

War Veteran's Policy in Bosnia and Herzegovina

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Pregledni rad

UDK: 364.65-058.66

doi: 10.3935/rsp.v24i1.1367

Primljeno: siječanj 2016.

The paper addresses the implications of war veteran benefits on social policy and fiscal sustainability in one of the two B&H entities, the Federation of Bosnia and Herzegovina. The author attempts to address changes over time and relate these to the process of demilitarisation, as well as the influence and pressures exerted by war veteran associations, which resulted in policies favourable to certain war veteran groups, often at the expense of other beneficiaries and the system's long term sustainability. Social policy and war veteran legislation in the Federation of Bosnia and Herzegovina is status based, which provides scope for considerable discretion by government officials in deciding where to allocate funds. This, in turn, is destabilising public finances, while little is being done to address poverty alleviation.

Key words: war veterans, social protection, privileged pensions, Federation of Bosnia and Herzegovina.

INTRODUCTION

Today's Bosnia and Herzegovina is a complex state with a decentralised administrative government structure, designed as part of the Dayton Peace Agreement signed in Dayton, Ohio in 1995. Dayton ended a four year conflict that had elements of both civil war and foreign aggression. According to Pietz (2004: 15) during the war more than 425,000 people, mostly men, were mobilised into different military forces, organised mainly on ethnic and political grounds. The war caused considerable material and human destruction. Although

the conflict inevitably disrupted the routine business of public administration, the various warring factions did manage to keep some records of their members, including those wounded and killed. This will serve as the main evidence for gaining war veteran status after the war. In fact, the first benefits to family members of deceased fallen soldiers were given during the conflict years. However, the wartime records were incomplete because of discrepancies and inaccuracies, with much detail being impossible to check or verify. Missing persons, which is a continuing problem, and the tendency

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of political actors to overestimate number of victims on their side or their ethnic group, have been particular problems. As a result, Bosnia and Herzegovina only has estimates of wartime combatants and casualties, while the exact number of those that participated as soldiers, in after the war recognised armies, is not known. Regarding the total number of human casualties, Zwierzchowski and Tabeau (2010: 16) estimated number of 104,732, of which 35% of the victims were civilian and 65 % were military. Furthermore, they remark that this could be an overestimation of military victims because some military records included persons that were never in active combat, for example recording wartime deaths of personnel of the Ministries of Defence, police forces and employees of the army related production sector. Also, some families were allowed to register deaths of their family members as military because of pre or post war associations of the deceased or family member with the army or the government. This was all done for the purpose of claiming war veteran family benefits.

Upon signing the Dayton Peace Agreement in 1995 and under supervision of international community, namely Office of the High Representative and the NATO Mission to Bosnia and Herzegovina, the process of demilitarisation started immediately and consisted of several stages. The Dayton Peace Agreement envisaged two separate armies, one in each entity. In the Federation of Bosnia and Herzegovina the army would have two ethnic components – Bosniak and Croat. The first wave of demilitarisation was based on the entity governments' decision from 1998 to downsize their armies by 30% between 1999 and 2001. Another wave

commenced in 2002, when some 10,000 soldiers were made redundant in the Federation, while in Republika Srpska most of demobilised soldiers were retired. In 2003 a state Law on Defence was adopted, which was the precondition for the establishment of a state level Ministry of Defence and formation of a state B&H army. This process was preceded by the closure of the entity Ministries of Defence and disbandment of entity armies by the end of 2004. The whole process of defence reform was followed by gradual downsizing, which was supported by generous benefits for demobilised soldiers and preferential treatment of war related beneficiaries, such as veterans and ex-combatants with disabilities. As a result, demobilised soldiers became the responsibility of the social protection system, despite the fact that majority were of working age and fit to work.

