

**Policies for business in the Mediterranean Countries:
Bosnia and Herzegovina**



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CHAPTER I: ADMINISTRATION/ENTERPRISE RELATIONSHIPS - POLICY IN SUPPORT OF ENTERPRISE IN BOSNIA AND HERZEGOVINA.

1.1 Aims of the report

The Report, "Public Administration and Administrative Reform in Bosnia and Herzegovina: Administration/Enterprise Relationships", offers a transversal vision of the economic reform process of the country and tries to identify

priorities for its completion, with the necessary innovations. It will show the trend of such reforms, the impact of the innovations, the current situation and the possible future lines of development.

The first part will include an analysis of the most important innovations produced in the sector of relationships between administration and enterprise, and the impact of reform on the social-economic system. Finally, in the second chapter, possible future tendencies will be traced and a picture of future reforms delineated.

Without doubt, in Bosnia and Herzegovina, the public administration can be a development factor, to assure the stability required by the international observatories; at the same time it can put in action those mechanisms to pledge a dignified social life to the citizens.

1.2 The economic reasons for the administrative reform in the sector of relationships with enterprise.

The basic motivations for administrative reform in the matter of relationships with the enterprise are: 1) An administrative order particular to the country and a consequent *absence of a common economic space*.

2) The need to accelerate the difficult and conflicting process of *transition from the socialist economy model to the capitalist model*.

3) *Reduction of risk perception connected to Investments*.

4) *Increase of Information and Services in enterprise sector*.

The state system resulted from the Dayton Agreement, and it has an absolutely specificity in Europe. The country is constituted from two sub-state entities, the Federation of Bosnia and Herzegovina (FBiH), with Croatian and Bosnian-Muslim ethnic groups, and the Srpska Republic (RS), with Serbian groups. The FBiH is divided into ten Cantons with strong autonomy, while the RS is organized in regions. The result is a "weak confederated structure", with two alphabets, two armies and two police forces, three judicial practices (more or less distinct: the Muslim Croatian Federation is not compact), three telecommunication systems (often badly integrated) and a market that suffers all this division.

In Bosnia and Herzegovina, one of the greatest obstacles to foreign investment is the absence of a common economic space. In fact, the two entities operate as separate markets, creating numerous administrative barriers and an opaque business community: so, greater foreign investment remains far off.

In order to understand this political-administrative scene and its conflict, it is essential to consider the stagnation of many reforms and the continuous fluidity of the social and political situation, with the attendant risk of implosion/explosion, but it is also useful to read some marks of change.

A basic analysis of the reforms implementation can conclude: in political conditions and human rights, Bosnia and Herzegovina has made great advances. Today, the most serious problem remains economic reform:

- the entrepreneurs of the Federation must be permitted to operate in Republic Srpska and vice versa;
- the times necessary to start an enterprise would have to be reduced;
- it is necessary to increase private investments and to reduce the “country-risk”;
- It is essential to monitor politics of the market and to protect consumers.

The European standards have a much concrete meaning: in this situation they would protect the local market and entrepreneurs from products of unknown characteristics, imported from the region, and secondly they would make it possible for local entrepreneurs to export their products to nearby countries. In order to start an enterprise in the Federation, it takes more than two months (63 days), while in the Republic Srpska it is 30 days, and the possibility of doing it in 5 days still seems unattainable.

For an Italian enterprise wishing to invest in Bosnia and Herzegovina, the risk perception connected to the investment is still too much high. The SACE S.P.A. (Insured Services for Foreign Trade) places the country in Category 7 (1 = minor risk; 7 = greater risk)¹, emphasizing the *sovereign risk* (operating in respect of the FMI limits), the *banking risk* (functionality in relation to credit analysis) and the *corporate risk* (bank functionality limited in correspondence to its credit). For this purpose, it appears fundamental that the Institutions of Bosnia and Herzegovina reduce the external perception of such risks.

Another serious criticism of Bosnia is the absence of a National Statistic Agency: it will be difficult for the country to be considered as a serious market until it has offered the right communication support to potential investors or the main data regarding the internal situation. The main associate-economic indications regarding Bosnia are supplied from foreign institutes. Table 1 gathers some of these pointers, to offer a modernized picture of the limits, but at the same time of the country’s development potentialities.

