorities of the BiH growing economy and social development is **restoration of transport infrastructure and construction of new** infrastructure, as well as alignment of its legislative framework with the EU *acquis*.

In 2014, a state-level **transport policy** was not adopted. In the absence of a BiH transport strategy, what is applied is the Transport Master Plan from 2001, with deadlines which have expired, but it can serve as a good basis for preparing a new strategy, which is a prerequisite to use pre-accession funds of the EU (IPA II). Apart from the importance of transposing the EU *acquis* into the legislature of BiH, the practical implementation of laws is also important, which is realised very slowly in BiH.

Quality of overall infrastructure in BiH is less than satisfactory. The report on global competitiveness of the World Economic Forum (2013-2014) states that the quality of general infrastructure in BiH is unsatisfactory (BiH is in 127th place among 148 countries). The transport infrastructure is in a lower level of development than in the neighbouring countries, whereas, in comparison to the average development of EU countries, BiH falls far behind.

According to the level of development of the road network (which is the most common form of transport in BiH), BiH is placed among poorly developed countries. Although a lot of funding was invested into reconstructing the damaged transport infrastructure through various projects, its current condition is still unsatisfactory, partly due to insufficient funding for regular maintenance.

Quality of roads is less than satisfactory. According to the World Economic Forum report, regarding quality of roads BiH is ranked 104th among 148 observed countries. Road safety is a major concern since BiH is one of the countries with the highest rate of road accidents in Europe.

Construction of sections of motorway within the Corridor Vc was continued in 2014. Corridor Vc, of overall length 336 km through BiH, which would link BiH to the European transport system, should be completed by 2020. It is particularly important for the SEETO network.

The largest number of passengers in BiH is transported in road traffic (around 93%), while railway traffic accounts for merely 3% of all transported passengers. This results in a significant burden for the road infrastructure and an increasing level of greenhouse gases emission. In spite of that, the share of greenhouse gases emissions from the transport sector is lower when compared to EU countries: less than 7% of the total value of emissions, whereas in EU countries the share is around 20%⁸⁹.

The share of railroad transport in the total transport of goods in BiH in the period 2006-2013 shows a negative trend relative to the share of road transport of goods (million t/km). In 2013, the share of railroad transport in the total transport of goods in BiH accounted for 32%, which is 4 percentage points less than in 2011⁹⁰.

The number of registered road vehicles in 2014 was around 921.5 thousand. The number of first time registered vehicles is around 76.6 thousand, which is higher by 3% than the previous year⁹¹.

The implementation of the second stage of railway infrastructure reconstruction in BiH has made progress in 2014. In the first phase, small speed railroad tracks without adequate signalling and telecommunications were reconstructed. Within the second phase of rehabilitation, rail tracks and railroad facilities have been renovated and modernised. The bottleneck

⁸⁹ First National Communication of BiH Under the UNFCCC

⁹⁰ BHAS, Release, Transport, No 4, 2015

⁹¹ BHAS, Release, Registered road motor vehicles in 2014

at Ivan tunnel and Bradina ramp is still hampering the development of combined transport for the Corridor Vc. Regarding intermodal transport, it is important to recognise that development of economic and competitive intermodal transport, as well as system of mobility, is a priority.

Opening of the railway transport market has not yet practically started due to a large influence of state ownership. The financial situation of both entity railroads (which have been vertically integrated) is very difficult. Apart from overstaffing, there is a lack of competent staff, and there has not been a separation of operational functions from the management infrastructure as required by the First Railway Package. The BiH public railway corporation has adopted the BiH Investment Plan for Railway Infrastructure BiH for the period 2015 – 2020, with the development prospective up to 2025. The BiH Railway Regulatory Board has passed specific regulations in 2014-2015 which are relevant for the establishment of a single transport system.

Infrastructure at **the border crossings** has improved, particularly in terms of surveillance and equipment. All border crossings are equipped with biometric passport readers and connected to the integrated system of control of state border crossings and the border police. A new border crossing point has been set up in Bijaca in 2013 as one of the two border crossing points with special border inspection control (BIP⁹²) for exports of goods of plant and animal origin from BiH. The construction of second such modern border crossing point is ongoing in Gradiska. Land expropriation process for construction of border crossing Svilaj is under way. Activities on construction of border crossing points Gorica and Ivanjica are in progress (development of project documentation is finalised).

Inland **waterway transport** network is also a priority but the problem that remains to be solved is demining and rehabilitation of the river Sava waterway. Waterway transport is of great importance since EU Directives require for all hazardous freights to be transported by the inland

waterway to relieve road and rail transport and to improve safety.

Concerning the **air transport**, implementation of the first phase of the European Common Aviation Area has progressed.

In early 2014, the **Bosnia and Herzegovina Air Navigation Services Agency** assumed all powers and staff of entity civil aviation directorates. Since 13th November 2014, the Agency started providing services from 10,000 to 32,500 feet (approximately 3,000 – 10,000 meters), thus taking control over a part of the BiH airspace.

It is necessary to implement further activities in order to **ensure harmonisation with the demands of the Single European Sky Agreement** in other areas before Bosnia and Herzegovina can achieve the completion of Phase 1 in regard to economic regulations and air traffic safety.

In 2014, the number of passengers transported **by air** increased by 19% as compared to 2013, while the volume of transported freight has increased significantly by 62%⁹³.

BiH is actively involved in international cooperation with regards to infrastructure and transport. BiH participates in the International Transport Forum's (ITF) road transport group, Intergovernmental Organisation for International Carriage by Rail (OTIF), as well as the Trans-European Railway project and International Maritime Organisation (IMO). It is also a member of the regional organisation SEETO, where it is participated in the activities of the Road Safety Working Group and the Railway Working Group.

BiH contributes to the implementation of the Memorandum of Understanding on the Development of the South-East Europe Core Regional Transport Network. The EU Strategy for the Adriatic and Ionian Region was adopted in 2014 and, apart from BiH, it includes 7 other countries: Italy, Slovenia, Greece, Croatia, Albania, Serbia and Montenegro. The general goal of the aforementioned Strategy is to sustainable economic and social prosperity in the Region, by improving its attractiveness, competitiveness and

92 Border inspection Point -BIP

93 BHAS Release No. 1, Transport, Air transport , May 2015

connectivity, while at the same time preserving the environment and ensuring healthy, balanced marine and coastal ecosystems.

The main shortcomings in the transport sector are the poor condition of the transport infrastructure and the lack of a state-level transport policy and strategy, and the future challenges in this area are alignment of its legislative framework with the EU *acquis* aits implementation.

According to data of the BiH Agency for Statistics⁹⁴ the **total number of active fixed telephone lines** of dominant operators in 2014 was 853 thousand, which represents a 0.7% increase compared to 2013. The total number of IP telephone subscribers in 2014 was 34.7 thousand, showing a decrease by 14.6% as compared to the previous year.

The total number of **mobile phone subscribers** in 2014 reached 3.5 million and is in stagnation. The percentage of coverage of the BiH population with mobile network in 2014 was 99% and remained unchanged relative to the previous year⁹⁵.

The number of **internet users** in the period 2004-2014 records an ongoing increase and in 2014 it was 2.2 million users. Penetration of internet

users in 2014 was 60⁹⁶.

In regard to the **types of internet access**, in Bosnia and Herzegovina the used types are dial-up access (through an analog modem and ISDN) with 2,304 subscribers, and broadband access with 542,405 subscribers as of 31st December 2014. The trend of decrease of the number of subscribers to dial-up access continued in 2014⁹⁷.

Penetration of broadband internet subscribers relative to the total BiH population (3,832,000) stands at 14.15%. In the structure of broadband subscriptions, ADSL access still leads with 54.8% of all broadband subscriptions, with a recorded increase in cable internet subscriptions and a decrease of FWA subscriptions in comparison to the previous year.

The transfer to **digital television** planned for 2014 was delayed because a digitalisation action plan has not been adopted.

Recommendations for better functioning of the transport and communications sector:

- Na Continue with transposing the EU transport Directives into domestic legislation;
- Adopt Transport Policies of BiH for the period 2014–2020;
- Develop and adopt the Strategy and the Action Plan for Transport Development;
- Develop and adopt the Strategy and the Action Plan for Road Safety;
- Continue with active engagement on implementation of the Memorandum of Understanding on the development of the South-East Europe Core Regional Transport Network (SEETO) and the establishing and activities of the Transport Community (EU and Western Balkans countries);
- Raise the level of bilateral cooperation in transport sector;
- Increase quotas for transport companies permits;
- Continue with activities of building bridges and the de-mining activities of the banks and part of the Sava riverbed on the BiH side;
- Continue with activities of establishing the Sava River Information Service (RIS);
- Adopt the Law on the Agency for the Development of Information Society in Bosnia and Herzegovina;
- Adopt the Strategy for Broadband Internet Access in BiH;
- Intensify the development of broadband access infrastructure;
- Provide broadband Internet access for all schools and educational institutions;
- Continue with harmonisation of the existing and development of new regulations on broadcasting aligned with the European practice, primarily with the EU Audiovisual Media Services Directive;
- Encourage development of digital contents and services;
- Establish and operationalise the academic and research network of Bosnia and Herzegovina.

⁹⁴ BHAS, Release, Telecommunication network, equipment and services for 2014., May 2013
⁹⁵ Ibid

⁹⁶ Regulatorna agencija za komunikacije BiH Godišnji izvještaj 2014.
⁹⁷ Isto

6. Social inclusion

Social inclusion is the basis of social policies within the countries of the European Union (EU). It is a process which ensures that those at risk of poverty and social exclusion gain the opportunities and support necessary to participate fully in economic, social and cultural life and to enjoy a socially acceptable standard of living and well-being in the society in which they live.

The concept of social inclusion has gained importance in public debates on the EU policy in early 1985. It was fully accepted by the document Lisbon 2000 (the so called Lisbon Strategy) which set out a ten-year strategic objective for EU *"to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more better jobs and greater social cohesion"*. At the same time, the instrument for implementation of the Lisbon Strategy, the so called **Open Method of Coordination** (OMC) was set out, which provides a framework for cooperation within and among the member countries whose national policies are directed towards the common adopted development objectives of the community. The real launching of the social inclusion process occurred at the Nice European Council meeting in 2000, when the Council of the European Union agreed on the objectives of combat against poverty and social exclusion which represent the key leverages of the European Social Inclusion Strategy.

The concept of social exclusion is much broader than poverty. It is a process which pushes certain individuals or groups to the margins of society, prevents them in their efforts to live a decent life and fully participate in the society because of their ethnic origin, religious affiliation, class in the society, age or gender differences, disability, financial constraints, lack of formal employment or education, HIV infection, migration status or residence.⁹⁸

According to EU2020 social exclusion is monitored with three indicators based on the SILC survey. Those indicators are the at-risk-of-poverty rate, material deprivation rate and low household work intensity rate. Poverty in BiH is measured on the basis of the Household Budget Survey, which observes the consumption aspect, unlike the SILC survey which observes the income aspect of a household. Material deprivation exists if a household cannot afford three of the nine goods and services necessary for an adequate life. The material deprivation rate for BiH shows that more than half of households cannot afford at least three of the defined nine goods and services, which demonstrates that households can be materially deprived even if they are not poor. There is 47.7% of materially deprived households among all non-poor households, whereas 88.7% of all poor households are materially deprived. In BiH, poverty has been measured since 2001, material deprivation since 2011, while low work intensity households have not yet been monitored.

It is important to accept the social inclusion concept, which means that poverty does not entail just material deprivation and is not only measured through income amounts for physical survival which is the crucial criterion that separates the poor from the general population, but that it also includes numerous other economic, social, educational, health, psychological, political and cultural dimensions, and in fact includes a person's overall life.

Key social policy indicators

The Gross Domestic Product (GDP) in 2013 in nominal terms amounted to KM 26,282 million, which is 2.5% higher in real terms relative to 2012. According to the estimates of the BiH Central Bank, a GDP (production) growth of 0.7% is expected in 2014. The Gross Domestic Product per capita was KM 6,859 or USD 4,654, which, according to the World Bank, places our country among the *upper middle income* countries.