SOCIAL PROTECTION SPENDING AND TARGETING

Social policy and the system of social protection in Bosnia and Herzegovina is organised in accordance to the Dayton Constitution, embedded in Annex IV of the Dayton Peace Agreement. Annex IV gave central state institutions very limited decision making competencies (i.e. foreign policy, customs, foreign trade, etc), while defence¹, economic and social policy are not explicitly mentioned, so that these competencies are automatically delegated to the entities. The Republika Srpska, which is centralised, and the Federation of Bosnia and Herzegovina, where many competencies are exercised through 10 cantons², have most of the decision making

¹ Competencies for defense from entity to state level were transferred as precondition for establishment of state Ministry of Defense and joint B&H Army forces in 2004 and 2005 respectively.

² Each administrative level in the country has executive, legislative and judicial power.

competencies in areas of social protection, economy and the labour market.

The system of social protection in Bosnia and Herzegovina was comprehensively developed during socialist period on the Bismarckian tradition. In the post-Dayton period the system was adapted to the new administrative organisation of the country. Its main components are a system of social insurance organised at the entity level, while non-contributory social benefits administered by entity, cantonal and municipal levels are an auxiliary, but very important, component. The system of social insurance includes pensions and disability insurance, health insurance, unemployment insurance and, additionally in Republika Srpska, insurance for child protection. Social insurance is based on an employment contract and payment of social insurance contributions by employers and employees. Non-contributory benefits in the Federation of Bosnia and Herzegovina are financed from the entity, cantonal and municipal budgets, and from entity and municipal budgets in Republika Srpska. It is important to note that the system of social benefits in the Federation of Bosnia and Herzegovina is completely decentralised, so each canton develops independent social policy related to non-contributory benefits. As a consequence of this, consolidated government expenditure on social assistance in the Federation of Bosnia and Herzegovina is only estimated, while in Republika Srpska this is not the case because the system is centralised.

Despite one of the highest social contribution rates in the region (amounting in total to 42,85% of gross salary), social insurance funds in the Federation of Bosnia and Herzegovina operate with financial dif-

ficulties. This is due to insufficient revenue collected through social insurance contributions, as a result of a low level of employment and tax evasion (under reporting of salaries and unregistered work). On the other hand, social insurance funds are faced with a constant increase in the number of beneficiaries. In addition, as it will be explained later, certain rights granted through social insurance schemes that should had been financed from government budgets contributed to accumulation of debts.

The system of social protection was devised to function well under conditions of stable and high employment. However, Bosnia and Herzegovina in the post war period has never reached its pre-war employment level, which had its peak during the few years before the war³. It has been noted by many (Puljiz 2008, Zrinscak and Stubbs 2009, Woodward 1995) that socialist society was marked by a dualism, where the ruling elite developed a clientelistic relationship towards state owned factory employees, technocrats, war veterans and civil servants as they were the main beneficiaries of the social protection system. Dualism persisted in post-Dayton Bosnia and Herzegovina, but new political elites now have new clientelistic groups. Civil servants are the only old lobbying and clientelistic group that survived the transition (see ICG 2010; ESI 2004). Old war veterans that took part in the liberation movement of the Second World War mostly kept their privileges, but these are relatively modest and very limited compared to benefits of war veterans and demobilised soldiers from the most recent war.

With regard to non-contributory social benefits, Keil (2011:47) asserts that because of the territorial and policy decentralisation,

³ In 1989 Bosnia and Herzegovina had 1,085,300 employed, while in post Dayton period the highest number of employed was at beginning of 2009, 729,207. In additional, high unemployment rates, unregistered work and high inactivity rates especially among women, are characteristic of labour markets in both entities.

the different nationalist parties in power in the cantons and in the Republika Srpska were able to implement a policy that favoured their national group while discriminating against all other groups. This is made possible by designing benefits based on status, a principle that survived socialist times. It enabled social transfers to be directed to those that do not necessarily fall into low income groups.

Looking from aggregate level for the whole country, veterans' rights and benefits dominate the social protection systems in both entities. The table below combines data from both entities and gives an overview of the total non-contributory social expenditure in the country. The table shows that the share of ordinary or civilian benefits is substantially lower than war veteran benefits.