¹ SACE s.p.a., 31 December 2003.

<http://194.185.79.118/database/skpaesew.nsf/661c7fae76eb157cc1256b7200585fff/1c2a9ef6fea9b1bdc1256b17005a3e86?OpenDocument>

TABLE 1: Main associate-economic data 2004 of Bosnia and Herzegovina².

Land area	51.129 sq km (Area-comparative: 17% of Italy)
Population	4.007.608(0-14=18.9%; 15-64=70.6%; >65=10.5%)
Capital	Sarajevo (581.500)
Ethnic groups	Serb 37.1%, Bosniak 48%, Croat 14.3%
GDP - composition by sector	13% agriculture; 40.9% industry; 46.1% services
GDP - real growth rate	3.8%
Industrial production rate	5.5%
Inflation rate (cons. prices)	3.5%
Unemployment rate	40%
Imports	\$ 4.7 billion
Exports	\$ 1.28 billion
Export partners	Italy 31.4%, Croatia 17.8%, Germany 13%
Import partners	Croatia 22.8%, Germany 13.7%, Italy 12.6%

From an initial analysis of Table 1, the data relating to unemployment highlights the economic difficulty of the country to get on his feet again from the ruins of the civil war: according official data, in Bosnia and Herzegovina the unemployment rate is around the 40 %. One of the main motivations regards privatization: it has affected only small enterprises, while the giants remain untouched, with their scandals and their corruption. Among the Yugoslav Republics, the BiH was the most industrialized and today it is returning to a forced agriculture form: in this situation it is very difficult to assure occupation for the active population.

1.3 Policy in support of enterprise in Bosnia and Herzegovina.

On the subject of relationships between the P.A. and enterprise, the Federal Agency for the Promotion of the Investments in the Bosnia and Herzegovina (FIPA) has been instituted. The Agency is based near the Council of Ministers, has been operating since 1999 and it has as its mission the carrying out of a cooperative process between public and private sectors. The objective is to

² CIA, "The world factbook" - <http://www.odci.gov/cia/publications/factbook/geos/bk.html>

pursue sustainable development in respect of the public interest, thanks to the input of the private investment. In particular, the FIPA operates in order to:

- simplify the bureaucratic procedures in the enterprise sector, inspired by experiences of the “One-stop-shop” of the modern European democracies.
- generate new investments.
- inform and to assist private firms in their investment plans, supplying also legal advice.
- create a network of relationships between all the levels of government.
- improve the economic ambience for transactions, identifying the obstacles and producing recommendations for their elimination.
- increase cooperation with other international institutions.

1.4 Following development through the sharing of common objects.

The P.A. in Bosnia and Herzegovina must make a contribution to economic growth, full occupation and economic and social cohesion. In particular, in view of future and planned integration into the UE, particular attention must be given to objectives. In a country like Bosnia and Herzegovina, in which the social, administrative and economic divisions can constitute a brake for development, the location of common supranational objectives can be the useful. The European Commission has outlined a work programme for enterprise politics; it can represent a valid model of reference³:

- to promote entrepreneurial spirit, in the first place by simplifying the administrative and normative context in enterprise matters;
- to encourage innovation, promoting the exchange of good practices;
- to strengthen the competitiveness of enterprises in an economy based on knowledge;
- to improve the financial circle of enterprises;
- to support cooperation between enterprises and to assure the performance of servicing and counselling to enterprises;
- To improve access to the market.

1.5 Administration/Enterprise Relationships: Reform objectives and located Institutions.

In the years of reconstruction, the economy of Bosnia and Herzegovina has registered two-figure rates of growth, with an annual increase average of 39%⁴. Behind this data, however, there is an economic system that is highly dependent on investments in unrecovered funds of the international donors. The Bosnian economic space is fragmented in three different zones, and to lead

³ European Commission work programme: “*Verso un’Europa per le imprese - Programma di lavoro per la politica delle imprese 2000-2005*”, 13 March 2002.

