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# WORK FORCE DEVELOPMENT

REGIONAL OVERVIEW:  
BOSNIA AND HERZEGOVINA

REGIONAL COMPETITIVENESS INITIATIVE

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## **DISCLAIMER**

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# I. GENERAL GEOGRAPHIC, DEMOGRAPHIC AND MACROECONOMIC INFORMATION ABOUT BOSNIA AND HERZEGOVINA

## BACKGROUND

The Dayton Peace Agreement, which ended the war in Bosnia and Herzegovina in 1995, established the current governance structure in the country. The structure is comprised of a state level government and two entities that enjoy substantial autonomy - the Federation of Bosnia and Herzegovina (FBH) and Republika Srpska (RS). An autonomous Brcko District was added to the structure in 1999.

The war caused extensive destruction to the people and the country's economy. Real GDP plummeted by 80 percent, and over 2 million people - nearly half the prewar population - became refugees, either abroad or internally. In 1996, a major donor assistance program set the stage for reconstruction and economic recovery. Overall, donor commitments were estimated at US\$ 5.4 billion. Bosnia and Herzegovina is a middle-income country with an official gross national income per capita of US\$3941 in 2007 (Annual average exchange rate KM/US\$). Approximately 66 percent of GDP is created in the service sector, 23 percent in industry, and 10 percent in agriculture.

Since the Dayton Peace Agreement, the country has made remarkable progress in post-conflict reconstruction, social integration, and state building. Based on its impressive economic recovery and sustained social stability, which have been supported by high levels of international assistance, the country can be considered a post-conflict success story.

## ECONOMY

### DEVELOPMENTS SINCE INDEPENDENCE

Since 1995, Bosnia and Herzegovina has had a robust economic growth. The growth was initially driven by reconstruction efforts, but as of late it is mostly driven by private sector investments. GDP has more than quadrupled and merchandise exports have been growing 20 percent on average for the past 8 years. Inflation was moderate during this period and remained below 3 percent in 2007 in spite of a one-off increase to 7.5 percent in 2006 due to introduction of the VAT. Inflation increased to 10 percent in 2008, almost entirely as a result of higher international food and fuel prices. The level of public debt has been relatively low and shrinking; it is currently around 18 percent of GDP. The size of the current account deficit was until recent years estimated at around 20 percent and was seen as a significant external risk. However, improved accounting at the Central Bank, as well as rapid growth of exports of goods and services has reduced the figure to 13 percent in 2007. Foreign reserves have steadily grown to a safe level of 28 percent of GDP. The growth of exports was also faster than anticipated, reaching 28 percent of GDP in 2007.

While significant progress has been made on structural reforms since 1995, the reform pace over the last two years has been slow and there is a large and overdue reform agenda. The banking sector has been largely privatized and modernized, and other financial sector reforms have been well advanced. Privatization of other state-owned companies has occurred at a slow pace, and the private sector's contribution to GDP is still lower than in a number of other countries in the broader region. Early attempts at privatization have resulted in diluted ownership and weak governance, and large-company divestiture has been slow. Some privatized companies, however, have become major contributors to real sector growth.

### RECENT ECONOMIC DEVELOPMENTS

Economic activity has remained robust in recent years despite slower implementation of reforms. As a result of earlier reforms, higher metal prices, and generally favorable external conditions, GDP growth increased to around 6 percent in 2006 and even accelerated to 6.8 percent in 2007. The growth of BH exports in recent years has been remarkable, surpassing that of all other countries in Balkans region. Exports growth was 36

percent in 2006, 15 percent in 2007, and will probably reach 17 percent in 2008. While exports are still dominated by steel and aluminum, the shares of more technologically sophisticated products have been increasing, as evidenced by rapid growth in exports of machinery, car parts, and furniture.

Despite high rates of growth and an impressive recovery, poverty still remains a concern. Last estimates put its levels at around 18 percent, and a further 30 percent of all citizens are in danger of falling into poverty in the event of an income shock. As most poverty is income related, employment growth is the solution for the bulk of the poverty problem.

Growth in employment in recent two years has most likely made a dent in poverty numbers. However, the recent rise of food and fuel prices is likely to have reversed the effects of growth to an extent, at least in urban areas.

The results of the Labor Force Survey (ILO standards) of May 2008 show the unemployment rate in BiH falling to 23.4% of the labor force, from 29% a year earlier. Labor force participation remains very low, at about 44% of the total working age population and informal employment is still high. Informal economic activities are fuelled by a poor regulatory framework, inappropriate tax and expenditure policies and weaknesses in law enforcement. Slow expansion of productive capacities and structural rigidities – high rates of social contributions, distorted wage-setting mechanisms, high and poorly targeted social transfers and low labor mobility - hamper job creation and labor market participation. Overall, unemployment remains very high, although improvements can be noted.

