

# Overview of key Socio-Economic Policies in Bosnia and Herzegovina

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In the context of  
2018 General Elections

Centre for Policy and Governance  
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# CONTENTS

|   |    |
|---|----|
| Executive Summary.....                                    | 4  |
| Introduction.....   | 7  |
| Rule of Law and Good Governance.....                      | 8  |
| Public Finances, Taxation, and Fiscal Sustainability..... | 10 |
| Business Climate and Competitiveness.....                 | 12 |
| Labor Market.....   | 14 |
| Social Welfare Reform.....                                | 16 |
| Public Administration Reform.....                         | 18 |
| Education.....  | 20 |
| Comprehensive Health Sector Reform.....                   | 22 |

# EXECUTIVE SUMMARY

The focus of this policy paper is on key socio-economic challenges the society in Bosnia and Herzegovina faces, with an overview of measures to be implemented after the 2018 general elections. Based on analysis of the Reform Agenda 2015-2018 and accompanying Action Plans of the Council of Ministers and Entity Governments as well as desk research and consultations with representatives of civil society organizations, representatives of the business community and representatives from the international community, a set of measures in eight priority reform areas has been identified and jointly agreed upon. The areas are as follows.

## **Rule of Law and Good Governance**

The rule of law and good governance are essential preconditions to sustainable economic development, i.e. the fair distribution of its benefits and the establishment of a level playing field for investors. Measures in this area are focused on: 1) a four-year state strategy for the Judiciary System Reform; 2) introduction of a legally-binding obligation for all public institutions to adopt and implement integrity plans; 3) a legal framework for illegal asset seizure on state and Entity levels; 4) a four-year state strategy for the fight against corruption, and 5) coordination of projects of technical and financial assistance.

## **Public Finances, Taxation and Fiscal Sustainability**

In order to spur growth, it is essential to ease the burden of taxation on the private sector, as well as restrain current expenditures and intensify public investment. Measures in this area are focused on: 1) reduction of the tax burden on labor in both entities; 2) rightsizing the public administration; 3) reduction of salaries and other current public expenditures; 4) improvement of internal financial control mechanisms and budgetary planning; 5) fostering public investments in infrastructure projects by overcoming existing obstacles, and 6) improvements in the area of corporate governance and monitoring of public companies.

## **Business Climate and Competitiveness**

The reforms that enable further growth based on investment should be implemented without further delay. In that regard, it is essential to remove all administrative, regulatory and technical obstacles to both domestic and foreign investment. Measures in this area are focused on: 1) the establishment of a "one-stop shop" system; 2) establishment of electronic registers in the Federation of Bosnia and Herzegovina; 3) reform of state-owned enterprises through restructuring and/or privatization, as well as abolishment of vertical state aid and sale of minority equity shares owned by the governments of both entities; 4) further specialized education of the employees of the judiciary system in economic and financial disputes; 5) adopting public-private partnership in FBiH; 6) legal framework on multilateral compensation; 7) abolition of para-fiscal fees and introduction of registers of para-fiscal charges; and 8) stability of the financial sector.

## **Labor Market**

Recent employment policies based on co-financing employment and self-employment programmes do not address the long-term structural challenges of the labor market. It is essential to improve the competitiveness of the employable workforce while focusing on the unemployed. Measures in this area are focused on: 1) improvement of the Active Labor Market Policies; 2) combining training and active employment measures; 3) strengthening the functions of the Employment Services, and 4) co-financing retraining for sectors with significant supply-demand mismatch.

## **Social Welfare Reform**

The level of expenditures in Bosnia and Herzegovina on social welfare cash payments not based on contributions is fiscally unsustainable. Targeting of social benefits and prevention of abuse of all types of welfare programs remain the most significant challenges in this area. Measures in this area are focused on creating a centralized database of all social welfare beneficiaries and improving targeting within social welfare programs.