Table 1

Expenditure on non-contributory social benefits in Bosnia and Herzegovina, expressed as percentage of GDP

Year	2002	2003	2004	2005	2006	2007	2008
Civilian benefits	0.9	1.0	1.0	0.8	1.5	1.4	1.4
War veteran benefits	3.1	3.0	2.8	2.6	2.6	2.6	2.5
Total as % BDP-a	4.0	4.0	3.8	3.4	4.1	3.9	3.9
Note: Nominal GDP in millions of KM	13,736	14,505	15,786	16,928	19,106	21,641	22,831

Source: Estimate done by Central Bank of B&H and World Bank Office in B&H; Taken from World Bank (2009), Social Assistance in Bosnia and Herzegovina: Creation of sustainable system based on real needs, page 9.

In Federation of Bosnia and Herzegovina, approximately two thirds of all non-contributory benefits, a substantial proportion of the overall expenditure financed from the entity level, are directed to war veterans. Other social assistance benefits financed from the entity level absorb approximately one quarter of the total spending of non-contributory social transfers. These include two rights-based disability programmes, the civilian victims of war and the so-called non-veteran disability benefits, that absorb the largest share, while

the smallest allocation is for means tested social assistance benefits administered by Centres for Social Work in municipalities (World Bank, 2009)⁴. However, it should be noted that the share of civilian benefits would be even smaller if we would group the civilian victims of war with the war veterans. Indeed, their status is also war related as well as their relatively generous benefits⁵. It should also be noted that part of non-contributory social transfers related to war veterans are directed towards pension funds to finance rights not based on contri-

⁴ Bartlett (2013: 18) estimates that for the traditional function of social assistance for the poor and socially excluded is allocated a mere 1.2 percent of GDP or thereabouts.

⁵ The civilian victims of war have almost the same kind of benefits as war veterans but those beneficiaries receive only 70% of the amount received by respective war veterans.

butions (i.e. privileged pensions and other benefits).

Despite significant fiscal transfers for non-contributory social benefits the World Bank (2009) and IBHI (2013) reports based on Household Budget Surveys for 2007 and 2011 respectively warn that their coverage of the poor is very low. In fact, they state that these transfers are regressive in nature, which means that a higher share of the overall expenditure of these benefits goes to people in the richer quintiles of B&H's population. Moreover, veteran related benefits are the most regressive, with 27% of veteran-related benefits going to people in the richest quintile of the population, while those in the poorest quintile receive less than 15% of veteran related benefits (the World Bank, 2009). However, as Bartlett argues (2013: 20) the distribution of benefits looks very different according to whether the basis of comparison is pre-transfer consumption or post transfer consumption. Namely, the World Bank (2009) and IBHI (2013) analysis is focused on post transfer consumption and we do not know what would be distribution of household consumption without benefits. Indeed some war veteran benefits are so high and it is not surprising that war veteran beneficiaries belong to highest consumption deciles.

Moreover, the World Bank (2009) and IBHI (2013) estimate that without the transfers the relative poverty incidence, which for 2007 is 18% and 2011 is 17.9%, increases only slightly to 19.2% and 19.6% respectively. Hence, the transfers reduce poverty incidence by only 1.2 percentage points for 2007 and 1.7% according to 2011 survey data. This proves that non-contributory social transfers have a negligible impact on poverty reduction.

VETERANS' BENEFITS IN FEDERATION OF BOSNIA AND HERZEGOVINA

When looking into war veteran legislation in the Federation of Bosnia and Herzegovina, this area is complex and difficult to understand for someone not familiar with the way it evolved. This legislation includes numerous laws and by laws enacted at the entity and cantonal level granting numerous rights and benefits, such as grants and low interest loans to buy apartments or cars or to start a business; privileged pension eligibility; special unemployment benefits⁶; payment for holders of military honours, etc. Hence, it is clear that war veteran benefits as part of overall social protection system are under responsibility of both entity and cantonal governments. On the entity level the prime responsibility for war veteran policy lies within Ministry for War Veterans and Disabled Soldiers. However, most war veteran legislation includes rights that are under responsibility of other ministries – for example Ministry of Health and Ministry of Labour and Social Policy for disability status and pension rights respectively. As most war veteran legislation is cross sectorial, its drafting is usually responsibility of cross sectorial group tasked by the government, which relies on expert civil servant contribution from other relevant ministries, but where senior civil servant from Ministry of War Veterans has the lead role. Often these work groups include members of war veteran associations or they are at some point instructed to consult with them and consider their demands. The remainder of this article will present only one segment of war veteran benefits, namely privileged pensions in the Federation of Bosnia and Herzegovina.