⁴ Source: World Bank, 2001.

economic operations through the lines of ethnic division turns out to be difficult and expensive. The financial transactions are expensive and inefficient because there are three various *payments offices*, directed by the leadership of ethnic groups: they legally possess the monopoly of the financial transactions and the fiscal drag. With this system large sums of money are immobilized, and they are often the object of embezzlements from the part of the political power⁵. Moreover, the investments of foreign capital are rendered more difficult by the intricate bureaucracy and endemic corruption.

On the subject of the relationship of Public Administration with the enterprises, the most important reform objective is the constitution of a sole economic territory: the Institution supervising the pursuit of this goal is the *Economic Relationship and Foreign Trade Ministry*. However, the data of the Direction for European integration demonstrates that only this Ministry delays more than others in the process of reforms implementation. The Competition Council still has not been formed, although the Entities have designated the members, while the terms for the formation of the Measures institutes, for intellectual property and Standards expired more than a month ago.

Therefore, Bosnia and Herzegovina is only at the start of the road towards European Union. The current terms call for adhesion within 2009, but seem much too optimistic: if within this time the BiH succeeds in implementing all the necessary reforms, becoming a member of the UE won't be so important. The reforms in question are very radical and Bosnia and Herzegovina, could assume a completely different Institutional order because of the reform process.

1.6 Transverse projects for territorial economic integration.

In accordance with progressive territorial economic integration, it appears opportune to base policy on a design: it has to combine in cross-sectional sense all the development factors in Bosnia and Herzegovina. For example, the Mostar Area is equipped with great potential, starting from natural water resources. Nevertheless the municipal and microeconomic local level reflects the institutional fragmentation within the BiH, with the particular city of 6 municipalities with a central Council, but it remained uniform after the war between two zones, not communicating from the cultural and administrative point of view: the Catholic Croatian community of west Mostar and that Bosnian-Muslim of east Mostar. To organize business trade with a transversal vision for this area and to push collaboration between the economic subjects of

⁵ USAID 1999, "*Payment bureaus in Bosnia and Herzegovina: obstacles to development and a strategy for orderly transformation*", 15 February 1999, Sarajevo.

both the communities is a difficult task but of vital importance for future development.

The *Services Centre "Link"* has been instituted with such an aim, created as part of the Italian NGO COSPE project, to support the development and creation of productive and service enterprises. In fact, its goal is business trade, and Link is a democratic association which represents all the associate enterprises of the territory of Mostar (with a simple free subscription) and distributes real services to them. The plan was devised in 2000, began operating in July 2002 and it will last until 2005, the expiration year. 56% of the finance comes from the Italian Ministry of Foreign Affairs, while the rest is divided between private investors, the Tuscany Region, some donors and two institutional donors: the two national artisan Confederations of Modena and Florence.

Link was already present on the territory before 2002. However, it was founded as an association of individuals, while in the last year it has been transformed into an enterprise association and its associates have increased from 40 to 106. The managing group is formed in equal parts of staff of both ethnic groups. Link personnel comprises 5 staff, plus 4 external consultants (3 of these are Croatian). The services distributed are many and diverse under various aspects: for example, the consultation to the enterprises regards attendance in the phase of preparation and appraisal, aid in administrative procedures and the creation of the business plan. Therefore, there is the legal and contractual consultation for the drawing up of trade and work contracts, and managerial advising for all aspects of business accounting. The most important limitation of the Link Project is in management: these types of plans can be promoted, but they could not be managed by non-profit NGOs, because these associations are not adapted for direct management of an enterprises association⁶.

CHAPTER II: PROJECTS UNDER WAY AND POSSIBLE FUTURE PLANS FOR INTERNATIONAL COOPERATION AMONG INSTITUTIONS, NGOs AND BOSNIA AND HERZEGOVINA.

2.1 Civil society and national and international Non Governmental Organizations.

In an economically and democratically fragile territory like Bosnia, the strengthening and promotion of cooperative and associative applications can represent a concrete aid to entrepreneurial development, especially in agricultural and social sectors, today badly effected by fragmentation, scarcity of the resources, institutional weakness,

⁶ News-East: Interview to Armando Cassanelli, coordinator of the plan of the COSPE, Florence, http://www.notizie-est.com/article.php?art_id=799.

international inattention. At the same time, by helping cooperatives and associations, the presence of a civil society is developed, the first antidote to the nationalist resurgence that characterized the nineties, with the dramatic civil war events (1992-95).