**TABLE I: MAIN ECONOMIC INDICATORS**

INDICATORS	2006	2007	2008
Gross domestic product (GDP) (million national currency)	19 121	21 647	-
GDP (million USD)	12 262	15 143	-
GDP (KM per capita)	4 976	5 634	-
GDP (USD per capita)	3 191	3 941	-
Annual average exchange rate KM/USD	1.5594	1.4295	-
Growth rate of GDP (national currency., at constant prices, % change on prev. year)	6.9	6.0	-
Industrial production volume index (2000=100)	159.3	170.4	-
Gross value added by main sectors (%)			
Agriculture	10.2	9.5	-
Industry	19.2	19.6	-
Services	65.6	65.2	-
Consumer price index (CPI), (total, % change on previous year)	6.1	1.5	-
Employed – administrative data ( <i>annual average</i> )	654 252	670 732	-
Unemployed – administrative data ( <i>at the end of year</i> )	524 376	515 739	-
Unemployed rate in % - administrative data	44.1	42.9	-
Unemployed rate in % - LFS data	31.1	29.0	23.4
Employed rate in % - LFS data	29.7	31.2	33.6
Activity rate in % - LFS data	43.1	43.9	43.9
Average net wage in KM	586	630	-
Budget deficit/surplus as % GDP	2.9	1.3	-
Export of goods and services /million euro/	2 687	3 092	-
Import of goods and services /million euro/	6 093	7 234	-
Annual lending interest rate	8.0	7.2	-
Deposit interest rate (one year), per annum (%)	0.5	0.4	-

**TABLE 2: LABOR MARKET MOVEMENT INDICATORS**

	Employees		Average net wages in KM /KM=0,51 Euro/	
	2007	X 2008	2007	X 2008
Agriculture, forestry and water-power economy	17 327	18 807	571	695
Fishing	386	506	484	621
Mining and quarrying	19 792	20 146	629	783
Manufacture industry	133 999	147 200	481	547
Production and supply of electricity, gas and water	22 135	22 880	885	1 085
Construction	39 017	43 660	449	523
Whole sale and retail trade, repair of vehicles, personal and household goods	117 731	133 705	451	520
Hotels and restaurants	33 248	32 496	436	497
Transport, storage and connections	44 376	44 878	790	911
Financial intermediation	12 123	14 570	1193	1 241
Real estate, renting and business activities	23 403	26 968	651	735
Public administration and compulsory social insurance	68 735	68 253	889	1 089
Education	53 178	54 794	639	848
Health and social work	43 862	44 736	720	1 027
Other communal, public and personal service activities	36 382	29 188	639	711
<b>Total</b>	<b>668 313</b>	<b>707 283</b>	<b>645</b>	<b>780</b>

Source: Agency for statistics B&H,, the Central Bank of B&H

## II. UNEMPLOYMENT, LABOR SUPPLY/DEMAND GAP

### LABOR MARKET CHARACTERISTICS

Although in many ways specific when compared with neighbouring countries, the labor market of Bosnia and Herzegovina nevertheless has certain features characteristic of other markets as well:

- Labor legislation in Bosnia and Herzegovina is divided to Entities and the District, but also relatively aligned with the Conventions of the International Labor Organisation, and rather liberal, comparable even with the developed market economies,
- Collective agreements, unlike regulations, are not best adapted to the market conditions of business operations and kept some “non-market” privileges from the pre-war period,
- Legal systems of support and protection for the unemployed are well adapted to the demands of market economy, although there are important differences in its realisation in respective Entities,
- Workforce in the formal sector is “obsolete”, and younger workers have more difficulties in accessing the formal sector,
- The actual unemployment is constantly high, still is far less than the recorded unemployment,
- Large informal sector in place (especially in agriculture),
- Participation of women in the employed workforce is among the lowest one in the region, but the difference in salaries between men and women is not large,
- Insignificant opening and redistribution of jobs,
- Mobility and flexibility of workforce is small,
- System of determining salaries is insufficiently flexible and makes the obstacles to opening of new jobs and mobility of workers,
- Salaries in the formal sector, compared to the productivity rate in Bosnia and Herzegovina, are still high, considering the regional context,
- High taxes and a difficult access to loans followed by administrative barriers are also slowing down the development of small and medium enterprises,
- Companies do not report full salaries,
- Private companies are far more dynamic, especially when it comes to employment growth.

### LABOR AND EMPLOYMENT AGENCY OF BOSNIA AND HERZEGOVINA

Labor and Employment Agency of Bosnia and Herzegovina was established in 2003 as an independent administrative organization within the framework of institutions of Bosnia and Herzegovina. Its competences are defined by the Law on the Labor and Employment Agency of Bosnia and Herzegovina (‘Official Gazette of BiH, No.21/03).

The Agency is authorized to:

- perform international representation and cooperation with international organizations and discharge international commitments in the area of labor and employment;
- coordinate activities with the Entities’ authorities and Entities’ Employment Services regarding employment in projects of interest for Bosnia-Herzegovina;
- collect information on labor supply and demand at the international market and submit information to the Entities’ Institutes;
- initiate the entering and signing of international contracts in the area of labor, employment and social security, and monitor their implementation.
- monitor the implementation of the International Labor Organization Conventions and international standards in the area of labor and employment.