⁶ Special unemployment benefit to demobilised soldiers was granted from January 2007 (for maximum of three years, depending on military service) by Law on the Rights of Demobilised Soldiers and Their Family Members.

Currently rights to privileged pensions are granted by the Law on Early Privileged Pensions (*Official Gazette FBiH*, no. 41/2013). The law was developed by the Federation of Bosnia and Herzegovina's Inter-sectorial Working Group, formed in June 2011, and composed of civil servants from the Ministries for Veterans, Labour and Social Policy and Finance, together with two officials from the entity's pension fund. The working group was tasked by the entity government to encompass into new law earlier enacted legislation that regulated this area, which was by decision of Federation B&H Constitutional Court declared unconstitutional (U-40/10 of 05.04.2011)⁷. Prior to the Constitutional Court's Decision the system of privileged pensions consisted of three government decrees and two laws that were introduced to facilitate the reform of the B&H military. This legislation provided early retirement options for a large number of military personnel and civil servants working for the entity ministry of defence that would otherwise be made redundant and left without jobs or income. Furthermore, the legislation granted additional benefits to army volunteers, war veterans and families of fallen soldiers. As a result of this at the time of writing, the Federation of Bosnia and Herzegovina has more than 29,000 privileged pension beneficiaries⁸. This number does not include beneficiaries who have, in the meantime, satisfied conditions for regular pension

entitlement – at least 65 years old and a minimum of 20 years pension insurance contributions. These beneficiaries, in most cases, are no longer counted as privileged pensioners because their pension is being transferred to be paid from general revenue collected through contributions.

Prior to enacting the new law on early privileged pensions and in accordance with the decrees and laws previously in force, the Federation of Bosnia and Herzegovina had approximately 21,000 beneficiaries, whose pensions were administered by the entity Pension Fund. The entity government had an obligation to finance these entitlements⁹. Table 2 gives an overview of the number of beneficiaries and amounts paid for privileged pensions from 2004 to 2008. Since at the time the entity government allocated insufficient funds for financing these entitlements (amounts shown in the fourth column), the entity Pension Fund financed them from its general revenue, i.e. pension and disability contributions. This practice clearly implied a misuse of Pension Fund revenues that, according to legislation, should be used strictly for payment of regular pensions and Pension Fund's running costs.

An impartial reader unfamiliar with B&H politics and system of social protection would be puzzled why the pension fund paid benefits for which they did not have sufficient funds. The answer to this question lies with Pension Fund manage-

⁷ Constitutional Court ruled out that Decrees were unconstitutional because they were enacted by FB&H government and not by Federation of B&H legislative bodies (House of Representatives and House of Peoples), who are responsible for regulating social policy and social protection.

⁸ Apart from this group, Federation of Bosnia and Herzegovina has 354,244 pensioners, eligible on the basis of Pension and Disability Act.

⁹ In November 2009, Federation B&H government changed Decree no. II and no. III with regard to financing. They halved its obligations by 50%, stipulating that remaining 50% will be financed by entity pension fund from military pension contributions (regulated by Article 126 of Federation of B&H Pensions and Disability Act) that are calculated only administratively (hence, these contributions do not go to a separate fund). However, according to FB&H Pension Fund official military pension contributions had been insufficient to finance all required expenditure, so the Fund has been taking money to finance this expenditure from ordinary pension contributions.

ment board nominated by entity and cantonal governments, whose members are responsible for determining the so-called 'pension coefficient'¹⁰. Payment of the first privileged pension benefits started in 2004. This was preceded by a proposal by the Pension Fund Director and Deputy Director to enact the same pension coefficient for privileged pensions as for regular pensions, which was adopted by the management

board. Since the decision on the payment coefficient was not based on the availability of funds, this resulted in the running down of the Pension Fund's reserves and debt accumulation, as shown in Table 1. The debt level had its first peak in 2008, due to the sharp increase in number of beneficiaries resulting from changes to Decree Number III in May 2008 and prior to local elections that took place in October 2008.