## **Public Administration Reform**

For the purpose of ensuring socio-economic growth and fiscal sustainability it is essential to link the public administration reform with the reforms conducted in other priority reform areas. Measures identified in this area are: 1) a new public administration reform strategy; 2) new and improved public finance management strategies; 3) ensuring fair and non-biased hiring processes for public servants; 4) training and specialization programs, and 5) more transparent and efficient public procurement procedures.

## **Education**

Education is an essential component of society and one of the main contributors to economic development. Hence, its reform requires a holistic approach. Measures in this area are focused on: 1) coordinating and synchronizing all participants in the educational processes; 2) development of curricula and study programs in collaboration with the business community; 3) teachers' expertise and introduction of mandatory continuous (life-long) formal training; 4) improving the quality of initial education of teaching staff; 5) increasing financial support for scientific and research activities; 6) impact appraisal and internal and external quality control of educational institutions, and 7) depoliticization of education.

## **Comprehensive Health Sector Reform**

It is essential to address major challenges in healthcare directly related to the handling and prevention of debt within the public healthcare system, reorganization and improvement of services and the advancement of drug and medical supply public procurement procedures. Measures in this area are focused on: 1) conducting performance audits and standardizing success appraisal and licensing; 2) performing analyses of the sector debt; 3) introduction of a treasury system to the sector; 4) standardization of the network of healthcare institutions; 5) addressing the issue of citizens with no health insurance; 6) redefining the essential list of medications at the state level, and the introduction of International Non-Proprietary Names; 7) strengthening the capacities of the State Agency for Medicinal Products and Medical Devices; and 8) the introduction and implementation of the principles of rational pharmacotherapy.

# INTRODUCTION

The Centre for Policy and Governance in collaboration with CA Why Not publishes this policy paper to present the greatest socio-economic challenges of the society in Bosnia and Herzegovina in the context of the 2018 general elections. In the paper are introduced the measures to be implemented in the near future for the purpose of advancing the implementation of reforms, which are to the general benefit of all. The measures were identified through interviews among 30 organizations and individuals from civil society and the business community conducted from February to May 2018. The interviews focused on the following priority areas of the Reform Agenda of Bosnia and Herzegovina:

1. Public Finances and Fiscal Sustainability;
2. Business Climate and Competitiveness;
3. Labor Market;
4. Social Welfare Reform;
5. Public Administration Reform,
6. Rule of Law and Good Governance, and - an open-ended arena for the interviewees to elaborate on further reform priorities, if necessary.

Upon conducting analysis of the Reform Agenda 2015-2018 and accompanying Action Plans at the state and entity levels, we first identified the measures that have yet to be implemented. Then, we asked the interviewees to assess the quality of measure formulation, the level of their implementation, their importance, as well as their impact on the socio-economic growth of Bosnia and Herzegovina. Additionally, we invited the interviewees to provide further recommendations in any other areas they deem key to the development of the country. Following consultative meetings with the representatives of the international community in Bosnia and Herzegovina, the final measures were jointly agreed upon by interested representatives of civil society and the business community. The research findings and the conclusions reached at the meeting held on May 16, 2018 are available in the text below.

# **RULE OF LAW AND GOOD GOVERNANCE**



The degree of satisfaction with the implementation of the measures in the area Rule of Law and Good Governance is low, with 7% of positive answers (this area contained 12 measures, and each received 12 answers. Out of the total 144 answers, 1 was “Completely positive”, 9 were “Partially positive”, 48 were “Completely negative”, 42 were “Partially negative”, while 44 answers were not provided). At the same time, 82% of all answers indicate that this area should be a priority in the next mandate period (out of 144 total answers for all measures, 118 responses had a positive view of the measures, 0 had negative views, while 26 answers were not provided).

The international community has supported the rule of law and good governance reforms in Bosnia and Herzegovina with tremendous efforts over the years but citizens’ trust in the judiciary is low. Only 23% of citizens have confidence in the courts, 22% in the auditing institutions, and only 16% in parliaments, according to the data available in a report on public administration monitoring provided by SIGMA international agency<sup>1</sup>.