Today, the tendency of Bosnian civil society to form associations is very active and varied. The yearbook of the *International Council of Voluntary Agencies* (ICVA), lists 284 NGOs from a total of 460 active organizations of different types in the BiH, with a constant increase of the Bosnian initiatives regarding the organizations from the foreign country⁷. In Bosnia and Herzegovina, the NGO survey can be subdivided into three categories:

- 1) Associations and *groups close to the Yugoslav associative tradition*: these generally are non-political, and often they suffer from poor visibility in the country, when compared with the current international organizations. However, such groups are very interesting because often they introduce the potential for dialogue and creation of ties among the various ethnic groups. Some experiences exist in which such groups have been systematically involved in plans of material and social reconstruction⁸.
- 2) The end of the war has seen the fastest increase in *New Local Organizations*, oriented towards distribution of humanitarian aid and services in the health and social sectors. This phenomenon is connected with the objective situation of the Bosnian society, where, when confronted with the task of resolving material and psychosocial needs, the traditional public structures are passing, or they have been weakened, or they are hostage to local political elites⁹.
- 3) Moreover, the outbreak of the "third Bosnian field" has been strongly stimulated by the arrival in the country of hundreds of *Foreign NGOs*, and from the politics of some international organizations (like the ACNUR), to contract out some activities to local NGOs (Deacon/Stubbs 1998). In other cases the birth of such organizations has been spontaneous¹⁰. This type of

⁷ The yearbook of ICVA (1999) supplies a useful recognition about all the international agencies beyond the local organizations presents in the country.

⁸ Philio Peirce, Paul Stubbs (1998), "*Peace-building, hegemony and integrated social development: the case of UNDP in Travnik, Bosnia-Herzegovina*", Paper presented to ECPR-ISA Joint Conference in Vienna, 1999.

⁹ Ulla Engberg, Paul Stubbs, "*Social capital and integrated social development: a civil society grants programme in Travnik, Bosnia-Herzegovina*", GASPP Occasional Paper n.2, (<http://www.stakes.fi/gaspp/occasional%20papers/GASPP2-1999.pdf>)

¹⁰ Bob Deacon, Paul Stubbs, "International Actors and Social Policy Development in Bosnia-Herzegovina: Globalism and the 'New Feudalism'", 1998, *Journal of European Social Policy* (2) pp. 99-115.

organization differs clearly from the traditional association form (in the Federation there also exists two different laws for the two types of organization). It can be organizations of medium dimensions, and in general they are created and managed by the urban middle classes. Some of these have been created from international NGOs in the course of the activities¹¹ "localization process".

The fast and not always balanced development of the third local sector doesn't necessarily correspond to an increase of social movements. Bosnian civil society thus suffers from a rather "unwise" attitude and the local NGO often prefers to concentrate itself on the service job and not interfere with the decisions of the authorities. But the NGO in Bosnia and Herzegovina could constitute a concrete and not just potential instrument of Governance, contributing to bottom-up processes, and to the development of the country.

However, we cannot underestimate the impact of the example of cohabitation and collaboration among people of different ethnicity in the "service NGO"; the formulation of examples that give a concrete alternative to ethno-nationalist divisions. Moreover, the fast creation of local organizations, even if considered "artificial" because it answers to requirements and resources from the outside, has put to a not marginal amount of workplaces at the disposal of the middle classes, and in particular women. For professional figures like doctors and teachers, the alternative to the work in the Bosnian NGO would probably have been economic marginalisation, coming to agreement with the local power structures or forced emigration. These organizations offer a concrete possibility of breaking free from the power system and nationalist culture.

Of course, between "militant" truths and organizations "of service", there have been forms of osmosis and "grey zones", particularly in connection with aid for *returnees*. In this last case, the work often comprises a combination of psychosocial attendance, aid for reconstruction and action in support of civil rights.

¹¹Independent Bureau for Humanitarian Issues (IBHI), "*The local NGO sector within Bosnia-Herzegovina – problems, analysis and recommendations*", Sarajevo, 1999, page 42.

