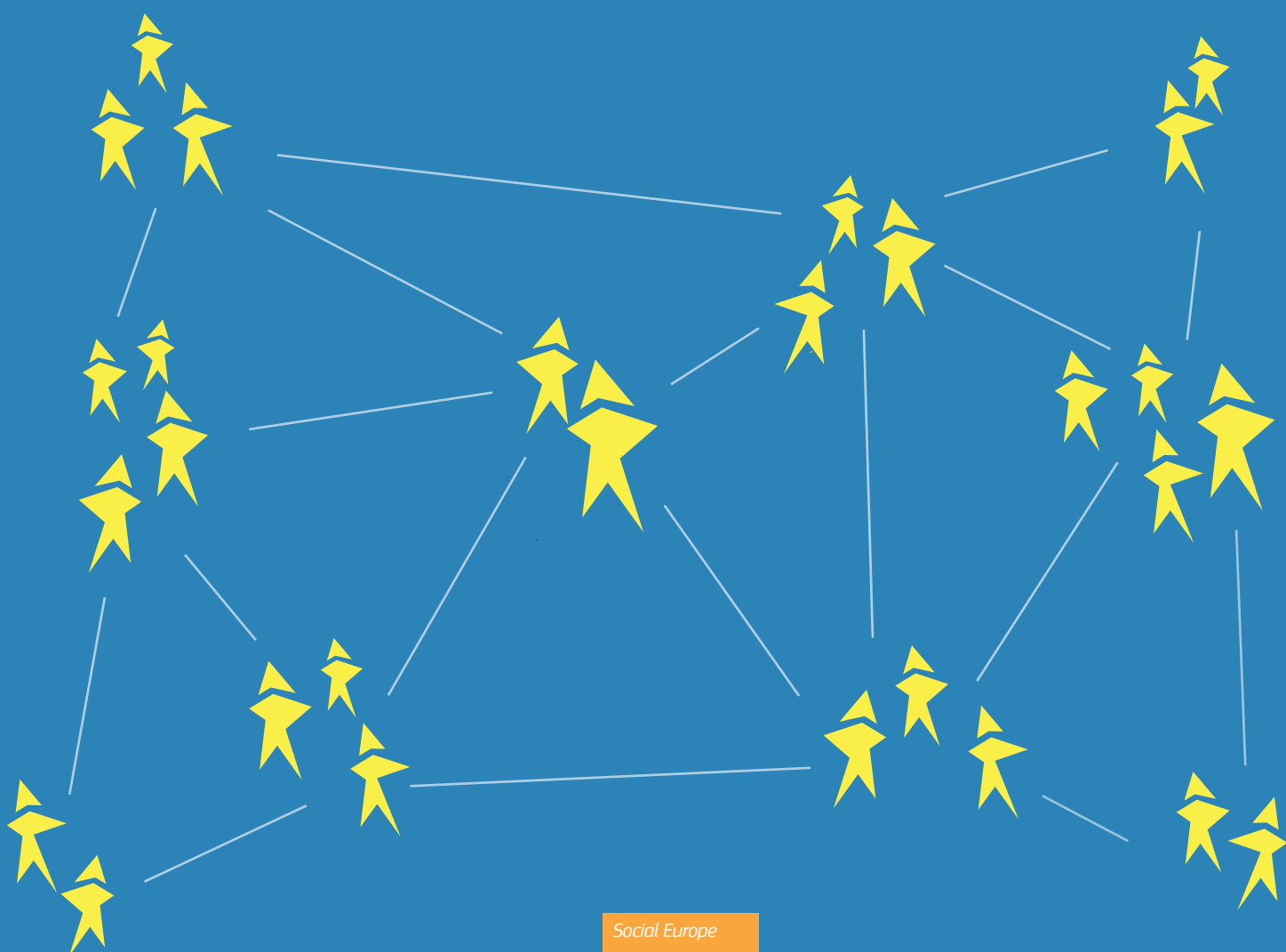




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# In-work poverty in Bosnia and Herzegovina

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Social Europe

**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion

Directorate C — Social Affairs

Unit C.2 — Modernisation of social protection systems

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**European Social Policy Network (ESPN)**

**ESPN Thematic Report on  
In-work poverty**

**Bosnia and Herzegovina**

**2019**

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Quoting this report: Obradović, Nikolina, Jusić, Mirna, Oruč, Nermin (2019). ESPN Thematic Report on In-work poverty – Bosnia and Herzegovina, European Social Policy Network (ESPN), Brussels: European Commission.

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## Summary

Our analysis shows that, for many people in Bosnia and Herzegovina<sup>1</sup> (BiH), having employment does not guarantee a way out of poverty. By applying the EU at-risk-of-poverty methodology for the in-work poverty risk<sup>2</sup> (IWP) to Household Budget Survey (HBS) income data from 2015, we determined the monthly at-risk-of-poverty threshold in BiH to be EUR 104.60. This threshold was equal to about half the level of the minimum wage in the Republika Srpska (RS) (EUR 225.60), and rather more than half of that in the Federation of Bosnia and Herzegovina (FBiH) (EUR 168-193). It was also approximately equal to the absolute poverty threshold estimated several years earlier using the World Bank methodology based on minimum consumption levels. Despite a very low at-risk-of-poverty threshold, our estimate for 2015 shows a very high IWP rate of 24.5%, which is staggering by European standards.

Our analysis points not only to an apparent problem of low wages but also, as indicated by other studies, to low work intensity on the part of individuals, and a problem of people being in employment but not receiving wages. A number of factors contribute to IWP in BiH. One is labour market segmentation: not only between secure public employment and more insecure private employment, but also between permanent and temporary work and between formal and informal work, in addition to expected differences by industries. The privilege of access to public sector employment is controlled and guarded by political networks (Weber 2017; Blagovcanin and Divjak 2015): conversely, in the private sector employment is precarious, and legal protections are poorly enforced, blurring the line between formal and informal employment. Because of extensive labour market informalities, minimum wages generally serve as the base for calculating taxes and social contributions. The tax burden on labour in BiH (and especially in the FBiH) is considered to be high. Studies suggest that labour taxation is characterised by progressivity for those earning below 50% of the average wage, which deters low-wage earners from entering the formal labour market and traps them in informal work or even inactivity. Measures such as in-work benefits, which could help ameliorate IWP as well as promoting labour market inclusion, are absent in both parts of BiH.