⁹⁸ DFID. (2005). Reducing Poverty by Tackling Social Exclusion, pp.3

BiH is in 81st place in regard to its **Human Development Index** (HDI) which is 0.735.⁹⁹, and is positioned among the countries with high human development. However, in relation to EU member countries (Slovenia, Slovakia, Bulgaria, Romania, Czech Republic, Hungary, Poland), BiH is below the development level of those countries by all indicators.

In 2014, there were on average 701.6 thousand administratively employed persons. In relation to the previous year, the number of employed persons increased by 15.6 thousand, i.e. by 2.3%. In the entire 2009-2014 period, an increase in the number of administratively employed has been recorded for the first time in 2014.

Social inclusion (according to EU2020) is monitored through three indicators: at-risk-of-poverty rate, material deprivation rate and low household work intensity rate. The material deprivation rate for BiH shows that more than half of households cannot afford at least three of the defined nine goods and services, which demonstrates that households can be materially deprived even if they are not poor. The Extended Household Budget Survey (EHBS 2011) provides no data on households with low work intensity.

According to the latest data of the 2011 Household Budget Survey, the **relative poverty line** (standard poverty line) for BiH is KM 416 for an adult single-member household. In 2011, 177,277 households (17.2%) or 566,025 persons (17.9%) lived in relative poverty. Apart from that, it is important to note that 8% of the population is on the edge of poverty but not poor, so it can be said that the poverty and at-risk-of-poverty rate is 25.2%. In 2007, which is when the last previous Household Budget Survey was carried out, there was 18.4% of poor households, i.e. 193,692. A lower poverty rate can be the result of a standard error, so it cannot be concluded that there has been a decrease of the poverty rate. Observing the household consumption structure in 2011, 32% of the total consumption was for food and drink.

Inequality is usually expressed as ratio of total equivalised household consumption of the richest quintile to that spent by the poorest quintile (S80/20)¹⁰⁰. Inequality in 2011 declined relative to 2007. The Bosnia and Herzegovina average in 2011 was 4.3.

It is difficult to talk about the **household income** in BiH, since there are no such data. Nevertheless, we can say that households do not live only on their wages/earnings or pensions but also cash remittances from diaspora, which, according to estimates of the Central Bank BiH were set at KM 2.276 billion in 2014. And are increasing in nominal terms relative to 2012, when they were set at KM 2.092 billion.

On the other hand, as for the household **deposits and loans**, it is notable that deposits are on the rise, while the loans have been increasing at a lower rate than deposits as of 2009. Thus, in 2014, the total deposits amounted to KM 9.0 billion while the total loans stood at KM 7.7 billion, so the net savings at the end of 2014 amounted to KM 1.7 billion. Rise in savings is evident in the period of economic crisis in other countries as well.

6.1. Social protection and poverty

The goal of the social protection system is to contribute to social stability of the country in a way that ensures access to necessary support to the most vulnerable groups of the population. At the time of an economic crisis, this becomes crucial because the number of unemployed persons is increasing, and consequently, the number of persons in need of social assistance is also increasing.

In accordance with its obligations set forth in international and European human rights instruments, Bosnia and Herzegovina is committed to ensure the fulfilment of its citizens' social rights in a just, adequate and non-discriminate manner.

The social protection system consists of two components: social insurance and social

⁹⁹ 2013 Human Development Report (UNDP)

¹⁰⁰ This ratio is convenient only for changes in upper and lower quintiles of households.

assistance. Social protection jurisdictions are set at the entity and cantonal level, which leads to territorial differences and inequalities in the provision of services and benefits. Within the existing social protection programmes in BiH there are different material benefits and services. BiH allocates around 24% of the GDP to social protection programmes, including social insurance and social assistance programmes. The largest share of total social protection expenditures goes to contributory-based programmes, i.e. health protection (10.2%) and pensions (10.1%).¹⁰¹ The realisation of key measures in the area of social protection should contribute to reduction of the number of poor persons, a sustainable pension system, and enhancement of the social and child protection system. However, in 2014 poverty remains to be one of the key problems for BiH.

Poverty is most frequently measured by indicators related to income, whereas the multidimensionality of poverty is observed through long-term or permanent lack of resources, abilities, choices and safety conditions necessary to enjoy an adequate

standard of living and fulfil economic, political, cultural and social rights.

There are two common scientific principles to measuring poverty: absolute and relative poverty. The *absolute poverty line* does not measure poverty relative to other levels of welfare, but attempts to define a consumption value necessary for each person, regardless of time and place.

The most commonly used absolute poverty line is based on food consumption. Nutritionists have established the minimum nutritional requirements taking into account age, gender, activity status, territory in which a person lives, etc. By using the accepted minimal requirements, the absolute poverty line food consumption is defined as the monetary value necessary to meet the minimal norms.

The absolute poverty rate in BiH increased by around 5 percentage points, from 18.6% in 2007 to 23.4% in 2011. In both entities, poverty also increased by around 5 percentage points measured by absolute poverty line.

Table 11: Absolute poverty line

Poverty line	HBS 2007			HBS 2011		
	BiH	FBiH	RS	BiH	FBiH	RS
Absolute poverty line for BiH: KM 205 per capita in 2007 prices (not adjusted for regional differences)	14.0	13.3	15.0	15.0	15.1	14.9
Absolute poverty line for BiH: KM 238 per capita in 2007 prices (adjusted for regional differences, health consumption not included)	18.6	17.4	20.2	23.4	22.7	25.3
Absolute poverty line for FBiH: KM 238 per capita in 2007 prices (adjusted for regional differences, health consumption not included)		17.4			22.7	
Absolute poverty line for RS: KM 238 per capita in 2007 prices (adjusted for regional differences, health consumption not included)			16.8			15.8

Source: BHAS, Household Budget Survey 2007, 2011.

¹⁰¹ World Bank, Public Expenditure and Institutional Review, 2012

Relative poverty compares the standard of one category of the population to another in the same society. While calculating absolute poverty, the threshold is determined, i.e. the general and extreme poverty line. The difference between these two poverty lines is that the extreme line observes only nutritional needs of a persons which are based on the minimum calorie requirements of a persons.

Relative poverty in BiH, measured by the official state-level relative poverty line in the period 2007-2011 is at the same level of around 18%. Relative poverty in BiH as a whole has neither increased nor decreased in this period. The same applies to entity-level poverty measured by the state-level relative poverty line. According to the latest available data of the BiH Agency for Statistics, based on the relative poverty threshold of 60% of the median

consumption per adult equivalent, the poverty line is set at the consumption threshold of KM 416.40 per month per adult equivalent. Based on that, the HBS data shows that 17.9% of the population was at risk of poverty in 2011, which is less compared to 18.2% according to data for 2007.

The relative poverty rate is different in the entities, being higher in RS than in FBiH, and it is the lowest in Brcko District. At most risk of poverty are families with more than two children, the elderly, persons not capable of work, i.e. persons with disabilities, the unemployed and persons with lower levels of education and skills, but also the employed, Roma, displaced persons, returnees, with significant geographic differences between the urban and rural population, as well as gender differences.

Table 12: Indicators of poverty and inequality

	BiH	FBiH	RS	BD
Number of poor households	177,277	104,053	70,574	2,651
Household poverty rate	17.2%	16.0%	19.6%	12.2%
Household poverty gap	25.2	26.2	23.3	20.8
Number of poor persons	566,025	349,756	206,535	9,734
Individual poverty rate	17.9 %	17.1%	19.5%	14.7%
Income quintile share ratio S80/S20 ¹⁰²	4.9	5.2	4.4	4.4

Source: BHAS, Household Budget Survey, 2011.

¹⁰² The income quintile share ratio (S80/S20) is an indicator of income inequalities which represents the ratio of the fifth and first quintile of income distribution, i.e. the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile).

According to data of the Agency for Statistics, every sixth household in the country was poor, and poverty was more prominent in Republika Srpska, where almost one in five persons was poor, and least prominent in Brcko District, where almost one in seven persons was relatively poor. Average consumption expenditures of poor households in BiH are on average by 25.2% below the poverty threshold. In regard to consumption distribution, 20% of the richest households spent on average 4.9 times more in comparison to the poorest 20%. Inequality is higher in FBiH in relation to other parts of the country (5.2 relative to 4.4). In 2011, the average monthly consumption of urban households is 20% higher than the monthly consumption of households from rural areas.

The material deprivation rate for BiH shows that more than half of households cannot afford at least three of the nine determined goods and services, which shows that households can be materially deprived while not being poor. Within the population of non-poor households, 47.7%¹⁰³ are materially deprived, while 88.7%¹⁰⁴ of poor households is materially deprived.

According to the Human Development Report (UNDP, 2013) BiH is in 81st place among 186 countries, with a Human Development Index¹⁰⁵ of 0.735 and a Multidimensional Poverty Index (MPI)¹⁰⁶ of 0.003%. According to this Report, 0.8% of the population of BiH is affected by multiple deprivation. Although, according to this indicator, BiH is placed among the high human development countries, when compared with EU member countries (Slovenia, Slovakia, Bulgaria, Romania, Czech Republic, Hungary, Poland) BiH is below the level of development in those countries by all indicators. According to economic indicators and educational indicators,

¹⁰³ BHAS, Household Budget Survey, 2011.

¹⁰⁴ Ibid.

¹⁰⁵ The Human Development Index includes three fundamental dimensions of human development, which relate to the achievements expected to be made. The dimensions are: - life expectancy, achieved with the ability to live a long and healthy life, - level of education is achieved through the capacity to gain knowledge, - living standard is achieved through the ability to ensure a decent income for life.

¹⁰⁶ The MPI identifies multiple deprivation of households in all three dimensions of human development – in the area of education, health and living standard. The MPI also reflects poverty occurrence and the share of the population living below the poverty line (headcount ratio -H) – that is, the share of the population which is multidimensionally poor – and the average intensity (A) of their poverty – the average proportion of indicators in which poor people are deprived. The MPI is calculated by multiplying the occurrence of poverty by the average intensity of all the poor (H*A). A person is identified as poor if they suffer deprivation in at least one third of the weighted indicators.

those countries are far above the BiH level of development. Development losses due to unequal distribution in those countries are much lower than those recorded in BiH, with the exception of Romania.

Social protection

Social protection in BiH comprises a specific number of rights governed by the Laws on social protection adopted at entity levels. Social protection entails allocations for different types of cash transfers aimed at responding to the critical social needs of the most vulnerable members of society. The existing social protection programmes in BiH only partly alleviated poverty through social transfers in the form of cash benefits, and according to the latest data of the World Bank, BiH allocated 3.9% of its GDP to this type of programmes.¹⁰⁷

This report reviews models of social assistance, i.e. different types of non-contributory cash transfers, including the insight in expenditures and the effects of programmes that should respond to the critical needs of the most vulnerable members of the society. Given the administrative responsibility of the entities as regards social protection in BiH, data given in this report refer to the entity-level programmes of cash transfers. In addition, the cantons in FBiH and municipalities in RS are entitled to implement and finance their own social assistance programmes, which complement the entity-level programmes. Spending for these transfers poses a huge fiscal risk due to a large share of cash transfers, which are still not subject to means testing nor targeted to those most in need.

Table 13: Spending on non-contributory cash transfers (social transfers) in BiH, percentage of GDP, in million KM

	2006	2007	2008	2009	2010	2011
Civilian benefits	1.5	1.4	1.58	1.52	1.46	
Veterans benefits	2.6	2.6	2.23	2.32	2.44	2.05
% of GDP	4.1%	3.9%	3.81%	3.9%	3.9%	
Total benefits:	4.1	4	3.81	3.84	3.9	

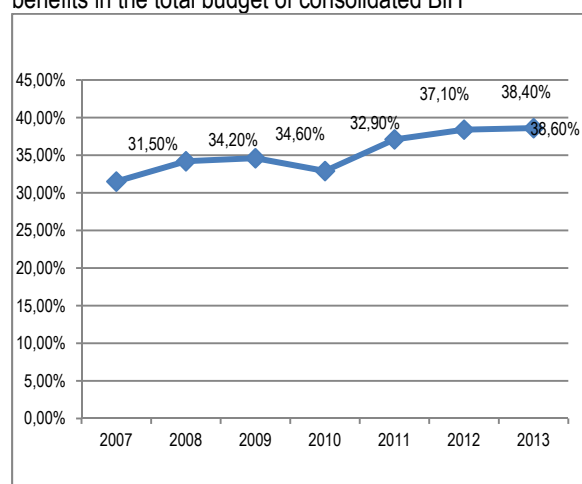
Source: World Bank

¹⁰⁷ Source: World Bank in BiH

As seen in Table 14, the highest level of spending on social protection cash transfers – 4.1% of GDP – was reached in 2006 and followed by a stabilisation at 3.9%. Nevertheless, that level of spending remains the highest among all Western Balkans countries, as well as in the region of Europe and Central Asia.¹⁰⁸ The allocations refer only to entity-level cash transfer programmes. Apart from them, the cantons in the Federation, as well as municipalities in RS can implement and fund their social protection programmes which sometimes complete or double entity-level programmes. When these expenditures are added, total social protection in BiH may account for close to 7% of the GDP.