International non - governmental organizations have assumed important tasks in the Bosnian post-war period. They can largely be subdivided, into two groups:

a) There are highly professional organizations, in operation for decades, in the humanitarian aid sector and in development cooperation, like *Oxfam* or *Medicines Sans Frontier*. In many cases, the presence of such organizations goes back to the war period, when the focus was on the distribution of humanitarian aid. Since the end of the war, many international NGOs have reformulated their own working objectives in Bosnia, committing themselves to material and economic reconstruction. The bigger NGOs have often obtained large contracts, in particular in the building industry.

b) During and after the war there has appeared a new solidarity among the international generation of NGOs, arising out of the movements for peace and the women's movement, and supported by the work of a great number of international volunteers¹². In the peace process, many of these organizations have made a contribution to the protection of human rights and to helping refugees to return.

In many cases the relationship between external actors and local organizations has been structured in a typical model. Most of the programs, being from international agencies (not governmental organizations) had the explicit objective of *localization process*: a plan committing work and responsibilities to local staff, with the creation of Bosnian NGOs; with correspondent gradual withdrawal of international staff, delegated to the exclusive function of logistical support and financing.

However, the creation of local organizations by foreign NGOs has been conducted in hurried way, without attempting to link with the traditional forms of association prior to the war: the result is the creation of weak organizations not rooted in the Bosnian social context¹³.

Analyzing the criticisms of current cooperative models in Bosnia and Herzegovina, it is necessary to point out how cooperation is founded mainly on competition paradigms, more similar to enterprise performance, rather than to aspire to the principles of solidarity. On the basic social analysis and economic proposal it appears opportune to develop an approach

¹² Philio Peirce, Paul Stubbs , "*Peace-building, hegemony and integrated social development: the case of UNDP in Travnik, Bosnia-Herzegovina*", 1999, page 4.

¹³ Idem: Philio Peirce, Paul Stubbs , "*Peace-building, hegemony and integrated social development: the case of UNDP in Travnik, Bosnia-Herzegovina*", 1999, page 4.

SOUTH/SOUTH, rather than to import the Anglo-Saxon and North American type models, which are distant and difficult to acquire.

2.2 An example of decentralized cooperation initiated in Bosnia and Herzegovina.

This model of international cooperation that can combine solidarity and development, with positive effects on the civil increase of the populations and on the economy, has been activated from three Italian Regions - Tuscany, Emilia Romagna and Marche. They have tested collaboration policies from 1996 in the ex-Yugoslavia, with association-charitable organizations and in enterprise creation. In fact, common reconstructions of the social, economic and cultural environment of the Canton Mostar in Bosnia have been promoted.

This is an example of a “good practice” of decentred cooperation, realized thanks to the involvement of NGOs, voluntary service associations, Universities and local authorities of the three regions. The local bodies involved in the plan have submitted the results of this experience to Brussels, for comparison with the European institutions: the basis of the comparison with the Parliament and the Commission has been the possibility of promoting, on the obtained base results, a new methodology of participations in the Balkan Reconstruction Area, in support of the real requirements of the populations and able to bring tangible and long-lasting benefits.

The main actions of these years had been:

- the reconstruction of the hospital orthopaedic unit;
- the construction of a catering unit for the vulnerable bands of the population;
- the construction of two social centres for the elderly;
- the creation of a social initiative to deal with neglect and a centre for enterprise services;
- The promotion and the development of micro enterprises.

These are the specific actions realized in Mostar, in the theme of international cooperation politics¹⁴:

a) The reconstruction of the hospital orthopaedic unit of the South Camp Hospital: it has been agreed with the European administration structure (EUAM) in Mostar to restore the conditions of civil cohabitation by means of

¹⁴ International Press Agency, specialized in services to Italians out of country (GRTV), 18 March 2002.

international solidarity initiatives and to guarantee the most basic needs of the population. In conjunction with European Commission finance and the Municipality of Saragossa (Spain), those of the Regions have concurred to complete the civil work and supply of equipment.