Many years of active labour market policies (ALMPs) implemented by the public employment services have done very little to generate new good-quality employment or improve labour force employability. Given the prevalence of low educational attainment among workers who are at risk of poverty, the absence of good-quality education and training provision (needed to allow people to secure better-quality jobs) represents a particular obstacle. Various shortcomings in the education and training systems in BiH have been identified over the years, and persist today, including weak links between the education system and the labour market. Moreover, workers are constrained by a lack of access to good-quality childcare and other types of care services that would allow them to increase their work intensity. This aggravates women's position in private sector employment, where labour legislation is poorly applied and women's employment position is particularly vulnerable. Childcare and pre-school education absorb a significant portion of household income. This deters parents, and especially women, from using such services, usually at the expense of women who decide to take care of children and who end up outside the labour market, often on a low family income.

Policies that would explicitly tackle IWP have been completely missing from the agenda of successive governments, and IWP has also not been the focus of projects supported by international donors. Generally slow progress in implementing reforms, coupled with governments' reluctance to publish IWP estimates and wage levels based on survey and

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<sup>1</sup> Bosnia and Herzegovina is made up of the Federation of Bosnia and Herzegovina (FBiH), Republika Srpska (RS), and the District of Brčko (a separate administrative unit established in 2001). Because of its small population and territory, our analysis does not include the District of Brčko.

<sup>2</sup> For ease of reading, in the rest of this report we will refer to this notion, and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

administrative data, illustrate governments' lack of interest in ameliorating the situation of the most vulnerable in the labour market.

## 1. Analysis of the country's population at risk of in-work poverty

In Bosnia and Herzegovina (BiH), Household Budget Surveys (HBS) serve as the main reference point for poverty analysis. The last HBS was conducted in 2015 and included 7,702 households: 4,643 in the Federation of Bosnia and Herzegovina (FBiH), 2,607 in Republika Srpska (RS) and 452 in Brčko District. To measure poverty, the official statistics agency applies relative poverty methodology to HBS consumption data, where the poverty threshold is determined at 60% of the median equivalised<sup>3</sup> household consumption (Agency for Statistics 2018c, p.59). One of the reasons for this is that the income module in the HBS has been considered to be underreported, although it was significantly improved in 2011 and 2015 (Šabanović, 2017; 2018).

For the purpose of this report, we estimated IWP by applying the EU methodology to the 2015 HBS income data. Table 1 below presents our at-risk-of-poverty estimates alongside those produced by the Agency for Statistics (2018c) based on 2015 HBS consumption data, which gives us an indication of BiH particularities. By applying EU methodology, we arrive at a risk-of-poverty threshold of EUR 104.60 per month, which is just over half the poverty threshold (EUR 199.60) estimated by the Agency for Statistics. Despite having a lower at-risk-of-poverty threshold, our risk-of-poverty rate for individuals was substantially higher than the rate estimated by the Agency for Statistics – 27.0% vs 16.9%. This is because the 2015 HBS data on consumption and income have different distributions. For example, the sample population included many individuals who reported no income (10% of the sample), whereas there was nobody with zero consumption<sup>4</sup>.

**Table 1: Monetary poverty indicators for general population (BiH) (HBS 2015)**

	Consumption based*	Income based
Monthly at-risk-of-poverty threshold	EUR 199.60	EUR 104.60
Share of individuals at risk of poverty	16.9%	27.0%
Number of individuals at risk of poverty	505,816	807,747
Households at risk of poverty where head of household is employed	11.6%	24.1%

\*Estimated by the Agency for Statistics BiH (2018)

Source: Agency for Statistics BiH (2018); authors' calculations from HBS 2015 microdata.

In line with the EU-agreed definition, a person is **at risk of IWP** if they are in employment and live in a household that is at risk of poverty. A person is **in employment** when they have worked for more than half of the income reference year<sup>5</sup>. Employed individuals can be waged employees or self-employed. A household is **at risk**

<sup>3</sup> Applying the OECD modified equivalence scale.

<sup>4</sup> Poverty estimates based on consumption take into consideration consumption from own production (BiH is the third most rural country in Europe, after Iceland and Montenegro). Also, savings, remittances, borrowings, and similar may positively affect consumption.

<sup>5</sup> In all but two EU countries (exceptions: Ireland [last 12 months] and the UK [current year]), the income reference year is the calendar year prior to the survey.

**of poverty (or 'income poor')** if its equivalised disposable income is below 60% of the national median. The population includes persons aged 18-64. However, for the purpose of our analysis, we counted as employed all individuals aged 18-64 who had declared themselves to be working, rather than those who had worked more than half of the income reference year as required by the EU methodology. Nevertheless, our findings are valuable and provide an interesting insight.

The HBS 2015 estimate for the total number of individuals aged 18-64 in employment is 972,482. When analysing IWP, it is worth noting that the IWP threshold of EUR 104.60 is lower than the absolute poverty threshold for BiH estimated using the World Bank methodology, which was EUR 122.10 for 2007 and EUR 138.90 for 2011 (Papić, 2018; Initiative for Better and Humane Inclusion, 2013). It means that our at-risk-of-poverty threshold is below the subsistence minimum for BiH. Also, our at-risk-of-poverty threshold is about half of the minimum wage amount in RS and somewhat more than half of that in the FBiH (see Section 2).

In Table 2 below, we present the main disaggregated IWP indicators. We estimate that the overall IWP rate was 24.5% in 2015, meaning that 237,943 employed persons earned less than EUR 104.60 per month and were at risk of IWP. Apart from the fact that a substantial number of people who work have average monthly wages that are substantially below the official minimum wage, this also indicates two additional problems.

First, it could indicate low work intensity on the part of individuals, which we could not calculate directly because the HBS does not have a question related to hours worked by individuals. However, findings by Đukić and Obradović (2016, p.14), give an indication of individual work intensity based on RS tax authority data on registered salaries in 2014. The authors point out that 110,214 out of the total of 328,495 persons registered as employed in RS that year, or 33.55%, earned on average less than the minimum monthly salary. As the authors suggest, this could have been because these persons worked part time or for only a few months during the year. Low work intensity of individuals could have been present among higher wage groups, but it was not possible to verify this because the RS tax authority did not provide data on the number of months or hours worked. This is important because individual work intensity affects the total work intensity of the household and, as pointed out by Frazer and Marlier (2010, p.11), is a critical factor in determining the risk of IWP in general.

Second, the high IWP rate could be related to the BiH labour market phenomenon whereby people work but do not receive a salary. This is very common in insolvent enterprises with a large share of state capital, and also some other institutions (for example within the health sector), as well as unsuccessfully privatised enterprises where the new owners are under a contractual obligation to keep people in employment but cannot pay them wages due to insolvency.

We cannot know from the available HBS data how extensive each of those three issues – low wages, low work intensity and unpaid work – is.

