



**LABOUR MARKET REVIEW
OF BOSNIA AND HERZEGOVINA**



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LABOUR MARKET REVIEW OF BOSNIA AND HERZEGOVINA

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PREFACE

During the past decade all Western Balkan countries, at different points in time and at different speeds, have started the process of economic and social transformation into functioning democracies and market economies. As in other transition countries the transformation process has been difficult, and despite the progress made to date, major challenges still exist in all fields, including social and economic development. The Western Balkan countries will need to continue their intensive and systematic efforts in order to succeed in the economic restructuring process and to ensure the necessary economic growth and social cohesion to enable them to catch up with, and sustain a closer relationship with, the EU. Given the contribution made by employment and productivity to economic growth, some of those efforts need to be directed towards the development and implementation of employment policies and structural labour market reforms that support the economic restructuring process and lead to increases in productivity. In this context emphasis must be given to efforts for the development of an adaptable, entrepreneurial and well-skilled labour force through adequate investment in human capital. Importance must also be given to the promotion of inclusive labour markets (open for all and attracting the inactive) for greater social cohesion.

The ETF, in agreement with the European Commission, has undertaken a series of in-depth reviews of the labour markets in the Western Balkan countries with the aims of contributing to a better understanding of their functioning and of identifying areas for further work in the fields of employment policy and education and training reform. The reviews have a dual purpose:

1. to contribute to EU programming by providing well-documented input to the programming documents of the CARDS programme; to the annual country progress reports on the Stabilisation and Association Process; to the European Partnership papers; and to the action plans that the governments will have to prepare in order to address the challenges identified in the European Partnerships;
2. to provide a comprehensive background instrument that will enable the European Commission and the countries of the Western Balkans to support policy developments.

Specifically, the reviews:

1. analyse the economic context in the Western Balkan countries, and in particular the pace of the economic restructuring process and its impact on jobs and employment (Chapter 1);
2. analyse recent trends in the labour markets with the aim of identifying major challenges in the labour markets in terms of the economic restructuring process (Chapter 2);
3. assess policy responses and the institutional setting for addressing the challenges identified from the perspective of supporting economic restructuring and growth (Chapter 3);
4. provide recommendations for further action (Chapter 4).

The labour market challenges and the policy responses are examined against the four broad key objectives set out in the revised European Employment Strategy:

- increasing the adaptability of workers and enterprises;

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- attracting more people to enter and remain in the labour market;
- investing more and more effectively in human capital;
- ensuring better implementation of reforms through better governance.

The labour market review of Bosnia and Herzegovina was prepared between July 2005 and November 2005 by a team of experts (national experts Mr Zoran Pavlovic and Mr Sahrudin Sarajcic; international expert Mr Ray Phillips; and ETF experts Ms Anastasia Fetsi, Mr Henrik

Huitfeldt and Ms Ulrike Damyhanovic). The reviewing process entailed a broad consultation of documents prepared by international organisations and national institutions, as well as in-depth interviews with national and local stakeholders. One fact-finding field visit took place in July 2005, a second in September 2005, and a validation seminar with national stakeholders of the draft results of the review in November 2005. We would like to thank all representatives of national and local institutions who provided us with valuable information and comments.

EXECUTIVE SUMMARY

As a result of the break-up of Yugoslavia, the war and economic reforms, the old economic structure and patterns of employment in Bosnia and Herzegovina have been challenged to their foundations. Since the Dayton agreement in 1995, the main focus of policy in Bosnia and Herzegovina has been on maintaining peace and a stable political environment, and initiating a process of state-building. In this context, restructuring of the economy and efficient governance have been secondary issues. The established governance system, with several different institutions at different levels responsible for policymaking, has therefore remained intact, although it is not conducive to effective economic reforms. Despite increasing macroeconomic stability, the structural problems of the economy in Bosnia and Herzegovina remain substantial and serious. Bosnia and Herzegovina comprises three 'entities': the Federation of Bosnia and Herzegovina, Republika Srpska and Brčko District. The Federation of Bosnia and Herzegovina has 10 mostly autonomous cantons. Brčko District is very small and has not been covered in this study.

Transitory labour markets, such as the one in Bosnia and Herzegovina, are difficult to analyse using standard data sources. The registered data on employment through establishment surveys have a limited explanatory value as they do not capture the large informal economy (estimated by the United States Agency for International Development and the Financial Services Volunteer Corps to be one-third of official GDP), nor do they provide information on labour mobility. According to data from the Household Survey Panel Series (HSPS, 2001–04), conducted by the Statistical Offices in Bosnia and Herzegovina, there

are two main labour market trends. Firstly, there have been recent increases in both activity rates (from 48.4% in 2001 to 57% in 2004) and employment rates (from 40.6% in 2001 to 44.3% in 2004), though these remain much lower than in the EU and other countries in the region; Republika Srpska has had higher activity and employment rates than the Federation of Bosnia and Herzegovina, but the gap between rates for the two entities is rapidly decreasing. Secondly, both registered and ILO unemployment rates have been increasing and are relatively high (40% and 22.1%) even for transition economies. Large differences exist in the employment rates for groups with different educational attainment levels, which indicates that skills are important in the competition for jobs, at least in the formal labour market.

One of the major challenges for the labour market in Bosnia and Herzegovina is the low level of job creation in the formal economy as a result of the slow pace of the privatisation process and the overall restructuring of the economy. The destruction of old industrial jobs in previously state-owned enterprises has not been offset by increased job creation in growing and newly created enterprises. As a substantial number of large enterprises are still undergoing privatisation, the pressure on the labour market is likely to increase further. So far the informal economy and the agricultural sector (and perhaps also the service sector in Republika Srpska) have absorbed laid-off workers and labour market entrants. They have also provided income-generation opportunities for people who have an employment contract in enterprises under privatisation, but who do not actually work or get paid. The share of employment accounted for by the informal sector is high

(39.5% of total employment in 2004), and is higher in Republika Srpska than in the Federation of Bosnia and Herzegovina (44.4% vs. 35.4%). In the Federation, the number of both formal and informal jobs increased between 2001 and 2004, while in Republika Srpska the number of formal jobs decreased. Overall, a large part of the growth in employment is a result of a growth in informal employment.

A second challenge is to attract more people into the formal labour market, in particular women and young people. The employment rate for women (31.7%) is much lower than that for men (57%), the gap being particularly large in the Federation of Bosnia and Herzegovina (30 percentage points); the employment rate for young people aged 15–24 years (22.4%) remains much lower than the EU average, though at least it has increased during recent years. The challenge is also to address the issue of weak attachment to the formal labour market on the part of a large proportion of the labour force. According to HSPS data, only 19.3% of the population had a formal job for all four years between 2001 and 2004. The rest of the labour force moved between informal employment, formal employment, unemployment and inactivity. The mobility of the labour force in Bosnia and Herzegovina is higher than in many transition countries, but this is not an indication of a well-functioning labour market: instead, it is a result of the scale and pervasiveness of the informal economy, which is characterised by repeated irregular jobs.

A third challenge is to improve the quality of the supply side. The educational attainment levels of the population aged 25–65 years are lagging behind those of the same age group in the EU as a whole, with a higher percentage of people with a low level of education and a lower percentage of people with higher education. Women are particularly disadvantaged. Furthermore, it is likely there has been a depletion of the skills of the population over recent years because of a lack of employment and development opportunities and the country's low level of economic activity. Young people's

participation in education and training has increased during recent years, but deficiencies in the quality of the education provision raise questions about the preparedness of young people for the labour market. Although widespread skill gaps do not yet exist, there are particular shortages and a general concern about basic skills, partly concealed by the low levels of demand in the formal economy. If it is not addressed, the weakness in the supply side will be a serious impediment for the economic restructuring and development of the country.

EMPLOYMENT POLICY FORMATION

There is clear recognition of the importance of employment in the wider economic and development strategy. Employment is recognised in a number of important contexts: SME development, education reforms and poverty strategy. The Poverty Reduction Strategy Paper (2002–04; 2004–07), signed by the Council of Ministers, clearly alludes to the importance of labour market reform in the fight against poverty. However, in practice labour market issues are not being addressed successfully, nor have relevant employment policies been developed and translated into operational plans. While there are a number of themes (more jobs and reducing the grey economy), there is no overarching employment strategy or policy at state or entity level that has clear aims and objectives and that helps to direct the priorities of the labour market institutions.

The institutional arrangements for the labour market in Bosnia and Herzegovina are complex. They mirror general governance arrangements, with the added complication of parallel employment bureaux. The state, the entities and the cantons are all involved in aspects of labour market regulation or provision through labour ministries, employment agencies/services, labour inspection and socioeconomic councils at entity and cantonal level (for the Federation of Bosnia and Herzegovina), and the Ministry of Civil Affairs and State Employment Agency at

state level. In fact the state plays little part in labour market policy, although there are signs that the State Employment Agency is beginning to involve itself in aspects of operational policy. These arrangements have significant costs in terms of the effort needed to achieve reasonable coherence across the institutions and labour market(s); to service the many political interfaces; to develop, install and maintain common information systems and other operational processes; and to develop sufficient expert capacity in any single organisation.

The institutional structure does little to address the common observation that the labour market in Bosnia and Herzegovina is fragmented and segregated. Indeed, the existence of so many legislative bodies reinforces the notion of separateness and, at entity level, gives rise to very significant differences in the costs imposed on employers. This is true across the entities, but especially so in the Federation of Bosnia and Herzegovina as a result of the cantonal structure. The position in Repulika Srpska is relatively straightforward in that there is a single integrated employment service and no political institution in between the municipality and the entity government.

Areas for future work to address the challenges identified above include the following.

IMPROVING THE INSTITUTIONAL SETTING

In order to achieve policy coherence, reduce operational costs and overcome the notion of separateness and fragmentation of the labour market, the institutional arrangements need to be reviewed as early as possible in the context of broader governance considerations. This is particularly true for the Federation of Bosnia and Herzegovina, where the federal authorities could have a stronger role in the development and implementation of labour market policy across cantons.

INCREASING THE ADAPTABILITY OF ENTERPRISES

The following steps will be required.

- Barriers to SME establishment and growth must be removed in practical terms. This requires simplification of institutional complexities and strategic actions. However, immediate improvements are also possible in the short term, as demonstrated by examples of good practice in a number of municipalities in both Republika Srpska and the Federation of Bosnia and Herzegovina.
- Policies to reduce the level of non-wage costs on individual companies (principally by increasing the tax/contribution base) and to limit the scope of the formal wage determination system must be developed and implemented.
- Economic restructuring of large former state enterprises should be facilitated. In particular, the policy of protecting (unproductive) jobs for three years following the purchase of an enterprise must be reviewed.
- There is a need to address remaining deficiencies in the labour laws of the entities, namely (i) the overgenerous duration and level of maternity pay, which is in any case widely disregarded, and (ii) Article 143 of the labour law on waiting lists, which is not applied in practice because the costs involved are simply unaffordable. Although these are not central to the functioning of the labour market, they do affect attitudes towards compliance with labour law and participation in the informal economy.

ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

The following actions will be necessary.

- There is an urgent need to develop a coherent strategy for leveraging jobs out of the informal and into the formal

economy, with a clear implementation strategy including leadership arrangements. The most important elements of the strategy are the reform and strengthening of the labour inspectorate, the reduction of non-wage labour costs and the effectiveness of the public employment service(s).

- Active labour market programmes must be rebalanced, with less resources allocated to grants and loans to employers, and more to basic employability training for unemployed people.
- The functioning of the employment services must be improved by:
 - clearly identifying their purpose and priorities;
 - reducing/eliminating workloads generated by the registration of people seeking basic health insurance (an alternative arrangement needs to be found);
 - improving the cost-efficiency of the employment services in the Federation by re-examining the institutional arrangements;
 - reviewing operational procedures and processes;
 - ensuring a better deployment of resources, with a better balance between back-room and front-line staff and a better management of workflow;
 - improving the services to unemployed people through a higher quality of information, counselling and guidance;
 - improving relations with employers;
 - modernising IT systems.

INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL

A number of actions are needed.

- Education and training reform initiatives aimed at the creation of a joint education and training space should be continued. These include faster progress in the approval of the state framework law on VET and the effective functioning of the state agencies for (i) standards and assessment and (ii) curriculum development.
- Efforts must be continued to achieve better cooperation between the education and training sectors and the labour market at local level.
- There is a need to disseminate and implement good practice on enhancing the quality of education provision from donor projects to a large number of schools.
- The issue of the permanent upgrading of the skills of the population through short-term measures (for example, promoting the participation of adults in training within the framework of active labour market measures) and the development of strategic approaches to adult learning (for example through the work on the development of a lifelong learning strategy initiated by the Organisation for Security and Cooperation in Europe (OSCE)) should be addressed.

1. ECONOMIC SITUATION AND BACKGROUND

1

1.1 MACROECONOMIC SITUATION

The economy of Bosnia and Herzegovina is still recovering from the 1992–95 war and from the transition from a socially planned to a market economy. Although the physical infrastructure has now largely been reconstructed, the economic infrastructure is still weak. The high GDP growth rates of the post-war period (second half of 1990s) primarily reflected the inflow of international aid (around USD 5 million since the end of the war and the highest per capita support to any European transition economy). Since 2000 the level of international assistance has diminished and growth rates have slowed to around 5%; there are risks of a further reduction if domestically fuelled economic growth does not pick up. GDP per capita has also increased since the war, though it remains at half the pre-war levels (€1,600 in 2003), making Bosnia and Herzegovina one of the poorest countries of the region.

Increasing macroeconomic stability, low inflation rates (below 1% in each of the past three years) and fiscal consolidation have had a positive impact, both in overall terms and on net foreign direct investment, which increased from €161.1 million (3.2% of GDP) in 2000 to €344.4 million (5.2% of GDP) in 2004¹. However, two risk factors from a macroeconomic point of view remain to be addressed, namely the high level of public expenditure (reaching 46% of GDP in 2003) and external imbalances².

Trade liberalisation, in particular with the (Southeast) European region, has opened up the economy but has resulted in a rapid growth in imports rather than exports. In fact, except for a few niche sectors, the export performance of Bosnia and Herzegovina has largely failed to respond to the new market conditions. Consequently the trade deficit has risen to around 35% of GDP during the past four years, mainly because of remittances,

¹ European Commission, 'The Western Balkans in transition', Directorate General for Economic and Financial Affairs, December 2004.

² Ibid.

donor funds and (declining) privatisation receipts. Moreover, the massive flow of imported items has consisted to a large extent of consumption goods rather than capital goods that might have supported the industrial sector growth. Furthermore, exports have been mainly based on raw materials (wood and low-value-added wood products), energy (10% of total exports), agriculture and products coming from 'labour only' (LON)³ contracts in the textile and leather industry i.e. low added value and skill-intensive exports.

1.2 ECONOMIC RESTRUCTURING

The main pre-war sectors contributing to GDP were: the metal industry, electronics, processing equipment, the wood and furniture industry, the chemical industry, agriculture and food processing and the textile industry. Companies in these industries were located throughout Bosnia and Herzegovina. The bulk of industrial production took place in state-owned companies, most of which stopped or significantly reduced their production and lost their markets during the war and the post-war period. Some of these companies have now been privatised and have reactivated their production chains, either through foreign direct investment (from companies such as Coca Cola, Mittel Steel Zenica, Aluminium Mostar and Heidelberg Zement) or through national investment (from companies such as Bosnalijek Sarajevo and DITA dd Tuzla), but most of them are still on the road to privatisation and restructuring, often with international donor support, have old technology and work organisation, weak management and low levels of efficiency, and are generally overmanned. The most problematic companies are those with unclear ownership structures, who exist but do not actually function, and who generate internal debts in unpaid contributions for the medical insurance and pension contributions of their 'employees'. As a result of the problems within these companies, the contribution of industrial

production to GDP fell since the pre-war period to 22–23% in the first half of the 2000s.

The contribution of agriculture to GDP has also decreased since 1995 (at least on the basis of official statistics, which take no account of the informal sector), declining to 11% by 2004. At the same time, since 1995 there has been a constant increase in trading and service activities, amounting to a total contribution of 64% to GDP in 2004. The most rapidly developing sectors have been banking and financial services and distribution, which were supported by foreign direct investment. Public administration and social services (such as education and health) also have an important share.

The importance of the private sector has increased at a slow but constant pace during the 2000s, from 38% of GDP in 1999 to 50% in 2004. This increase is mainly a result of the privatisation of existing companies rather than green-field investment.

Privatisation process

The privatisation process started with 'quick and mass privatisation'⁴ (based on voucher/certificate privatisation), which failed to have any significant impact on company performance. By the end of the process, the voucher/certificate privatised companies had not obtained any investment/investors or gained new markets, nor had they received any impetus in terms of innovation in products and/or production methods. In practice the privatisation processes led to a change in the ownership structure of the companies involved and redistributed around 50% of state ownership to the citizens of Bosnia and Herzegovina.

The second phase of privatisation involved small and medium companies with only 30% state-owned capital (the major share of ownership was redistributed through vouchers/certificates, and nowadays mainly in the portfolios of privatisation

³ A 'labour only' (LON) contract is a contract through which the (foreign) partner provides all raw materials and design for the production of the order.

⁴ Definition by Mr Zoran Dosen, Directory for Privatisation in Republika Srpska, 16 February 2005.

1. ECONOMIC SITUATION AND BACKGROUND

investment funds). Privatisation was carried out by means of local tenders, and some impact can be found on companies who had actually been functional with promising market prospects. As of September 2003, 76% of small-scale companies in the Federation of Bosnia and Herzegovina and 49% of those in Republika Srpska had been sold⁵.

The privatisation of large state 'strategic' companies that were over 50% state-owned (52 in Republika Srpska and 56 in the Federation of Bosnia and Herzegovina) was carried out through an international tendering process. Although the tender privatisation has attracted both foreign and domestic investors – since they are able to purchase from 51% to 100% of the enterprise capital, and gain control over the future development of the enterprise⁶ – the process remains slow. This is demonstrated by the fact that only 20 out of the 56 strategic enterprises have been privatised in the Federation of Bosnia and Herzegovina.