The share of social protection benefits in the total BiH budget consolidation is very high. According to GFS classification of budget items, this category of benefits ranged from KM 3.01 billion in 2007 to KM 4.4 billion in 2013, and from 31.5% to 38.6% of the total consolidated budget of BiH. It is visible that social protection expenditures significantly grew in the period of emerging crisis, that this was followed by restrictive fiscal policy measures, but the share of the total social transfers in the BiH budgets suddenly increased from 32.3% in 2010 to 38.6% in 2013.

Graph 12: Changes of the share of non-contributory cash benefits in the total budget of consolidated BiH



Source: CBBH, annual operations reports, consolidated BiH, 2013

In 2014, cash transfers, i.e. social protection, were dominated by programmes aimed at demobilised veterans and their family members.

At the same time, civilian benefits, especially cash transfers for the poor and child protection programmes, remained small and provided limited and uneven coverage in the entities.

Spending of high share of GDP on non-contributory social cash benefits, along with inadequate targeting, presents a situation where consumption dominates over investments. The poorest 20% of the population receives only 36.8% of the total amount of cash benefits, which is much lower than their real needs. This type of targeting is quite inferior relative to regional standards. It is the weakest in the Western Balkans region, where the targeting of social protection is mostly good (Albania, Kosovo, Macedonia, Serbia and Montenegro) with over 60%, even close to 80% of all transfers going to the poorest quintile of the population. Targeting of transfers in BiH is among the weakest in the Europe and Central Asia region, with the Social protection systems of Russia and Belarus being the only ones ranked below BiH¹⁰⁹.

In relative terms, the social transfer with has the best targeting is permanent social assistance, which is means tested, as well as other benefits that go through centres for social work, where 46% goes to the poorest fifth, meaning that even these programmes spend over one half of budget funds on families that are not categorised as poor. Other countries in Europe and Central Asia, including Western Balkan countries, manage to achieve targeting accuracy of over 70 or 80 percent.¹¹⁰

Apart from fiscal pressures and a poor effect on poverty alleviation, the domination of categorised (status-based) social protection programmes weakens the supply of labour force and influences the increase of employment in the informal sector. Aside from that, targeting of benefits to those who do not really need them acts as a disincentive and has a negative effect on the labour market.

¹⁰⁸ World Bank in BiH- Challenges and Directions for Reforms, 2012

¹⁰⁹ World Bank in BiH- Challenges and Directions for Reforms, 2012

¹¹⁰ Ibid.

Veterans' benefits

In FBiH, the rights of war veterans and members of their families are governed by the Law on Rights of Demobilised Soldiers and Their Family Members. These rights are funded from the Federal budget. According to this Law, a disabled war veteran is a person who, while performing military and other duties for the purpose of defence within the Armed Forces, participating in defence of BiH, received an injury, wound, illness or deterioration of the illness, which caused damage to her/his body of at least 20%. Pursuant to provisions of the Law, disabled war veterans are entitled to exercise the right to personal disability pension, allowance for long-term care and assistance and orthopaedic allowance.

According to data of the Federal Ministry for Issues of the Veterans and Disabled Veterans of the Defensive-Liberation War, in 2014, these rights were exercised by 93,350 disabled war veterans¹¹¹, divided into ten categories of degree of disabilities, which is by 1,150 beneficiaries less than in 2013. The total funds for payment of rights of disabled war veterans pursuant to the aforementioned Law in 2014 were set at KM 302.9 million, which is less by 3.3 million than the year before. Individual amount ranges from KM 38.00 of disability pension for DWV of the tenth group to KM 1,850.00 for 100% DWV of the first group.

Pursuant to the Law on Special Rights of the Military Acknowledgements and Decorations Winners, the rights were established for a specific number of veterans who participated in defence of BiH and, due to special merits and achievements won a war medal or some other decoration, such as, for instance, a monthly cash allowance. In 2014, these rights were exercised by 4,990 beneficiaries, which is by 390 more than in 2013, for which the amount of KM 16.1 million was allocated from the Federal budget.

Programmes of support designed for protection of veterans and/or families of killed soldiers

account for the highest share of funds, almost two thirds of total spending. The most important decrease in spending related to veterans' benefits in FBiH refers to abolition of benefits for demobilised soldiers. These benefits were introduced in 2006 for a maximum duration of three years. There was not any introduction of new benefits afterwards, but the outstanding debt for these was paid throughout 2010 and 2011. The effects of this change could be felt in the following years, when there was a reduction of total transfers for veterans' benefits.

In Republika Srpska, spending on all types of veterans' benefits significantly increased, particularly in 2009 (Table 17), to stabilise in the period from 2011 to 2013 at the average level of KM 153 million for category of personal and survivors' disability pensions, and KM 11,5 million for veterans' allowances, as well as KM 2.9 million for holders of medals and decorations. In 2014, planned spending on personal and survivors' disability pensions was increased by KM 4.2 million. Apart from that, rights based on the RS Law on the Rights of Veterans, Military Disabled and Families of Killed Soldiers for payment of an annual veterans' allowance were at the highest level in 2013 since 2006. Similarly to Federation BiH, the highest share of spending is accounted by personal disability pensions and survivors' disability pensions.

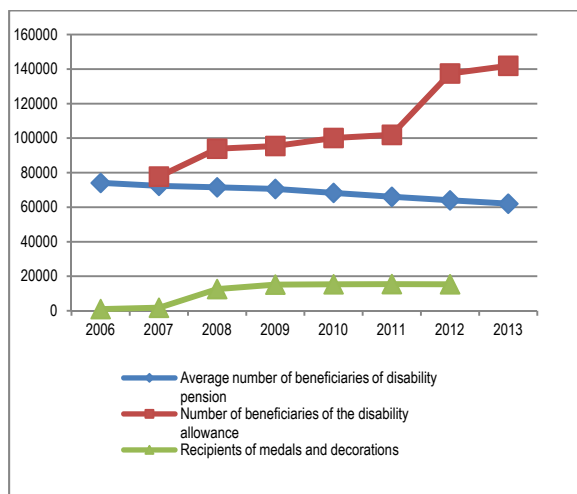
Reviewing the number of beneficiaries and the total disbursed funds for war veterans' and disabled war veterans' benefits, we can observe that the number of beneficiaries of veterans' allowance is permanently growing in the period 2007-2013 (Graph 13) through extending the range of beneficiaries in the Law. In 2012, RS has introduced new cash benefits for veterans when they turn 60 years of age. Until 2012, this was an annual benefit for all beneficiaries, and since 2012 it is realised as a monthly benefit for beneficiaries when they turn 60.

Regarding the number of beneficiaries of military disability pension (personal and survivors'), which accounts for most of the disbursed funds, the number of beneficiaries

¹¹¹ Source: Data of Federal Ministry for Issues of the Veterans and Disabled Veterans of the Defensive-Liberation War, May 2015

has been slowly declining from 72,353, which was the number in 2007 according to data of the Ministry of Labour, War Veterans and Disability Protection, to 62,027 in 2013.¹¹²

Graph 13: Trend in number of veterans' benefits users in RS



Source: RS Government data, Ministry of Labour, War Veterans and Disability Protection, 2014

The entities in BiH have separate systems of war veterans' benefits, but they are very similar, the same as the types and structure of benefits. It is also important to emphasise that veterans' benefits in BiH are not considered a form of social assistance but rather a sort of a compensation for lost working ability and war merits. Data of the World Bank in BiH state that FBiH and RS allocate over 90 percent of entity spending to two main categories of veterans' benefits: personal disability pension and survivors' disability pension.

Persons with disabilities

Bosnia and Herzegovina is committed by its Constitution to provide to its citizens equal and full enjoyment and exercise of all human rights, as well as the right to protection against discrimination on any grounds, including on the grounds of disability. It is estimated that as many as 10% of the population of Bosnia and Herzegovina suffers from some form of physical, sensory, developmental, or mental disability, whereas 30% of the overall population is directly or indirectly affected by the consequences of disability. Persons with

disabilities are the most vulnerable, the most excluded and the most marginalised group in the BiH society. Difficulties and obstacles that this group encounters on a daily basis vary from realisation of the basic needs to the right to move, to pursue education and to work. Although BiH has ratified the UN Convention on the Rights of persons with Disabilities and its Optional Protocol on 12 March 2010, and the Convention entered into force on 11th April 2010, the overall position of persons with disabilities has become alarming.

State institutions at all government levels have made a step forward in this field during the past several years. Disability Policy in Bosnia and Herzegovina was adopted by the BiH Council of Ministers in 2008, as well as the FBiH Strategy for Equalization of Opportunities for Persons with Disabilities 2010-2014 and the RS Strategy for Improvement of Social Position of Persons with Disabilities in RS 2010-2015, but a single register of persons with disabilities still does not exist.

Almost two thirds of the total number of adults with disabilities live at the edge of or below the official poverty line. Furthermore, this population is most frequently exposed to multiple marginalisation and discrimination and its members are excluded on several grounds: disability, gender, age, etc. This social group is most affected by poverty and unemployment.

High and long-term unemployment has a very negative impact on poverty and social exclusion of this vulnerable group. In order to develop the inclusive models, particular attention should be paid to women and children with disabilities. In this report, the analysis of position of persons with disabilities is perceived through opportunities for their education, employment and equalisation of their rights with the rights of DWV.

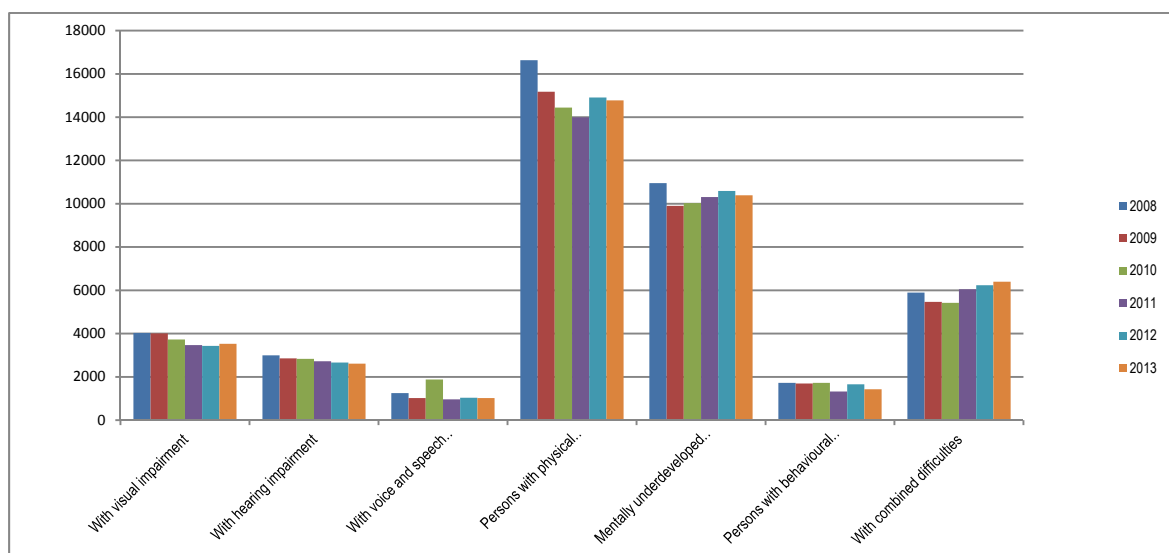
Social protection of persons with disabilities is mostly based on measures pertaining to cash benefits and placement in care institutions. Access depends on the categorisation system of persons with different types of disabilities. The available data on 40,162 disabled adults

¹¹² Data of the Ministry of Labour, War Veterans and Disability Protection RS, April 2014.

beneficiaries of social protection for the period 2008-2013 shows that the total number of adult persons with disabilities who were beneficiaries of social protection in 2013 recorded a decrease as compared to the previous year when this number equalled 40,536 persons.