**Table 2: IWP indicators for individuals aged 18-64 (% unless indicated) (HBS 2015)**

	Indicators:	Income based
1.	<b>IWP rate of all employed persons</b>	24.5
	Number of employed persons in IWP (headcount)	237,943
2.	<b>IWP rate by employment status</b>	
	Employees	21.5
	Self-employed	36.0

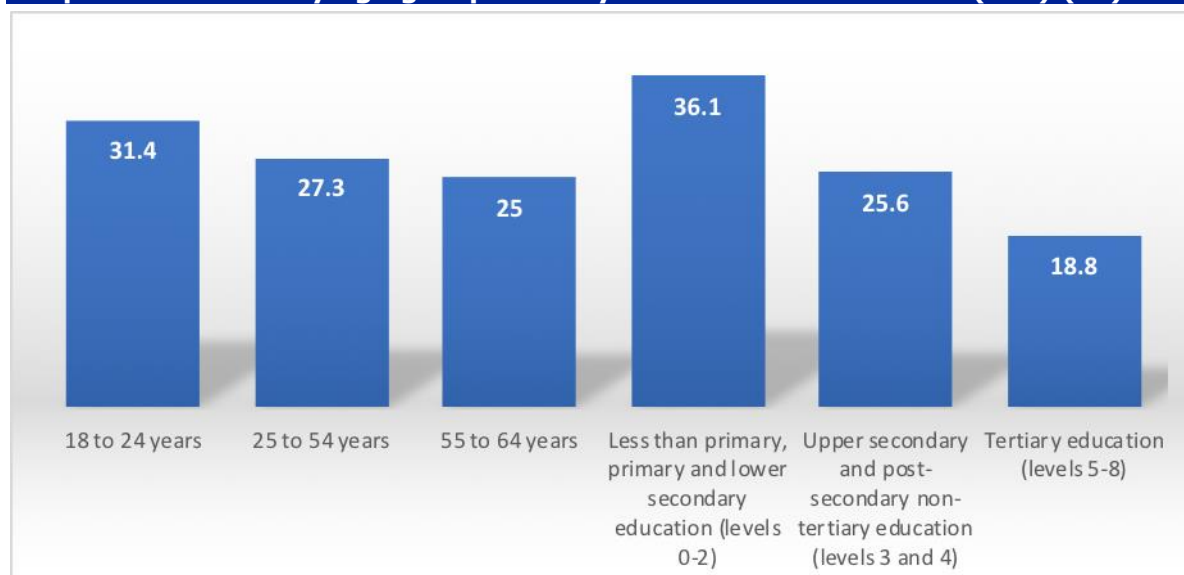


<b>3.</b>	<b>IWP rate by type of contract</b>	
	Permanent contract	19.5
	Temporary contract	27.8
<b>4.</b>	<b>IWP rate by full-time/part-time work</b>	
	Part-time	39.9
	Full-time	19.4
<b>5.</b>	<b>IWP rate by gender</b>	
	Males	27.9
	Females	27.0

Source: Agency for Statistics BiH; authors' calculations from HBS 2015 microdata.

As can be observed from Table 2, a higher incidence of IWP was found among those who were self-employed (36%), those who had a temporary contract (27.8%) and those who worked part time (39.9%). Despite the fact that women are underrepresented in the labour market (see Annex, Table A2), those who were in employment had a slightly lower incidence of IWP than men. Furthermore, young people were more exposed to the risk of IWP than any other age group. As presented in Graph 1, for the 18-24 age group the incidence was 31.4%, for the 25-54 age group it was 27.3%, and for the 55-64 age group it was 25.0%. When assessing IWP by educational level, we can observe bigger variations in IWP. The highest incidence was found among those with lower levels of completed education – 36.1%. The risk of poverty fell as educational level rose, but the smallest incidence, of 18.8% for those with tertiary education, was still very high – indicating that, despite their educational attainment, these people either worked for low wages or had low work intensity, or both.

**Graph 1: IWP rate by age groups and by educational level 2015 (BiH) (%)**



Source: Agency for Statistics BiH; authors' calculations from HBS 2015 microdata.

The only work-related poverty indicator provided by the Agency for Statistics is the poverty rate for households where the head of the household is employed. As presented in Table 1, the estimated incidence in 2015 was 11.6%, which amounted to 47,955 households or 28% of all households in poverty, measured on the basis of consumption

(Agency for Statistics, 2018c, p.65). However, when applying the EU methodology for IWP based on income, the rate more than doubles. Table A1 (in the Annex) gives more information about IWP by household type. Those most exposed to the risk of poverty are families with two or more adults with dependent children (IWP rate 28.6%), followed by families with two or more adults without dependent children (27.5%), and single-person households (27%). The lowest IWP rate, 23.5%, was among single-person families with children.

The incidence of IWP by broad group of country of birth, as presented in Table A1, is less conclusive. Compared with the IWP rate for those born in BiH, the rate in 2015 was higher for those born in EU28 countries and lower for those born in non-EU28 countries: but the data do not provide any evidence of discrimination at work by country of birth.

In Table A2 in the Annex, IWP estimates are presented based on the Agency for Statistics methodology<sup>6</sup>. We can observe that, in general, despite a higher poverty threshold based on consumption data, the corresponding poverty rates are on average half those based on income. Here, we should keep in mind that consumption-based IWP estimates can be useful only as a broad indicator of the consumption level of those who work, where consumption may be financed from sources other than income from work.

The estimated IWP indicators shed light on one of the most important aspects of the BiH labour market, where the overall employment rate is known to be low (despite an incremental rise in the post-war period in both absolute and relative terms). The Labour Market Survey (LMS) for 2018 estimated there were 822,000 persons in employment in that year (see Table A3 in Annex), while the Labour and Employment Agency of BiH found that total registered employment was 754,591 in the third quarter of 2017. Notwithstanding measurement and time differences, the discrepancy between surveyed and registered employment could also suggest the presence of an informal labour market. In Table A3 we can observe very low activity rates, especially for women (31.4% in 2018). Also, the latest employment rates (25% for women compared with just over 44% for men) indicate a significant gender disbalance. In terms of the three broad economic sectors, most employees work in the services sector. Although the share of those working in agriculture has declined in recent years, it is still a major sector of employment, particularly in RS, where almost one-third of the workforce is engaged in agriculture. Work in agriculture is seasonal in its nature and is mostly unregistered.

## **1 Analysis of the policies in place**

Recognising that IWP can be the outcome of the interaction of a very complex set of factors, in this section we focus our analysis on those that are the most prominent in BiH. Those are structural and institutional factors related to labour market segmentation, and minimum wage and tax policies (the most important policies with a direct impact on IWP in the country). As the most relevant policies with indirect influence, we select governments' approach to active labour market policies (ALMPs), the vocational training and education systems, and access to family social services and flexible working arrangements.