b) The construction of a catering unit for vulnerable sections of the population: it was agreed with the Italian Embassy in Sarajevo, and it has been financed by the Foreign Ministry and the Regions.

c) The restructuring by the local unions of two managed social centres for the elderly: it was done in agreement with the local authorities, and the Regions to are collaborating in the civil works and the supply of equipment.

d) The creation of a social enterprise scheme in order to alleviate neglect and a centre for enterprise services (at-risk families, the elderly, young, alone and traumatized): it was done in agreement with the local authorities, and has engaged the Regions to collaborate both on training activities, in social operations, and on enterprise sustainability.

e) The promotion and the development of micro enterprises: it has launched a lot of activities: two couture-houses, two laundries, an herbalist's shop, a bar, etc. The Regions have collaborated on educational programmes and on the supply of the basic equipment.

2.3 Conclusions: the theme of poverty in the public administration.

After the events of the last four years (2000-2003), it can be asserted without doubt that the reconstruction of the state, society and the economy has progressed. At the same time, the advances are not comparable to the profuse efforts from the population, supported by the international community. Undoubtedly the greatest obstacle lies in the structural deficiencies of the Constitutional framework, conceived in the *Dayton Peace Accord* which, although offering stability among the ethnic groups, were conceived at the end of conflict and are therefore in need of review.

Given the complexity of the political structure of Bosnia and Herzegovina, the greatest challenge still lies in the creation of a strong, effective and at the same time democratic central State. It is necessary, finally, to remember that approximately 19 % of the Bosnia and Herzegovina population lives under the

poverty threshold, and that 60 % of families are over this threshold thanks to black market or foreign deposits by relatives. The social bands worst hit are the members of repatriated minorities, the 370 000 internal refugees, the numerous families, unemployed, pensioners, and invalids (Sarajevo alone has 61,104 invalids).

Without doubt, Bosnia and Herzegovina must take on board the new freedoms, but also the new poverty generated by the recent civil war; it must try to push the current transition period towards sustainable development horizons. Eldin Hadzovic published a significant article in "Dani¹⁵": it speaks about the birth of the *New Titoism*, inspired by the father of ex-Yugoslavia. It makes us smile to think of the poor, but imaginative child in an elementary school of Mostar who, when asked to comment on the theme "The 45 dark years under Tito", answered immediately, pulling no punches: "Damn the person who switched on the lights!".

In the recent *Consultative Meeting on Priorities in Innovating Governance and Public Administration in the Euro-Mediterranean region*¹⁶, held in Naples, the young representatives of the Balkan Area countries found some points of convergence about the priorities and the objectives to be achieved:

- 1) *Institutional building and development of the P.A.*
- 2) *Decentralization* in the RS, related to the progressive devolution of competences, the autonomy of financial institutions, services management at local level.
- 3) *Human Resources Management*, based on training, incentives and the depoliticization of the public administration.
- 4) *The fight against corruption*, thanks to the normative measures and the imprinted procedural approach on transparency.
- 5) *Greater participation of citizens*, stimulating governance processes, with a bottom-up approach.
- 6) *Improvement of services distribution*, accelerating the privatization process, the simplification of administrative procedures and the spread of Information and Communication Technology (ICT).

¹⁵ E. Hadzovic, "Nostalgia di Tito", *Internazionale* n° 543, page 60, June 2004.

¹⁶ "Consultative Meeting on Priorities in Innovating Governance and P.A. in the Euro-Mediterranean Region" – Formez, Training and Study Centre, Naples, 17 – 20 May 2004.

In conclusion, in a country like Bosnia and Herzegovina, where one citizen in five lives under the poverty threshold, we cannot overestimate the importance of the topic forcefully asserted at the Naples Meeting, by the Morocco representative of Lizette Michael. On *Poverty in Public Administration*: "Through the innovation politics of the P.A., the administrative systems of the Euro-Mediterranean countries are becoming stabler, and oriented to the attainment of shared objects. But are the reforms oriented towards poverty? The instruments are very expensive and finances are not always sufficient to cover the requirements".

The words of Lizette Michael indicate that the public administrations can and must contribute to the fight against poverty, through development politics and reforms that aspire to the principle of equity, beyond the principles of effectiveness and efficiency.

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