The rule of law and good governance are essential preconditions to sustainable economic development and fair distribution of its benefits, as well as to the development of a level playing field for investors. Measures identified and agreed upon in this area therefore are:

- Adoption and implementation of a four-year state strategy and action plan for the judiciary reform;
- Support for the increase in the integrity of institutions in the judiciary system through introduction of a legally binding obligation for all public institutions at all levels, including state-owned enterprises, to adopt and implement integrity plans in line with the Guidelines and Rules for Drafting and Adopting Integrity Plans. These guidelines were introduced by the High Judicial and Prosecutorial Council of Bosnia and Herzegovina (HJPC BiH) and Agency for the Prevention of Corruption and Coordination of the Fight against Corruption (APIK).
- Improvement of the legal framework for illegal asset seizure on the state and entity levels, including the selling procedures, and operationalizing the HJPC’s Module for registering the seized assets.
- Adoption and implementation of a four-year state strategy for the fight against corruption, a respective implementation action plan, and adoption and harmonization of strategies and the corresponding action plans in the area at the entity and cantonal levels.
- Coordination of projects of technical and financial assistance aimed at efficient planning and implementation of the reform activities.

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1 Monitoring Report for Bosnia and Herzegovina, 2017, OECD-SIGMA, Pg. 51, available at: [http://parco.gov.ba/wp-content/uploads/2018/02/Monitoring-Report-2017-Bosnia-and-Herzegovina\\_BHS.docx](http://parco.gov.ba/wp-content/uploads/2018/02/Monitoring-Report-2017-Bosnia-and-Herzegovina_BHS.docx) [Last accessed: 22th June 2018]

# PUBLIC FINANCES, TAXATION, AND FISCAL SUSTAINABILITY



The degree of satisfaction with the implementation of the measures in the area Public Finances, Taxation, and Fiscal Sustainability is low, with 15% positive answers (this area contained 12 measures, and each received evaluation of 13 participants. Out of 156 total evaluations, 10 were completely positive, 14 partially positive, 44 completely negative, 26 partially negative, while 62 answers were not provided). At the same time, 64% of all answers indicate that this area should be a priority in the next mandate period (out of 156 total answers for all measures, 100 had a positive view, 32 had negative views, while 24 answers were not provided).

In order to spur growth, it is essential to ease the burden of taxation on the private sector, restrain current expenditures and intensify public investment. Measures identified and agreed upon in this area therefore are:

- Amendments to the Law on Contributions and Law on Income Tax to reduce the tax burden on labor in both entities following consultations with social partners. Refrain from the introduction of a more administratively complex system for collecting income tax. Preservation of a flat income tax rate while expanding the tax base through the Law on Income Tax.
- Rightsizing of the public administration to make it more time- and cost-efficient and better able to provide quality public services (through reduction of the number of civil servants and transfers across all administrative levels).
- Introduction of a salary adjustment system in the public sector based on value on the state level and in the RS. Reduce the salary and other current expenditures in the Federation of Bosnia and Herzegovina.
- Improve internal financial control mechanisms and budgetary planning, as well as strengthen public expenditure controls through: improving the control and monitoring of expenditures of extra-budgetary funds and state-owned enterprises in the Federation of Bosnia and Herzegovina, and adopting and implementing the Public Internal Control Strategy in Republika Srpska.
- Fostering public investments in infrastructure projects in both entities by overcoming existing obstacles to their implementation through:
  - The creation of more transparent and efficient public procurement procedures;
  - Improvement of the research and preparation of project documentation;
  - Improved cooperation between various institutions that issue necessary permits;
  - Improved oversight of project implementation..
- Improvement of corporate governance and oversight of SOEs on all administrative levels by following OECD principles.
- Adoption and implementation of the laws on bridging service periods in both entities to enable closure of non-prospective state-owned enterprises and restructuring the prospective SOEs, as well as to enable retirement for deprived workers.