### **1.1 Policies with direct influence on in-work poverty**

#### **1.1.1 Labour market segmentation**

Both the FBiH and RS have constitutional competencies for labour and social policy legislation, which they both use, effectively creating two labour markets, each with a relatively small labour force. Apart from that, the most prominent structural segmentation is between the public and the private sectors. An International Monetary

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<sup>6</sup> The poverty line is calculated as 60% of national median household equivalised consumption expenditure (see Šabanović, 2018).

Fund report (2015) pointed out that the size of the public sector in BiH was one of the largest in the region, mostly owing to a complex and decentralised governance structure. However, in addition to employment in government administration, there are business enterprises that are wholly or mainly government-owned (such as utility companies, post offices, and mines) where similar employment rules apply. Although there is no publicly available information about the number of people on the government payroll, or those who work for government-owned companies, it is known that in 2013 the government spent over 12% of GDP on public sector wages (International Monetary Fund, 2015). This relates only to wages financed directly by government – i.e. public administration and elected officials, public education, police and army – and excludes those employed by government-owned enterprises. A common feature of all public sector jobs and jobs in government-owned enterprises is that they are better paid than the average for the whole economy. Also, these jobs require less effort and overtime work compared with private sector employment (Oruč and Bartlett, 2018, p.14). In addition to salaries, public sector employees and those employed by government-owned companies enjoy many benefits usually granted under collective agreements, such as holiday allowances, meal allowances, compensation for transport costs, longer paid holidays, and (in the FBiH) salary compensation during maternity leave. These additional benefits are rare in private sector jobs, where legal employment rights are poorly enforced, blurring the line between the private sector and the unregistered economy. Many employees in the private sector work in precarious conditions (long working hours, small and often delayed salaries, and fear of job loss). An undesirable outcome of these status and wage discrepancies in BiH is that public sector employment has become significantly more attractive than working in the private sector, creating many economic distortions and stifling private sector development (International Monetary Fund, 2015). According to a recent survey (Regional Cooperation Council, 2018, p.69), 40% of respondents would prefer to work for the public sector, and 41% would prefer to work for public companies, while only 14% would prefer to work for the private sector.

New general labour legislation enacted in 2016 was supposed to address dualities in the labour market by limiting the duration of collective agreements that protect the privileges in public sector employment and state-owned enterprises. The new legislation<sup>7</sup> introduced more flexible rules for hiring and firing that should be universally applied. New collective agreements had to be negotiated and in the meantime several sectoral-level collective agreements were agreed and signed, primarily for employees in state institutions and state-owned companies. In the FBiH, a general collective agreement was agreed (Official Gazette, no 48/16 and 62/16), but the government never approved its application to all employees, as was the case previously. Similarly, sectoral-level collective agreements do not apply to all employees working in a sector, but only to those that work for companies that are parties to the agreements (public institutions and companies with state-owned capital). This has made work in some industries more precarious than ever. Therefore, implementation of the new labour legislation has not increased flexibility in public sector employment, because these jobs and their privileges are protected by strong trade unions as well as political networks (see Weber, 2017; Blagovcanin and Divjak 2015), which makes them secure and stable. On the other hand, the new legislation introduced additional flexibilities in the already very flexible private sector, where *de jure* guaranteed basic labour standards are poorly applied.

Despite the fact that informal employment is widespread, it has not been studied intensively. A recent study (Krstić and Gashi, 2016) estimates informal employment rates at around 30% of all employees, which is similar to that found in earlier studies (International Labour Organization, 2011). The highest incidence of informal employment

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<sup>7</sup> Law on Labour in FBiH, FBiH Official Gazette 26/16; Law on Labour in Republika Srpska, RS Official Gazette 1/16.

is found in the agriculture sector, among men, and among those with low educational attainment and skills. In addition, those most likely to be informally employed are the oldest and youngest workers, i.e. those who are at the margins of the labour market, having just entered it, or being about to leave it (Oruč and Bartlett, 2018, p.14). Low educational attainment and low skills are the highest risk factor for informal employment. Our IWP estimate (based on HBS 2015 income data) points to the highest incidence of IWP being among those with only lower secondary education or below (36.1%). Those workers are usually caught in an informal employment trap, remaining in it for the duration of their whole working life, working in precarious conditions for low wages and without social protection.

### **1.1.2 The cost of labour**

The Labour Cost Survey (LCS) conducted by the Agency for Statistics in 2018 estimated average monthly pay (including gross wages, payments in kind and other payments) during 2016 in the industry and services sectors to be EUR 680 and EUR 843.10, respectively. This represented only a very modest increase since the same survey in 2012, which showed figures of EUR 671.80 and EUR 791.80. However, it needs to be borne in mind that average pay figures disguise inequalities and give a somewhat rosy picture. Our IWP estimate points to 237,943 people working, on average, for less than EUR 106.40 per month. Also, it is known that the vast majority of employees in the private sector (except those working in banking and financial services) are registered as working for the minimum salary. On the basis of RS tax authority data on registered income and salaries for 2014, Đukić and Obradović (2016) show that some 55% of persons who had reported their income to the authority had an average monthly income close to the minimum monthly salary or below.

Both the FBiH and RS determine a minimum wage which, due to extensive informal working, serves as the minimum base for calculating taxes and social contributions. In RS, the current minimum monthly net wage is EUR 225.60, while in the FBiH it ranges between EUR 168 and EUR 193, depending on number of working days in a month and hours worked (the minimum hourly wage is EUR 1.184). Table A5 presents the current social contribution rates for both the FBiH and RS together with taxes levied on net wages. As we can observe from Table A5, wage-earners face two major taxes on labour: social insurance contributions and a flat-rate income tax. Social insurance contribution rates are especially high in the FBiH (41.5%), which has additional contributions. Social insurance contributions in RS amount to 33% in total. However, in January 2018, RS introduced a voluntary solidarity contribution of 0.25%. Unlike other social contributions that are calculated on gross salary, the solidarity contribution is calculated on net salary and is earmarked for the newly established RS solidarity fund (Law on Solidarity Fund for Diagnostics and Health Treatments of Children Abroad, RS Official Gazette 100/17). In addition to the different structure of contributions in the two parts of BiH, RS collects all contributions from employers, while the FBiH also collects some contributions from employees (although everything is paid and administered by employers). In general, the tax burden on labour in BiH is considered to be high, and is more in line with advanced EU countries than many emerging economies (International Monetary Fund, 2015). A recent calculation showed that in BiH tax burden is progressive for those earning incomes below 50% of the average gross wage, whereas the effective tax burden falls as incomes increase (Atoyán and Rahman, 2017, p.13). This implies that labour taxation deters low-wage earners from entering the formal labour market, since it makes take-home pay too low to provide an incentive to enter registered work – therefore trapping them either in informal work for low wages without social protection or labour market inactivity.