The development of the privatised large state enterprises can be illustrated using a number of positive examples. The Zenica Steel Industry was recently reprivatised from LNM Industry UK. New investment was made in an electro-arch furnace, but the pre-war employment level of around 24,000 workers will never be achieved again: for the production of 2 million tons of steel the company will need around 4,000 workers. The Birac Zvornik was privatised by Uzdaroj Akcione Benderove, Lithuania, and they recently become a significant exporter of Bosnia and Herzegovina with the reactivation of pre-war production capacity. A similar case is that of the Kakanj cement factory privatized by Heidelberg Zement, Germany, and iron ore producer Novi Rudnici Ljubija, Prijedor. The international technical assistance restructuring project Post-Privatisation Enterprise Restructuring Programme (PPERP)⁷, funded by the UK Department

for International Development (DFID), tackled around 30 large state-owned companies and significantly contributed to managerial change, opening new markets and in some cases supporting technological improvements.

SME⁸ development

Post-war small and medium-sized enterprises (SME) started in 1995 with small-scale entrepreneurial activities. The international donor community supported the expansion of the SME sector as the main vehicle for poverty reduction and local economic development. However, the development of the SME sector has been modest; its contribution to GDP remains limited, and the number of SMEs is low in relation to the population.

After 1995 most new SMEs in Bosnia and Herzegovina focused on trading (mainly the distribution of imported goods) based on delayed payment as a source of financing. In the service sector, SMEs in Bosnia and Herzegovina started with small amounts of private capital and have developed throughout the whole of the country during recent years. Unfortunately, many of them have remained small local companies with few employees. In addition to small and micro enterprises, development of SMEs has also occurred as a result of the privatisation of state SMEs, where new investment is higher.

Some traditional production sectors mainly comprise SMEs. Examples include the leather and textile sector, based on LON contracts; the wood and furniture sector, based on local timber raw materials, basic sawmills and some new furniture production companies satisfying local market needs; and the agro complex and food production, based on few larger food processors. More and more companies are applying ISO standards of quality and competing on foreign markets.

⁵ European Commission, 'The Western Balkans in transition', Directorate General for Economic and Financial Affairs, December 2004.

⁶ Economic Policy Planning Unit (EPPU), 'BiH The Economic Report 2004', Chapter 6.2, 2004.

⁷ For more information see the website www.pperp.org

⁸ In Bosnia and Herzegovina the definition of SME does not follow the international classification standards. Any company up to 50 employees is considered an SME.

1.3 THE INFORMAL ECONOMY⁹

Like other transition economies, Bosnia and Herzegovina has experienced an increase in the informal economy during the post-war period. The reasons for the development of the informal economy are variable and complex. One is the income-generation needs of individuals who have lost their jobs and/or cannot find employment in the formal economy, and who opt (or are obliged) to get involved in subsistence agriculture, petty trade or low-value-added production activities. Other reasons are linked to savings on income tax and social security contributions, compliance with health and safety regulations and property rights. These are nurtured by the fact that transitional economies such as Bosnia and Herzegovina generally have higher levels of regulation, higher taxation on the formal economy, higher levels of bribery and a weak approach to the rule of law and enforcement. These features are evident and acknowledged in Bosnia and Herzegovina. In the early stages of the transition process, and in particular immediately after the war (which dismantled much of the formal economy), the unofficial activities helped people to avoid starvation and social upheaval. Attitudes remain ambivalent mainly because there is no social welfare safety net, and the grey economy is often justified as being a rich source of business start-ups and job creation that will eventually lead to real jobs in the formal economy. However, in the medium and longer term it has a negative impact on the economy and on economic and social development, as formal businesses suffer

from unfair competition, public finances are undermined and individuals are sucked into activities that offer little security or opportunity for development, and in some cases are illegal.

Obtaining an indication of the scale of the informal economy is not straightforward. Some attempts have been made, most notably by USAID/FSVC¹⁰. This piece of research used internationally recognised methods of estimation – although all have weaknesses – and defined the non-observed economy as encompassing activities unintentionally unrecorded, as well as deliberate concealment of production and informal production¹¹, and criminal production¹². It concluded that in 2003 the informal economy¹³ in Bosnia and Herzegovina was equal to one-third of official GDP. Most underground activity took place in transactions linked to real estate (equal to 12.4% of official GDP), in construction (equal to 7.5% of official GDP) and in agriculture (equal to 7% of official GDP). The situation in the Federation of Bosnia and Herzegovina, where almost 37% of GDP was in the informal sector, was significantly different from that in Republika Srpska and Brčko District, where the informal economy accounted for almost 21% of GDP. Overall the scale of the informal economy in Bosnia and Herzegovina is around the average for transition economies, and around twice that of Western European countries. Its current pervasiveness is incompatible in the longer term with the development of a society and economy based on principles underlying a modern market economy and the rule of law. Since 2000 there have been signs that the size of the grey economy has reduced a little.

⁹ For the purposes of this study the term ‘informal economy’ covers hidden production in registered enterprises, and production in unregistered and/or very small production units in all economic sectors.

¹⁰ Dell’Anno, R. and Piirisild, M., ‘Estimate of Non-Observed Economy in Bosnia and Herzegovina’, USAID, November 2004.

¹¹ Informal production consists of sole proprietors, self-employed workers or small unincorporated enterprises.

¹² Criminal production is the production of goods and provision of services, the sale, distribution or possession of which is illegal.

¹³ The informal economy is called the shadow economy in the research report. Illegal activities (corruption and prostitution) accounted for around 4% and unrecorded (mainly failures in the statistical system) business around 15%.

2. TRENDS IN THE LABOUR MARKET

2

2.1 POPULATION AND THE STRUCTURE OF THE LABOUR FORCE

According to the 1991 Population Census, Bosnia and Herzegovina had a population of 4.35 million. As a result of the war and internal and external migration, the population structure has changed dramatically. In 2003, the population of Bosnia and Herzegovina was around 3.8 million¹⁴, 2.3 million in the Federation of Bosnia and Herzegovina and 1.5 million¹⁵ in Republika Srpska. However, no population census has been carried out since 1991, and population estimates in the two entities are uncertain, and to some extent politicised.

Bosnia and Herzegovina's major ethnic groups are Bosnian Muslims (or Bosniak), Serbs and Croats. According to the Population Census in 1991, Muslims represented 44% of the population,

Serbs 31% and Croats 17%, with 6% defining themselves as Yugoslavs (people with a mixed Muslim, Serb or Croat background). There were also a small number of Roma in Bosnia and Herzegovina. Before the war, the different ethnic groups lived in concentrations that were very much scattered around the territory of Bosnia and Herzegovina. The largest cities had mixed populations.

During the war approximately 2.2 million people emigrated or were displaced. By the end of the war, most of the population in the different areas controlled by the three ethnic groups belonged to that group. During the period 1996–2004, approximately 1.1 million people returned to Bosnia and Herzegovina (from abroad) and/or returned to their former homes (550,000 have returned to areas where their group is in the majority, and 450,000 to areas where they are in the minority)¹⁶.

¹⁴ Statistics Agency of Bosnia and Herzegovina, 'Demography', Thematic Bulletin, 2005.

¹⁵ Republika Srpska Institute of Statistics, 'Demographic Statistics', Statistical Bulletin No 8, 2005.

¹⁶ UNHCR, 'Update on Conditions for Return to Bosnia and Herzegovina', 2005.

2.2 EMPLOYMENT DEVELOPMENTS AND STRUCTURAL SHIFTS AND CHANGES

The process of change in Bosnia and Herzegovina has been slower and more painful than in most other transition countries. As a result, several distortions have been created. In the absence of significant new opportunities, workers with formal employment contracts in old enterprises cling to their workplaces, even if the jobs are unpaid and offer no long-term prospects. Many others have been caught in the middle of this slow transition and are performing different temporary jobs when opportunities arise, often in the informal economy. This transitional labour market is difficult to analyse using standard data sources. However, in Bosnia and Herzegovina the existence of the Household Survey Panel Series (HSPS), which includes information on a large number of labour market variables for more than 3,000 households at different points of time in the period 2001–04, gives an opportunity to better understand the ongoing labour market changes.

In 2004 the employment rate was 44.3% in Bosnia and Herzegovina. This is much lower than in EU member states, but is also significantly lower than in most other former Yugoslav republics. Total employment increased by almost 4 percentage points between 2001 and 2004 according to the HSPS. However, this positive trend has occurred only in the Federation of Bosnia and Herzegovina,

where total employment increased by more than 6 percentage points. In Republika Srpska, employment has increased only slightly.

Economic restructuring and the labour market in Bosnia and Herzegovina

Formal employment, as recorded by the statistical offices through regular surveys of registered enterprises and organisations (henceforth called the Establishment Survey), has been stagnant during the post-war period. In the Federation of Bosnia and Herzegovina, registered employment has decreased continuously during the past five-year period. However, these data are sensitive to changes in data collection methods and should be interpreted with care. Nevertheless they give a useful orientation of the respective shares and the employment trends in different sectors of economic activity.

According to the Establishment Survey, the share of agriculture is low in both entities, and is decreasing. However, most of the employment in the agricultural sector is informal, and the real importance of agriculture for employment is much greater than is suggested by the figures for formal employment. According to the HSPS, which covers both formal and informal employment, the share of employment in agriculture was around 20% in Bosnia and Herzegovina (16% in the Federation of Bosnia and Herzegovina and 34% in Republika Srpska). Positive developments in formal employment can be seen only in the services sector in Republika Srpska.

Table 1: Basic labour market indicators 2001–04 (based on the working-age population 15–64 years)

	Bosnia and Herzegovina			Federation of Bosnia and Herzegovina			Republika Srpska		
	2001	2002	2004	2001	2002	2004	2001	2002	2004
Activity rate	48.4	53.2	57.0	43.2	47.7	53.2	55.3	60.5	61.8
Employment rate	40.6	42.0	44.3	35.9	37.8	42.1	46.8	44.7	47.1
Unemployment rate	16.1	21.1	22.1	16.9	21.0	20.9	15.4	21.2	23.6

Source: Own calculations from Household Survey Panel Series data

Table 2: Formal employment by sector of economic activity (000s)

	1999	2000	2001	2002	2003	2004	Changes 1999– 2004 (%)
Bosnia and Herzegovina							
Total	628	641	627	na	624	621	-1.1
Agriculture	21	21	21	na	21	20	-4.8
Manufacturing	255	255	247	na	234	227	-11.0
Services	351	365	359	na	369	375	6.8
Federation of Bosnia and Herzegovina							
Total	408	413	407	394	387	385	-5.6
Agriculture	10	10	11	10	10	10	0.0
Manufacturing	161	161	156	151	145	142	-11.8
Services	237	241	241	231	231	232	2.1
Republika Srpska							
Total	221	228	220	na	236	236	6.8
Agriculture	11	10	10	na	10	9	-18.2
Manufacturing	96	94	92	na	89	84	-12.5
Services	114	123	118	na	138	143	25.4

na: not available

Source: World Bank (2002); Federal Office of Statistics (2004); Republika Srpska Institute for Statistics

The privatisation and restructuring process has so far not led to a revival for most of the former industrial base of Bosnia and Herzegovina. Many of the old larger enterprises are not functioning on any significant scale. Several have no production at all. However, the process of laying off workers from these companies has been slow. Many workers are clinging to these enterprises even if they are not receiving any salary, for fear of losing entitlement rights to pensions and other social benefits. In order to earn income, these individuals work in the informal economy. The existing management teams are often weak and are not focusing their efforts on reviving the enterprises. They often accept this situation or do little to change it. Some changes in labour legislation in 2000 made it easier and cheaper to lay off redundant workers, and the number remaining is decreasing. Nevertheless the total number of individuals in this situation is substantial and creates

problems in the labour market, as those affected are reluctant to accept a new formal job in case they lose acquired rights (see Annex 1 for a case study on this issue).

Employment trends

Significant changes in the labour market took place during the period 2001–04. This indicates that the static post-war labour market is about to change¹⁷. Unproductive jobs in old large-scale industries are being phased out and new jobs are being created in sectors such as agriculture, trade and services. However, many of these new jobs are likely to be insecure jobs in the informal sector.

The employment rate for men is significantly higher than for women (53.9% vs. 27.6%). In 2001 the employment rate in the Federation of Bosnia and Herzegovina was significantly lower than in Republika Srpska for both men and women. However,

¹⁷ See World Bank (2002) for a discussion on worker flows in Bosnia and Herzegovina in the 1990s.

the employment rate for men in the Federation has been catching up between 2001 and 2004, and by 2004 was approximately the same in the two entities. It is not clear why this should be the case; possible explanations include the more rapid increase in wages in the Republika Srpska over recent years and the concentration of foreign consumers of services in Sarajevo¹⁸. The employment rate for women is still much lower in the Federation of Bosnia and Herzegovina. The labour force participation rate of women is 37.5% in the Federation¹⁹. This is very low compared to both EU member states (61.2%²⁰) and Republika Srpska (47.5%²¹), though it has increased markedly over the past five years, mainly as a result of a substantial increase in the activity rate for females in the 25–34 age group.

The creation of new jobs in the formal sector is slow, and this has a negative impact on labour market prospects for young labour market entrants. However, the employment rate for younger age groups started to improve during the period 2001–04, in particular in the Federation of Bosnia and Herzegovina. The employment rate increased by more than 3 percentage points in both the Federation and Republika Srpska for the age group 15–24 years. In 2004 the overall employment rate for this age group was 22.4%. This is still much lower than the EU average (36.7%²²), but higher than, for example, the

rate in Serbia (18%²³). In the Federation of Bosnia and Herzegovina the employment rate also increased significantly for the age group 25–34 years. The employment trends for individuals aged 30–64 years old have been less positive, indicating an increased pace of restructuring.

Large differences exist in employment rates for groups with different levels of educational attainment. The employment rate is 31.0% for individuals with lower levels of education, 55.1% for those with medium levels and 63.7% for those with higher levels. Levels of education are important in the competition for jobs in the formal labour market in Bosnia and Herzegovina. In the period 2001–04, small differences are seen in the employment trends for groups with different levels of educational attainment.

The proportion of employment that is in the informal sector is high. According to the HSPS, informal employment is estimated to have represented 39.5% of total employment in 2004²⁴. The share of informal employment is higher in Republika Srpska than in the Federation of Bosnia and Herzegovina (44.4% vs. 35.4%). In the Federation, the number of both formal (mainly in service industries) and informal jobs increased between 2001 and 2004, while in Republika Srpska the number of formal jobs decreased. Overall, a large part of the growth in employment is as a result of an increase in informal employment.

18 According to estimates of the UNDP Information-Communication Technologies Forum, foreign consumers of services spend a total of around BAM 3 million daily in Sarajevo alone.

19 Own calculations from the Household Survey Panel Series.

20 European Commission, 'Employment in Europe 2004', Directorate General for Employment and Social Affairs, 2004.

21 Own calculations from the Household Survey Panel Series.

22 European Commission, 'Employment in Europe 2004', Directorate General for Employment and Social Affairs, 2004.

23 ETF (2005).

24 The definition of the informal sector used follows World Bank (2002) and includes all those working as unpaid family members, farmers on their own farms and in other activities (such as sales of agricultural and other products) and all others who do not receive pension insurance from their employer, except those working in the public sector or in international organisations.

2. TRENDS IN THE LABOUR MARKET

Table 3: Employment rates (%) by different demographic groups 2001–04 in Bosnia and Herzegovina (based on the working-age population 15–64 years)

	2001	2002	2003	2004
Bosnia and Herzegovina				
Men	53.9	56.0	55.5	57.0
Women	27.6	28.3	31.1	31.7
15–24	19.1	18.3	22.0	22.4
25–34	47.8	48.2	51.7	54.4
35–44	58.5	61.2	58.6	57.3
45–54	54.0	56.9	57.3	56.6
55–64	22.0	26.7	25.2	31.4
Lower education	29.1	30.8	30.1	31.0
Medium education	49.1	51.6	53.7	55.1
Higher education	55.5	58.2	61.6	63.7
Federation of Bosnia and Herzegovina				
Men	48.8	54.5	54.3	57.5
Women	23.8	22.1	26.8	27.7
15–24	16.6	16.2	19.9	19.7
25–34	42.4	42.8	48.3	54.6
35–44	52.9	55.5	55.0	53.7
45–54	48.6	53.1	55.6	56.1
55–64	17.1	20.2	21.0	27.7
Lower education	22.6	24.0	25.3	27.9
Medium education	45.3	48.2	52.3	53.7
Higher education	51.5	52.6	55.6	62.7
Republika Srpska				
Men	60.7	58.0	57.1	56.5
Women	33.0	36.8	37.0	37.3
15–24	22.6	21.1	25.1	26.5
25–34	55.1	55.3	56.1	54.1
35–44	66.6	67.0	63.8	63.0
45–54	60.2	61.4	59.2	57.0
55–64	28.0	35.5	30.5	33.5
Lower education	37.7	39.8	36.5	35.1
Medium education	53.9	53.8	55.5	56.8
Higher education	61.2	66.1	67.5	65.1

Source: Own calculations from Household Survey Panel Series

Table 4: Formal and informal employment in Bosnia and Herzegovina (% of working-age population 15–64 years)

	2001	2002	2003	2004
Bosnia and Herzegovina				
Formal employment	26.4	27.1	27.5	26.8
Informal employment	14.2	15.0	15.7	17.5
Share of informal employment	35.0	35.7	36.3	39.5
Federation of Bosnia and Herzegovina				
Formal employment	24.4	26.3	26.9	27.2
Informal employment	11.5	11.5	13.2	14.9
Share of informal employment	32.0	30.4	32.9	35.4
Republika Srpska				
Formal employment	29.0	28.1	28.3	26.2
Informal employment	17.8	16.6	19.0	20.9
Share of informal employment	38.0	37.1	40.2	44.4

Source: Own calculations from Household Survey Panel Series

Labour mobility and attachment to the labour market

The HSPS provides information on the labour market activity of individuals in four consecutive years. A comparison of such activity at the four different points in time creates a picture of the labour market dynamics in Bosnia and Herzegovina and the attachment to the labour market for different individuals. Table 5 shows the mobility between formal employment, informal employment, unemployment and non-activity between 2001, 2002 and 2004.