The highest number of them were in the category of physically disabled persons. According to the latest data of the BiH Agency for Statistics, there were 14,779 of these persons in 2013.

Graph 14: Number of adults with mental and physical disabilities – social protection beneficiaries

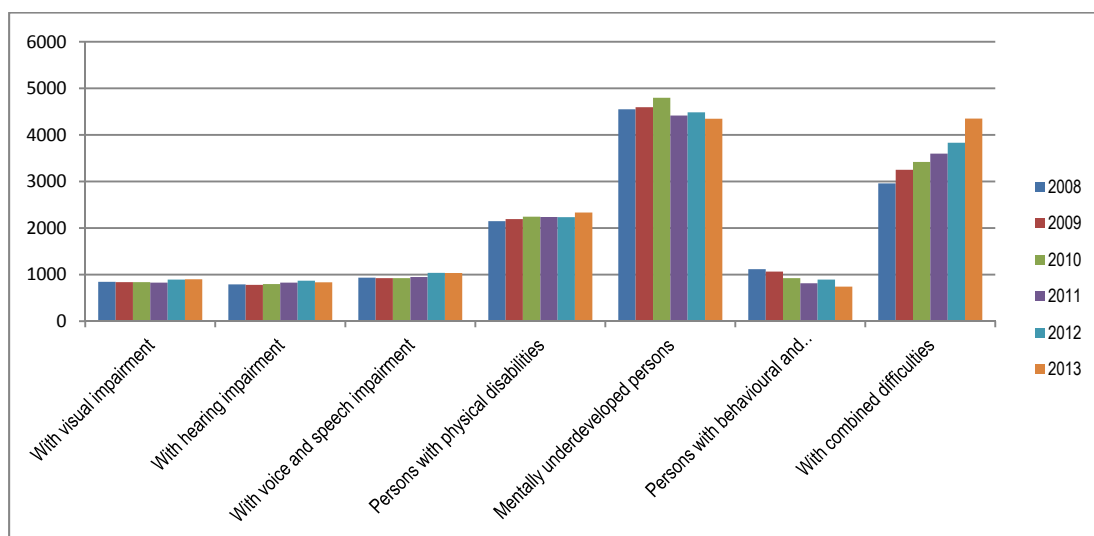


Source: Agency for Statistics of BiH, Social Protection 2008-2013

Regarding minors with disabilities – social protection beneficiaries, the number of beneficiaries has continuously been increasing in the observed period 2008-2013. As compared to 2012, the number of minors – beneficiaries of social protection based on disability has

increased on average by 2% or 296 beneficiaries in 2013. Within this category, the highest number, as many as 4,353, were mentally disabled persons, which is 520 persons more than in the previous year.

Graph 15: Number of minors with mental or physical disabilities – social protection beneficiaries



Source: Agency for Statistics of BiH, Social Protection 2008-2013

In 2014, the amount of KM 119.4 million was allocated from the Federal budget to fund the rights of 40,837 persons with disabilities. That is 7.2 million more than in 2013, when there were 40,997 beneficiaries. Comparing the number of beneficiaries and level of cash allocations for 2013 and 2014 for the category of persons with non-war related disabilities, it is visible that the number of beneficiaries of that rights is almost the same, but that the amount of needed funds to pay them is increasing. Increased allocations are a result of the implementation of a Decision of the Constitutional Court of BiH¹¹³ which erased a stipulation of Article 18.d. Paragraph 4 of the Law on the Foundations of Social Protection, Protection of Civilian Victims of War and Protection of Families with Children, enabling the reintegration of beneficiaries of the long-term care and assistance benefit over 65 years of age, from the cantonal to the federal level.

In 2013, the amount of KM 6.5 million was allocated from the Republika Srpska budget to fund the civilian disability benefits of 3,483 persons.¹¹⁴ Republika Srpska set spending for social protection sector at the amount of KM 1,437.4 million in 2014, as compared to KM 1,385 million in the previous year, which accounts for 35.9% of the total RS Government budget and has a share of 16.5% of the GDP¹¹⁵, whereas spending in the Federation for the same sector in 2014 was KM 754.4 million and accounted for 4.9% of its GDP.

Civilian victims of war and persons with non-war related disabilities in FBiH enjoy by the title the same rights as disabled war veterans. There is, however, an essential difference in coverage of beneficiaries and amount of their benefits. As opposed to DWV, civilian victims of war have been classified into five groups from 60% to 100% of bodily damage. The level of their rights is also different. By the end of 2014, 10,255 beneficiaries claimed the right to personal and survivors' disability pension based on the status of a civilian victim of war. To finance these rights, KM 37.90 million was allocated from the

Federal Budget. A total of 70% of material rights of civilian victims of war in the Federation of BiH are funded from the Budget of the Federation of, whereas 30% of funding required for these purposes is provided from cantonal budgets.

Employment of persons with disabilities in FBiH. According to statistics of the World Health Organisation (WHO), one person in every ten is disabled, while this average is certainly even less favourable in the post-conflict countries such as BiH. What is relevant for BiH is that, out of approximately 200,000 persons with disabilities, most of them receive pensions on different basis, a small share of them works in pre-war companies, some of them, lacking any work capacity, are left to society's care, while in the records of the Federal Employment Institute there are only 8,000 job seeking persons with disabilities. Some of these persons are registered with the Federal Employment Institute solely to exercise their health insurance right, hence this number of 8,000 is highly disputable.¹¹⁶

According to the records of the Employment Institute of Republika Srpska in September 2013, there were 2,490 disabled persons registered in the Institute, which is 232 persons less than in the same period of 2012. This significantly lower number of the unemployed disabled persons in the records of the Institute is not only a result of employment of this population, but also a consequence of gaining a status of retired persons, deletion from the records of the Institute, as well as a result of other demographic factors. Incomes of persons with non-war disabled disabilities in Republika Srpska reflect in benefits they receive from the centre for social work in the local community they reside in, which are paid in the amount of KM 82.00.¹¹⁷

However, even when they are employed, persons with disabilities receive minimum wages, while general reasons for such high rate of unemployment of disabled persons are lack of knowledge and skills required in the labour market, overall unfavourable condition of the BiH economy, low employment capacities and very scarce job openings.

¹¹³ Official gazette No.05/14.

¹¹⁴ RS Government, Ministry of Labour, War Veterans and Disability Protection, April 2014.

¹¹⁵ RS Framework Budget Document 2015-2017

¹¹⁶ "We are Here", Social Inclusion Foundation in BiH, February 2014.

¹¹⁷ "We are Here", author: Sandra Trkulja, An Analysis of the Current State of all Persons with Disabilities and Their Options for Employment and Self-Employment, February 2014.

Labour and employment play an important role in life of an individual. Apart from its economic function, labour also has a significant social and psychological function. One of the most severe consequences of disability is increased social isolation and reduced social inclusion, which is not a result of any person's intention to be excluded. Persons with disabilities are, in comparison to the general population, insufficiently included into the community because their inclusion is not encouraged, they do not have sufficient income to participate various segments of social life and they lack information. There are two predominant employment models for persons with disabilities in BiH:

- Employment in the open labour market, and
- Sheltered employment.

Persons with disabilities and in rehabilitation according to the legal basis and the reason for using the institution. The number of employed persons with disabilities increased by 11 persons in 2013 relative to the previous year. Most of the employed persons with disabilities work in sheltered workshop – 95%, and only 5% of the employed disabled persons work at home.

Table 14: Employed persons with disabilities, BiH (2008-2013)

	2008	2009	2010	2011	2012	2013
Employed PWDs	140	143	99	129	131	142
Total:						
Employed PWDs (sheltered workshop)	139	135	92	120	125	136
Employed PWDs (work at home)	1	8	7	9	6	6

Source: Agency for Statistics BH, Social protection 2008- 2013

In regard to education and training, the existing legislation and legal provisions contain and underline the right to education for all under the same conditions. Nevertheless, the real picture is somewhat different. The obstacles that persons with disabilities face in terms of education are primarily architectural and information-related, followed by unequal access

to educational institutions, prejudice, unadjusted textbooks and teaching aids, etc.

It is important to note that, due to inadequate coordination of the systems of social protection, health protection and education, the adequate programmes of early identification, detection and provision of adequate rehabilitation and education for children with disabilities were not developed. In both the Federation BiH and Republika Srpska there is a developed system of special schools for education of a small number of children with disabilities, but the status of these institutions has not been adequately solved and they usually do not have the conditions for adequate education and upbringing.

Families with children

The Social Inclusion Strategy of BiH (SIS) in the area of child protection and protection of families with children focuses solely on building institutional capacities in the area of social, family and child protection related to improving coordination between different institutions of the social protection system in BiH, strengthening cooperation with civil society and strengthening o the function of monitoring and reporting on the situation of children and families with children. The goal of the SIS was to create the conditions for more efficient administration of public policies in the area of monitoring the situation of children and better targeting of public policies towards the needs of beneficiaries.

Social protection of children and families with children in BiH is organised through laws on social protection, child protection and is primarily implemented through centres for social work and social protection institutions, as well as the Public Child Protection Fund in Republika Srpska. The law specifies different forms of rights based on the human rights principle, which are focused on specific categories of children in the condition of social need. Children are the most vulnerable segment of a society since they depend on the care of their family and community, and it is highly possible that children who grow up in poverty will be at risk of social exclusion and

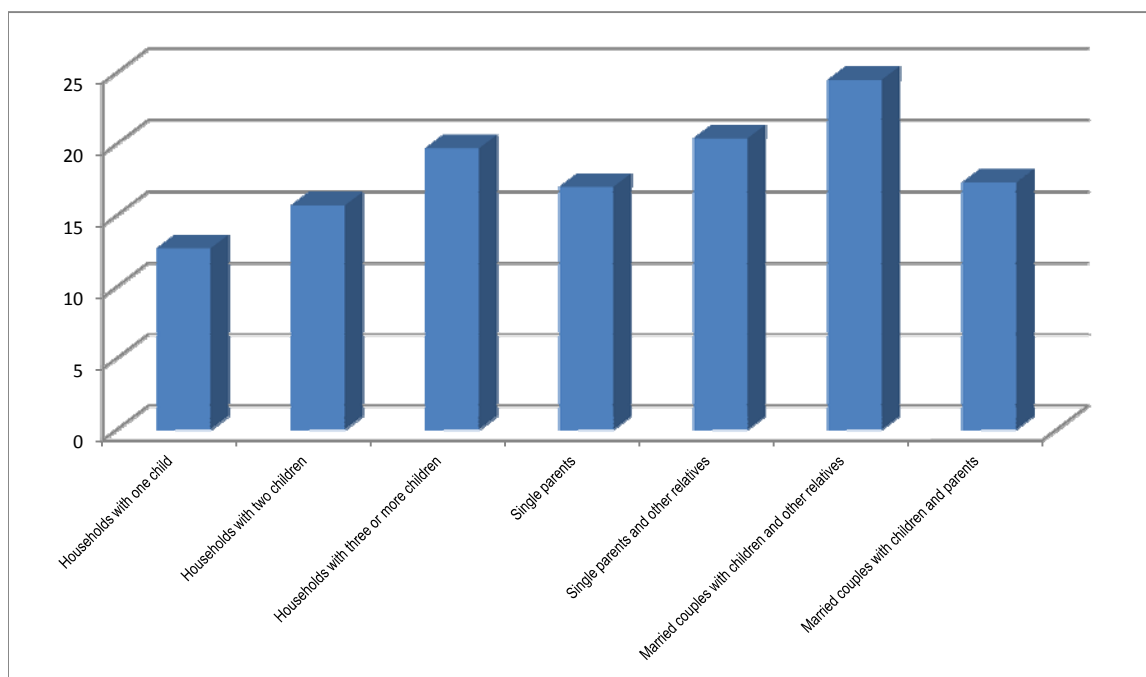
health problems in the future, as well as that they will not fully achieve their maximum potential. Therefore, investing into the welfare of children, as a measure of prevention, results in the breakdown of this vicious circle. Improving the situation of vulnerable families with children at the earliest possible age is the basis for improving social development of children.

