

BOSNA I HERCEGOVINA
VIJEĆE MINISTARA
DIREKCIJA ZA EKONOMSKO PLANIRANJE



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ДИРЕКЦИЈА ЗА ЕКОНОМСКО ПЛАНИРАЊЕ

BOSNIA AND HERZEGOVINA
COUNCIL OF MINISTERS
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Strategic Framework for BiH

Sarajevo, August 2015.

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List of Abbreviations

AEM – Active Employment Measures
AROPE – At Risk of Poverty and Exclusion
BAS – The Institute for Standardisation of BiH
BHAS – Agency for Statistics of Bosnia and Herzegovina
GDP – Gross Domestic Product
CMS – Case Management System
DG ECFIN – Directorate General of the European Commission for Economic and Financial Affairs
EBRD – European Bank for Reconstruction and Development
EC - European Commission
FIPA – Foreign Investment Promotion Agency
FP7 – Seventh Framework Programme for Research and Technological Development
HSEI – Social Exclusion Index
IPA – Pre-Accession Assistance Instrument
IPARD – Instrument for Pre-Accession Assistance in Rural Development
SEE – South East Europe
LFS – Labour Force Survey
MICS – Multiple Indicator Cluster Survey
SMEs – Small and Medium Sized Enterprises
NHA – National Health Accounts
NQF – National Qualifications Framework
EHCS – Extended Household Consumption Survey
SE – Social Economy
SEETO – South East Europe Transport Observatory
FDI – Foreign Direct Investments
SWOT – Strengths, Weaknesses, Opportunities and Threats
WHO – World Health Organisation

UN – United Nations

UNCAC – United Nations Convention against Corruption

UNDP – United Nations Development Programme

VET – Vocational Education and Training / Process of cooperation in vocational education and training

Introduction

Strategic framework for BiH has been prepared pursuant to the Decision on the Medium-Term Planning, Monitoring and Reporting Process in the Institutions of Bosnia and Herzegovina¹ and it will serve as a guiding portfolio of strategic objectives for preparation of the Medium-Term Work Programme of the Council of Ministers for the period 2016-2018.

We have taken into account the current strategic documents adopted by the BiH Council of Ministers as well as commitments assumed according to the Stabilisation and Association Agreement between BiH and the EU. In the part of the situation analysis, this document is based on analytical data collected in the course of preparation of the annual BiH Report on Economic Trends for 2014², prepared by the BiH Directorate for Economic Planning, while the overall document is structured based on the model of the EU 2020 Strategy and the South East Europe 2020 Strategy³ which was adopted by the BiH Council of Ministers. We have also taken into account the priorities arising from the EC's Indicative Strategy Paper for BiH⁴, National Economic Reform Programme (NERP)⁵, recommendations of the Compact for Growth and Jobs in BiH and other international organizations and/or surveys.

By identifying development areas within the targets adopted for the South East Europe 2020 Strategy, which are interlinked, we have set the objectives for BiH too, as follows:

- ✓ *Integrated growth* through promotion of regional trade and mutual investments and development of non-discriminatory and transparent trade policies;
- ✓ *Smart growth* represents innovations, digitalization and youth mobility, as well as our commitment to competitiveness based on quality rather than based on low labour price;
- ✓ *Sustainable growth* is focused on a balanced regional development and improved resource efficiency and sustainability as support to enhancing social and economic self-sustainability and creating better conditions for local growth and employment;
- ✓ *Inclusive growth* aims to enhance employment through skills development, inclusive participation in the labour market, inclusive and improved quality of health services and reduction of poverty;
- ✓ *Governance for growth* means administration capacity building so as to apply the principle of good governance at all levels, strengthen the rule of law and combat corruption in order to create such business environment and public services that are needed to boost economic and social development.

The following strategic objectives have been set:

1. Macroeconomic stability
2. Improving development of competitive economic environment
3. Development of human resources
4. Increasing industrial competitiveness
5. Improving culture and creative sectors
6. Balanced regional development

¹ Official Gazette BiH, No. 62/14

² Directorate for Economic Planning BiH: BiH Report on Development 2013, www.dep.gov.ba

³ Regional Cooperation Council (RCC), South East Europe 2020 Strategy 2020. Strategy was adopted on 21 November 2013 at the Ministerial Conference of the South East Europe Investment Committee by the representatives of all SEE countries

⁴ European Commission, Bosnia and Herzegovina, Indicative Country Strategy Paper, draft, March 2014.

⁵ www.dep.gov.ba

7. Improving environmental management and development of environmental infrastructure while increasing resilience to climate change
8. Faster and more efficient agricultural and rural development
9. Development of energy resources, particularly renewable energy sources and increasing energy efficiency
10. Increasing employment opportunities
11. Promoting inclusivity in education
12. Reducing poverty and social exclusion
13. Improving health care
14. Accelerating process of transition and capacity development

All EU member states, as well as candidate and potential candidate countries have committed to contribute to jointly defined strategic objectives of the EU 2020 Strategy and the South East Europe 2020 Strategy by preparing their strategic documents and that they will use this as a basis for preparation of documents for implementation of the funds from structural or IPA funds*. Strategic Framework for BiH has been composed based on the revised Strategy of Development of BiH and the Social Inclusion Strategy of BiH, which were prepared for the period 2010-2014, taking into account the existing sector based and entity level strategies, with the intention to establish links with the strategies Europe 2020, South East Europe 2020, the country strategy paper for planning the financial assistance from the IPA funds and the set of measures defined by the Compact for Growth and Jobs in Bosnia and Herzegovina.

This document is structured in such a way that the **Introduction** (Chapter 1) is followed by the Executive Summary in the **second** Chapter, whereas the **third** Chapter presents the BiH economic framework with current trends, the most important indicators and projections for the following medium-term period.

The **fourth** Chapter presents methodology for development of a SWOT matrix.

The **fifth** Chapter shows the strategic objectives of BiH economy that stem from the BiH vision of development. They are linked with the Europe 2020 and South East Europe 2020 Strategy through: integrated, smart, sustainable and inclusive growth and good governance for growth, as well as the entity level strategies of socio-economic development. Situation is presented through individual areas, including the main challenges ahead.

The **sixth** Chapter presents the BiH commitments to the EU member states based on the EU Stabilisation and Association Agreement.

The **seventh** Chapter gives an overview of the main measures for realization of priorities to stimulate economic growth and social development.

"BiH has prepared and submitted to the European Commission the working versions of the sector based planning documents for IPA II (2015-2017) for sectors: Public Administration, Home Affairs, and Justice and Fundamental Rights. These documents will serve as a basis for programming IPA II and for preparation of the IPA package for BiH. Indicative amount of funds for BiH in 2015 is EUR 39.7 million; in 2016 EUR 42.7 million and in 2017 EUR 43.7 million."

“In 2020 BiH is institutionally developed, more competitive and dynamic economy with greater opportunities to achieve sustainable economic growth with more and better jobs and stronger social cohesion, based on the development of appropriate skills and business environment”. This vision is derived based on a thorough analysis of the BiH resources as well as conditions and constraints for the realization of development goals. In accordance with the vision, we have set out the directions for growth of BiH economy, as presented in the following chapters.

II Executive Summary

By analyzing economic trends in Bosnia and Herzegovina in 2014, we can observe a slight recovery of economic activity. This situation is the result of growth in private consumption, private and public investments, with a negative contribution of foreign trade deficit.

According to the estimates of the Directorate for Economic Planning, nominal GDP in 2014 amounted to KM 28,195 million. Real GDP growth rate was positive at annual level and estimated at 0.6%.

Rise of the Euro area out of recession significantly stimulated economic activity in BiH, particularly in the first quarter of 2014, but heavy floods in May led to the abrupt standstill in economic activity in the second quarter of 2014. There was some progress in the second half of the year so the estimated real growth of GDP over the entire year was only very mild, considerably lower than planned. Positive economic trend in 2014 was achieved due to 4% growth in processing industry, 1.7% rise in retail trade, and public works (to a large extent financed by foreign lending).

The current account deficit amounted around 7% of GDP (KM 2 billion) which is a significant increase compared to the previous year (37%). Trade deficit increased by 14%, whereas the percentage of coverage of imports by exports stood at 54%. This was mostly contributed by growth in imports of 7% whereas exports increased by 3%.

The Labour Market in BiH is characterized by a high share of informal employment as well

as high inactivity level of working age population. There is a decreasing trend in the number of the unemployed while the labour demand is still lower than in the pre-recession period. In addition to being extremely high, what particularly causes concern is that the unemployment rate is mostly long-term, accompanied by extremely high inactivity rate of the BiH population. The number of the employed in 2014 slightly increased relative to the previous year, whereas the long-term unemployment rate ranges between one quarter and one fifth of the labour force. Average net wage in BiH did not face any significant changes compared to 2013 and equalled nominal KM 830.

Given the mild increase in employment (2%) and average wages (real 1.3% increase), and rise in current inflows from abroad (7%), there was a slight increase in disposable household income.

General level of prices faced deflation. Prices in December 2014 were lower by 0.9% on average compared to prices in December 2013.

BiH needs a high rate of economic growth so as to boost competitiveness by increasing productivity and ensure stronger economic and social inclusion by rising employment. It is of paramount importance to create favourable political and economic environment to achieve such growth rates through increased foreign and domestic investments. Key policy ingredients should be to decrease the non-wage related labour costs (fiscal and parafiscal allocations), to introduce incentives for attracting investments and to develop regional training centres, primarily those related to

business clusters and international value chains, which would make labour force competencies more attractive. These could be built by using Public-Private Partnership projects. It is necessary to reduce administrative barriers through legislation, to provide adequate labour force which follows up on the labour market developments, and more favourable sources of funding.

Small and medium sized enterprises in EU represent an important source of employment and value added. However, in order to use this potential, we need to have a coherent and transparent support for this sector's development and base it on the expected results, i.e. measuring the effectiveness of the incentives. Adjusting VET system, active employment measures and the education system as a whole is the key to making progress in this very important area. It is necessary to ensure systematic monitoring of SME indicators (including craft shops), ease access to SME funding, as well as facilitate availability of the required skills and knowledge for their faster development and new job creation, ease their establishment and development, particularly for youth and in the fields with high value added and potential of new employment.

It is necessary to develop competencies and skills for a competitive knowledge-based society, through stimulating technical and scientific studies, development of entrepreneurial and creative skills, learning foreign languages, strengthening standards of teachers' competencies, research and technical equipment of educational institutions. We also need to reduce a share of early school leavers and drop-outs at all education levels, develop statistics of education, innovativeness and science and research, and get included in comparative assessments of the quality of education outcomes. Low investment rate in research and development leads to narrowing of innovativeness and patents, which are a key

to progress. BiH requires years of excellent economic policies to reach the level of the least competitive EU member states.

We need to introduce incentives for faster establishing of and linking research centres and technological parks with businesses, and increase allocations for applied research projects. In addition to other forms of funding, use Public-Private Partnership to enhance development of business infrastructure, with continuous commitment to improving and simplifying the legal framework for business environment. We need to create conditions to activate diaspora resources, including networking of domestic experts and institutions with experts originating from BiH and their institutions abroad, raise awareness on relations between migration and development in all institutions, include migrations in strategies and policies in all sectors and at all governance levels (such as gender issues and environmental issues), and create conditions to engage financial and investment potentials of diaspora.

ICT infrastructure is the backbone of physical infrastructure of the modern, post-industrial society. Broadband internet access was additionally extended, but it is still at a relatively low level. Development and modernization of transport infrastructure (road, waterway, rail and air), as one of the preconditions for economic development, is not progressing as fast as in neighbouring countries.

The existing situation in the environment sector is the result of long years of economic development based on heavy industry and exploitation of natural resources, war inflicted devastations, uncontrolled post-war exploitation, use of outdated technology, insufficiently developed legislative and regulatory framework.

There is also lack of education on the

importance of rational use of natural resources, respect for nature, and the need to preserve a clean and unpolluted environment for future generations. Following these indicators, we can understand how important it is to improve energy efficiency in BiH.

Structure of energy consumption is very unfavourable (the main energy consumers are households) so we need to develop programmes for energy saving buildings, appliances, etc. in order to meet relative EU level of household energy consumption in 7-10 years.

Investments in agriculture are low and cause both low competitiveness and relatively high foreign trade deficit in food sector. In the area of agriculture, energy and environment we need to empower strategic, institutional environment and clearly and transparently set priority actions and incentive policies.

We need to adopt a series of legislation and regulations in order to adjust and develop all the aforementioned areas, which are of crucial importance for BiH society. Failing to reach a consensus may lead to energy and food dependence and result in most direct negative effects on lives and health of BiH citizens.

The greatest socio-economic challenges in BiH

The labour market in BiH is burdened with an extremely high share of the long-term unemployed in total unemployment, along with low employment and activity rates. Compared to the EU and neighbouring countries (except FYR Macedonia) BiH had the highest unemployment rate in 2014. One of the important characteristics of the BiH labour market is a great number of inactive working age population that does not participate in the labour market. Despite slight improvement of economic prospects in a form of slow recovery of leading industries in combination with modest expansion of business activity,

negative unemployment trends can hardly be reversed, particularly with regards to youth unemployment which in 2014 stood at alarming 62.7%. The problem remains to be a misbalance between labour market supply and demand from the aspect of labour force qualifications through sectors.

According to the World Bank's Ease of Doing Business report in 2014, BiH is ranked as low as 131 out of 189 countries, the same as in 2013. Minor reforms in improving business environment were implemented but starting a business in BiH is still a challenge. To start a business in BiH, one needs to undergo 11 procedures covering the period of 37 days, which is much slower than in neighbouring countries.

According to the Report of the European Bank for Reconstruction and Development, index of transition reforms in BiH is still scored low; despite some progress in price liberalization, trade and foreign exchange system, there are still challenges in privatisation, governance and enterprise restructuring and competitiveness. "Innovations in Transition" of the European Bank for Reconstruction and Development 2014, project that 2015 will be favourable for BiH and state that innovativeness is the key to development of all projects. There are great needs in BiH for the infrastructure and introduction of innovations to boost firm productivity and stimulate economic growth.

Corruption in BiH has negative impact on economic flows causing the unforeseen costs for the investors and discouraging them from future investments, causing growth of grey economy and reducing the country's income based on non-paid taxes, duties and other fees, increasing costs of administration, goods and services and declining productivity. Corruption Perception Index in 2013 scored 4.2 while in 2014 it scored 3.9 and BiH was

ranked worse in 2014 (80 out of 175 countries) than in 2013 (77 out of 177 countries).

According to the latest data of the Central Bank of Bosnia and Herzegovina, foreign direct investments in 2014 reached KM 826.1 million exceeding the investments in the same period of the previous year by 88%. The percentage of foreign direct investments in relation to the Gross National Income achieved in BiH is 1.9% being slightly lower than the average in the past 10 years, which is approximately 2%. At the same time, this percentage in Croatia is higher and stands at 3.2% while in Serbia it reaches 4.5%.

In the Human Development Report (UNDP, 2013) BiH is ranked 81 (out of 186 countries), with Human Development Index (HDI) scored 0.735, and thereby belongs to the group of countries with high human development. This is 5.9% above HDI average in the world. HDI is a result of search for a common measure of economic and social development and contributes to quantification of overall socio-economic progress, pertaining to a country's achievements in three basic dimensions of

human development. HDI includes the following components:

- Life expectancy at birth - BiH 76.4 (2013)
- Mean years of schooling – BiH 8.3 (2012)
- Expected years of schooling - BiH 13.6 (2012)
- Gross National Income - GNI per capita(2011, PPP \$)-BiH 9.431 (2013)
- Human Development Index - BiH 0.735 (2013)

The main problem of the social protection system in BiH is its low efficiency in alleviating poverty. According to the latest data for 2011, BiH was spending around 3.9% of its GDP⁶ on different types of non-contributory cash benefits. This spending level is much higher than in ECA average (1.7% GDP). This situation has a long history. According to the World Bank review, these benefits have negligible capacity to alleviate poverty. Without these benefits, relative poverty in BiH would increase only by 1.7 percentage points, which indicates that these benefits are not targeted to the categories of population who need them most.

Table 1: The greatest socio-economic challenges

	2013	2014
Low rate of labour market activity	43.6	43.7
High unemployment rate	27.5	27.5
High youth unemployment rate	59.1	62.7
The lowest rank in the region according to the World Bank's Ease of Doing Business Report	126	131
Low ranking according to the EBRD Index of transition reforms	low	low
Poor rank according to Corruption Perceptions Index	77	80
Low level of FDI per capita	low	low
Low rank on the scale of the UNDP Human Development Index	81	81
The highest level of expenditure on social assistance in the region	n/a	n/a
The worst targeted expenditure on social assistance (reaching the poor)	The poorest 20% of population receives only 36.8% of the total social assistance budget ⁷	n/a

⁶ World Bank, Challenges and Directions for Reform, 2012

⁷ World Bank, A Public Expenditure and Institutional Review, 2012

III Macroeconomic framework and projections

Table 2: Macroeconomic indicators for period 2013-2018 for BiH

Indicator	Official data	Projections				
	2013	2014	2015	2016	2017	2018
Nominal GDP in million KM	28,027	28,195	29,146	30,465	32,188	34,182
Nominal growth in %	2.6	0.6	3.4	4.5	5.7	6.2
GDP deflator (previous year = 100)	101.9	100.0	100.7	101.3	102.0	101.7
Real GDP in mil KM (previous year = 100)	27,501	28,198	28,930	30,078	31,565	33,607
Real growth in %	0.7	0.6	2.6	3.2	3.6	4.4
Inflation measured by consumer price index in %	-0.1	-0.7	1	0.9	1.2	1.5
Consumption in mil KM	28,815	29,126	29,736	30,530	31,610	32,738
Real growth in %	0.0	1.5	1.7	1.8	2.1	2.2
Government consumption in mil KM	5,986	6,106	6,216	6,340	6,530	6,726
Real growth in %	-0.5	1.5	1.0	1.2	1.0	1.0
Private consumption in mil KM	22,829	23,020	23,520	24,190	25,080	26,012
Real growth in %	0.2	1.6	1.9	2.0	2.4	2.5
Investments (Gross) fixed capital formation in mil KM	4,703	5,256	5,787	6,463	7,158	7,989
Real growth in %	-1.2	10.6	8.4	10.4	9.0	9.7
Government investments in mil KM	1,041	1,302	1,497	1,721	2,014	2,357
Real growth in %	32.4	21.4	10.4	11.7	10.6	10.6
Private investments in mil KM	3,662	3,954	4,291	4,741	5,144	5,633
Real growth in %	-7.8	7.6	7.7	9.9	8.4	9.4
National Gross Savings in % of GDP-a	11.5	11.6	12.9	13.7	14.4	15.5
Current account balance in mil KM	-1,548	-2,087	-2,184	-2,330	-2,448	-2,719
Current account balance in % of GDP-a	-5.5	-7.4	-7.5	-7.6	-7.6	-8.0
Nominal imports growth in %	-1.8	7.2	6.2	4.6	4.5	5.2
Nominal exports growth in %	5.8	2.9	7.9	7.6	7.9	8.0

Real sector in BiH

Recent economic developments

Rise of the Euro area out of recession after two years of negative growth, falling global prices, deflation, floods in the second quarter, and unfavourable hydrological situation in hydro-power plants were the most important factors of economic growth in BiH in 2014. Although economic growth in our neighbourhood was quite modest with a rate of as low as 0.8% at the level of Euro area, this was still improvement relative to the 0.5% contraction in 2013.

Although not completely halted, recessions in Croatia and Italy weakened their pace and contracted to negative 0.5%, whereas the 2013 recession in Slovenia (1%) turned into a 2.6% real growth. In addition to Slovenia, Germany, one of our major trading partners and sources of cash inflows, also recorded a remarkable growth at a rate of 1.5%. The improved external environment significantly stimulated economic activity in the first quarter when we recorded real growth of 3.2% (y-o-y) despite deflation caused by the global fall in prices and decline in generation of electricity caused by unfavourable hydrological situation. Unfortunately, there

were severe natural disasters in May during which floods destroyed or temporarily incapacitated a great number of homes, agricultural yields, livestock, industrial facilities, mines, etc. This led to a sharp 1.2% fall in economic activity in the second quarter compared to the first one, i.e. a 0.5% decline relative to the second quarter of 2013. Even such heavy rainfall was not sufficient to compensate for the unfavourable hydrological situation in hydropower plants and halt decline in generation and exports of electricity. Some progress was made already in the third quarter when we recorded a mild annual economic growth of 0.6%. Available indicators show that further increase continued in the fourth quarter too so the expected economic growth in BiH at the end of the year should stand at 0.6%.

Growth 2015-2016

In the period 2015-2016, gradual recovery of external environment is expected to continue and strengthen economic growth in BiH. The expected strengthening of economic growth and employment in our neighbourhood should ensure significant growth of not only exports but domestic demand as well, which is mainly funded from foreign inflows. DG ECFIN forecasts estimate gradual strengthening of the Euro area at a rate of 1.3% in 2015, and 1.9% in 2016. Economic growth in BiH could also be positively affected by projected growth acceleration in Austria set at 0.8% in 2015, and at 1.5% in 2016. In 2015, growth in Germany should remain at the previous year's level, while the acceleration to a 2% rate is expected in 2016. In addition to gradual improvements in external environment, projections of the BiH economic growth in 2015-2016 also include the absence of natural disasters (droughts and floods) and normal hydrological situation in hydropower plants, with the usual rate of overhaul in the energy generation system.

Also, the expected stabilization of global prices should also put an end to deflation in 2015,

which posed a serious threat to BiH economic growth in the previous period. The inflation is expected to pick up in 2016 and thereafter. The above mentioned factors and assumptions should lead to gradual strengthening of BiH economic growth at a rate of 2.6% in 2015 and 3.2% in 2016. Gradual normalization of the situation and turning the economic trends upwards indicates that this growth should be primarily driven by domestic demand with modest negative contribution of the foreign trade deficit. In other words, the expected gradual increase in number of employments and real wages driven by manufacturing and exports, increase of cash remittances from abroad, foreign direct investments, etc. should fuel 1.7% growth in final consumption and 8.3% in investments in 2015. This also includes a significant 10.4% real growth in general government investments followed by a slight real growth in government spending. Similar growth is also expected in 2016, when final consumption is set to grow at a real rate of 1.8% and investments of 7.4%. A significant real exports growth is, meanwhile, expected to reach 6.8% in 2015, followed by a deceleration set at 6% in 2016 as a consequence of the base effect from the previous period. On the other hand, an 8.2% high real imports growth in 2014, which was mainly a consequence of increased imports dependence (considering that a significant portion of domestic production capacities were, at least temporarily, disabled), should decrease in the upcoming period. This is why a significantly lower imports growth of 5.7% is foreseen in 2015, i.e. 4% in 2016. This, given the relatively stable growth in domestic demand, boosts the overall economic growth in this period.

Growth 2017-2018

In the period 2017-18, further gradual strengthening of BiH economic growth is expected, primarily as a consequence of more favourable external environment. Hence, a 3.6% growth is projected for 2017, followed by

further acceleration set at 4.4% in 2018. Similar to previous couple of years, this growth acceleration is primarily expected to be driven by domestic demand, with negligible impact of foreign trade balance.

Industrial production in BiH 2015-2018

Overview of industrial production in BiH in 2014

During the past several years, developments in BiH industrial output were determined by mutual interaction of a number of internal and external factors. Changes in domestic demand were less significant and mainly reflected in energy sector, mining and a small portion of processing industry, whereas developments on the export markets played a primary role and practically fully determined the developments in BiH industrial output. According to preliminary data of BHAS for 2014, BiH recorded a stagnation in physical volume of industrial output.⁷ The stagnation of BiH industrial production is a consequence of extremely difficult conditions for doing business throughout the entire year. Namely, in addition to many accumulated problems, industrial output in BiH was affected by natural disaster and floods in May 2014, which mostly determined the output level at the end of the year. Along with domestic challenges in 2014, BiH industry was exposed to quite stagnant business activity in its immediate international economic environment, characterized by weak export demand and fall in global prices of commodities.⁸

Observed chronologically, after the encouraging 4.5% growth of industrial output in the first quarter of 2014, as early as in the second quarter the May floods led to an abrupt downfall in production which, despite some positive

developments in the second half of the year, could not achieve a significant recovery by the end of the year.

Observed by sectors, positive contribution to industrial production was achieved only in the domain of the processing industry which, despite the great challenges throughout 2014, recorded a 3.8% annual output growth compared to the previous year. On the other hand, electricity generation sector, due to high base from the previous year and low level of generation in hydropower plants during 2014, recorded an annual decline of around 10% and thereby curbed the industrial production growth in BiH. In 2014, the mining sector, which includes mining coal, metal and other ores, and makes up around 13% of overall industrial production in BiH, recorded a production decline of approximately 2% and hence negatively affected the overall BiH industrial production.

Assumptions of industrial production for 2015

DG ECFIN forecasts for 2015 suggest partial improvements in economic activity and mild strengthening of economic growth (1.7%) in EU countries relative to the previous year.⁹

Short-term indicators show that economic activity in EU is at somewhat higher level relative to the previous year, thus industrial output in EU compared to January of the past year increased by 1.5%.¹⁰ All these developments in international economic environment should have positive implications for the region and ultimately Bosnia and Herzegovina as well. Accordingly, gradual recovery of industrial production in BiH can be expected throughout 2015. During 2015, BiH is expected to remedy damages caused by floods to a large extent so as to make the overall

⁷ Agency for Statistics BiH, Release, "Index of Industrial Production Volume in Bosnia and Herzegovina for December 2014", 26 January 2015.

⁸ European Commission, Directorate –General for Enterprise and Industry, "Industrial Policy Indicators and Analysis", n.10/2014

⁹ European Commission, Directorate –General for Economic and Financial Affairs, "European Economic Forecast", 2015

¹⁰ Eurostat, "Euroindicators-industrial production" 12 March 2015.

business environment more favourable relative to the previous year. On the other hand, the industrial production in BiH, which is mainly export-oriented, should be supported by positive developments in international economic environment, particularly trade partners from the EU. Recovery of almost all sectors of the EU economy will reflect positively on production processes in the broader region and in Bosnia and Herzegovina as well. Increased level of export demand will result in improving production in all BiH sectors of industrial production where, according to DEP projections, the expected annual growth of production is set at around 4.8%.¹¹ Branches of industry with highest share in the structure of processing industry of BiH and which are mainly export-oriented (metal industry, machine and automotive industry, wood industry and production of furniture, and chemical industry) should additionally use their export potential during 2015. On the other hand, process of reconstruction of the flooded areas and continuation of the investment cycle in infrastructure throughout 2015 should result in significant expansion of production in the industries driven by domestic demand (production of construction materials and metal outputs).

In 2015, the energy sector, which plays an important role in overall industrial production and includes mines, energy generation sector and production of petroleum products is expected to achieve an increase in production of over 5%.

¹¹ DEP Projections, March 2015

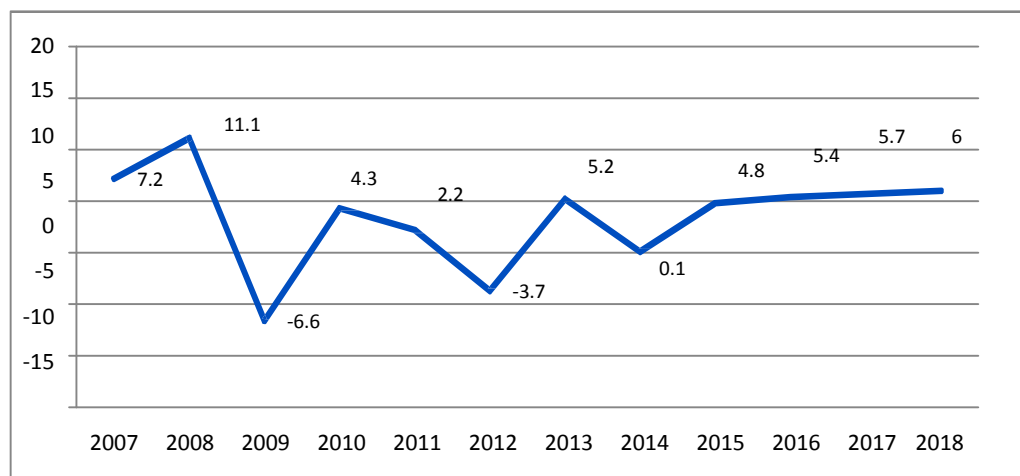
Assumptions of industrial production for the period 2016-2018

Given that full recovery of most industries in the EU is expected in the period 2016-2017, it is realistic to expect that these developments will enable full recovery of industrial production in BiH too. Full consolidation of the EU market is expected in this period, recovery of private

consumption, overcoming of problems regarding financing of companies and more intense foreign trade among the EU countries. These positive developments in the immediate neighbourhood should result in better utilisation of industrial capacities in BiH. It is expected that this better utilisation of capacities will lead to increased number of employees and ultimately to increased production in the BiH processing industry reaching the level of the pre-crisis period when BiH achieved record growth rates in the region. Planned investments in infrastructure and energy sector should also significantly contribute to strengthening of the BiH construction sector and those branches of the processing industry that are closely related to construction sector. It is also expected that the energy sector, as one of the drivers of industrial production in the previous period, will continue an upward trend of output growth and additionally strengthen the BiH industrial production in the aforementioned period.

Important contribution to improvement of industrial production in BiH and strengthening its competitive position should be given by concrete measures of the entity governments contained in the sector-based strategies. According to DEP estimates, this should result in annual increase in industrial production of over 6% as compared to the previous year.

Graph 1: Industrial production growth in BiH in the period 2007-2018



Source: BHAS¹ and DEP Projections, March 2015

Labour market in BiH

Labour market in 2014

In 2014, the labour market in BiH registered signs of gradual recovery. The average number of employed persons in BiH has increased by 1.7% y-o-y to stand at 701.6¹² thousand. Growth intensity in the number of employed persons was faster as compared to 2013 while the average number of the unemployed persons declined for the first time since 2009 (0.5% y-o-y). In 2014, the administrative rate of unemployment in BiH has decreased by 0.6 p.p. and equals 43.9% (the survey rate is 27.5%). The highest increase in employment was recorded in the sectors of processing industry, accommodation and food catering services. The average net salary in 2014 was KM 830 with a nominal increase by 0.4% y-o-y. In addition, real wage growth was slightly higher due to deflation. Pensions have increased in both BiH entities. In 2014, the average pension in BiH stood at KM 353¹³ and nominally higher by 4.9% as compared to 2013.

Labour market - projections 2015-2018

A decrease in the number of unemployed

¹² Provisional data. Source: BHAS.

¹³ The average pension in BiH is calculated based on entity level of pensions weighted by ratio of the total number of pensioners in each BiH entity.

persons in BiH recorded in January 2015 (followed by increase in employment) points to the continuation of the labour market recovery process in 2015.¹⁴ The EU labour market is also expected to see a moderate decrease in unemployment and increased number of employed persons, with faster economic growth relative to 2014.¹⁵ The same as in previous years, labour market recovery should be determined by volume of investments, foreign trade and general business climate. With the assumed economic growth in 2015¹⁶ BiH is also expected to gradually reduce the unemployment rate. Employment in BiH should be on the rise relative to 2014, whereas growth intensity will be mainly determined by employment in private sector (due to budgetary restrictions in public administration). In the domain of net wages, moderate growth is expected relative to 2014, namely the amount of the average net wages in BiH should be predominantly determined by the volume of business activity and wages in

¹⁴ In January 2015 the number of the unemployed declined by 1.1% y-o-y while the employment rose by 2.1% y-o-y.

¹⁵ Source: EC, European Economic Forecast, Winter 2015.

¹⁶ DEP projections

private sector¹⁷. Average wage and the number of employed persons in BiH in 2015 could rise by 0.5% and 1.7% y-o-y respectively.

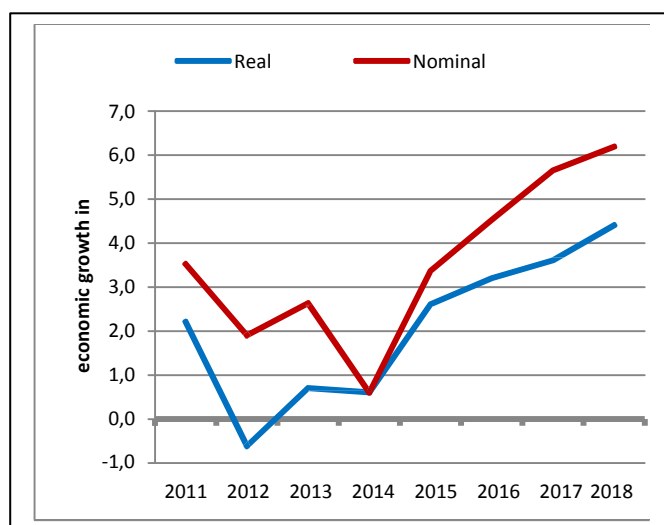
In 2016., with the assumed economic growth, positive developments in the BiH labour market can be expected to pick up. According to the latest forecasts of the European Commission, the unemployment rate in the EU is expected to decrease and the employment increase, along with economic growth driven by investments and trade.¹⁸ This would enable greater volume of BiH companies' operations (with increased demand) and general business climate should be more favourable. All the aforementioned should create conditions for increase in net wages and the number of employed persons. The assumed average net salary could rise by 1.5%, while the number of employed persons could increase by 1.8% y-o-y.

Positive developments in the labour market are expected to continue in 2017 and 2018. Rising volume of investments, trade and industrial output should have a positive impact on new jobs and increase in average net salaries. Employment in private sector should continue to rise at a faster rate than in public sector. Based on the above mentioned, the number of the employed in BiH is expected to increase around 2% in 2017, i.e. 2.1% in 2018. Rise in volume of business activities of the BiH companies should positively affect the salaries of the employed too. The average net salary in BiH is assumed to increase by 1.9% in 2017, i.e. 2.1% in 2018.

¹⁷ Private sector in the analysis includes all areas of activities except public administration, health and education.

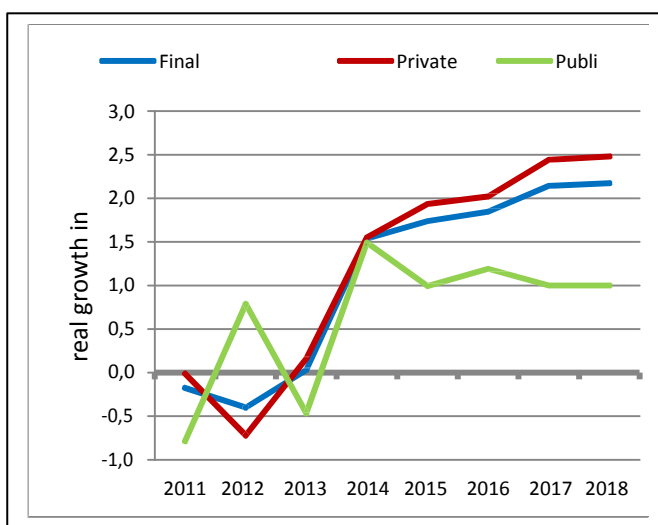
¹⁸ Source: EC, European Economic Forecast, Winter 2015.