It is believed that high social security contribution rates also lead to high payment arrears to social insurance funds. Data show that employers in BiH are not paying social contributions for about 100,000 formally employed workers (Bosnia and Herzegovina: Employment Strategy 2017-2020). The biggest debtors to the tax authorities are state-owned companies and some health institutions. This problem is also present in the

private sector, but to a lesser extent as private employers are more inclined to avoid tax and social insurance contributions by not registering their workers. In addition, as many employees are registered on minimum salaries in order to pay minimum tax and contributions, this indicates that some employees receive 'envelope wages'.

Currently, BiH does not have any developed in-work benefit schemes that could facilitate the labour market participation of unemployed persons or the formalisation of work for unregistered workers. Such schemes would entail compensation for taking on (formal) employment, which could gradually be phased out as workers' incomes rise beyond a given threshold.

## **1.2 Policies with indirect influence on in-work poverty**

### **1.2.1 Active labour market policies**

ALMPs are usually aimed primarily at placing those who are registered as unemployed into jobs of any kind; yet they could be an important avenue for placing the unemployed into adequately paid jobs, as well as helping workers to move out of precarious jobs – thus helping prevent IWP. This is especially the case if ALMPs are targeted at the population that is at risk of taking on low-paid work (for instance, see McKnight et al., 2016).

Due to their human capital development component, those ALMPs that entail training could be the most conducive to better earnings prospects in the longer run (e.g. Card et al., 2010, F471; also see McKnight et al., 2016, p.33). In BiH, a very small share of ALMPs was devoted to training programmes in 2015 – an estimated 10%, as opposed to 71% for employment subsidies and 15% for self-employment/start-up measures (Numanović, 2016, p.37). At the same time, only 18% of persons taking part in ALMP schemes in 2015 participated in training measures (ibid, p.39), as opposed to 62% taking part in employment subsidies. According to Numanović (2016), this is so even though "BiH is facing structural and long-term unemployment, a severe mismatch between supply and demand for specific skills sought by the labour market, as well as a lack of qualified labour force" (p.39). Nevertheless, despite the scarcity of training programmes among ALMP schemes, the ones that do exist are usually combined with employment schemes, considered an effective practice that improves workers' productivity and competitiveness (ibid, p.39).

Generally speaking, the financing of ALMPs in BiH is meagre in comparison with other countries, constituting only 0.15% of GDP in BiH in 2015, as opposed to the EU28 average of 0.46% of GDP in 2011 (ibid, pp.33-34). Apart from underfunding, programmes suffer from poor coverage (an estimated 2.4% of unemployed persons in 2014) and weak targeting, whereby the categories that have the weakest prospects of finding employment – such as persons with low levels of educational attainment or women – are not sufficiently included in such programmes (ibid, pp.42-44).

### **1.2.2 Education and training systems**

BiH suffers from high structural unemployment and a high incidence of IWP (36.1% in 2015) among persons with a low level of educational attainment. However, even individuals who have completed tertiary education face a high IWP (18.8% in 2015). There is an absence of effective systems of higher education, vocational education and training (VET) and life-long learning that would provide young people and adults with the knowledge and skills needed to acquire good-quality jobs.

Generally speaking, higher education, VET and life-long learning are regulated by a number of sectoral laws and are also the subject of a number of strategic documents and specific policies. These include, among others: the Action Plan for the Development and Implementation of the Qualifications Framework in BiH for 2014-2020, the Strategic Platform for Adult Education Development in the Context of Lifelong Learning for 2014-2020, the Principles and Standards in the Field of Adult Education in BiH (2014); and the

Priorities for the Development of Higher Education for 2016-2026. The majority of these documents have been produced with the technical assistance of EU-funded projects, financed through the instrument for pre-accession assistance programme, and have been complemented by the strengthening of institutional capacities.

Despite quite a substantial policy focus on improving the qualification systems and enabling adult learning, various shortcomings of the education and training systems in BiH have been identified over the years, and appear to persist. The education sector has been very resistant to change due to its organisational structure, the shared legislative and policy competencies for education between different levels of government, and the system's institutional path-dependency. Specific obstacles include: weak links between education systems and the labour market; outdated curricula and inadequately defined learning outcomes; inflexible formal education systems; a lack of trained teaching staff and inadequate teacher training systems; the questionable quality and experience of service providers; and inadequate monitoring and evaluation systems (e.g. see Council of Ministers, 2014; Petkova, 2017). In other words, as in other parts of the western Balkans region, the capacities and funding to implement the various measures envisaged by strategic documents need to be continuously strengthened.

### **1.2.3 Access to family services and flexible working arrangements**

An important factor influencing low work intensity, and therefore IWP, is the limited availability and affordability of childcare and the lack of access to flexible working arrangements (Frazer and Marlier, 2010, p.11). After a 2007 state-level framework law introduced mandatory pre-school education for children one year prior to the start of elementary school, pre-school enrolment, especially of older children, increased (Ministry of Civil Affairs BiH, 2017, p.3), although it remains low. Available estimates suggest that the gross enrolment ratio of children aged 3 and older in pre-primary education in BiH is only 14.9%, as opposed to 93.9% in the EU28 (Çağatay, 2017, p.2). The 2007 law also set the standard for cantonal legislation in the FBiH, but implementation of relevant legislation by cantons has been uneven, with two cantons failing to adopt legislation on pre-school education to date (Ministry of Civil Affairs BiH, 2017, p.4).

Recent estimates by the Agency for Statistics of BiH suggest that some 24,918 children up to the age of 6 were enrolled in the 332 public and private childcare and pre-school institutions in the 2016-17 academic year, but a further 2,816 children could not be enrolled because of a lack of capacity (Agency for Statistics of BiH, 2018, p.3). Childcare and pre-school costs represent another constraining factor for households: costs tend to vary depending on the type of service provider and the location, with public childcare and pre-school service providers (usually local government) differing in the extent to which they co-finance such services. In the canton of Sarajevo, a place at a full-day public kindergarten currently costs around EUR 82 per month, while in the town of Mostar (Herzegovina-Neretva canton), it is EUR 87 for kindergarten and EUR 102 for nursery per month. This is respectively around 15% of the 2017 average monthly net salary of around EUR 538 in Canton Sarajevo or 18% and 21% of the 2017 average monthly net salary of EUR 484 in Herzegovina-Neretva canton (Institute for Statistics of FBiH, 2018b, p.16; Institute for Statistics of FBiH, 2018a, p.15). Considering the incidence of workers with incomes significantly below the average wage (see Section 2.2 above), one may conclude that even the cost of subsidised public childcare and pre-school education represents a significant portion of many households' incomes, and may deter parents (especially women) from using such services – resulting in them taking care of their children, and becoming economically inactive.