The worker mobility rate out of and into formal employment is still relatively low. Some 15% of all those in formal employment in 2001 do not have a formal job one year later, while 18% of all formal workers in 2002 found their job in the year²⁵ (see Table 5)²⁶.

However, the mobility rate out of and into informal employment is much higher. Around 50% of all workers in informal employment leave or enter informal employment in a year. In Republika

Srpska, 59.4% of those employed informally in 2001 are also employed informally in 2002. This is much higher than in the Federation of Bosnia and Herzegovina, where 39.5% remain informally employed in both years. Thus, jobs in the informal economy in Republika Srpska seem to be more permanent (or prevalent) than in the Federation. Flows between employment, unemployment and non-participation in Bosnia and Herzegovina are significant. According to the HSPS, 30% of the working-age population is in a different labour market state in 2002 than in 2001. This is higher than in many transition economies, but lower than in most mature market economies. The labour mobility is higher in Republika Srpska than in the Federation (33% vs. 28%). However, in Bosnia and Herzegovina, relatively high labour mobility is not an indication of a fully functioning labour market. Instead, the main reason for the high labour mobility is likely to be the scale and pervasiveness of the informal economy, which is characterised mainly by repeated irregular jobs.

²⁵ Some 15.1% of all formally employed in 2002 were either informally employed or unemployed or inactive in 2001 but they found a job within the year. This implies that 18% of all employed in 2002 have found their job within the year.

²⁶ These numbers are not fully comparable with the numbers reported by World Bank (2002) as they do not include mobility between two different formal jobs.

Table 5: Labour mobility between 2001, 2002 and 2004 in Bosnia and Herzegovina

		Activity in 2002				Activity in 2004			
		FE	IE	U	N	FE	IE	U	N
Bosnia and Herzegovina									
Activity 2001	Formally employed	84.9	4.7	3.3	7.1	76.0	7.6	6.0	10.3
	Informally employed	13.9	51.6	13.4	21.1	18.7	48.8	12.2	20.3
	Unemployed	12.3	25.3	32.4	29.9	19.9	25.3	24.4	30.4
	Non-participation	4.6	10.2	12.9	72.3	8.4	13.2	14.3	64.2
Federation of Bosnia and Herzegovina									
Activity 2001	Formally employed	87.6	2.9	3.1	6.4	81.6	5.1	3.7	9.7
	Informally employed	16.4	39.5	14.6	29.5	20.3	45.2	11.0	23.5
	Unemployed	11.6	20.8	33.2	34.4	19.5	26.1	24.5	29.9
	Non-participation	4.6	7.1	12.0	76.4	8.7	13.5	13.1	64.8
Republika Srpska									
Activity 2001	Formally employed	82.1	6.6	3.5	7.8	70.3	10.3	8.5	10.9
	Informally employed	12.2	59.4	12.7	15.7	17.7	51.2	12.9	18.2
	Unemployed	13.2	31.0	31.5	24.4	20.3	24.4	24.4	31.0
	Non-participation	4.6	14.7	14.2	66.4	8.0	12.8	16.0	63.2

FE: Formally employed; IE: Informally employed; U: Unemployed; N: Non-participation

Source: Own calculations from Household Survey Panel Series

Note: The numbers in the boxes display the labour market activity in 2002 and 2004 by labour market activity in 2001, for the working-age population (15–64 years). This shows the share of the 2001 formally employed population who are formally employed, informally employed, unemployed or non-participating in 2002 and 2004.

As shown in Table 6, only 19.3% of the working-age population had a formal job on all four survey occasions, while 28.9% of the working-age population had a job (formal or informal) on all four survey occasions. In other words, less than one-third of the individuals working, at least occasionally, had a permanent formal job and less than half had a permanent job of any sort (formal or informal). In addition, many of these are likely to be employed in enterprises that do not have any production or that do not have any future. Thus, only a small proportion of the workers in Bosnia and Herzegovina have a secure position on the labour market. As shown in Table 6, 62.4% of the working-age population had some kind of employment in at least one of the years 2001–04.

The total number of employed people is increasing. However, of the jobs created in

the years 2001–04, 60% were in the informal economy²⁷; only 21% were in the private formal sector. No major differences exist between the two entities. The informal sector does create employment, but it is often of poor quality, seasonal, temporary or occasional and low paid, with unregulated health and safety conditions.

2.3 INACTIVITY, UNEMPLOYMENT AND SOCIAL EXCLUSION

Unemployment in the context of Bosnia and Herzegovina is a complex issue to analyse. Given the difficult overall economic situation and the inadequacy of the existing public social safety net, most people need to do something to earn a living; few can afford to be openly and genuinely unemployed. Still, according to

²⁷ The creation of new jobs is calculated using the number of workers employed (formally or informally) in year t+1 who were not employed (or in a different kind of job: formal or informal) in year t.

Table 6: Participation in the labour market (% of the working-age population)

	% of working-age population
Employed in 2001, 2002, 2003 or 2004	62.4
Employed in 2001, 2002, 2003 and 2004	28.9
Formally employed in 2001, 2002, 2003 and 2004	19.3
Unemployed in 2001, 2002 or 2004	24.8
Unemployed in 2001, 2002 and 2004	1.2

Source: Own calculations from Household Survey Panel Series

the HSPS, the unemployment rate was as high as 22.1% in 2004. This is a very large number for a transition country with only a limited public social safety net.

The unemployment rate increased by 6 percentage points between 2001 and 2004. Proportionately more women than men were unemployed (24.1% vs. 21.1%). Unemployment follows an expected pattern with respect to educational attainment. The unemployment rate is higher for individuals with primary and secondary education and lower for individuals with higher education. Graduates from higher education have a greater chance of finding a job than secondary education graduates. Sometimes they are competing for the same jobs, and a higher education degree

might often be demanded for jobs that could be satisfactorily performed by people with lesser levels of education. The unemployment rate is especially high for the youngest age groups. In 2004 more than 40% of the labour force between 15–24 years old was unemployed. However, unemployment is also significant for older age groups. It is not less than 14% of the labour force for any age group between 15–54 years. Thus, unemployment is not exclusively a labour market entry problem, although it is most severe for entrants.

The number of people registered as unemployed with the employment services is much higher than the number of those unemployed according to the HSPS (see Table 8).

Table 7: Unemployment rates by different demographic groups from HSPS 2001–04

	2001	2002	2004
Bosnia and Herzegovina	16.1	21.1	22.1
Federation of Bosnia and Herzegovina	16.9	21.0	20.9
Republika Srpska	15.4	21.2	23.6
Men	15.2	18.5	21.1
Women	17.9	25.6	24.1
15–24	38.4	47.4	42.4
25–34	19.0	27.3	26.5
35–44	11.1	14.9	19.2
45–54	9.9	10.8	14.5
55–64	5.8	7.8	7.8
Lower education	18.3	22.9	23.8
Medium education	16.9	25.9	23.1
Higher education	6.7	9.3	12.8

Table 8: Registered unemployment rate (%) 2001–04

	2001	2002	2003	2004
Bosnia and Herzegovina	38.5	39.1	37.1	39.9
Federation of Bosnia and Herzegovina	41.0	42.9	39.6	40.6
Republika Srpska	36.1	35.3	34.5	39.2

Source: Own calculation from HSPS using a question which asked respondents whether they were registered as unemployed²⁸

To be recorded as unemployed following the ILO standard definitions used in the HSPS, a person must fulfil three conditions: (i) to have not worked one hour for pay during a reference week; (ii) to have searched actively for work during the past month; and (iii) to be available for work during the following two weeks. Many of those who are registered unemployed either work in the informal sector or are not actively searching for a job and are therefore not recorded as unemployed in the HSPS. On the occasion of the 2004 survey, 28% of those registered as unemployed were working in the informal economy. In addition, it is important to note that not all those who are unemployed according to the HSPS actually register with the employment services. In 2004 only around 70% of those unemployed according to the HSPS were also registered as unemployed. The remaining 30% are mostly young people. The reasons for this are not altogether clear, but could include the absence of incentive: most young people would be covered for health insurance by an adult family member.

The structure of the registered unemployed population corresponds approximately to the results from the HSPS. However, the number of those registered unemployed in the medium-aged age groups 25–34 and 35–44 years is higher than in the HSPS results. A very large number of those who are registered unemployed in these age groups are either inactive or working in the informal sector.

According to statistics from the public employment services, long-term unemployment is very high. However, as registration as unemployed is often combined with work in the informal sector, movement between unemployment and informal employment is not adequately captured by these statistics. According to the HSPS, a significant number of workers are occasionally unemployed; 24.8% of the working-age population were unemployed in 2001, 2002 or 2004 (see Table 6)²⁹. However, only 1.2% of the working-age population were unemployed on all these three occasions, indicating that long-term continuous unemployment is rare. Some 37.6% of all those unemployed in the 2001 survey had a job (formal or informal) one year later.

2.4 QUALIFICATION LEVELS OF THE WORKFORCE AND SKILL MISMATCHES

Before the war Bosnia and Herzegovina benefited from a rather well-educated population and a qualified labour force that responded to the requirements of the economic structure of the country. However, during and after the war the displacement of large numbers of people and the destruction of the school infrastructure (around 70% of the school infrastructure was destroyed or requisitioned) obliged a large number of young people to discontinue their education, and lowered the educational attainment levels of the population who have entered the labour market over the past decade.

²⁸ These numbers are similar to the official numbers on unemployment as presented by the Employment Service in Bosnia and Herzegovina, but have the advantage that several dimensions of the behaviour of those registered as unemployed can be analysed.

²⁹ No information on unemployment is available for 2003 in the HSPS.

Table 9: Educational attainment levels of the population aged 25–65 years for 2002 (%)

	Low	Medium	High
Bosnia and Herzegovina – Total	41.8	47.4	10.8
• Men	30.6	56.8	12.6
• Women	53	38	9
EU-15	35	43	22
New member states	19	66	15

Low: accomplished primary education or less (ISCED levels 0–2)

Medium: accomplished secondary or post-secondary non-tertiary education (ISCED levels 3 or 4)

High: accomplished tertiary education (ISCED levels 5 or 6)

Source: LSMS, own calculations, Eurostat

Furthermore, the war and the lack of employment opportunities led a large number of well-educated people to leave the country, thus creating a bias in the remaining population towards lower levels of education. On the basis of the Living Standards Measurement Survey (LSMS) 2002, the educational attainment levels of the population (Table 9) represented a disadvantage in relation to the EU average, as there is a higher percentage of people with low levels of educational attainment and a lower percentage with higher levels. The gender gap in educational attainment is also obvious.

Apart from the educational attainment levels of the population, the quality of actual skills and competences of the labour force and their adequacy to support the economic development of the country is unknown, as no specific surveys are available. Nevertheless, we can assume that there has been a relative deskilling of the labour force during the past decade as economic activity (even in previously technologically well-advanced enterprises such as the military and textile industries) has been significantly downsized. Since a large number of skilled people working in these enterprises have had to take low-value-added jobs, often in the informal sector or in agriculture, for income-generation purposes, their previous skills have not been upgraded or updated.

With regard to skill mismatches, evidence from the first survey on labour market skill needs undertaken by the EU-funded CARDS VET reform programme in 2002

demonstrates that technical skill gaps are not pronounced. On the other hand, employers underline the serious lack of soft skills, such as team work and positive attitudes to work. Similar results were reported by the Employment Service's labour market survey in Republika Srpska and the Federation of Bosnia and Herzegovina in 2004, namely that 31.5% of the enterprises interviewed required workplace skills, and only 10% required specific skills and knowledge. These findings are quite common in countries at the beginning of the economic transition process. Findings from other countries in the region are similar.

During the interviews with local stakeholders the lack of managerial skills was often identified as a major impediment to the improvement of the enterprises, even those that were privatised. An example of the importance of good managerial skills for enterprise development was the Bosnalijek pharmaceutical company in Sarajevo, which has been restructured and is developing. Another example is the management team of the aluminium profile company Alpro Vlasenica, who led the process of privatisation of the company that was eventually purchased by ALUMIL Greece in 2003.

Skill formation for young people: the initial education and training system

Despite the fact that decisions about the structure and content of the education system are taken by the entities (Republika Srpska and Brčko District) and by each

canton in the Federation of Bosnia and Herzegovina, the education system in Bosnia and Herzegovina has a common structure.

- Primary education consists of eight compulsory years (until recently nine years) organised in two stages of four years each for children 6/7–14 years old (plus one preparatory).
- High school (secondary) education consists of three to four years, split into (i) general education providing access to university; (ii) four-year technical education preparing individuals for the labour market and providing an opportunity for access to university; and (iii) three-year vocational education. There has been an increase in participation in general education and in the four-year technical education, while participation in the three-year vocational education is decreasing. In the academic year 2004/05, 25% of the children in secondary education participated in general education and 45% in four-year technical education.

The actual youth education participation rates are not known, as the real reference population is unclear. Estimates from different studies give different results (see Table 10). However, all estimates demonstrate a gap between on the one hand the participation of children and young people in education, and on the other hand the EU standards for full participation in primary education and the target of 80% of young people completing secondary-level education. According to UNDP³⁰, around 4% of children do not enrol in primary education, and around 31% of primary school graduates do not continue their studies to secondary education. These children come from disadvantaged socioeconomic backgrounds, and hence are exposed to the risk of social exclusion. According to the LSMS data (ETF calculations), one of the main reasons for not continuing school is the financial one (32.3% of 15–19-year-olds questioned in the survey stated that this was the reason why they

stopped attending school). However, the non-attractiveness of schooling was the second most important reason (17.4% of respondents referred to this). On the positive side, according to HSPS data (ETF calculations) for the years 2001–04, the participation rate of 15–19-year-olds increased from 69% to 78.5%, and for 20–24-year-olds from 27.5% to 30%.

On the other hand, a growing number of young people are entering university (a common trend in other countries of the region); participation in higher education is comparable with EU levels, and far above levels in other countries in the region. This demonstrates a social demand for higher education that can be explained by the better employment prospects that higher education offers (see evidence on higher employment rates and lower unemployment rates in Section 2.2), or simply by the fact that some young people prefer to continue their education rather than becoming unemployed.

Access to education and training in terms of school infrastructure availability and quality is considered to be satisfactory in Bosnia and Herzegovina³¹. In fact, despite the reduction in the absolute numbers of pupils and students since the mid 1990s, the number of schools has increased, which may imply the need for some rationalisation of the school network. On the other hand, the quality of teaching and learning is low, and consequently the educational outcomes of the students are poor at all levels and types of education (primary and secondary general, technical and vocational). Both curricula and teachers are considered to be below the standards of a modern European education system. For vocational and technical education in particular, parents, students and employers have a negative perception of the narrowness of the knowledge that children acquire and the inadequacy and inappropriateness of the skills they develop for the labour market. The lack of practical training during the studies (although this is foreseen as part of the curriculum, it either does not actually take place, or the

³⁰ UNDP, 'MDG Update report for Bosnia and Herzegovina – PRSP, Europe and Beyond', 2004.

³¹ 'Socio-economic audits and SWOT analyses of 5 economic regions in BiH', prepared with the assistance of the EU funded Regional Economic Development Project (www.eured-bih.org).

Table 10: Participation of young people in education and training in 2000/01

	Source	Estimate (%)
Net enrolment in primary education	BiH Human Resource Development 2002	97.0
	WB Poverty Assessment 2003	95.0
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	92.8
	LSMS	98.9
Enrolment rate in secondary education	BiH Human Resource Development 2002	56.8
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	72.6
	LSMS	68.3
University enrolment rate	BiH NHDR 2002	19.8
	BiH From Donor Dependency to Fiscal Sustainability, ECSPE, 2002	24.2
	LSMS	23.0

Source: EPPU, 'Bosnia and Herzegovina Medium Term Development Strategy (Poverty Reduction Strategy Paper 2004–07)', March 2004

conditions under which it takes place are inappropriate) is considered by several actors (including the Ministry of Education and employers' organisation) as a gap in the preparation of young people for the labour market. However, more importantly it seems that the real gap is the lack of teaching and learning methodologies that can inculcate core competences (such as entrepreneurship, innovation, team work and problem solving) in young people and enable them to cope with an uncertain labour market. Concerns about the quality of education offered by universities are also frequently expressed.

Skill formation for adults: continuing or adult training

There is a multiplicity of training providers in Bosnia and Herzegovina, including secondary schools offering second-chance part-time programmes for adults; universities providing courses in management skills, or other services for enterprise development; a limited number of 'workers' universities' that have survived and become NGOs; three training centres, one in Sarajevo for ICT, one in Goradze for metal workers, and one in Bihac for construction occupations; the Chamber of Commerce, mainly providing policy-related

training to its members (i.e. training on applying national and international regulations), but also training for other types of skills, mainly funded by donors; and private (profit and non-profit) providers offering courses in entrepreneurial skills, ICT, foreign languages and occupation-related training for specific population groups (such as demobilised soldiers, and disadvantaged and vulnerable groups), mainly funded through donor projects. With the exception of some specific cases of developing firms (for example the pharmaceutical company Bosnalijek), enterprises on the whole do not provide training to their employees, since they generally lack any strategic or long-term view of the skill development of their workforces and subsequent human resource development (HRD) plans. Finally the employment services fund training courses as part of their active labour market measures, and subsidise employment for higher education graduates with the aim of making their skills more adaptable to the needs of enterprises (although the primary objective of this measure is employment support rather than the training opportunity itself).

However, there is a serious lack of demand for training and skills upgrading. Interviews

with training providers and the chambers have demonstrated that demand for training on the part of enterprises is quite limited, and is mostly policy related (for example when a new regulation is introduced). This is mainly because of (i) the state of the economy, which does not yet provide (high-level skill) jobs; (ii) the lack of recognition of the importance of skills and training by both individuals and enterprises; and (iii) the lack of policy for skill development at government level.

In this situation there is a risk that Bosnia and Herzegovina will become trapped in a vicious circle of low-skills–low-value-added economy.