Table 2

Overview of number of privileged pension beneficiaries, total amount paid for their pension benefits and incurred debt (amounts given in local currency KM)*

Year	Number of beneficiaries of privileged pensions in December	Total amount paid for privileged pensions	Total amount of funds received from entity budget	Incurred debt for paid privileged pensions
2004	2,611	9,247,519.67	0.00	9,247,519.67
2005	4,533	28,349,016.07	2,230,850.00	26,118,166.07
2006	4,619	29,663,077.76	2,230,850.00	27,432,227.76
2007	8,373	43,414,355.56	71,833,334.00	- 28,418,978.44
2008	16,542	115,977,503.55	68,980,057.00	46,997,446.55
Total government debt				81,376,381.61

* 1 Euro is 1.95KM

Source: Federation BiH Pension Insurance Fund.

Furthermore, at the end December 2008 entity parliaments passed changes to Pension and Disability Insurance Act, which came into effect on 1st January 2009. These changes were mainly related to the harmonization of this law with other relevant entity legislation. However, the proposed changes to the law, as developed by a working group composed of civil servants from Ministry of Labour and Social Policy, Ministry of Finance and experts from Pension Fund, proposed reaffirmation of Article 51 that stipulates a balancing of pension expenditure with pension revenue explicitly for privi-

leged pensions. Experts from the Pension Fund strongly insisted on this. However, the Article was not agreed by the entity's House of Representatives, following lobbying by senior civil servants from the Ministry of Labour and Social Policy, who clearly acted in support to preserving the status quo. Nevertheless, a proposed amendment to Article 94 was passed unnoticed, which stipulates government's financing of earlier granted rights for members of the B&H Army, the Croatian Defense Council and police forces during the 1992-95 conflict that their years of service are counted double for the pur-

¹⁰ It is pension entitlements multiplier introduced by Changes of Pension and Disability Act imposed by Office of the High Representatives in 2000 (so called parametric reform). The appliance of pension coefficient is supposed to balance pension funds expenditure with its revenue and therefore prevent accumulation of debt.

poses of calculating pension insurance¹¹. It is relevant to mention that contributions for the war years were never paid and, in practice, the application of this provision meant earlier retirement for those (mostly men) who could obtain proof that they were members of the armies mentioned during the war. Changes to Article 94 finally recognized these benefits as a budget liability as, prior to these changes, benefits incurred on this account were financed from pension and disability insurance contributions. By the end of 2009 about 78,000 veterans invoked this provision, creating a new obligation of the entity budget towards the Pension Fund of 71 million KM (IMF, 2010). As a result, the total Federation of Bosnia and Herzegovina entity Pension Fund debt by the end of 2009 was 180,979,871 KM (1.2% of GDP).

Recognition of the debt was the subject of a court case that confirmed the existence of the debt accumulated for financing privileged pensions (Federation B&H Pension Fund Director that pressed charges against the government resigned from the position soon after). With the objective of regulating this matter, a law on payment of the Federation B&H government debt for the entity pension fund was passed in 2013. The law stipulated that the debt should be repaid over period of 10 years in 120 monthly instalments starting in 2013.

The table below provides data related to age groups of privileged pension beneficiaries from 2009. It clearly shows that some are very young, being aged below 40, while most are between 45 and 60. Therefore, the majority of privileged pension beneficiaries are below the qualifying age of 65 for regular old age pensions stipulated by the Federation of Bosnia and Herzegovina's Pension and Disability Act.

Table 3

Privileged pension beneficiaries by age group and gender in 2009.