Graph 2: Real and nominal growth



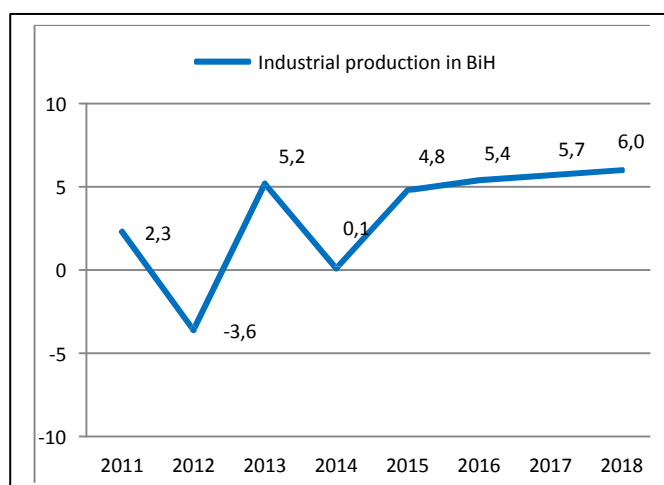
Source: DEP Calculations

Graph 3: Final consumption, private, public



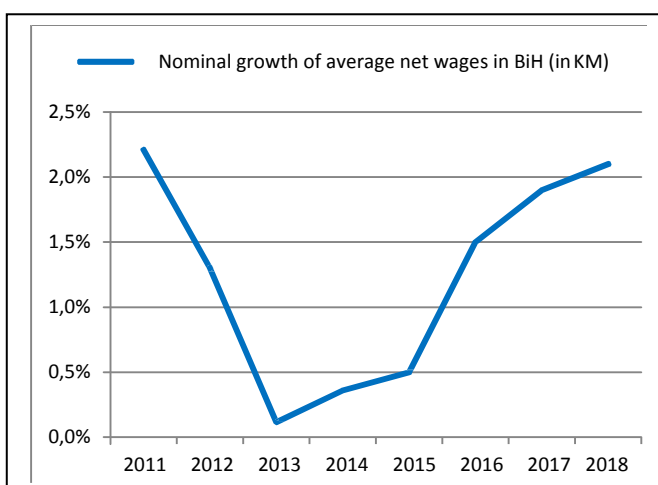
Source: DEP Calculations

Graph 4: Industrial production in BiH



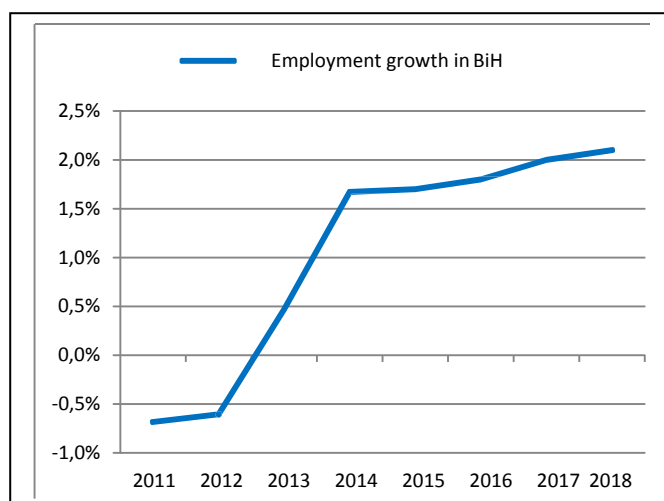
Source: DEP Calculations

Graph 5: Growth of average net wages in BiH



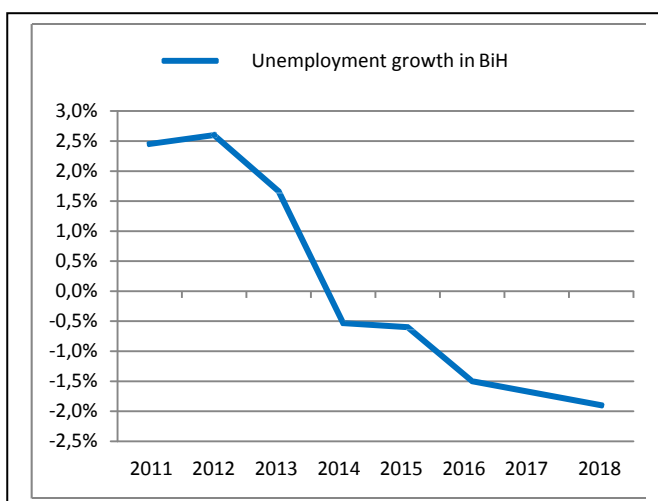
Source: DEP Calculations

Graph 6: Growth of employment in BiH



Source: DEP Calculations

Graph 7: Growth of unemployment in BiH



Source: DEP Calculations

Prices - assumptions 2015-2018

Prices in 2014

Deflation recorded in BiH in 2014 stood at 0.9% y-o-y. The fall in the general price level was mainly determined by external factors such as global prices of oil and food, while the impact of domestic factors was somewhat lower. In 2014, the prices in BiH mostly fell down in the items of food and non-alcoholic beverages, transport, clothing and footwear. Prices of food and non-alcoholic beverages were reduced by 2.7% y-o-y. Global oil prices affected the fall in the item of transport by 1% y-o-y. With regards to housing, water utilities, electricity, gas and other energy supply utilities there was a 0.3% y-o-y deflation. Prices of electricity have not changed significantly (except for seasonal changes) while prices of gas dropped by 5.3% y-o-y as a consequence of price fall in Q4 2013. The only item with significant rise in prices was alcohol and tobacco (6.9% y-o-y) due to increase in excise duties on cigarettes and tobacco in 2014.

Prices – projections 2015-2018

Given the impact of global energy products and food on the BiH prices, in developing projections for the observed period, we have taken into consideration the assumptions on price fluctuations of the said products (external factors). We have also included domestic factors that may contribute to changes in prices (excise duties, prices of utilities, etc.). According to the European Commission's forecasts¹⁹ oil prices in the global market in 2015 should be slightly lower than in 2014. It is similar with the prices of food and gas, which should also be lower in the observed year.²⁰ According to the above stated, EC foresees the inflation in the EU to stand at 0.2% in 2014. Given the trends in prices of energy products and food in the global market,

significant rise in general level of prices in BiH is not expected either. Out of domestic components that contribute to rise in prices, we have taken into account the latest increase in excise duties²¹ on cigarettes and tobacco, which a continuation of excise harmonisation with the EU regulations. We have also taken into account rise in prices of electricity. In the period of development of projections there were no announcements of rise in prices of other utilities. Given the aforementioned, prices in BiH are expected to see a modest rise of 0.2% y-o-y.

In 2016, according to projections of²² EC and World Bank, prices of energy products and food in the global market are expected to stabilise. After a fall in 2015, prices of oil and gas should gradually increase.²³ It is similar with the prices of food which would see a mild increase. The aforementioned changes may affect the inflation level in EU, which could go up relative to the previous year (see Table below). The said changes in 2016 are also expected to affect rise in prices in BiH. In developing the projections, we have taken into account an ongoing process of harmonisation of excise duties on cigarettes and tobacco in BiH with the EU regulations, so the expected inflation in 2016 is set at 1% y-o-y. Given that the World Bank projections foresee stable and moderate increase in prices of food, oil and gas in 2017 and 2018, the assumed inflation in BiH could be set to somewhere between 1.3% and 1.5%.

¹⁹ Source: European Economic Forecast, Winter 2015

²⁰ Source for projections of gas prices, IMF, Price forecast, January 2015; For food prices – EC forecasts.

²¹ Increase in excise duties on cigarettes and tobacco in 2015. Minimum excise per pack of 20 cigarettes is KM 2, while a special excise for the same pack equals KM 1.05. Excise on smoking tobacco is set in the amount of KM 80 per kilogram. Source: Decision on Determination of Special and Minimum Excise Duty on Cigarettes and Smoking Tobacco for 2015

²² European Economic Forecast, Winter, 2015 and Commodity Price Forecast, January 2015

²³ Source: World Bank and European Commission

Table 2: Assumptions of oil and food prices and inflation in BiH and EU

	2014	2015	2016	2017	2018
Crude oil (Brent, \$)	99.7	53.0	61.5	n/a	n/a
Index of food (growth rate y-o-y)	-3.7%	-5.7%	0.7%	n/a	n/a
CPI BiH	-0.9%	0.2%	1.0%	1.3%	1.5%
CPI EU	0.6%	0.2%	1.4%	n/a	n/a

Source: For CPI EU, oil and food, European Economic Forecast, Winter 2015. For CPI BiH, BHAS and DEP projections 2015-2018

Monetary sector in BiH in period 2015-2018

In 2014 the total money supply reached the amount of KM 17.4 billion recording a 7.8% increase compared to 2013. All deposits comprising money supply, as well as currency outside banks recorded positive growth y-o-y. The total money supply growth was mostly accounted by other and transferable deposits in domestic currency (2.4 p.p. and 2.2 p.p. respectively), followed by currency outside banks (1.7 p.p.), other deposits in foreign currency (0.8 p.p.) and transferable deposits in foreign currency (0.7 p.p.)²⁴. The table below provides a detailed overview of monetary aggregates' movements.

Despite expectations that floods in May and August 2014 would decelerate growth of deposits, and due to minor positive developments in the labour market, the total deposits recorded faster growth by 1.6 p.p. relative to 2013²⁵. Since this growth was mainly generated by the household sector, behaviour of this sector in the upcoming period is expected to mostly affect the developments in the total deposits and money supply.

Economic growth in BiH is expected to continue in the period 2015–2018, thereby its positive impact on development of monetary sector too, i.e. deposits are estimated to go on growing (comprising M2) as well as cash outside banks. Growth rate of M2 could range from 4%-6% y-o-y.

²⁴ Transferable deposits comprise demand deposits etc., while other deposits include saving, time deposits etc.

²⁵ In 2014, 83.8% of total money supply comprised deposits and 16.2% cash outside banks.

Foreign currency reserves in BiH

Foreign currency reserves reached KM 7.8 billion at the end of 2014, recording a 10.7% increase compared to end of 2013. Although exports growth was much slower than imports growth in 2014, new inflows from the Stand-By Arrangement with the IMF in the second half of the year, and other new foreign borrowings, as well as inflows in the form of personal transfers etc., lead to faster growth of foreign currency reserves in 2014 compared to the year before.

Although economic growth and development depend on many factors within the country, a small and open economy such as BiH is also equally affected by development of its foreign trade partners. And, of course, our largest foreign trade partner is EU. According to IMF and EC forecast²⁶ the Euro area and EU will record positive but still modest economic growth. Developments in the BiH foreign trade exchange, new public sector borrowings and repayment of public external debt, as well as inflows in the form of employees' compensations, personal transfers, etc., will affect the developments in foreign currency reserves. However, growth could be expected to slow down compared to 2014.

²⁶ Source: European Commission, "European Economic Forecast – Winter 2015", February 2015, p. 150, 160; International Monetary Fund, "World Economic Outlook Update", January 2015.

Forecast of banking loans and deposits growth trends for period 2015– 2018

Banking sector achieved positive financial result of KM 177.6 million in 2014²⁷. Despite a slight decline in total revenues (-0.7% y-o-y), strong cuts in total expenditures (13.8% y-o-y) lead to positive performance of the overall banking sector. Lending activity is still modest, so total loans recorded a 2.8% growth, similar to growth in 2013. On the other hand, total deposits recorded a much higher increase relative to the previous year (8.5% y-o-y) due to expansion of household sector deposits and general government deposits.

According to DEP estimates, the BiH economic recovery is expected to continue in 2015 (expansion of foreign trade exchange, final consumption and investments). Gradual decrease of the number of unemployed persons is expected to be followed by rising number of the employed ones and moderate rise in net wages (in nominal terms). However, since any significant steps forward in net wages are not expected, the pressure on household income could be present in 2015 too. But, disposable household income is also largely affected by current remittances from abroad, which support one part of population, and which are not expected to turn downwards in the upcoming period. All these factors combined should not lead to any significant changes in household deposits relative to 2014 and thereby in total deposits either²⁸. On the other hand, a slight rise in final consumption is expected in 2015, partly financed by bank loans.

However, loan developments will be conditioned both by demand on the one hand and supply on the other hand. Loan supply will

largely depend on developments in domestic deposits, given a trend of decreasing of foreign liabilities of the banks over the past several years, i.e. there is a trend of reduced exposure of foreign banking groups in BiH²⁹. The supply will also depend on the quality of the loan portfolio, which recorded a slight improvement in 2014. There will not be stronger lending to BiH sectors in 2015, but it should grow up relative to 2014.

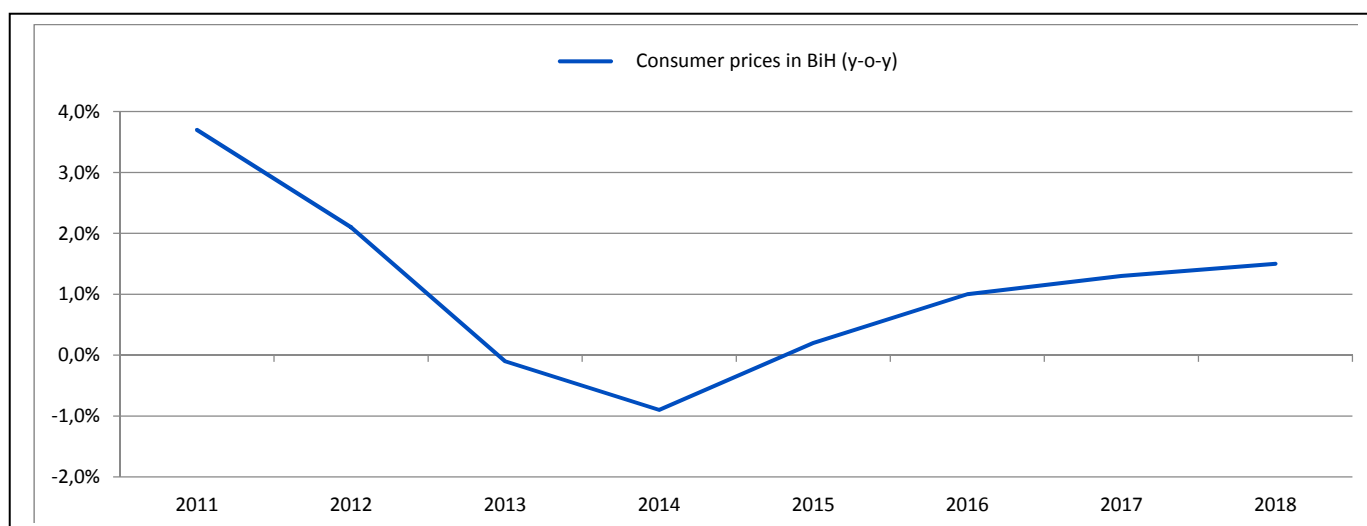
In the period 2016 – 2018 increased demand for BiH products from its foreign trade partners is expected to continue as well as strengthened domestic demand, which will have positive effects on the BiH foreign trade. It is also expected that there will be a growth in industrial production and investments, as well as further stabilisation of the labour market in this period. These developments should positively reflect on the activities of the banking sector too. Growth of loans could reach between 5% - 6%. Similar annual growth rates can be expected on the deposit side too (6% - 8%).

²⁷ The total financial result, total revenues and expenditures and other data from the profit and loss statement are unconsolidated. Source: Entity-level Banking Agencies.

²⁸ Household deposits make the highest share of total deposits, and thus have the highest impact.

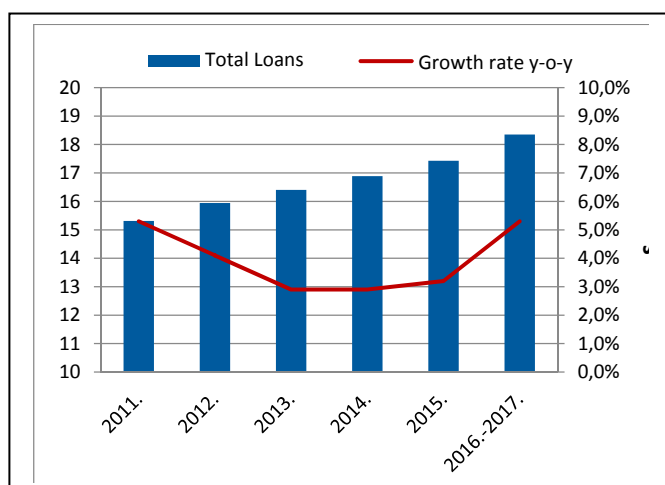
²⁹ Source: CBBiH, data on foreign assets and liabilities of commercial banks in BiH.

Graph 8: Consumer prices in BiH (y-o-y)



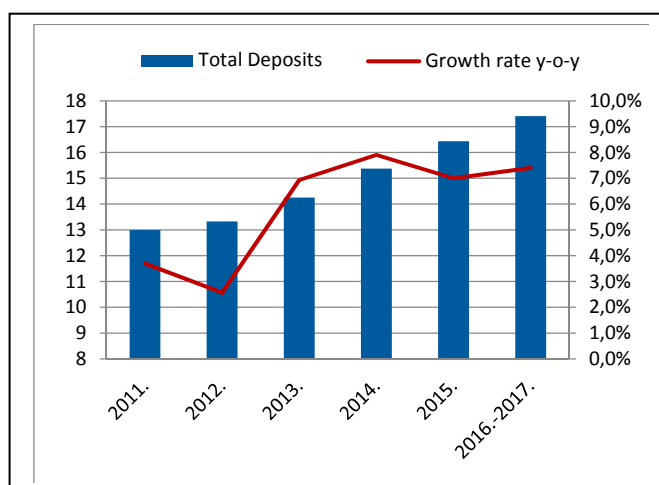
Source: DEP Calculations

Graph 9: Total loans and growth rate of loans y-o-y



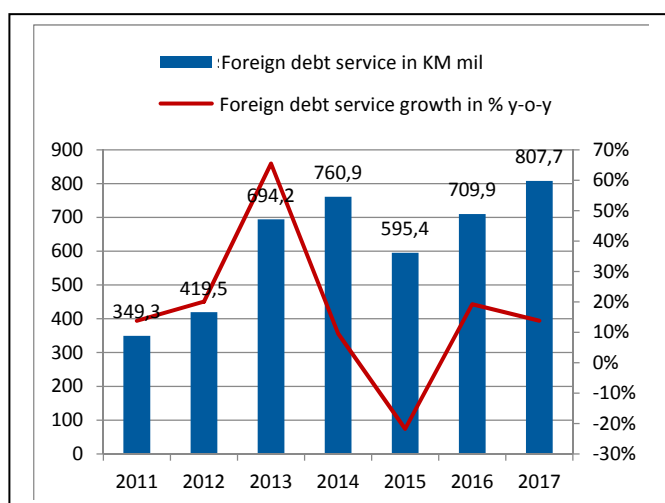
Source: DEP Calculations

Graph 10: Total deposits



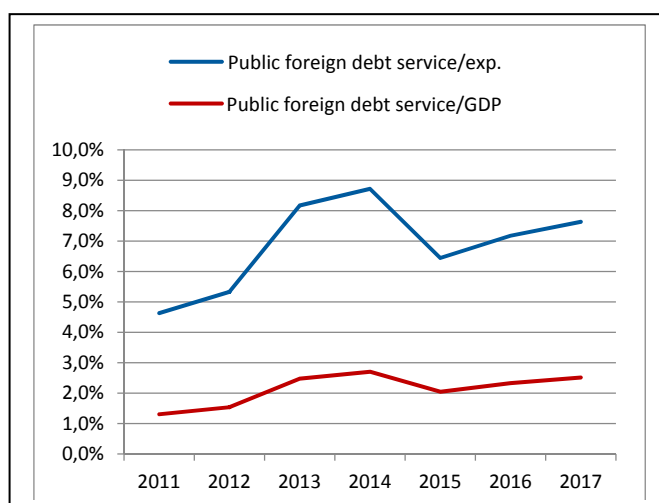
Source: DEP Calculations

Graph 11: Foreign debt servicing



Source: DEP Calculations

Graph 12: Public external debt servicing



Source: DEP Calculations

External sector

Balance of payments in BiH

According to data available for 2014, the current account deficit within balance of payments

position of Bosnia and Herzegovina amounted to KM 2,064 billion, which is a 36.8% higher than in 2013. This current account deficit increase was caused by rise in imports of goods and services by 7.2% and increase in exports by 2.9% in the observed period.

Table 3: Projections of the BiH current account deficit for period 2014-2018

Expressed in KM million	2014	2015	2016	2017	2018
CURRENT ACCOUNT	-2,064	-2,121	-2,213	-2,278	-2,495
1. IMPORT	15,532	16,491	17,242	18,020	18,964
2. EXPORT	9,256	10,008	10,799	11,677	12,628
3. CURRENT TRANSFERS	4,212	4,362	4,230	4,065	3,840
4. CAPITAL ACCOUNT	516	531	542	558	575
In percentages (%) GDP	2014	2015	2016	2017	2018
CURRENT ACCOUNT	-7.4	-7.5	-7.6	-7.6	-8
1. IMPORT	53	54.5	54.5	53.9	53.4
2. EXPORT	30.7	32.0	33.0	33.7	34.2
3. CURRENT TRANSFERS	14.9	15.0	13.9	12.6	11.2

Source: DEP Projections

Assumptions for balance of payments 2015-2018

DEP projections foresee expansion in volume of foreign trade in the period 2015-2018, with significant rates of nominal growth of imports (4.5-6.2%) and exports (7.6-8%), which would affect deepening of deficit in the BiH current account. In the period 2015-2017 current account deficit would record modest growth (2.8-4.3%) relative to 2014, but already in 2018 the growth of current account deficit may rise by around 9.5%.

Financing current account is expected to be largely enabled by financial inflows from abroad (through social benefits and remittances from citizens living abroad, foreign direct investments and items – other investments).

Review of foreign trade in BiH over 2014

Weather conditions and floods that struck BiH in May 2014 on the one hand and modest economic growth of its main trade partners (weak export demand) as well as low level of global commodity prices on the other hand, largely determined the level and developments in the BiH foreign trade exchange. Despite all these challenges, BiH managed to increase its total foreign trade exchange in 2014 relative to the previous year. This increase in foreign trade balance in 2014 was a result of simultaneous growth of both imports and exports, with imports growth rate twice higher than exports due to increase in domestic demand. This eventually resulted in decline in coverage of imports by exports, and increase in deficit, while foreign trade commodity exchange gave negative contribution to economic growth in BiH in 2014.

Throughout 2014, BiH exports were exposed to great domestic (May floods) and external (unfavourable international environment) challenges. Despite these challenges, the achieved real growth of total exports of goods and services reached 3.8%. We should also emphasise that movements in exports of goods and exports of services were quite equal with respective growth rates of 3.9%, i.e. 3.8%.³⁰ The highest contribution to growth of exports was accounted by the category of intermediate products, which traditionally take the highest share of around 38% and thereby the greatest impact on BiH exports. Traditionally export-oriented industries classified within this category are base metals, wood and chemical products. Although capital products account for around 14% in total BiH exports, significant progress was achieved in this category in 2014 relative to the previous year. This rise in exports of capital products in 2014 was achieved due to double digit growth rates of exports of machines and appliances as well as car components where car seat parts play a predominant role (car upholstery). Categories of durable and non-durable consumer goods also contributed to BiH exports growth in 2014, with highest rates in furniture and footwear production. On the other hand, the most important contraction of exports, or rather negative contribution to BiH exports growth was achieved in categories of aluminium, food and electricity.

In the course of 2014, Bosnia and Herzegovina registered an 8.2% real growth of total imports of goods and services relative to the previous year. A 2.8% strengthening of domestic demand (expansion of final consumption and investments) resulted in real increase in imports of goods by 8.2% while imports of services in 2014 reached somewhat higher growth rate of 8.8%. The highest increase in BiH imports in 2014 was accounted by capital products, primarily due to rise in total investments. Positive contribution to BiH imports growth was

also achieved in all other import categories, except for energy. Reduced imports of energy products in BiH, where the most significant share is accounted by oil and petroleum products, is a consequence of contraction in oil production and drastic fall in oil prices at the global market relative to the previous year.

Assumptions of foreign trade movements in BiH for period 2015 - 2018

Currently available short-term indicators suggest to expansion of business activities in the EU countries while, according to DG ECFIN forecasts from February 2015, the Euro area is expected to see economic growth of 1.3% relative to the previous year. According to DG ECFIN report, low oil prices, the depreciation of euro and quantitative easing - *Extended Asset Purchase Programme* by ECB, as well as *EU Investment Plan* will represent the main mechanisms for reviving economic activity and accelerating foreign trade both within the EU and with third countries.³¹ These measures are expected to bring positive effects to foreign trade in the region. This expansion of export demand in 2015 should result in increase in foreign trade exchange in BiH. Strengthening of export demand is expected to lead to expansion of production in the processing industry and finally result in a 6.8% increase in real growth of BiH exports of goods and services in 2015.³²

In addition to the processing industry, positive contribution to exports growth in 2015 is also expected in the electricity generation sector, where, due to increased generation, exports are expected to rise by around 10%. On the other hand, the expected rise of private consumption and investments, and acceleration of economic activities should result in real increase of imports of goods and services by 5.7% relative to the previous year. This should finally result in

³⁰ Central Bank of Bosnia and Herzegovina, data from Balance of Payments for 4 Quarter of 2014.

³¹ European Commission, Directorate –General for Economic and Financial Affairs, “European Economic Forecast”, 2015

³² DEP Projection, March 2015

mild growth of foreign trade deficit by 4.2%, whereas coverage of imports by exports would slightly improve to 58.8%.

The period **2016-2018** is expected to see stabilisation of economic developments and steadier economic growth, followed by rebound of both domestic and foreign demand for goods. This growth should result in expansion of foreign trade and somewhat higher rates of exports of goods relative to imports. The main exporters in this period should be traditionally export-oriented branches of the BiH processing industry (base metals, wood processing and furniture industry and production of car components). Taking into account the importance of energy generation sector in the structure of BiH exports, as well as foreseen putting into operation of new generation capacities within this sector, we may expect more significant contribution of this sector to growth of total BiH exports. The expected rates of real growth in exports of goods and services in the period 2016-2018 could amount to 6.0%; 5.4% and 4.7% respectively. On the other hand, rising domestic demand, followed by increased employment and wages, would lead to growth in imports of goods. Rates of real growth in imports of goods and services in the period 2016-2018 could amount to 4.0%; 3.5% and 3.2% respectively. Hence, in the observed period, due to somewhat faster growth of exports and rise of its share in GDP relative to imports, we can expect stabilization of foreign trade deficit and better coverage of imports by exports on the long run.

Foreign direct investments in BiH for period 2015- 2018

According to CBBiH, foreign direct investments after nine months of 2014, stood at KM 554.5 million (and almost achieved the foreseen amount of KM 600 million for 2015), which is 20% higher than in the same period of the previous year. The most important investment covered by this forecast is the EFT Group's

investment in construction of TPP Stanari and the expansion of the existing mine (over KM 105 million in the first nine months). The EFT Group signed the concession contracts for construction of TPP Stanari and the expansion of the existing mine (construction contract with Dongfang Electric Corporation). At the same time, the HPP Ulog will be constructed too (contract with the Chinese company Sinohydro). The total investment in these projects will reach KM 1.2 billion by the end of 2017. Following the existing dynamics of the investment, the EFT Group would secure up to KM 300 million in 2015. There were no significant FDIs in the course of the year from the privatization process.

Investments in 2015 could amount to KM 880–940 million. Observing positive trend of rising FDIs from the previous year and further acceleration of economic growth in the countries of the region, the investments could be even higher in case realization of the announced energy projects would start in the Heat and Thermal Power Plant Zenica (total value of KM 500 million) and in TPP Ugljevik 3 (total value of over KM 1 billion). As early as in July 2013, KTG Zenica signed a contract with the Chinese company SEPCO III for the construction of the Heat and Thermal Power Plant Zenica. SEPCO III should finalise the HTP Zenica according to the turnkey system within 29 months, with the overall planned investment in the project of KM 500 million.

In RS, the beginning of the construction of the TPP Ugljevik 3 is planned in the total amount of around KM 1.4 billion over the period of 3-4 years, while the works should be carried out by a jointly established company "Comsar Energy RS" where the 90% owner is the "Comsar Energy Ltd" and the 10% owner is the "Mine and Thermal Power Plant Ugljevik". The construction contract is signed with the Chinese "China Power Engineering Consulting Group Corporation (CPECC)", whereas, according to the plan, the full technological and engineering

process of the construction will be managed by the American company "Black and Veatch". By now, the amount of KM 63 million was invested in feasibility studies, preparation activities and getting permits, but there is evident delay in beginning of the main facility construction. Thus, the total investment in electricity sector could reach KM 690 million in 2015. According to the adopted 2015 privatisation plan in the Federation BiH, there is a plan for the sale of the share of the state-owned capital in public companies (according to book value in the amount of KM 770 million). Based on negative experiences by now and failed sales of offered companies, significant FDIs from foreign investors cannot be expected.

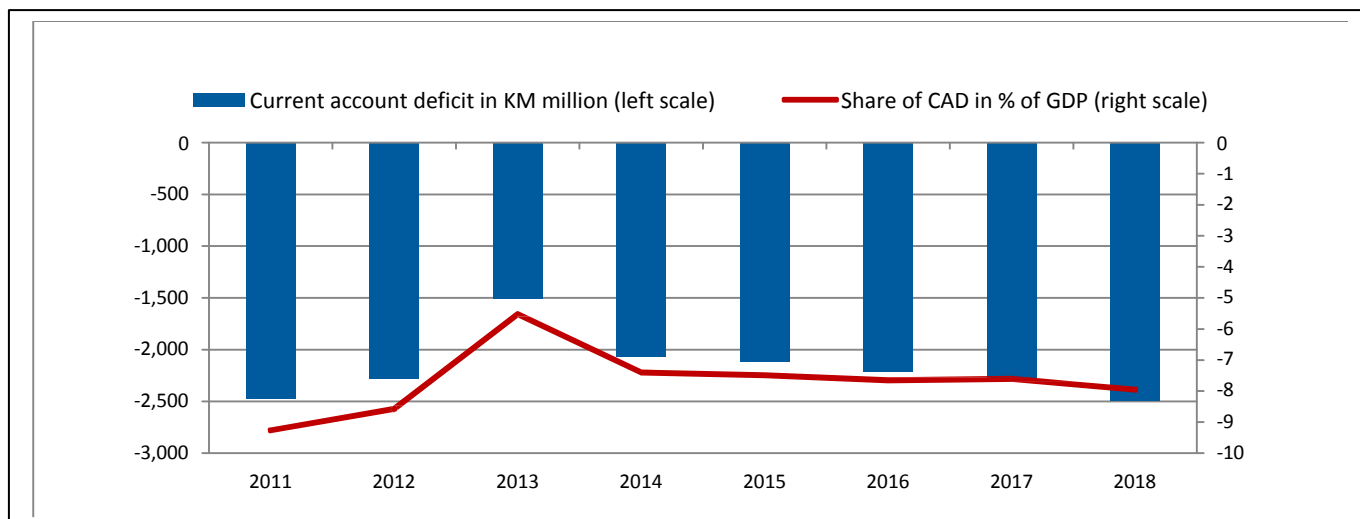
Foreign direct investments in 2016 could amount to KM 980-1,080 million. In addition to investment in electricity generation sector, significant foreign funds could be brought by investment in highways. There is a plan for the construction of the highway section between Doboju and Zepce where, on the basis of the awarded concession (according to the D-B system –Design and Build) the needed funds could be secured in the total amount of EUR 380 million, which would be successively paid in line with the construction of the sections in the coming period. The construction of the highway section between Doboju and Vukosavlje has been planned where the needed funds in the amount of around EUR 350 million would be secured on the principle of the public-private partnership. Thus, the FDIs in these highway sections on an annual level could amount from EUR 100 to 200 million.

Foreign direct investments in 2017 could reach the amount of KM 940 –1,040 million. Along with continued investments in electricity generation facilities and highway sections (KM 440 million in electricity generation sector and KM 200 million in highways) a possibly feasible and interesting project appears to be investment in Cement Factory Banovici in the total value of KM 400 million. The feasibility

study indicates to the minimum transport costs of input raw materials, which would be provided from the thermal power plant and the mine as by-products of marl-rich coal combustion required for cement production. In addition to low costs of raw components as by-products of the thermal power plant used for cement production, there is also high-calorific coal from the mine as well as the road and electricity infrastructure. If, according to the plan, a strategic partner is found in time, the construction could be finalized by the end of 2017, i.e. the beginning of 2018.

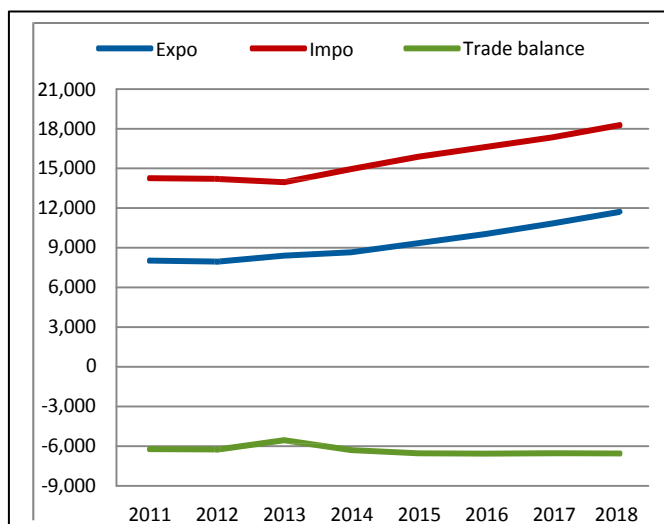
Foreign direct investments in 2018 should reach the amount of KM 910-1,010 million. Investment in electricity generation sector should reach up to KM 310 million, along with the continued investment in construction of highways. It should be noted that this projection does not include realisation of the project of energy generation system HPS Gornja Drina (the contract on strategic partnership in research, development, construction and utilisation of hydro-potentials of the upper basin of the river Drina between "Elektroprivreda RS" and the German company "RWE-Innogy" was terminated). It also does not include the investment in the project HPS Donja Drina. So far, the RS Government has signed an agreement with the American company "NGP" on research and development of feasibility study on hydro-potentials of the lower basin of the river Drina ("HPS Donja Drina" with hydro power plants "Kozluk", "Drina 1", "Drina 2" and "Drina 3") with the total installed capacity 365 MW and the overall investment in the amount of EUR 1.3 billion). There is also a possibility of beginning of the construction project TPP Kakanj Block 8.