Moreover, it is important to stress that the way in which compulsory pre-school education has been introduced represents an additional burden for working parents. That is to say, compulsory pre-school education envisages a minimum of 150 teaching hours during the year before the child commences primary education, in line with the state-level framework law. Where organised, children only attend pre-school education for up to three hours daily, which is similar to the first two grades of primary education. For

working parents, this represents a burden, as a child needs to be escorted to and from the kindergarten or school. Because of this, many private daycare centres for children have opened in recent years that take children during the whole day, taking the child in and out of pre-school education or elementary school. These centres are not subsidised by government and represent an additional cost for working parents.

Apart from access and affordability, the quality of such services will also determine the extent of their use, and subsequently the ability of parents to work. While no comprehensive evaluations have been performed to date of the quality of the childcare services and pre-school education that is delivered by relevant institutions in BiH, sectoral assessments point to a number of problems. These include the rather theoretical teacher training acquired through formal educational institutions (as opposed to more child-centred learning approaches), high teacher-child ratios in urban areas, and insufficient resources for experimental learning (Peeters, 2016, pp.13-14).

Flexible working arrangements for parents are currently largely absent from legislation in BiH. The labour legislation in both the FBiH and RS lays down an obligatory maternity leave of 42 days in the FBiH and 60 days in RS, and grants parents the possibility of parental leave after this obligatory maternity leave period expires and before the child turns 1, which may be used by either the mother or the father. In the FBiH a parent may work part time after their leave expires during a child's first year (second year in case of more children), and (in both the FBiH and RS) until a child's third year in cases where it needs special care<sup>8</sup>. However, more flexible working arrangements over an extended time-frame are not provided for by these laws.

Different reports also suggest that women face discrimination by private employers because of pregnancy and childcare duties. Women may be discriminated against because of their age and the possibility of becoming pregnant, and may thus be locked into temporary standard employment contracts that are not extended once the woman becomes pregnant (Vaša prava, 2015, p.9). Moreover, although this is explicitly prohibited by law, they may be threatened with dismissal if they do not come back to work after the initial obligatory maternity leave period is over (for instance, see Begagić, 2018). According to the organisation Vaša prava (2015), women working in the private sector take a much shorter period of leave than those in the public sector because of the insecurity of their work status (p.18). This further complicates the possibility of combining work and childcare.

Moreover, compensation during maternity and parental leave is not provided on an equal basis throughout the country and also depends on the type of employment sector. RS and cantons in the FBiH provide salary compensation during leave in a given amount. RS compensates for the full average salary received in the last 12 months by the employee before the start of leave. In the FBiH, a certain percentage of a woman's earned average salary – or the average salary for the canton or entity – serves as a benchmark for compensation, in line with cantonal acts. In practice, this results in variations between cantons, with some providing less than two-thirds of earnings before leave (or an equivalent amount) as recommended by the International Labour Organization's Maternity Protection Convention, 2000 (no. 183, Article 6) that BiH is a party to<sup>9</sup>. In some cantons, such compensation is also being paid with significant delays. FBiH labour legislation allows for employers to co-finance parental leave up to the amount of an employee's full salary. This is usually afforded to parents in the public sector, but

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<sup>8</sup> Labour legislation in both the FBiH and RS provides for the parent of a child with developmental disabilities to work part time. In RS, parents are in such cases compensated for full-time work and the difference in compensation is covered by the RS Public Fund for Child Protection, according to the RS Labour Law (Art. 111).

<sup>9</sup> While this report focuses on working parents, it is important to note that parents who were not in employment prior to the birth of a child are also not provided with adequate and equivalent benefits in the FBiH during maternity/parental leave, and in the case of some cantons not at all.

generally not in the private sector, pushing parents to return to work before their child turns 1.

Women in BiH tend to bear most of the brunt of providing long-term care to relatives, inevitably limiting their career and earning prospects, since such activities in many instances tend to take the form of informal, unpaid work. Although legislation in both the FBiH and RS provides for a care benefit for those in need of long-term care, it is low and unevenly provided, and may not necessarily be spent on the provision of care as opposed to basic needs such as food or medicine (Malkić and Numanović, 2016, pp.5-6). Legislation currently does not include any special provisions to ameliorate the status of informal carers, either in the form of compensation or in the form of services that would ease their workload (ibid, pp.7-8).

## **2 Policy debates, proposals and reforms on in-work poverty and recommendations**

BiH's 2018-2020 Economic Reform Programme (Bosnia and Herzegovina, 2018) is the government's medium-term strategy designed to facilitate the country's accession to the EU. Although, the programme does not mention the problem of IWP, it recognises that the low level of salaries play the role in the international division of labour, where export-oriented companies in BiH in the global added-value chain often get the jobs that generally require cheap labour (ibid, p.51). However, the document assumes that defined measures related to enhancing labour market efficiency will lead to an increase in employment and consequently contribute to, *inter alia*, lifting vulnerable groups and their families out of poverty. It is therefore assumed that employment should guarantee a way out of poverty, which for many people in BiH is not the case.

As noted by Papić (2017:2), the issues of poverty, social inequality and social justice have been absent from political and public discourse. IWP has not been monitored or analysed in the country. However, as emigration has intensified in recent years, shrinking the already small labour force (see Table A3), low wages have been implicitly recognised as a problem. Although the full causes of, and motives for, emigration have not been researched, it is generally believed that people emigrate because of the promise of higher salaries in destination countries. During the recent general election campaign some politicians started to promote the idea that salaries should be much higher in order to discourage young people moving out of the country (Večernji List, 12.09.2018; Novikonic.ba, 5.10.2018). But these statements were not accompanied by any kind of analysis of the current situation, or proposals for any concrete measures. On the other hand, the prime minister of RS, Mrs. Cvijanović, mentioned that the RS government aims to increase salaries – the minimum monthly wage to EUR 256.40, and the average wage to EUR 512.82 – in 2019 (Nezavisne novine, 8 November 2018).

RS introduced some concrete measures in June 2018 by changing the RS Law on Income Tax (RS Official Gazette no 66/18). The changes (effective from September 2018) entailed an increase in the personal tax deduction (from around EUR 1,227 to EUR 3,068 annually) in order to reduce the burden on labour and increase workers' take-home pay, while leaving the gross salary the same. Moreover, the RS Labour Law was changed (RS Official Gazette no 66/18) in relation to the definition of a salary and the way in which salaries are negotiated, with the legislation now only recognising gross salaries (effective from August 2018). However, the government has not changed the law so as to reduce social security contributions, as envisaged by the 2018-2020 reform programme.