Age group	MEN		WOMEN		TOTAL	
	Number of beneficiaries	%	Number of beneficiaries	%	Number of beneficiaries	%
25-29	1	0.0	0	0.0	1	0.0
30-34	194	1.0	0	0.0	194	1.0
35-39	860	4.6	6	0.6	866	4.4
40-44	1,594	8.5	70	7.5	1,664	8.5
45-49	3,209	17.2	147	15.8	3,356	17.1
50-54	4,009	21.5	185	19.8	4,194	21.4
55-59	5,365	28.7	158	16.9	5,523	28.2
60-64	2,392	12.8	135	14.5	2,527	12.9
65-69	331	1.8	48	5.1	379	1.9
70-74	124	0.7	23	2.5	147	0.8
75-79	92	0.5	39	4.2	131	0.7
80-84	213	1.1	58	6.2	271	1.4
85 or more	242	1.3	49	5.3	291	1.5
Unknown	36	0.2	15	1.6	51	0.3

Source: Federation B&H pension and disability fund, taken from Obradovic, N. (2010), "Pension and Disability Insurance in Bosnia and Herzegovina and Prospects for Pension Reform", *mimeo*.

¹¹ For instance, for someone who spend 3 years in an army during the war, those years are counted as 6 years of pension insurance.

Furthermore, most privileged pension entitlements are substantially higher than regular pension entitlements. For instance, in 2014 the average regular pension was 364KM, while the average pension granted on basis of Law on Service in Military Forces B&H is 1,055.89KM, and 485,44KM for pensions granted under the Law on Early Privileged Pensions¹².

Anecdotal evidence indicates that many of the beneficiaries of privileged pensions have jobs or own businesses, while at the same time drawing pension entitlements. An ICG Report (2010: 18) quotes a Federation of B&H official who estimated that 50% to 70% of veterans receive social benefits illegally and 80% work, but remain registered as unemployed for free health insurance. The estimate that most war veterans and ex-soldiers that receive benefits are working is not surprising given that most of them are of working age. Moreover, the high prevalence of unregistered work and the large grey economy makes it easy for anyone wishing to work informally to do so. It could be argued that the entity government's policies actually encourage unregistered work and the growth of the grey economy, rather than combatting them.

Furthermore, the granting of pension rights to people that are not of pensionable age and without work-related disabilities, diminishes the main principles of a Pay As You Go pension system that rests on the principle that the working age population finances the retirement of those that are old or with disability. Not surprisingly, the IMF in its Country Report of 2010 alludes to the Federation's privileged pensions as a 'Trojan horse', suggesting that it could destroy the entity pension fund.

Faced with a constantly increasing number of beneficiaries, whose financing

has stripped entity budgets and led to instability, while at the same time facing the effects of the world financial crisis from late 2008 that reduced exports and decreased the public revenues, the government requested its first loan from the IMF. The IMF's loan conditionality included cutting spending on social benefits¹³, in particular for war veterans and people with disabilities, who make up the largest social benefit group in the Federation of Bosnia and Herzegovina. As a result of this pressure, several legislative changes were introduced, including a Law on Revision of Payments to War Veterans, which was passed at the end of 2009. However, the law stipulated only principles of audit, while all other important issues were left to bylaws. The plan was to audit all veteran related payments including rights to privileged pensions. Unfortunately, most of the legislative changes introduced as part of the requirements for the IMF's Stand by Arrangement failed to reduce the entity government's expenditure for the groups targeted.

The problem is that all enacted war veteran legislation is based on notions of right and reward, rather than a demonstrable material need. Those rights are presented as entitlements for those who fought for a political or ethnic group and to whom the current political elites owe their privileged positions; thus, war veterans just demand their share of the rewards. Impeding these rights would be presented as impeding on the current political establishment. As a result, they are not questioned. Demands for reductions in spending on war veterans are always presented as a call for revision of beneficiaries and the need to distinguish between false war veterans that are abusing the system, and the real, deserving war veterans. In addition, war veteran groups

¹² Pension entitlements for this group have been substantially reduced with adoption of new law in 2013.