## LABOR FORCE SUPPLY

**TABLE 3: MAIN UNEMPLOYMENT INDICATORS**

INDICATORS	2006	2007	2008
Unemployed – administrative data ( <i>at the end of year</i> )	524 376	515 739	-
Unemployed rate in % - administrative data	44.1	42.9	-
Unemployed rate in % - LFS data	31.	29.	23.4
	1	0	
<b>Unemployed by highest educational level – LFS data in %</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
- Primary school and less	25.4	26.1	24.7
- Secondary school	70.2	69.9	70.3
- College, university, masters, doctoral degrees	4.4	4.1	5.0
<b>Unemployed by duration of unemployment</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
- less than 2 years	24.9	23.3	24.6
- from 2 to 5 years	28.4	26.4	24.3
- 5 and more years	46.7	50.3	51.1

### Registered unemployment by qualification

	2007		IX 2008	
	Total	Structure	Total	Structure
Unskilled workers	175 281	3 3.9 9	163 321	34.01
Semi-skilled workers	15 672	3.0 4	14 223	2.96
Skilled workers	183 203	3 5.5 2	167 961	34.98
Highly skilled workers	4 702	0.9 1	4 099	0.85
Informal vocational education	2 326	0.4 5	2 201	0.46
Secondary school	116 072	2 2.5 1	109 696	22.84
Post - Secondary school	7 653	1.4 8	7 010	1.46
University degree	10 837	2.1 0	11 665	2.43
<b>Total</b>	<b>515 746</b>	<b>1 0 0.0 0</b>	<b>480 176</b>	<b>1 0 0.0 0</b>

Source: B&H Federal Employment Agency, Employment Agency of the Rep. of Srpska, Employment Agency of Brčko District

## LABOR FORCE DEMAND

In the period January - June 2008, 48,248 employed persons were registered, by Employment Bureaus in B&H, which represent an increase by 17.62% in relation to the same period of previous year (41,019 persons). This data is continuation of positive trends in employment registered by Employment Bureaus.

During 2007 the Employment Bureau of Federation B&H carried out Employers Survey. In terms of labor force demand, the following results were the most important:

- as per the type of main business, the greatest needs are expected in manufactory industry (40.8%), and then in construction industry (14.7%).
- to the question – *How do you usually seek new employees?* – 30.2% of total number of respondent answered by advertising in the media, 28.5% by municipal employment services and 27.8% by personal contacts.
- to the question - *Do you plan to increase the number of employees in the current year?* – 58.5% employers stated that they have no plans to increase the number of employees, while 41.5% confirmed plans to increase.
- to the question - *on reasons behind the current lack of certain employees* most common reason was that – *candidates lack certain professional and work experience* (27.7%), followed by responses *candidates could not meet professional requirements* (26.9%).
- to the question – *State the expected needs for employees in the current year?* employers stated 64.1% demands for permanent employment and 35.9% for short term employment.
- the most needs have been expressed for qualified workers (36.2%) and for secondary education workers (24.0%).

### Structure of vacancies by qualification in 2007

Qualifications	Total	Structure
Unskilled workers	6.732	15,85
Semi-skilled workers	949	2,23
Skilled workers	18.440	43,41
Highly skilled workers	344	0,81
Informal vocational education	254	0,60
Secondary school	7.839	18,45
Post-secondary school	3.117	7,34
University degree	4.808	11,32
<b>Total</b>	<b>42.482</b>	<b>100,00</b>

Source: B&H Federal Employment Agency, Employment Agency of the Rep. of Srpska, Employment Agency of Brčko District

#### Active employment policy measures in 2007

This section contains review of different programs and its main characteristics that represent active employment policy measures undertaken in the course of 2007.

#### Additional education and training, (1.937 participants)

- Programme of training, additional training and retraining (Federal Employment Agency and Cantonal Employment Agencies)
- SESP - Second Employment Support Project (Federal Employment Agency and Cantonal Employment Agencies) - component: on the job training and employment
- SESP - Second Employment Support Project (Employment Agency of the Republic of Srpska) - component: on the job training and employment
- Vocational Training Programme, training, retraining and additional training (Employment Agency of Brčko District B&H)
- Programmes for preparation for the labor market (Employment Agency of Brčko District B&H)

#### Entrepreneurship development and employment programmes, (5.977 participants)

- Self-employment programmes (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment in the family business, small, medium and large enterprises (Federal Employment Agency and Cantonal Employment Agencies)
- "Job for Everybody" Programme (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for stimulation of employment of the unemployed persons (Federal Employment Agency and Cantonal Employment Agencies)
- "Solidarity in Effect" Programme (Federal Employment Agency and Cantonal Employment Agencies)
- "Assistance to Old and Weak Persons" Programme (Federal Employment Agency and Cantonal Employment Agencies)
- SESP - Second Employment Support Project (Federal Employment Agency and Cantonal Employment Agencies) - component: employment and self-employment
- SESP - Second Employment Support Project (Employment Agency of the Republic of Srpska) - component: self-employment in entrepreneurship and self-employment in agriculture
- Programmes for new employment (Employment Agency of Brčko District B&H)

#### Public works, (2.474 participants)

- "Public Works" Programme (Federal Employment Agency and Cantonal Employment Agencies)
- SESP - Second Employment Support Project (Federal Employment Agency and Cantonal Employment Agencies) - component: public works