2.5 MAIN LABOUR MARKET CHALLENGES

As a result of the break-up of Yugoslavia, the war and economic reforms, the old economic structure and patterns of employment in Bosnia and Herzegovina have been challenged to their foundations. Since the Dayton agreement in 1995, the main focus of policy in Bosnia and Herzegovina has been on maintaining peace and a stable political environment, and to initiate a process of nation-building. In this context, restructuring the economy and the development of more efficient governance have been secondary issues. The established governance system, with several different institutions at different levels, has remained intact, despite not being conducive to effective economic reforms.

New entrants and those who have lost their former jobs have great difficulty in finding new employment in the formal economy. Many of those with employment contracts are without work or pay, or are under the threat of redundancy (and sometimes unwilling to take a new job because they fear they will lose pension and other social insurance rights); many work informally. Taken together, the weak attachment to the labour market, the high number of changes in employment status revealed by the HSPS, and the scale of the informal economy all point to a situation in which the normal distinctions are blurred. The

substantial flows in the labour market are primarily symptoms of financial insecurity for many people of working age, regardless of their employment status.

As a substantial number of large enterprises are still in the restructuring phase, the pressure on the labour market is likely to increase further. The destruction of old industrial jobs has not been offset by increased job creation in growing and newly created enterprises. So far the informal economy, the agricultural sector and to a certain extent the service sector have absorbed laid-off workers and labour market entrants.

Job destruction and insufficient job creation in the formal sector have increased unemployment to high levels. However, the focus on unemployment should not hide the fact that an increasing proportion of the population have no attachment to the formal labour market, and move in and out of different forms of temporary employment, unemployment and inactivity. Vulnerable population groups are mainly those with low or medium levels of qualification and outdated skills, with young people being primarily exposed.

Although the lack of jobs is the greatest challenge during transition, it is not the only challenge, since there are deficiencies in the supply side of the labour market. Supply-side deficiencies are less apparent at this stage of development of the economy of Bosnia and Herzegovina, and are overshadowed by the aggregate lack of jobs and unemployment. But they are no less real. Only a small proportion of the working-age population, whether employed (in private or large public enterprises, SMEs or the informal sector) or unemployed, currently have an opportunity to upgrade, update or change their skills and develop proper attitudes to work. At the same time young people are entering the labour market with inappropriate qualifications and are ill prepared to cope successfully with shifting demands for new and additional skills. Furthermore, the population has experienced a significant depletion of skills during recent decades. These issues need to be addressed. A vibrant and successful market economy

with better and more jobs will not materialise in the absence of a flexible, adaptable, entrepreneurial and competitive labour force. A well-trained and motivated labour force with the right skills and attitudes, and opportunities for individuals to make the best use of their skills and talents are key ingredients for achieving the modern, resilient economy that the government of Bosnia and Herzegovina wants.

Taking the above into account it can be concluded that Bosnia and Herzegovina currently faces three main kinds of challenge.

Increasing the adaptability of workers and enterprises

The overall challenge for the country's economy and labour market is to establish the conditions for faster economic and employment growth through the creation of a business-conductive environment, the rapid restructuring of old industrial enterprises and the further development of SMEs (including both start-ups and the growth of existing SMEs). Another challenge is to promote a regulatory and policy framework that assists the efficient reallocation of labour from old enterprises to new and growing businesses and to new forms of employment. This also includes the challenge of finding the right balance in terms of supporting workers affected by the restructuring process without impeding the operation of the labour market or disadvantaging others (i.e. young people or long-term unemployed individuals). Finally, the adaptability of the labour force needs to be further encouraged through the provision of appropriate training, while issues that discourage flexibility must be addressed.

Attracting more people to enter and remain in the labour market: making work a real option for all

The labour market participation rates in Bosnia and Herzegovina are much lower than the EU average, and even than the

rates for other countries in the region. Women and young people in particular are the two groups who lag behind. This deprives the country's economy of human resources that are essential for its economic development. Accordingly it is necessary to remove barriers that impede the entrance of those population groups into (formal) employment. Moreover, given the high level of workers who are in the informal economy, or who have weak attachment to the formal labour market and move between different kinds of job when opportunities arise, the labour market in Bosnia and Herzegovina needs to increase formal employment levels and bring people from the informal sector into the formal sector through activation policies based on a proper balance between active and passive measures alongside effective labour inspection and taxation policies.

Investing more and more effectively in human capital and lifelong learning

The final challenge is to ensure the improvement of the quality of the labour force and the development of skills for the present and future labour market. This necessitates the improvement of the quality of the education system at all levels (including vocational education and training), and an increase in the participation of young people in education and training, with particular emphasis on the population groups who lag behind. Investment must also be made in managerial and entrepreneurial skills, in order to better achieve the economic restructuring of privatised enterprises. Finally, the population must be made aware that skills matter for economic development. Proactive education and training policies, a lifelong learning infrastructure and a better skilled population are required for (foreign) investment, particularly in the current world climate.

The following chapter will review policies developed to address the challenges identified above, and will identify gaps and recommendations for further action.

3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES

3

3.1 EMPLOYMENT POLICIES AND GOVERNANCE

3.1.1 EMPLOYMENT POLICIES AS PART OF THE OVERALL POLICY AGENDA

The most comprehensive encapsulation of the overall policy agenda is contained in the Bosnia and Herzegovina Medium Term Development Strategy (Poverty Reduction Strategy Paper 2004–07). The strategy is wide-ranging, and sets out priorities and goals. Implementation of labour market reform is a specific priority within the context of accelerating the growth of the private sector. Although not explicitly stated, such reform is necessary to support the establishment of a functioning market economy, which is a strategic goal. The strategy recognises the need to speed up

the implementation of structural reforms and acknowledges that this may cause job losses in the short term. It calls upon all levels of government to take economic measures to prevent an increase in current poverty levels.

Specific issues relevant to the labour market have been placed within the wider context of the development strategy. These issues include discrimination, labour mobility, institutional capacity and performance, the right to health insurance, the informal economy and the development of the vocational education system. These topics are regarded as integral to balanced development and to the process of accession to the EU.

The Education Reform Agenda ‘A message to the people of Bosnia and Herzegovina’, which was agreed between the authorities

of Bosnia and Herzegovina (the education ministries and the Ministry for Human Rights and Refugees) and the international community on 21 November 2002, links the reform of education to economic development and labour market needs. The agenda also identifies the need to update curricula regularly to match changing market requirements identified and monitored through labour market information systems.

The SME strategy has as one of its main outcomes an increase in employment, as well as a reduction in the grey economy. It also calls for the reform of the taxation system, which it regards as incoherent, poorly enforced and an invitation to join the grey economy.

The privatisation programme has put job protection at the centre of its objectives throughout the process. This has meant that new owners have been required to maintain at least the same level of employment as at the point of privatisation for a minimum period of three years. This has delayed restructuring and the creation of new sustainable jobs, and has put a strain on company solvency.

Assessment

There is clear recognition of the importance of employment in the wider economic and development strategy. Employment is recognised in a number of important different contexts, namely SME development, education reforms and poverty strategy. The Poverty Reduction Strategy Paper (2002–04; 2004–07), signed by the Council of Ministers, clearly alludes to the importance of labour market reform in the fight against poverty. This is not to say that labour market issues are being successfully addressed, nor that relevant employment policies have been developed and translated into the kind of operational detail required for implementation. Indeed, while there are a number of themes (creating more jobs and reducing the grey economy), there is no overarching employment strategy or policy at state or entity level with clear aims and objectives that helps direct the priorities of the labour market institutions and informs

the plans of other relevant areas of government. These questions are examined in the subsequent parts of this report.

3.1.2 THE INSTITUTIONAL AND LEGISLATIVE SETTING

The institutional arrangements for the labour market in Bosnia and Herzegovina are complex. They mirror the general governance arrangements, with the added complication of parallel employment bureaux. The state, the entities and the cantons all have involvement in aspects of labour market regulation or provision through labour ministries, and through employment agencies and services and labour inspection. The main characteristics of the arrangements are as follows.

- There are 12 separate organisations responsible for employment service operations and another 13 organisations responsible for labour market policy, although the distinction between operations and policy is far from being clear-cut in practice.
- All levels of government (with the exception of the municipal level) are competent in some aspect of labour market matters.
- The role of the state institutions is mainly limited in law to international relations and internal coordination; they have no role in policy or operational issues.
- The entity arrangements are in sharp contrast. The Republika Srpska has a single ministry responsible for employment policy and a conventional unitary employment service with a network of regions and local offices. In the Federation of Bosnia and Herzegovina employment policy is made both at cantonal and Federation level; each canton and the Federation have their own separate and largely autonomous employment services.
- Only the Republika Srpska Employment Bureau and the cantonal employment services actually deliver services directly to the public.
- Tripartite arrangements exist through the Social and Economic Council, the

3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES

key function of which is to negotiate the national collective agreement.

- Trade unions are rather better organised through the Confederation of Independent Trade Unions of Bosnia and Herzegovina than are employers through the Association of Employers. Chambers of commerce exist throughout Bosnia and Herzegovina.
- Labour inspectorates, which encourage and enforce compliance, exist throughout Bosnia and Herzegovina. They are currently organised along the same lines as other labour market institutions, though there are plans to change this in the near future.

There is no doubt that the arrangements outlined above and described in more detail in Annex 2 are at best suboptimal. This is widely recognised within Bosnia and Herzegovina, and is often quoted as one of the reasons that the labour market is not improving, or not improving quickly enough. However, the arrangements should be judged both against the effective ideal and against the background of the recent civil war and the need for peace and stabilisation. The balance between these concerns is an issue for sensitive judgement rather than hard forensic appraisal.

Two issues stand out concerning the institutional arrangements: the first is the role of the state in relation to the entities, and the second is the role of the cantons. Bosnia and Herzegovina is not a large country, and other considerations apart there is no compelling justification for the landscape of labour market policy to be different between the entities. Indeed, except for a few significant differences, such as in the levels of social contributions, for the most part they are harmonious.

The role of the 10 cantons is significant both in terms of the legal powers and in the

delivery of employment services to the public. While there is no doubt that they have considerable autonomy, they also work together on matters of mutual interest, for example in the development and installation of compatible computer systems. Much of the encouragement and support for collaboration springs from federal level, and there is a growing recognition amongst the cantons of the value of the coordinating, facilitating and promotional role of the Federation. Certainly the Federation is helping to develop and adopt arrangements³² which remove some of the anomalies that exist as a result of the cantonal structure. Cantons also use common procedures and forms, and the same portfolio of active measures, though the mix may be somewhat different from one canton to another.

With regard to the legislative setting, there is a familiar twin-pillar framework of labour regulation that mirrors those of other EU and transition countries. The two main areas of legislation are:

- the labour law(s), covering the employment relationship between employers and employees;
- the law(s) (frequently referred to as the employment law), covering unemployment compensation and the work of the public employment services.

Of course the situation is rather complicated in Bosnia and Herzegovina because of the special governmental arrangements. However, the basic position is that the key legislation for the labour market is at entity level (in line with the constitution of Bosnia and Herzegovina). In each entity there are two laws (the labour law and the employment law) that form the legal framework; hence, across Bosnia and Herzegovina four laws³³ (two in each entity) form the main legal framework on labour issues.

³² For example, if a person worked in one canton but resided in another, the rate of unemployment compensation would, previously, have been based on the average wage in the canton in which the person worked regardless of the budget position – or the average wage – in the ‘home’ canton.

³³ In the Republika Srpska these are the Labour Law (Law No 777 entered into force on 8 November 2000, a replacement for the 1993 Law on Labour Market Relations) and the Law on Job-Placement and Social Security of the Unemployed (Law No 778, 8 November 2000). In the Federation of Bosnia and Herzegovina they are the Labour Law (October 1999, amended on 28 August 2000) and the Law on Job-Placement and Social Security (28 December 2000).

As regards the labour laws the entity governments have gone a long way towards harmonisation so that differences between entities are mostly minor and there are no significant inconsistencies. The position with the employment laws (which the Office of the High Representative imposed³⁴ on the Federation through the Law on Job-Placement and Social Security of the Unemployed in the Federation of Bosnia and Herzegovina in December 1999; a similar law was subsequently enacted in the Republika Srpska) is more complicated, with significant differences existing between the entities. This situation arises mainly because of the cantonal dimension, which adds considerable complexity to the arrangements in the Federation and to the efficient provision of unemployment compensation and public employment services. Each canton has legal authority for budgets and expenditure, the design and implementation of procedures and processes associated with unemployment compensation, job broking and its active labour market measures. At the same time the Federation has a separate budget and receives financial plans and reports from the cantons (for information purposes only, and not as part of a system of accountability), and has legal authority for active measures.

The labour and employment laws are supplemented by regulations covering detailed implementation provisions (for a comprehensive description of the main provisions see Annex 3). In addition there are laws covering strikes, health funds and insurance, pension funds, payroll tax, social contributions, labour inspections and works councils.

Assessment

The institutional architecture is complex and makes awkward the development of clear active labour market policies and the efficient delivery of employment services. The state plays little part in labour market policy, although there are signs that the State Employment Agency is beginning to involve itself in aspects of operational policy. Below state level there is an extraordinary number of institutions involved in both policy and operations³⁵. This has a significant cost in terms of the effort needed to achieve reasonable coherence across the institutions and labour market(s); to service the many political interfaces; to develop, install and maintain common information systems and other operational processes; and to develop sufficient expertise in any single organisation. This is the case across the entities, but especially within the Federation of Bosnia and Herzegovina because of its cantonal structure. The position in the Republika Srpska is relatively straightforward in so far as there is a single integrated employment service and no political institution between the municipality and the entity government.

The key question is whether the institutional structure is detrimental to the development of a functioning labour market in Bosnia and Herzegovina. There is no doubt that it is inelegant, unwieldy and administratively burdensome, but does any of that matter to the operation of the labour market? In some respects it does not. The various employment bureaux could play an effective part in labour market facilitation regardless of their number, in the same way that the huge number of private

³⁴ 'Pursuant to, and as an integral part of my Decision herein, I require the appropriate authorities of the Federation of Bosnia and Herzegovina and of the Cantons to take all necessary steps to ensure that the laws and regulations of the Federation of Bosnia and Herzegovina and of the Cantons respectively are and remain fully harmonized with the Law on Job-Placement and Social Security of the Unemployed and hereinafter set out. In the event that changes are required to be made to the laws and/or regulations of the Federation of Bosnia and Herzegovina and the Cantons in consequence thereof, such changes are to be effected no later than six months after the entry into force of the said Law on Job-Placement and Social Security of the Unemployed.'

³⁵ ETF (2004): 'The fragmentation of the labour market in BiH radically increases the number of actors, thus creating a complicated multi-level institutional setting, consisting of the Agency for Labour and Employment (operational since 1 August 2003) at state level, the Ministries of Labour at entity level, the network of ten cantonal employment offices in the Federation of Bosnia and Herzegovina, seven regional offices in the Republika Srpska and one in the Brčko District as well as labour bureaux in each municipality, or 147 bureaux in all. Not only is the weight of such a system too heavy, but the visibility and, hence, the communication and interaction amongst its 168 players are – by definition and in practice – very low.'

3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES

agencies do in some western European countries. But the atomisation of the employment service and the multiplication of interfaces with political institutions affect the efficiency and effectiveness of the system as a whole, not least in the resources that can be devoted to front-line activities, and hence the quality of service experienced by users. Moreover, the institutional structure does little to address the common observation that the labour market in Bosnia and Herzegovina is fragmented and segregated. The existence of so many legislative bodies reinforces the notion of separateness and, at entity level, gives rise to a very significant difference in the costs imposed on employers.

The institutional structures for labour market policies and services are of course an image of those for governance generally, which were the product of difficult and long negotiations. That does not make them inviolate, nor above analysis or criticism. But it does call for particular caution in urging radical change. To the extent that changes to the architecture of government are feasible, it is the cantonal arrangements that need to be addressed first.

The employment laws empower the entities and cantons to run public employment services covering the normal areas of public employment service activity. There is considerable complexity in the arrangements for the provision of services in the Federation of Bosnia and Herzegovina. The Federation is developing and focusing its facilitation and coordinating role on labour market intelligence, IT and active measures. While this does not alter the legal competences, the de facto position is a step towards the pre-2000 situation, in which the cantons did not have responsibility for employment matters. Indeed there seems to be wide acknowledgement of the problems associated with the current framework of employment laws in the Federation of Bosnia and Herzegovina, in particular the lack of focus and authority at any single point within the Federation for labour market employment policy or employment

services. The earlier observations concerning the institutional structure and the difficulties arising from them, particularly in the Federation, stem in large measure from the employment laws, which created many of the institutional arrangements.

3.2 INCREASING THE ADAPTABILITY OF ENTERPRISES

3.2.1 IMPROVING THE BUSINESS ENVIRONMENT

Support to SMEs

Efforts have been made to facilitate the creation of SMEs. Most of these efforts have been donor-driven, or at least donor-supported. Examples include the networks of Enterprises Development Agencies (EDAs), established with ILO³⁶ support to provide advice and support for new and existing enterprises; the establishment of Sarajevo Economic Regional Development Agency (SERDA); the Business Service Centre of Ze-Do Canton in Zenica, for direct assistance and support in company registration focusing on foreign investors (foreign direct investment, FDI); and strong EU support through various projects, such as the EURED (European Union Regional Economic Development) Project, and a number of agencies that have been established, such as ARDA (Accredited Regional Development Agency) and BLERDA (Banja Luka Economic Regional Development Agency), both in Banja Luka, and PREDa (Prijedor Economic Development Association). Efforts have also been made to improve the access to funds by SMEs through the World Bank project Local Initiatives (Microfinance) Projects, and the networks of commercial microfinance providers. However, according to the views of local actors the results have not been very positive to date because of high interest rates and requirements for collateral that entrepreneurs do not have. Meanwhile, local ideas for establishing SMEs and the

³⁶ See more at: <http://www.ilo.org/public/english/employment/empframe/practice/entrep/bosnia.htm>

SME Development Bank have not been supported by international donors on the grounds that allocation of financial support on non-market criteria might be a negative step, and could also be subject to corruption.