Although BiH governments have vowed to reduce the tax wedge on labour ever since the adoption of the 2015 reform agenda and 2018-2020 economic reform programme, progress has been uneven thus far. Under a proposal by the FBiH government for a new law on personal income tax from June 2018, the tax burden on low-wage earners would be reduced by exempting those earning below around EUR 358 per month from income tax and introducing progressive taxation by introducing a 20% rate for those earning above around EUR 767 (the current income tax rate is 10%). A proposed new law on



contributions was also agreed before the elections, whereby the tax burden would be reduced from 41.5% to 33.5%. At the same time, the tax base would be widened by taxing fringe benefits (hot meal and vacation allowances). The FBiH Association of Employers is sceptical about these changes, claiming that the overall tax burden will remain the same. It is also questionable whether the proposed changes would benefit workers with lower wages. Since the new laws were not adopted before the elections, it is expected that, once appointed, the new FBiH government will need to discuss this legislative package again.

A proposal by FBiH trade unions in November 2017 for the FBiH Socio-Economic Council to discuss an increase in the minimum hourly wage for 2018 (as stipulated by the General Collective Agreement for the FBiH) was never accepted by the FBiH government, and the meeting was never summoned. This was probably the reason that the FBiH Employers Association in March 2018 unilaterally cancelled the General Collective Agreement. Following the changes to the FBiH Labour Law (FBiH Official Gazette no 89/18) that were passed in November 2018, the FBiH Ministry of Finance is responsible for proposing changes to the minimum wage, which are then determined by the government after consultations with the FBiH Socio-Economic Council. However, the FBiH Ministry of Finance still needs to develop a methodology for determining and updating the minimum wage. Following changes to labour legislation in 2016, RS does not have a general collective agreement and the RS Ministry of Finance is responsible for proposing changes to the minimum wage, which is discussed at the RS Socio-Economic Council and determined by the government on an annual basis.

Both the FBiH and RS governments seem to ignore the needs and problems of the most vulnerable workers, especially those in informal sectors or unregistered work, working for low wages and without social protection. So far only repressive measures have been applied – i.e. labour inspections and penalisation of employers in the private sector. There is an absence of measures that could improve protection of workers (including enforcement of labour legislation), or promote labour market inclusion through incentives for the formalisation of employment, and the employment of women and young people.

One way to incentivise (formal) employment for low-wage earners might be to introduce measures such as in-work benefits, which are “commonly understood as cash transfers conditional on employment” (Matsaganis and Figari, 2016, pp.13). However, the introduction of in-work benefits would only be possible as part of a wider reform of social protection financing aimed, *inter alia*, at eliminating tax evasion, while consolidating the system of direct taxation. Under conditions of zero-tolerance for tax evasion, in-work benefits could help ameliorate poverty among those on low incomes, but also reduce labour market segmentation and enhance inclusion. The precondition for this would be the introduction of a fairer and universally applied tax system that would disincentivise tax evasion. In-work benefits would also need to be carefully modelled in terms of their potential interactions with the minimum wage, taxes and benefits, so as to ensure that secondary earners within the household were not disincentivised from working.

As mentioned above, ALMPs in BiH have predominantly been based on employment subsidies and to a lesser extent on subsidising self-employment initiatives. Despite general scepticism about the effects of these measures, both the FBiH and RS governments continue to finance them, often using aid from international donors. In addition to being costly, these measures are seen as ineffective, since the wages are being subsidised of people who would be employed in any case. The beneficiaries of these subsidies are very often state-owned companies and government institutions, where employment is under the control of political networks. Sometimes, these subsidies provide incentives to employers to formalise the employment of existing employees, but the generation of new jobs is very limited. Reducing IWP requires ALMPs to be better targeted at those most at risk of engaging in precarious work, along with a more substantial development of training programmes.

As mentioned in Section 2.4, although a number of strategic documents have been adopted on education and training programmes (including on the development of a qualifications framework), there is still a need for an updated VET strategy. Beyond policy development, the challenge also remains of implementing the various strategic documents: greater efforts need to be directed towards better coordination among social partners and the myriad private and public stakeholders in charge of education and training provision; and more substantial financial resources need to be allocated to the development of modern educational training programmes and teacher training in various educational fields.

Although private childcare and pre-school education institutions have continuously grown in number since the nineties, the number of public facilities has increased very modestly and there is a need for public debate about greater investment in them. A state-level strategy on pre-school care and education (2005-2010) set the aim of a 5% increase in the share of children covered by pre-school education<sup>10</sup> and, as mentioned before, in 2007 a state-level framework law on pre-school education also introduced mandatory pre-school programmes one year prior to the start of elementary school, which resulted in an increase in enrolment. Nevertheless, two cantons in the FBiH have yet to adopt legislation on pre-school education in line with this framework law (Ministry of Civil Affairs of BiH, 2017). More generally, measures are needed to increase the capacity of childcare and pre-school facilities, provide access to good-quality and affordable services, and increase the number of teaching hours (so as to allow parents the option of full-time work).

Furthermore, the right to salary compensation during maternity and subsequent parental leave needs to be provided on an equal basis throughout the country. In the FBiH, this particularly means that all cantons should guarantee the right to equivalent compensation. Although the previous FBiH government agreed a draft law on support to families with children in 2018, designed to guarantee more equal provision of support throughout the FBiH, the draft law related to parents not in employment rather than those in employment, and means-tested child benefits.

More flexible working arrangement for parents, which would be in line with the proposed 2017 Directive of the European Parliament and Council on work-life balance for parents and carers, has also been largely absent from discussions by policy-makers. The introduction of such arrangements in labour legislation would give parents (and carers) the option of more effectively balancing work with care responsibilities and would open up the possibility for women, whose activity rates are currently very low in BiH, to (re-) enter the labour market and increase their work intensity. There is also a need for informal carers to receive allowances to compensate them for their work, have the right to social security, and be able to access services such as counselling, training or respite care (see Malkić and Numanović, 2016).

### **3 Assessing data and indicators**

HBSs in BiH have been conducted only sporadically (2015, 2011, 2007 and 2004), which has prevented monitoring of poverty on a regular basis. Furthermore, compared with EU-SILC data, the HBS has important limitations when it comes to estimating poverty based on income data. Although HBS data make it possible to estimate the extent of IWP, this applies only to households where the head is in employment. The only survey that Agency for Statistics BiH conducts regularly on an annual basis is the LMS. The LMS standard questionnaire covers wages and work intensity, but the Agency does not publish it. Another important source of information is the Labour Cost Survey, which collects data from enterprises with 10 or more employees. This survey was conducted in 2012 and

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<sup>10</sup> Recent policy developments in this realm include the adoption of the Platform for the development of pre-school education in BiH for 2017-2022 at the state level, facilitated by UNICEF BiH.