Graph 13: Current account deficit, Share of Current account deficit in GDP



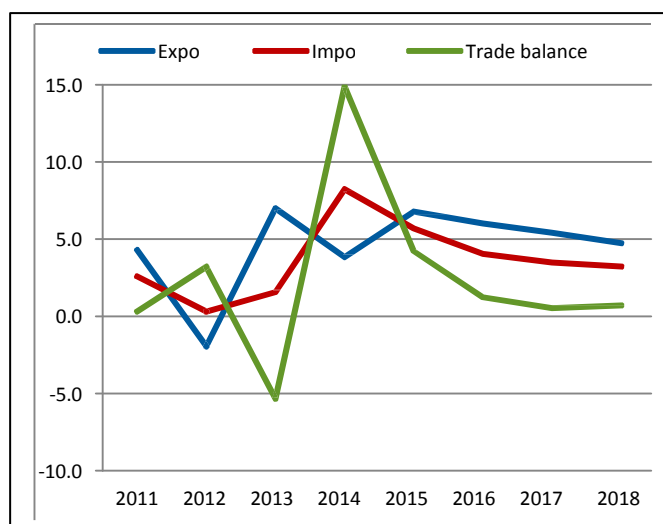
Source: DEP Calculations

Graph 14: BiH Trade balance



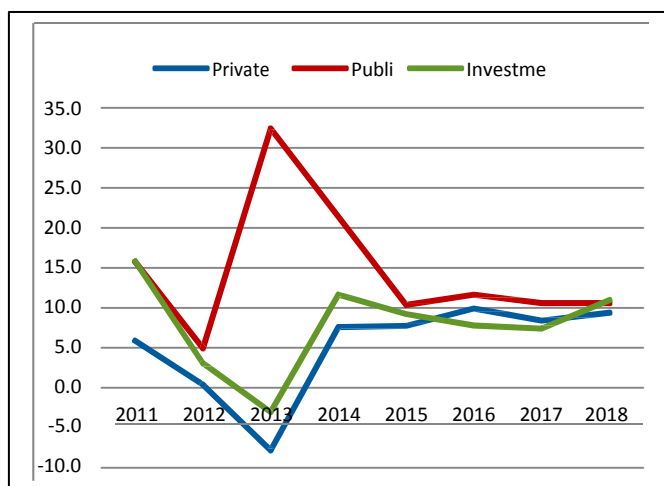
Source: DEP Calculations

Graph 15: BiH Trade balance



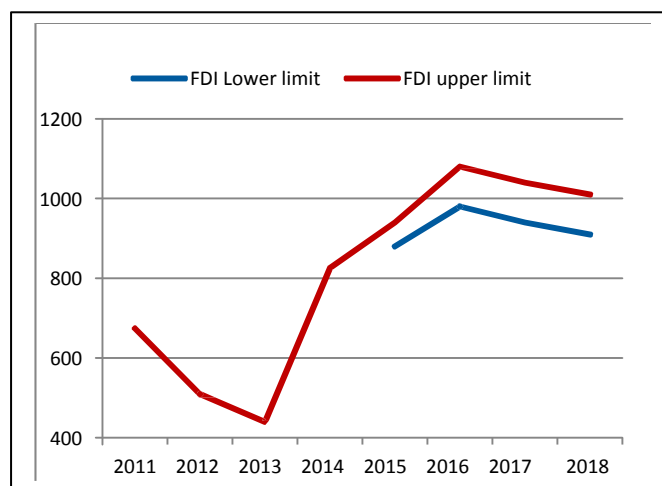
Source: DEP Calculations

Graph 16: Investment in BiH



Source: DEP Calculations

Graph 17: Foreign Direct Investments in BiH



Source: DEP Calculations

ALTERNATIVE SCENARIO

Table 4: Macroeconomic indicators 2015-2018

Indicator	Official data	Projections				
	2013	2014	2015	2016	2017	2018
Nominal GDP in million KM	28,027	28,195	28,824	29,909	31,324	33,047
Nominal growth in %	2.6	0.6	2.2	3.8	4.7	5.5
GDP deflator (previous year = 100)	101.9	100.0	100.7	101.3	102.0	101.7
Real GDP in million KM (previous year = 100)	27,501	28,198	28,614	29,529	30,716	32,492
Real growth in %	0.7	0.6	1.5	2.4	2.7	3.7
Inflation measured by consumer price index in %	-0.1	-0.9	0.2	0.6	0.9	1
Consumption in million KM	28,815	29,126	29,630	30,349	31,301	32,324
Real growth in %	0.0	1.5	1.4	1.6	1.7	1.9
Government consumption in million KM	5,986	6,106	6,216	6,340	6,530	6,726
Real growth in %	-0.5	1.5	1.0	1.2	1.0	1.0
Private consumption in million KM	22,829	23,020	23,415	24,009	24,771	25,598
Real growth in %	0.2	1.6	1.5	1.7	1.9	2.1
(Gross) fixed capital formation in million KM	4,703	5,256	5,584	6,131	6,725	7,460
Real growth in %	-1.2	10.6	4.6	8.5	7.9	9.0
Government investments in million KM	1,041	1,302	1,432	1,647	1,927	2,254
Real growth in %	32.4	21.4	5.6	11.7	10.6	10.6
Private investments in million KM	3,662	3,954	4,152	4,484	4,798	5,206
Real growth in %	-7.8	7.6	4.3	7.4	6.9	8.4
National Gross savings in % of GDP	11.5	11.6	12.3	12.7	13.0	13.8
Current account balance in million KM	-1,548	-2,087	-2,197	-2,374	-2,570	-2,911
Current account balance in % of GDP	-5.5	-7.4	-7.6	-7.9	-8.2	-8.8
Nominal imports growth in %	-1.8	7.2	5.5	3.9	4.3	4.9
Nominal exports growth in %	5.8	2.9	6.6	6.2	6.9	6.9

Risks to the BiH economy

Weaker economic in the neighbourhood relative to official projections could negatively affect economic growth in BiH. This would hamper not only the assumptions of BiH export developments but also financing of domestic demand. Thus the economic growth in 2015, according to the alternative scenario, could reach as little as 1.5%. This would primarily be the result of lower than expected growth in private demand and investment as a consequence of contracted external financing, as well as lower rate of exports increase due to

weaker export demand. Similarly, realization of external risks would decrease economic growth relative to the baseline projection in the subsequent years too. Thus growth in 2016 could reach only 2.4%, followed by rates of 2.7% and 3.7% in 2017 and 2018 respectively.

In the past several years, **industrial production trends** in Bosnia and Herzegovina were determined by intertwined effects of a series of internal and external factors. Changes in domestic demand were less significant and mainly reflected through the energy sector, mining and a very small portion of the

processing industry whereas the developments in the export markets played a primary role and practically fully determined the trends in the BiH industrial production. This is especially true of the processing industry, which is mainly export oriented and whose developments are determined by demand for the BiH products in the market of our main trade partners. It is weakening of the export demand and high concentration of the BiH exports in the markets of the EU and countries of the region that poses the greatest risk when it comes to industrial production developments in Bosnia and Herzegovina in the course of 2015. Possible deceleration of economic growth and contraction of business activity in export markets could significantly falter the expected growth of production, employment and investments in the BiH processing industry.

On the other hand, obsolete thermal energy plants and high dependence on hydro-meteorological impacts in the energy generation sector also pose a risk when it comes to industrial production developments in BiH. Consequently, we can state that the external risks in the processing industry combined with the internal risks in the energy sector could result in feeble growth of physical volume of industrial production at the end of 2015.³³ In the period 2016-2017, partial improvement of economic activity is foreseen in the international economic environment, which will result in improvement of the BiH processing industry output. Electricity generation sector is expected to put into operation new thermal energy plants in this period and thereby additionally strengthen the overall industrial production in BiH. However, the projected industrial output growth rates are set below 5% at annual level, which is far lower compared to the pre-crisis period.

The main risks to the **labour market** projections primarily relate to the level of demand,

investments and trade in the EU and neighbouring countries. Less than satisfactory level of foreign trade and investments in 2016-2018 would decelerate economic growth while some major positive developments in the labour market would fail to appear. Low or even negative economic growth in the EU (in extreme case) would poorly reflect on trade volume of the BiH companies. Possibilities of job creation and employment, both in BiH and on international scale, would be uncertain. The alternative macroeconomic scenario would limit the number of employed persons since the employers would try to do business with lower labour costs (due to poor business opportunities). Modest volume of work would make growth of average net wages extremely low, even negative in some industries. Generally, the above mentioned scenario would postpone the BiH labour market recovery.

Price changes in BiH are mainly determined by movements in prices of energy and food in global markets (external factors) and utility prices, excise duties etc. (domestic risks). The alternative scenario assumes somewhat lower inflation for the period 2016-2018 (as compared to the baseline scenario). According to the latest projections of the World Bank and IMF, oil prices in this period are expected to rise. However, if oil prices do not rise as foreseen, growth of prices in BiH could be somewhat slower (with stagnation of utility prices). It is similar with food prices too. In the extreme case, a new fall in prices of oil and food could again result in deflation in BiH.

Since Bosnia and Herzegovina is a small and open country, the impacts from broader environment strongly affect the economic developments in the country. In case of significant economic turmoil and political instability (problem of Greece and Ukraine) in the period 2015-2017 in the Euro area countries that BiH mostly trades with, as well as in the countries in our close neighbourhood, BiH would feel the consequences primarily in its

³³ DEP Projection, May 2014

reduced export demand, which would negatively affect industrial production, labour market, fiscal sector (reduced income) and monetary sector (decline in credits as well as savings) and eventually domestic demand.

Since **credit activity** has already been weak from several years back, the aforementioned scenario would lead to further weakening, possibly even negative growth of credit activity. On the other hand, the aforementioned scenario would certainly lead to a significant slowdown in domestic deposits growth due to deceleration of growth in deposits of households and negative growth in deposits of non-financial companies, with further consequences in deceleration of money supply growth.

The main assumption for development of alternative scenario for the **foreign trade** has been negative economic growth in the EU, accompanied by a decrease in production processes in the European economy, reduced investments, as well as decline in demand for import of products. As over 70% of the BiH exports is directed to the markets of the European Union, developments in the EU would directly reflect on the BiH economy, namely through: slower inflow of investments; decrease in remittances from abroad; and increase in trade deficit. In case of reduced business activity in the EU, a consequence would highly likely be a drop in demand for BiH export products. This would particularly affect exports in the categories of intermediate products (various raw materials, aluminium, iron), capital goods (machines, appliances, equipment), with dominant spare parts for automotive industry. All the aforementioned would lead to a significant slowdown of exports growth by around 1.5 percentage points relative to the baseline scenario.

On the other hand, the above mentioned external developments would significantly reflect on domestic demand too. With low investments and cash inflows, the needs for

consumption of specific products would shrink, which would lead to somewhat lower imports than assumed in the baseline scenario. Imports of capital goods, namely machines, appliances and equipment, due to insufficient investments and weak business activity of domestic entrepreneurs would affect the significantly lower growth rate than projected in the baseline scenario. The same would happen with the imports of intermediary products (various industrial raw materials) as well as consumer goods (household appliances, furniture, consumer electronics...).

In case of the foreseen recovery of the EU economy in the period 2016-2018, accompanied by somewhat faster economic growth, than we can expect faster economic growth in BiH than the one achieved previous year. This growth should be accompanied by an increase in investments, incomes, and accordingly, consumption. In the stated period, the main BiH trade partner (EU) foresees an increase in the imports rate, resulting in an increased demand for our products. Our main export products should be: electricity, aluminium, iron and steel, machines and appliances, spare parts for motor vehicles, and furniture.

The domestic demand side is expected to increase too, primarily driven by consumption growth. Consumption growth would be driven by an increase in the number of employed persons and their incomes, inflow of investments as well as investments in manufacturing processes. This should lead to rise in imports (at a somewhat lower rate) of foodstuffs, products for the needs of processing industry, construction, and other products. Exports are expected to grow faster than imports in this period, which should lead to reduction of the foreign trade deficit.

Possible deceleration of economic growth accompanied by lower **direct investment** from the European Union and the countries from the

neighbourhood would inevitably reflect on BiH as well. Possible political and economic instability of the country would result in worse credit rating of the country. This would reflect in reduced interest of foreign investors to invest in electricity generation sector, infrastructural projects and process of privatisation of the remaining state-owned capital.

In addition to reduced interest of foreign partners due to lack of financial resources (mostly credit funds) an obstacle could also be a possible falling demand for electricity in the

region caused by lower economic activity, i.e. caused by low electricity prices. Privatisation process in BiH is also under question and it can be expected that companies planned for sale according to the Privatisation Plan, such as Bosnalijek d.d. Sarajevo, Energopetrol d.d. Sarajevo, Hidrogradnja d.d. Sarajevo, Šipad export-import d.d. Sarajevo, fail to find interested buyers. Reduced direct investment would also be manifested in reduced investment in other sectors relative to the average by now.

IV SWOT analysis of socio-economic situation in BiH

SWOT analysis enables identification of all positive and negative factors of BiH economy and establishes a balance between internal capacities and external opportunities. Strengths, weaknesses, opportunities and threats for socio-economic development of BiH are determined as a relative position of BiH in relation to two groups of countries, namely the first group comprising five new EU members (Bulgaria, Croatia, Hungary, Romania and Slovakia) and the second group comprising three South East Europe countries (SEE-3: Montenegro, FYR Macedonia and Serbia).

Strengths, weaknesses, opportunities and threats of BiH economy are based on: (i) main BiH macroeconomic indicators, and information from (ii) World Economic Forum's Global Competitiveness Report on the main characteristics of BiH competitiveness; (iii) World bank Report on Ease of Doing Business and business climate indicators, (iv) EBRD indicators on situation and dynamics of transition/structural reforms in BiH; (vi) World bank indicators on various aspects of

governance in BiH; data from BiH Economic and fiscal programme pertaining to macroeconomic, fiscal and structural reforms in the country. All the aforementioned pieces of information have been grouped in a SWOT matrix according to the following aspects:

- ✓ Macroeconomic environment
- ✓ Human resources and labour market
- ✓ Technology, business sophistication and innovation
- ✓ Finance and infrastructure
- ✓ Business environment
- ✓ Institutions and governance
- ✓ Coverage and need for structural and sectoral reforms
- ✓ Social aspects of development

Table 5: SWOT – Main strengths, weaknesses, opportunities and threats in BiH

STRENGTHS	WEAKNESSES
Macroeconomic environment	
Upward trend of GDP growth	Small local market
Low inflation rate	Low level of savings and investment
Stable currency (Currency board)	High current account deficit and low level of propensity to export
Budget balance deficit lower than in the new member states(5) and SEE members (3)	High unemployment level, particularly of youth
	Low level of active population share in total population
	Low credit rating of the country and low level of FDIs
Human resources and labour market	
There is tradition of industrial and construction activity	Wages are too high relative to the main type of export products
Generally low level of workers' wages	Insufficient link between pay and productivity
Adequate hiring and firing practices	Low labour mobility
Acceptable level of severance/redundancy costs	Low flexibility in wage determination
Appropriate cooperation in labour and employer relations	Inadequate effects of taxation on work incentives
High quality of primary education	Incompatibility of education system within the country/entity
High quality of math and science education	Generally low level of achievements in education
Adequate quality of management schools	Low enrolment rate in secondary and tertiary education system
Technology, business sophistication and innovation	
Stable availability of scientists and engineers	Low level of value added in export products
Existing collaboration between universities and industry in research and development	Low level of technology, marketing, R&D and innovations in enterprises
Widespread use of internet among individuals	Insufficient level of input FDIs and technology transfers
	Low quantity and quality of local suppliers
	Low level of buyers' sophistication and local competition
	Low level of cluster development
Finance and infrastructure	
Infrastructure of operational transport, telecom and ICT infrastructure	Poor quality of overall infrastructure
Special access to the port of Ploce	Poor quality of transport infrastructure, particularly roads
Steady electricity supply	Low frequency of airlines
Steady level of fixed telephone lines	Enterprises' insufficient access to financing
	Low level of affordability and availability of financial services
Business environment	
Low total tax rate (% profits)	Shortcomings in most aspects of business environment, particularly in: starting a business; construction permits; getting electricity; registering property; property rights; Intellectual property protection; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts and resolving insolvency
Institutions and governance	
Reliability of police services	Problems of country governance caused by asymmetric federal system
Low level of allocations for fight against terrorism, crime and violence	Insufficient efficiency in government accountability; political stability; government effectiveness; regulatory quality; rule of law and control of corruption
Low level of organized crime	Policy instability
	Inefficient government bureaucracy
	Inefficient public sector spending
	High rate of informal economy
Coverage and need for structural and sectoral reforms	
Significant progress in structural reforms of liberalization of prices, trade and foreign currency market	Lack/low level of structural reforms in small and large scale privatization, corporate governance and restructuring of companies, competition policy

Significant progress in railway reform	Lack/uncompleted structural reforms in corporate sector, particularly industry and real estate sector
	Lack/uncompleted structural reforms in energy sector, particularly natural resources and sustainable energy
	Lack/uncompleted structural reforms in infrastructure sector, particularly water supply and sewerage
	Lack/uncompleted structural reforms in financial sector, particularly private capital and capital market
Social aspects of development	
High level of health insurance coverage	Difficult access to primary health care
Reduced infant mortality rate	Inefficient/unjust social protection system (high level of social contributions, inadequate targeting of social assistance)
Increased life expectancy at birth	Unsustainable pension system (large number of pensioners relative to number of people who pay contributions)
Civil society active in social issues	Financially unsustainable social protection system
	Large number of people with disabilities
Other general issues	
Wealth of natural resources – hydro and thermal (coal) energy generation potential	Slow progress in the EU integration process
Geographical proximity to main EU markets, low transport costs	
Generally high level of environmental quality	
Stabilization and association agreement with EU	
OPPORTUNITIES	THREATS
Macroeconomic environment	
Progress on path towards EU will rise interest of foreign partners for increased volume of FDIs	Standstill in development and sensitivity caused by small size of the economy, low income per capita and low competitiveness in international market (marginalization threat)
Large diaspora and potential for a continuous inflow of remittances from abroad	Constraints on growth and development caused by low level of domestic savings and investment, and low FDIs level
Convergence of country and its economy to EU standards through efficient use of EU funds	Low propensity to exports combined with high current account deficit increases external constraints on growth
Possibility of using business opportunities arising through special position/relations of BiH and Arab and other Muslim countries	Combination of high unemployment rate, particularly among youth, and low share of active population limits the growth potential and increases a danger of social unrests
Human resources and labour market	
New job creation should be based on tradition of industrial activity in combination with low wages/salaries and high quality of primary education	Inefficiency in reducing the unemployment level, particularly among youth
Enterprises should use quality math and science education as well as adequate quality of management schools	Inefficiency in creating more jobs for persons with math and science education, which decreases chances of retaining the talent in the country
Possibility for strengthening links between productivity/added value per worker and pay	Inefficient adjusting of pay with productivity/value added per worker
Possibility for increasing enrolment rate in secondary and tertiary education	Inefficiency in increasing the enrolment rate in secondary/tertiary education
Possibility for improving legal framework on labour market by creating more incentives for new employments, reducing tax burden on employers and increasing labour market flexibility	Inefficiency in improving legal framework on labour market by creating more incentives for new employments, reducing tax burden on employers and increasing labour market flexibility
Efficient active labour market policies	Inefficient active labour market policies
Technology, business sophistication and innovation	
Opportunity for increasing value added in export products	High dependency on exports of low labour intensity / resource intensive exports make BiH sensitive to competition of low pay countries and fall in global prices of natural resources
Existing and newly established high-tech enterprises	Due to export structure that is focused on several "non-

should use availability of scientists and engineers	sophisticated" sectors, sensitivity in the future is increasing
Attract more FDI and accompanying technology transfers, and integrate BiH enterprises in global value chains	Failure to attract more FDI, technology transfers and integrate BiH enterprises in global value chains
Develop clusters around most successful companies	
Infrastructure and finance	
Improve access/quality of all types of infrastructure (physical, business, scientific) and services	Failure to improve quality of transport infrastructure, particularly roads
Through Corridor Vc use benefits of railroad connection between the port of Ploce and EU	Failure to improve companies' access to financing, e.g. loans, venture capital, local stock market
	Failure to improve soundness of banking sector
Business environment and corporate sector services	
Improve all aspects of business environment, particularly in terms of starting a business, construction permits, getting electricity, paying taxes, enforcing contracts and protecting investors	No improvements in business environments, particularly in terms of starting a business, construction permits, getting electricity, paying taxes, enforcing contracts and protecting investors
Take advantage of the existing free trade agreements	
Institutions and governance	
Improve all governance aspects: voice and accountability, government effectiveness, political stability, regulatory quality, rule of law, control of corruption	Failure to improve all governance aspects: voice and accountability, government effectiveness, political stability, regulatory quality, rule of law and control of corruption
Overcome the issue of country governance caused by characteristics of asymmetric federation	Failure to improve policy making stability
	Failure to decrease rate of informal economy
Coverage and need for structural and sectoral reforms	
Accelerate structural reforms, particularly privatisation, corporate governance and restructuring, competition policy	Standstill in structural reforms, particularly privatization, corporate governance and restructuring, competition policy
Accelerate structural reforms in corporate sector, particularly industry and real estate sector	Standstill in structural reforms in corporate sector, particularly industry and real estate sector
Accelerate structural reforms in energy sector, particularly natural resources and sustainable energy	Standstill in structural reforms in energy sector, particularly natural resources and sustainable energy
Accelerate structural reforms in infrastructure sector, particularly water supply and sewerage	Standstill in structural reforms in infrastructure sector, particularly water supply and sewerage
Accelerate structural reforms in financial sector, particularly private capital and capital market	Standstill in structural reforms in financial sector, particularly private capital and capital market
Social aspects of development	
Possibility to improve sustainability of pension system, health care system and social protection system	Failure to improve sustainability of pension system, health care system and social protection system
Possibility to improve efficiency/equity of social protection system	Failure to improve efficiency/equity of social protection system
Possibility to improve access to primary health care	Failure to improve access to primary health care
Other general issues	
Possibility of better use of rich natural resources – Hydro and thermal energy generation potentials, agricultural potentials	Persistence of inefficient economic, political and social framework for development
Possibility of better use of geographical proximity of main EU markets, low transport costs	Slow progress in the EU accession process, combined with low capacity for withdrawal of EU funds
Possibility of better use of opportunities arising from high quality of environment	Continuing perception of the country as a country of high political risk
Possibility to accelerate process of EU convergence and better use of opportunity arising from it	

V Strategic objectives

V.1. Integrated growth

Promotion of regional trade and cooperation linkages and non-discriminatory, transparent and predictable policies for improving investment, flow of goods, capital, services and people in the region. Only development of single economic space in BiH will attract more foreign investors and increase competitiveness of BiH economy in the region, and accelerate process of integration into European and global economy.

V 1.1. Macroeconomic stability

Macroeconomic stability is one of the basic prerequisites for sustainable economic growth and increased employment. Macroeconomic stability will be achieved by more efficient management of public finances, by improving the process of the state budget management, fiscal consolidation and efficient management of public debt, strengthening of internal financial control and internal audit, and development of macroeconomic statistics. Macro-stability is maintained by strong and adequate internationalization of the economy, its openness to the ideas of what the world needs so as to incorporate it in competitiveness and export of BiH goods and services using modern technologies and equipment.

Social policy requires careful balancing of measures so as to achieve re-distribution effects in favour of groups of population with lower income. Fiscal deficit and assumed commitments require urgent measures of budget restructuring at all levels in order to ensure their sustainability. Due to deficits inherited from the previous period, it is necessary to aim at a mild fiscal deficit in the coming years in order to ensure fiscal sustainability in line with the EU criteria. BiH needs to strengthen the functioning of Global Framework for Fiscal Policies for the period 2016-2018 as an efficient instrument of fiscal

coordination.³⁴

Harmonization of consolidated BiH fiscal target with the EU rules in the period of accession and stabilization represents a platform for fiscal consolidation, which will enable implementation of the BiH fiscal stance supervision by EU and other international institutions (IMF, the World Bank) and finally less painful accession of BiH to EU. It is emphasized that public sector restructuring and rationalization and better targeting of social benefits are the key precondition for laying the foundations for sustainable development in the country³⁵. While reforms of taxation systems and rationalization of public expenditures and consumption should be conducted throughout the entire country, there is also a need to reduce the size of the government sector in the economy and the tax burden on labour and investments³⁶. Income tax and contributions on salary affect the level of labour costs and make an important factor in investment decisions since lower labour costs lead to higher employment. Large public spending leads to high tax burden where, in order to finance excessive expenditures, higher amounts of taxes have to be collected too.

Commitments towards the EU and other international obligations represent both a threat and an opportunity. Rigorous international obligations and the EU standards represent a catalyst for taxation and structural reforms, as well as a cohesion and integration factor for management of public finances and creation of a single economic space in BiH. It is necessary to improve cooperation between taxation agencies in order to improve collection of tax revenues³⁷, where measures for compliance with tax laws will be actively implemented.

³⁴ EU Conclusions and Recommendations

³⁵ EU Conclusions and Recommendations

³⁶ Reform agenda for BiH, 2015

³⁷ EU Conclusions and Recommendations

The amendments to the Law on Indirect Taxation Procedure will enable better exchange of data, collection of taxes and publication of the list of the biggest tax debtors.

There was progress in the field free movement of goods in the region, where custom duties and quotas were fully abolished on industrial products and to a large extent on trade in agricultural products. A new Law on Customs Policy aiming at convergence to EU customs regulations needs to be adopted, which will create conditions for fast, efficient and consistent implementation of the European customs rules in practice and fulfilment of one of the obligations assumed under the Stabilisation and Association Agreement. Strengthening the market competition is important for free movement of goods, capital and services as well as for attracting foreign investors.

Stronger support to agricultural production and agro industry will enable a greater substitution of imports with domestic products and services and thus contribute to reducing the trade deficit and the current account deficit. The European Union underlined that the currency board arrangement provide full convertibility of the local currency and the stability in external and domestic export environment but also that there are potential risks for deflationary expectations to take permanent roots in companies.³⁸

The most important objectives of strengthening the sustainability of external accounts are reducing the size of the trade deficit and the current account deficit and maintaining a stable level of foreign currency reserves. Building institutions and instruments to support exports and imports and developing adequate competencies are a prerequisite for increasing exports. Raising awareness of

consumers in BiH on the need to reduce dependence of imports and on the quality of domestic products will contribute to reducing the foreign trade deficit.

Private sector growth and attracting FDIs will not only have a positive effect on diversification of BiH exports but will also improve its structure towards a decrease in exports based on raw materials in favour of increasing the share of exports of goods and services with a much higher added value. The creation of a single economic space would make the country much more attractive for foreign investors where FDI inflow would significantly contribute to maintaining a stable level of foreign currency reserves.

In order to maintain a steady level of foreign currency reserves and the currency board, as well as financing the current account deficit, it is necessary to undertake a series of reforms, the most important ones being the following:

1. Structural reforms and strengthening competitiveness of the economy so as to increase FDI inflow and export growth
2. Diversification of financial sector institutions and instruments and strengthening the banking sector stability

In the coming period, BiH will work on the establishment and development of cooperation among financial market regulators from the neighbouring countries (exchange on supervision information, alignment of regulations, etc.), improvement of trade through linking the stock exchanges in the region, establishment of cooperation of development banks and similar institutions so as to exchange experiences in implementation of measures for providing support to financial sector, and establishment and maintenance of cooperation among financial institutions from the region and beyond that have the interest and resources to invest in real and financial sector (by

³⁸ EU Conclusions and Recommendations

investing in purchase of securities or directly).

The banking sector remains well capitalized and liquid, but there is still a problem of non-performing loans where banks' exposure to credit risk has increased, leading to the fall in profitability rate of the banking sector. It is necessary to resolve the issue of deteriorating quality of the loan portfolio by establishing a resolution framework given that the share of non-performing loans in total loans remained at a high 14% level by the end of 2014³⁹.

The Law on Prevention of Money Laundering and Financing Terrorist Activities was adopted in 2014, but it is also necessary to adopt the amendments to the Criminal Law, which regulate crimes related to money laundering and financing terrorist activities, so as to align the law with the international standards.

Priorities:

- ✓ External sector
- ✓ Public finances
- ✓ Development of financial market
- ✓ Ensure high quality, harmonized and timely official statistical data for all users

V 1.2. Improving development of competitive economic environment

In recent years, there were no major developments in the creation of more favourable business environment or climate that would be more attractive for investors. BiH has particular problems in getting credit, starting a business, hiring workers, overall tax rate, registering property, getting permits and general quality of infrastructure. Getting permits, introduction of electricity and paying taxes are the weakest points of competitive capability of our companies.

Survey of entrepreneurs' perception exhibits that the main problems of entrepreneurial environment are the government policies (taxation system and taxation policy), which

are assessed as discouraging for entrepreneurial development. Business environment remains to be burdened with various administrative constraints.

Table 6: Entrepreneurs' perception in BiH

	2013	2014
1	Government policies - regulations, taxes, etc. providing for entrepreneurial business	Government policies - regulations, taxes, etc. providing for entrepreneurial business
2	R&D transfer	R&D transfer
3	Internal market - openness	Education – primary and secondary

Source: GEM 2014

There has been some progress in registration of property, but the companies still have to register in both entities if they want to do business throughout the country; registering procedures still differ, and there is no registration system for the whole BiH. Further simplification of business registration procedures and court proceedings would attract new investments.

The legal framework for performance of economic activity in BiH is underdeveloped, so the country is lagging behind other economies in enforcing contracts. If property rights and enforcement of contracts are not ensured, the investments and trade and thereby economic development too will be endangered. Simplification and harmonization of regulations in BiH would contribute to establishment of more competitive economic environment.

Free movement of goods and capital is one of the key principles of the single European market, so BiH has to focus on assuming the EU *acquis* related to internal market and trade. It is a priority to harmonise technical regulations and standards as preconditions for free movement of goods that are safe for use and provide maximum level of health and safety protection of people, animals, plants, property and environment. Improvements in the quality

³⁹ EU Conclusions and Recommendations

infrastructure system, which comprises standardization, metrology, accreditation, conformity assessment and market surveillance in line with the best EU practices is a second prerequisite for improving the free flow of BiH products in the market as well as recognition of certification and testing documents that accompany them. BiH assumed the commitment to take steps in order to achieve alignment with the EU practices related to the aforementioned areas, to the level when conditions will be met for conclusion of contract between two parties on mutual recognition pertaining to conformity assessment.

Corruption has serious consequences on the business sector and economic results and represents an obstacle to private and foreign investors, trade and economic development, with a negative impact on households. It imposes significant economic costs to companies and decelerates the overall process of economic development. Therefore, it is necessary to undertake strict measures to prevent it, primarily in starting a business (registration of enterprises etc.) and court proceedings. Business representatives in Bosnia and Herzegovina state corruption as the sixth most important constraint to doing business, after high taxes, complicated taxation laws, political instability, labour regulations and limited access to funding.

Economic diplomacy is important for attracting foreign investments to the BiH economy and for opening new markets for businessmen from our country. Development of a strong concept of economic diplomacy emerged as the highest priority in the BiH foreign policy. The concept of economic diplomacy of Bosnia and Herzegovina has not yielded satisfactory results, which is best manifested in the large trade deficit. In order for the concept of economic diplomacy of BiH to be more efficient, it is necessary to undertake continuous activities and apply the economic diplomacy tools that are developed

appropriately to the given time and place. A consequence of the recent acceleration of globalization and trade liberalization is increased fierce competition in both domestic and foreign markets, so the countries which have not embraced the concept of economic diplomacy cannot play a proactive role in relations with other countries and are likely to become objects of economic diplomacy of other countries. Developing the concept of economic diplomacy is the best method to successfully carry out the foreign policy under the circumstances when it is necessary to continuously look for the best foreign investors and new markets for domestic products as a requirement for economic development and reduction of unemployment in the country⁴⁰.

Priorities:

- ✓ Improve business environment
- ✓ Improve the quality infrastructure system

⁴⁰ Economic diplomacy- High Priority Challenge for BiH, Policy analysis

V.1. Smart growth

The central objective of Smart growth is to promote innovation and foster knowledge-driven growth in the region. These are regarded as the main sources of competitive advantage and value added creation in the future. Strategy SEE 2020 sets a 32% increase in average labour productivity relative to 2010 as the main target in this pillar of development. This rise in productivity should be accompanied by an 18% increase in the number of highly qualified workers in the labour force.

Smart growth implies focusing on enhancing knowledge and innovation as drivers of future growth. This requires improvements in quality of education, fostering research, encouraging innovation and knowledge throughout BiH, which will enable full utilization of information and communication technologies, and enable innovative ideas to translate into new products and services that create growth, and good quality jobs, and help tackling the European and global social challenges. But, to achieve success, this has to be combined with entrepreneurship, finances and focus on the needs of users and market conditions.

V 2.1. Development of human resources

Development of human resources is a special challenge for BiH. Despite the achieved progress and implemented reforms, the education system is facing some serious problems and hence needs to be improved from the lowest to the highest level. Pre-school education enrolment rates are the lowest in the region, while enrolment rates in primary and secondary education are less than satisfactory. Inefficiency of the higher education system can be corroborated by the fact that as little as 3% of students of the University of Sarajevo complete their studies in time. Low competitiveness of BiH economy has its roots in low education coverage,

particularly in terms of secondary and higher education, as well as poor education structure of employees in the education system that do not adequately prepare workers for modern labour market. In 2013, only 10.1% of working age population had a post-secondary or higher education, whereas this percentage for working age population with completed secondary education was much higher and equalled 48.7%. This indicates that many people do not pursue further education after completing secondary school.

Persons with the highest level of education face the smallest risk of unemployment (in 2014, persons with higher education accounted for 12%⁴¹ of the unemployment rate). Although the data underline that persons with higher level of education face more positive labour market results, it appears that formal education system still cannot provide skills required for dynamic and modern labour market. This is a two-fold problem: on the one hand, there is a mismatch between skills and labour market needs, and on the other hand, there is a mismatch between education profiles and sectors with increased demand for labour. The secondary school enrolment rate is 76.2%. Approximately 54% pupils complete secondary education in a regular time, whereas only 24% of those who complete it decide to continue their education after secondary or post-secondary school. A very high percentage of 32.2% pupils leave secondary education early (related to juvenile delinquency, Roma population members, poverty and material situation in the family)⁴².

Processes of institutional capacity building in higher education in the past three years have had positive impact on the important components of higher education. We should particularly emphasise recognition of

⁴¹ Agency for Statistics, Labour Force Survey, 2014.

⁴² UNDP, Multiple Indicator Cluster Survey (MICS) for Bosnia and Herzegovina 2011–2012

diplomas/qualifications, university governance, institutional development of BiH universities, as well as increased academic

and labour mobility in BiH and within the framework of the European labour market.

Table 7: Competitiveness of human resources in BiH

	Category	Level	Sourc	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
1.	Primary school or less	BiH	LFS	47.6	46.9	45.3	42.7	43.2	42.6	41.7
2.	Secondary	BiH	LFS	45.9	46.4	47.6	49.1	48.0	48.6	48.6
3.	Post-sec., higher, MA, PhD	BiH	LFS	6.5	6.7	7.1	8.2	8.8	8.8	9.7
4.	Number of enrolled students	BiH	BHAS	99,557	104,280	105,488	105,137	107,537	107,083	102,443
5.	Number of enrolled males	BiH	BHAS	44,402	45,982	46,460	:	47,651	47,672	45,957
6.	Number of enrolled females	BiH	BHAS	55,155	58,298	59,028	:	59,886	59,411	56,486
7.	No. of universities	BiH	BHAS	:	:	20	22	22	25	25
8.	No. of colleges	BiH	BHAS	130	140	139	147	158	189	189
9.	No. of teachers and associates in HEI	BiH	BHAS	:	:	5,139	8,463	8,643	9,224	9,144
10.	No. of graduated students	BiH	BHAS	:	12,199	5,246	16,981	18,177	17,955	18,365
11.	No. of completed MAs	BiH	BHAS	:	436	580	752	1298	2100	2,630
12.	No. of completed PhDs	BiH	BHAS	:	144	186	157	205	189	

Obligations based on the Bologna Declaration have not been fully met by now. BiH is a signatory of the Bologna Declaration and thereby took a commitment to establish a quality assurance system, restructure and modernize programmes and courses with possibility of mobility of teachers and students within BiH and beyond. The initiated reform of higher education financing is going on very slowly and still does not produce the expected results. Certain provisions of the qualification framework in higher education have been implemented.

We are faced with the brain-drain, especially of young and well educated people, which is considerably lowering the quality of human resources in BiH. A great number of young people with higher education are leaving BiH in search for better living conditions and employment. According to the World Economic Forum, by the brain-drain indicator, BiH is ranked 140th among 144 countries. University enrolment structure does not follow the development needs of BiH or the defined

global and EU trends.

As a consequence of fragmented structure⁴³ and lack of organisation of the BiH education space, many students upon completion of general education⁴⁴ do not acquire the required skills to cope with the labour market needs. Students' results are below standards, with significant geographic differences with regards to reforms in vocational education and training, they are underway but at a slow pace. The planned large scale modernization of the system of education and training has not materialized yet. Most of the equipment available for vocational training in schools is out of date; the number of teachers trained in new teaching methodologies is limited, while opportunities for practical work experience in companies are minimal. Furthermore, the

⁴³ Legislative power and education policy are scattered in 14 administrative units: ten cantons in FBiH, FBiH, Republika Srpske, Brcko District and the Ministry of Civil Affairs BiH. Federal Ministry of Education and Culture plays a coordinating role among the cantons, while the Ministry of Civil Affairs BiH has a task to coordinate activities and harmonise the entity ones.

⁴⁴ WB: Addressing Fiscal Challenges and Enhancing Growth Prospects - A public Expenditure and Institutional Review, 2006.

existing opportunities for life-long learning are very limited and available only to a small number of working age population. Regarding qualification structure of the registered unemployed persons in BiH, the largest share in the total number of unemployed persons is still made up by those with secondary vocational education.