#### Employment of target groups, (4.173 participants)

- Employment programmes for the persons with university and college education (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of young persons without parental care (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of persons with disabilities and special needs (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of persons with 3 and 4 year secondary education and postsecondary specialist qualification (Federal Employment Agency and Cantonal Employment Agencies)
- "Agriculture Workers" Programme (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of persons older than 40 and with 15 years of work experience (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of volunteers with medical and educational occupation in public institutions (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of assistants in universities and scientific- research institutions (Federal Employment Agency and Cantonal Employment Agencies)
- Programme for employment of returnees (Federal Employment Agency and Cantonal Employment Agencies)
- Project for employment of trainees with university education (Employment Agency of the Republic of Srpska)
- Project for acquisition of work experience through volunteering for persons with university and college education (Employment Agency of the Republic of Srpska)

## III. PROJECTS AND INSTITUTIONAL ACTIVITIES

### PUBLIC INITIATIVES

#### LABOR AND EMPLOYMENT AGENCY OF BOSNIA AND HERZEGOVINA

As mentioned before, Labor and Employment Agency of Bosnia and Herzegovina is the most competent organization dealing with labor market in B&H. Its competences include:

- administer international representation and cooperation with international organizations and discharge international commitments from the field of labor and employment;
- coordinate employment-related activities with Entity authorities and Entity employment services in projects to the interest of Bosnia and Herzegovina;
- gather information on labor supply and demand at the international labor market and forward the information to Entity employment services;
- initiate conclusion and signing of international contracts in the field of labor, employment and social insurance and monitor their implementation;
- monitor implementation of the ILO Conventions and international standards in the field of labor and employment

#### MAIN ACTIVITIES

##### I. EMPLOYMENT POLICY REFORM AND ESTABLISHMENT OF THE LABOR MARKET INFORMATION SYSTEM

Implementation of the project entitled "Employment Policy Reform and Establishment of the Labor Market Information System" financed from CARDS 2006 funds started in 2007. The Project has been implemented through 3 components where each component has a Task Force set up by contracting authority which comprises representatives of the Labor and Employment Agency of Bosnia and Herzegovina and other state and entity level ministries and institutions involved in the Project.

Activities undertaken so far in **Component 1 – Development of Employment Strategies and Employment Action Plans** are aimed at analyzing the situation in the labor market of Bosnia and Herzegovina which is prerequisite for understanding major problems in the labor market and defining guidelines for development of the future employment strategy and employment action plans.

Under **Component 2 – Establishment of the Labor Market Information System and Reporting System on Employment and Labor Statistics**, examination of current situation from the technical and organizational standpoint has been completed and drafting of functional and technical specification of the system initiated. Tendering procedure for procurement of necessary hardware (servers, network equipment and workstations) for development of information systems of the Labor and Employment Agency of Bosnia and Herzegovina, entity employment services and Employment Service of the Brčko District of BiH has also been completed. The Task Force has held two working sessions so far, as well as one Seminar on International Statistical Standards, Common Principles of EUROSTAT Statistics and the ILO Code Systems and Statistics.

Following activities are envisaged in the future work:

1. Drawing up specification for the system to be installed in the Labor and Employment Agency of Bosnia and Herzegovina,
2. Installing the system and integrating it in employment services which are participants in the project,
3. Training of beneficiaries who will operate the system.

**Component 3 – Drawing up of framework principles and standards in the labor sector.** The Task Force has so far undertaken important activities with a view of implementing this Project Component. Four working sessions have been held. An in-depth analysis of legal framework of labor and employment legislation has been carried out in entities and Brčko District of BiH, as well as comparison with good practices of the European

Union with a view of identifying whether the existing regulatory framework can fully support efficient functioning of the labor market in Bosnia and Herzegovina. The analysis consists of the horizontal review of existing laws regulating this subject matter, as well as of vertical review of specific legislation regulating the issues relevant for the functioning of the labor market in Bosnia and Herzegovina.

Following activities are planned in the forthcoming period:

1. Final elaboration of comprehensive report which will evaluate the laws and other regulations on labor and employment in BiH;
2. Drawing up of framework principles and standards for labor and employment in consultations with entity-level governments and Government of the Brčko District of BiH;
3. Meetings and consultations with Task Force members on Draft principles and standards;
4. Seminar on best judicial practice and aspects of judicial settlement of labor disputes;
5. Seminar on the EU regulatory framework on labor and employment and regulations and procedures for access to the EU financial funds for labor and employment programmes;
  - Final drawing up of Framework Labor Principles and Standards.

## 2. INSTRUMENT FOR PREACCESSION ASSISTENCE (IPA)

In the course of time, the European Union has developed a broad range of assistance programmes resulting in a complex set of over 30 different legal and financial instruments. The need to facilitate coherency and improve consistency of the EU assistance made the European Commission propose a simpler framework **for providing assistance in the 2007-2013 period.**

Hence, new external instruments have been established with a view to embrace the special EU cooperation with developing countries, as well as the overall EU policy concerning development of good neighbourly relations in the field of policy, enlargement and other specific topics.

The IPA Programme replaced earlier financial instruments: PHARE, ISPA, SAPARD, the Turkish Preaccession Instrument, as well as CARDS, financial instrument for the Western Balkans. Its financial value for the seven-year period is 11,468 billion euros.

Main objectives of the IPA Programme are to provide assistance to candidate countries and potential candidate countries in their harmonization and compliance with the EU legal frameworks (acquis communautaire), as well as in their preparation for utilization of structural funds. IPA has been designed so as to respond more successfully and more efficiently to different objectives and development levels of each beneficiary country and provide targeted and efficient support in accordance with their needs and assessments.