Local actions to improve the environment for SME development include the establishment of the 'Bulldozer Committee' to identify and remove barriers for enterprise development; the country's law on business registration; and the efforts to develop an SME strategy, which has not yet been approved. One tangible positive outcome has been the reduction in the time necessary for setting up a company, from 59 days in 2003 to 48.6 in 2004. Moreover, some cantons, such as the Mostar Canton, do provide loans or subsidies for the establishment of new SMEs or the expansion of existing ones. The requests from entrepreneurs exceed the funds available.

In practical terms the number of barriers still remains formidable. These barriers include the complex institutional setting; the high level of minimum verified capital in a bank account needed for company registration (around €1,278) and an additional similar amount for various costs and taxes; specific requirements concerning working space (such as the minimum height of working space, set at 2.8 metres); the requirement that a company must start with a minimum of two employees; and many other internal (hidden) issues and obstacles. In general the procedures, requirements and financial burden (minimum €3,000–5,000) for registering a new company are heavy.

However, examples of good practice at the municipal level do exist. The municipalities of Gračanica and Široki Brijeg in the

Federation of Bosnia and Herzegovina and Laktaši in Republika Srpska have a long history of entrepreneurial support activity zones. They have created a 'soft' bureaucracy and provided technical support to entrepreneurs, and they have easily adopted new 'open market' conditions, expanding municipality potential (and budget) and creating many jobs. In practical terms, they provide all the necessary information for company registration at the Municipal Hall; the pre-conditions for start-up related to business space in the municipality are flexible; and the communal taxation and contribution can be paid in stages. The specific needs of the entrepreneur can be discussed with a municipal adviser, and support from local registration support agencies is available. The municipality officers treat their clients with a high level of respect and in a friendly manner.

Labour costs

Wages in Bosnia and Herzegovina have increased consistently since 1998 in both the Federation of Bosnia and Herzegovina and Republika Srpska (Table 11). The rate of increase in Republika Srpska was more than twice that in the Federation. However, wages in the Federation are still 25% higher than those in Republika Srpska, though the gap is closing. Given the very low level of inflation over the past two years (and a comparatively modest level before that), the wage changes represent real increases in income. If not matched by productivity gains the increase in real wages will adversely affect the competitiveness of Bosnia and Herzegovina.

The system of wage determination in the formal sector in Bosnia and Herzegovina is

Table 11: Wages in Bosnia and Herzegovina (in BAM)

	1998	1999	2000	2001	2002	2003	2004
Republika Srpska	170	216	275	309	347	379	422
Federation of Bosnia and Herzegovina	329	374	413	444	483	524	530

Source: Statistical Offices on Bosnia and Herzegovina, Federation of Bosnia and Herzegovina, and Republika Srpska

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Table 12: Minimum wages (in BAM)

	1998	1999	2000	2001	2002	2003	2004
Republika Srpska	60	60	80	80	171	193	197
Federation of Bosnia and Herzegovina	85	200	200	220	251		

Source: WB Report 2002, RS Quarterly Statistical Review and General/sectors Trade Agreement for 2003 and 2004

institutionalised and rigid. The bargaining system associated with the General Collective Agreement (GCA) is centralised and retains most of its socialist-era characteristics³⁷. The GCA determines the national minimum wage – defined as the minimum wage for the simplest monthly work (Table 12) – which may be exceeded by the minima in branch agreements. The effects of the collective agreements are to compress wages, to reduce the male/female wage gap, and to reward long-term job tenure. In the Republika Srpska the government defined a minimum wage for contributions to the Pension and Insurance Fund at the level of 45% of the average wage officially published by the Institute of Statistics.

The non-wage labour costs for formal businesses are high in Bosnia and Herzegovina. The level of social contributions and taxes amounts to 69% of the net wage in the Federation of Bosnia and Herzegovina and 52% in Republika Srpska (Table 13).

The non-wage labour costs and taxes were inherited from the previous socialist

system; contributions covered pension, health insurance and social protection but also many different (mainly) budget expenditures such as railroad development tax (2%) and chamber of commerce contributions. Although lower (relative to the past), wage contribution percentages for start-ups (with a minimum of two employees) in Bosnia and Herzegovina are a significant burden for start-ups and for business development in general.

At the beginning of 2000 the government in Republika Srpska reduced non-wage labour costs to 52% (from 80%) in order to stimulate new employment and net wage increases. The results were positive, with a significant rise in new employment (in 2000 around 292,000 new workers) and in workers' motivation and participation in companies, while wages rapidly increased.

Assessment

The progress made in macroeconomic stabilisation has been a positive factor for the improvement of the business environment. However, efforts to support SME development have been piecemeal,

Table 13: Social contributions and taxes as a percentage of net wages

	Federation	Republika Srpska
Pension fund	35.3	24.0
Health insurance	25.0	15.0
Unemployment insurance	3.6	1.0
Child care	0.0	2.0
Wage tax	5.0	10.0
Total	68.9	52.0

³⁷ World Bank, 'Labour Market in Post-war Bosnia and Herzegovina – How to Encourage Businesses to Create Jobs and Increase Worker Mobility', 2002.

and have not yet had an impact on SME creation or growth. Despite the reduction in the registration time for new SMEs, major institutional complexity and regulatory barriers remain. Advisory support, business centres or similar supporting institutions for business start-ups are not yet fully developed. Access to funds is very limited, and new and existing SMEs have virtually no financial support to get them started (again), other than short loans at high interest rates from commercial microfinance providers. These impediments have an adverse impact on enterprise development and job creation, and indirectly perpetuate the informality of very small and microenterprises. This is a significant issue for the economy, public finances and the labour market, since impediments to the establishment of legitimate businesses encourage unofficial activities and informal employment.

The rigid system of wage determination in the formal economy and wage increases that are not transparently linked to productivity gains over recent years are negative factors for the competitiveness and growth of companies in Bosnia and Herzegovina. The high levels of social contributions and taxes (in particular in the Federation of Bosnia and Herzegovina) overburden companies and encourage evasion through underrecording and participation in the grey economy. It is interesting to note that wages in Bosnia and Herzegovina (as in other Western Balkan countries) are expressed in net terms. Employees do not receive a gross wage from which deductions are made and explained. The effect is to isolate employees from, and diminish their interest in, the cost of social contributions and taxation. Criticisms of the GCA and branch agreements are not driven by ideological antagonism towards collective agreements. They are concerned with the levels of detail in the agreements that overly constrain appropriate decision-making about the deployment and reward of workers at company and plant levels, and that pay no

regard to operational performance and the ability to meet the costs imposed by the agreements.

3.2.2 ASSISTING ENTERPRISE RESTRUCTURING BY INTRODUCING FLEXIBILITY IN THE LABOUR MARKET

The provisions of the labour laws

The Labour Law of the Federation of Bosnia and Herzegovina and the Labour Law of Republika Srpska, introduced in the early 2000s, placed employment relationships on a contractual basis³⁸. In the case of the Federation, contracts may be 'deemed' and oral. The main provisions of the legislation are not unduly onerous on employers, in comparison with those in the EU or other countries of the region.

Various forms of employment status are admissible within limits³⁹ under the laws: permanent (no fixed duration), temporary, fixed duration, casual, seasonal, part-time and probationary. Hours of work are limited to 40 and the amount of overtime is regulated. Levels of maternity leave and pay⁴⁰ are well beyond those available in developed economies and other transitional countries. In reality the flexibility permitted under the labour laws is used only narrowly. The exception is in the use of temporary contracts, which is widespread and appears to be adopted as a means of avoiding the full range of commitments associated with permanent contracts. However, there is – at least in the formal labour market – an absence of flexible patterns of employment, particularly part-time employment.

Employers in both the Federation and the Republika Srpska are allowed to terminate individual employment for a variety of reasons, including poor performance, misconduct, and on economic, technical or

³⁸ 'The Law shall regulate the conclusion of contracts of employment, working hours, salaries, termination of contracts of employment, exercise of entitlements and obligations deriving from an employment relationship, conclusion of collective agreements, settlement of collective labour disputes, and other issues deriving from an employment relationship, unless otherwise provided by other law.', Federal Labour Law Article 108.

³⁹ For example, in Republika Srpska work of a temporary nature should not exceed 60 days.

⁴⁰ In the Federation of Bosnia and Herzegovina, the employee is entitled to 12 months at full pay. In Republika Srpska the entitlement is 12 months for the first child paid at the employee's average salary in the preceding six months.

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organisational grounds⁴¹. Small companies with fewer than 15 employees are not required to consult on dismissals, nor are they required to have works councils. Larger employers have to consult with their works council⁴² or trade unions where five or more employees face dismissal⁴³. In the event of dismissal, severance equal to one-third of monthly salary for each year of service is payable. It is not unusual for employers to avoid dismissing people and the costs involved by keeping them as unpaid employees.

Of particular importance for the introduction of labour market flexibility is Article 143 of the Labour Law in Bosnia and Herzegovina. This article prescribed that the status of a 'waiting-list employee'⁴⁴ was to expire in May 2000 unless the employer invited the individual concerned back to work. Employers who did not do so were deemed to have made the waiting-list employee redundant, and were obliged to pay severance compensation of three times the average salary in Bosnia and Herzegovina. In practice this did not happen, although the waiting-list problem was in theory, and by law, removed.

The privatisation process

The slow pace and the weak management of the privatisation process in Bosnia and Herzegovina has been a major impediment in the effective restructuring of enterprises.

The result is that a number of large former state companies are not actually functioning, but are not officially closed or bankrupt. Workers in these companies are still on waiting lists, notwithstanding Article 143. Data from pension funds in both entities have indicated that around 100,000 workers in Bosnia and Herzegovina are on waiting lists, and these workers contribute heavily to the informal sector.

In seeking to maintain pre-privatisation levels of employment, the privatisation rules effectively impose on companies minimum employee numbers, and therefore sometimes unaffordable labour costs for three years following privatisation. However, there is no system of restructuring enterprises prior to privatisation, so that the effect of the policy is to delay necessary restructuring, improvements in productivity and the creation of new jobs.

Assessment

The labour laws provide a reasonable balance between worker protection and flexibility for employers and enterprises to be competitive. The labour laws of both entities allow employers to dismiss workers within prescribed limits. They also provide flexibility in employment status. The use of this flexibility by employers has more to do with avoiding legal obligation than with operational efficiency – hence the extensive use of temporary contracts⁴⁵ and

41 According to the Law on Labour Relations for the Federation of Bosnia and Herzegovina: an employer may cancel the employment contract of an employee with the prescribed period of notice of cancellation, when such cancellation is justified for economic, technical or organizational reasons; or the employee is no longer able to perform the job for which she/he was employed. The termination period may not be less than 14 days if the employer cancels the employment contract. In the case that a court finds that the termination contract is unlawful, the court has the option of reinstating the employee or requiring the employer to pay damages including salary, severance allowance and other benefits to which the employee may be entitled.

42 In companies with more than 15 regular employees, workers are entitled to establish a works council for representation and the protection of employee interests deriving from the employment contract (Article 109 of the Labour Law in Republika Srpska). A similar provision exists in the Labour Law of the Federation (Article 108).

43 An employer employing over 15 employees who intends to cancel over a three-month period the employment contracts of more than 10% of employees but not less than five employees shall consult with the works council in the enterprise or in the absence of a works council with all trade unions representing at least 10% of employees.

44 Individuals employed on 31 December 1991 and who reported back to their employer after the war were put on a waiting list if there was no work for them. Those who did not report to the employer were entitled by Article 143 to write to the employer within three months of its promulgation to request that they be allowed to return to work with the proviso that they had not started a job elsewhere. If the employer could not employ them they were put on the waiting list. The article required that all waiting lists be extinguished within six months through offering the employee work or through severance payment.

45 In Republika Srpska almost half of those leaving the unemployment register for employment in 2003 were on temporary contracts.

the absence of flexible patterns of work and part-time employment. The absence of part-time employment is a phenomenon common to the Balkans (and other Mediterranean countries), and seems to be mainly cultural, though it is also reinforced by pension regulations that make it very difficult for part-time employees to qualify even for the minimum pension. Some aspects of the law are more aspirational than practical, and may be harmful, both within the labour market and in terms of regard for the law. The overgenerous duration and level of maternity pay may be a factor in the low employment rate for women, and in any event is widely disregarded for financial reasons.

It is a common perception that waiting-listed workers are trapped in their situation because they cannot take up another formal job until their back pension and health insurance contributions are fully paid up and their 'workbooks' released by their former employer. This is not the view of the Pension Agency, which has stated that it is entirely possible for these records to be released to the new employer without that employer taking on liability for past underpayments of contributions. Such is the widespread confusion about this issue that the Pension Agency needs to promote an accurate understanding among all the labour market institutions, trade unions and employer associations.

Moreover, Article 143 (abolition of waiting lists) is not applied in practice because many companies can barely survive, let alone pay severance compensation to dismissed employees. The cost of paying severance to all those affected in the Federation of Bosnia and Herzegovina (52,500 individuals) is estimated⁴⁶ at well over BAM 100 million.

So, the labour laws are on the whole modern and comparatively well balanced, though they have features that are plainly unaffordable and, hence, impractical. On the other hand the arrangements for the privatisation of enterprises, and the obligation on the buyers to maintain employment levels at least at the level of the purchase for three years, introduce an

important impediment to both enterprise restructuring and labour market flexibility.

3.3 ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

Legislation prohibits any form of discrimination in the workplace, though few in Bosnia and Herzegovina would argue that discrimination does not exist. The idea that more people should be encouraged to participate in the labour market may seem somewhat perverse during a period of high unemployment. Indeed in such circumstances some countries have previously adopted measures to reduce their labour supply by encouraging and subsidising early retirement. But such policies have lost most of their adherents, and today one of the main objectives of employment policies is to ensure the right of participation for all the working-age population. As demonstrated in Chapter 2, in the case of Bosnia and Herzegovina there is scope for increasing the participation of women and young people in the labour market, as well attracting more people into the formal economy.

There follows an assessment of passive and active measures, and the mix of the two, for activating those who are unemployed and inactive, and of the capacity of the public employment services to provide assistance to job seekers. In order to address the issue of informal employment, the functioning of labour inspection is examined.

3.3.1. IMPROVING PASSIVE AND ACTIVE LABOUR MARKET POLICIES FOR THE UNEMPLOYED PEOPLE

Passive measures

Passive measures comprise unemployment compensation and health and social insurance. New unemployment insurance systems were introduced by both

⁴⁶ World Bank, 'Specific Aspects of Labour Market in the Federation of Bosnia and Herzegovina', 2003.

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entities in 2000. They are comparatively 'modest, affordable systems of income support to the unemployed'⁴⁷. Only a small proportion – less than 2% – of people registered as unemployed qualify for unemployment compensation. The longest duration for receipt of the benefit is 12 months, and the replacement rate is between 30 and 40%.

The current design of the unemployment benefit system is unlikely to add distortion to the labour market. In any event it reaches such a small proportion of those registered as unemployed that it is largely irrelevant to the labour market, although it clearly helps those who do get it to avoid destitution. The administrative costs of running a system for such comparatively low numbers must be disproportionately high. The relatively small numbers claiming unemployment compensation are very variable – in Republika Srpska they fell from 3,701 in December 2004 to 2,760 in July 2005 as people exhausted their entitlement. Unless coverage increases markedly in the future, other forms of social protection for unemployed people of working age need to be considered. Since for most people

registration as unemployed does nothing to relieve their financial distress, work in the informal economy is commonplace.

Although as many as two-thirds of those who are registered unemployed receive basic health insurance, this is a misrepresentation of the actual position. Many people who want basic health insurance register as unemployed regardless of their employment status. Employment bureau staff believe that around 50% of those on the unemployed register do not fulfil all the legal conditions for being regarded as unemployed. This is also evidenced in the findings from the LSMS. Plainly, the level of registered unemployment is a reflection of administrative procedures and the ineffectiveness of the employment bureaux rather than the state of the labour market.

Centres for Social Work (CSW) provide help for the most vulnerable people, mainly unemployed individuals and their families. The centres are financed mainly from municipal income and the coverage of benefits is extremely variable, depending on the wealth of individual municipalities.

Table 14: Number of passive programme recipients (000s)

	2000	2001	2002	2003	2004
Registered unemployed (December)					
Bosnia and Herzegovina	421.2	423.5	432.0	443.2	na
Federation of Bosnia and Herzegovina	267.9	275.8	287.2	296.6	na
Republika Srpska	153.3	147.7	144.8	146.6	142.5
Unemployment recipients (December)					
Bosnia and Herzegovina	4.2	4.9	na	6.7	na
Federation of Bosnia and Herzegovina	2.9	3.3	na	4.8	na
Republika Srpska	1.3	1.6	1.3	1.9	3.7
Average amount of unemployment benefit (BAM)					
Federation of Bosnia and Herzegovina	144.3	155.1	na	na	na
Republika Srpska	193.6	152.3	na	na	na
Health insurance beneficiaries (December)					
Federation of Bosnia and Herzegovina	154.4	159.8	na	175.2	na
Republika Srpska	na	na	75.2	90.1	96.0

na: not available

Source: Republika Srpska and Federation of Bosnia and Herzegovina Employment Bureaux

⁴⁷ World Bank, 'Bosnia and Herzegovina – Labour Market in Post-war Bosnia and Herzegovina', 2002.

Assessment of passive measures

There is no serious attempt to provide social protection for those who are out of work. The unemployment benefit systems cover a tiny proportion – less than 2% – of those who are registered unemployed, and the CSW provision is limited and patchy. Even on the assumption that only 50% of those registered are genuinely unemployed, these observations remain valid and consistent with a tradition in which social transfers have not played a large part in employment policy or indeed in poverty relief. This is in sharp distinction to the treatment of veterans and their families, who receive non-means-tested benefits. Given the difficulties of public finance and the already high levels of social contributions, there is only limited room for manoeuvre in the short term. In fact, given the lack of financial support for unemployed people from the government, it is not surprising that most parties have a somewhat benign view of the unofficial economy – it provides a kind of unofficial welfare/workfare arrangement.