Development of entrepreneurial competencies is not paid enough attention to, thereby this needs to be developed through the education system as well.⁴⁵ The Strategy for Entrepreneurial Learning in education systems in BiH 2012-2015 was adopted. Opportunities for business start-up in BiH have been assessed as unchangeable over the past couple of years and one of the reasons is a lack of people who could become entrepreneurs. According to the estimates of experts in BiH, there are very few people with specific abilities and knowledge to start-up a business in the region. A fall is also evident in support to women in starting their business, as well as in government support to enterprises with great growth potential. It is also necessary to open and strengthen career development centres. In addition to approach to education based on key competencies and life skills, the elements of career development need to be included in the education system too. This process should ultimately result, in line with the EU policy, in opening the career development centres, which would support development of human resources.

The structure of the allocation of resources within the education sector is unfavourable. The current structure of expenditures in education leaves very little space for improving the education process through the purchase of teaching aids, teacher training and other purposes that would encourage improvement of the learning process. BiH has to apply the

approach based on knowledge and competent human resources. Hence, the main directions in education have to be the same as in the EU countries.

BiH established two state level agencies for higher education: Agency for Development of Higher Education and Quality Assurance and Centre for Information and Recognition of Qualifications in Higher Education. The Agency is the associate member of the European Association for Quality Assurance in Higher Education. Institutional capacity building in higher education has yielded positive impact on higher education components (recognition of diplomas, management of universities, institutional development of the BiH universities, increased academic and labour force mobility within BiH and within the EU labour market). As a consequence of fragmented structure and lack of organization of education at the entire BiH territory, many students upon completion of general education do not acquire the required skills to cope with the labour market needs. Their results are below standards (with significant geographical differences). According to low rank of BiH in Global Competitiveness Report, the quality of education is very low.

Priorities:

- ✓ Improve development of skills and lifelong learning
- ✓ Develop a qualification framework in BiH
- ✓ Increase equitable access and participation in high quality education at all levels, aligned with measures for smooth recognition of qualifications supporting mobility
- ✓ Introduce entrepreneurship as a key skill for competence development at all levels of education and training

⁴⁵ UNDP, Multiple Indicator Cluster Survey (MICS) for Bosnia and Herzegovina 2011–2012.

V.1.2. Increasing industrial competitiveness

BiH is one of the least competitive European countries. Together with other SEE countries it makes the least competitive European region. To improve competitiveness in the globalization era, all results and indicators related to this policy should be globally relevant, which will be accomplished by internationalization and Europeisation of science and education. Science and research systems are in evident "transition" towards a new model of "knowledge generation" which requires heterogeneity, interdisciplinarity and networking, where an emphasis is on collaborative research between science and business.⁴⁶ One of the ways to improve industrial competitiveness and stronger economic growth is encouraging competitive production and distribution of knowledge through investing in research and development, clusters and SMEs. The EU countries assume that clusters are largely a key to connecting and strengthening high-tech innovations and technology transfers while at the same time boosting competitiveness and economic growth in the country. Innovation is one of the drivers of prosperity and economic growth of the country and it is high time to be included in institutional and strategic frameworks for development of Bosnia and Herzegovina. Introduction of innovation and high-tech in entrepreneurial development will provide an opportunity for young entrepreneurs and new firms to contribute to SME and cluster development, which became one of the main EU policies.

According to Global Innovation Index, BiH is ranked 81st among 143 countries, while the estimated government investment into research remains at a very low level of only 0.03% of GDP⁴⁷. Investment in R&D in comparator countries ranges between 0.4% and 1.5% of their respective GDP, while the EU

average is 2.0% of GDP-a⁴⁸. Despite a long-term slightly upward trend observed in the number of researchers in BiH (781⁴⁹ researchers per million population) but it is still much lower than the EU average.

The Framework Law on Scientific-Research Activities and Coordination of Internal and International Scientific and Research Cooperation in Bosnia and Herzegovina and the Strategy for Science Development in BiH 2010-2015 have been adopted with the goal to encourage the field of research and innovation and cooperation between private and public sector. The Joint Western Balkans Regional Science Strategy was adopted in October 2013 and the BiH Council for Science has been established. BiH does not allocate large funds for financing research activities, which prevents renewal and building of scientific and research capacities. A large part of the research infrastructure is outdated; many laboratories lack operational funding; they are not able to subscribe to scientific journals; connection to international communication system is inadequate; young researchers at universities cannot afford training in the field of scientific research. Attention should also be paid to individual innovators who are not necessarily related to universities, institute-based laboratories or research centres in companies. BiH innovators usually achieve a lot of success and win highest awards in the world fairs, although they very often lack formal academic or research knowledge. However, application of their inventions is very low. Market potentials of their inventions or technological improvements remain unused due to insufficient support from BiH society and the state.

EU Framework Programmes for Research and Technological Development (RTD) are the main instrument for funding science and research projects of the EU member countries and associated countries as well as for strengthening the European Research

⁴⁶ World Bank World report 2013

⁴⁷ Global Innovation Index 2014

⁴⁸ Global Innovation Index 2014

⁴⁹ Global Innovation Index 2014

Area (ERA) and the Innovation Union. These framework programmes have existed since 1984 while the new programme Horizon 2020 is currently ongoing.

Previous Framework Programme for Research, Technological Development and Demonstration Activities (FP7) provided funding of joint research projects in strategic areas covering education (innovation, research and science), health, infrastructure, SME and cluster development, where the programme also supported mobility of scientists and researchers and development of research infrastructure and the Programme of the European Atomic Energy Community and a joint research centre. Participation of BiH in this Programme resulted in 34 approved projects in the total amount of EUR 3.5 million with currently 22 ongoing projects. The overall success rate of BiH is 12.3% as compared to the EU success rate of 21.6%⁵⁰.

The agreement associating Bosnia and Herzegovina to the new EU research and innovation programme Horizon 2020 (covering the period 2014-2020) was signed in July 2014. The goal of the programme is strengthening cooperation between sectors of science and business, where innovative small and medium sized entrepreneurs in BiH will get numerous opportunities to get additional funding for their projects. The reasons behind BiH association to Horizon 2020 is the opportunity of EU funding of scientific and research projects of both the research institutions and SMEs and public companies and to initiate mobility of BiH researchers, as well as the overall opportunity to intensify international cooperation by signing the agreement on scientific and technological cooperation with the EU and its members. This agreement allows retroactive participation of scientific, research, academic and financial institutions, SMEs and large public companies, including the NGO sector (development

agencies, chambers of commerce) who can nominate their project proposals and be equal consortium members in implementation of scientific, research, innovation and development projects financed from this Fund as from 1st January 2014.⁵¹ BiH institutions managed to withdraw the amount of EUR 570,000 through 5 projects in 2014.

The encouraging fact, according to Global Competitiveness indicators, is that BiH is catching a pace up with the neighbouring countries in technological readiness, higher education and training. However, the outcomes of this progress, which should be materialized through increased innovation and number of patents, show that the reforms implemented in these areas do not yield the desired results since the number of higher education institutions and the graduates have increased but improvements of the outcomes cannot be recognized yet. BiH does not allocate large funds for research activities – this prevents renewal and development of scientific and research capacities.

BiH still has no specific programmes of support to companies regarding technological training. Situation has not notably changed as compared to the previous year in the entire region, so there are still obstacle to cooperation among universities, research centres and small and medium sized enterprises. Small and medium sized enterprises in EU are a significant generator of employment and value added. Starting from this fact, we need to undertake activities to stimulate entrepreneurial spirit, first of all in primary and secondary education. There are already some activities going on in BiH, but on a voluntary basis, so they need to be systematized and introduced in the school system as compulsory.

Clusters (concentration of interconnected

⁵⁰ Progress report 2014

⁵¹ Progress report 2014

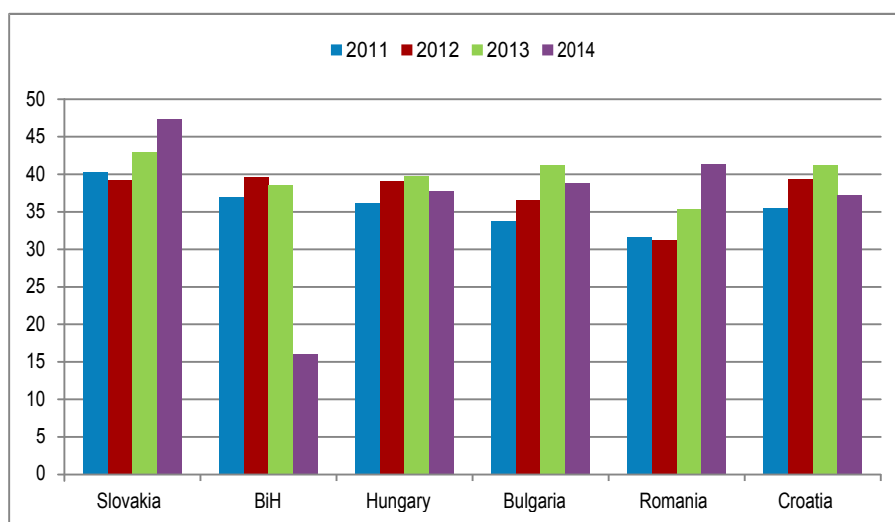
companies, specialized suppliers, service providers, advisory, scientific and other institutions in a specific sector) are very important for competitiveness of an economy. The aim of cluster establishment is boosting productivity that will make companies more competitive. Cluster development in BiH has significantly decreased over the past couple of years so it is of paramount importance to work on their development and networking. BiH sees no adequate development or transfer of innovative technologies or highly skilled employees, which, along with partnerships of firms makes critical factors of success in cluster development. According to the World Economic Forum surveys, distribution of developed clusters in BiH has been significantly lower compared to the EU

countries (see the Graph).

Priorities:

- ✓ Ensure that education and attained competencies better meet the needs of competitive economy
- ✓ Use special programmes to support networking of research centres and export companies
- ✓ Encourage cluster development, networking and cooperation with clusters in EU and SEE
- ✓ Support development of strongly growing SMEs through development of technological parks, incubators and business zone

Graph 18: Cluster development situation, BiH and comparators



Source: GII 2014

V 2.3. Improving culture and creative sectors

Cultural industries represent a separate economic sector, which can support strengthening of regional potentials taking into account European cultural heritage. Covering a wide range of activities starting from publishing and books, films, audiovisual production to crafts and design, these industries are closely related to protection and promotion of cultural diversity. Cultural industry has become one of the main drivers

of economy in the world. Relationship between cultural and economic development and its impact on the labour market is increasingly becoming a topic of discussion at the European level. Economic development of small and bigger towns in the region can be fostered by various measures combined with culture and cultural industries and thus provide, promote and create new employment opportunities.⁵²

⁵² In 1995, in European Union only this sector directly employed 2.5 – 3 million people.

Cultural industry may occupy a significant place in BiH economic development in the coming period. This is an unexploited resource that can contribute to the country's reputation through the promotion of cultural and historical heritage. In order to achieve this, we need an active cultural policy, an active economic policy, support of the urban development policy, integration of urban and regional policy as well as adequate European context. Investing in culture can contribute to creating new jobs, alleviating poverty, stimulating development of new technologies and affecting the improvement in general quality of living; it may empower vulnerable population groups to take part in social processes. The role of culture in identity building through reconstruction of cultural heritage is important and specific for BiH. It is very important for public policies that regulate economic development to aim at stimulating the development of culture and cultural industries, establishing a system to facilitate creation of cultural districts, developing cultural tourism and subsidizing companies producing cultural goods and providing cultural services, i.e. subsidizing cultural industry.

Culture and cultural industry across the world are faced with difficult conditions and many of the trends that we think are specific for BiH are global. All countries encounter many of the same or similar problems of which maybe the most important one is how to stimulate economic development and preserve arts and culture as important catalysts of economic development. In this context, competent institutions should promote a concept of intellectual property which will be applicable throughout the BiH territory, and strategically regulate providing a collective trademark to producers of cultural goods and providers of cultural services, establish quality standards, and stimulate activities of SMEs in the sector of culture and creative industries. Education institutions should include new study areas in their curricula such as economies of culture

and arts, management in culture, etc. All government levels, including local communities, should revise their development strategies and incorporate culture and its effects on development in them. Cooperation between national and international institutions can contribute to development of cultural programmes that may significantly contribute to economic development. This is why culture and cultural heritage should not be left out of any development programme.

Strategic use of culture in the development process is based on planning of local resources and comparative and competitive advantages of an area. Urban areas are more influenced by culture and cultural industries due to the fact that they have a larger population number. With regards to rural regions' development, the best way for culture to concretely support local sustainable development lies in tourism sector. Tourism deserves special attention in the service sector since it accounts for more than half of the inflow of the service sector in Bosnia and Herzegovina. For further development of tourism we need to improve its competitiveness. According to the analysis of the World Travel and Tourism Council, it is foreseen that the proceeds from international visitors and tourist output could generate 15% of the BiH exports by 2019⁵³. The overall contribution of tourism to GDP is 7% and, according to global estimates, it could rise by 6.2% by 2022⁵⁴. It is also encouraging that, according to the World Economic Forum Report 2013, BiH improved its rank in the tourism sector by 7 positions compared to 2011, i.e. climbed up from 97th to 90th position.⁵⁵

Tourism is often mentioned as a rescue strategy for BiH economy. Investment in tourism implies different forms of tourism:

⁵³ USAID and the Kingdom of Sweden, BiH Industry Outlook 2013 (February 2013).

⁵⁴ Ibid.

⁵⁵ World Economic Forum Report 2013-2014

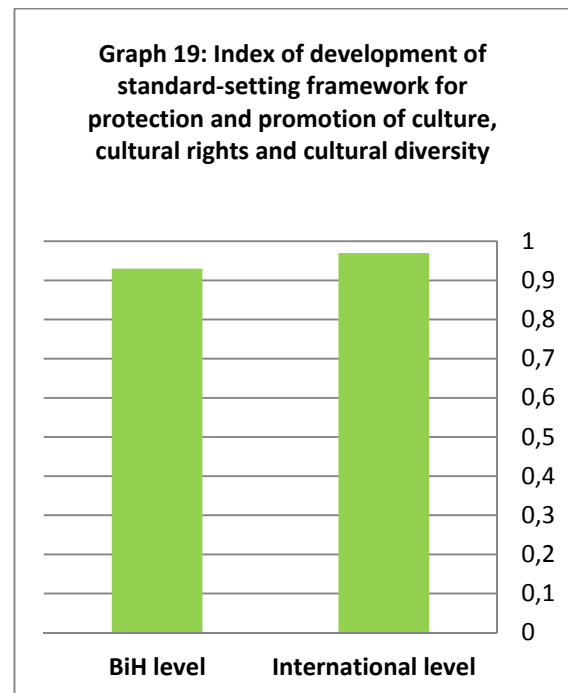
cultural tourism based on history, tangible heritage (crafts, tradition) and tourism based on ethnic gastronomy products. With regards to cultural tourism, we need to consider its several roles: educational, cultural and recreational role of cultural tourism. Outdoor/adventure tourism, ecotourism, interest for folklore, crafts, spa and wellness tourism - these are only some of the types of cultural tourism which can be developed in BiH. Tangible cultural heritage can be a good starting base and instrument of local development in BiH due to rich heritage we can find everywhere and due to compatibility with development of cultural tourism. SME-driven promotion of tangible cultural heritage is enabling development based on local specificities and characteristics of the region.

Instrumentalisation of culture in production, distribution and consumption of products and services is very important for development of comparative and competitive advantages of individual sectors and economy (both at micro and macro level). Culture as generator of jobs requires change in public policy towards artists and cultural workers. Finally, we need to support development of crafts, cultural tourism and provide continuous

activities that can be build up around the already established festivals in BiH.

Priorities:

- ✓ Strengthen sector of cultural industries
- ✓ Strengthen the role of culture in economic development of BiH
- ✓ Create a map activities for cultural tourism development



Source: UNESCO, Culture for development indicators

V.3. Sustainable growth

As defined in the Strategy SEE 2020, "sustainable growth requires sustainable and accessible transport and energy infrastructure, a competitive economic base and a resource efficient economy".⁵⁶

V 3.1. Balanced regional development

The goal of balanced regional development is to contribute to the overall national growth and development by creating conditions to reduce the social and economic development disparities across regions, to enable all regions to become competitive and establish a framework for coordinated national, regional and local initiatives aimed at promoting economic and social development of the country.

One of the key approaches to balanced regional development is the creation of polycentric economic centres and region-specific innovation systems. This can be facilitated by mapping of the key region-specific existing and/or potential business clusters based on utilization of prevailing local resources (natural resources, traditional knowledge and skills, entrepreneurial potential of individual regions). We need to encourage local initiatives and integrated development approach and develop and modernize transport infrastructure.

Transport infrastructure is an important segment of economic development, creation of competitive business environment and balanced regional development and represents an important basis for sustainable development of the country. A well developed transport system facilitates and encourages mobility of people and goods and, by decreasing the transport isolation it enables productivity growth and creates assumptions for a balanced regional development.

Bosnia and Herzegovina is a transit country for the Trans-European Transport Network, with

particular importance of the Corridor Vc connecting Budapest and the port of Ploče in Croatia. Corridor Vc of overall length 336 km through BiH, which would link BiH to the European transport system, should be completed by 2020.

Although a lot of funds through various projects were invested in the rehabilitation of the damaged transport infrastructure, the current situation is still less than satisfactory, partly due to insufficient funds for regular maintenance. There is a great need for improving general transport infrastructure in BiH in accordance with the agreed South East Europe Transport Observatory (SEETO). However, the state level transport policy and the key sector strategic document, including all sub-sectors within the transport are missing.

Global Competitiveness Report of the World Economic Forum (2013-2014) indicates that quality of overall infrastructure in BiH is less than satisfactory (BiH is ranked 127th among 148 countries). Transport infrastructure is at a lower level than in neighbouring countries, while it significantly lags behind compared to its average development in EU countries. Not only that BiH is less developed than new EU member states⁵⁷ in the air transport, but it largely lags behind in terms of road and railway transport too. Road safety is a major concern since BiH is one of the countries with the highest rate of road accidents in Europe⁵⁸.

⁵⁶Regional Cooperation Council, Strategy South East Europe 2020

⁵⁷ Bulgaria, Croatia, Hungary, Romania and Slovakia

⁵⁸World Health Organisation, Global status report on road safety, 2013.

Table 8: Infrastructural indicators of the WEF Report for BiH

		Rank
Infrastructural indicators:	Value (1-7)	148 countries
Quality of overall infrastructure	3.1	127
Quality of roads	3.1	104
Quality of railway infrastructure	3.0	55
Quality of port infrastructure	1.8	147
Quality of air transport infrastructure	2.0	148
Quality of electricity supply	6.5	15

Source: World Economic Forum, Global Competitiveness Report 2013-2014

The highest number of passengers in BiH is transported by roads (around 93%) while the railway transport accounts for as little as 3% in the number of transported passengers. This results in a significant burden of the road infrastructure and increasing emission of greenhouse gases. Nevertheless, the share of emission of greenhouse gases in the transport sector is lower than in EU countries: below 7% of total emissions, while in EU countries it amounts around 20%⁵⁹.

A share of railway transport in the overall transport of goods in BiH in the period 2006-2013 shows a negative trend relative to the share of road transport of goods (million t/km). In 2013, the share of railway transport in the total transport of goods in BiH accounted for 32%, which is 4 percentage points less than in 2011⁶⁰.

The opening of the rail market practically has not even started yet due to a large influence of state ownership. Financial situation in both entities' railway companies (vertically integrated) is critical. Despite the overemployment, they both lack competent

staff. In both companies, the separation of operational functions from infrastructure management, as provided by Package I of the EU Railway Directives, has not been implemented in full yet. BH public railway corporation has adopted the Investment Plan for railway infrastructure in Bosnia and Herzegovina for the period 2015 – 2020 with projections by 2025. In 2014-2015, BiH Railway Regulatory Board has adopted some by-laws important for creation of a single transport system.

In 2014, the implementation of the second phase of railway infrastructure rehabilitation in BiH has advanced. In the first phase, small speed railway tracks without adequate signalling and telecommunications were reconstructed. Within the second phase of rehabilitation, rail tracks and railway facilities have been renovated and modernised. The bottleneck at Ivan tunnel and Bradina ramp is still hampering the development of combined transport. Regarding intermodal transport, it is important to recognise the development of a balanced intermodal environmentally-friendly and competitive transport and mobility system as priority.

BiH actively participates in implementation of the EU Strategy for the Danube Region pertaining to priority 1 aimed at improving the mobility and multimodality in inland waterway transport. Inland waterway transport network is also a priority but the problem that remains to be solved is demining and rehabilitation of the river Sava waterway. Waterway transport is of great importance since EU Directives require for all hazardous freights to be transported by the inland waterway to relieve road and rail transport and to improve safety. Relevant inland navigation regulations should be issued and aligned with the *acquis*.

Bosnia and Herzegovina Air Navigation Services Agency (hereinafter in the text: Agency) has assumed all competencies and staff formerly under the entities' civil aviation directorates at the beginning of 2014. On 13 November 2014,

⁵⁹ National Communication of BiH under UNFCCC

⁶⁰ BHAS, Release, Transport, No. 4, 2014

the Agency started providing services in the airspace between 10,000 and 32,000 feet (approximately 3,000-10,000 m), and thereby took control over a part of the BiH airspace. Further activities should be carried out in order to ensure compliance with the requirements of the European Common Airspace and other areas before Bosnia and Herzegovina could achieve completion of Phase 1 with respect to economic regulations and air transport safety.

BiH is actively involved in international cooperation with regards to infrastructure and transport. BiH participates in the International Transport Forum's (ITF) road transport group, Intergovernmental Organisation for International Carriage by Rail (OTIF), as well as the Trans-European Railway project and International Maritime Organisation (IMO). It is also a member of the SEE Transport Observatory (SEETO) where it participates in Road Safety Working Group and Railway Working Group. BiH contributes to the implementation of the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network. In 2014, the EU Strategy for the Adriatic and Ionian Region has been adopted, which, in addition to BiH includes seven more countries: Italy, Slovenia, Greece, Croatia, Albania, Serbia and Montenegro. General objective of this Strategy is to promote economic and social prosperity in the region by growth and creation of jobs and to improve its competitiveness and connectivity, and at the same time protect the environment and healthy and balanced sea and costal ecosystems.

The main deficiencies in the transport sector are the poor state of transport infrastructure at the state level, while the main remaining challenges are to harmonise legislation with the *acquis* and implement it.

Priorities:

- ✓ Establish a system which will contribute to balanced regional development
- ✓ Adopt regulatory framework for transport
- ✓ Develop all types of transport in BiH based on the model which enables sustainable development of the transport system in function of energy efficiency, while taking care of the environment and better safety of all participants in transport
- ✓ Liberalisation of railway transport

V.3.1. Improving environmental management and development of environmental infrastructure while increasing resilience to climate change

BiH is still at an early stage in aligning its regulations with the EU *acquis* in the area of environment and climate change. In 2013, the BiH Council of Ministers adopted a Climate Change Adaptation and Low Emission Development Strategy for Bosnia and Herzegovina. This strategy focuses on activities enabling economic growth and preventing environmental degradation in sectors such as: agriculture, biodiversity and vulnerable ecosystems, energy, forestry, population health, tourism and water management. The main emphasis is on two closely related components – climate change adaptation and reduction of greenhouse gas emissions.

The Strategy underlines the need to mitigate climate change in two areas: replacing the existing coal-fired thermal-power plants with the new, more efficient ones that release less emissions, and promoting the use of renewable energy sources⁶¹. In electricity generation sector, the strategy points to replacing the existing thermal power plants with new and more efficient plants. Furthermore, the efforts should step up to improve energy efficiency in construction of buildings, since the buildings account for the most greenhouse gas emissions. A goal is also to reduce the expected growth of pollution from traffic gas emissions by investing in railways and public transport. Efforts should be made to streamline this strategy into sectoral policies and strategies.

Although CO₂ emissions per capita in BiH are at the average level of European countries⁶², they

⁶¹ MFTER, Climate Change Adaptation and Low Emission Development Strategy for Bosnia and Herzegovina, 2013

⁶² 8.1 t/per capita. Source: World Bank 2013, "World Development Indicators 2013"

are very high per GDP unit (1.59 kg equivalent CO₂ per Euro in 2008, which is almost four times higher than the EU average)⁶³. The biggest source of carbon dioxide is the energy sector, accounting for 74% of the total emission⁶⁴. Thereby, the potential for lowering the emission of harmful gases is the largest in this sector. Most emissions occur as a result of coal production and electricity generation in thermal power plants. Other emission sources include agriculture (12%), industrial processes (11%) and waste (3%)⁶⁵. BiH has the potentials to lower the emissions of CO₂, since a significant forest coverage of the BiH territory has a huge potential to absorb them and thus mitigate climate change effects.

However, the country has not yet put forward a mitigation commitment by 2020 in the context of the Copenhagen Accord. We also need to develop a comprehensive countrywide climate policy and strategy in line with the expected EU 2030 policy framework on climate and energy.

BiH Council of Ministers adopted Flood Protection and River Management Action Plan for BiH 2014 - 2017⁶⁶, which creates a framework where the issue of flood protection and river management will be treated in a harmonized and coordinated way both in BiH and at regional level. With regards to water quality, we still lack a consistent approach to water management at the state level. This includes implementing the water laws and monitoring and river-basin management plans.

As regards waste management, planning activities for solid waste management have intensified. The studies for selection of locations for future regional sanitary landfills

⁶³ Source: World Bank 2013., "World Development Indicators 2013"

⁶⁴ UNDP, Progress towards the Realisation of Millennium Development Goals in BiH, 2013

⁶⁵ UNDP, Progress towards the Realisation of Millennium Development Goals in BiH, 2013

⁶⁶ 119th Session of the Council of Ministers of BiH, 21st January 2015

were completed as well as municipal waste management plans for selected regions. In 2013, a Strategy for Managing Radioactive Waste in Bosnia and Herzegovina⁶⁷ was adopted as well as the state-level Law on Accountability for Nuclear Damage.⁶⁸ Sustainable waste management is increasingly becoming one of the key areas of innovation, development of green industry and creation of jobs in the world. Therefore, having limited employment opportunities, BiH public policies need to pay more attention to sustainable environmental management and development of green industries based on waste management, which will actively contribute to creation of new jobs while improving the state of the environment.

Mines and unexploded ordnance as remnants of war pose a serious threat to the safety, health and lives of civil population and an obstacle to social and economic development at national and local level. Although the Mine Action Strategy states that Bosnia and Herzegovina has to be cleared from mines by 2019, the current dynamics does not give reasons for optimism. Demining of the remaining contaminated areas requires considerable resources.

In addition to lack of alignment with the *acquis*, there is no systematic monitoring and reporting of the state of the environment in BiH, due to complex division of responsibilities and obligations between the state, entities, cantons and municipalities. Lack of numerous data and indicators is a particular challenge, as well as insufficient capacities for data collection in order to get an overview of the state of the environment in BiH.

⁶⁷ Official Gazette of BiH, No. 1/14

⁶⁸ Official Gazette of BiH, No. 87/13

Priorities:

- ✓ Strengthen institutional and professional capacities for development and implementation of environmental and climate change policy, monitoring greenhouse gas emissions, and planning, implementation, monitoring, reporting and verification of measures for mitigation of climate change effects.
- ✓ Harmonise legal framework for environmental protection and climate actions
- ✓ Improve waste management efficiency and promote eco (green) industry

V 3.3. Faster and more efficient agricultural and rural development

The same as everywhere around the globe, agriculture in Bosnia and Herzegovina is also under continuous impact of changes and challenges, as well as a number of factors that affect the income of farmers, structure of production, investments, trade, profit, etc. Over the recent years, the agro-food sector in BiH met numerous changes, reform processes and challenges, particularly with regards to production and trade in agricultural output. The production and trade trends, and the overall agricultural sector were significantly affected by unfavourable weather conditions, particularly in 2010, 2012 and 2014, as well as changes in trade conditions after Croatia's accession to EU on 1 July 2013.

Bosnia and Herzegovina is a country with pronounced rural characteristics where, according to estimates, 51% of its total population lives in rural areas⁶⁹. The characteristics of rural areas in BiH are:

⁶⁹ UNDP, National Human Development Report for 2013, Rural development in BiH, Myth and reality

underdevelopment, depopulation, aging population, low employment and poor socio-economic conditions, which make rural areas passive and less attractive for living. On the other hand, rural areas possess natural resources, numerous cultural heritage sites and other advantages which are considered to be a basis of rural development. Agriculture is the basic, but not the only possible activity of the rural area population.

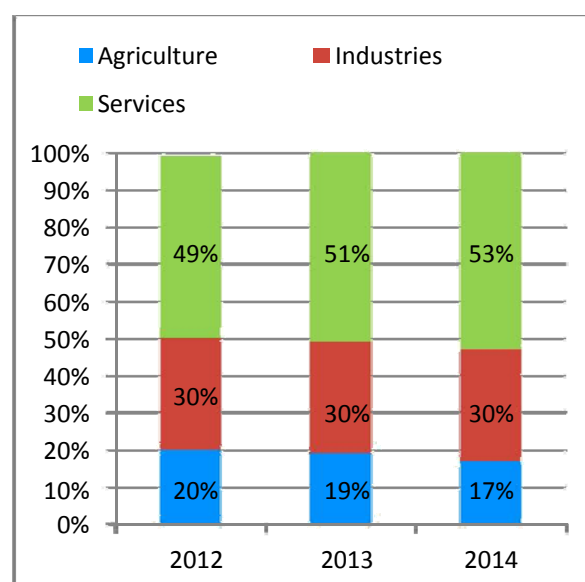
The importance of agricultural sector in BiH is reflected in its share in creating gross value added, employment of population, provision of food security, and commodity exchange.

The share of agriculture, forestry and fisheries in BiH GDP in 2013⁷⁰ was 6.97% and increased by 0.73% relative to 2012. Nevertheless, if we observe the share of this sector in GDP in the period 2005-2012, there is an evident decrease from 8.5% to 6.2%, which indicates to continuous fall of agricultural share in creating gross domestic production. Given the importance of agricultural sector in GDP and creating gross value added in Bosnia and Herzegovina and comparing it with, e.g. the countries from the region, it is evident that situation is similar but the importance of agriculture in Serbia, FYR Macedonia and Albania is much higher. In comparison with the EU countries, such as, for instance, Germany, the share of agriculture in the total gross value added is much lower, which indicates that other industries with higher contribution to GDP also account for a higher share. In poorer countries, or rather those with weaker economic situation, agriculture accounts for a higher share in gross value added, such is the case of e.g. Romania.

According to data for 2014, there were 139,000 persons employed in agriculture,⁷¹ of which, as estimated, approximately 60% of men and 40%

of women. Contraction of economic activity over the past three years, and a share of agriculture and agricultural production, had an impact on decline in the number of persons employed in agriculture from 167,000 in 2012 to 139,000 in 2014, which is by 28,000 or 17% lower. The decreasing trend in the number of employed persons is observed both in men and women, but there is a sharper fall in the number of employed women – by 22%, while the number of employed men dropped by 13.13% over the past three years.

Graph 20: Structure of employed persons by sections of economic activities in BiH



Source: Labour Force Survey 2014

With regards to land as one of the most important natural agricultural resources for agriculture, it highly determines the economic potential of a country's agricultural sector by its availability, quality and accessibility. Agricultural land in BiH has not been used in accordance with general social interest for a long period of time, and increasingly large areas of arable land remain abandoned and uncultivated. Among the most important causes of insufficient production of basic agricultural products in BiH is the one that the existing agricultural production capacities have not been used intensively in the previous period. Agricultural land in BiH covers

⁷⁰GDP data for BiH in 2014 were not available at the time of drafting this report

⁷¹BHAS, Labour Force Survey 2014, Thematic Bulletin 10.

2,572,000 hectares, which is a half of the total land covered area. Out of the total agricultural land, 62% is fertile land, while arable land covers approximately 1 million hectares⁷². Used arable areas, according to statistics for 2014, covered 1,011 thousand hectares of which 501,000 hectares were sown, 508,000 hectares were fallow land areas and uncultivated arable land, while around 2 thousand hectares were nurseries and other uses of arable land. It is evident that sown arable land contracted over the past three years from 527 thousand hectares in 2012 to 501 thousand hectares in 2014, which is a decrease by 26 thousand hectares or 5% . Relative to sown arable land, uncultivated land and fallow land record an increase from 476 thousand hectares in 2012 to 508 thousand hectares in 2014, or by 32 thousand hectares (6.8%). This is the first time ever in BiH that the ratio of sown arable land and uncultivated arable land is 49.55:50.2% in favour of uncultivated areas. The structure of sown areas has not been changing for a number of years. The highest share of 58% of arable land under crops is accounted by cereals, followed by a 26% share of fodder, around 15% of vegetables and only 1% of industrial crops. The potentials of agricultural production in BiH, which are reflected in favourable agro-climate conditions, a great number of various agricultural crops, high quality arable land, products of solid quality and tradition, a large number of traditional and original products, knowledge, tradition, and efforts of farmers have not been fully utilized.

According to preliminary results of census organized in October 2013, which included a module of questions related to agriculture, there are 340,000 households identified as agricultural. There are around 90,000 farms entitled to incentives registered in the system of agricultural households. The average size of around 50% farms is 2 hectares, while the size of

over 80% farms are smaller than 5 hectares⁷³. Agricultural land of small and medium sized farms is compartmentalised into to 7-9 parcels on average.

Agricultural support policy in BiH is at the level of entities and BiH and these policies differ in terms of amount, purpose and distribution criteria. The total amount of funds in BiH earmarked to agricultural producers in 2014 was the lowest compared to the amounts allocated over the past six years (2009-2014). Namely, the total allocated agricultural budget of KM 139.1 million was lower than the past year's budget by around KM 5.6 million, i.e. 4%. The incentives allocated in BiH for agriculture, on average below EUR 80 million, are the lowest among the regional countries (where Serbia allocates around EUR 212.3 million on average per year, Croatia around EUR 456 million and FYR Macedonia around EUR 125 million).

Agriculture and food sector take an important share in overall BiH trade. The total BiH import of agricultural products in 2014 reached KM 2.75 billion, while the total export amounted to KM 649 million⁷⁴. In 2014, the deficit in trade of agricultural products amounted to KM 2.1 billion. Coverage of imports by exports stood at 23.6%, which is 0.89% less compared to the same period of the previous year when it reached 24.47%. It is evident that domestic production of agricultural and food products cannot fully meet the populations needs in BiH and data on foreign trade exchange show that BiH remains to be a net importer of significant quantities of food. Observing the structure of agricultural and food products that we import for a series of years, it is dominated by almost the same ten chapters

⁷²MFTER, Report in the area of agriculture for BiH, 2012

⁷³MFTER, Policy analysis in the field of agriculture, food and rural development BiH

⁷⁴MFTER, Analysis of foreign trade exchange in 2014

of the Customs tariff. The goods that we import most are beverages, spirits and vinegar, cereals, meat and other offal, miscellaneous edible preparations, residues from food industries, whereas exports are dominated with vegetable and animal fat, milk, eggs and honey, fruits, preparations of cereals, etc.⁷⁵

Current system of food safety in BiH did not meet all the criteria to allow for export permits for the EU market although competent institutions worked on preparation and alignment of domestic legislation with the EU regulations. The chain of command and the official food and feed system do not yet match European standards to allow for exports of goods of animal origin to the EU market, which means that there was no export of agricultural products such as milk and dairy products, meat and meat products, and potatoes to the European market.

Significant steps forward were made in the veterinary sector where implementing regulations were adopted with regards to control, prevention and eradication of certain communicable animal diseases. The new Animal Disease Notification and Outbreak Information Management System is now also operational. Also, in the phytosanitary sector, we made progress by adopting the amendments to the Law on Protection of New Plant Varieties in BiH and endorsing a general operating action plan in case of emergency occurrences of organisms harmful to plants and plant products. Furthermore, registration of producers, processors, importers and distributors of plants, plant products and regulated objects has begun into phyto registries, while official controls and the situation as regards the main harmful organisms affecting potatoes were assessed as generally positive. Priority of work of the

competent institutions in the food network should focus on ensuring the efficient food safety system and fulfilment of requirements for exports of animal origin products, preparation of amendments to the Law on Food, Veterinary Law in BiH, and Law on Agriculture, Food and Rural Development, as well as harmonization of the role and competencies of the institutions in the food network.