Representatives of Labor and Employment Agency of Bosnia and Herzegovina have been involved in all activities implemented so far under the IPA Programme regarding the field labor and employment, as well as the labor market of our country. Bosnia and Herzegovina is expected to sign the Stabilization and Association Agreement and hence become eligible to utilization of funds of the three remaining Components.

## **World Bank in B&H**

1. Project Name (ID): EDUC RESTRUCTURING

**Theme: Education for the knowledge economy, Education for all**

Closing Date: 03/31/2010

Sector(s): Secondary education (50%), Sub-national government administration (40%), Central government administration (10%)

*Project Development Objectives:*

The objectives are to: (a) increase participation in general and broad-based secondary education programs; and (b) improve the efficiency of education delivery, especially in secondary education.

*Progress toward achieving development objective(s):*

Since the project was approved in June 2005, it took 2 years for the project to become effective because of the hiatus before and after national elections and because one part of the project was linked to a controversial condition on higher education in the Economic Management Structural Adjustment Credit, financed by the Bank. However, delays continued after effectiveness, partly because the proposed implementation arrangements proved unworkable due to insufficient capacity in the Ministry of Civil Affairs. By the end of 2007, the Borrower had failed to adhere to several provisions of the Development Credit Agreement and the Bank suspended disbursements on January 21, 2008. On March 20, 2008 the Chairman of the Council of Ministers wrote to the Bank indicating his government's commitment to the original project objectives and proposed a new set of activities to achieve it. The project is currently being restructured.

2. Project Name (ID): EMPLOYMT 2

**Theme: Improving labor markets, Social risk mitigation, Social safety nets, Education for the knowledge economy**

Board Approval Date: 06/15/2004

Closing Date: 03/31/2009

Sector(s): Other social services (85%), Central government administration (10%), Sub-national government administration (5%)

*Project Development Objectives:*

The objectives are to: (a) provide employment services for an estimated 10,000 people who are either recently retrenched and above 45 years of age and/or those who are actively seeking jobs for two or more years in the Republika Srpska and the Federation of Bosnia-Herzegovina; and (b) support reforms to change behavior and improve service delivery in employment services.

*Progress toward achieving development objective(s):*

Substantial progress against project objectives has been made. The project has facilitated provision of job-brokerage services and employment to 8,479 individuals previously registered as unemployed. Progress in developing capacity of the public employment services has also been satisfactory. The project has demonstrated results with efficient and cost-effective active labor market programs (job-brokerage, job-counseling, self-employment, public works) rather than with generous subsidies previously practiced by the Public Employment Services. Efficient and cost-effective labor market programs have been developed and are being applied even beyond the scope of the project. Furthermore, the project is ensuring that greater focus by employment services is made on targeting of job-brokerage services on active job-seekers.

3. Project Name (ID): ROAD INFRASTRUCTURE AND SAFETY PROJECT

**Theme: Infrastructure services for private sector development**

Board Approval Date: 12/13/2007

Closing Date: 12/31/2011

Sector(s): Roads and highways (90%), Central government administration (10%)

*Project Development Objectives:*

The Project Development Objectives are to reduce user costs on the priority sections of the trunk and regional road networks, to improve the institutional framework for road safety, and to modernize road maintenance practices.

*Progress toward achieving development objective(s):*

The Credit Agreement was signed on May 22, 2008. The Project is not yet effective. Preparatory works for the implementation of the project are ongoing at the road Directorates in the Federation of Bosnia and Herzegovina and in the Republika Srpska.

### **Council of Ministers of Bosnia & Herzegovina Directorate of Economic Planning**

#### **Project: Bosnia & Herzegovina Enterprise Sector Recovery Fund**

The Enterprise Sector Recovery Fund (ESRF or the project) is a harmonised technical assistance fund with up to EUR 15 million of financing provided by the Governments of the Netherlands (RNE), Sweden (Sida) and the United Kingdom (DFID). Additional donors will be sought to expand the harmonised financing available to support the objectives of the ESRF. The Directorate for Economic Planning (DEP) is establishing a Secretariat to support the administration of the ESRF.

*Objectives of the ESRF*

The primary objective of the ESRF is to alleviate poverty by assisting the transformation of the BiH economy according to the priorities defined in the Medium Term Development Strategy (MTDS). The second objective of the project is to encourage the development of a single market within Bosnia.

This will be achieved through: (a) the reform of pension and health care financing and administrative systems to create uniform record keeping and information technology which would facilitate the movement of labor between the Entities; and, (b) improvements to the business environment (primarily business licensing and regulatory procedures) to facilitate crosscountry commercial operations. This has further been emphasized by the medium term priorities of the EU Partnerships for Bosnia and Herzegovina, under "Existence of the Free Market and Structural Reforms" section. The third objective of the project is to encourage dialogue and co-operation between the Entities and the State in the economic sphere. This will be achieved through the BiH governance structure of the ESRF which will include a strong role for a Steering Committee composed of two representatives from each of the Entities and the State, plus the Director of DEP, in setting policy for the use of the ESRF's resources; and, to supervise the day-to-day operations of the ESRF and to select the management of the ESRF's secretariat.