This is a difficult issue, but one that must be tackled if Bosnia and Herzegovina is to become a candidate for EU membership. The breakthrough will come when

businesses operating in the informal economy face the threat of serious penalties, when the probability of being caught is far greater, and when the cost and bureaucratic advantage to companies of operating in the grey economy is much reduced. This should help to shift informal jobs into the formal economy; but just as important as an increase in the number of formal jobs – perhaps even more so – is increased turnover among employees to create job openings for others, especially for first-time job seekers. Currently the formal labour market(s) in Bosnia and Herzegovina are too static, and employment policy needs to be rebalanced to encourage mobility.

Active measures

The range and scale of active labour market measures is modest. This is mostly as a result of a lack of funds and the fact that the money for active measures is the residual after all other forms of expenditure (unemployment benefit and administration) have been financed from payroll tax. This makes budgeting for active measures rather uncertain and variable.

In 2004 the ratio of expenditure on active compared to passive measures in

Table 15: Expenditure on labour market programmes (in BAM)

		2002	2003	2004
Republika Srpska	Passive	2,812,496	2,635,006	6,244,366
	Administration	2,714,104	3,378,773	3,865,212
	Active	2,384,758	3,351,915	2,320,334
	Total	7,911,358	9,365,694	12,429,912
Federation of Bosnia and Herzegovina	Passive	20,514,489	na	28,884,276
	Administration	12,238,888	na	17,962,540
	Active*	32,042,276	na	37,495,994
	Total	64,795,653	na	84,342,810
Bosnia and Herzegovina	Passive	23,326,985	na	35,128,642
	Administration	14,952,992	na	21,827,752
	Active	34,427,034	na	39,816,328
	Total	72,707,011	na	96,772,722

*Includes loans to finance employment; na: not available
Source: Republika Srpska and Federal Employment Bureaux

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Republika Srpska was 1: 2.7⁴⁸. This is an impressive though wholly misleading measure of the scale of active measures because of the tiny coverage of unemployment compensation. A more meaningful measure is the amount of money spent on active measures per registered unemployed person. In 2004 this was BAM 16 or €8. But even this is misleading, since a large proportion of the funds for active measures were directed towards companies to 'create preconditions for employment', and it is unclear how many unemployed people actually benefited as a result.

In the Federation of Bosnia and Herzegovina over BAM 19 million was allocated to employment programmes in 2004 and a further BAM 18.4 million for employment loans. Employment loans are intended to help to create new jobs for unemployed people but also to secure the longer-term future of existing jobs. It would therefore be inappropriate to relate the whole of the non-passive expenditure to the number of unemployed people. That said, even excluding the employment loans the active programme budget in the Federation of Bosnia and Herzegovina in 2004 represented around BAM 63 for every unemployed person.

In 2004 there were six main active employment programmes in the Federation of Bosnia and Herzegovina, besides the loans to employers:

- subventions to employers to recruit additional workers;
- grants for employment in agriculture;
- activities to help resettle demobilised members of the armed forces;
- activities to assist people over 45 years of age;
- subventions to employers to recruit able young people;
- training and education to improve job prospects.

In the Republika Srpska there was a rather more restricted range of measures:

- creating preconditions for employment;
- preparing workers for employment;

- cofinancing apprentice wages;
- cofinancing wages of talented people;
- self-employment;
- retraining and additional training.

Employer subsidies

There is heavy emphasis in the mix of measures on subsidies of one kind or another to employers, and on self-employment. In a labour market where there is a heavy aggregate deficiency of formal jobs, the idea of helping employers to absorb more workers (create more jobs) is appealing. But most international evidence suggests that such measures should be carefully targeted on groups who are at particular disadvantage. Moreover, there is something of a paradox in the situation where labour costs are comparatively high as a result of social costs and collective agreements, and are then reduced through active labour measures for some groups of workers. Implicit in the situation is the recognition that employers would recruit more people if labour costs were lower.

Well-qualified people

As in other countries in the Balkans there is a bias in the range of active measures towards assisting well-qualified people. The rationale is simply that these are the future key workers who will help to generate profit and jobs, and in whom substantial investment has already been made through the education system. But again there are questions about the overall effectiveness of such programmes. Employers benefit from having well-educated young people – it is in their interests to recruit them. These young people are some of the most competitive workers on the market, so there is no equity argument for giving them special treatment: the reverse is the case.

These factors point towards a programme with heavy deadweight – that is to say that many of these young people would have been employed without the subsidies. If they are not recruited in the absence of subsidy it is because labour costs are too high, and/or that existing employees (the

⁴⁸ That is to say that for every BAM 1 spent on active measures, BAM 2.7 were spent on passive measures.

insiders) have taken long-term ownership of most jobs. To the extent that some of these young people are finishing their education through practical experience, the costs should be borne through the education system and their income should reflect their student status. Subsidies to help with the training of people undergoing apprenticeships or training for recruitment are more likely to have a significant net gain. Both may help to maintain training capacity and to increase the quality of the workforce.

Agriculture

There has been considerable interest in the innovative programme for employment in agriculture in the Federation of Bosnia and Herzegovina. The project targets unemployed people, refugees and displaced persons, and has multiagency support. It is a particularly valuable programme because it provides opportunities in non-urban areas for people who are among the most disadvantaged, and offers help to people turning to farming in the absence of other opportunities. The government of the Federation Bosnia and Herzegovina, in cooperation with the Federation Ministry for Agriculture, Water and Forestry, Federation Ministry for Displaced and Refugees and Federation Employment Bureau, proposed a project of incentives for employment in agriculture, aimed at purchasing and sharing agricultural machinery, irrigation systems, greenhouses, cattle and other domestic animals, for unemployed people, returnees and social welfare beneficiaries. The project was implemented during 2004, in both the Federation of Bosnia and Herzegovina and Republika Srpska. Over 2,000 candidates applied for assistance under the programme.

Employability and job-search skills

The portfolio of active measures does little to help unemployed people to improve their basic employability and job-search skills. This is particularly the case in the Federation of Bosnia and Herzegovina; in Republika Srpska a number of the products of the employment bureau address these needs and there is an impressive range of

leaflets and multimedia materials to help unemployed people. The Pilot Emergency Labour Redeployment Project (PELRP), supported by the World Bank, has features that address some of these issues. The project is targeted on ex-soldiers registered as unemployed who were dismissed in the period 1997–2002.

Targeting

There is a considerable amount of targeting in the portfolio of programmes in both entities. As discussed earlier, some of this targeting is on people who already appear to be at an advantage in the competition for jobs. But there are other targets too – disabled people, older workers, ex-soldiers and refugees from groups who are at most disadvantage.

Loans for employment

In 2003 loans to employers amounted to almost BAM 28 million for the employment of 2,461 new workers and the training of 1,408 individuals. In the event there was a significant shortfall in the number of new workers who were actually recruited (1,583), but an increase in people undergoing training (1,939). Approved irrecoverable loans totalled BAM 679,000, or 2.4% of loans in 2003. There has been some criticism of the writing off of loans, but the overall level of write-off is modest. Provided that there is no sharp deterioration in failure rates, the loan scheme appears to offer a more cost-effective way of increasing job opportunities than the employer grant programmes. However, it is very difficult to monitor and does not provide the same opportunity for targeting.

Monitoring and evaluation

The monitoring of active programmes in the Federation is barely adequate for statistical or auditing purposes. This has been recognised, and monitoring activities will be intensified. There is virtually no evaluation of active programmes to assess their net impact. So it is impossible to make well-informed judgements about the value of each programme.

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Assessment of active measures

The balance in the current portfolio of active measures is towards encouraging employers to create more jobs and to recruit unemployed people through grants and loans. Given the heavy emphasis on this approach, early and thorough evaluation is needed in order to assess its net effects. There is a wide inconsistency between on the one hand, high institutional costs imposed on employers in the formal market, and on the other hand, the use of active measures to reduce employment costs. There is little attempt to integrate active measures with other aspects of employment service work, nor to use active measures as part of a strategy to improve employability and reduce the scale of the grey economy. Significant amounts of money are being used on active measures. In many other countries these funds would go to help unemployed people and those at most disadvantage. In Bosnia and Herzegovina they are returned to selected employers – these funds come mostly from employees and employers in the formal economy – through a levy/grant system mediated by the employment services and local politicians. An alternative to this would be to stop the grant and loan systems and reduce the levy on all formal employees.

The approach to the design and implementation of active measures needs to become more structured and scientific. Different kinds of measures should be tested through practical trials that are carefully evaluated before the widespread introduction of the measures. Implementation should be phased to allow for learning from early experience. Evaluation should be directed towards assessing net impact rather than participation levels.

3.3.2 IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF THE PUBLIC EMPLOYMENT SERVICES

The public employment services have been criticised in a number of reports. These criticisms have been mainly directed towards the failure of the services to help

to create a single labour market. While there is some validity in the criticisms, the employment services have to work within a framework of laws and structures (already described and assessed in Section 3.1.2 above) that are unhelpful to their collective performance.

The position of the public employment services

The public employment services are in a difficult position for many reasons. The economic context and gross imbalances in the labour market affect all aspects of their operation. Add to this the wider civil and political considerations, the lack of finance, the wide distrust of public institutions, and the size and pervasiveness of the informal economy, and it is clear that even a well-organised and efficiently run employment service would be severely stretched. Moreover, the public employment services are instruments of labour market policy. But as policy is not yet coherently expressed it is very difficult to position the public employment services. Part of the problem lies in the somewhat ambivalent attitude of officials and politicians towards people registering as unemployed for non-labour-market reasons; part of it is to do with a benign (dis)regard for the informal economy; and part of it is the lack of a social protection system for unemployed people of working age.

The ambiguities in official attitudes, the rigidities and imbalances in the labour market, and the lifestyle issues lead to a tendency towards passivity on the part of labour market institutions. There is no attempt to impose the rule that in order to be registered as unemployed, people should be actively seeking work. As a result the registers are grossly inflated by people who are not unemployed or who are inactive. In the Republika Srpska around two-thirds (86,556) of registrants received health insurance from the government budget. Employment offices are clogged with people who should not be registered. But – and this is the key point – the position is justified, rather than addressed, on the grounds that people would otherwise be without basic medical insurance. The logic

of this position is that the government does not wish to deny people basic medical cover; in which case the requirement to register as jobless with the employment services should be removed and alternative arrangements put in place. The toleration of the practice of people registering as unemployed for no other reason than to get medical insurance invites individuals to misrepresent their circumstances, and the staff of the employment services to go along with it: it damages the integrity of all parties and the ability of the public employment services to give attention to genuine job seekers.

Improving the performance of the employment services

The public employment services in Bosnia and Herzegovina will not become effective and efficient until there is clarity of purpose and priority. Even then, it will take a number of years to change the current situation of resources being used to support costly institutional arrangements and bureaucratic and low-value activities. There are four main areas in which cost-efficiency can be markedly improved.

The first relates to the institutional arrangements in the Federation of Bosnia and Herzegovina. One indicator of the heavy cost of these arrangements is that expenditure on administration for every registered unemployed person is five times higher in the Federation than in the Republika Srpska.

The second area is that of operational procedures and processes. In many offices there are parallel computer and paper files of registrants. Some staff keep their paper files up to date by reference to the computer files. Others do not, and regard it as a waste of time – they are right. A great deal of information is collected and recorded about every individual that registers. Work processes are not yet designed to make the best use of IT support, so staff are required to input and intervene far more than is necessary.

Furthermore, computer systems are out of date. Both the Federation and Republika Srpska are planning new systems.

The third area is the deployment of resources and workflow management. Without a thorough analysis of all offices it is not possible to offer precise figures, but there is a general tendency to have a comparatively generous number of back-room staff (involved in finance, information and statistics) and heavily overloaded front-line staff dealing directly with the public⁴⁹. Furthermore, virtually no attention is given to matching staffing arrangements and workflows. All staff work full time, but workflows are uneven during the week and during each day.

Fourth, the management of workflows is rarely addressed, with the result that unemployed people visit offices when they chose to within two months of their previous visit to confirm that they are still unemployed. As well as making it easy for people to work in the grey economy and maintain their registration, this arrangement makes it virtually impossible for front-line staff to plan their work. The consequences for clients are long queues at certain times and a perfunctory few minutes at best with employment service counsellors. The result for staff is that they might see 150 people in a day and be unable to do anything for any of them.

In addition to increasing its cost-efficiency, the employment service needs help to improve its effectiveness. There are a number of key measures that need to be taken.

Remove people who only register for basic health insurance

The most pressing issue is that of people who register in order to receive basic health insurance. In other countries⁵⁰ this situation has been resolved by removing the requirement that non-employed people need to register as unemployed in order to receive health insurance. Perhaps as many

⁴⁹ In some cantons 35–40% of the canton employment service staff worked in the cantonal office on finance, information and statistics.

⁵⁰ In 2003 legislation was promulgated in Croatia to remove the requirement to register as unemployed in order to receive basic health insurance.

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as one-third of those registered as unemployed would no longer do so, thus releasing employment service staff for more productive activities.

Address the grey economy

The role of the employment services in relation to the grey economy is confused by the absence of social welfare arrangements for most unemployed people. But the employment services should not make it easy for employers to use unregistered workers; such employers should find that the employment service requires more⁵¹ from registrants, and should have their activities disrupted to a greater extent.

Develop core services

In addition to reducing the level of registered unemployment and helping to discourage employers in the informal economy, the public employment services need to develop their core services of counselling and mediation, and activities that help people to improve their basic employability and job searching. Counsellors in the public employment services have very heavy caseloads (the ratio of counsellors to unemployed people is 1 to more than 1,800). In order to reduce caseloads the number of counsellors should be increased through better disposition of resources, and the number of registrants decreased through the removal of those not seeking formal work. Counsellors need to be supported with professional training and modern information systems.

Improve information

In Republika Srpska information for unemployed people is mainly provided through direct contact. All interested persons are given information on vacancies, on employers' requirements and on all conditions and employment opportunities. Vacancies are also announced in the *Glas Srpske* newspaper and in other media if demanded by employers. The Employment Service

Bulletin has contributed to the information systems. In 2003 contracts were signed with the Srna, Glas Srpske and RTRS (Radio-television of Republika Srpska) news agencies to foster the information system and presentation of the Employment Service of Republika Srpska and its results. In the Federation of Bosnia and Herzegovina, information is provided to job seekers through job advertisements in the bureau and through newspaper advertisements about active measures. The range of information disseminated through publicity leaflets and other materials is less well developed than in Republika Srpska, mainly as a consequence of the institutional structure. The website of the Employment Service of the Republika Srpska is in the final stage of its development, and this should facilitate direct cooperation with employees and unemployed people.

Target better

Given the very high numbers of unemployed people registered with the public employment services and the workload that this presents, there is not much scope for additional targeted activities. The remedy for this lies in the first instance in a more rigorous approach to allowing people onto the unemployment register and to removing all those who fail to attend the employment office within the agreed periods to confirm their unemployed status. Currently there are considerable delays in removing people from the unemployment register – in some cases delays of more than four months.

Cooperate with other stakeholders

The position of the public employment service is unique in that it deals directly with the main actors in the labour market. It should therefore have a deeper understanding of the realities of the labour market than any other institution and many valuable insights. Contacts with employers are still weak, despite improvements noted through the support of external donor projects (the World Bank and the Danish Ministry of Foreign Affairs with the EU VET

⁵¹ Examples include more frequent attendance at the employment office, attendance at times determined by the public employment services, and participation in active measures.

Programme)⁵². An improvement of this relationship is not a matter of placing more demands for information on employers. Rather, it is about being in closer touch with labour market trends and changes so that counsellors are better able to advise clients and to help design appropriate active policies for the people they see. The public employment service shares many of the same clients as the CSW, but there is not yet a regular dialogue between the organisations, still less shared information and processes for those people on the unemployed register who are receiving welfare payments. Improved dialogue has been developed with the ministries of education as a result of capacity building through the EU VET programmes.

Improve statistics and evaluation

There is a range of basic administrative statistics and analyses, by characteristic, about registered unemployed people. For various reasons these data should be treated with considerable caution. The gross inflation of the unemployment register has been described elsewhere in this report; this inflation affects all the different analyses of registered unemployment, both stocks and flows. Information on active measures is patchy, partly as a result of inadequate monitoring, and the range of management statistics falls well short of what is needed to make the public employment service an effective and efficient organisation. For example, there is no information on workflows or on staff productivity. One of the future challenges for the employment services in Bosnia and Herzegovina is to develop a common, modern information system, for which there is already an expressed agreement between the employment services of Republika Srpska and the Federation of Bosnia and Herzegovina. With regard to the evaluation of the performance of the public employment service and active labour market

programmes, little or nothing is currently carried out. There is some monitoring of outputs, but no attempt as yet to introduce evaluation techniques that provide an estimation of outcomes.

Assessment

The employment services are hard pressed, and are not viewed in a very favourable light. They are hampered by the institutional arrangements and by ambiguity about what is expected of them. There is great scope for improvement in their performance, but this will only come about when non-labour-market incentives for registering as unemployed are removed and workloads are drastically reduced as a result. There are a number of areas where efficiency can be improved and the quality of service raised. IT needs to be modernised and to support process improvements. Crucially, the inadequacy of management, and other, statistics needs to be addressed. Of course not all employment services are at the same level, so all these observations will not apply to all with equal force. Employment services have little or no impact on the scale of the grey economy at the moment, but they could have an effect, especially if they work in concert with the reformed labour inspectorate.

Counsellor workloads should be reassessed on the basis of the frequency and nature of the interventions expected from counsellors in relation to particular client groups, for example, people under the age of 25 years who are in danger of entering long-term unemployment. But such targeting should not be left to individual counsellors or individual employment offices – it should be policy driven in the light of entity and cantonal labour market conditions. The same considerations apply in relation to active labour market programmes. The European Employment Strategy calls for the early

⁵² The Danish Ministry of Foreign Affairs, with the EU VET Programme, has organised a training programme for employment service staff which is in line with ongoing VET reform and the labour market in Bosnia and Herzegovina. The main objective of the programme is 'to assist the Employment Service in BiH to initiate and consolidate the development and implementation of a methodology for conducting regional quantitative labour market surveys'. Nine key actors in employment services have been trained on how to monitor and analyse labour market trends at local level, thus strengthening their competences, skills and knowledge on labour market survey methods. They have also been given individual assignments in training other employment service staff how to conduct labour market surveys.