# BUSINESS CLIMATE AND COMPETITIVENESS



The degree of satisfaction with the implementation of the measures in the area Business Climate and Competitiveness is low, with 10% positive answers (this area contained 15 measures, and each was evaluated by 15 participants. Out of 225 total answers, 5 were completely positive, 18 partially positive, 67 were completely negative, 46 partially negative, while 89 answers were not provided). At the same time, 71% of all answers indicate that this area should be a priority in the next mandate period (out of 225 total obtained answers from all measures, 160 had a positive view, 11 received negative views, while 54 answers were not provided).

Reforms that enable further growth based on investment should be implemented without further delay. In this regard, it is essential to remove all administrative, regulatory and technical obstacles to both domestic and foreign investment. Measures identified and agreed upon in this area therefore are:

- Introduction of a “one-stop shop” system in the Federation of Bosnia and Herzegovina to allow for effective business registration and collection of documentation necessary to start a business.
- Introduction, publication and harmonization of interconnected electronic registers in the Federation of Bosnia and Herzegovina (Register of Crafts, Business Register, State-owned Companies Register, Register of Agricultural Holdings, Register of Company Creditworthiness, Register of Financial Statements, Business Account Register, Apartment Register), modeled after the existing system developed by the Intermediary Agency for IT and Financial Services in Republika Srpska (APIF). Additionally, standardization and harmonization of relevant procedures to accelerate provision of building permits and permits to connect to the electricity distribution network, as well as introduction of the system of electronic building permit applications in both entities are necessary.
- Reforming state-owned enterprises through: 1) restructuring and/or privatization in both entities, based on prior in-depth analysis; 2) abolishment of vertical state aid in Republika Srpska; 3) sale of minority equity shares owned by the government of the Federation of Bosnia and Herzegovina.
- Strengthening the economic departments of courts in the Federation of Bosnia and Herzegovina and further specialization of the judicial staff in economic and financial disputes in both entities.
- Introduction of alternative sources of funding through public-private partnership in the Federation of Bosnia and Herzegovina. Adoption and implementation of the Law on Public-Private Partnership and the amendments to the Law on Concessions in the Federation of Bosnia and Herzegovina.
- Adoption and implementation of a legal framework on multilateral compensation and cessions in the Federation of Bosnia and Herzegovina. Introduction of an official nationally instituted support system for multilateral compensations.
- Analysis of the justifiability and abolition of certain para-fiscal fees and introduction of a para-fiscal charges register in Republika Srpska (through the Tax System Act), introducing a legal provision to make a clear connection between a fee and the public service provided in return.
- Ensuring the stability of the financial sector through adoption and implementation of the Law on the Deposit Insurance Agency (enactment of the Law on Deposit Insurance for banks in Bosnia and Herzegovina).

# LABOR MARKET



The degree of satisfaction with the implementation of the measures in the area Labor Market is extremely low, with 6% of positive answers (this area contained 7 measures, and each was evaluated by 14 participants. Out of 98 total evaluations, none were completely positive, 6 were partially positive, 37 were completely negative, 25 partially negative, while 30 were not provided). At the same time, 68% of all answers indicate that this area should be a priority in the next mandate period (out of 98 total answers for all measures, 67 had a positive view, 5 had negative views, while 26 answers were not provided).

Recent employment policies do not address the long-term structural challenges of the labor market. It is essential to improve the competitiveness of the employable workforce while focusing on the unemployed. Measures identified and agreed upon in this area therefore are:

- Improvement of the Active Labor Market Policies (ALMP) through the introduction of new programs to strengthen competitiveness and the introduction of an efficient system of monitoring and evaluation. Active policies should be “personalized” and should be a part of Self-Directed Employment (SDE) strategies/steps.
- Provision of necessary training or combination of training with active employment measures.
- Strengthening the advisory and intermediary role of the Employment Service (primarily profiling and career guidance).
- Undertaking corrective actions by co-financing retraining for vocations that are scarce and in sectors with significant mismatch between skill demand and supply.