The priority in the area of agriculture and rural development policy, is to develop Strategic Plan for Rural Development in BiH, new Law on Wine and to harmonise legislation with a the EU *acquis* and prepare for the use EU funds for agriculture and rural development. However, although numerous activities were implemented in these areas, they failed to result in adoption and issuance of the aforementioned legislation, development of strategy for Rural Development or full implementation of activities for creating conditions for export of milk and dairy products to the EU market. Regarding preparations for use of the Instrument for Pre-Accession Assistance for Rural Development, an agreement on institutional structures for decentralized management of IPA funds was not reached, which was the reason for cancellation of IPA technical assistance for agriculture and rural development.

Based on the aforementioned, we can state that the sector of agriculture and rural development, as a strategic activity of key importance for the overall economic development in BiH, has not been defined by concrete policies and incentives. Also, very low fulfilment of the population needs by domestic agricultural and food products indicates to high dependency on imports of food.

Continuous changes and unpredictability of agricultural policy, absence of implementable strategies for agricultural development,

⁷⁵ MFTR, Analysis of foreign trade exchange in 2014

insufficient incentives to farmers, impossibility to invest in adoption and application of new technologies and standards in production have driven the agricultural and food sector to stagnation and make it increasingly more difficult to catch up with a competitive trend in the regional market. Generally, an important priority in the coming period is to create agricultural policy and introduce such instruments that will enable a dynamic restructuring of agricultural sector, modernize it, and efficiently bring closer to the EU integration process by gradual aligning of the policy with the principles of the EU's Common Agricultural Policy. Only with the active involvement and engagements of all factors, particularly stakeholders and actors involved in agricultural sector in BiH, we can respond to great challenges and requirements of the integration process and obtaining membership of the European Union.

Priorities:

- ✓ Establish the required institutional capacities, mechanisms for coordination and implementation of standards in agriculture in line with the EU standards at all levels
- ✓ Improve competitiveness, quality and safety of domestic products.
- ✓ Develop Strategic Plan for Rural Development and establish the IPARD implementation structure
- ✓ Improve conservation and efficient use of natural resources

V 3.4. Development of energy resources, particularly renewable energy sources and increasing energy efficiency

The energy sector is a comparative advantage of BiH, particularly hydro power, as well as a great long-term development potential. BiH is the only net exporter of electricity in the Western Balkans. There are also significant

reserves of coal, mostly used in thermal power plants. BiH also has significant potential for utilization of wind and solar energy, and a great expansion is expected in the coming period. Nevertheless, BiH is significantly lagging behind in this sector, particularly since a country-wide energy strategy and policy have not been developed yet as well as due to low energy efficiency and the great dependence on the import of fossil fuels. Production of petroleum products is currently fully dependent on the imports of crude oil, followed by still excessive imports of petroleum products, whereas use of natural gas is related to the import from Russia.

The internal energy market is still not aligned with the EU *acquis*, and this hinders development of a competitive country-wide wholesale market in BiH. Prices of energy and energy products are regulated for electricity and natural gas while prices of petroleum products are set freely. As from 1 January 2015, BiH has opened the electricity market for customers from the household category.

The energy sector (electricity, oil, coke and coal) accounts for around 30% of the overall BiH industrial production. In 2014, annual energy sector exports of almost KM 835 million accounted for 10% of the overall BiH exports, recording a 14% growth y-o-y⁷⁶. However, given the great dependence on the import of energy fuels (oil and gas) this sector recorded a significant deficit of almost KM 1.8 billion.

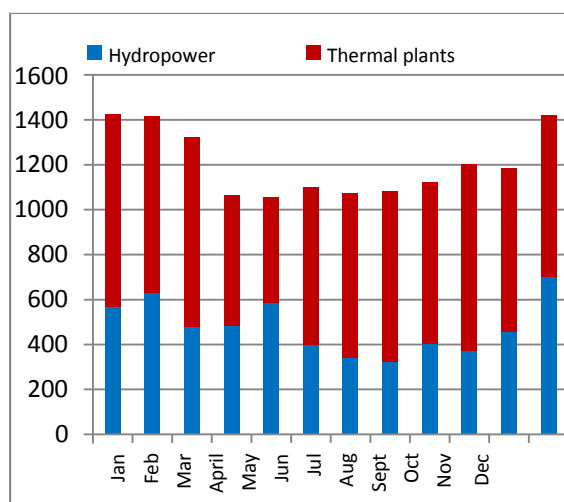
The share of electricity in the total BiH industrial production is around 23%⁷⁷. In 2014, due to a high base from the previous year and low electricity generation in hydro power plants over the year, the electricity generation sector recorded an annual production fall of

⁷⁶BHAS, Release, Foreign Trade 2014

⁷⁷BHAS, Release, Industrial production 2014

around 10%. Share of electricity in the BiH GDP accounts for around 4%⁷⁸ and the share in annual exports in 2014 accounts for around 3.5%⁷⁹.

Graph 21: Structure of electricity generation in BiH by months in GWh



Source: ISO – Independent System Operator in BiH

In 2014, hydro power plants generated 39% of electricity⁸⁰. However, electricity is mostly generated from non-renewable sources of energy (60%) such as coal-fired thermal power plants. They are a significant source of pollution and greenhouse gas emissions. As from 1 January 2015, BiH has opened the electricity market for buyers from the household category. The Decision on the Approval of the Long-Term Transmission Network Development Plan for period 2014 – 2023⁸¹, and the Decision on the Approval of the TRANSCO Investment Plan for 2015 were adopted.⁸²

According to the target of the Europe 2020 Strategy on achieving 20% renewable energy in the final consumption, use of renewable energy in BiH has been increasing. Regarding the sector of renewable energy, the respective laws on the exploitation of renewable energy sources and

on efficient co-generation have been adopted in both entities. However, there is no country-wide renewable energy action plan for the implementation of the obligatory renewable energy target which the country has to achieve by 2020⁸³ (40% of final energy consumption). Due to favourable incentives provided at entity level, growth in the development of facilities powered by renewable energy sources is increasing.

As a signatory of the Energy Community Treaty, BiH took a commitment to reduce end-use energy consumption by 9% by 2018⁸⁴ (relative to the base status in 2010). The first BiH national energy efficiency action plan has been developed but still remains to be adopted. Energy efficiency in BiH is low, particularly compared to the developed economies.⁸⁵

The building sector takes the highest share (60%) in final energy consumption in BiH, as well as the highest percentage of greenhouse gas emissions⁸⁶. Increasing energy efficiency in heating of buildings is one of the most cost-effective ways to reduce the harmful emissions, as well as to cut the energy costs.

The main challenges in the energy sector are to adopt the required legislation or align the existing legislation with the Third EU Energy Package at all government levels as well as to adopt legal framework for its gas sector. The first step in creating the energy sector reforms is to review the situation and analyse resources in the whole country. Improving coordination between entities is of crucial importance. Reducing the carbon dioxide emissions with the increasing needs for energy requires new technological solutions and modernization of infrastructure.

⁸³ EU Directive 2009/28/EC

⁸⁴ In line with the commitments towards the Energy Community, by adopting the Energy Services Directive 2009

⁸⁵ E.g. the efficiency rate of the existing coal powered units in thermal power plants in BiH is around 30%, while, according to the Climate Change Adaptation and Low Emission Development Strategy the target for BiH is 40% by 2025

⁸⁶ MFTER, Climate Change Adaptation and Low Emission Development Strategy for BiH, 2013

⁷⁸ BHAS, Release, Gross Domestic Product 2011-2012, and Gross Domestic Product 2013, preliminary

⁷⁹ BHAS, Release, Foreign Trade 2014

⁸⁰ SERK, Annual Report 2013, Electricity generation in BiH transmission network per type of sources

⁸¹ "Official Gazette of BiH", No. 93/14

⁸² "Official Gazette of BiH", No. 1/15

Priorities:

- ✓ Encourage the energy sector development
- ✓ Align the internal energy market at all levels with the *acquis*, including the alignment of the state and entity level legislation with the Third EU Energy Package, and the BiH commitments toward meeting the requirements of the Energy Community Treaty.

V.4. Inclusive Growth

Inclusive growth has the aim of increasing employability of all social groups through strengthening active and passive measures in the labour market, lifelong learning and civic culture, thereby supporting social cohesion, preventing social exclusion and reducing poverty. Considering the fact that there is a broad scope of activities in question, focus is primarily placed on increasing employment rates through the development of skills and education, as well as promotion of the role of social economy in the society of BiH.

V.4.1. Increasing Employment Opportunities

In 2014, after a long period it was possible to conclude that there were some positive changes in the labour market. The number of employed persons in BiH in 2014 was constantly on the rise both in the monthly and yearly estimates, whereas, for the first time since 2009, the number of unemployed persons in March 2014 recorded a continuous decrease as compared to the same period of the previous year. However, without intensified economic growth and as long there is structural imbalance in the labour market manifested through the lack of harmonization between demand and supply of work force, it is impossible to expect any positive changes. The labour market in BiH still faces a number of challenges. The lack of adequate jobs which would absorb the supply of work force remains to be one of the key issues.

Employment and unemployment trends in BiH are monitored with administrative and survey data. According to survey data, unemployment in 2014 was at the same level as in the previous year – 27.5% (the unemployment rate of women was 31.2%, and the unemployment rate of men was 25.2%). Youth unemployment remains to be at a worrying level (65.3% in 2014)⁸⁷.

Compared to its neighbouring countries, BiH was in 2nd place in unemployment in 2014. First place is occupied by Macedonia with an unemployment rate of 27.6%, whereas the Republic of Croatia ended the year with an unemployment rate of 17.3 percent. The unemployment rate in BiH is almost three times higher than the European average. According to Eurostat analyses, 10.2% of the population in the EU was unemployed in 2014. The employment rate of women in the EU is also relatively higher than the employment rate of women in BiH⁸⁸.

Namely, by comparing the data on the number of unemployed persons from the Labour Force Survey (308,000) and the number of unemployed persons registered in employment agencies across BiH (549,522), it can be concluded that 241,522 unemployed persons are, in fact, employed in informal economy. Informal employment is especially characteristic of the sector of agriculture which, according to the Labour Force Survey, employs 18.9% of all the employed persons, and the sector of services – 51.3%, whereas, according to administrative data, only 5% of the employed work in fishing, agriculture and mining, and 66% in services. Informal employment is also specific for the youth. Only one in eight young persons (aged 16-24) is employed, compared to one in three young persons in the European Union. Due to limited work experience, it is difficult for young people to find employment, which makes them willing to accept working in the “grey economy” in order to have the opportunity to gain life experience.

In 2014, a drop was noted in the number of unemployed persons in the records of

⁸⁷ BHAS, Labour Force Survey 2014.

⁸⁸ According to the Labour Force Survey 2014, the unemployment rate of women is 31.2% (32.7% in FBIH and in RS 28.4%).

employment bureaus in BiH. The average number of unemployed persons in 2014 was 549,522 and, compared to the 2013 average, it dropped by 2,939 or 0.5%. Out of the total number of persons seeking employment in 2014, 266,377 or 48.5% were women. In the same year, a total of 103,577 unemployed persons registered with employment bureaus in BiH were employed.

Compared to 2013, the number of employed persons was higher by 12,766 persons or 14.1%.

Priority tasks of the employment bureaus in BiH in 2014 were ensuring adequate material and social welfare for unemployed persons and implementation of adopted employment policies in order to increase efficiency of the labour market, which includes the design and realization of programmes and active employment policy measures.

Entity-level governments and employment services in the public sector lack administrative and financial capacities to enforce active labour market measures. Passive measures of the labour market which encompass cash benefits have some advantages compared to active measures.

Existing unemployment is predominantly long-term. Almost 85%⁸⁹ of the unemployed in BiH have been out of work for more than 12 months, whereas that rate for EU28 is 44.6%⁹⁰. Long-term unemployment is one of the most significant challenges of both economic and social policy. Apart from that,

long-term unemployment is a very good indicator of the level of harmonization of demand and supply in the labour market and, indirectly, it is a measure of the success of formal and informal education of a country. One of the measures which enables the reduction of long-term unemployment is providing support to employment through providing financial and technical support to the unemployed. The share of self-employed persons in the overall number of employed persons in BiH has, unlike the previous year, decreased by 1.6% and stands at 19.01%. The remaining are the helping household members with the share of 4%, which has also decreased compared to the previous year.

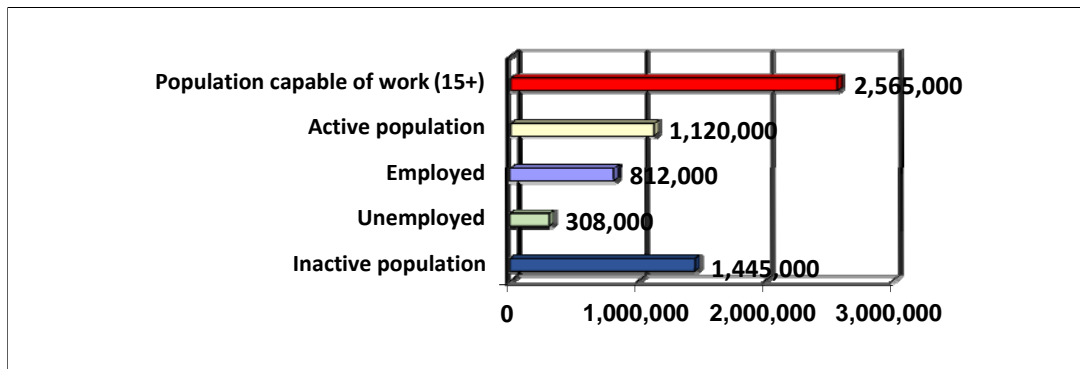
A large number of inactive persons - 1.44 million in 2014, along with a high unemployment rate, has an additional negative effect on the situation in the labour market. The majority of employed persons still have secondary education (63.7%), the smallest share of the employed is consisted of persons with completed primary education or lower (17.35%), whereas the share of employed persons with higher post-secondary education, university, academy, masters and PhD increased slightly in 2014 reaching 19%. Improvement of labour market activities through the development of entrepreneurial culture and continued reform of vocational secondary education and training are key challenges of BiH in regard to the enhancement of skills in the labour market, vocational education and training. An analysis of implementation of curricula in VET schools was carried out and the activities on development of occupational standards initiated, which will serve as basis for revision of the existing modular curricula.

The system of vocational education and training (VET) should be reformed in a way

⁸⁹ DEP based on data of the BHAS, Labour Force Survey (2014)

⁹⁰ EUROSTAT, Labour Force Statistics, 2014.

Chart 22: Population capable of work by activity status in BiH



Source: BHAS, Labour Force Survey, 2014

that will develop professional skills adequate for modern markets and ensure lifelong learning as the key factor of reducing unemployment and amount of inactive labour force. BiH has not developed a separate set of indicators to monitor various aspects of VET as has, for example, the EU, which has defined a set of 15 key indicators. BiH has not yet adopted that approach and that is a challenge which the statistical system and evidence-based policy will have to face in the future period.

A modernized legal framework of the functioning of the labour market and mediation in the labour market, along with an efficient system of active employment measures, are also a basis for improving the situation in the area of employment.

Experiences of European countries demonstrate that the path towards a modern society cannot be crossed without sustainable development and the creation of new jobs, characterized by:

- a) entrepreneurship, which is reflected in creating as many SMEs as possible and in re-structuring the existing SMEs in order to include as many people as possible so they can have an active influence on their destiny, and
- b) a new approach to regional and local development which relies primarily on local strengths.

Small and medium sized enterprises are the key feature of EU economy, accounting for 67.1% of the private sector employment rate, and in some economic activities (metal sector, construction, furniture) more than 80%.⁹¹

The development of entrepreneurship and creation of the preconditions for faster growth of SMEs are another important foundation for creation of jobs.

Survey data on unemployment rates by level of education also point to a positive link between unemployment and the level of education, as in most countries in transition. The same link between education and unemployment is seen in administrative data. Among the unemployed in 2014, 68.3% were persons with vocational secondary education. Due to a low demand for labour force, employers have the opportunity to employ highly qualified workers for jobs that do not require a high level of expertise resulting in under usage of previously acquired competences. On the other hand, there is a discrepancy between competences of the labour force upon the completion of vocational education and competences in demand in the labour market, as well as a high share of lower levels of education among the unemployed.

⁹¹ Draft of the BiH Development Strategy

It is also significant to note that, in economies with low and medium income, direct foreign investments are presented as an instigator of employment, but it is also a fact that foreign investments are directed towards countries with a more developed entrepreneurial culture and a larger number of micro- and small enterprises, i.e. a favourable business environment. By investing into so-called *green field* investments, large enterprises create a long-term bond with those regions, creating stable and professional long-term partnerships with SME suppliers in the area.

Increasing flexibility of the labour market in BiH primarily refers to the enhancement of the legal framework in order for Bosnia and Herzegovina to utilise its strategic advantages that include cheap labour force and a large population of educated youth. However, high taxes on jobs and protection of job security weaken those advantages and increase the cost of work. The result is a large percentage of unemployed young persons. It is necessary to remove the obstacles which limit employers or significantly complicate or increase the cost of employment and laying off workers, and to consider the level of protection of employed workers, as well as how the established system of protection of the employed is negatively affecting the unemployed, making them unable to become integrated in the labour market. It is necessary to review and enhance the legal framework to increase the flexibility in determining working hours and wages and to examine to what extent the existing legal framework enables flexible forms of employment of workers. Furthermore, social protection contributions must be reduced, especially for those with lower incomes. In that way, labour costs would be reduced, investors attracted while more employed persons would be introduced into the formal sector. At the same time, the entities must intensify labour inspections and increase fines for violations of the labour law, and workers' rights must be

protected in accordance with standards of the International Labour Organisation.

One of the sectors which highly contributes to high unemployment rates and the informal economy is the agriculture sector, and it is therefore necessary to focus specifically on regulating the status of individual agricultural producers.

Existing forms of socio-economic dialogue have been reduced to negotiations on the labour cost, height of compensations for overtime work and the past labour allowance in case of change of job.

While socio-economic councils function to some extent at the entity level, such a council has not been formed at the state level. Bosnia and Herzegovina is obligated to establish a socio-economic council at the state level in order to harmonise with the requirements of the conventions of the International Labour Organisation and fulfil the prerequisites in the process of EU Integrations. The formation of an efficient socio-economic council is the first step towards creating an effective forum in which issues of structural changes in labour relations will be resolved.

It is necessary to enhance the work of the key institutions of the labour market. Currently, the coverage of the unemployed by services provided by employment bureaus is almost negligible and has to be significantly increased.

It is also necessary to network those institutions in terms of information and statistics. Among other things, this refers to networking with the information system of pension and health funds, etc. Employment agencies must introduce legal practices for the increase of re-employment and in order to separate the right to health insurance from unemployment status.

Structural unemployment is a consequence of the lack of harmonization between the skills of

the unemployed and skills demanded by employers for new jobs. In cooperation with interested parties, an analysis of skills in demand in the labour market must be carried out, and development planning, retraining and additional training must be carried out accordingly.

Measures aimed at increasing accessibility of additional training and retraining to the unemployed provide them with the opportunity to continuously acquire new skills through work or at the time of unemployment. There are at least three weak points which must be addressed adequately in order to enhance the supply in the labour market:

- secondary vocational schools (rigidity of curricula, insufficient professional education of teachers, orientation based on outdated economic structure, lack of incentive for entrepreneurial education, etc. require a thorough reform of the system);
- adult education (existing human resources that must be retrained for employment and develop lifelong learning which requires a contemporary economic and technological environment);
- lack of modern entrepreneurship centres for the professional development of technical and technological skills (which are necessary for „broad qualification profiles“ necessary primarily in SMEs).

Priority:⁹²

- ✓ Efficient coordination in the area of labour and employment

V.4.2. Increasing inclusivity in education

Out of all the factors that increase the risk of economic uncertainty, unemployment, poverty and social exclusion, the most significant and most influential are the level and quality of education. Access to education and its quality are the best means for ensuring economic development, prevention of unemployment, poverty and, consequentially, social exclusion. On the other hand, early school leaving, low level of pre-school education enrolment, inadequate access to education, inequalities/discrimination in education, education that is not networked with the labour market and that does not keep up with the latest reform trends, as well as underachievement in education, all result in a poorly educated population that cannot compete in the labour market either within or outside the country. According to the Human Development Report (2007, UNDP), persons with completed primary education are at most risk of poverty considering the current income levels, while persons with completed university level education are two times more likely to achieve the optimal standard of living.

Fragmentation of the education system in Bosnia and Herzegovina has led to the existence of 14 education policies that are not complementary for many reasons, and are, in some cases, even conflicting. Such a situation has caused the insufficient and inadequate vertical and horizontal coordination of the national education system. Although the BiH Ministry of Civil Affairs coordinates this area at the state level, education is under full jurisdiction of the cantons in the Federation BiH, of the entity in Republika Srpska, and of Brcko District BiH. In the Federation BiH, every canton

⁹² Note: The powers of the BiH Council of Ministers were considered in determining the priorities from the area of employment

has its own legislation providing for pre-school, primary, secondary and higher education. In RS, all the levels of education are legally regulated by the entity legislation. Brcko District BiH, as a separate organisational unit in BiH, has its own legislation providing for each of the four education levels. Such a decentralised system prevents a uniform approach to education policies, amplifies differences in human resources development in different parts of Bosnia and Herzegovina, and generates a series of problems in the hierarchy of competencies, responsibilities and coordination.

Education in BiH is mainly financed from the public funds of the entity, cantons, Brcko District and municipal budgets. Practically, in terms of allocations, this means that there are 13 separate budgets for education in BiH: two entity budgets, one in Brcko District, and ten cantonal budgets. The amount of allocated funds from the state level practically does not exist. Republika Srpska spends around 4%, while the Federation of Bosnia and Herzegovina spends 6% of its GDP on education. Budget for education of the Brcko District BiH accounts for 11.2% of the total budget of Brcko District BiH. Of the total budget for education, 88% is allocated for gross salaries and compensations for the staff, around 8% for material expenses, and 4% for capital investments.

The latest estimates on the percentage of children enrolled in pre-school education and upbringing were presented in the Multiple Indicator Cluster Survey (MICS) for Bosnia and Herzegovina, implemented within the framework of the fourth global cycle of Multiple Indicator Cluster Survey (MICS 4). According to Survey results, the percentage of children attending the first grade of primary school who attended pre-school education a year prior to school enrolment in the Federation BiH is 18.4%, in Republika Srpska 13.3% while data for Brcko District are not presented due to a small sample. Percentage of children attending the

first grade of primary school who attended pre-school education a year prior to school enrolment for the level of BiH is 16.3%. According to the aforementioned, we can state that coverage of children with pre-school education in a year prior to school entrance is higher in Federation BiH than in the rest of the country. Furthermore, the percentage of 3-5 year old children included in pre-school education and upbringing is 14.4% for the Federation BiH, 10.3% for Republika Srpska, and 13.1% for Bosnia and Herzegovina.

However, given that pre-school education and upbringing in a year prior to school entrance is prescribed as compulsory under the Framework Law on Pre-School Education and Upbringing in Bosnia and Herzegovina (hereinafter in the text: the Framework Law), it will be necessary to further increase the number of 3-6 year old children covered by programmes of pre-school education. Still, significant progress was made in the year before starting school and since the start of the academic year 2014/2015 100% enrolment of children was achieved in the Cantons of Sarajevo, Tuzla, Bosnia-Podrinje, Zenica-Doboj and the Brcko District. In the BiH 2012 Progress Report, put forward by the European Commission, which established progress achieved in fulfilling the obligations taken over in process of the European integrations, it is stated that there was a slight increase in the number of children attending pre-school education, but no progress was made in harmonising cantonal pre-school education laws with the Framework Law. This assessment refers to three cantons (Middle-Bosnia, Herzegovina-Neretva, and West Herzegovina canton), which still have not adopted the laws on pre-school education and upbringing harmonised with the Framework Law.

In the school year 2012/2013 there were 243 pre-school institutions in total in BiH, which is an 8.9% increase relative to the previous year when there were 223 pre-school institutions. This is

the highest recorded annual increase as of 2005. The number of children attending pre-school institutions has also increased by 8.8% to stand at 18,817 children. However, the number of the children who were not enrolled due to filled in capacities of the pre-school institutions rose as well. While in the previous year the number of not enrolled children was 1,753, the number of these children in the school year 2012/2013 rose to 2,403, which is an increase by 37%. The number of public kindergartens has increased to 177 (by four pre-school institutions in total), while the number of private kindergartens increased to 66 from 50 recorded in the previous school year. On average, there were 14 children per one teacher both in public and in private kindergartens.⁹³ A new strategic document for the area of pre-school education and upbringing in BiH is currently being prepared and it will be focused on approach, enrolment and public-private partnership as possible means of resolving the issues of capacity of pre-school institutions.

The estimated rate of school attendance for children 6-14 years old is 97.6% for Bosnia and Herzegovina, with 98.9% for Republika Srpska and 97.2% for the Federation BiH (96.9% girls, and 97.4% boys)⁹⁴. Observing the enrolment trends in first grade of primary schools in the Federation of Bosnia and Herzegovina for the period between school years 2008/2009 and 2012/2013, for which there are available statistical data, we can establish that the number of pupils enrolled in the school year 2012/2013 decreased by 2,017 relative to the school year 2008/2009, or, in percentage, by 8.76%. If, however, we observe the upward and downward trends of the total number of primary school pupils, we will establish that

in the previous five-year period there was a decline in the total number of pupils in primary schools in Bosnia and Herzegovina. Therefore, the total number of primary school pupils in the school year 2012/2013 was reduced by 39,513 compared to the school year 2008/2009, which expressed in percentages represents a decrease by 16.53%.⁹⁵

Only 83.2% of six-year old children in Bosnia and Herzegovina attend first grade of primary school, with this data even more unfavourable for the Federation BiH reaching 79.7% as opposed to 92.9% in Republika Srpska. This may be related to the fact that some parents in BiH still do not enrol their children in the first grade of primary school at the age of six.

The nine-year common core primary education curriculum was introduced in most schools in the country, while the number of "divided schools" (phenomenon also known as "two schools under one roof") was reduced from 83 to 19. However, at the same time the number of mono-ethnic schools has increased, which hinders long-term integration. There are cases of discrimination of children who are members of national minorities.⁹⁶

Regarding lifelong learning, BiH is positioned worse than EU 27. The share of adults (25-64) participating in some form of education and training in 2010 in BiH was 2.1%. During 2006-2010, BiH changed its position from 84 index points to 104 index points. However, in EU 27 this share is larger by as many as 4.5 times, i.e., 9.1% of adults (25-64) in EU 27 participates in some form of education, and interestingly, this share reduced in the period from 2006-2010 (9.7% in 2006).

In regard to early school leaving, in 2010, 14.5% of persons aged 18-24 in BiH had up to two grades of secondary school while, at the

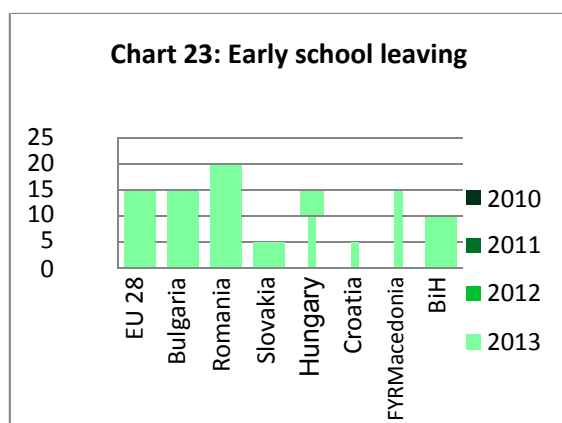
⁹³ BHAS, Education 2013.

⁹⁴ UNDP, Multiple Indicator Cluster Survey (MICS) for Bosnia and Herzegovina 2011–2012.

⁹⁵ BHAS, Education 2013 and DEP calculations.

⁹⁶ Research on Non-Enrolment and Primary and Secondary School Dropout in Bosnia and Herzegovina. (MDG F YERP/UNICEF)

same time, 14.1% of persons in EU 27 dropped out. The enrolment rate in secondary schools in BiH is 76.2%⁹⁷. Around 54% of pupils complete secondary school in regular term, whereas only 24% of secondary school pupils continue their education in post-secondary or higher education institutions. Dropping out of secondary education (32.2%) is, for the most part, related to juvenile delinquency (52.0%), belonging to the Roma population (48.3%), and poverty and material situation of the family (37.9%).⁹⁸



Source: Progress Report, European Commission

There are multiple reasons for early leaving of primary/secondary school. The economic situation of BiH as a country is very poor, which reflects on some households. This means that a number of families are in a bad economic situation and, as a result, parents are unable to financially sustain the education of their child. Apart from that, there are a number of children in BiH who have limited access to schools because they live in rural or remote, isolated areas which frequently have no access roads that would enable movement to motorized vehicles. Such children must walk as much as ten kilometres to school through inaccessible, and sometimes dangerous, terrain. Undeveloped awareness and lack of information of some parents concerning the need to educate their child is

⁹⁷ UNDP, Multiple Indicator Cluster Survey (MICS) for Bosnia and Herzegovina 2011–2012.

⁹⁸ Research on Non-Enrolment and Primary and Secondary School Dropout in Bosnia and Herzegovina. (MDG F YERP/UNICEF). 2011.

also one of the factors behind the non-enrolment of children in primary schools.

This is particularly common amongst parents with low levels of education and intellectually disabled parents.

Children with special needs, more precisely, developmentally challenged children or children suffering from a chronic condition through which they are forced to stay in hospital or at home, are groups of children who sometimes either do not enrol in or drop out of the primary education system. There are cases of returnee children not attending school as well. As for these children, there are inadequacies within the education system, particularly regarding the language of instructions which is not their mother tongue. Another vulnerable group comprises children who have reached the age of 15 but have not attended primary school since, according to the law, they fall under the adult education system which implies special exams. Children coming from families in social need, also drop out of secondary education to a high extent. Families where parents are unemployed or only one parent works, have low income and cannot find means to finance further education of their children.

Roma population in BiH is particularly vulnerable. Roma children do not attend school because, among other things, they do not exist in the eyes of the state authorities as they do not have a birth certificate or any other identification document. This is frequently the fault of the parents who do not see the need to register the birth of their children since they themselves are not registered and do not know how to register the birth of a child. Roma families often move and change their place of residence and thus do not feel the need to be tied to an area through documentation. High illiteracy rates in this category of population result in a lack of awareness of the importance of education for child development. The third

reason why this population records high rates of children who did not complete primary education is the lack of opportunities for education in their mother tongue. Their children have poor knowledge of the languages of the three constituent peoples prior to enrolment in school and only start learning these languages in school, which adversely affects their academic achievements. There is a common opinion, since no official data exist, that a large number of Roma children drop out of primary school. It is estimated that as many as 46% of Roma children drop out of primary school, whereas less than 15% of Roma children in Bosnia and Herzegovina were enrolled in secondary education.⁹⁹

Priorities:

- ✓ Increase educational coverage of the population, especially of vulnerable groups
- ✓ Harmonise the education system with the needs of the labour market and the needs of economic and social development
- ✓ Continue the process of integrating BiH into the EU educational space
- ✓ Enhance access to pre-school education and upbringing
- ✓ Decrease early leaving of education

V.4.3. Reducing poverty and social exclusion

Equal rights for all and the recognition of the dignity of all persons, regardless of their ability to meet their own needs is the approach to the interpretation of the term social cohesion used by the Council of Europe. A series of civil, political, social and economic rights is protected by two instruments of the Council of Europe: the *European Convention on Human Rights* and the *European Social Charter*, as well as by

⁹⁹ Research on Non-Enrolment and Primary and Secondary School Dropout in Bosnia and Herzegovina. (MDG F YERP/UNICEF).

institutions in charge of ensuring respect of those rights. Principles of equality and non-discrimination are an integral part of all human rights declarations.

Non-discrimination is a human right in itself, as well as the most important element of all other human rights. The non-discrimination principle is a crucial aspect of Annex VII of the Dayton Peace Accord and, although BiH has adopted numerous national instruments which obligate it to adopt mechanisms for protection against discrimination, there is still a lot to be done and enhanced in this area. Monitoring and implementation of international conventions on human rights, promotion and protection of human rights and fundamental freedoms, gender equality issues as well as rights and issues of displaced persons and refugees and providing the preconditions for sustainable return, as well as creation of BiH policy on emigration, are all challenges BiH will face in the future.

The recent crisis faced the social protection system of BiH with a challenge when it comes to dealing with a rising number of socially excluded categories of the population and decreased public funding. The link between health, education, employment and living standard is evident and improvement of the social protection system is a key factor for enhancing the living standard for vulnerable groups. Legislature, planning and enforcement of social protection policies lies under the jurisdictions on the entity (RS), cantons in FBiH and Brcko District. BiH allocates around 24% of the GDP to various social protection programmes, including programmes of social security and social assistance, without unemployment benefits.¹⁰⁰ Most of the total costs are incurred by programmes based on contributions, i.e. health protection (10.2%) and pensions (10.1%). Social assistance

¹⁰⁰ World Bank, Public Expenditure and Institutional Review (2012).

programmes account for 3.9% of the GDP which, in comparison with other countries of the Western Balkans, makes them the most expensive. Social protection systems must not interfere with economic stimuli and must be financially sustainable. In order to achieve that, the Governments must improve the targeting of social protection by devising a package of measures which will make social protection policies more efficient, effective and just. Pension systems should also rest on solid financial bases if the aim is to resolve the multiplying workers' issues in the medium term. Insurance systems must be firmly financially based by freezing costs of privilege pensions and decreasing early retirement options for occupations at risk, introducing reasonable penalties for early retirement and bonuses for late retirement to extend the effective retirement age.

Strengthening the social protection system to improve the estimate of needs, determine priorities and target beneficiaries more accurately is a priority of BiH. Resolving it will ensure coverage of the poorest and most socially excluded by the social protection system and increase their access to social protection, as well as enable fair and fiscally sustainable distribution and consumption. A review verifying the eligibility of social protection beneficiaries must be accelerated with the support of entity-level Governments.

The global economic crisis and slow recovery annulled some of the progress that BiH had made earlier in poverty reduction. Data of the Household Budget Survey from previous years demonstrates that poverty has increased. (Absolute poverty in BiH has increased by around 5 percentage points from 18.6% in 2007 to 23.4% in 2011). This fact is also seen in other, more recent

indicators. For example, employment rates in 2013 (31.6%) and 2014 (31.7%) were below the 2008 average of 33.2% (before the crisis), while the unemployment rate increased to 27.5% (2013 and 2014), as opposed to 23.4% in 2008.¹⁰¹ It is estimated that over 100,000 people,¹⁰² mostly youth, emigrated from BiH after the war. Apart from having an adverse effect on the general demographic situation, this fact also disrupted social cohesion and stability. Emigration is one of the most urgent post-war socioeconomic challenges which Bosnia and Herzegovina is facing. A large share of the economically active population has emigrated. The average age of emigrants from BiH to USA is around 30, to Europe 41.5, and around 38 to countries of former Yugoslavia. There is no precise data on "brain drain". As an example, World Bank data from 2000 states that the percentage of the population that emigrated from BiH was 23.9%, which places BiH in second place in the region of Europe and Central Asia, while the percentage of qualified doctors of medicine that left the country was 12.7%.

Poverty is most frequently measured with indicators related to income, while the multi-dimensional nature of poverty is observed through long-term or permanent lack of resources, abilities, choices or security conditions that are necessary to enjoy an adequate living standard and fulfil economic, political, cultural and social rights.