## **UNDP B&H**

### **I. Project: Growing Sustainable Business**

#### *Background*

Growing Sustainable Business (GSB) is a UNDP initiative seeks to broker public-private partnerships that enable the private sector to engage in specific pro-poor investment projects that are both, commercially attractive and address development needs of the country. The initiative implements the recommendations of the UN Commission of the Private Sector and Development, recognizing the critical contribution of the private sector, large and small, foreign and domestic, to poverty reduction and growth.

#### *Objectives*

The overall goal of the initiative is to broker and facilitate linkages between large businesses, potential investors and local partners, to strengthen and expand the MSME sector in Bosnia and Herzegovina along the value chains by integrating local enterprises into international market.

#### *Achievements and Expected Results*

- Introductions to and relationships with key local partners, including government, NGOs (Pharmamed and MyCycle)
- Technical assistance and capacity building programmes for local actors that might have stake in the investments (Industrijski Otpad)
- Outreach events that aim to target specific investors (match making conferences in Bruxelles, Istanbul and Vienna) interested in the local market
- Innovative solutions & Pro-poor investments facilitation □ Policy changes (work with BBI Bank)

### **2. Project: Bosnia and Herzegovina Biomass Energy for Employment and Energy Security Project**

#### *Background*

While Bosnia and Herzegovina is very well endowed with biomass energy resources, and the rural population is highly dependent on wood (particularly in the form of firewood), information related to the biomass energy sector was extremely scarce in past. Current data about biomass residues or waste are good and relatively new (they have been collected through EU/FP6/ADEG project in 2004, based on forest and agricultural statistics, and surveys (in forest management companies, economy chambers, and wood processing industry). The annual increment is calculated to 9.49 million m<sup>3</sup>, which corresponds to 3.0 % of the total standing volume (317.5 million m<sup>3</sup>).

Annual allowable cut is calculated to 7.44 million m<sup>3</sup> and actual harvesting to 4.43 million m<sup>3</sup>. Although annual growth seems high, annual wood increment is constrained by inadequate local forest management practices. This project removes market barriers to the adoption of sustainable biomass energy services in rural areas of Bosnia and Herzegovina through market transformation, enhancing job creation, community poverty reduction and local energy security. Focusing on the Srebrenica region covering the Municipalities of Srebrenica, Bratunac and Milici, the project addresses barriers in policy and legislation, finance, business and management skills, awareness, and technology through a comprehensive barrier removal strategy that addresses biomass supply including forest management and demand-side biomass technology deployment.

The project will co-operate closely with the UNDP-SRRP Forestry for Employment Project to provide a model for addressing sustainable biomass supply. The GEF project uses an innovative niche market buyers-group approach (procurement) to increase sales volume, supported by heat service contracting (Build, Own, Operate, Transfer – BOOT), where technology suppliers carry both investment and operational risk and it represents best practice in building local ownership of project successes, enhancing sustainability and replicability.

#### *Objectives*

The project objective is to avoid 120,000 tonnes CO<sub>2</sub>eq over 15 years, by retrofitting or installing biomass-

fired boilers in 20 schools. The GEF MSP will be closely integrated into the UNDP SRRP Forestry for Employment Project “Regeneration of the Forestry and Wood-Processing Cluster in the Srebrenica Region”.

#### *Achievements and Expected Results*

Market demand for biomass energy is increased; Sustainable biomass fuel supply markets strengthened and expanded; Policy makers, financial sector, fuel and technology suppliers and niche markets are convinced of benefits and market opportunities for biomass energy.

### **USAID B&H**

#### **I. Project: Project Streamlining Permits and Inspection Regime (SPIRA)**

Duration: 4 years from Sept 2005 to Sept 2009

SPIRA’s goal is to ease the permitting and inspections obstacles that small and medium-sized enterprises (SMEs) face by reducing the legal, regulatory, and administrative barriers. Working in both entities SPIRA works with counterpart ministries of Economy, Spatial Planning, Trade, Crafts, and Tourism and Catering to amend legislation, redraft workbooks, and increase the capacity of ministry staff to lower the time to register a business and secure a construction permit. Ultimately, SPIRA will lead to an increase in the number of legal business, lower the total level of illegal constructed buildings, and serve as a foundation for a growing SME sector increasing its contribution to total GDP and employment for BiH.

#### *Results*

After 3 years, the results are starting to show. In the Republic of Srpska, SPIRA sponsored legislation has resulted in lowering the time to register a business from 30+ days to less than one week, legislation to reform the spatial planning and construction permit process is currently drafted in the RS and Federation, and SPIRA sponsored business inspection reforms have decreased the total number of inspected measures by 43%. Finally, as a true testament to the success of SPIRA legislation, the RS government is currently discussing the passing of a new Law on Enterprises that will result in the adoption of SPIRA suggested measures on registration for all types of businesses moving beyond the three sectors originally targeted by the activity.

#### *Current Activities*

Currently, SPIRA is continuing to expand its legislative efforts to include all types of businesses in the Federation with a draft Law on Enterprises similar to the one being considered in the RS.

Additionally, SPIRA is developing an Inspection Management System for both entity Inspectorates. This new high-tech system will provide not only government inspectors with real time information but also business owners for the first time will be able to access a database electronically to view their records, obtain a list of relevant inspection measures, and appeal violations. This new electronics system will not only decrease the time involved in completing an inspection but will also increase the transparency and responsiveness of the Inspectorates. This is one of the last but important tools in creating a business friendly environment in BiH.