The concept of child protection in this report includes the basic indicators of children's wellbeing, the manner of organisation of child protection in BiH, particularly as to the field of social assistance, healthcare and education, as well as specific dependence of children on the responsibilities of their parents and the state as the key factors which, each in their own way, contribute to the wellbeing of a child.

According to the latest data available from the BiH Household Budget Survey (2011) population of children (up to the age of 18) accounts for 20.6% of the population of BiH or 791,000 persons. Out of this number, pre-school aged children (below the age of 6) make 5.6% of the total population or 215,000 persons.¹¹⁸ Federation has a higher number of children (21.7%) while this percentage is lower in Republika Srpska (18.6%).

The same source states that the poverty rate is highest among households with three or more children and stands at 19.7%, whereas 24.5%, is the poverty rate of married couples living with children and other relatives in the same household, and 20.4% among single parents living with other relatives.

Graph 16: Poverty rate according to number of children in households and type of household, 2011



Source: EHBS 2011, Agency for Statistics BiH

¹¹⁸ DEP calculation, based on estimated population age structure and the BHAS estimated total number of population.

The number of underage beneficiaries of social protection is on the decline. In 2012, their total number was 184,720 whereas in 2013 the number decreased by 33,964 persons. The share of female underage beneficiaries (48%) is somewhat lower than the share of male beneficiaries (52%).¹¹⁹ The number of underage social protection beneficiaries in 2013 is the lowest measured in the period 2008-2013, when it recorded a steady increase trend.

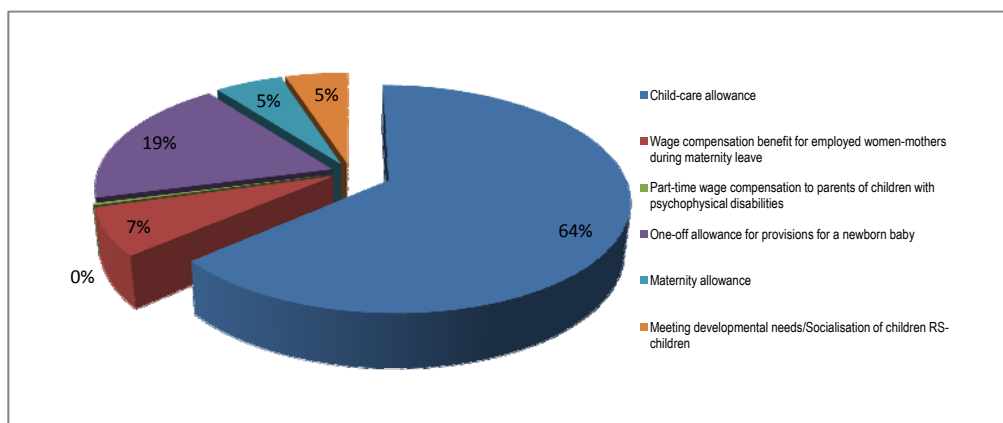
Social protection of families with children is slightly increasing in FBiH and RS. Based on the latest available data of the FMLSP, over the past few years it was noticed that allocations for maternity benefits to working mothers have increased compared to other allocations for child protection and support. In 2012 in FBiH over 55% of all funds for protection of families with children was allocated to this purpose, which is around KM 40 million for 7,282 beneficiaries.¹²⁰ In RS in 2014, this type of benefit also had the highest share in total paid benefits for rights of the Law on Child Protection, as much as 49.6% or KM 26.7 million for 3,445 beneficiaries.¹²¹ The next largest allocation is for child-care allowance with KM 20.97 million for 2014, which is a

decrease of around 212 thousand relative to 2013.

Out of all rights, both in FBiH and RS the **right to child-care allowance** is the one with most beneficiaries. In FBiH, for instance, according to the latest available data for 2012, there were 74.2 thousand beneficiaries of this right, which accounts for 79.4% of all beneficiaries of rights of families with children.

The right to child-care allowance in FBiH is stipulated by the Law on the Foundations of Social Protection, Protection of Civilian Victims of War and Protection of Families with Children, with the intention to create approximately equal conditions for development and education of children in all cantons. In practice, however, this is not the case. The Law failed to stipulate the minimum amount of the child-care allowance or the minimum income sufficient for family subsistence. The Law also failed to stipulate sanctions for cantons if they fail to provide for this right. Therefore, the right to child-care allowance is not exercised in all cantons according to the same rules. The level of this right in FBiH varies from KM 12 to KM 33.

Graph 17: Structure of beneficiaries of the rights of families with children in Republika Srpska in 2014



Source: Data of PU Public Child Protection Fund of RS, May 2015

¹¹⁹ Thematic Bulletin, Social Protection 2008-2013, BHAS

¹²⁰ Data of the FMLSP, March 2014

¹²¹ Data of PU Public Child Protection Fund of RS, May 2015

In RS, the right to child-care allowance is determined on the basis of a means-test, issued by the RS Public Child Protection Fund for each year. Nominal amounts of child-care allowance in 2014 ranged from KM 35.00 for child-care allowance – second child to KM 90.00 for child-care allowance for vulnerable groups. In 2014, there were 31.93 thousand beneficiaries of the right to child-care allowance, representing 64.4% of the total beneficiaries of rights under the RS Child Protection Law.

Out of the total number of households in BiH (1,033,452), 38% consists of married couples with children, and 7.5% consists of single parents with children which is an increase in the number of single parents of 0.4% in relation to 2007. According to data of the BiH Household

Budget Survey 2011, from the aspect of type of household, the highest poverty rate is among married couples with children living with other relatives 24.5%, and among single parents living with other relatives. As opposed to that, the lowest poverty rates are recorded in married couples with one child - 12.7%.

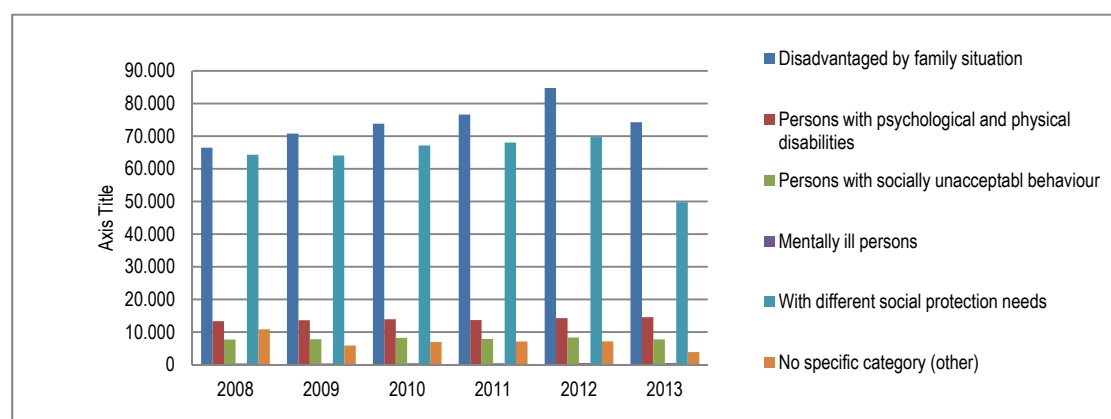
The number of underage beneficiaries of social protection is on the decline. In 2013, their total number was 150,756 which is a decrease of 18.4% compared to the number of beneficiaries in 2012. The share of female underage beneficiaries (48%) is somewhat lower than the share of male beneficiaries (52%).¹²² The number of underage social protection beneficiaries in the period 2008-2013 decreased by 12,362 beneficiaries.

Table 15: Households by type and geographic area, 2007, 2011 (in %)

Geographic area	Type of household					
	MC 1 child	MC 2 Children	MC 3 or more children	Single parents	Single parents other relatives	MC with children + other relatives
2007						
Federation of BiH	14.5	21.7	8.4	7.5	3.9	7.5
Republika Srpska	12.1	15.9	4.2	6.6	3.8	8.3
Brcko District	10.3	20.7	7.7	:	:	:
BiH	13.6	19.6	6.9	7.1	3.8	7.7
2011						
Federation of BiH	15.6	20.6	6.8	8.3	3.2	5.3
Republika Srpska	11.8	13.3	4.1	6.3	4.3	7.4
Brcko District	13.5	16.4	6.9	5.7	:	:
BiH	14.2	17.9	5.9	7.5	3.6	6.0

Source: BiH Household Budget Survey, 2011

Graph 18: Number of underage beneficiaries of social protection, 2008-2013



Source: BHAS, Social protection 2008-2013

¹²² Thematic Bulletin, Social Protection 2008-2013, BHAS

The growth rate of minors – social protection beneficiaries is mainly contributed by category of “persons with different social and protective needs” where 19.9 thousand less beneficiaries were recorded than in 2012. Within this category, the greatest decrease was recorded among persons in need of social protection services – 30% less than the previous year. The largest category remains to be disadvantaged by family situation where children of parents with insufficient income¹²³ make the highest share equalling the number of 55,911 in 2013. The number of children of parents with insufficient income has decreased by 15% in 2013 relative to 2012 when there number was 66,049. The category of persons disadvantaged by family situation include children without parental care, children of parents who neglect or abuse children, children with disrupted development due to family situation, children of parents with insufficient income and neglected children.

There is a significant gender difference among the socially neglected and maladjusted minors-social protection beneficiaries. In the total number of socially neglected and maladjusted children, the share of male beneficiaries makes 66.4%. As compared to the previous year, the number of male beneficiaries in 2013 decreased by 148, however, although the number of beneficiaries in 2013 has decreased relative to the previous year, the number of neglected and maladjusted children is still larger than the average for the period 2008-2012.

Minors in need of different social and protective services are a group comprising 33% of the total number of minors-social protection beneficiaries. These are minors who returned from serving a sentence, persons living in difficult housing conditions, persons affected by natural disasters, civilian victims of war, family members of civilian victims of war and persons in need of social work services. The last mentioned group makes the highest share in this category. In 2013, the share of these persons accounted for almost 88% of the total number of persons in need of different social and protective services.

¹²³ Children of parents with insufficient income – materially disadvantaged families: Children and youth whose parents cannot provide for even minimum financial or social conditions for raising children, such as persons without a permanent source of income, persons with minimal income per household member, unemployed persons, persons with unresolved housing problems.

The number of minors with socially unacceptable behaviour decreased in relation to 2012 by 607 beneficiaries, and it is below the average number of beneficiaries in previous years. The number of minors with socially unacceptable behaviour accounts for 5.1% of the total number underage beneficiaries. Persons with socially unacceptable behaviour include: persons prone to vagrancy, begging, prostitution, committing criminal offenses, alcoholics and drug abusers. In 2013, the majority of this group of underage beneficiaries of social protection consisted of persons prone to committing criminal offenses – 4,305 or 56% of the total number of minors with social unacceptable behaviour. Underage male persons account for 75% of persons prone to committing criminal offenses .

The forms and services of social protection of underage persons are: guardianship and adoption, placement in institutions, educational and protective measures, assistance in vocational training and livelihood, cash assistance and various other forms of protection and services. Regarding the services of guardianship and adoption, the number of services has been constantly decreasing in the 2008-2013 period. Assistance in vocational training and livelihood in 2013 was received by 1,312 minors, which is 34% more than the previous year. Within this category, most persons received the service of education for work and business – 781, which is an increase of 246 relative to 2012.

Refugees and returnees

At the time when the Dayton Peace Accord was signed, according to estimates, BiH had around 2.2 million refugees and displaced persons, which is more than half of the population registered in the 1991 population census.

Table 16: UNHCR-overview of displaced persons and refugees, July 2014

Refugees	6,907
Asylum seekers	15
Returnees	142
Internally displaced persons	84,500
Returnees-internally displaced persons	0
Stateless persons	792
Other	52437

TOTAL:	144,793
<i>Persons originating from BiH</i>	<i>No. of persons</i>
Refugees	22,369
Asylum seekers	4,509
Returnees	142
Internally displaced persons	84,500
Returnees-internally displaced persons	0
Other	52,437
TOTAL:	163009

Source: UNHCR, Statistical snapshot, July 2014.