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profiling of people joining the unemployed register, as well as the provision of opportunities for those who cross the threshold into long-term unemployment. The employment services in Bosnia and Herzegovina would be overwhelmed by such an approach, and instead need to be more selective about the groups they target for special assistance.

3.3.3 THE LABOUR INSPECTORATE

The organisational structure of the labour inspectorate is much like that of the employment bureaux, with a canton-based service in the Federation of Bosnia and Herzegovina, and an entity-based service in the Republika Srpska. There are two branches to the independently administered inspectorate – Health and Safety, and Employment Relationships. There has been some confusion about the role of the inspectorate in relation to policing compliance with the GCA. The Official Gazette indicated such a role for the inspectorate, but the Supreme Federal Court ruled against this.

Usually there are rather more inspectors for law protection than for health and safety, but in any event the numbers are comparatively small⁵³. A new law on labour inspection was passed in the Federation of Bosnia and Herzegovina in 2005 that seeks to strengthen and streamline employer inspections and to give the labour inspectorate powers to follow up non-payment of pension contributions. Around a quarter of the inspectorate's work is generated by referrals from people who believe their rights have been ignored by employers. In many of these cases the inspectors act in a conciliation role rather than an inspectoral one. Individuals who wish to seek redress from employers for mistreatment under the labour law may do so through the judicial system, but it is a slow process and the penalties are small.

During their inspection of businesses the inspectors identify people who are regularly employed but not registered, people employed but who receive no salary or social contributions, and companies operating without the appropriate licences. A significant number of illegally employed workers are identified⁵⁴.

There is no database of registered businesses available to the inspectorate, nor any systematic means of identifying unregistered enterprises. Inspections are conducted on a regular basis and prior notice is not required. Labour inspectors can levy fines and even close down operations in the event of severe violations. But as a rule companies are given an opportunity to regularise the situation and to register the workers. This approach is usually successful. In any event the penalties for employing unregistered workers are comparatively small (maximum BAM 15,000). The sanctions process is handled at federal level and the procedure for collecting fines is slow, although this is being changed and improved (the current period is around six months). As a result the incentives to operate entirely in the formal economy are weak. Many of the people working on building sites are found to be working unofficially, and some respectable building companies have been discovered to have 150 illegally employed workers. The greatest gain to the employer from illegal workers comes from unpaid tax and social contributions.

Assessment

A great deal of discretion exists within the system, and individual inspectors have considerable authority, which is not matched by sufficient accountability. However, given the very modest scale of the sanctions on employers there is little incentive for collusion. Notwithstanding their recorded achievements, the labour inspectorates do not yet appear to have been successful in reducing significantly the scope of the informal economy.

⁵³ In Tuzla there are six health and safety inspectors and seven covering employment relationships. In Zeneca the respective figures are four and six.

⁵⁴ In Tuzla 1,500 illegally employed workers were identified in the first eight months of 2005. In Zeneca 1,250 were identified in 2004.

To be more effective the number of inspections needs to be increased and heavier sanctions introduced. Both these moves are planned.

3.4 INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL

Under the terms of the Dayton Agreement, responsibility for education is devolved to entity and cantonal levels. Education matters in the Republika Srpska are assigned to the centralised Ministry of Education and Culture. In the Federation of Bosnia and Herzegovina the Ministry of Education and Sciences has a limited coordination role, with each canton having its own Ministry of Education. The state-level competences in the education sector are the responsibility of the Ministry of Civil Affairs. In summary, in Bosnia and Herzegovina there are 12 ministries involved in the education sector. During recent years discussions on education and training have also been opened up with stakeholders from the labour market, including ministries of labour and social partners, in particular in vocational education and training reform and through the establishment of tripartite committees at state level. Any initiative for a common reform is therefore conditional upon the agreement of a large number of political decision-makers.

Education and training is an agreed priority of the authorities in Bosnia and Herzegovina, as expressed in the Education Reform Agenda 'A message to the people of Bosnia and Herzegovina', which was agreed between the authorities of Bosnia and Herzegovina (the education ministries and the Ministry for Human Rights and Refugees) and the international community on 21 November 2002. In 2003 a national policy for education reform was adopted (Education Reform Strategy Paper) by the entity ministers of education; this provides a framework for education reform until 2010, from pre-school to higher education. The EC Country Strategy Paper (2000–06) for Bosnia and Herzegovina

defines 'improvements in vocational education and training (VET)⁵⁵, which will lead in time to a better qualified workforce and reduced unemployment' as a priority. Recommendations for a short- to medium-term strategy plan for VET reform in Bosnia and Herzegovina (2015), to include a continuing vocational training (CVT) strategy for Bosnia and Herzegovina, will be designed in 2005–06 to enable the country to align its own development gradually with the EU's strategic goals.

In general these policy documents aim to overcome fragmentation and promote a common education and training space in Bosnia and Herzegovina and institutions at state level, while contributing to economic development. In this context a State Agency for Standards and Assessment was set up in 2000 and a State Agency for Curriculum Development is planned.

Complementary to these policies, the Bosnia and Herzegovina Medium Term Development Strategy (2004–07), signed by the Council of Ministers, defines 'education and training as a key link in the chain of development strategy and poverty reduction in BiH', while accelerating EU integration. In addition, the SME draft development strategy and the five regional development plans developed by stakeholders in Bosnia and Herzegovina emphasise HRD to support economic regeneration and regional development.

In institutional terms the OSCE has since 2002 been responsible for coordinating the education and training efforts of the various partner organisations and agencies, both local and international, and for ensuring that these efforts are consistent with those of the education ministers in Bosnia and Herzegovina, and targeted on agreed strategic goals. The Education Issue Set Steering Group is a coordinating body involving the heads of the main international partners in the reform (Office of the High Representative, OSCE, EC, Council of Europe, UNICEF, UNHCR, United Nations Mission in Bosnia and Herzegovina, World Bank).

⁵⁵ Vocational education and training includes initial and continuing vocational education and training in a lifelong learning context.

3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES

The coordination structure includes six working groups. Additionally, the OSCE has established working groups at regional level in the four OSCE Regional Centres (Banja Luka, Tuzla, Sarajevo and Mostar) with the aim of improving regional coordination. Regular monthly meetings of the education ministers are organised. The OSCE is currently preparing an adult learning strategy for Bosnia and Herzegovina.

While these policies have not been followed by laws (except the state framework law on primary and secondary education adopted in June 2003 by the House of Peoples) or implementation plans, data on education financing give some indication of the increased investment in education. Education is mainly financed by the entities and the respective cantons in the Federation of Bosnia and Herzegovina and it is therefore difficult to gain an overall picture of the situation (as data are neither collected nor stored centrally). However, the EU education sector review in 2004 showed that between 2002 and 2004 the total expenditure on education increased slightly. It also showed that education as part of overall expenditure varied between cantons, constituting from a third to almost a half of the total budget, depending on the richness of the canton. A third of institutions received donor funding, some were supported by local communities and some by parents. According to the Poverty Reduction Strategy Paper the total share of GDP spent on education in Bosnia and Herzegovina is 6.4%. Although this figure seems high, the financial position of institutions is often very poor, given the low GDP and the economic situation in Bosnia and Herzegovina. There are no data available for investment in CVT/HRD or in research.

Vocational education and training

The green and white papers on VET policy were adopted by the educational authorities in spring 2000 and autumn 2001 respectively. Based on the recommendations of these documents a framework law for VET was submitted to parliament in July 2005, but has not yet

been approved. VET legislation at entity and cantonal level is also under preparation.

Recommendations for a short- to medium-term strategy plan for VET reform in Bosnia and Herzegovina (2015), including also an adult learning strategy, will be designed in 2005–06 to enable the country to gradually align its own development with the EU's strategic goals. The strategy must take into account the recommendations and the original four pillars of the European Employment Strategy. It will also refer to the Copenhagen Declaration, which provides policy guidance on the strengthening of the European dimension of VET and the promotion of mobility of the VET graduate labour force.

To this end Bosnia and Herzegovina strives for a modern initial and continuous VET system, as promoted by the Copenhagen Declaration, which provides pathways for the vertical and horizontal mobility of students and tools for the fast and efficient training and retraining of adults, thus directly contributing to poverty reduction. Such a flexible system will provide students and graduates in Bosnia and Herzegovina with wider choice in terms of their career development and will enhance the employability of the labour force.

Reforms include the classification of occupations, teacher training, the upgrading of equipment and the establishment of better linkages between the VET system, post-secondary education, higher education, adult education and labour market actors.

The strategy will address the lack of a common educational area and the still limited local institutional capacity of VET and the labour market for reforms within a lifelong learning context.

CVT in a lifelong learning context

In April 2005 the OSCE started a debate on a draft lifelong learning strategy and on the need for institution building for adult learning. This should foster coordination

and cooperation among all expert groups dealing with VET and CVT in Bosnia and Herzegovina, with the aim of achieving a common understanding of the basic definitions (lifelong learning, adult education and CVT) and encouraging joint developments.

The results of the ETF peer review on CVT in a lifelong learning context in 2003 have been used as input for the discussion. The ETF peer review team has used the term 'continuing vocational training in a lifelong learning context' in its wider EU sense as any learning activity undertaken throughout life, with any aim of improving vocational knowledge, skills and competences, with particular reference to employability and social inclusion.

The strategy will place special emphasis on VET and CVT for adults and their links with the initial VET system. This will include a proposal for the development of systems of assessment and recognition of knowledge, skills and competences gained in non-formal and informal settings.

Modernised curricula and teachers and trainers

VET reforms have so far focused on increased cooperation between VET schools and labour market institutions, and have included labour market needs analysis, curriculum reform, and piloting VET standards and assessment activities. In 2003–04 a labour market analysis was carried out in 25 locations in Bosnia and Herzegovina, and a labour market analysis handbook was developed and disseminated all over the country to facilitate the understanding of labour market developments and to feed into decisions for the modernisation of VET provision.

In 2004, through a joint initiative of the ministries of education in the Republika Srpska and the Federation of Bosnia and Herzegovina, 400 occupations were reduced to 100 and regrouped in 13 occupational families. Currently a total number of 42 VET schools (33%) in the Federation are implementing one or more of the modernised curricula, and all VET

schools (69) in Republika Srpska started to implement the modernised curricula in September 2004.

Sectors for modernisation and rationalisation of occupations were identified on the basis of the labour market analysis; these included food processing and agriculture. Teachers from schools, together with representatives from faculties and the labour market, prepared new curricula using the modular curricula methodology. This was complemented by a mentor training programme in which 60 mentors were involved in further training of teachers in new curriculum development and teaching methodologies, including initial vocational education and training, and CVT.

It is expected that approximately 65% of all VET schools (out of a total of 201 VET schools in Bosnia and Herzegovina) will have implemented one or more of the new curricula in 2005.

By the end of 2006 a minimum of 45% of all VET occupations in Bosnia and Herzegovina will have been modernised and a minimum of 1,900 full-time teachers from at least 55% of the VET schools will have been trained in modern teaching methodologies.

The interactive teaching methods have changed the relationship between teachers and students, and have given students an opportunity to express their attitudes, opinions and creativity. The new curricula are more flexible, and combine practical and theoretical training well. However, the division of general subjects and practical skills development will need further investigation. Furthermore, most equipment is out-dated, and the number of teachers trained in new methodologies is still limited. Many teachers feel that they have become overburdened, taking into account the salary they receive and their need for more training.

With regard to CVT courses, some pilot courses were developed by VET schools in 2004 and further courses were to be developed in 2005 for adults in agriculture and food processing.

3. REVIEW OF POLICIES, AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS FOR ADDRESSING LABOUR MARKET CHALLENGES

A pilot department for VET has been established within the existing Standards and Assessment Agency (SAA). A pilot project on final external examinations within the occupations for which the new curricula had been fully implemented was completed as a first activity. The objectives were to prepare external exams combining theory and practice, to involve teachers in independent evaluations, and to provide the possibility of comparing levels of education among students who follow the same curricula. Recommendations for the scope of work of a VET department in the existing SAA have also been prepared, including initial vocational education and training, and CVT.

Assessment

While the importance of human resources for economic development and the need for reform of the education sector have been recognised in recent years in policy papers and (inter)national agreements, the overall progress of reform has been slow. Up to now most efforts have been centred on developing a mutual understanding and consensus among an extremely large number of stakeholders at cantonal, entity and state levels. This has been an essential process which has also led to the recognition of a need for the creation of a common education and training space. On the other hand, after many years the policy papers have not yet been translated into new laws, with the exception of the state-level framework law for primary and secondary education, adopted in 2003. Moreover, the development of a state framework law on VET and higher education was started some years ago, but has not yet been approved because of political constraints. Neither have

implementation plans, including detailed roles and responsibilities and budgets for reform, yet been defined. Although coordination structures have been set up, actual coordination between the different initiatives in the education and training sector is still weak. This is mainly because of the complex administrative structure in Bosnia and Herzegovina and the variety of stakeholders involved. Some of the positive developments in terms of the implementation of the strategies developed include (i) the setting up of a Rectors' Conference; and (ii) the establishment of the state-level SAA and Curriculum Agency which, despite their slow development because of political and financial constraints, are expected to foster a common education and training space. While educational expenditure as a percentage of GDP exceeds the average for EU countries, this gives an inaccurate impression, as in general the GDP in Bosnia and Herzegovina is very low. This suggests that a remapping of institutions is necessary, as proposed by the functional review of the education sector in Bosnia and Herzegovina.

As a result of the factors described above, modernisation of the education and training provision has not yet taken place, at least on a large scale. Donor-funded pilot activities have certainly been beneficial in increasing the capacity of education and training experts and practitioners to conceptualise, develop and implement new curricula and teaching and learning methods. But the number of individuals who have actually benefited from this new knowledge is still limited to those participating in the pilot programmes, as modernisation has not yet been generalised.

4. CONCLUSIONS AND RECOMMENDATIONS

4

The analysis of labour market challenges and the assessment of policies set in place to address those challenges lead to the following conclusions and recommendations.

IMPROVING THE INSTITUTIONAL SETTING

There is a general recognition that the overall governance system in Bosnia and Herzegovina is extremely complex, with a very large number of institutions involved in policy and operations. Bosnia and Herzegovina is a small country, and labour market problems across entities are similar. In order to achieve policy coherence, reduce operational costs and overcome the notion of separateness and fragmentation of the labour market, the institutional arrangements need to be reviewed as soon as possible in the context of broader governance considerations. This is particularly true for the Federation of Bosnia and Herzegovina, where the federal authorities could have a stronger role in the development and

implementation of labour market policy across cantons.

INCREASING THE ADAPTABILITY OF ENTERPRISES

Apart from achievements in macroeconomic stability, measures intended to create a business-conducive environment have not been effective, leading to very low levels of job creation in the formal economy. Further efforts need to be focused in the following areas.

- Barriers to SME establishment and growth need to be removed. This requires simplification of the institutional complexities and strategic actions. However, in the short term quick fixes are also possible, as demonstrated by examples of good practice in a number of municipalities in both Republika Srpska and the Federation of Bosnia and Herzegovina.
- An overarching strategy should be put in place to reduce the level of non-wage

costs for individual companies, principally by increasing the tax/contribution base and limiting the scope of the formal wage determination system.

- The economic restructuring of large ex-state enterprises should be facilitated. In particular the policy of protecting (unproductive) jobs for three years after the purchase of an enterprise needs to be reviewed.
- Remaining deficiencies in the labour laws of the entities need to be addressed, namely (i) the overgenerous duration and level of maternity pay – which in any case are widely disregarded – and (ii) Article 143 on waiting lists – which is not applied in practice because the costs involved are simply unaffordable. Although these are not central to the functioning of the labour market, they affect attitudes to compliance with labour law and participation in the informal economy.

ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

Participation and employment rates are extremely low compared to those in the EU and in other countries in the region. Females and young people present the biggest deficits. Employment in the informal economy is very high and increasing, accounting for all the growth in employment during the past few years. Specific areas of work in addressing those challenges include the following.

- There is a need for urgent development of a coherent strategy for leveraging jobs out of the informal and into the formal economy with a clear implementation strategy, including leadership arrangements. The most important elements of the strategy are the reform and strengthening of the labour inspectorate, the reduction of non-wage labour costs and the effectiveness of the public employment services.
- A more structured and scientific approach to the design and implementation of active employment

measures needs to be adopted. The mix of the active labour market programmes needs to be rebalanced, with less going on grants and loans to employers and more on basic employability training for unemployed people.

- Improvements are needed in the functioning of the employment services through:
 - clearly identifying their purpose and priority;
 - reducing workload in relation to the issue of people who register receiving basic health insurance: an alternative arrangement needs to be found;
 - improving the cost-efficiency of the employment services in the Federation of Bosnia and Herzegovina by re-examining the institutional arrangements;
 - reviewing operational procedures and processes;
 - ensuring a better deployment of resources with a rebalance between back-room and front-line staff and a better management of workflow;
 - improving the services to unemployed people through a higher quality of information, counselling and guidance;
 - improving relations with employers;
 - modernising the IT system.

INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL

The low participation rates in primary and secondary education that existed in the second half of the 1990s are increasing, but they still present a deficit in relation to rates in the EU. However, the quality of the education system at all education levels is still contested. Strategic documents for the modernisation of the education system, developed in recent years through broad participation of stakeholders, have not been translated into actions because of political constraints and the complex administrative structure in the country. Training for skill upgrading is not seen as attractive by adults, and the training infrastructure is weak.

4. CONCLUSIONS AND RECOMMENDATIONS

Future work needs to focus on a number of areas.

- Education and training reform initiatives aimed at the creation of a joint education and training space need to continue. These include faster progress in the approval of the state framework law on VET, and the effective functioning of the state agencies for (i) standards and assessment and (ii) curriculum development.
- Efforts to achieve better cooperation between education and training and the labour market at local level should be maintained.
- There is a need for specific actions to disseminate and implement good practice on enhancing the quality of the education provision from donor projects to a large number of schools.
- The issue of permanently upgrading the skills of the population should be addressed through short-term measures (such as promoting the participation of adults in training in the framework of active labour market measures) and the development of strategic approaches to adult learning (for example through work on the development of a lifelong learning strategy initiated by OSCE).