#### **Project 2: Tax Administration Activity (TARA)**

USAID through its Tax Reform Activity (TARA) supports designing a legal framework for direct taxation that is regionally competitive, comprehensive, coherent and consistent with best international practices. Changed and improved Personal Income and Corporate Income Tax Laws will be harmonized between entities to reduce burden on tax payers and also to make administration of those taxes easier and less expensive. USAID TARA also assists counterparts in designing and implementing an ad-valorem real estate tax system.

## **Results**

TARA in partnership with Ministries of Finance from the Republika Srpska (RS) and Federation of Bosnia and Herzegovina (FBiH) drafted and lobbied for passage of Personal Income Tax (PIT) and Corporate Income Tax (CIT) laws. In the RS the laws passed in 2006; secondary legislation, rulebooks and tax forms were developed, and laws implemented in 2007. In the FBiH the laws passed in 2007. CIT is in the first year of implementation while for PIT secondary legislation, rulebooks and tax forms were developed and under consideration by Ministry of Finance.

Real Estate Tax (RET) legislation passed in Brcko. TARA trained counterparts to conduct the survey of the properties to establish the fiscal cadastre, which will serve as basis for taxation. The tax on sales of a property was reduced in Brcko and the authorities are preparing to eliminate a number of nuisance and unproductive fees and taxes.

## **Current Activities**

Through the Implementation Board USAID TARA is supporting the implementation of PIT and CIT in FBiH. In the RS USAID TARA is working with counterparts to help them make a case for the new RET law to be passed.

USAID TARA is providing partners in Brcko custom made software for creation of fiscal cadastre. They are also assisting in any other areas necessary for successful implementation of real estate tax law. Facilitate cooperation/coordination between three tax administrations

## **Project 3: Enabling Labor Mobility (ELMO)**

The Enabling Labor Mobility Project (ELMO) is designed to support the development of SMEs by a) removing regulatory obstacles that force SMEs to operate in the informal sector and b) broadening the base for collection of social contributions which could facilitate a future rationalization of social contribution rates.

ELMO facilitates the harmonization of labor and inspection-related legislation across both Entities and with EU and ILO standards (labor law, occupational safety and health, inspections), which contributes both to a single economic space and EU accession.

It also will create a Unified Collection System of social contributions in both Entities that will be nearly identical, easy to integrate and allow for cross-Entity exchange of data which isn't occurring currently. In addition, the project also promotes EU accession by the building strong tripartite dialogue, which is a cornerstone of EU policy and practice.

## **Results**

The development of new legislation on occupational safety and health in both Entities completed in 2007, and adopted in 2008. The review of labor legislation in both entities commenced – the amendments completed and will be adopted by the end of 2008. Assistance provided to the RS Administration for Inspection Services on development of a new labor inspection policy, adopted in April 2007, which set the groundwork for future amendments to inspection-related legislation. The Occupational Safety and Health (OSH) Rulebooks have been completed and await promulgation by the Ministry of Labor. The project conducted a tender for the procurement of IT equipment for labor inspectors in both Entities in support of the Inspection Management System being jointly developed by the two Inspectorates and USAID/SPIRA. The project, along with USAID/SPIRA and the World Bank, initiated computer literacy training for all inspectors, which will be completed in September 2008.

## **Current Activities**

The project with the Entities' Labor Inspectors is drafting the relevant legislation, training labor inspectors on a preventive-based methodology, and to increase the involvement of the social partners in the development and implementation of labor inspection policy. Detailed Process Mapping of business process in all extra-budgetary funds that will be transferred to Tax Administration completed. Legislative analysis of changes necessary to avoid duplications and overlaps completed. Design of system finished by end of 2007, development of system commenced in 2008 and will be finished in 2009. The UCS law in Federation and the amendments in RS completed and will be adopted by the end of 2008.

## **Ministry of Civil Affairs**

### **EU Assistance to BiH - IPA**

Over time, the EU has developed a broad spectrum of external aid programmes, which resulted in a complex set of more than 30 different legal instruments. The need to facilitate coherence and improve consistency of the Union's action, and achieve better results and a higher impact with the resources available, led the Commission to propose a simplified framework for external actions over the 2007-2013 period.

### **Project Fiche – IPA 2007 Improving active labor markets in Bosnia and Herzegovina**

Implementing arrangements:

Contracting Authority: (EC) European Commission

Implementing Agency:(ECD) Delegation of European Commission in BiH

Beneficiary (including details of project manager):

Ministry of Civil Affairs (Sector for Labor, Employment, Social Protection and Pensions) as well as relevant entity Labor Ministries, State and Entity Employment Agencies, Sub-entity agencies and social partners as appropriate

Financing:

Overall cost: 1, 200, 000 Euro

EU contribution: 1, 200, 000 Euro

Final date for contracting: N+2

Final date for execution of contracts: N +4

Final date for disbursements: N + 5

*Overall Objective:*

Economic regeneration of B&H

*Project purpose:*

To introduce active labor market policy development in the B&H

Developing Active Labor Market Measures to combat unemployment, in particular long-term unemployment, to reduce fragmentation of labor markets and improve mobility

- A national Action Plan on Employment will be adopted and implementation started
- Policy coordination and decision making structures will be improved
- Assistance to draft and implement a national Action Plan on Employment
- Above capacity and institution building programmes will be complemented by support to improve policy coordination and decision making structures Agency for statistics B&H

### **Project Fiche – IPA 2007 for B&H - EU Support to Regional Economic and SME Development**

Implementing arrangements:

Contracting Authority (EC): European Commission Delegation to Bosnia and Herzegovina on the behalf of the beneficiary country.