¹³ See Bosnia and Herzegovina: Letter of Intent to IMF, from 16. June 2009.

are also an important political lobby (Kiel, 2011:49), which can to some extent explain subsequent failures of this process.

At the same time as the entities adopted some reform legislation demanded by the IMF, the state parliament changed the Law on Service in Military Forces on 7th September 2010. This was just prior to the general election planned for 5th October. The amendments to the law included changes to Article 48, giving the Ministry of Defence of Bosnia and Herzegovina the power to put forward for early old age pension any soldier who had spent at least two years up to 1995 as a member of the Army of B&H, the Croatian Defence Council or the RS Armed Forces, and who was on 1st January 2010 made redundant from B&H Armed Forces because it was not possible to extend his or her contract in line with the law¹⁴.

Since entity pension funds have experienced difficulties in paying entity privileged pensions, the Federation of Bosnia and Herzegovina Pension and Disability Fund only granted the new entitlements provisionally and made them conditional on receiving advanced additional allocations from central government to cover the additional costs. Since the law had been passed by state parliament, former soldiers protested in front of state parliament for days, as parliamentarians discussed the budget for 2011. The state Minister of Finance was adamant that the state budget did not have additional funds for this purpose. The protests continued throughout 2011 as a new government was formed, with the budget for that year endorsed only at the end of 2011. There were many attempts to seek agreement to finance these entitlements from the state budget, but these were opposed by RS representatives (whose entity pension fund had not recognised this state legislation).

By early January 2012 it was clear that additional funding from the state budget would not be forthcoming. The Federation government passed a Decision to transfer a total of 1,400,000KM from the state electricity company (JP "Elektroprivreda BiH") and public telecom operator (BH Telekom) to the entity Pension Fund to finance minimal pensions entitlements for these beneficiaries. The amendments made to the state Law on Service in Military Forces on 7th September 2010 were abolished 2012 in order to prevent the creation of additional privileged pensioners, especially as the state was unable to meet the financial implications of its own legislative changes.

Ultimately, attempts to reform the privileged pension component resulted in a Law on Early Privileged Pensions (Official Gazette FB&H, no. 41/2013) that incorporated rights granted under previous legislation (three decrees and two laws) and granted additional rights to groups that were not earlier included. Hence, despite IMF's loan conditionality, the number of privileged pension beneficiaries increased by approximately 9,000.

The threats of the privileged pension component to the contributory scheme are potentially significant. The number of war veterans and ordinary pensioners that took part in the war of 1992-95 as members of one of the armies and who could, therefore, double-count these years for pension purposes is likely to increase, potentially including all who fought. Thus, the government's bill for financing Article 94 is constantly increasing as more people going into retirement are using this provision. Currently, the cost of financing Article 94 in the Federation is over 9 million KM per month.

The difficulties in meeting payment obligations related to privileged pension

¹⁴ The law stipulates termination of Army contract upon reaching the age of 45.

beneficiaries from the Federation budget are constantly increasing. In addition to increased expenditures, the pension fund revenues collected through contributions are also insufficient to finance current level of ordinary pensions granted under Federation B&H Pension and Disability Act. All pensions are paid with delays, which are likely to be prolonged in the future. Government and the Pension Fund officials are reluctant to admit that funds are insufficient and reduce pension entitlements. Nonetheless, there is always a temptation to squeeze the ordinary pensions in order to accommodate the financial demands of privileged pensions as war veterans' pressure groups are more to be feared than old, feeble and underprivileged regular pensioners.

Benefits that were initially conceived as temporary post-war assistance have become a systematic allocation. In addition, there is a growing evidence that these benefits are prone to abuse, based on fake claims, documents and witnesses (ICG, 2010:18). It is known that medical boards¹⁵ can be bribed to certify higher grade degrees of disability, and that faked documentation and false witnesses have been used by many to claim benefits. All this was supported by political parties and veterans' associations. Veterans associations receive grants from all levels of government on a regular basis and play a very influential role in the political arena. Often they are used by political leaders against their opponents.