# SOCIAL WELFARE REFORM



The degree of satisfaction with the implementation of measures in the area Social Welfare and Pension System Reform is low, with 21% positive answers (this area contained 4 measures, and each was evaluated by 6 participants. Out of 24 total evaluations, 1 was completely positive, 4 partially positive, 13 were completely negative, 1 was partially negative, while 5 answers were not provided). At the same time, 83% of all answers indicate that this area should be a priority in the next mandate period (out of 24 total answers for all measures, 20 had a positive view, 2 had negative views, while 2 answers were not provided).

The level of expenditures in Bosnia and Herzegovina on social welfare cash payments that are not based on contributions is fiscally unsustainable <sup>2</sup>. Despite the substantial expenditures, the underprivileged population is poorly covered – only 18% of these benefits go to the most vulnerable 20% of the population. The targeting of social benefits and the prevention of the abuse of all types of welfare programs remain the most significant challenges in this area. Measures identified and agreed upon in this area are:

- The creation of a central database of all beneficiaries of social welfare in both entities, as well as registries of war veterans and other beneficiaries of war-related benefits;
- Improvement in the targeting of social welfare programs by introduction of requirements for all necessary forms of assistance and benefits by introducing a system, which would cover the specific needs of different social categories. Social benefits should be conditional upon the income and assets of the beneficiary.

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<sup>2</sup> World Bank, Pg. 1, available at: <http://siteresources.worldbank.org/INTBOSNIAHERZ/Resources/SPN2009bos.pdf> [Last accessed: 22th June 2018]

# PUBLIC ADMINISTRATION REFORM



The degree of satisfaction with the implementation of the measures in the area Public Administration Reform is the lowest, with 0% positive answers (this area contained 5 measures, and each was evaluated by 6 participants. Out of 30 total received evaluations none were completely positive, nor partially positive, 15 were completely negative, 7 were partially negative, while 8 answers were not provided). At the same time, 87% of all answers indicate that this area should be a priority in the next mandate period (out of 30 total answers from all measures, 26 had a positive view, 1 had negative views, while 3 answers were not given).

To ensure socio-economic growth and fiscal sustainability, it is essential to link public administration reform with reforms conducted in other priority reform areas. Measures identified and agreed upon in this area are:

- Adoption and implementation of a new public administration reform strategy and a corresponding action plan.
- Adherence to the 2017-2020 Public Finance Management Reform Strategy and the Public Finance Management Reform Strategy of Institutions of the Federation of Bosnia and Herzegovina and the Public Finance Management Reform Strategy of the Institutions of Bosnia and Herzegovina. Adoption and implementation of the Strategy in Republika Srpska.
- Ensuring employment of the best-ranked applicants in the hiring processes of public servants and staff members at all levels of government through the following:
  1. Adoption and implementation of a bylaw regulating the procedure on full-time employment in public service based on the principles of transparency and merit;
  2. Introduction of clear qualification criteria and competency tests for hiring procedures in the public sector;
  3. Abolition of the discretion to choose any candidate from the applicant list, regardless of ranking.
- Strengthening of training and specialization programs on planning of public expenditures, internal auditing, and financial control at all levels of government.
- Adoption and implementation of a legal framework for more transparent and efficient public procurement procedures. Introduction and implementation of more rigorous penalties and disciplinary measures for authorized personnel, to foster greater accountability for effective implementation of tender procedures.

# EDUCATION



Education reform did not have a prominent role in the Reform Agenda 2015 – 2018. All of the interviewees, however, identified education reform as one of the other priority areas essential to the socio-economic growth of Bosnia and Herzegovina. The degree of satisfaction with the implementation of the measure “Adapting the education system to the labor market” contained in the Labor Market area is very low, with 0% positive answers on the implementation of this measure (this measure was evaluated by 14 participants – none of the evaluations was completely positive, or partially positive, 8 were completely negative, 4 partially negative, while 2 were not provided). At the same time, 79% of all answers indicate that this area should be a priority in the next mandate period (out of 14 total answers for this measure, 11 had a positive view, 0 had negative views, while 3 answers were not provided).