Poverty is widespread and covers a rather heterogeneous structure of the population. Children, displaced persons, returnees, persons with disabilities, the unemployed, pensioners and unqualified persons are especially at risk.

¹⁰¹ BHAS data

¹⁰² Data of the Ministry of Human Rights and Refugees

According to the latest data of the BiH Agency for Statistics, which is based on the Household Budget Survey carried out in 2011, 17.9% of the population lived in relative poverty (the relative poverty line was KM 416.40, monthly per adult equivalent). One in six households in the country was poor and poverty was higher in Republika Srpska, where almost a fifth of the population was poor, while it was lowest in Brcko District where almost one seventh of the population was relatively poor. The average consumption expenditures of poor households in BiH are on average 25.2% below the poverty line. The distribution of equivalent consumption expenditures was rather uneven because 20% of the wealthiest households consumed on average 4.9 times more as compared to the poorest 20%. Inequality is higher in FBiH compared to other parts of the country (5.2 as opposed to 4.4). Average monthly consumption in 2011 was 20% higher in urban than in rural areas.

Poverty in BiH has been measured since 2001, material deprivation since 2011, whereas households with low work intensity are not monitored. In the EU, those three indicators are the basis for measuring poverty and social exclusion, and together they make one indicator, the so-called AROPE (at-risk-of-poverty and exclusion). In 2009, the World Bank provided an AROPE estimate for BiH stating that 2.7 million people (59%) are poor and /or socially excluded. In comparison to the EU, Bulgaria had the highest AROPE (41%).¹⁰³

Poverty is closely related to social exclusion. According to the Human Development Report (UNDP, 2013) BiH is ranked 81st among 186 countries, with a Human Development Index¹⁰⁴ of 0.735 and a Multidimensional

Poverty Index (MPI)¹⁰⁵ of 0.003%. According to that report, 0.8% of the population of BiH is multiply deprived. In relation to EU member countries (Slovenia, Slovakia, Bulgaria, Romania, the Czech Republic, Hungary, Poland) BiH is below the standard of development in those countries by all indicators. According to economic indicators and education indicators, those countries are far above BiH level of development. Development losses due to uneven distribution in those countries are significantly lower than those registered in BiH, with the exception of Romania.

The most vulnerable groups are: persons with disabilities, the Roma, returnees and internally displaced persons, families with two or more children, the elderly, unemployed and underqualified, women, youth and children. Inequality among persons with disabilities, children, as well as significant urban, rural and gender differences, are tangible. The issue is additionally exacerbated by an inefficient, uneven and fragmented social protection system that is not in the service of the poor and those in need.

Challenges of vulnerable target groups

Children

Particular attention should be paid to the vulnerability of children growing up in poverty stricken households who are members of socially vulnerable groups. When estimating poverty based on income, housing conditions and deprivation in terms of health

¹⁰⁵ The MPI identifies multiple deprivation of households in all three dimensions of human development – in the area of education, health and living standard. The MPI also reflects poverty occurrence and the share of the population living below the poverty line (headcount ratio -H) – that is, the share of the population which is multidimensionally poor – and the average intensity (A) of their poverty – the average proportion of indicators in which poor people are deprived. The MPI is calculated by multiplying the occurrence of poverty by the average intensity of all the poor (H*A). A person is identified as poor if they suffer deprivation in at least one third of the weighted indicators.

¹⁰³ EUROSTAT

¹⁰⁴ The Human Development Index includes three fundamental dimensions of human development, which relate to the achievements expected to be made. The dimensions are: - life expectancy, achieved with the ability to live a long and healthy life, - level of education is achieved through the capacity to gain knowledge, - living standard is achieved through the ability to ensure a decent income for life.

care and education, more than one half of children living in BiH is exposed to multiple dimensions of poverty (in the case of Roma children, almost 80%). According to data of the HBS 2011, the poorest families are those with two or more children (19.7%). Poor households have two children or more than the average household. The Survey also shows that children living in households headed by women (23%) are far more at risk of poverty and deprivation compared to children living in households headed by men (18%). The most important reason for this difference is inequality between genders in income levels.

Women

Only 37% of women was employed in 2014. Just 33% of women was active in 2014, which remains the lowest level of women's participation in the labour market in Southeast Europe. Inactivity is especially visible among the female population from poor households. The group of women which is most exposed to poor material conditions are single mothers or women household heads. The unfavourable situation of women is significantly affected by the disparity between men and women in terms of education. A total of 69.3% of the inactive population are women with primary or lower education. It is therefore believed that better accessibility to higher levels of education, employment and selfemployment of women is the best means of reducing poverty and preventing social exclusion of women. Apart from that, economic empowerment of women is thought to be the prerequisite for the reduction of violence against women and in the family. Regardless of invested efforts and a comprehensive legal framework in power, the first Survey on Prevalence and Characteristics of Violence Against Women in BiH carried out in 2013 showed that almost half of surveyed women (47.2%) experienced at least one form of violence after the age of 15.

Formally speaking, women's rights in BiH have been significantly reaffirmed. Along with constitutionally guaranteed gender equality, the Law on Gender Equality in BiH was adopted in 2003. After the adoption of the Law, institutional mechanisms for issues of gender equality were set up at all levels of governance in BiH. The BiH Gender Action Plan 2013-2017 was adopted, defining the strategy and programmatic goals for achieving equality between men and women in BiH, parallel to joint strategic goals in all areas.

Youth

The youth population in BiH is faced with economic, institutional and social challenges. Three out of four young people are unemployed. The biggest issue among young people is unemployment and difficulties which they encounter in finding jobs. The majority of them are not married, are without children and have not permanently resolved their housing situation. The increasingly technological labour market requires skills which many young people do not have. Youth (15–24) accounts for around 16% of the population in BiH. The activity rate of population in 2014 was 29.3%, the employment rate was 10.9% and the unemployment rate was an alarming 62.7%,¹⁰⁶ while the youth unemployment average in EU 28 was around 23.5%.

Participation of young people in education decreases significantly after the age of 18, while transition to the labour market occurs around the age of 20. Only a small portion of young people at the age of 25 participates in education, with no discernible differences between genders. Men are mostly at a higher risk of leaving education prior to gaining qualifications. Research has shown that young people who

¹⁰⁶ BHAS, Labour Force Survey, 2014.

leave education need a lot more time (around 16 months) to be integrated in the labour market than their colleagues with professional qualifications (7 months). Unemployment mostly strikes persons with lower education levels such as secondary and vocational education.

With the goal of improving the situation of youth, it is necessary to focus activities towards programmes of professional orientation and counselling services for young people during schooling, strengthening the entrepreneurial spirit of youth through adjustments to curricula, enabling them access to sports and recreational activities, fulfilment of their cultural needs and strengthening preventive health protection. By devising a population policy it is necessary to set the foundations for planning and implementation of measures focused on stimulating the natality rate and ensure access to funds for housing support to young families.

The elderly

Elderly people (65+) account for around 17% of the population of BiH and that share is consistently increasing (i.e. 13.7% in 2005). The elderly are in a situation of severe social exclusion predominantly due to the current pension system in BiH. The pension system falls under the jurisdiction of the entities (while pensioners in BD have the option to choose between one of the two pension funds). However, there are still critical issues that must be adequately addressed. The current system is affected by key issues relating to the insufficient number of active insured persons in relation to the number of pension beneficiaries, which disrupts the concept of cross-generation solidarity of the pension and disability benefits system.

Although on average 10.3% of the GDP is allocated to the pension system, which is among the highest allocations compared to EU and Western Balkans countries, around

60% of persons aged over 65 do not have regular income based on old age pension (rural population, farmers). Such a low level of coverage of the pension system poses a severe social problem for BiH and places this group of the population at risk of poverty and social exclusion. Another large problem is that pensions of the majority of beneficiaries are not enough to cover basic life expenses. The lack of a population policy and a strategy on demographic ageing and elderly people limits the start of implementation of an approach which would resolve all issues and aspects that are crucial for the welfare of the elderly population.

Persons with disabilities

The total number of persons with disabilities in BiH is difficult to estimate due to the lack of a consolidated database.¹⁰⁷ It is estimated that as much as 10% of the population of BiH has physical, sensory, developmental, mental or emotional forms of disability, while 30% of the total population is directly affected by the consequences of disability which itself leads to a high risk of social exclusion. Most of such persons are still exposed to isolation and some form of discrimination.¹⁰⁸ There is also no available data on the unemployment rate of persons with disabilities. Employment and unemployment of persons with disabilities is not monitored in employment or unemployment records. Persons with disabilities, as is confirmed by the experiences in many countries, are additionally afflicted by poverty and social exclusion, which is also the case in BiH.¹⁰⁹ In practice, evaluation of the degree of disability by different categories for war veterans, civilian victims of war and civilian persons with disabilities is unbalanced,

¹⁰⁷ Statistics agencies keep records on children and adults with disabilities (sorted by type of disability and gender).

¹⁰⁸ IBHI, *Disability Situation Survey in BiH*, 2008.

¹⁰⁹ World Bank: Disability and poverty: Results based on Living Standard measurement survey in BiH, S. Tsurunyan. Presentation at the World bank/Lotos conference „Disability and poverty in BiH“, Sarajevo, 28 November, 2005

resulting in a division of persons with disabilities into several groups different by the definition, level of disability and scope of rights/benefits. Disabled workers, women and children with disabilities are inferior to other categories of persons with disabilities.

Persons with disabilities are most affected by poverty and unemployment. In BiH¹¹⁰ having a disability increases the risk of poverty by 18%. Almost two thirds of the total number of adult persons with disabilities live near or below the poverty line. Significant social, educational, economic, physical and communication barriers prevent most persons with disabilities to enjoy their fundamental rights.

Roma

According to the 1991 population census, Roma are the largest out of 17 national minorities in BiH.¹¹¹ The Ministry of Human Rights and Refugees (MHRR) started Roma registration in 2009. Based on various survey data it is estimated that there are at least 25,000 to 30,000 Roma residing in BiH and that around 39% of the Roma did not take part in registration. Roma NGOs estimate that the number of the Roma population is

somewhere between 80.1 and 100,000. In accordance with demographic trends, data of the MHRR shows that around 42% of the Roma population is under 19 years of age. The Roma population habitually faces social exclusion. On the one hand, this is a result of prevention of Roma inclusion which is rooted in racial discrimination and, on the other, a result of the objective consequences of the previously stated, the self-isolation of the Roma within their own communities. The real dimensions of the social exclusion of the Roma population are seen in some illustrative data. The Multiple Cluster Indicator Survey MICS (2012) confirms that, according to almost all indicators, the situation of the Roma population is significantly worse in relation to the general population. The rate of enrolment of Roma children in primary education is 69%, the literacy rate of Roma women (15-24) is 68.9% compared to 99.3% of women of the same age in the general population. The average number of years of education among Roma aged 16 to 24 was 5.3, whereas in the general population it was 11.1 years. In regard to post-secondary education, the numbers are 10% of the general population as opposed to 0% of the Roma.

A series of legislative initiatives were made in an attempt to resolve the difficult and unacceptable situation in which the Roma minority in BiH lives.

¹¹⁰ World Bank and IC Lotos, *Disability and Poverty in BiH* (based on data of the LSMS). 2006

¹¹¹ BiH Official Gazette, year VII No. 12, *Law on the Protection of Rights of Members of National Minorities*. 2003.

By adopting the *Law on the Protection of Rights of Members of National Minorities* and the BiH Strategy for Addressing Roma Issues, BiH has fulfilled the preconditions for inclusion into the initiative Decade of Roma Inclusion 2005-2015 and taken the responsibility of resolving problems faced by this population.

Ensuring access to education and health services as well as housing will enable an

an increase of social inclusion and reduction of poverty.

Refugees and displaced persons

Return continues to be one of the major challenges of this country nineteen years after the war with around 85,000 internally displaced persons and around 47,000 minority returnees until mid 2014.

Table 9: The situation of refugees and internally displaced persons in BiH, July 2014

<i>Persons with residence within BiH</i>	<i>No. of persons</i>
Refugees	6,907
Asylum seekers	15
Returnees	142
Internally displaced persons	84,500
Returnees-internally displaced persons	0
Stateless persons	792
Other cases	52,437
TOTAL:	144,793
<i>Persons originating from BiH</i>	<i>No. of persons</i>
Refugees	22,369
Asylum seekers	4,509
Returnees	142
Internally displaced persons	84,500
Returnees-internally displaced persons	0
Other cases	52,437
TOTAL:	163,009

Source: UNHCR, Statistical snapshot, July 2014

Renewal and reconstruction of devastated and damaged housing units of returnees, of the technical (electric, water and sewage network, road communication) and social infrastructure is a precondition for the full realization of return. Ensuring a roof over their heads and the accompanying infrastructure is not enough to ensure sustainability of return and full reintegration of returnees. While ensuring a roof over their heads and the accompanying infrastructure was synonymous with return immediately after the war, today, 20 years after the war, sustainability of return is almost ranked together with the need of house building.

The main elements of sustainable return are also its challenges. They are:

- ✓ *Ensuring access to adequate health protection.*
- ✓ *Equal access to education.*

According to the Law on Refugees and Displaced Persons, children of returnees have the right to education. Due to difficult conditions, a large number of the children of returnees leave school after completing primary education, especially in rural areas where a large share of children is still required to walk a long way to school.

The presence of division in society influences the choice of school and creates additional obstacles to children of returnees and internally displaced persons.

✓ *Right to work and employment.*

Issues pertaining to work and employment faced by the returnee population are related to the general situation in the BiH labour market (insufficient number of adequate jobs, inadequate skills, ruined economic system, etc.).

✓ *Right to social assistance, pension and disability protection.*

Lack of harmonisation of entity legislature and the lack of state-level legislature to regulate pensions and other social benefits are the cause of the problems of this population.

Considering the aforementioned, as well as the fact that the donor community has mainly withdrawn and that BiH does not have the economic capacity to adequately meet the many needs in the process of return, it can be concluded that the population of BiH, including returnees, is exposed to many risks that must be met by the social protection and inclusion systems. Those risks include long-term unemployment, youth unemployment, continuous emigration (especially of young and highly qualified work force), a large share of inactive population, low educational standards, socially vulnerable children, the elderly population with an increasing need for adapted services of protection and care, further exclusion of groups such as the Roma and persons with disabilities and issues of returnees. Identification of drawbacks and challenges is the first step towards facing the necessity of defining measures aimed at reduction of poverty, inequalities the harmonisation of rights across the country. Continuous change is necessary at the level of policy, legislature and budgeting, together with direct interventions at the local level

aimed at gaining concrete results for the most vulnerable. For BiH, which is confronted with the negative effects of continuous emigration (demographic issues and the growing problem of brain drain), it is highly important to utilise any possible positive effects of emigration and to include into its development plans the component of linking migration and development in the form of different contributions through financial, social and human capital, which includes investment, cash remittances, transfer of knowledge and technology, economic lobbying and other types of support. Regional inequalities are also one of the issues that must be resolved in order to reach a solution for more even and fair development in BiH in terms of economic opportunities, infrastructure and social protection. Therefore, the definition of long-term goals of strategic development focused on the development of priority and sustainable sectors imposes the creation of jobs and social inclusion measures as a priority. To that end, funds have been approved for the 2016-2018 period for projects implemented within the Social Inclusion programme at the institutional level in BiH in the total amount of KM 233.14 million. The structure of the categories is shown in the Map on page 73.

- ✓ Priority¹¹² 1: Enhance the human rights protection system and develop BiH relations with the emigrated population
- ✓ Priority 2: Efficient coordination in the area of social protection and pension insurance

V.4.4. Improving health care

Health is one of the most important preconditions for a high quality of life and is of key interest for the political and economic development of the country. A functional, accountable, inclusive and transparent health care system which has the capacities to ensure the realisation of one of the most fundamental human rights – the right to

¹¹² Note: Priorities are defined in accordance with the jurisdictions of the BiH Council of Ministers in this area

health protection, is the goal of any society, regardless of its level of development or political and institutional organisation.

Health promotion is the basis for continuous economic and social development and contributes to increasing the quality of life and world peace (World Health Organisation). The term *health* largely surpasses the framework of the health sector because its main determinants such as age, gender and heredity have a high correlation to living conditions, environmental factors, lifestyles, socioeconomic factors, factors related to education, upbringing and culture, as well as the functioning of the health and social protection systems. However, the direct effect of medical services on the improvement of health in the population, is estimated at just 10%, while the remaining 90% is the result of other processes,¹¹³ which emphasizes the importance of cooperation of the health sector with other sectors with the aim of improving the health of the population.

According to estimates of the BiH Agency of Statistics, BiH currently has a population of 3,831,555.¹¹⁴ The population of BiH is in the category of regressive population with a small share of children aged 0-14 (17%) and an increase of the share of persons over the age of 65 (15%). The continuous increase of the share of population over the age of 65 is a significant problem from the aspect of providing funds to finance services of social and health protection. The average life expectancy in BiH is 77 years of age.¹¹⁵ The natality rate in BiH in 2013 was 8.5% and indicated low value. The mortality rate is a result of the effects of biological, economic and health influences, so the general mortality rate, especially infant mortality, is a relevant indicator of the living standard. The mortality

rate in 2013 was 9.3% and has been increasing gradually over the last years. Infant mortality is one of the best indicators of the health of a population, especially children, as well as a reflection of the organisation of health protection. As the result of a drop in the natality rate and a slight increase of the mortality rate, the birth rate of BiH in 2013 was 0.8. Analyses of the general and specific mortality and morbidity rates, as well as numerous other parameters, can serve as a means of estimating the efficiency and effectiveness of health protection systems and are the starting point of planning in the health sector.

According to aggregated health indicators, BiH can be compared with other countries of Southeast Europe, as well as EU member countries. While the health of children has been significantly enhanced with a child mortality rate of 5 per 1,000 live births, the mortality rate of Roma children is three times higher. Maternal mortality has been halved over the last 20 years and stands at 8 cases per 100,000¹¹⁶ live births.

The enhancement of preventive health services and access to health services in general, especially to children, should be seen as priorities of all Governments.

Nutrition is a key challenge of public health care: stunted growth is almost three times more present in Roma children, while almost one in five children within the general population is overweight. Non-contagious diseases are the leading cause of illness and death in. Half of deaths within the population are caused by cardiovascular diseases, and 20% by malignant diseases.¹¹⁷ An important method of battling non-contagious disease is to focus on the reduction of risk factors, as well as health education campaigns. An aging

¹¹³ Dahlgren G., WHO Regional Office for Europe. (1994). *The Need for Intersectoral Action for Health. The European Health Policy Conference: Opportunities for the Future*. p.18.

¹¹⁴ BHAS, estimate as of 30th June, 2013.

¹¹⁵ World Health Organisation - estimate for 2011.

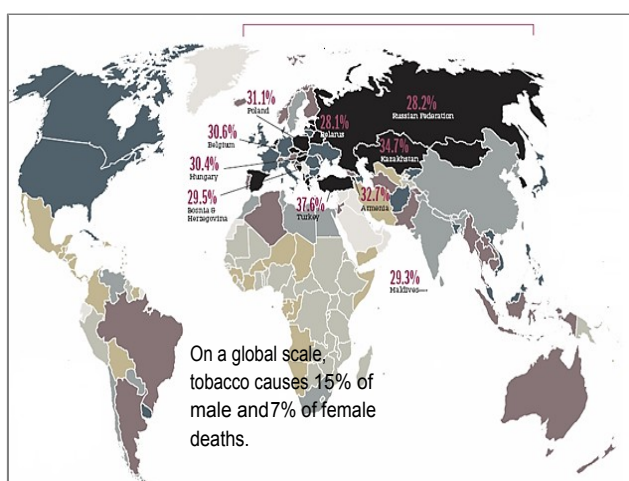
¹¹⁶ MICS (2012.)

¹¹⁷ DEP calculations based on Demography 2012, BHAS, December 2013.

population, nutrition, smoking, alcohol consumption and malignant disease are the key contributors to the poor health situation of the BiH population.

In terms of its effectiveness and functioning, the health care system in BiH is confronted by many challenges: administrative fragmentation and insufficient cooperation with other sectors lead to inefficiency in the provision of and unequal access to services. Health protection services cannot be transferred between entities, which results in uneven access to health services.

Map 1: Percentage of male deaths caused by tobacco consumption, 2004



Source: Tobacco Atlas, American Cancer Society and the World Lung Association; highlighted countries have a percentage of over 28%

Regional coordination of the legal framework, standards and procedures of the health system is in early stages of development. Harmonisation of health laws, standards and procedures with the *acquis communautaire* is performed on an *ad-hoc* basis, although the Council of Ministers adopted the Decision on the instruments for harmonisation of the EU *acquis* in 2003 (BiH Official Gazette, Issue No. 44/03), and that harmonisation became binding through signing the Stabilisation and Association Agreement.

The lack of verifiable data on the costs of health protection services has an adverse effect on efficiency of the system. According to the European Health Consumer Index (EHCI)¹¹⁸ for 2014, BiH is in last place due to a staggering lack of data on health protection. BiH was awarded 420 out of 1,000 points, which is less than Albania, Serbia and Montenegro.¹¹⁹

The departure from primary health care, which covers activities of health promotion and health education of the population, has led to increased reliance on hospitals and orientation on treatment rather than preventive services which do not deal with the needs of vulnerable groups. The health protection system of BiH must adapt to the changing demographics and increasing disease patterns, especially of chronic diseases, the challenges of mental health and conditions related to ageing. Prevention and education activities related to HIV/AIDS and tuberculosis, which are implemented through projects supported by the Global Fund to Fight AIDS, Tuberculosis and Malaria and cover at risk population groups, are positive examples.

¹¹⁸The EHCI has become the standard in monitoring contemporary health protection since 2005. It consists of a combination of public statistics, survey carried out among patients and independent research conducted by Health Consumer Powerhouse Ltd. from Sweden.

¹¹⁹HCP Health Consumer Powerhouse Ltd: Brussels, January 2015: The last place should be viewed in the following context: „With the same quality of data as in Albania or FYR Macedonia, in the case of BiH we would determine greater efficiency. That is one of the ways in which we can apply pressure on the governments to take data preparation seriously.“

In order for the population to have equal access to health protection, it must have a firm basis in health insurance coverage. Inequality in access to health protection services is perceived as another challenge for the BiH health care system. Persons with disabilities, as well as the population of rural areas, have difficulties accessing health protection, regardless of health insurance coverage. Health services costs and underdeveloped road infrastructure in some areas are the main obstacles for the realisation of the right to health protection. It is estimated that around 17% of the population of BiH is not covered by health insurance.¹²⁰ For those who do not have health insurance have access to free emergency care through the health protection system, while non-emergency health protection services are charged. Inefficient collection of contributions for health protection deprives the health protection system of the necessary funding, especially for vulnerable groups of the population, and requires a response in the form of measures aimed at the promotion of a more inclusive

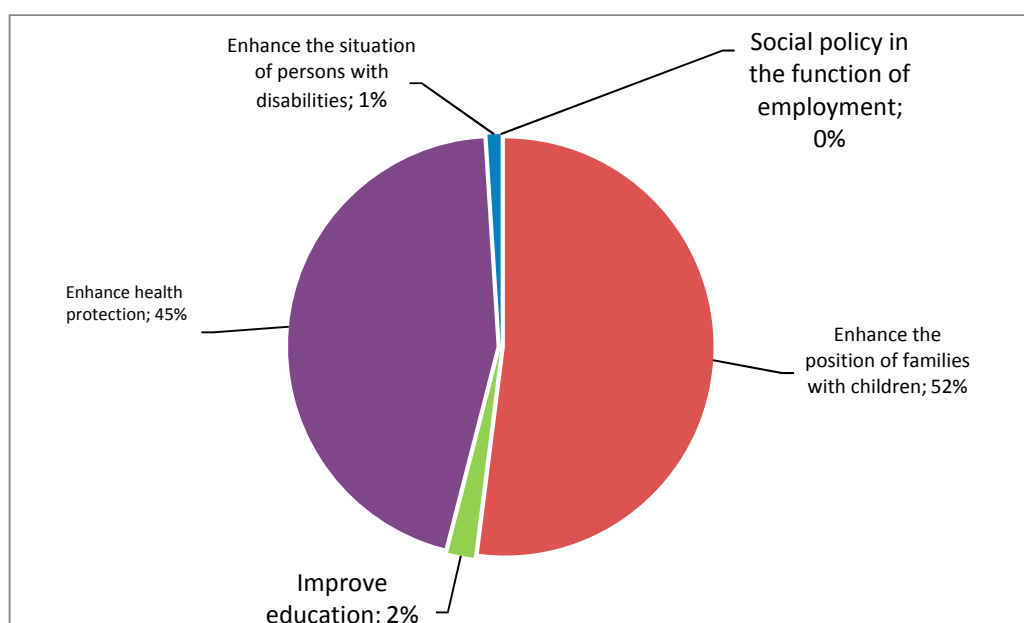
health protection system through the enhancement of access to health protection services.

Health policies must be streamlined towards the reduction of social exclusion, inequalities in health within the country, as well as of different social groups with the increase of efficiency and quality of health services in accordance with new challenges (ageing of the population, increasing number of women in the labour market, increased number of single-member households and households without children). It is very important for key policies to be focused on prevention, as the most efficient method of mitigation of poverty and social exclusion, as well as early intervention in order to avoid an increase of the socially vulnerable population.

Priority:

- ✓ Efficient coordination of activities in the area of health.

Chart 24: Structure of investment into the operative programme *social inclusion*



Source: Programme of public investments of the institutions of Bosnia and Herzegovina 2016-2018

¹²⁰ DEP calculations

V.5. Governance for growth

According to the South East Europe 2020 strategy, governance is a comprehensive component and precondition for efficient implementation of political measures and achievement of the laid goals. Well-developed administration is an important contribution to economic growth and development. Cooperation and coordination across institutions focused on policy development and the distribution of good practices is important in all levels of governance, and it will contribute to economic development.

V.5.1. Accelerating process of transition and capacity building

The transition and capacity building process is crucial to the success of administration, which should contribute to the economic and social development of BiH and coordination of sectors such as agriculture, finances, transport, justice and others. Experiences of other countries in Central and Eastern Europe demonstrate that the path to EU membership imposes great demands on state administration, and the success of each government in joining the EU depends on its ability to implement reforms in accordance with EU membership criteria. This covers the central dimensions of public administration, including state services and human resources management, accountability and provision of services, public (financial) administration and procurement, policy development and coordination, as well as the fight against corruption.

Public administration in BiH must be improved in order for the country to prepare for harmonisation with the challenges of EU Integrations, and in order to ensure more efficient, effective and dependable services provision to the citizens.

That is a prerequisite for BiH integration into the European Union, which deems strengthening of administrative capacities and the creation of an effective public

administration for the realisation of the *acquis* one of the conditions for membership. That includes the need for further reform of administration of public financing and the state statistical systems.

BiH is implementing the Public Administration Reform Strategy and its accompanying Action Plan*. According to the Strategy, it is important to develop the capacities of ministries in order for them to be capable to keep sufficient track on Government priorities, especially those pertaining to the EU legislature. Ministries are the primary bodies in which policies and legal regulations are developed within the framework of their respective jurisdictions.

Public administration should provide high quality services to citizens and companies, design and stimulate private initiatives and, therefore, it must be up-to-date, flexible and open to public participation. Better coordination at all levels is important in order to avoid adopting inadequate and mutually contradictory policies and laws. Policy inconsistency leads to increased risk of duplication, inefficient spending, low quality of services, difficulties in achievement of strategic goals and, finally, a decrease of administrative capacities. Development of the capacities of central structures for policy development is highly important for coordination and development of strategies, as well as general policies.¹²¹

Through the document Enlargement Strategy and Main Challenges 2014-15, the European Commission emphasizes public administration reform as one of the three pillars of enlargement, along with the rule of law and economic governance. All three “pillars” are closely related, horizontal issues being of fundamental importance for success in

*For the realisation of specific measures from the Public Administration Reform Action Plan finances of the PAR fund are used amounting to KM 17,274,186.00 (21 projects) and IPA funds amounting to KM 4,611,660.00 (2 projects).

¹²¹ BiH Public Administration Reform Strategy

¹²² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 8.10.2014.

political and economic reforms and the building of the foundations for application of EU rules and standards. While recognizing the challenges faced by countries in the enlargement process, the Commission strengthens its support to the establishment of necessary administrative structures and capacities in the accession process and emphasizes the need for structured efforts to reform public administration in countries of the region, including BiH, as part of these issues: strategic framework for public administration reform, policy design and coordination, public service and human resource management, accountability, service provision and public finance management.

An efficient public finance management system is also important for the EU Integration process, in terms of ensuring fiscal sustainability and efficient use of public finance. Public finance is the area of EU's highest expectations, due to the fact that the state will have to efficiently manage EU funds and form a state budget in accordance with development priorities.

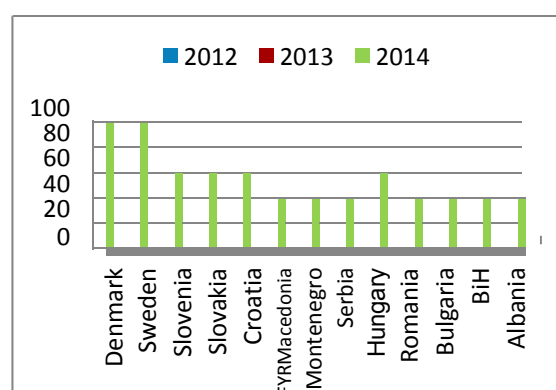
Corruption is a major issue in BiH public sector. A high level of corruption is a symptom of irregularities in administrative work, transferring costs to the citizens and economy. This makes the anti-corruption efforts of crucial importance for the development of all sectors and segments of society. In order to resolve this issue, according to the BiH Anticorruption Strategy and its Action Plan, the government must strengthen its integrity frameworks to create an efficient and accountable public sector and improve detection and prevention of corruption through adequate regulations, institutions and partners in civil society.

BiH is a signatory of the UN Convention Against Corruption (UNCAC). Member countries of the Convention have introduced a mechanism to monitor its implementation with a review process which estimates the implementation of UNCAC provisions in

signatory countries. One of the goals of that mechanism is to encourage joint efforts to implement anticorruption reform at the national level.

BiH must ensure that its judiciary and law enforcement agencies have the capacities and support in the fight against corruption and organised crime. In order to assist in resolving the corruption issue, the state must have a strong judiciary which is independent, unbiased, efficient and accountable, but law enforcement agencies must also have the capacities and support to fight corruption and organised crime. There is a large number of unresolved criminal and civil cases, which is a result of unharmonised practices of criminal and civil courts, fragmentation of budget structures and interference of other branches of government into the judiciary weakening its performance and independence. The level of efficiency and independence of law enforcement due to unnecessary political influence on the operative work of the police is also a cause of concern, as well as patronage and corruption.

Chart 25: Corruption Perception Index of BiH and comparator countries¹²³



Inadequate cooperation of law enforcement agencies and prosecution services reduces their preparedness to fight corruption and organised crime. EU's support to the judiciary has been increased and expanded over the past several years, gradually moving away

¹²³ Transparency International: Corruption Perception Index, 2014 (the higher the index, the better the country's anticorruption policy)

from the area of criminal law, especially regarding work on cases of war crimes, in order to encompass aspects of civil law and reduce the number of pending cases. With the significant amount of assistance of the EU, courts and prosecutor's offices throughout BiH have benefited from investments in the IT sector and the Case Management System (CMS) which is at the disposal of over 5,000 court users.¹²⁴ An online justice documentation system has been set up with access to over 10,000¹²⁵ court documents. The most important justice strategy is the Justice Sector Reform Strategy with its Action Plan, which expired in December 2013. Regarding criminal justice, the most important strategy is the National Strategy for War Crimes Processing. In the field of law enforcement, strategies include fight against corruption and organised crime, prevention and fight against money laundering, human trafficking and illegal drug abuse, as well as integrated border management, asylum and migration strategies.

The geographic position of BiH has many advantages, but also challenges in regard to border security. The region represents an important transit location for the flow of people and goods. That is especially important if we consider that the border with the Republic of Croatia is EU's external border. BiH must ensure efficient flow of people and goods. Borders must be secure and protected against any form of violation. By enhancing border control operations and harmonisation with the best practices and standards of the EU, BiH Border Police manages to continuously contribute to the reduction of illegal migration across the territory of Bosnia and Herzegovina. Currently there is a series of international contracts signed by Bosnia and

Herzegovina, which have direct or indirect influence on the contents and composition of the Migration and Asylum Strategy (2012-2015). Stipulations of those contracts are important in regard to both the realisation of previously adopted obligations of Bosnia and Herzegovina and the continuation of integration processes for membership in the EU. From that perspective, it is possible to state that the organisation of migrations and asylum is, in the context of earlier indications, exclusively the issue of Bosnia and Herzegovina's sovereignty as a state, especially considering the regulation of conditions of entry and residence for foreigners in the state territory and allocation of some form of international protection.

Priorities:

- ✓ Implement public administration reform
- ✓ Establish a corruption prevention system and capacity building of anticorruption bodies
- ✓ Strengthen the link between socioeconomic development policy and public finance administration
- ✓ Reform of the justice sector
- ✓ Improvement of the security sector from the aspect of accountability and efficiency for the purpose of the safety of citizens and property

¹²⁴ European Commission: BiH Progress Report, 2014

¹²⁵ European Commission: BiH Progress Report, 2014

VI Review of BiH obligations resulting from SAA

Less than seven years after the signing of the Stabilisation and Association Agreement (SAA), in a meeting held on 16th March 2015 the European Council on Foreign Relations has adopted conclusions on the SAA's entry into force. After that, on 21st April, the General Affairs Council (GAC) reached a decision on SAA's entry into force which will occur on 1st June 2015. With the SAA's entry into force, BiH will have to assume all obligations stipulated in it.

The SAA's entry into force on 1st June 2015 does not imply automatic transition into the next stage of integration. As stated in the conclusions of the EU Council from 16th March 2015, for entry into the next stage of the integration process - submitting a membership request to the EU, it will be necessary to achieve significant progress in the implementation of planned reforms, including the "Compact for Growth and Jobs", as well as to adopt an enhanced EU coordination mechanism.

The Directorate for European Integration is in the stage of preparing an Overview of SAA Obligations, which will clearly define all the obligations, deadlines and competent authorities in charge of its implementation. Considering the fact that the document is not yet prepared, the following text describes the most relevant changes brought by the SAA in comparison to the IA, as well as the obligations they prescribe.

The SAA's entry into force will terminate the application of the Interim Agreement (IA), while the deadlines set forth in the IA will be continued without interruption after its termination. Efficient and effective implementation of the obligations BiH adopted through the SAA will be one of the indicators for monitoring and evaluation of

the progress in the negotiation process.

The Stabilisation and Association Agreement confirms the status of the signatory as an associate member and as a potential candidate for EU membership.

The association of BiH will be conducted gradually and will be fully realised within the transition period of a maximum of six years (Article 8 of the SAA).

With the SAA's entry into force, relations of BiH and EU will be raised to a higher level, because the obligations resulting from political dialogue and regional cooperation (which are not in the Interim Agreement) become part of the contractual relationship.

Close relations of BiH and EU will be monitored and strengthened through political dialogue, which will contribute to the establishment of close relations of solidarity and new forms of cooperation on both sides. Political dialogue will primarily take place within the Stabilisation and Association Council, where important issues that occur within the Agreement will be considered, along with all other bilateral and international issues of mutual interest.

The Stabilisation and Association Council will be assisted in the implementation of its duties by the Stabilisation and Association Committee consisting of representatives of the EU Council and the European Commission on the one side, and representatives of the BiH Council of Ministers on the other (Article 118 of the SAA).

Political dialogue at the parliamentary level will take place within the SAA Parliamentary Committee which consists of Members of the European Parliament and of Members of the Parliamentary Assembly of Bosnia and Herzegovina (Article 121 of the SAA).