2016, and provides data on gross earnings, and on hours paid and effectively worked. But in its published estimates the Agency does not give information about low-wage earners, i.e. employees earning two-thirds or less of the national median gross hourly earnings, even though this could be calculated from the data collected. In addition, administrative data held by tax authorities on registered employment and wages could be the most valuable source of information for the analysis of IWP for those in registered work. On the basis of tax authority data, the official statistics agencies regularly publish information on average salaries and numbers of registered employed. The same data could provide information about the number of people in registered work who are on minimum wages. However, the tax authorities are very reluctant to make tax data available to researchers.

BiH needs to align its statistical system with the EU statistical acquis (chapter 18). One of the key areas is that of social statistics (labour statistics, SILC, education statistics, demographic area statistics). The introduction of the EU-SILC survey, along with full harmonisation of living standards statistics with EU regulations and best practice, would provide the basis for poverty analysis. The Agency for Statistics has conducted two EU-SILC pilots thus far (Šabanović, 2018), but according to an official of the Agency, the organisation of the survey has been repeatedly delayed<sup>11</sup>. In the most optimistic scenario, the EU-SILC could be organised in 2020. Once introduced, EU-SILC should be conducted every year, while the HBS could be conducted less frequently, for example every five years (Šabanović, 2017).

It is important to mention that the HBS and EU-SILC provide representative poverty indicators only at survey strata levels (Šabanović, 2018). Poverty indicators at lower administrative and territorial levels are required for monitoring and reporting on indicators and targets under the United Nations sustainable development goals (SDGs), as well as the government's own performance. The adoption of the SDGs and monitoring framework implies that all countries will need to measure and monitor progress related to the 17 SDGs and their 169 associated targets with 226 monitoring indicators (United Nations, 2016). Two SDG targets are of particular relevance to IWP. Those are goal 1 (end poverty in all its forms everywhere) and goal 8 (decent work and economic growth). Poverty measurement for SDG requires poverty data to be disaggregated by sex, age, employment status and geographical location (urban/rural). Relevant IWP indicators related to goal 8 are more complex and include monitoring employment by sex, average hourly earnings of female and male employees, occupation, age and disability, along with the level of national compliance with labour rights, etc. The quality of reporting will depend on the availability of good-quality and regular national survey and administrative data. Since the EU has pledged to be a forerunner in implementing SDG targets, the statistical agency of BiH could benefit from cooperation with Eurostat: this would allow it to receive assistance and guidance on the requirements for harmonised statistics (needed to report on the SDGs), which include relevant standards for monitoring IWP.

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<sup>11</sup> Obradović, N. (4 January 2019). Telephone interview with Mr. Edin Šabanović, Assistant Director, Agency for Statistics of BiH.

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## Annex

**Table A1: IWP indicators, BiH (%)**

	IWP indicators:	Based on income
4.	IWP rate by broad group of country of birth	
	EU28 countries	33.3
	Non-EU28 countries (excluding BiH)	18.6
	Any foreign country	18.2
	Reporting country (BiH)	27.5
5.	IWP rate by household type	
	Single person	27.0
	Single person with dependent children	23.5
	Two or more adults without dependent children	27.5
	Two or more adults with dependent children	28.6

Source: Agency for Statistics BiH; authors' calculations from HBS 2015 microdata.

**Table A2: Poverty estimates based on HBS 2015 consumption data (Agency for Statistics BiH methodology) (% unless indicated)**

	Indicators:	Consumption based
1.	IWP rate of all employed persons	12.6
	Number of employed persons in IWP (headcount)	122,268
2.	IWP rate by employment status	
	Waged employees	11.5
	Self-employed	16.8
3.	IWP rate by type of contract	
	Permanent contract	8.2
	Temporary contract	16.8
4.	IWP rate by full-time/part-time work	
	Part-time	21.0
	Full-time	9.5
5.	IWP rate by gender	
	Males	15.1
	Females	14.0
6.	IWP rate by age groups	
	18-24	14.4
	25-54	15.0
	55-64	13.2
7.	IWP rate by education	
	Lower secondary or below (levels 0-2)	23.4
	Upper secondary and post-secondary non-tertiary (levels 3 and	12.9



	4)	
	Tertiary (levels 5-8)	4.6
8.	IWP rate by broad group of country of birth	
	EU28 countries	10.3
	Non-EU28 countries (excluding BiH)	13.6
	Any foreign country	7.9
	Reporting country (BiH)	14.6
9.	IWP rate by household type	
	Single person	11.5
	Single person with dependent children	17.3
	Two or more adults without dependent children	15.5
	Two or more adults with dependent children	11.6

Source: Agency for Statistics BiH; authors' calculations from HBS 2015 microdata.

**Table A3: Population and labour market characteristics by activity and gender (BiH)**

	2012	2014	2016	2018
1. Working-age population	2,566,000	2,565,000	2,489,000	2,396,000
2. Labour force (3+4)	1,130,000	1,120,000	1,074,000	1,008,000
3. Persons in employment	814,000	812,000	801,000	822,000
4. Unemployed	317,000	308,000	273,000	185,000
5. Inactive	1,436,000	1,445,000	1,415,000	1,388,000
Rates (%)				
Activity rate	44.0	43.7	43.1	42.1
Activity rate for men	56.4	55.0	54.9	53.2
Activity rate for women	32.6	33.0	32.1	31.4
Employment rate	31.7	31.7	32.2	34.3
Employment rate for men	41.5	41.2	42.5	44.1
Employment rate for women	22.6	22.7	22.4	25.0
Unemployment rate	28.0	27.5	25.4	18.4
Unemployment rate for men	26.4	25.2	22.5	17.2
Unemployment rate for women	30.7	31.2	30.0	20.3

Source: Agency for statistics BiH, Labour Market Survey, 2018 and 2014.

**Table A4: Persons in employment by economic sector (BiH)**

	2012	2014	2016	2018
Persons in employment	814,000	812,000	801,000	822,000
% in agriculture	20.6	17.1	18.0	15.7
% in industry	30.4	30.0	31.3	32.1
% in services	49.1	52.9	50.8	52.1

Source: Agency for statistics, Labour Market Surveys for 2018 and 2014.

**Table A5: Social contributions, income tax and other taxes paid on salary (%) (FBiH and RS)**

		FBiH	RS
1.	Pension and disability contribution paid by employer	6.00	18.5
	Pension and disability contributions paid by employee	17.00	-
2.	Health insurance paid by employer	4.00	12
	Health insurance paid by employee	12.50	-
3.	Insurance in case of unemployment paid by employer	0.50	0.80
	Insurance in case of unemployment paid by employee	1.50	-
4.	Contribution towards Fund for Child Protection	-	1.70
	<b>Total social contributions</b>	<b>41.50</b>	<b>33</b>
	Income tax on net salary	10	10
	Solidarity contribution	-	0.25
	Tax for protection from natural and other disasters	0.5	-
	General tax for water management	0.5	-