Education is an essential component of society and is one of the main contributors to economic development. Therefore, education reform requires a holistic approach. In Bosnia and Herzegovina, there is a grave need for systemic changes. Measures<sup>3</sup> identified and agreed upon in this area are:

- Coordination and synchronization of all participants in educational processes, institutions of executive and legislative power as well as the business community in adopting cohesive, concordant, and strategic educational policies at the highest level.
- Development of curricula, courses, and programmes in collaboration with the business community and in line with the needs of society, as well as in the spirit of freedom of thought and critical thinking.
- Development of the expertise of teachers and introduction of the obligation of formal continuous (lifelong) professional training of lecturers, as well as reviews and surveys of professional development.
- Improvement in the quality of initial education of lecturers through the following: unification of teaching courses in the specialized MA programs; alteration of enrollment policies and selection procedures; increasing the practical aspect of pedagogical education;
- Increase in financial support for scientific and research activities and in the mobility of teachers and students.
- University autonomy must be monitored by public quality control. It is necessary to introduce clear qualitative standards for the accreditation of educational institutions at all levels of education, the education impact appraisal and compliance with standards through the establishment and development of internal and external quality control. At the same time, it is necessary to launch a public debate and broaden the social dialogue on the models of funding for higher education.
- Depoliticization of education.

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3 The key principles in this area were identified via the roundtable “Educations on the Sidelines of Reform Agenda”, where the joint Declaration on Education was adopted. The same principles were supported on the meeting of representatives of organizations of civil society, professional and business community.

# COMPREHENSIVE HEALTH SECTOR REFORM



The degree of satisfaction with the implementation of the set of measures “Comprehensive Health Sector Reform” contained in the Public finance, taxation and fiscal sustainability area is very low, with 15% positive answers on the implementation of this set of measures (this set of measures was evaluated by 13 participants – 2 were completely positive, 0 partially positive, 3 were completely negative, 2 partially negative, while 6 answers were not provided). At the same time, 69% of all answers indicate that this area should be a priority in the next mandate period (out of 13 total answers for this measure, 9 received a positive view, 1 had negative views, while 3 answers were not given).

It is essential to address challenges related to the handling and prevention of debt in the public healthcare system, reorganization and improvement of services, and the advancement of drug and medical supply public procurement procedures. Additionally, it is necessary to address the issue of a significant number of citizens not being covered by healthcare insurance. Measures identified and agreed upon in this area are:

- Health service performance audits in both entities and standardization of success appraisal and licensing.
- Analysis of the debt in the health sectors in both entities.
- Introduction of a treasury system to the operation of the sector.
- Reduction of non-medical staff in both entities through optimization.
- Standardization of the network of healthcare institutions in both entities.
- Introduction and implementation of a solution to the problem of citizens with no health insurance in both entities (around 450.000 people not covered by health insurance in Bosnia and Herzegovina<sup>4</sup>), including provision of basic healthcare for all citizens and the introduction of a model of financing through taxation of expenditures.
- Definition of essential medications at the state level, using the International Non-Proprietary Names<sup>5</sup> (INN). Allowing consumers to use the needed medicine free of charge – which is listed in the procurement process as the one with the most acceptable price or through additional payment of the difference in the price of the specific medicine of the desired producer.
- Strengthening the capacities of the Agency for Medicinal Products and Medical Devices of Bosnia and Herzegovina.
- Introduction and implementation of the principles of rational pharmacotherapy to improve its quality, reduce costs of doing business in this sector and increase price control over medicines.

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4 Number of people with and without health insurance, Initiative and Civil Action (ICVA)

5 Guidance on INN, World Health Organization (1997), available at:

<http://www.who.int/medicines/services/inn/innquidance/en/> [Last accessed: 24th June 2018]



**ZaštoNe?**

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