One of the most important obligations under the SAA is stipulated in Article 70 and refers to approximation of the legislation. It stipulates that BiH shall endeavour to ensure that its

existing laws and future legislation will be gradually made compatible with the EU *acquis*. BiH shall ensure that existing and future legislation will be properly implemented and enforced. The approximation shall start on the date of signing of the SAA, and shall gradually extend to all the elements of the *acquis* referred to in the Agreement by the end of the transitional period. In the early stage, the approximation will focus on fundamental elements of the Internal Market *acquis* as well as on other trade-related areas. At a later stage, BiH shall focus on the remaining parts of the *acquis*. Approximation shall be carried out on the basis of a programme to be agreed between the EC and BiH.

Within two years of the SAA's entry into force, BiH is obligated to enter into contracts on regional cooperation with other countries signatories of the SAA, with the aim of enhancing the scope of cooperation between the countries concerned (Article 15 of the SAA).

One of the main goals and crucial points of the SAA is the establishment of a free trade area between BiH and the EU (Article 18 of the SAA). That implies gradual establishment of a free trade area over a period lasting a maximum of five years from the IA's entry into force, in accordance with SAA stipulations and provisions of the GATT (1994) and WTO. The free trade area between BiH and the EU was established in accordance with Article 3 of the IA, concluding with 1st January 2014.

In accordance with Articles 47, 48 and 49 of the SAA pertaining to the free movement of workers, BiH shall ensure equal treatment of employees from BiH in EU countries and vice versa, and determine the rules of coordination of social security systems for workers. After

three years, the Stabilisation and Association Council shall examine the granting of other improvements, including facilities for access to professional training, in accordance with the rules and procedures in force in the Member States, and taking into account the situation in the labour market in the Member States and in the Community.

In regard to public procurement contracts, BiH shall be granted access to contract award procedures in the EU, pursuant to EU procurement rules, under treatment no less favourable than that accorded to EU companies (Article 74 of the SAA).

In regard to freedom of establishment, the EU shall grant as regards the establishment companies of BiH treatment no less favourable than that accorded by Member States to their own companies or to any company of any third country, whichever is the better. As regards the operation of subsidiaries and branches of companies of BiH, established in its territory, the EU will also grant treatment no less favourable than that accorded by Member States to their own companies and branches, or to any subsidiary and branch of any third country company, established in their territory, whichever is the better (Article 51 of the SAA). Subsidiaries of EU companies shall have the same rights to acquire and enjoy ownership rights over real property as companies of BiH and as regards public goods/goods of common interest, the same rights as enjoyed by companies of BiH. Four years after the entry into force of the SAA, the Stabilisation and Association Council shall determine the detailed arrangements for the extension of stipulations set forth in the Article.

BiH shall grant, by making full and expedient use of its existing rules and procedures, the acquisition of real estate in Bosnia and Herzegovina by nationals of

Member States. Within six years from the entry into force of this Agreement, BiH shall progressively adjust its legislation concerning the acquisition of real estate in BiH by nationals of the Member States to ensure the same treatment as compared to its nationals. The Parties shall also ensure, from the fifth year after the entry into force of this Agreement, free movement of capital relating to portfolio investment and financial loans and credits with maturity shorter than a year (Article 61 of the SAA). During the first five years following the date of entry into force of this Agreement, the Parties shall take measures permitting the creation of the necessary conditions for the further gradual application of Community rules on the free movement of capital. By the end of the fifth year following the date of entry into force of this Agreement, the Stabilisation and Association Council shall determine the detailed arrangements for full application of Community rules on the movement of capital (Article 62 of the SAA).

In accordance with Article 57 of the SAA (in regard to services provision), EU and BiH are obligated to take the necessary steps to allow progressively the supply of services by EU or BiH companies which are established in the territory of a Party other than that of the person for whom the services are intended. Four years after the entry into force of this Agreement, the Stabilisation and Association Council shall take the measures necessary to implement progressively the provisions of the Article.

BiH shall harmonise its legislation concerning personal data protection with EU law and other European and international legislation on privacy. BiH shall establish independent supervisory bodies with sufficient financial and human

resources in order to efficiently monitor and guarantee the enforcement of national personal data protection legislation (Article 79 of the SAA).

Cooperation policies stipulated in Title VIII of the Agreement, which are aimed contributing to the development and growth potential of BiH, as well as to sustainable economic and social development of BiH, are especially important. The policies refer to the following areas:

- Economic and trade policy that includes, among other things, cooperation between EU and BiH aimed at facilitating economic reforms in order to improve understanding of the fundamentals of their respective economies and the formulation and implementation of economic policy in market economies.
- Statistical cooperation which will, among other things, primarily focus on priority areas related to the EU *acquis* in the field of statistics. It shall notably be aimed at developing efficient and sustainable statistical systems capable of providing comparable, reliable, objective and accurate data needed to plan and monitor the process of transition and reform in BiH.
- Banking, insurance and other financial services, where cooperation will be directed towards priorities pertaining to the *acquis* in the fields of banking, insurance and other financial services.
- Audit and financial control cooperation, where cooperation will be directed towards priorities pertaining to the *acquis* in the fields of public internal financial control (PIFC) and external audit.
- Investment promotion and protection, where cooperation will be directed towards the creation of a favourable climate for private investment, both domestic and foreign, which is essential to economic and industrial revitalisation in BiH.
- Industrial cooperation, which shall aim

- to promote the modernisation and restructuring of industry and individual sectors in BiH.
- Small and medium-sized enterprises, where cooperation shall be aimed at developing and strengthening private sector small and medium-sized enterprises (SMEs) and shall take due account of priority areas related to the *acquis* in the field of SMEs, as well as the ten guidelines enshrined in the European Charter for Small Enterprises.
 - Tourism, where cooperation will mostly focus on strengthening the flow of information on tourism (through international networks, databanks, etc.), strengthening cooperation between tourism enterprises, experts and governments and their competent agencies in the field of tourism, and transferring know-how (through training, exchanges, seminars).
 - Agriculture and the agro-industrial sector, where cooperation between both parties will focus on priority areas of the *acquis* in regard to agriculture, veterinary and phytosanitary protection.
 - Customs, where cooperation will be established with a view to guarantee compliance with the provisions to be adopted in the area of trade and to achieve the approximation of the customs system of BiH to that of the EU, thereby helping to pave the way for the liberalisation measures planned under this Agreement and for the gradual approximation of the customs legislation of BiH to the *acquis*.
 - Taxation, where both parties shall establish cooperation in the field of taxation including measures aiming at the further reform of the fiscal system and the restructuring of tax administration with a view to ensuring effectiveness of tax collection and reinforcing the fight against fiscal fraud.
 - Cooperation in the field of social policy, where the parties shall cooperate to facilitate the development of the employment policy in the context of strengthened economic reform and integration.
 - Education and training, where the parties shall cooperate with the aim of raising the level of general education and vocational education and training in BiH, as well as youth policy and youth work, including non-formal education.
 - Cultural cooperation, where the parties undertake to promote cultural cooperation.
 - Cooperation in the audio-visual field, where the parties shall cooperate to promote the audio-visual industry in Europe and encourage coproduction in the fields of cinema and television.
 - Information society, where cooperation shall primarily focus on priority areas related to the *acquis* regarding the information society.
 - Electronic communications networks and services, where cooperation shall primarily focus on priority areas related to the *acquis* regarding this area.
 - Information and communication, where EU and BiH will take the necessary measures to stimulate mutual exchange of information.
 - Transport, where the parties shall focus on priority areas related to the *acquis* in the field of transport.
 - Energy, where cooperation shall focus on priority areas related to the *acquis* in the field of energy, including, as appropriate, nuclear safety aspects.
 - Environment, where the parties shall develop and strengthen their cooperation in the environmental field with the task of halting further degradation and start improving the environmental situation with the aim of sustainable development.
 - Research and technological development, where the parties shall

encourage cooperation in civil scientific research and technological development on the basis of mutual benefit and, taking into account the availability of resources, adequate access to their respective programmes, subject to appropriate levels of effective protection of intellectual, industrial and commercial property rights.

- Regional and local development, where the parties shall seek to strengthen regional and local development cooperation, with the objective of contributing to economic development and reducing regional imbalances.
- Public administration reform, where cooperation will aim to further the development of an efficient and accountable public administration in BiH, building on the reform efforts undertaken to date in this area.
- The implementation of the SAA's stipulations entails comprehensive new reform preparations, as well as full compliance to the Copenhagen criteria (1993) and the Madrid criterion (1995), i.e.: stability of institutions guaranteeing democracy, the rule of law, human rights and protection of minorities; existence of a functioning market economy that is capable of dealing with competitive pressures and market powers within the EU; ability to assume the obligations of membership, including dedication to the goals of the political, economic and monetary union; creating the preconditions for integration through the adjustment of administrative structures. All of the above requires full engagement of the entire public administration, the NGO sector and society as a whole.

VII Priorities and measures for their achievement

INTEGRATED GROWTH

MACROECONOMIC STABILITY

Priority: External sector

Measure 1: Continuous enhancement of international trade relations and trade cooperation of Bosnia and Herzegovina in the bilateral, regional and multilateral sense

It is necessary to ensure systematic monitoring of the demands of traditional and potentially new markets for BiH products. Adequate information will provide for the adjustment of the export supply to the specific demands of specific new markets as well as maintenance of the market share of local exporters in the existing markets.

Measure 2: Strengthening of the legal environment and framework

Better laws and practices for the protection of investors are necessary. Amendment to the law on company insolvency will encourage earlier initiation of procedures and extension of insolvency frameworks in order to encompass businesses ran by individuals. Drafting and implementation of a new law on customs policy will simplify customs processing and reduce administrative requirements, which will facilitate trade.

Measure 3: Strengthen staff, technical and financial network of relevant institutions for harmonisation of technical regulations

One of the most important problems that has been faced by other countries in the process of harmonisation with the EU legislature is the insufficient number of employed staff. Therefore, it is necessary to strengthen the relevant institutions in regard to the harmonization of technical regulations at all levels of government (level of BiH, entities and Brcko District). Also, the necessary equipment and software must be procured, which

requires funding.

Measure 4: Strengthening of the position within CEFTA

Considering certain difficulties in the functioning of CEFTA, especially the fact that some countries have been members since 2003 while BiH has been a member since 2007, it is necessary to continuously analyse the operations of that zone and, especially, BiH position (general trade position, specifically the position of specific economic industries and sectors - primarily of agricultural and food products, beverages, etc.).

Measure 5: Harmonisation and enhancement of the customs-tariff policy with neighbouring countries for the equalisation of business conditions

It is important to harmonise the customs-tariff policy with neighbouring countries due to the necessity of increasing export and reducing the extremely high trade deficit.

Measure 6: Increase of inflow of FDI to BiH

Attraction of foreign capital will lead to the profiling of domestic economy through expansion of the range of exported products, because a significant share of foreign investors already has defined distribution chains.

Measure 7: More actively promote free zones

Through the design of a state-level strategy to enhance the attractiveness of free zones in BiH for foreign direct investment, which will also define the main stakeholders, jurisdictions and responsibilities.

Measure 8: Strengthen support to exporters

Exporters are not stimulated enough with financial and other measures to increase export and it is necessary to reduce tax burdens and other fees for reinvestment into modernisation and expansion of capacities, develop a system of institutions, financial schemes, tax incentives, guarantees, insurance, etc.

Measure 9: Develop a strategic products policy

It is necessary to conduct preparatory activities in terms of carrying out an analysis of imported and exported raw materials, components and products. In order to reduce import, it is necessary to stimulate the production of goods and services unavailable in BiH or produced in insufficient range causing the need to import them, while there are developmental options of producing those products or their substitutes in BiH. This applies particularly to food and energy. Efficient use of the economy of scale, with effective product diversification, will enable production and placement of the market surplus in international markets.

Measure 10: Plan e-services for VAT and income tax

Acceleration of registry procedures and tax returns to support and save time for taxpayers.

Priority: Public finances**Measure 1: Build capacities of the tax administration**

Fulfilling obligations towards the EU demands continuous modernisation of tax and customs administration in accordance with EU standards. Modernisation of tax administration will contribute to greater efficiency of administrative work and reduction of operational costs.

Measure 2: Eliminate double taxation in transactions between BiH and EU members

In accordance with its obligations to the EU, BiH must sign contracts for the avoidance of double taxation with EU members.

Measure 3: Public debt sustainability

Ensuring a sustainable public debt is of crucial importance for maintaining stability of public finance.

Measure 4: Enhanced fiscal control and financial management

Reform of the tax systems and public expenditure should be implemented within the entire fiscal package to ensure medium term fiscal sustainability.

Measure 5: Increase revenue collection

Increase of indirect taxes will be achieved once the frameworks of cost reduction or increasing revenue collection are exhausted, to compensate for the decrease of contributions.

Priority : Development of financial market**Measure 1: Increase the amount of insured deposits**

In order to increase the amount of insured deposits (currently at KM 50,000, i.e. € 25,564.6) with the aim of further stimulating increase of savings and thus sources of investment funding in BiH; which is also a goal of BiH approximation to EU integration, it will be necessary to eventually raise the amount of insured deposits to a minimum of € 100,000- the current requisite amount for EU members.

Measure 2: Strengthen the role of the Standing Committee For the Financial Stability of BiH

Further strengthening of the role of the Standing Committee For the Financial Sustainability is aimed at improving coordination of the activities of entity-level banking agencies.

Measure 3: Law on debt collection

Adoption of a law on debt collection in order to enable banks to transfer part of their claims to other legal entities as an option of assets quality management.

Measure 4: Prevent the abuse of the financial sector as a money laundering and terrorism-funding instrument

It is necessary to continuously assess and revise the legal framework and measures taken by regulators and financial institutions to prevent money laundering and terrorism-funding. It is very important to improve control mechanisms in the area of monitoring payments, as well as expand them to other segments of financial operations. As part of that, it is necessary to enhance cooperation with other local monitoring and control institutions and neighbouring countries.

Measure 5: Improvement of existing financial institutions

Through their activities, export credit agencies and investment development banks increase the liquidity of the real and financial sector, support development and additional employment.

Priority: Ensure high quality, harmonized and timely official statistical data for all users

Measure 1: Development of sector statistics and the statistics infrastructure in accordance with EU statistical standards

Harmonisation with the requirements of the EU statistical system will be implemented in regard to the number of statistical indicators, publishing deadlines and applied methodology. Through consistent application of fundamental principles of official statistics, the quality of statistical data will be increased as well as harmonisation of the BiH statistical system with EU requirements.

Measure 2: Enhance the collection, processing and dissemination system of statistical data and communication with users

Provision of high-quality, harmonised and timely official statistical data will ensure for the availability of unbiased statistical data for the society and economy of BiH.

**IMPROVING DEVELOPMENT OF
COMPETITIVE ECONOMIC
ENVIRONMENT**

Priority: Improve business environment

Measure 1: Remove administrative and fiscal barriers to business of economic entities

With the aim of improving the business environment, it is necessary to continue removing all administrative barriers to business of economic entities and, in order to achieve that, to: eliminate regulatory restraints and tardiness in procedures of competent bodies, analyse formalities and identify outdated, inapplicable regulations that are an administrative burden to the economy and need to be simplified, while investment procedures must especially be reduced.

Measure 2: Create conditions for public-private partnership

It is necessary to establish a systematic framework for accelerated development of different forms of partnerships of the private and public sector and, in that regards, to focus especially on attracting foreign investments so that foreign investors will be attracted to strategic development programmes of public-private partnership. Foreign investors are more flexible and prepared to take part in realisation of specific programmes in cases when they are partners with the state/entity/Brcko District, than if they are not.

Measure 3: Implement the Anticorruption Strategy

The fight against corruption cannot be observed separately from other related strategic and reform processes in the country, in the area of foreign affairs, security and internal affairs, justice and finances, where implementation of the Anticorruption Strategy is highly relevant. The Strategy attempts to solidify the consensus on the need for coordinated, comprehensive and systematic anticorruption action, which will strengthen the assumptions for joining the European

Community, as well as improve the quality of life of all BiH citizens

Measure 4: Implement transparent public procurement procedures

One of the fundamental principles of a free market is that all entities must have equal opportunities to be awarded public contracts. Regarding public contracts, it is necessary to conduct far-reaching control of procedures regularity, from planning public procurement to controlling the execution of contracts upon the completion of tender procedures.

Measure 5: Build an economic diplomacy concept

Competent governments react to changes brought about by recent globalisation processes by building an efficient economic diplomacy concept that is capable of meeting the challenges they face. Building an economic diplomacy concept is the best way to successfully manage foreign policy in circumstances when it is necessary to constantly seek out foreign investors and new markets from domestic products, because that ensures economic development of the country and reduction of unemployment. The building of such a concept must be preceded by political decision-making and continuously backed by political support based on commitment to achieving results.¹²⁶

Measure 6: Adopt the SME Development Strategy

The Strategy will integrate and harmonise activities of both entities. Through the signing of the SAA, this has become part of the Action

Plan for the realisation of priorities from the document Europe Partnership with BiH.

Measure 7: Enhance institutional and administrative capacities for SME development at the level of BiH

The establishment of an entrepreneurial infrastructure will enable the spread and development of SMEs under favourable conditions, which additionally influences local development. Existing SMEs must have support in the form of consulting services for the preparation of business plans, applying for credit and incentives, employee training etc.

Measure 8: Develop industrial policy in BiH

Development of an industrial policy for revitalising industry as the instigator of development in BiH is the foundation for healthy economic policy and raising the level of competitiveness of the private enterprise sector as a potential for stimulating interest of foreign investors to invest in BiH industry development.

Measure 9: Support development of women entrepreneurship

There is an increasing number of women in rural areas with the education (even higher education) and knowledge to successfully start and manage specific business activities within their agricultural business or in the domain of vocational or other entrepreneurial activities. In regard to that they should have support to have specific training to introduce them to the conditions and methods of starting a business, and support them in taking such moves.

Measure 10: Enhance the consumer protection policy in BiH

Efficient consumer protection is necessary to ensure proper functioning of the market economy. A high level of consumer protection is one of the goals of Bosnia and Herzegovina on its way to EU accession. To that end,

¹²⁶ Political analysis – Economic Diplomacy of BiH, 2013

activities have been started to harmonise regulations, not only in the area of product safety, but also in the area of protecting the legal and economic interests of consumers. In order to ensure consumer protection, BiH has adopted several legal documents, the most relevant for this area being the BiH Law on General Product Safety and BiH Law on Consumer Protection.

Priority: Improve the quality infrastructure system

Measure 1: Strengthen the quality infrastructure system in staff and technical terms

An enhanced quality infrastructure system is one of the preconditions for strengthening the internal market of Bosnia and Herzegovina, establishing a free flow of BiH products in the market, as well as recognition of accompanying certification and testing documents. Bosnia and Herzegovina is committed to take steps in order to achieve conformity with relevant practices of the European Union, until the conditions are achieved for concluding a contract on mutual recognition between the two parties in the area of product conformity. With the aim of establishing a system of assessment of product conformity, it is especially important to enhance the relevant technical infrastructure (testing and calibration laboratories, certification bodies and inspection bodies).

Measure 2: Ensure financial support to strengthening of the system of quality infrastructure

The technical infrastructure for assessment of product conformity is the weakest point of the quality infrastructure system in which no investments were made over the past years. Strengthening of the quality infrastructure system demands financial support that can be ensured through budget grants, from available

EU funds and public-private partnership.

Measure 3: Implement efficient and functional product surveillance in the BiH market

Surveillance market is an important activity for market functioning. The goal is to establish a system of market surveillance in accordance with EU standards. Special attention should be focused on enhancing cooperation with inspection bodies and institutions in charge of accreditation, standardisation and protection of intellectual property.

Measure 4: Establish a system of assessing product conformity to the demands specified in relevant technical regulation

Assessing product conformity is a procedure which estimates directly or indirectly whether a product is in conformity with the demands specified in relevant current technical regulations. Its aim is to create the conditions for implementation of the process of assessing product conformity with technical demands, in accordance with EU legislature. The above stated will ensure the fulfilment of requirements for efficient control and market surveillance with the aim of consumer protection from unsafe and low quality products, protection of producers from disloyal competition and more equal participation in international trade.

Measure 5: Strengthen international marketing and branding for producers and their products within specific sectors

Design of marketing and communication strategies / branding strategies for each sector, support producer and product placement and promotion in specific sectors, as well as cross-sector promotion.

Measure 6: Enhance the procedures of obtaining, maintaining, turnover and termination of industrial property rights and system of protection of copyrights and

related rights and their collective realisation

To achieve more efficient protection, it is necessary to strengthen institutions and bodies in charge of law implementation, organisation of trainings and raising awareness on the harmfulness of piracy for both the local and international economy.

SMART GROWTH

DEVELOPMENT OF HUMAN RESOURCES

Priority: Enhance development of skills and lifelong learning

Measure 1: Create conditions for lifelong learning through all forms of education and training

It is necessary to ensure the introduction of the concept of lifelong learning in all periods in life (from early childhood to old age) and in *all forms* in which it is realised (formal, non-formal and informal). This includes a distinction between general educational profiles that are a result of activities of the education system and qualified (professional) profiles required by specific labour markets. Through lifelong learning it is necessary to establish a system that will link the two systems, encompassing:

- ✓ development of competences through a constant supply of additional training and retraining for existing educational professions (profiles) in accordance with the needs of the labour market;
- ✓ additional training of existing professions in accordance with scientific, technical and technologic developments;
- ✓ professional development of professions that require it; and
- ✓ education of the general population in accordance with personal needs and needs of activities within the community.

Through active social partnership, it is necessary to ensure the systematic conditions for capacity building of all three reform implementation sectors which entails a long-term process. The national qualification framework for secondary and higher education will define the competence level acquired upon the completion of specific secondary schools and study programmes in higher education institutions of BiH. That will help achieve consistency of competences acquired throughout the territory of Bosnia and Herzegovina a level of competence comparable to that in the EU, as well as enable European labour force mobility and establish a link between education and the labour market.

Measure 2: Continue higher education reforms started with the signing of the Bologna Declaration and Lisbon Convention

Within the reform process, it is necessary to ensure international recognition of diplomas.

This entails strengthening the functioning of newly-established institutions at the state level, accreditation of higher education institutions and study programmes, adequate establishment of study cycles, internationalisation of studies, enrichment of curricula with contemporary contents, building of skills, implementation of the national qualification framework of higher education, transparent learning outcomes, a Europeanised system of studying.

Implementation of the Bologna goals must lead to a more efficient education (currently almost 50% of public funding allocated to higher education goes to students that never graduate), students must be more committed to their studies, and programmes must be designed in a way that will ensure that each graduate will have information literacy and knowledge of the English language along with the knowledge of their area of studies.

Measure 3: Build and develop ICT infrastructure

It is necessary to define and take steps that will enable more rational use of the existing communication infrastructure, as well as development of a new broadband infrastructure. More rational use of the existing infrastructure equally refers to transmission and access networks. In that regard, it is necessary to:

- ✓ set up ICT mainlines and academic networks at the BiH level¹²⁷
- ✓ intensify building of new broadband access infrastructure through:
- ✓ spreading of the subscriber network of xDigital Subscriber Lines
- ✓ building wireless broadband access networks
- ✓ development and building of optical access networks and
- ✓ development and implementation of new broadband technologies.
- ✓ harmonise the BiH frequency plan for:
- ✓ civilian use
- ✓ state institutions
- ✓ development of digital radio and TV broadcasting.

Successful implementation of these steps will result in increased level of competitiveness of telecommunication service providers and enable provision of new services with rational use of existing and development of new ICT infrastructure.

Measure 4: Enhance the learning environment in educational institutions and develop professional competences of teachers

¹²⁷ It is necessary to initiate a computer network for science and research in order to include the scientific and research community into European and global science trends. Apart from Albania, BiH is the only European country without a computer network for science and research at the state level. The RS Government established the Public Institution "Academic and Research Network of Republika Srpska" (PU "SARNET") in October 2006 in the area of building, development, maintenance and use of the information-communication network for the needs of higher education, science and research institutions in RS, as well as for networking with similar institutions and networks.

Teacher training for the application of modern teaching and training methodologies in accordance with changes in the labour market must contribute to a positive environment and, consequently, better results in professional education. Therefore, the necessary competences for more efficient functioning of a modern labour market require a trained teaching staff in secondary education capable of producing those competences of the work force that are in demand in a flexible labour market, at any time and through different forms of teaching and training programmes for youth and population capable of work (in the form of lifelong learning).

Measure 5: Implement "ESEE AGENDA +"

BiH will consistently work on implementing the conclusions of eSEE Agenda +, signed by the ministers of the governments of countries in Southeast Europe in Sarajevo in 2007, as well as encourage the development of a broadband network infrastructure and broadband electronic services based around it, in order to accelerate the development of the information society and achievement of goals set forth in the Action Plan of eSEE Agenda +.

Achievement of goals set forth in the SEE Agenda + in the domain of broadband network infrastructure and adequate services will be accomplished through:

- ✓ establishment broadband networks of high byte speeds and reliable services that will ensure safe access to a variety of contents;
- ✓ supporting the development of digital contents and services, as well as translating conventional contents into a digital format;
- ✓ harmonising those rules and policies in the area of telecommunication and media which will be technologically neutral and provide for easier convergence of information society and media services;

- ✓ providing computers and broadband internet access to all schools and educational institutions; and
- ✓ further development of an academic broadband network which will connect all scientific institutions in BiH and enable their cooperation in important projects for the development of the information society, as well as other projects of mutual interest.

Priority: Develop a national qualification network

Measure 1: Establish an efficient system of certification and retraining

The needs of the labour market require dynamic occupational retraining, and rapid social development demands constant professionalization within existing professions in accordance with changes taking place in science, technology and other segments of social development. Therefore a system for certifying new skills and knowledge, as well as a system of rapid additional training and retraining, as parts of the educational system, are necessary measures for building an efficient education system and enabling mobility through different levels and structures of education.

Priority: Introduce entrepreneurship as the key to development of competences in all levels of education and training

Measure 1: Include entrepreneurship education programmes into curricula

This measure includes enrichment of curricula (both youth and adult) with contents that will create the conditions for development of an entrepreneurial culture, which would further serve as an introduction to the promotion of awareness of self-employment as a career responsibility.

Theoretic entrepreneurship, as well as

practical (training in writing business plans), should become an integral part of secondary and most higher education curricula.

It is advisable to initiate programmes for promotion of entrepreneurship, start-up enterprises and self-employment among pupils and students. Generating new start-up enterprises started by young graduates ensures the establishment of *knowledge-based* small and medium enterprises. By establishing different programmes it is possible to raise the entrepreneurial culture to a higher level.

It is especially important to guide young people to entrepreneurship through establishment of virtual companies in schools. Opening career development centres in primary, secondary schools and universities, or within employment bureaus, is significant in terms of reducing the gap between supply and demand in the labour market. In that way, those populations will focus on developing knowledge and skills through active planning of their career development, where one of the options is also taking initiative through self-employment and entrepreneurship.

Numerous social issues can be partially resolved through the introduction of entrepreneurship principles into the social sphere, i.e. through organisation, establishment and management of social enterprises. The effect of social entrepreneurs is seen through their effect on social change. Social enterprises can be organised as non-profit (resulting in “more than profit”, i.e. creation of social values) or profit.¹²⁸

Measure 2: Promote public-private partnership in development and funding of entrepreneurial education infrastructure programmes in accordance with the principle of lifelong learning

In order to ensure the necessary resources for the development of entrepreneurial culture and

introduction of entrepreneurial skills to a broad circle of youth and adults capable of work, it is necessary to promote public-private partnership in development and funding of programmes of lifelong learning. To ensure the necessary resources for the development of entrepreneurial culture and constant professional development in accordance with the lifelong learning principle among young people, it is important to promote public-private partnership mechanisms into the educational infrastructure (which includes training providers, consultants for the development of sector-based technological competences), that will develop the necessary competences for successful employment or business management within specific economic sectors and in different regions of

Priority: Increase equal access to and participation in high quality education at all levels, harmonised with measures for certification of qualifications that support mobility

Measure 1: Enhance competences and mobility within BiH and the EU

In order to achieve better comparability of the competences of the population of BiH capable of work with EU competences, thus increasing work force mobility, it is necessary to increase harmonisation and constant approximation of the system of competences and training and education programmes to the system of key and specific competences set forth in EU guidelines.

INCREASE INDUSTRY COMPETITIVENESS

Priority: Ensure that education outcomes and acquired competences match the needs of a competitive economy

Measure 1: Support and strengthen capacities for inclusion in global, scientific, research and technological trends

Apart from constant learning and professional development, participation in international projects enables receiving additional funding, raising the technological level, presentation of local human resources, opportunities and achievements, exchange of all types of information and increases chances of larger foreign capital investments and opening of new facilities and jobs in BiH.

Measure 2: Develop programmes of circular migration of experts and scientists

Highly educated experts can be included in numerous local projects as consultants, serve as mentors for MA or PhD theses. They can occasionally come and take part in classes or projects. Knowledge they acquired abroad would contribute significantly to the educational (or scientific, business, consulting) process they are involved in.

Measure 3: Establish a state-level coordination body for research, development and innovation

Due to a lack of coordination of innovation policies, it is necessary to establish a state-level coordination body because measures which are currently implemented for support to science and innovation at all levels are unharmonised and establishment of such a body will ensure optimum implementation of support measures.

Priority: Support networking of research centres and export companies through special programmes

Measure 1: Increase financial allocations from public funds and increase participation of the economy in basic, applied and development research, as well as financial support to innovators

¹²⁸ Entrepreneurial education has already been introduced to secondary schools in RS as a obligatory subject.

Through analyses it has been estimated that the minimum increase of finances should be by 0.5% of the GDP with a ratio of 1/3 investments and economy to 2/3 state, entity and local budget funds.

Measure 2: Fiscally support business improvement

Reduction of fiscal taxes and other fees will ensure the increase of residual profit (profit that remains after all expenses have been covered, including own capital expenses) in the economic sector that can be reinvested in modernisation and capacity expansion. It will be realised through revision and elimination of existing fiscal taxes of state and entity/BD institutions in charge of fiscal policy.

Measure 3: Establish a contemporary database of science and technology

Without a contemporary database of science, technology and business with the necessary human resources, institutions of science and research, research and development, research information equipment, devices and systems, relevant databases, defined statistical indicators in the area of science and technology, technology parks, incubators and centres, science, research and development points networking universities, institutes, associations of innovators and economic subjects in BiH mutually, as well as with international ones, participation in joint international developmental and scientific research programmes and projects, that is, without adequate financial investments, there is no innovative or competitive production in our country.

Priority: Cluster development, networking and cooperation with clusters in the EU and Southeast Europe

Measure 1: Support joint developmental programmes within identified business

chains in terms of funding and expertise

In regard to identified business chains, it is necessary to identify joint developmental projects of members of those business chains and provide “support packages” to such projects, because mere financial support, although extremely important, is not enough for sustainable functioning of chain members.

Measure 2: Develop policies to target investments to CI

Through adequate instruments of investment and fiscal policy, it is necessary to target investments, especially foreign direct investments, to the existing and potential cluster initiatives as places of optimum development, which should be tested by pilot projects, primarily in the area of strategic export products such as cluster initiatives in tourism that can be based on rich natural, cultural and historic heritage and link urban and eco-tourism, as well as to greatly increase the export supply of BiH through joint promotion.

Measure 3: Develop incentive policies for the use of advanced technologies

To achieve long-term preservation and development of the position in foreign markets, it is necessary to support investments into advanced technologies that ensure such a position through measures of fiscal policy. It is especially important to support technically inferior members of cluster initiatives, i.e. support them through technology transfer centres in adopting new technologies and becoming more innovative.

Measure 4: Support innovative activities and international marketing for main cluster products

Through the introduction of innovation skills, integrating technology transfer as the process of exchange of new skills, know-how and methods into production and development of enterprises, specific tasks and support to

cluster enterprises will be provided in the strengthening of cooperation with the academic community, through research and development through various projects such as the Seventh Framework programme. Modernisation and internationalisation of cluster enterprises and strengthening of export potentials will enable linking local clusters with neighbouring countries, which will contribute to greater visibility of local clusters in international markets.

Priority: Support development of fast-growing small and medium enterprises through development of technology parks, industrial parks, incubators and business zones

Measure 1: Develop instruments of financial support to the development of SMEs

Most of the countries in the region and of the EU focus especially on the establishment of new enterprises by providing various benefits, including financial incentives. Incentives refer to non-refundable budget funds in the form of seed capital and favourable credit lines for the growth of start-ups, especially in the area of advanced technologies. There is a need to examine the possibility of forming joint venture capital funds as a public-private partnership.

Measure 2: Increase innovation of SMEs

The purpose of this priority is to increase innovation success and innovation capacities of small and medium enterprises, increase the number of new innovation enterprises that utilise new know-how and skills and their investments into research, development and innovation with the aim of developing new products and services, application of new technologies and increase their competitiveness and success in the local and international market.

Measure 3: Support the development of incubators

It is necessary to analyse the functioning of existing business incubators and establish the barriers to their development. It is especially important to consider which services from “service packages” (facilities, joint business functions, information, guidance, consulting, training, finances, technology transfer) are provided by incubators, draft the design of further development with enhancement of the incubators’ services, start promoting the system of “business angels”.

SMART GROWTH

CULTURE AND CREATIVE SECTOR

Priority: Strengthen the cultural industries sector

Measure 1: Define the potential to develop cultural industries from an economic perspective

Creative industries are becoming an increasingly important component of the development of modern post-industrial economy, based on innovations and knowledge. Motives for supporting the development of such industries lie in proven economic growth and development and the creation of jobs, but also in the promotion of cultural identity and highlighting cultural differences around the world. During the past decade, the EU recognised this fact and initiated the development and promotion of these specific industries. It was then that the sector which was always at the sidebars received enough attention from researchers and governments, and became the focus of research, analyses and statistics aimed at better understanding of the relationship between creative industries and economic development, and increasing opportunities of successfully utilising the potentials of the newly-discovered industry. This sector has to

be developed in BiH while efforts should be focused on defining its potentials to influence the economic growth and development of the country

Priority: Strengthen the role of culture in economic development of BiH

Measure 1: Participation of BiH in international cultural programmes and initiatives

The EU programme Creative Europe is the EU's framework programme of support to the European audio-visual sector, as well as other cultural and creative sectors, which enables those sectors to increase their contribution to employment and growth. With a budget of EUR 1.46 billion for the period 2014-2020, this programme supports tens of thousands of artists, experts in the area of culture and audio-visual arts, as well as organisations in the area of performance arts, fine arts, publishing, film, television, music, interdisciplinary arts, heritage and the video game industry. The Creative Europe programme is a result of joining together previous programmes Culture and MEDIA, in which BiH took part. Now they are continued in new and modified form as the sub-programme Culture and sub-programme MEDIA, within the new EU programme Creative Europe.

On 22nd July 2014, Bosnia and Herzegovina signed the Agreement on BiH participation in the EU programme Creative Europe. The Agreement has been ratified and published in the "BiH Official Gazette" – International Contracts, Issue 3/15.

By joining the Creative Europe programme, BiH has allowed professionals from creative sectors to do business across Europe, attract new audiences within and outside BiH and in that way contribute to the protection of cultural and language diversity, as well as gain and develop skills required by the digital age.

BiH also participates in other international programmes focused on the culture sector and cooperates with relevant international organisations and bodies in this area.

Priority: Create a map of activities for cultural tourism development

Measure 1: Promote cultural tourism

Culture, history, education, business and casual (transit) visits are the most common motives of tourists. Cultural tourism is an integral factor of the development of tourism in BiH and it helps preserve the local identity, tradition and customs. Cultural tourism contains a lot of potential for development. In Bosnia and Herzegovina it is in its early stages, and its potential in BiH is significant if accompanied by adequate promotion and sector development.