Implementing Agency: n/a

Beneficiary (including details of project manager): Ministry of Foreign Trade and Economic Relations BiH  
Ministry of Economy, Energy and Development RS Ministry of Development Entrepreneurship and Craft FBiH  
Regional Economic Development Agencies

Financing:

Overall cost: € 4 million

EU contribution: 100%

Final date for contracting: N+2

Final date for execution of contracts: N +4

Final date for disbursements: N + 5

*Overall Objective:*

The overall objective is to consolidate efforts already made to stimulate economic growth and employment generation thereby contributing to the creation of a basis for sustainable development and economic dialogue in BiH.

*Project purpose:*

1. Consolidate the establishment of a comprehensive institutional and legal framework for regional economic development (RED) and SME development.
2. To continue the improving the skills and knowledge of the business sector especially SMEs) by fostering a learning environment and enhancing the capacity of local training providers.
3. To strengthen links between the education system and the needs of the economy by creating partnerships and networks to connect teacher training and education policy making with business and entrepreneurship.

### **Agency for Statistics of Bosnia and Herzegovina (BHAS)**

There are three statistical institutes within the Bosnia and Herzegovina. According to the law on statistics, the component authorities for organizing, producing and disseminating statistics are: the Agency for statistics of Bosnia and Herzegovina at the level of the state (BHAS), the Federal Office of Statistics for the Entity of Federation of Bosnia Herzegovina (FIS) and Republika Srpska Institute of Statistics for the Entity of Republika Srpska (RSIS). In addition to the three statistical institutions, the Central Bank of BiH compiles monetary and balance of payments and financial statistics for BiH (CBBiH).

Mission of official agents of statistical activities in BiH is efficient production and dissemination of goods quality and timely statistical data that satisfy users' needs regarding the status and changes in economic, demographic and social fields, as well as in the field of environment and natural resources. These data are comparable both in time and internationally.

All three statistical offices are obliged to follow the next statistical principles in producing statistical data:

- 1 Harmonisation with the international and, first of all, the EU standards and recommendations;
- 2 User orientation;
- 3 More modern approach to collecting, processing and disseminating statistical data;
- 4 Statistical data quality improvement;
- 5 The use of new information and communication technologies (ICT) and innovations;
- 6 Competent and motivated staff;
- 7 Improvement of working conditions.

Labor Market Department in BHAS

According to the Programme and Plan of statistical surveys Labor Market Department in Agency for statistics estimate data on employment, gross and net wages but data on unemployment and pensions take over from

other statistical producers. Process of data collection is obligation of entities statistical offices. BHAS does not collect statistical data directly from statistical units, but makes aggregation of the statistical data collected by entities statistical offices.

There are two sources of data on employment: administrative sources and Labor Force Survey, which is harmonised with the ILO and EU demands.

Data about gross and net wages are collected from administrative sources. According to the Programme of statistical survey for 2009-2013 Labor Cost Survey is planned in 2009 like Pilot study and in 2010 like ordinary survey.

Both entities statistical offices take over data on unemployment and pensions from entities Offices for employment and Pensions funds.

### **Universities in Bosnia and Herzegovina**

There are 16 universities in Bosnia and Herzegovina: 9 of them public and 7 private universities.

These universities have more than 100 faculties and Academies.

On the High level educational institutions in BiH number of attendant is more than 110,000, what is huge potential for entry high educated persons in labor market.

## **Private initiatives**

### **Chamber of Economy**

Each year the Employment fair takes place in Sarajevo, on which employers from whole territory BiH meet unemployed persons directly, asking for new employees and directly make employment agreements with them.

## **DOCUMENTS**

### **1. The National Employment Action Plan**

#### **Project IX – Employment strategy in Federation B&H**

*Description of the project:*

To improve situation on Labor Market and conditions for increasing employment, to improve labor legislation, and especially improve the regulations of the status of employed in agriculture, decreasing of black market and under the table market i.e. decreasing of informal-grey employment, will be finished The Employment Strategy in Federation BiH.

- deadline for finishing documents is: the end of 2007.

- producers: Ministry of labor and social affairs, Federal employment service, Employment Agency of BiH Cantonal employment services.

- realization: 2007.-2010.

#### **Project for employment high educated youth in Republica Srpska**

Realization of this very important project is expected till the end of 2008. For this project applied 1.180 high educated youth, and Government RS, according to the earlier decision, made decision to finance till 1.200 of the high educated youth with around 7.5 million KM. Persons who are employed with this project will receive salary on the level of Average wage from previous year, with payed all contributions and taxes, and Government pay 60%, and employer 40 %.

It is important to underline the fact that 138 employers showed the need and will for participation in this Project.

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