ANNEXES

ANNEX 1: CASE STUDY – THE LEATHER/SHOE INDUSTRY IN DERVENTA MUNICIPALITY

After the war in Bosnia and Herzegovina, the DEMOS company planned to restart with the production of around 30,000 pairs of shoes, and qualified for a restart credit from the government of Republika Srpska in December 1997. However, difficulties with the market and with out-of-date equipment caused problems for the factory. The privatisation process caused some additional difficulties. In July 2001, 600 workers at the company went on strike to protest about the uncertainties surrounding the privatisation process. After three unsuccessful tendering procedures, the state capital was finally offered on the Banja Luka stock market (quotation No 478 from 17 April 2003) and sold. Today the company is undertaking low-level production with 100 workers and with an additional 400 workers on a waiting list.

In the meantime, Mr Mile Tadic, a returnee from Hungary, decided to start production of the upper parts of shoes, under the name Baja. He employed some engineers and a few workers who were formerly

employed at DEMOS. Today this company employs up to 200 workers in the production of its own shoe collection and of shoe parts for export to EU countries. The company turnover is around €7.2 million, and total production is around 200,000 pairs of modern shoes. A number of other smaller enterprises were also established, such as the Sanino Company. They have focused on the upper parts of shoes, and have a turnover of around €1 million.

These two companies have created vacancies for more than 300 skilled workers with experience in shoe production (such as workers from DEMOS). However, workers from DEMOS have been reluctant to accept these job offers. If these workers want to take a job with Baja or Sanino legally, they have to collect their personal 'workbooks' from DEMOS without a large part of their pension and insurance history registered; this might cover a period from as long ago as 1977 (pension history was dealt with by the government of Republika Srpska until 1977), or from the moment that DEMOS stopped paying their contributions. The situation is similar for workers at many other former state-owned companies in Bosnia and Herzegovina.

ANNEX 2: THE LABOUR MARKET INSTITUTIONAL SETTING

State Ministry of Civil Affairs

This ministry has state-level responsibility for labour market policy, though there are no staff allocated to this area.

State Employment Agency

The agency was established in 2003 with responsibility for international relations, signing international agreements, monitoring the employment agencies at entity level in the implementation of ILO conventions adopted by Bosnia and Herzegovina, and research into working abroad. The agency has 16 staff and a governing board, though this is not tripartite, as are the federal and cantonal employment services and those in Republika Srpska. The agency prepares a report for the Ministry of Civil Affairs.

Ministry of Labour in Republika Srpska

Relationships with state level (Ministry of Civil Affairs) are constructive, and are normally related to international affairs. The ministry is responsible for labour market policy in Republika Srpska.

Employment Bureau in Republika Srpska

There are six regions, 56 local branch offices and a total of 227 staff – the smallest employment service in the Balkans. Around 88 of the staff are employment counsellors. The bureau provides much the same range of functions as public employment services in other countries, and tries to respond to local needs through active measures, though its funds are very limited. Its income (around BAM 80–90 million) comes from a 1% payroll tax on net salary. The Republika Srpska bureau works well with the bureau in the Federation of Bosnia and Herzegovina. It is seeking to create a single labour market, and supports the further development of the State Employment Agency.

Ministry for Labour and Social Policy in the Federation of Bosnia and Herzegovina

There are only three staff in the labour department of the federal Ministry for

Labour and Social Policy. Relationships with the state are constructive and are normally related to international affairs. The state concentrates on coordination and information. However, the State Employment Agency is establishing an agency for unemployed people, even though most work is carried out at entity and cantonal levels. The management board of the federal employment bureau is elected by federal parliament, and the management boards of the employment bureaux in the cantons are elected by the cantonal equivalent. The department is currently working on four laws: health and safety, labour inspection, professional rehabilitation for people with disabilities, and waiting lists. Cooperation with Republika Srpska is good: currently they are working together to harmonise payroll tax and the treatment of foreigners.

Federal employment bureau

The federal employment bureau is funded through its 30% share of the income from the payroll tax of 2% of gross wages in the Federation of Bosnia and Herzegovina. The bureau plays a supporting role in cooperation across cantons, and directly funds active labour market measures.

Cantonal ministries of labour

The cantonal ministries of labour are part of the cantonal government arrangements. Cantons supervise the legality of the operation of the cantonal employment bureaux, which have their own management board, director and budget. There is a canton law on mediation and social security for unemployment. Cantonal governments approve the budget and expenditure plans of the cantonal employment services. Although the cantonal employment bureaux report everything to the federal employment bureau, they are accountable to the cantonal parliaments.

Cantonal employment services

The cantonal employment bureaux receive their funding from the payroll tax. There is a special fund at federal level to assist cantons in difficulty. Each canton has offices in each of municipalities and operates within the legal framework at

federal level. The Federation of Bosnia and Herzegovina provides guidance on active labour market measures, but the programmes are approved by the cantonal employment bureau management boards.

Confederation of Independent Trade Unions of Bosnia and Herzegovina

The confederation comprises 22 branch unions with around 270,000 members. It is more active in the Federation of Bosnia and Herzegovina than in Republika Srpska. In Republika Srpska there is a partner union, the Trade Union of Republika Srpska, and recently the two have agreed to merge. The organisation participates in the Social Economic Council at both the state level and the entity level. High-level collective agreements dating from 2000 exist in the two entities (with the aim being to achieve a high-level agreement at state level), signed by the government and the Chamber of Commerce. The high-level agreements include national minimum wages and some minimum rights for workers. A new agreement has just been negotiated with the government and the Association of Employers. A new minimum wage will be set using the gross hourly wage. In the Federation of Bosnia and Herzegovina it will be BAM 307 per week in net terms.

Social and Economic Councils

Social and Economic Councils exist at entity level. They bring together worker and employer representatives with government and other public institutions to discuss issues of social policy. The entity-level collective agreements are negotiated through the Social and Economic Councils.

Chambers of Commerce

The Republika Srpska Chamber has five regional offices and 1,000 members. Membership has been voluntary since 2004. The chamber organises a large number of training opportunities for its members, on topics such as management, public relations, human resource development, standards and certification.

It has a joint project with Austrian and German partners that covers the training of trainers, the training of consultants for SME development, and training on ISO standards. There is a Foreign Trade Chamber of Commerce based in Sarajevo which covers only export/import companies. It was established by parliament and is an umbrella organisation covering cantonal chambers and members from both the Federation of Bosnia and Herzegovina and to a much lesser extent from the Republika Srpska. Membership is compulsory. There are 20,000 members. The chamber provides a range of services, including economic information and analysis, import/export official documentation, and policy-led training.

ANNEX 3: MAIN PROVISIONS OF LABOUR LAWS AND EMPLOYMENT LAWS IN THE ENTITIES

The Labour Law of the Federation of Bosnia and Herzegovina was promulgated in 1999 and amended substantively the following year; in Republika Srpska the Labour Law was introduced in 2000.

Employment status

Various forms of employment status are admissible within limits⁵⁶ under the laws: permanent (no fixed duration), temporary, fixed duration, casual, seasonal, part-time and probationary. Hours of work are limited to 40, and the amount of overtime is regulated. Levels of maternity leave and pay⁵⁷ are well beyond those available in developed economies and other transitional countries. In reality the flexibility permitted under the labour law is used only narrowly. The use of temporary contracts is widespread and appears to be a means of avoiding the full range of commitments associated with permanent contracts. However, there is – at least in the formal labour market – an absence of flexible patterns of employment, particularly part-time employment.

⁵⁶ For example, in the Republika Srpska work of a temporary nature should not exceed 60 days.

⁵⁷ In the Federation of Bosnia and Herzegovina, the entitlement is 12 months at full pay. In the Republika Srpska it is 12 months for the first child, paid at the mother's average salary in the preceding six months.

Dismissals

Employers in both the Federation of Bosnia and Herzegovina and Republika Srpska are allowed to terminate individual employment for a variety of reasons, including poor performance, misconduct, and on economic, technical or organisational grounds⁵⁸. Small companies with fewer than 15 employees are not required to consult about dismissals, nor to have works councils. Larger employers have to consult with their works council⁵⁹ or trade unions where five or more employees face dismissal⁶⁰. In the event of dismissal, severance is payable equal to one-third of monthly salary for each year of service. It is not unusual for employers to avoid dismissing people and the costs involved by keeping them as unpaid employees.

Rule book and consultation

Under Article 107 of the Labour Law in the Federation of Bosnia and Herzegovina, an employer of more than 15 workers must publish a rule book on salaries, work organisation, discipline and other employee regulations. The employer is obliged to consult with the works council or the trade union before finalising the rule book. The Labour Law in the Republika Srpska is similar⁶¹. For companies that have a supervisory board, 20–50% of the board must be employee representatives, depending on the size of the company.

Holidays and pensions

The Labour Law of the Republika Srpska allows agreement between employer and employee regarding the taking of holidays in two segments, provided that one part is a continuous two weeks. Provisions for annual leave are the same in the Labour Law of the Federation (Article 42), except for the segmented use of the vacation entitlement. Employees with more than 20 years of service are eligible for full pensions at the age of 65, regardless of gender. Pensions are based on average salaries of the most recent 15-year period and adjustments are allowed for current economic conditions.

Article 143 and waiting lists

This article of the Labour Law of Bosnia and Herzegovina prescribed that the status of 'waiting-list employee'⁶² was to expire in May 2000 unless the employer invited those concerned back to work. Employers who did not do so were deemed to have made the waiting-list employee redundant and were obliged to pay severance compensation of three times the average salary in Bosnia and Herzegovina. In practice this did not happen, although the waiting-list problem was in theory, and in law, removed.

58 According to the Law on Labour Relations for the Federation of Bosnia and Herzegovina, an employer may cancel the employment contract of an employee with the prescribed period of notice of cancellation, when such cancellation is justified for economic, technical or organizational reasons; or the employee is no longer able to perform the job for which she/he was employed. The termination period may not be less than 14 days if the employer cancels the employment contract. In the case that a court finds that the contract termination is unlawful, the court has the option of reinstating the employee or requiring the employer to pay damages including salary, severance allowance and other benefits to which the employee may be entitled.

59 In companies with more than 15 regular employees, workers are entitled to establish a works council for representation and protection of employee interests deriving from the employment contract (Article 109 of Republika Srpska's labour law). A similar provision exists in the labour law of the Federation of Bosnia and Herzegovina (Article 108).

60 An employer employing over 15 employees who intends to cancel over a three-month period the employment contracts of more than 10% of employees but not less than five employees shall consult with the works council in the enterprise or in the absence of a works council with all trade unions representing at least 10% of employees.

61 Article 162 of the law in Republika Srpska. However, this law does not include provisions for obligatory consultations with the works council or trade unions.

62 Persons employed on 31 December 1991 and who reported back to their employer after the war were put on waiting list if there was no work for them. Those who did not report to the employer were entitled by Article 143 to write to the employer within three months of its promulgation to request that they be allowed to return to work with the proviso that they had not started a job elsewhere. If the employer could not employ them they were put on the waiting list. The article required that all waiting lists be extinguished within six months through the employee being offered work or through severance payment.

The main provisions of the employment laws (Law on Job-Placement and Social Security of the Unemployed)

General and federal

The Decision of the High Representative on the Law on Job-Placement and Social Security of the Unemployed sets out the role of the Federation of Bosnia and Herzegovina and the public employment services of the cantons. The law defines an unemployed person and includes the conditions that they should be capable, available and actively seeking work. It requires the federal bureau, *inter alia*, to propose and provide for the implementation of measures to promote employment and social security for unemployed people, to maintain collective records and to develop proposals for a single information system⁶³.

Cantons

The same law gives the cantons responsibility for employment service operations, and in particular the determination of individual unemployment rights, mediation, the implementation of active measures covering vocational guidance, training and redeployment, and the issue of work licenses to foreigners and people without citizenship, as requested by the federal bureau. The law places on the cantonal employment services a requirement to work together and cooperate with the federal bureau in the management of information and periodic labour market assessments.

Unemployment registration and active measures

The law sets out the conditions for being registered as unemployed, including the requirement that job seekers (registered as unemployed) should be available for and actively seek work. The law allows the competent federal and/or cantonal authority to offer incentives to employers to

generate new jobs and employ more people in order to facilitate restructuring and the introduction of new methods, reduce the duration of unemployment, meet skill shortages, improve worker mobility and help people with disabilities. At the same time the cantons regulate, and the employment services provide, vocational guidance and training measures to stimulate employment.

Private agencies

Private agencies (regulated by the government of the Federation of Bosnia and Herzegovina) may provide job broking and counselling as well as employment services. There are no private agencies in the Federation of Bosnia and Herzegovina, and only one, Spektar, in Republika Srpska. This agency started in 2001; it states that it has 6,500 registered job seekers and contact with 300 enterprises. Job seekers pay a small fee for registration, and employers pay for recruitment. Interviews are held with job seekers and in some cases the company organises training (free or fee-based).

Of the job seekers on Spektar's database 14% have university education, 7% VISA Skola (higher school) education, 66% secondary education, and 13% primary education. Spektar claim to place all kinds of worker, and would like to compete in tenders within the framework of foreign assistance from which they are currently excluded because they are a private company. The company has no direct cooperation with the employment services.

Unemployment insurance

The law sets out unemployment insurance arrangements. The length of time for which benefit is paid is related to the number of unemployed insurance years; and the level of payment depends both on the number of unemployment insurance years and the average salary in the canton (now Federation) earned in the previous

⁶³ The act also requires that the federal bureau: proposes measures to help disabled people and ensure they are met; assists in the implementation of active labour market programmes covering vocational guidance, training and redeployment; approves the employment of foreign citizens and assists the return of Federation citizens working abroad as guest workers; represents the cantonal employment services; deals with ILO conventions and submits consolidated annual financial plans of the bureau and the employment services to the federal ministry; and submits an annual work report to the federal parliament.

quarter⁶⁴. The form and manner of registering as unemployed and claiming unemployment benefit is regulated by the cantons.

Health insurance, pension and disability pension contributions

Health insurance of unemployed people is provided for under the regulations of the Health Insurance Law. People who are registered as officially unemployed are entitled to basic health insurance, which is covered from the social contribution in the Federation of Bosnia and Herzegovina and from the budget in Republika Srpska. People who need a maximum of three years' contributions to qualify for pensions are also covered.

Funding arrangements

Funding for the federal employment bureau and the cantonal employment services comes from contributions in respect of each employee, with the federal bureau receiving 30% and the employment services 70%. The contribution level is currently 2% of gross wages – equivalent to 3.75% of net salary. At cantonal level the funds cover administrative expenses, the cost of the unemployment system, health insurance, and retirement and disability pension contributions⁶⁵. In the event of a surplus, active labour market measures can be funded by cantons. If there is a shortfall, a request can be made to the federal bureau for financial assistance. The federal bureau provides cantons with funds

to cover such shortfalls. In the event of a general shortfall the federal bureau rations its contributions to the cantons on the basis of the proportionate size of their shortfall. In recent years the Federation of Bosnia and Herzegovina has been in a surplus position, and uses its funds to finance labour market programmes through the cantons and to support IT infrastructural development and labour market research. The Federation has taken the lead in the development, procurement and installation of a new IT system, which should be operational in all cantons in 2006.

Republika Srpska

The employment law in Republika Srpska parallels that of the Federation of Bosnia and Herzegovina, though without the complication of the cantonal role. The payroll tax is just 1% of net wages. The unemployment benefit rules⁶⁶ are much the same as in the Federation. In Republika Srpska the level of contribution from employees is only 1% of gross wages. The health insurance is paid separately from Republika Srpska's budget funds and does not go through the employment bureau of Republika Srpska. Republika Srpska has succeeded in managing its finances so as to meet the costs of unemployment benefit and support active programmes. This position will become more difficult if the redundancies that are forecast take place, leading to increases in unemployment compensation payments and decreases in the contributing employee base.

⁶⁴ The unemployment benefit is dispersed at the following rates and periods:

- a) six months at the rate of 30% for the unemployment insurance period of 8 months to 10 years;
- b) nine months at the rate of 35% for the unemployment insurance period of 10 to 25 years;
- c) twelve months at the rate of 40% for the unemployment insurance period of over 25 years.

⁶⁵ Law on Job Placement and Social Security of the Unemployed, Article 49:

'In the event that the funds available to the Employment Service are estimated to be sufficient to meet the needs for the material and social security of the unemployed for the forthcoming month and the administrative costs, the Employment Service shall use the exceeding funds for the fulfilment of the measures provided under Articles 21 and 25. In the event that the funds available to the Employment Service are estimated to be insufficient to meet the needs for the material and social security of the unemployed for the forthcoming month and the administrative costs, the Employment Service shall submit, with the monthly report referred to under Article 52, a request for the allocation of missing funds from the Federal Bureau.'

⁶⁶ The right to compensation is regulated by the employment law in Republika Srpska, and persons with at least 8 months of permanent employment or with 12 months' interrupted employment within a period of 18 months, provided that their working status was not caused by their own will or fault and that social beneficiaries were paid for that period. During the right to compensation they are also eligible to social and health insurance. Other unemployed persons have the right to health insurance by the Law on health insurance.' (Official Gazette RS, No 70/01). Financial resources are provided by government of Republika Srpska for these persons.

ACRONYMS

BAM	Bosnia and Herzegovina convertible mark
BiH	Bosnia and Herzegovina
CARDS	Community assistance for Reconstruction, Development and Stabilisation
CVT	continuing vocational training
EPPU	Economic Policy Planning Unit
ETF	European Training Foundation
EU	European Union
FSVC	Financial Services Volunteer Corps
GCA	General Collective Agreement
GDP	gross domestic product
HRD	human resource development
HSPS	Household Survey Panel Series
ICT	information and communication technology
ILO	International Labour Organisation
ISCED	International Standard Classification of Education
IT	information technology
LON	labour only
LSMS	Living Standards Measurement Survey
MDG	Millennium Development Goals
OSCE	Organisation for Security and Cooperation in Europe
PRSP	Poverty Reduction Strategy Paper
SAA	Standards and Assessment Agency
SME	small and medium-sized enterprise
UNDP	United Nations Development Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VET	vocational education and training

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