SUSTAINABLE GROWTH

BALANCED REGIONAL DEVELOPMENT

Priority: Establish a system which will contribute to balanced regional development

Measure 1: Draft a BiH Regional Development Strategy

Adoption of such a strategy will contribute to the strengthening and development of regional and local cooperation with the aim of supporting economic development and reduction of regional inconsistencies

Priority: Adopt regulatory framework for transport

Measure 1: Adopt a framework transport policy of BiH 2015-2030 and BiH Transport Strategy and Action Plan

Adoption of a regulatory framework for transport will ensure access to IPA funds in the sector of transport, including needed projects in the area of infrastructure development. This

framework has been in preparation for some time and it must be adopted as soon as possible. This is necessary to enable preparation and adoption of sub-sector strategies and action plans.

Measure 2: Develop a transport system in accordance with strategic documents

Development of a transport system based on strategic documents will correctly guide the development of transport. In the process of project planning and selection the private sector should also be included.

Priority: Develop all types of transport in BiH based on the model which enables sustainable development of the transport system in function of energy efficiency, while taking care of the environment and better safety of all participants in transport

Measure 1: Build lacking transport infrastructure with a focus on highways and expressways, which will connect large economic and administrative centres in BiH and increase regional connectivity in BiH

In order to realise these projects it is necessary to use credit funds and public-private partnership models so as to avoid excessive government debt. It is necessary to increase labour effectiveness in terms of better planning and implementation of projects, more efficient work and significantly increase results of road construction.

Measure 2: Reconstruct and modernise the existing infrastructure (roads, railway network, inland ports and airports)

It is necessary to accelerate the implementation of adopted reforms which are often required to access financial funds, as well as to enhance the preparation of investment projects. While determining priorities in reconstruction and modernisation, it is important to follow the greater level of

economic and financial profitability and of resolving transport issues, such as, for example, use of river and railway transport which are currently neglected. In the realisation of this measure, focus should be placed on transport safety and environmental protection. It is necessary to increase the scope and quality of services of all forms of transport.

Measure 3: Adopt legal framework in the sector of transport of hazardous substances

To ensure safe transport of hazardous substances in the individual sector of transport, it is necessary to define the obligations of parties involved in transport, powers and responsibilities of competent bodies monitoring the implementation of that law with the goal of approximating international standards, including EU standards, relevant for mitigation of risks in the process of transport of hazardous substances.

Measure 4: Approximate the legal framework to the EU *acquis* and practical implementation of legislature

By signing the Regional Agreement on Joint Development of the Core Transport Network, BiH committed itself to adopting a larger number of standards and directives. With the establishment of a transport Community between the EU and countries of Southeast Europe, BiH obligations will be expanded. It is necessary to improve the implementation of existing legislature on transport safety in accordance with the *acquis communautaire*, with a focus on safety, environment, financial benefits, etc. Ensure practical implementation of the legislature.

Measure 5: Monitor and evaluate the negative effects and processes in the transport sector and take adequate measures and activities to achieve safe and reliable transport

Sub-sectors of transport are different and

have different approaches. In road transport, everything is privatised, whereas in railway transport it is not. In road transport, with the exception of urban transport, there is full competition, whereas that is not the case with railway transport. Each form of transport should be separately analysed and adequate activities should be taken to achieve safety and reliability of transport.

Measure 6: Ensure harmonisation with demands from the European Common Aviation Area agreement

Requirements of the Agreement on European Common Aviation Area agreement (ECAA) mostly refer to the area of economic and social regulations. It is necessary to adopt numerous regulations of the ECAA that refer to social protection and consumer protection. It is also important to implement further activities to ensure harmonisation with ECAA requirements in other areas as well, before BiH can complete Stage 1 in regard to economic regulations air transport safety.

Measure 7: Strengthen regional cooperation and networking

Implement the Memorandum of Understanding on the development of the comprehensive transport network in Southeast Europe and contribute to the activities of the transport community.

Measure 8: Expand air traffic services

Expansion of destinations, enhancement of transport services and infrastructure of airports and urban centres is necessary.

Measure 9: Increase participation of railway transportation in overall transportation of goods and passengers

Through the implementation of this measure, it is expected that emission of harmful gases will reduce (environmental protection),

transportation efficiency will increase due to lower costs of railway transportation.

Priority: Liberalisation of railway transport

Measure 1: Implement activities suggested by the railway regulatory body during the 21st SEETO RWWG meeting

Reforms are necessary for the development of a balanced, competitive and ecologically multimodal transport system.

Measure 2: Draft legislature for the application of EU directives for opening railway transportation

It is necessary to draft the legislature for the full application of EU directives for opening railway transportation.

IMPROVING ENVIRONMENTAL MANAGEMENT AND DEVELOPMENT OF ENVIRONMENTAL INFRASTRUCTURE WHILE INCREASING RESILIENCE TO CLIMATE CHANGE

Priority: *Strengthen institutional and professional capacities for development and implementation of an environmental and climate policy, monitoring of greenhouse gas emissions, as well as planning, implementation, monitoring and reporting and verification of measures for mitigation of climate change.*

Measure 1: Strategic planning development

Draft a comprehensive state climate policy and strategy in accordance with the anticipated EU Framework of climate and energy 2030. Further develop capacities for better strategic management.

Measure 2: Improve environment statistics and reporting

State-level environmental monitoring and reporting is incoherent and inconsistent. Improved environmental statistics will provide firmer bases for analysts and decision-makers

in the policy-making process.

Measure 3: Work on implementation of the Convention on Climate Change

The BiH Council of Ministers and entity Governments have adopted the Second National Communication of Bosnia and Herzegovina under the United Nations Framework Convention on Climate Change. It is necessary to achieve full implementation of the Convention on Climate Change.

Measure 4: Enhance horizontal and vertical coordination across institutions of all levels of governance in regard to environment and climate change

Enhanced cooperation will lead to more efficient planning in the area of environment and climate change.

Priority: *Harmonisation of the legal framework in the area of environmental protection and climate action*

Measure 1: Work on transposing the environmental requirements of the EU into all relevant sector policies

BiH must integrate the environmental *acquis* into practically all sectors (energy and mining, transport, agriculture and forestry, industry, tourism, spatial planning, health, education, finances, etc). It is a safe road for both BiH and its obligations in the process of EU integration.

Measure 2: Work on adoption and implementation of the *acquis* in the area of water management

To achieve a unified approach to water management, it is necessary to adopt and implement the *acquis* in the area of water management in BiH a balanced way.

Priority: *Improve waste management efficiency and promote eco (green) industry*

Measure 1: Design a working draft of a waste management strategy

It is necessary to complete the state-level strategic planning process in the area of investments into the waste management sector in BiH. A state-level waste management strategy must be adopted.

Measure 2: Strengthen capacities for industrial and hazardous waste management

Strengthening of the capacities for industrial and hazardous waste management will increase the safety and protection of the environment.

FASTER AND MORE EFFICIENT AGRICULTURAL AND RURAL DEVELOPMENT

Priority: *Establish the required institutional capacities, mechanisms for coordination and implementation of standards in agriculture in line with the EU standards at all levels*

Measure 1: Human resources strengthening of existing institutions

It is necessary to strengthen the human resources of existing institutions on both the state and entity level in order to ensure an adequate institutional infrastructure. This is a precondition for efficient planning, implementation and coordination of different complex activities from the area of agriculture and rural development. It includes the development of the IT structure, strengthening of analytical capacities, development of strategic planning, an established monitoring and evaluation system for the sectors of agriculture, food industry, forestry and rural development, filling capacities according to systematisation.

Measure 2: Harmonise local regulations with EU regulations from the area of grape and wine production by adopting amendments to the BiH Law on Wine, Brandy and Other Grape and Wine Products

By adopting the EU legislature and wine regulations, a functional legal framework will

be established in BiH as well as a harmonised and efficient system of control of competent institutions and quality analysis in the sector of viticulture and enology. This will ensure production and placement of wine in the local and foreign market and strengthen competitiveness of local producers.

Measure 3: Adopt legislation on organic production in Bosnia and Herzegovina

This will enable the creation of favourable environment and conditions for development of organic production. There is an obligation of adopting the Law on Organic Production at the level of Bosnia and Herzegovina with the goal to approach the European Union. BiH has not adopted a plan for adoption of the EU *acquis communautaire* in the area of agriculture, and therefore it has not adopted the Law on organic Production.

Measure 4: Harmonise support measures in agriculture and rural development

Harmonised support measures in agriculture and rural development is a requirement to access IPA funding. The goal is to gradually adapt and harmonise support measures in agriculture and rural development within BiH and with similar measures to those used in the EU.

Priority: Improve competitiveness, quality and safety of domestic products

Measure 1: Prepare amendments to the Law on Food Bosnia and Herzegovina and submit them for consideration and adoption

This will ensure two-way food trade with the European Union.

Measure 2: Develop an efficient system of food safety

In order to establish an efficient food safety system, it is necessary to harmonise the BiH legislature with EU standards, conduct

scientific, professional and technical risk assessments in the area of food safety. It is necessary to establish an official control system based on risk assessments, as well as a crisis management mechanism.

Measure 3: Enhance plant health protection system by establishing an efficient phytosanitary system in BiH

An efficient phytosanitary system will be established through improvement of the policy-making process and implementation of measures from the phytosanitary area, as well as through improvement of coordination and cooperation with domestic and international institutions and organisations and other legal and private entities from the phytosanitary area.

Measure 4: Improve the animal and human health protection system by establishing an efficient veterinary control system in BiH

The establishment of an efficient veterinary control system in BiH will be achieved through building of mechanisms for prevention and control of infectious animal diseases, as well as through providing a legislative framework for export of live animals and animal products from BiH.

Measure 5: Prepare amendments to the Law on Veterinary of Bosnia and Herzegovina and submit them for consideration and adoption

This will ensure export of animal products into the EU market.

Measure 6: Prepare amendments to the Law on Agriculture, Food and Rural Development of Bosnia and Herzegovina and submit them for consideration and adoption

This will ensure trade in all agricultural and processed agricultural products with the EU.

Measure 7: Prepare amendments to the Rulebook of the "Hygiene Package" in

accordance with the Law on Food and submit them for consideration and adoption

Implement the “Hygiene Package” in the whole country for those subjects which are involved with production of food of animal origin, regardless of their size. Employees of relevant government and inspection bodies have been trained on the legal and standard requirements of the EU in the area of food hygiene, but additional activities are needed. A number of decisions is needed by food business operators in order to ensure harmonisation with EU standards on quality control. It is necessary to improve inspection and registration of milk farms in order to ensure harmonisation with EU requirements. The regulatory framework for control over import of food which is not of animal origin must be improved.

Priority: Develop Strategic Plan for Rural Development and establish the IPARD implementation structure

Measure 1: Adopt Strategic Plan for Rural Development

It is necessary to draft a state-level plan for rural development and implementation of the plan of harmonisation of agriculture, food and rural development. The lack of efficient administration and effective credit schemes for rural development continues to threaten efforts invested in improving productivity and competitiveness.

Measure 2: Draft and adopt an IPARD programme for BiH

Initiation of activities for the preparation of an IPARD programme directly depends on the preparation and formal adoption of a BiH Strategic Plan for Rural Development.

Measure 3: Establish IPARD implementation structure

Established payment system for IPARD funds.

Measure 4: Support establishment of LAGs and rural development network

This will ensure easier access to sources of funding.

Priority: Improve conservation and efficient use of natural resources

Measure 1: Agricultural land regulation

Fragmentation and parcelisation of agricultural lands is the main barrier to enhancing competitiveness of agricultural production. Considering that most agricultural land is privately owned, government bodies must find a way to stimulate agricultural producers to exchange their parcels, merge their farm and enhance fertility and quality of the soil by investing in land amelioration. Apart from that, knowledge of the features of different soil profiles and agro climatic features of the territory would enable a more systematic approach to planning agricultural production. To achieve this, a process of digitalisation of the Soil Information System must be developed.

Measure 2: Support measures for protection of biodiversity and sustainable use of genetic resources

These territories are exceptionally rich in plant and animal life. The genetic pool of species and varieties already included in agricultural production is also very rich. This fact obligated governance bodies to pay due attention to biodiversity in agriculture. It is necessary to increase control over the import of genetically modified seeds.

Measure 3: Demining of agricultural land and rural areas

A large portion of this area is still full of landmines and it is necessary to continue mine action, clean riverbeds of landmines and provide for safer living conditions.

DEVELOPMENT OF ENERGY RESOURCES, PARTICULARLY RENEWABLE ENERGY SOURCES AND INCREASING ENERGY EFFICIENCY

Priority: Support energy sector development

Measure 1: Adopt strategic documents for the energy sector

BiH lacks the fundamental strategic documents that would guide the development of the country's energy sector and ensure sustainable supply of energy and economic development in general.

Measure 2: Support development of the energy infrastructure

It is necessary to develop new technical solutions and modernise the energy infrastructure.

Measure 3: Promote efficient use of energy

Bosnia and Herzegovina has not developed a national energy efficiency plan, nor does it have a consistent plan for adopting the *acquis* within the Energy Community Treaty. Different forms of support to initiatives for the promotion of energy efficiency in the form of pilot projects are implemented throughout the country. There are significant delays in fulfilment of obligations from 2006 on adoption and implementation of directives on energy efficiency and energy services.

Measure 4: Invest into the development of renewable energy sources

The two renewable energy sources most used in BiH are water (electricity) and wood (clean fuel). However, BiH has a large number of geothermal sources that could be used for heating at its disposal. In regard to solar energy, BiH geographic location is such that it may be a potentially good source of this type of energy, while a lot of energy can also be

produced from wind power by building adequate wind turbines. It is necessary to use positive experiences of neighbouring countries and the EU, and to adapt and apply them in BiH. This includes introducing European standards and regulations for biomass fuels to facilitate its efficient use, which results in the necessity to adopt regulations that will facilitate market development and gain trust from consumers. In this area BiH has enormous potential which is, for now, practically not exploited at all.

Priority: Harmonise internal energy market at all levels with the acquis, including state and entity level laws in accordance with the Third Energy Package, as well as obligations of BiH according to the demands of the Energy Community Treaty

Measure 1: Prepare BiH Action Plan for Renewable Energy Sources for adoption

There is no comprehensive promotion and development of the energy sector of renewable resources in BiH. A national action plan for renewable energy sources has not been adopted, although it is required within the Energy Community Treaty.

Measure 2: Improve regulations and accelerate the process of adopting the *acquis*

BiH lacks the laws and other legal resources to regulate the sector of energy, as well as regulatory agencies (for example, to set the prices of electric energy and other energy products) which would facilitate investments into the energy sector. Harmonise the internal energy market with the *acquis*, including laws at the entity and state level in accordance with the Third Energy Package, as well as obligations BiH has towards requirements of the Energy Community Treaty.

Measure 3: Fulfil obligations to the Energy Community in the area of energy efficiency (i.e. the Directive on Energy Services, Labelling and Energy Performance of Buildings)

Adopt Law on Energy Efficiency with accompanying regulations;

Measure 4: Fulfil obligations to the Energy Community in the area of environmental protection (harmonisation with Directive 1999/32/EC on reduction of SO₂ emissions)

It is necessary to complete harmonisation with the Directive 1999/32/EC on reduction of sulphur content of liquid fuels.

Measure 5: Adopt regulations of the Third Energy Package

Prepared draft of the Law on Gas, Law on Transmission of Electric Power, Regulator and market of BiH, according to which BiH will be harmonised with the Third Package at the state level.

Measure 6. Prepare drafts of regulations in the area of storage of necessary petroleum reserves at the level of BiH

It is necessary to adopt provisions regulating storage of necessary oils reserves at the level of BiH in order to increase safety in petroleum supply.

INCLUSIVE GROWTH

INCREASING EMPLOYMENT OPPORTUNITIES

Priority: Efficient coordination in the area of labour and employment

Measure 1: Enhance coordination in the area of labour and employment

According to the Constitution of BiH, entities hold most powers in the labour and employment sector. Minimal jurisdictions in the labour sector take belong to the BiH Ministry of Civil Affairs. Therefore, the focus here is on improvement of coordination in labour and employment, as well as coordination of preparation of strategic documents in this area.

Measure 2: International support in the area of labour and employment

The primary functions within this measure are coordination and international representation. Labour and employment agencies in BiH coordinate activities with entity-level governments and employment institutions regarding employment projects, but only those of interest for BiH. Collection of information on labour force supply and demand in the international market, delivery of those information to entity-level employment agencies, as well as initiation of preparations and signing agreements in this area, are all activities aimed at achieving international cooperation in the area of labour and employment.

INCLUSIVE GROWTH

INCREASING INCLUSIVITY IN EDUCATION

Priority: Harmonise the education system with the needs of the labour market and the needs of economic and social development

Measure 1: Establish framework education norms and standards

Statistical indicators show that it is necessary to reform the structure employees in the education sector, both from the financial aspect and aspect of rationality. Existence of classrooms with a small number of children, as well as of other educational institutions with a large number of staff and tendency of the reduction of the number of enrolled children is not sustainable. It is necessary to establish educational standards and norms at the BiH level, which would be in accordance with standards of the EU countries, and to introduce programme reforms to retrain excess staff to offer individualised programmes for vulnerable target groups and adult education. This will contribute to more rational use of funding in education and increase its quality.

Measure 2: Define framework standards and methodology for certification of qualifications acquired through informal education

BiH does not have a sufficient number of rapid retraining centres and new rapid training centres must be established, as well as for additional education and retraining of unemployed persons.

Measure 3: Establish social partnership in education

To enhance the availability and quality of the education system, it is necessary to enhance the mechanisms for cross-sector cooperation and cooperation of all social partners at different levels of governance in BiH. That is the only way to ensure close connection of educational reforms not only with the demands of the market, but also with all the requirements of social and economic development of the country.

Priority: Continue the process of integrating BiH into the EU educational space

Measure 1: Draft recommendation document for teacher licensing and certification of all educational institutions from pre-school to and including secondary education

Teacher training for the application of contemporary teaching and training methodologies in accordance with changes in the labour market must contribute to a positive environment and, consequently, better results in professional education. Therefore, the necessary competences for more efficient functioning of the modern labour market must include trained teaching staff in secondary education that can, at any moment and through different forms of teaching and training programmes for youth and population capable of work (in the form of lifelong learning), produce necessary

competences of the labour force for a flexible labour market.

Measure 2: Prepare framework state legislature on diploma recognition and study periods in accordance with the Lisbon Convention

In the reform process it is necessary to ensure international recognition of diplomas.

This entails strengthening the functioning of newly established institutions at the state level, realisation of accreditation of higher education institutions and study programmes, adequate organisation of study cycles, internationalisation of studies, enrichment of curricula with contemporary contents, strengthening of skills, implementation of the national qualification framework of higher education, transparent learning outcomes, study system in accordance with European standards.

The implementation of Bologna goals must lead to a more efficient studying process (currently almost 50% public funding allocated to higher education is spent on student that never graduate), students must be dedicated to their studies, and programmes must be conceived in a way that each graduate will have information literacy and knowledge of the English language in addition to required knowledge from their field of studies.

Measure 3: Prepare guidelines for improving the situation of youth in accordance with recommendations and guidelines of EU Youth Policy in the area of education

The state must provide all graduates of secondary education that will not continue with higher education, as well as higher education graduates, with the opportunity to complete an internship. It is necessary to evaluate current and past incentive activities implemented through employment agencies and, based on the findings, enhance the

incentive mechanisms system. Volunteer work or internship models are in the service of resolving this issue.

Priority: Increase educational coverage of the population, especially of vulnerable groups

Measure 1: Enable flexibility in the area of curricula and enrolment structure

Introduction of flexible (adjustable) curricula in the area of retraining, additional training, as well as in adult education, is also beneficial in regular education in accordance with the specific needs of regional labour markets and to adapt the curricula to the specific needs of vulnerable target groups of the population.

Measure 2: Prepare guidelines for increasing the number of youth members of vulnerable groups of the population in higher education

The biggest challenges in tertiary education include implementation of the Framework Law on Higher Education in BiH and establishment of new models of funding higher education. Apart from that, it is necessary to implement functional integration of institutions of higher education; establish and develop the monitoring and quality insurance system in higher education and connect higher education with scientific and research work. It is also necessary to ensure mobility of students and teaching staff throughout BiH and the EU and enhance standards for students.

REDUCING POVERTY AND SOCIAL EXCLUSION

Priority: Enhance the human rights protection system and develop BiH relations with the emigrated population

Measure 1: Reduce discrimination, promote and protect human rights (children, minorities, missing persons, war victims, violence, human trafficking, the elderly, persons with disabilities, labour rights, etc.)

BiH is committed to ensuring the realisation of the highest possible level of protection of internationally recognised human rights and fundamental freedoms. Article II of the Constitution of BiH establishes that the rights and freedoms set forth in the EU Convention on Human Rights and Fundamental Freedoms and supporting protocols will be directly realised in the BiH legislative system and that they will have priority over other domestic positive legislature.

Measure 2: Improve gender equality

This entails a Programme of measures or enhancement of gender equality in government institutions (by priority areas), building and strengthening of the system, mechanisms and instruments for achieving gender equality, as well as strengthening cooperation and partnership.

Measure 3: Develop BiH policies on emigration

Development of BiH policies on emigration is a means of supporting, developing and coordinating cooperation with the emigrated population with the aim of achieving developmental results. This also entails strengthening bonds with the emigrated population with the aim of including them into BiH socioeconomic development, protection and realisation of their rights, as well as monitoring of emigration trends.

Measure 4: Continued implementation of Annex VII of the Dayton Peace Accord

In accordance with the BiH Law on Refugees and Displaced Persons, the BiH Ministry of Human Rights and Refugees designs, coordinates and monitors implementation of its

policy ensuring uniform and harmonised realisation of goals set forth in Annex VII of the General Framework Agreement for Peace in Bosnia and Herzegovina throughout the BiH territory in a way that guarantees equality of refugees, displaced persons and returnees, coordinates and controls the realisation of reconstruction projects and projects aimed at ensuring sustainability of the return process.

Measure 5: Implement policies and regulations for the reintegration of returnees in accordance with the readmission agreement and Action Plan 2015 – 2018, as well as implement the protection system for persons under international protection in BiH

In accordance with the Law on Ministries and Other Bodies of Administration of BiH, the BiH Ministry of Human Rights and Refugees is in charge of ensuring the rights and tending to the issues of refugees and persons under subsidiary protection in BiH after confirmation of their status. Based on Article 120 of the Law on Movement and Stay of Aliens and Asylum, the BiH Ministry of Human Rights and Refugees grants the right to health and social protection and access to integration facilitation measures to persons with recognised refugee status or subsidiary protection status.

In accordance with the Law on Ministries and Other Bodies of Administration of BiH the BiH Ministry of Human Rights and Refugees is in charge of admission and care for a period of up to 30 days for BiH citizens returning in accordance with the readmission agreement.

Measure 6: Programmes in the area of housing policy, reconstruction and development

In accordance with the Law on Ministries and Other Bodies of Administration of BiH the BiH Ministry is also in charge of performing

those tasks within the powers of BiH which refer to establishment of the fundamental principles of coordination of activities, harmonisation of policies and plans of government bodies of BiH and the international community in the area of housing policy, reconstruction and development and the project for sustainable return and registration.

Measure 7: Financial realisation of reconstruction and return projects of displaced persons and refugees

This measure aims at timely realisation of all approved projects of reconstruction and return in accordance with conclusions of the Bosnia and Herzegovina Commission of Refugees and Displaced Persons.

Priority: Efficient coordination in the field of social protection and pensions

Measure 1: Enhance coordination in the area of social protection and pensions

Considering that the entity (RS), cantons in FBiH and Brcko District are in charge of legislature, planning and implementation of social protection policies, the focus of this measure is to enhance coordination in the area of social protection and pensions with the aim of strengthening the social protection and inclusion system.

IMPROVING HEALTH CARE

Priority: Efficient coordination of activities in the area of health

Measure 1: Harmonisation of entity-level health regulations

Health protection services in BiH are insufficiently funded and cannot be transferred between the entities. Harmonisation of the health legal framework, standards and procedures is in its early stages of development, which results in inequalities in

health protection services provision.

Measure 2: Draft Strategy of Health System Reform in BiH

Preparation of a strategic document in the sector of health is important in terms of devising a road map for organisational and functional development of the quality of health protection which is within the rights of BiH citizens. Strategy of health system reform is necessary to enable BiH to access grants, IPA and EU programmatic funding which is necessary for the BiH health protection system.

Measure 3: Develop National Health Accounts (NHA) and a set of health indicators in accordance with WHO guidelines and EU standards

The demand for enhancement of health accounts is a result of increasing complexity of the health protection system in many countries and accelerated development of medical technologies. Policy-makers and observers of the health protection system and recent reforms, question the adequacy of the current calculations and ability of current health accounts to pick up on rapid changes of the health protection system, which is becoming more complex. Increasing expectations of health protection beneficiaries add to the requirement to update information on health protection systems. The NHA attempts to monitor current health expenditures, meaning that non materialised expenditures are not measured, as well as unspent budget or non-earmarked budget spending. This monitoring of current expenditures provides a realistic image of health protection funding. The main reasons for implementing NHAs in most countries were:

- ✓ To enhance national reporting on health expenditures,

- ✓ To develop tools for description and analysis of health expenditures,
- ✓ To monitor growth factors in health expenditure,
- ✓ To deliver the tools for monitoring the effects of health protection reform,
- ✓ To meet requirements on data for projecting health protection expenditures,
- ✓ To prepare internationally comparable data on expenditures in health.

It is necessary to report official and reliable data to international organisations (World Bank, World Health Organisation, OECD and Eurostat).

GOVERNANCE FOR GROWTH

ACCELERATE THE TRANSITION AND CAPACITY BUILDING PROCESS

Priority: Implement public administration reform

Measure 1: Strengthen e-legislation and e-governments

It is necessary to develop the legislature comprehensively and in accordance to requirements of the *acquis* and needs of the modern information society. This will influence the improvement of productivity of the public sector and performances of private companies using those services. Development of e-governments will require further efforts to establish and develop formal bodies in charge of their coordination and implementation.

Measure 2: Decrease public spending, especially current public spending

Implementation of this measure includes short-term activities aimed at reducing public spending, whereas in the long term it will demand implementation of public administration reform and redefining of the size

and structure of the public sector with the aim of increasing its effectiveness and reducing tax burden for the real sector and the population. Short-term fiscal consolidation requires restructuring of budgets of all government levels for the reduction of the share of unproductive and increasing productive public spending.

Measure 3: Program for Integrating BiH into the EU

Continuously update the Program for Integrating BiH into the EU.

Measure 4: Develop functional coordination in the process of approximation of the BiH legal system to the *acquis*

Develop methodology for a functioning coordination system in the process of approximation to EU regulations at all levels of governance.

Measure 5: Create institutional and technical conditions for transposition of EU legislature into BiH legal systems

Considering the new policy of opening Chapters 23 and 24 as the first Chapters in negotiations on EU membership, as well as horizontal and vertical coordination in the implementation of this process in BiH, it is necessary to focus on better coordination of institutions in the justice sector and harmonisation of BiH legislature with the EU *acquis* EU.¹²⁹

Measure 6: Enhance economic analyses and projections and establish an effective system for strategic planning of economic and social development

Enhanced system for monitoring economic trends and for coordination of the preparation of strategic documents in order to give recommendations for social and economic planning in the country.

Measure 7: Develop and operationalise the strategic framework for public administration reform

Implementation of public administration reform is the key factor of institutional reform in BiH and an important condition for realising obligations from the EU accession process, which will contribute to positive fiscal effects in the form of reduced public spending.

Measure 8: Support implementation of the strategic framework for public administration reform through projects and activities funded by the Public Administration Reform Fund and other forms of donor support

The expected results of this reform are: increased efficiency and transparency of the work of public institutions at all levels, decreased level of corruption and transaction costs and increased public accountability of government officials towards the citizens and the public for spending of resources they are trusted with.

Measure 9: Establish and strengthen institutional capacities for public administration reform

Implementation of public administration reform is the key factor of institutional reform in BiH and an important condition for realising obligations from the EU accession process, which will contribute to positive fiscal effects in the form of reduced public spending.

Measure 10: Civil service reform

Amend and adopt a new law on civil service in order to facilitate public administration reform and introduce more flexibility of working arrangements.

Priority: Establishment of a corruption prevention system and capacity building of anticorruption bodies

Measure 1: Establish and strengthen

¹²⁹ BiH Justice Sector Reform Strategy 2014 – 2018

institutional capacities for the fight against corruption

Establishment and maintenance of the rule of law entails the existence of clear and comprehensive rules to be used in not only in prevention, but also detection and punishment of corruption, as well as the existence of well organised institutions. Institutions should have clear jobs, necessary powers, means, competences and skills to meet the established goals and integrity in order for norms to be implemented.¹³⁰

Measure 2: Enhance normative framework for the fight against corruption

The fundamental normative framework for the fight against corruption exists, but it must be improved through harmonisation with international standards, as well as internal harmonisation.¹³¹

Measure 3: Develop, promote and implement anticorruption activities in the public and private sector

“Corruption prevention, especially the areas which in BiH turned to be the most problematic so far, and in those areas recognized as a standard part of anti-corruptive activities in the international documents, such as publicity in the work of institutions, regulated financing of political parties, regulated processes of public procurement, quality work of legislative bodies and transparent management of public revenues and expenditures, etc.”¹³²

Measure 4: Enhance effectiveness and efficiency of justice institutions and law enforcement bodies in the area of fight against corruption

Prosecution of perpetrators of corruption and

control over the implementation of those activities is important, because all stakeholders in these processes must act professionally and independently from all influences. Considering their prominent social role, law enforcement and justice bodies and institutions must demonstrate a higher level of integrity than other public institutions in accordance to the principles of Chapter 23 of the EU *acquis*.¹³³

Priority: Reform of the justice sector

Measure 1: Strengthen and sustain independence, accountability, efficiency and harmonisation of the justice system

Through implementing the Justice Sector Reform Strategy, BiH will continue strategic programmes aimed at increasing efficiency of justice institutions in BiH through amendments of procedural laws, enhancement of organisational capacities and measuring effects, with additional unbundling of judicial institutions in BiH from specific cases and through engagement of other institutions. This includes strategic programmes for strengthening judicial transparency and ensuring two-way communication of judicial institutions, the media, users of the services of judicial institutions in BiH, as well as expert and general public.

Measure 2: Develop more harmonised system of criminal sanctions in BiH

Enhancement of the management of the system of criminal sanctions requires work on harmonisation of regulations in BiH and with international standards, and ensuring reliable data on prison population in the system of criminal sanctions to make evidence-based policies and improve treatment of convicted persons. Taking into account that the situation in regard to overcrowding of correctional institutions has been significantly improved, the strategic focus has shifted to promotion of

¹³⁰ BiH Anticorruption Strategy 2015 - 2019

¹³¹ BiH Anticorruption Strategy 2015 - 2019

¹³² BiH Anticorruption Strategy 2015 - 2019

¹³³ BiH Anticorruption Strategy 2015 - 2019

alternative sanctions, i.e. ruling of prison sentences only when all other options have been exhausted, with no adequate alternatives to achieve the purpose of punishment and rehabilitation.¹³⁴

Measure 3: Enhance the system of international legal aid and establish, strengthen and sustain systems and processes guaranteeing equal access to justice in BiH

The purpose of this measure is harmonising judicial practices in BiH in the area of international legal aid and cooperation and establishment of a single criminal record for BiH citizens convicted abroad.¹³⁵

Measure 4: Enhance Identification Document Security System

Harmonise security elements with EU recommendations and ICAO standards.

Measure 5: Define and implement measures through which the justice sector in BiH will contribute to the creation of a favourable environment for sustainable economic development in BiH

Develop a harmonised system of land registry in BiH which will lead to legal security in regard to proprietary rights and create a more favourable environment for investments. Work will be continued on increasing the quality of work of land registry offices through reform of the training system of employees of land registry administration. This area includes programmes focused on the enhancement, harmonisation and availability of information in real-estate records in BiH.¹³⁶

Measure 6: Enhance vertical and horizontal coordination within the BiH justice sector in the context of EU accession

The complex administration structure and large number of institutions in the BiH justice sector, which often have unclear institutional competences, mandates and responsibilities, have caused several issues, including duplication and coordination issues that will lead to inefficient use of insufficient funds and unequal services provision by justice sector institutions in BiH. Although it is sometimes necessary, laws are essentially not the best solution to coordination issues. Functional instruments of cross-institutional operation can ensure flexible and more efficient work. However, it has been determined that such instruments and capacities are lacking through several analyses of the justice sector and public administration in BiH.¹³⁷

Priority: Enhancement of the security sector from the aspect of efficiency and accountability with the goal of security of citizens and property

Measure 1: Establish legal framework in accordance with BiH needs on the road to Euro-Atlantic Integration

Establishment of a modern and comprehensive legal framework in accordance with relevant international standards is one of the key systematic conditions for increasing security of people and property.

Measure 2: Enhance international cooperation and BiH perspectives in the area of EU and NATO integration

It is necessary to fulfil obligations in line with the Stabilisation and Association Agreement.

Measure 3: Implement and enhance activities in the area of border protection, migration and asylum

Immigration and asylum are important segments for meeting the requirements of the

¹³⁴ BiH Justice Sector Reform Strategy 2014-2018

¹³⁵ BiH Justice Sector Reform Strategy 2014-2018

¹³⁶ BiH Justice Sector Reform Strategy 2014-2018

¹³⁷ BiH Justice Sector Reform Strategy 2014-2018

Roadmap on liberalisation of the visa regime for Bosnia and Herzegovina and comprehensive fulfilment of requirements of the Roadmap has resulted in obtaining of a visa-free regime for BiH citizens. In the area of immigration and asylum, BiH goal is to develop a high quality migration and asylum system at the national level in line with EU standards and containing international refugee law, as well as active participation in policy-making and defining policy and development of the immigration and asylum system at the regional level.

Measure 4: Improve the system for combating terrorism and organized crime

The Council of Ministers of Bosnia and Herzegovina adopted in its 49th session held on 8th May 2013 the Decision on establishment of a Work Group for Coordination and Monitoring of Action Plan for Development of Organised Crime Threat Estimation in Bosnia and Herzegovina including new strategy and action plan for fight against organised crime in 2013-2015. Their implementation will contribute to the improvement of the system for combating terrorism and organised crime.

Measure 5: Improve system of forensic tests and expert evaluations

Higher quality of forensic tests and expert evaluations will enable faster detection and solving of cases for all types of criminal activities.

Measure 6: Monitor and analyse the security situation and occurrences conducive to the emergence and development of crime

Daily exchange of operational and strategic information in international police cooperation through cooperation with INTERPOL, EUROPOL and SELEC centre.

Measure 7: Collect intelligence and data on crimes within the jurisdiction of the BiH Court and the comprehensive support and protection to witnesses in proceedings before the BiH Court

The level of realisation of intelligence cases, providing the highest level of protection to witnesses in order to act more efficiently in crime prevention.

Measure 8: Provide expert legal assistance to BiH police bodies

This measure is implemented through operational activities in the procedures of verification of letters of invitation and residence permits, collecting information and knowledge on organizers of illegal transfer and smuggling of persons, establishing directions and routes of illegal migration, exchange of information and data with agencies of law enforcement in BiH, inspection controls of the movement and residence of foreign nationals, and by taking repressive actions against them.

Measure 9: Increase level of border security and airport security

Prevention of illegal national border crossing and all forms of cross-border crime which includes criminal offenses in accordance with regulations on the abuse of public documents which serve as proof of identity and the mandatory possession of a visa, as well as provisions on movement and stay of aliens and asylum, while crossing the border or are directly related to border crossing, criminal offenses related to the illegal transport of goods across the state border, goods without official approvals or in the case of violation of existing prohibitions.

Measure 10: Enhance international operational police cooperation and develop and strengthen coordination and cooperation of police and other relevant bodies in BiH

Successful international operational police cooperation and coordination, in which there is an exchange of operational and strategic information in international police cooperation through cooperation with INTERPOL, EUROPOL and the SELEC centre, as well as through accredited foreign liaison officers in BiH.

Measure 11: Enhance protection of persons and property under special protection

Recent events demonstrated that it is necessary to strengthen, organise and establish protection of persons, buildings and assets in need of special protection.