Return remains to be one of the main challenges of BiH nineteen years after the end of the war. It is estimated that out of 1.2 million of the BiH citizens who left the country in the period 1992-1995, around 400 thousand persons still live abroad. Most of them have integrated in the host countries, with estimated around 80 thousand of refugees from BiH still in need of permanent solutions, including their return as well.

According to the FBiH Ministry of Displaced persons and Refugees, on 31 December 2014, there were 38,820 displaced persons in FBiH, or 13,421 displaced families. According to the latest available data for May 2015 in RS, there were 60,205 persons with the recognised status in 19,301 families.¹²⁴ The largest number of returns was recorded in the first three years after establishment of peace. In the period from 1 January 1996 to 31 December 2014, the total of 1,007,529 persons returned, out of which 739,722 returned to the Federation of BiH and 267,807 to Republika Srpska.¹²⁵

The return of displaced persons and refugees is directly conditioned by planned budget funds of the state of BiH, entities, cantons and municipalities. Allocations from the FBiH Government Budget for transfers to displaced persons and refugees moved from KM 27.75 million in 2007 to KM 27.5 million planned for 2014.¹²⁶ In Republika Srpska, the Government allocated KM 11.65 million in 2014 to the Ministry of refugees and displaced persons, which is in charge of the issues of displaced persons. In regard to the needs of returnees, funds allocated for this purpose are insufficient.

According to unofficial estimates, there are still around 8,600 persons living in collective centres

in very poor conditions, still waiting for their status to be resolved. There is also a significant number of those who have returned and remained in their homes, but still face poverty and difficulties in life. Unofficial estimates state that in 2013 there may have been around 9,00 persons, displaced or non-displaced, residing in 160 collective centres. All of these collective centres are not officially recognised as such. Around 15,000 people were residing in alternative accommodation. The efforts invested until now to close the collective centres were focused on finding better housing in terms of social housing and relocation of persons and families to better housing conditions.

In 2010, the BiH Council of Ministers and entity-level Governments adopted the Revised Strategy for the Implementation of Annex VII of the Dayton Peace Accord, which sets forth the key strategic orientation of BiH regarding the issues of refugees. Implementation of the strategy for reintegration of returnees still poses some issues. Obstacles for sustainable return and reintegration into the local community include difficulties in terms of economic reintegration, access to health protection, social protection, pensions and employment of minority returnees.

The main elements of sustainable return are also its main challenges. They include:

- ✓ *Ensuring access to adequate health protection.*
- ✓ *Equal access to fulfilling educational needs.* According to the Law on Refugees and Displaced Persons, children of returnees have the right to education. Due to difficult conditions, a large number of the children of returnees leave school after completing primary education, especially in rural areas where a large share of children is still required to walk a long way to school. The presence of division in society influences the choice of school and creates additional obstacles to children of returnees and internally displaced persons.
- ✓ *Right to work and employment.* Issues pertaining to work and employment faced by the returnee population are related to the general situation in the BiH labour

¹²⁴ Ministry of Displaced Persons and Refugees, Information on Exercised Rights of Refugees, Displaced Persons and Returnees, June 2015

¹²⁵ Data of UNHCR-taken from: www.fmroi.gov.ba

¹²⁶ Source: FBiH Government, Framework Budget Document 2015 -2017

market (insufficient number of adequate jobs, inadequate skills, ruined economic system, etc.).

- ✓ *Right to social assistance, pension and disability protection.* Lack of harmonisation of entity legislature and the lack of state-level legislature to regulate pensions and other social benefits are the cause of the problems of this population.

Social protection

Pensions

The elderly population (65+) accounts for around 17% of the total population of BiH. The share of women in that population is slightly higher than the share of men. There is also a difference in the geographic distribution of that population – in RS, the share of elderly people in the general population is almost five percentage points higher than in FBiH. The share of the elderly population is on the rise. In 2005 it was 13.7%, and it is estimated that in 2015 it will stand at 16.3% (UNDP). BiH has over 635,700 beneficiaries of pension rights, which is 1.5% more than in 2013. The ratio of the number of employed persons and the number of pensioners in 2014 was 1:1.1. Around 60% of all pension transfers are provided by FBiH, and around 40% by RS.

The debate on reforming the pension systems has been going on for a while, because the existing manner of funding the pension systems is financially unsustainable. In May of 2007, working groups were established for the reform of the FBiH pension system, whereas in RS these working groups were established in February of 2007. The Strategy for Pension

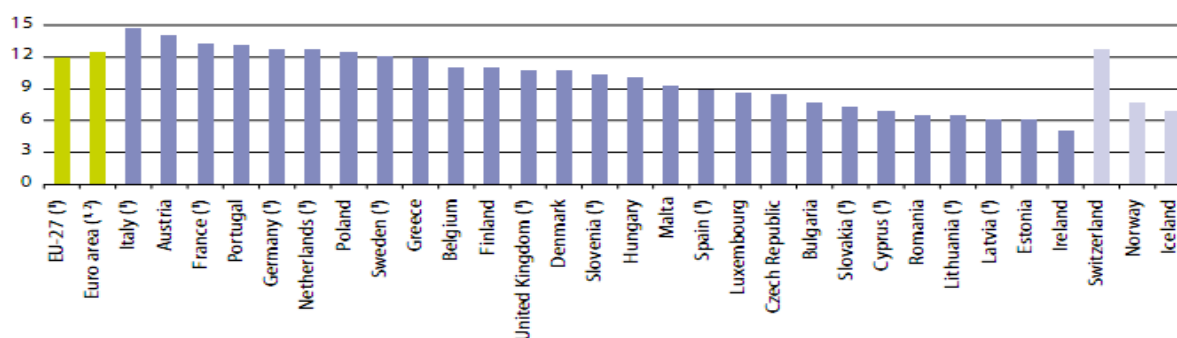
System Reform was adopted in RS in 2009 and is currently being implemented. The Government of the Federation BiH adopted the Strategy for Pension System Reform in 2013, but it has still not been adopted by the Parliament of FBiH.

The share of persons aged 65+ in BiH is 17.1%, and it is below the level in EU 28. In the EU that share is 17.5% of the total population in 2014, and it is continuously increasing (15.6% in 2000).

The old-age dependency rate in BiH is lower than the EU 27 average. The old-age dependency rate at the level of EU 27 is 25.9%. The percentage of the old-age dependency rate is increasing in all countries, including BiH as well. This is an indicator that shows that the number of elderly persons who depend on working age population to sustain their pensions is increasing, whereas the number of persons in age group 25-64 that can provide it to them is declining. What raises additional concern in BiH is the fact that there is a big difference in the coverage of population aged 65+ with the working age population (in 2006 – 17.5%, and in 2013 – 22.4%), and that this ratio significantly aggravated in the short period of time, concretely by 4.9%.

Compared to the EU-27 countries where the average expenditures for pensions in 2010 totalled 12.99%, the BiH share of GDP for pensions in 2010 was lower and stood at 10.2%, whereas, relative to the comparator countries it was higher, except in Slovakia where the share of GDP for pensions in 2010 amounted to 8.4%.

Graph 19: Pension expenditures in % of GDP in the EU countries



Source: EUROSTAT

The average number of pensioners in BiH is continuously on the rise: in 2014, as compared to 2013, this number increased by 2.2%. The number of pensioners in 2013 was 635,700. According to data of the Federal Institute for Statistics, at the end of last year, there were 378 thousand pensioners and 437 thousands workers wherein it is important to note that the number of pensioners is continuously increasing while the number of employed persons is decreasing. This negative trend in the Federation BiH was particularly pronounced in the second half of 2014. The number of pensioners in RS exceeded 238 thousand while the total number of employed persons slightly exceeds 237 thousand. Consequently, the number of the employed persons is almost equal to the number of pensioners, with the ratio 1:1.1.

With regard to the types of pensions, there were no significant changes in 2014, and almost half of the paid pensions were old-age pensions, followed by survivor and disability pensions. Minimum pensions in FBiH did not change in 2013 while there was a 3.5% increase in minimum pensions in RS. As for the types of pensions, there were no significant changes. In both entities, almost half of the retired persons receive old-age pensions (46% in FBiH, 49% in RS), followed by survivor and disability pensions. Although minimum pensions account for 46% of the total number of pensions in FBiH, as opposed to only 7% in RS, the amount of minimum pension in FBiH is almost equal to the amount of average pension in RS (KM 310.7 in FBiH, KM 166 in RS).

In the period 2007-2014, the average pension was over two times lower than the average salary. The average salary in BiH in the period 2007-2014 increased from KM 645 to KM 827, while the average pension increased from KM 263 to KM 353. The average pension in BiH in 2014 amounted to KM 353, which is 4.9% more relative to 2013. The average pension in FBiH decreased by 0.8% to stand at KM 348, due to transferring of a certain number of pensioners in the group with the lower payment coefficient. In RS, the average pension increased by 4.6% to stand at KM 333, while the RS Government made a decision to raise the pensions thereby

increasing minimum pensions by 4% to amount to KM 172.7 as of October 2014. The minimum pension in the Federation BiH increased by 5% to KM326.2. Total pension expenditures in the period 2008-2013 rose by 11% due to the increase in the number of beneficiaries.

6.2. Education

Out of all the factors that increase the risk of economic uncertainty, unemployment, poverty and social exclusion, the most significant and most influential are the level and quality of education. Access to education and its quality are the best means for ensuring economic development, prevention of unemployment, poverty and, consequentially, social exclusion. On the other hand, early school leaving, low level of pre-school education enrolment, inadequate access to education, inequalities/discrimination in education, education that is not networked with the labour market and that does not keep up with the latest reform trends, as well as underachievement in education, all result in a poorly educated population that cannot compete in the labour market either within or outside the country. According to the Human Development Report (2007, UNDP), persons with completed primary education are at most risk of poverty considering the current income levels, while persons with completed university level education are two times more likely to achieve the optimal standard of living.

Fragmentation of the education system in Bosnia and Herzegovina has led to the existence of 14 education policies that are not complementary for many reasons, and are, in some cases, even conflicting. Such a situation has caused the insufficient and inadequate vertical and horizontal coordination of the national education system. Although the BiH Ministry of Civil Affairs coordinates this area at the state level, education is under full jurisdiction of the cantons in the Federation BiH, of the entity in Republika Srpska, and of Brcko District BiH. In the Federation BiH, each of the 10 cantons has its own legislation providing for pre-school, primary, secondary and higher education. In RS, all the levels of education are legally regulated by the entity legislation. Brcko District BiH, as a

separate organisational unit in BiH, has its own legislation providing for each of the four education levels. Such a decentralised system prevents a uniform approach to education policies, amplifies differences in human resources development in different parts of Bosnia and Herzegovina, and generates a series of problems in the hierarchy of competencies, responsibilities and coordination.

Total spending on education

Education in BiH is mainly financed from the public funds of the entity, cantons, Brcko District and municipal budgets. Practically, in terms of allocations, this means that there are 13 separate budgets for education in BiH: two entity budgets, one in Brcko District, and ten cantonal budgets. The amount of allocated funds from the state level practically does not exist. Republika Srpska spends around 4%, while the Federation of Bosnia and Herzegovina spends 6% of its GDP on education. Budget for education of the Brcko District BiH accounts for 11.2% of the total budget of Brcko District BiH. Of the total budget for education, 88% is allocated for gross salaries and compensations for the staff, around 8% for material expenses, and 4% for capital investments.

Pre-school education

The latest estimates on the percentage of children enrolled in pre-school education and upbringing were presented in Multiple Indicator Cluster Survey (MICS) for Bosnia and Herzegovina, implemented within the framework of the fourth global cycle of Multiple Indicator Cluster Survey (MICS 4). According to the Survey results, the percentage of children attending the first grade of primary school who attended pre-school education a year prior to school enrolment in the Federation BiH is 18.4%, in Republika Srpska 13.3% while data for Brcko District are not presented due to a small sample. Percentage of children attending the first grade of primary school who attended pre-school education a year prior to school enrolment for the level of BiH is 16.3%. According to the aforementioned, we can state that coverage of children with pre-school education in a year prior to school entrance is higher in Federation BiH than in the rest of the country. Furthermore, the

percentage of 3-5 year old children included in pre-school education and upbringing is 14.4% for the Federation BiH, 10.3% for Republika Srpska, and 13.1% for Bosnia and Herzegovina.