CONCLUDING REMARKS

The system of social protection in the Federation of Bosnia and Herzegovina has been directed towards meeting the needs

of those that were active in armies during the war, or were affected by war or remnants of the war, while the needs of other social groups have been neglected and are of marginal interest to policy makers. Because of generous benefits provision and special ad hoc arrangements enacted to secure elections support, the war veteran legislation clearly shows connections between political parties in power and war veteran groups. Most legislation, which secures financial benefits for these groups, is drafted and passed for short term political gain, in an ad hoc manner and without proper consideration of the consequences, especially the financial cost. The latter may be due to the incompetence of civil servants and officials working on war veteran legislation, or to governments and parliaments who have little interest in knowing.

Furthermore, war veterans are very well organised and their associations are financed by the government. Compared to them other social players are incredibly weak and silent, especially the unemployed, poor and marginalised. In view of the weak organisation and capacity of other social partners, the war veteran groups and groups of those affected by the war have become important pressure groups in the country's political system.

The Federation government's expenditure directed to war veterans' benefits has destabilised the entity and pension fund budget. Without assistance from international financial institutions, namely the IMF and World Bank, that provided loans and budget support the situation would be unsustainable. The pressure will persist in the future. On one hand, there will be the challenge of meeting the ever increasing

¹⁵ Medical Boards are organised through Institute for Medical Examining in Federation of B&H (*Institut za medicinsko vjestacenje FBiH*) that does medical grading of disabilities for all social protection sectors, but in accordance with different rules depending of beneficiary's status. Institute's director is SDA Party official and member of one cantonal parliament, which is a clear example of conflict of interest.

demands from these war veterans' pressure groups that are especially prominent prior to elections; on the other hand, there is a shrinking public budget and continued economic depression. The most likely future scenario is likely to involve pressure to increase government expenditure and debt in order to meet the needs of all social protection beneficiaries, including war veterans. A similar policy towards problems of this kind has been seen in the past, as no one in the government has had the courage to reduce benefits. Such a situation creates space for non-transparent bargaining between certain lobbying groups and government and for making payments to some, while neglecting other beneficiaries. Such practices destroy the system and its credibility, intensifying mistrust by the public and beneficiaries and creating long-term negative effects for the system of social protection and governance in general. It is difficult to see how a state with such a burden of non-transparent and discriminatory social policy making can be on the path to progress and development.

Change will be difficult. It is unlikely that any reform of the social sector in the Federation of Bosnia and Herzegovina will lead to any significant changes, because leading political parties and war veterans' groups, as their most loyal electorate, are not likely to loosen their grip over public financial resources, which sustain the current political elites in power. However, the creation of an impartial system of social protection that would function strictly in accordance with well-composed legislation, targeted to reduce poverty and address the social risks of those in real need, would break the chain of dependence. This would trigger positive changes in both the labour market as well as promoting the democratization of political system.

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Sažetak

BRANITELJSKE MJERE U BOSNI I HERCEGOVINI

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U radu se razmatraju implikacije braniteljskih naknada na socijalnu politiku i fiskalnu održivost u jednom od dva entiteta Bosne i Hercegovine, Federaciji Bosne i Hercegovine. Autor nastoji obuhvatiti promjene tijekom vremena i povezati ih s procesom demilitarizacije, kao i s utjecajem i pritiskom braniteljskih udruga, što je rezultiralo mjerama koje pogoduju određenim grupama branitelja, često nauštrb drugih korisnika i dugoročne održivosti sustava. Socijalna politika i zakonodavstvo koje regulira status branitelja u Federaciji Bosne i Hercegovine temelji se na statusu, što vladinim dužnosnicima daje prostor za značajne diskrecijske odluke o dodjeli sredstava. Time se destabiliziraju javne financije, dok se malo toga poduzima u borbi protiv siromaštva.

Ključne riječi: ratni branitelji, socijalna zaštita, povlaštene mirovine, Federacija Bosne i Hercegovine.