However, given that pre-school education and upbringing in a year prior to school entrance is prescribed as compulsory under the Framework Law on Pre-School Education and Upbringing in Bosnia and Herzegovina (hereinafter in the text: the Framework Law), it will be necessary to further increase the number of 3-6 year old children covered by programmes of pre-school education. In the BiH 2012 Progress Report, put forward by the European Commission, which established progress achieved in fulfilling the obligations taken over in process of the European integrations, it is stated that there was a slight increase in the number of children attending pre-school education, but no progress was made in harmonising cantonal pre-school education laws with the Framework Law. This assessment refers to three cantons (Middle-Bosnia, Herzegovina-Neretva, and West Herzegovina canton), which still have not adopted the laws on pre-school education and upbringing harmonised with the Framework Law.

In the school year 2014/2015 there were in total 288 pre-school institutions in BiH, which is an 11.6% increase relative to the previous year when there were 258 pre-school institutions. This is the highest recorded annual increase as of 2005, when the total number of pre-school institutions was 193. The number of children attending pre-school institutions has also increased by 8% to stand at 21,468 children. However, the number of the children who were not enrolled due to filled in capacities of the pre-school institutions drastically rose too. While in the previous year the number of not enrolled children was 3,019, the number of these children in the school year 2012/2013 rose to 1,971, which is a drop by 37%. The number of public kindergartens has remained the same (177), while the number of private kindergartens increased to 111 from 81 recorded in the previous year. On average, there were 14 children per one teacher both in public and in private kindergartens.

Formal education

The estimated rate of school attendance for children 6-14 years old is 97.6% for Bosnia and Herzegovina, with 98.9% for Republika Srpska and 97.2% for the Federation BiH. This means that 97.2% of primary school children in the Federation BiH attends school, i.e. 96.9% of girls, and 97.4% of boys. Observing the trends of enrolment in first grade of primary schools in the Federation of Bosnia and Herzegovina for the period between school years 2008/2009 and 2014/2015, for which there are available statistical data, we can establish that the number of pupils enrolled in the school year 2014/2015 decreased by 5,291 relative to the school year 2013/2014, or expressed in percentage by 1.7%. If, however, we observe the upward and downward trends of the total number of primary school pupils, we will establish that in the previous five-year period there was a decline in the total number of pupils in primary schools in Bosnia and Herzegovina. Therefore, the total number of primary school pupils in the school year 2014/2015 was reduced by 39,513 compared to the school year 2008/2009, which expressed in percentages represents a decrease by 16.53%.

Only 83.2% of six-year old children in Bosnia and Herzegovina attend first grade of primary school, with this data even more unfavourable for the Federation BiH reaching 79.7% as opposed to 92.9% in Republika Srpska. This may be related to the fact that some parents in BiH still do not enrol their children in the first grade of primary school at the age of six.

The nine-year common core primary education curriculum was introduced in most schools in the country. The phenomenon of "two schools under one roof" is still present in 34 schools in the Federation, while there are still mono-ethnic schools throughout the country, which makes long-term integration more difficult. There are cases of discrimination of children - members of national minorities.

Early school leavers

In regard to the latest data on leaving school early, in 2013 in BiH 6.7% of persons aged 18-24 in BiH had up to two grades of

secondary school while, at the same time, 14.1% of persons in EU 28 dropped out.

The enrolment rate in secondary schools in BiH is 76.2%¹²⁷. Around 54% of pupils complete secondary school in regular term, whereas only 24% of secondary school pupils continue their education in post-secondary or higher education institutions. Dropping out of secondary education (32.2%)¹²⁸ is, for the most part, related to juvenile delinquency (52.0%), belonging to the Roma population (48.3%), and poverty and material situation of the family (37.9%).

Reasons for early primary/secondary school leaving are multiple. The economic situation in the whole country is very poor and this affects certain households to the point where a certain number of families are in such poor financial standing that the parents are not able to finance their child's education. Also, a certain number of children have limited access to schools, because they live in remote isolated areas that are frequently without access roads for motor vehicles. Such children have to walk as much as ten kilometres to school through difficult and sometimes dangerous terrain. The lack of awareness and information amongst some parents concerning the need to educate their child is also one of the factors behind the non-enrolment of children in primary schools. This is particularly common amongst parents with low levels of education and intellectually disabled parents.

Children with special needs, more precisely, developmentally challenged children or children suffering from a chronic condition through which they are forced to stay in hospital or at home, are groups of children who sometimes either do not enrol in or drop out of the primary education system.

There are also cases of returnee children not attending school. As for these children, there are inadequacies within the education system, particularly regarding the language of instructions which is not their mother tongue. Another vulnerable group comprises children who have reached the age of 15 but have not

¹²⁷ Survey MICS.

¹²⁸ *Research on Non-Enrolment and Primary and Secondary School Dropout in Bosnia and Herzegovina. (MDG F YERP/UNICEF). 2011.*

attended primary school since, according to the law, they should be educated in the adult education system which implies special exams equivalent to primary school grade completion.

Children coming from families in social need, also drop out of secondary education to a high extent. State allocations for such families are negligible, and according to some estimates, for one year of schooling it is necessary to provide between two and three thousand KM. Families where parents are unemployed or only one parent works, have low income and cannot find means to finance further education of their children and, consequently, cannot enable their children to continue schooling.

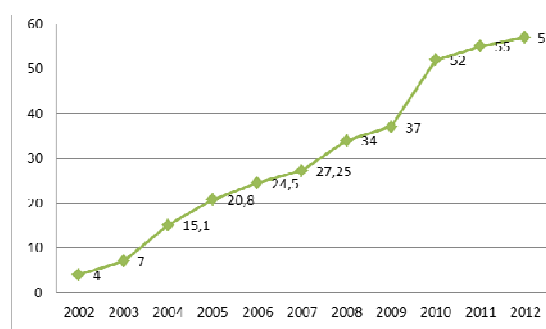
Roma population in BiH is particularly vulnerable. Roma children do not attend school for a number of reasons, most of which have already been identified above. Roma children do not enrol in primary school because, among other things, they do not exist in the eyes of the state authorities, because they do not have a birth certificate or any other identification document. This is frequently the fault of the parents who do not see the need to register the birth of their children since they themselves are not registered and do not know how to register the birth of a child. Roma families often move and change their place of residence and thus do not feel the need to be tied to an area through documentation. High illiteracy rates in this category of population result in a lack of awareness of the importance of education for child development. The third reason why this population records high rates of children who did not complete primary education is the lack of opportunities for education in their mother tongue. Their children have poor knowledge of the languages of the three constituent peoples prior to enrolment in school and only start learning these languages in school, which adversely affects their academic achievements. There is a common opinion, since no official data exist, that a large number of Roma children drop out of primary school. It is estimated that as high as 46% of Roma children drop out of primary school, whereas less than 15% of Roma children in Bosnia and Herzegovina were enrolled in secondary education.

In school year 2012/2013 there were approximately 14 pupils per teacher in primary education in BiH. In the period 2006-2014 this ratio was reduced by three pupils (in 2006 there were 17 pupils per teacher).

According to the latest data, the number of computers available in primary schools in 2012/2013 was 15,095 which is by 1,818 computers more than the year before. The number of 7,565 computers has internet access. The number of computers available in secondary schools in 2012/2013 was 12,349 which is by 835 computers more relative to the previous year, while 8,304 computers have internet access.

The number of internet users in BiH has recorded consistent growth over the past years. Starting from the definition of the International Telecommunication Union (ITU), which states that an internet user is any person aged 16 to 74 who uses internet throughout the year, The BiH Communications Regulatory Agency estimates that in 2013 there were 2,188,429 internet users in Bosnia and Herzegovina, whereas the number of internet subscribers in the same year was 518,662. The internet use rate in BiH has significantly increased in comparison to previous years, by as much as 15%.

Graph 20: Internet user availability in BiH



Source: Communications Regulatory Agency

BiH has reached the Eastern European average in terms of internet accessibility. The rate of internet access in Eastern Europe is on average 50%, i.e. one in two persons has internet access. In BiH, 52% of the population has internet access, i.e. one in two persons in BiH has internet access. The rate of xDSL access has increased in relation to 2009 by 23.2%.

Analysis of the relationship between level of education and poverty

enrolment rate of children from poor families in secondary schools is much lower than average. An Overview of public spending¹²⁹ shows that the enrolment rate of children from poor families is much lower than is the case with their "non-poor" peers, which places them in a far more vulnerable position with regards to poverty. 57.2% of poor children are enrolled into secondary schools (compared to 76.4% of non-poor children), while only 9.3% attend higher education (27.3%).¹³⁰ The same report states that 40% of pupils do not acquire basic skills and competences, and that many pupils attending expensive vocational schools do not acquire enough general education, due to which they are not prepared enough to face the challenges of the modern labour market

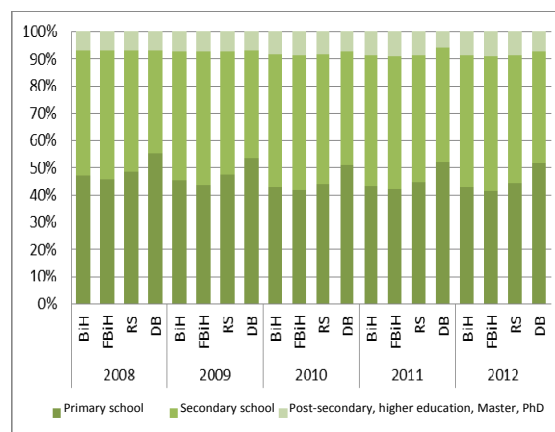
Research for the needs of NHDR for 2007 shows that young people who do not pursue secondary education, after completing primary school are at risk of poverty (57% of them is in the category of the poor). Other risk factors are health problems, physical and mental challenges and belonging to minority groups (such as Roma), and the fact that these young

Tertiary education

The European Union has adopted a Strategy which targets at least 40% of inhabitants with completed higher education by 2020. In Bosnia and Herzegovina this percentage is under 10%, in Croatia 15%, and in Slovenia 22%. The average percentage of individuals with completed higher education in the European Union exceeds 22%. The number of first time job seekers after completing tertiary education in the Federation of Bosnia and Herzegovina is 12,535. One of the problems in Bosnia and Herzegovina is that more than half of enrolled students do not complete their higher education. The issue of high unemployment rate of youth who cannot find their first job is usually related the lack of skills they acquire during education, as well as a mismatch between the BiH

education system and the needs of modern labour market. Furthermore, it is evident that youth lack information and support to start their own business or self-employment with the financial support and incentives.

Graph 21: Share of working age population by attained education level



Source: Labour force survey 2014.

The number of persons aged 25-64 who attended some sort of education programme. In 2014 in BiH the share of adults (aged 25-64) attending some sort of education or training was 2.1%.

The BiH Council of Ministers adopted the principles and standards of higher education. At the level of the Federation there are five accredited institutions of higher education. The documents and procedures for accreditation in the cantons are not harmonised. The statistical agencies of BiH started to practice reporting on educational statistics with the ISCED 2011 classification, in accordance with the demands of the Organisation for Economic Cooperation and Development / International Labour Organisation and Eurostat. Although there are plans to modernise and reform teacher education in the entities, a joint approach and development of national standards would be beneficial for all. There has been no progress in the preparation of a National qualification framework.

¹²⁹ World Bank 2004

¹³⁰ PEIR 2006, World Bank

6.3. Health

The enjoyment of the highest possible standard of health is one of the fundamental rights of every human being without distinction of race, religion, political belief, economic or social condition. The issue of health by far surpasses the framework of the health sector because its main determinants (age, sex and heredity) are related to living conditions, environmental factors, lifestyles, socio-economic factors, nurture, educational and cultural factors.

The connection between health, education, employment and living standard is apparent, therefore, **the improvement of social protection is a key determinant of improving the living standard of vulnerable groups.** Social exclusion and poverty are connected with difficulties in accessing health services, which results in a high infant mortality rate. Therefore, health policy should be focused on the reduction of social exclusion, health and health protection inequalities between regions within the country, as well as between different social groups.

Infant mortality is one of the most reliable indicators of the health of the population, especially children. **The infant mortality rate¹³¹ in BiH is decreasing - from 7.5/1000 live births (2006) to 5.9 in 2013.**¹³² Significant differences are visible within BiH, for example, infant mortality was 3.5 per thousand in Republika Srpska and 7.5 per thousand in the Federation BiH¹³³. The most common causes of infant mortality are specific conditions originating from the pre-natal period (share of 55.5% in 2013).

Health insurance coverage is the basic prerequisite for all the population to have equal access to health care. In 2014, health insurance coverage in BiH was 86.4% in FBiH¹³⁴; 63.9% in RS¹³⁵ and 97.9%¹³⁶ in BD).

Spending on health

Total spending on health in BiH in 2013 amounted to KM 2.531 million (9.6% of the GDP), of which public expenditures accounted for 70% and private expenditures 30%. Real growth rate of total health expenditure in 2013 the real GDP growth rate was positive (2.5%)¹³⁷ while total health expenditure was negative (-2.8%).¹³⁸ A negative real rate was recorded for the first time in 2013 in the period 2009-2013.

In 2010, 2011 and 2012 public expenditure recorded real growth, while in 2013 it recorded a real drop by 4.1%. Unlike public expenditure, private expenditure for health recorded real growth by 1.5%. The cause for the drop in public expenditure cannot be determined because the WHO does not provide insight into health expenditure by purpose or sources of funding (HCxHF) for 2013.

High private expenditure (2.8% of the GDP) is caused by relatively low public expenditure per capita, which cannot meet high expectations of population as to the treatment and enhancement of health (high level of educated population, availability of information, high connection with the European countries), which affects seeking health services in the better developed private sector.

In the private expenditure structure, the share of **direct out-of-pocket expenditure is 97%**, while the share of voluntary health insurance is as little as 0.8%. Direct out-of-pocket household expenditure includes both formal and informal payments. Formal payments refer to: participation in public health-care institutions and participation for medicines, other direct payments with private health-care services (dentists, specialists, diagnostics, prescription glasses, etc.) and payments for non-prescription medicines and other therapeutical aids.

¹³¹ Infant mortality rate shows the relation between dead children up to one year of age per 1,000 live births in a year

¹³² Demographics 2012, Agency for Statistics BiH, December 2013

¹³³ There are no data for BD BiH (mail 15.10.2012)

¹³⁴ FBiH Health Insurance Fund

¹³⁵ DEP calculations based on data on the number of insured persons and estimated population

¹³⁶ Ibid

¹³⁷ BHAS, National accounts

¹³⁸ DEP calculations based on NHA of the World Health Organisation and national accounts of the BHAS

Table 17: Total public and private spending on health in BiH 2009-2013

SHA2 011	In KM million					Share in total expenditure in %					Nominal growth rates (%)				Real growth rates (%)			
ICHA- HF	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	2010 /2009	2011/ 2010	2012/ 2011	2013/ 2012	2010 /2009	2011/ 2010	2012/ 2011	2013/ 2012
Total	2,389	2,428	2,546	2,604	2,531	100	100	100	100	100	1.6	4.9	2.3	-2.8	0.1	2.3	1.2	-2.5
Public HF.1	1,686	1,721	1,815	1,855	1,773	71	71	71	71	70	2.1	5.5	2.2	-4.4	0.6	2.9	1.1	-4.1
Private HF.2+ HF.3	703	707	731	752	758	29	29	29	29	30	0.6	3.4	2.5	1.2	-0.9	0.8	1.4	1.5

Source: WHO, NHA indicators (for BiH), DEP calculations

Health resources

The **number of medical practitioners** in BiH per 100,000 population has been increasing in the period 2006-2010. However, it is far below the EU average: in 2010, it was 173.4¹³⁹ doctors per 100,000 population, whereas that number in the EU in the same year stood at 336.3.

The **number of hospital beds** per 100,000 population in 2010 was 352.7. Over the years this indicator notes a mild increase in the period from 2007-2010. In the same period, the number of hospital beds per 100,000 population in the EU decreased, and in 2010 it was 545.4.¹⁴⁰

The **average length of stay in hospitals** is often used as an efficiency indicator. If all other elements are equal, shorter stays will reduce expenses per discharge and shift patient care towards a less expensive treatment variant. On the other hand, short stay in hospitals can be more expensive per day, and it can also have an adverse effect on the patients' health, because their care and recovery are reduced. If this leads to a higher rate of patient readmissions, treatment expenses can even increase. Currently, there are no data on patient readmission for BiH, but there is data on the length of stay in hospitals published by the World Health Organisation. The average length of stay in hospital in 2013 was 7.4 days and had been decreasing as of 2007 when it stood at 9.4

days. The average length of stay in hospital in the EU was 8.1 days in 2011, while in Croatia it was 9.5 days (2010).¹⁴¹

According to data of the World Health Organisation, there is **one hospital per 100,000 population** in BiH, while the EU average is 2.6 hospitals per 100,000 population. Furthermore, there are 30 **primary health care units (PHCU) per 100,000 population** while, for instance, in Croatia there are 73 PHCU per 100,000 population.

These indicate to a possibility of limited access to PHCU and that these capacities need to be filled in. All this, as well as a low number of physicians, particularly specialists, can cause long waiting lists and inadequate health care and protection, in terms of a physician's time dedicated to a patient, particularly in primary health care where the situation is acute.

Health status and determinants of health

Life expectancy at birth (LE- Life expectancy)¹⁴² is increasing for both sexes. Life expectancy for women has reached the age of 79.0, while for men it reached the age of 74.22. The difference between the life expectancies for men and women is 4.78 years at birth. BiH is above the EU 4 average as to life expectancy at birth, and in the period 2000-

¹⁴¹ WHO Database

¹⁴² Life expectancy is the main indicator of a population's health. Life expectancy represents (statistically) the expected number of remaining years of life at a certain age. It shows the real mortality situation in a country and the cumulative effect of risk factors, seriousness of an illness and effectiveness of treatment and interventions.

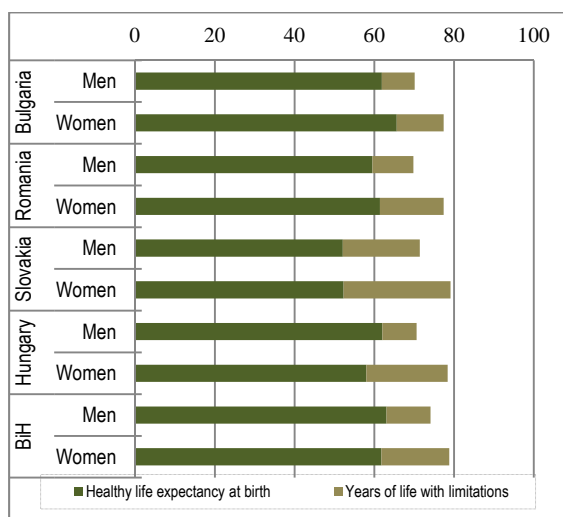
¹³⁹ Latest available data of the WHO

¹⁴⁰ Latest available data of the WHO

2011 it increased by more years than the EU 4 average. In comparison with Croatia and Macedonia, BiH is ranked higher in terms of life expectancy for men.

The life expectancy for women in EU-27 is 82.4 years of age and contains 20.4 years of life with limitations that may include chronic disease or restrictions in daily activities which lead to the need for care or assistance. This means that, on average, a woman in the European Union lives 62 years in good health and 20 years in deteriorated health. **Life expectancy for men** which is 76.40 years of age consists of 61 years in good health and 15.5 years in deteriorated health.¹⁴³ **The difference between life expectancy and healthy life expectancy for BiH** is 17 years for women and 11 years for men.

Graph 22: Healthy life expectancy at birth and years of life with limitations, BiH and comparators, 2009.



Source: Eurostat and WHO

The most common cause of cardiovascular diseases is an unhealthy lifestyle, especially consumption of tobacco and cigarettes. In BiH, **prices of alcoholic beverages and tobacco are on a constant rise**. According to EHBS 2011, 67% of population stated that they consumed cigarettes in the last 7 days and that they spent approximately 30 cigarettes in 7 days on average i.e. that they smoke around 4 cigarettes a day. Consumption of tobacco is more typical of men (17.6%), than of women (11.3%).¹⁴⁴

The Conference for the health sector in BiH established a Working Group for smoking prevention. In FBiH, the Law on Amendments to the Law on Limited Use of Tobacco Products was adopted¹⁴⁵, whereas RS adopted the Law on Prohibiting the Sale and Use of *Tobacco* Products to persons under 18.¹⁴⁶ Both Laws are harmonised with the WHO Framework Convention on Tobacco Control.

A portion of funds raised on the basis of excise duties is still not allocated to the health sector. Entity-level ministries of health have sent an initiative to the Council of Ministers of BiH for possible saving of funds in health by changing the regime of the allocation of funds collected on the basis of excise duties on tobacco and tobacco products, alcohol and alcoholic beverages, beer and wine, and on the basis of the Value Added Tax.

Mortality and morbidity

A total of 35,662 persons died during 2013 in BiH¹⁴⁷, which is by 155 persons less than in 2012. In 2013 a total of 18,217 of men died, which is by 219 less than the previous year. The number of deceased women in 2013 was higher by 64 persons than in 2012 (17,445 vs. 17,381).

The general mortality rate in BiH in 2013 was 9.3 per thousand¹⁴⁸ – which is higher than the rate in 2006, when it was 8.6 per 1,000 population.¹⁴⁹ The average standardized death rate (SDR) in BiH in 2011 for men was 964/100,000 population, whereas for women it was 671.5. Unlike the general mortality rate, the standardized death rate is internationally comparable. In the EU, the SDR for men is 749.5, and 456.2 for women.

Comparing 2007 and 2013, it is visible that there has been a drop in the number of deaths due to diseases of the circulatory system (by 330), and an increase of deaths caused by malignant neoplasms (793 deaths). The largest number of deaths is caused by cardiovascular diseases (**59% of all coded causes of death**

¹⁴³ The difference between life expectancy (LE) and healthy life expectancy (HALE) represents a significant measurement of the effectiveness of health services and the welfare of the population.

¹⁴⁴ WHO HFA, refers to population aged over 15

¹⁴⁵ FBiH Official gazette, No. 50/11

¹⁴⁶ "RS Official gazette" No: 46/04, 74/04, 96/05 and 92/09

¹⁴⁷ BHAS, Demographics 2012

¹⁴⁸ BHAS, Demographics 2010

¹⁴⁹ BHAS, Demographics 2006

for women and 49% for men). The second largest cause of death is neoplasms with the share of 18% for women and 24% for men. Both stated causes of death account for almost 75% of all causes of deaths (20% by malignant neoplasms and 52% by cardiovascular diseases).¹⁵⁰

Prevalence of cancer in BiH is 0.68%, being lower relative to the EU 28 (2.89%) and Croatia 1.1%.

According to WHO data, BiH has a relatively low incidence (number of newly infected) of population **infected with HIV** virus. In 2012,

incidence of HIV in BiH amounted to 0.65 per 100,000 population, while the incidence in EU 28 was 5.82 per 100,000 population. HIV incidence in BiH was increasing in the period 2007-2012, but the reason behind this could be the improved system of registering and monitoring.

According to WHO data, **prevalence of diabetes mellitus in BiH** in 2012 was 2.6%. Prevalence in EU is 4.9%, in Croatia 5.5% and in Macedonia 2.4%.

Recommendations for improvements in health protection:

- Improve health statistics: continually monitor the standardized death rate, life expectancy and healthy life expectancy, risk factors for the health of the population;
- Conduct research in order to determine quality, reliable indicators for monitoring the health of the population with a special focus on the socially vulnerable and excluded groups of the population;
- Conduct research on the causes of death for the age group 15-64;
- Include all actors of the society in monitoring and prevention of HIV and improve measures of early diagnosis and treatment of the infected patients;
- Implement health promotion and prevention measures on an ongoing basis;
- Focus health policy on high mortality rates of the working age population, especially men;
- Introduce new payment methods;
- Allocate a portion of funds collected from excise duties to the health sector;
- Develop health protection actions through policies and strategies addressing the specific needs of men and women and incorporate gender mainstreaming.

¹⁵⁰ DEP calculations based on Demographics 2013, Agency for Statistics BiH