



COMPACT
FOR GROWTH AND JOBS
IN BOSNIA AND HERZEGOVINA



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SOCIAL PROTECTION

GROWTH

EMPLOYMENT

JOBS

INVESTMENT

BUSINESS

ENTERPRISES

EDUCATION

YOUTH

FOREWORD BY

Ambassador Peter Sørensen

Dear reader,

Bosnia and Herzegovina needs to reform. Otherwise she risks falling further behind her neighbours in terms of the business environment and other policies necessary to spur investment and create jobs. Already, the overall unemployment rate stands at over a quarter of the workforce and the rate of youth unemployment is the highest in Europe. But you know this. And you know that reform is needed.

In fact, the people of Bosnia and Herzegovina have been listening to the cry for reform for many years. But what does this mean in concrete terms? Is it possible to agree on a simple set of priority measures that would re-ignite the process of modernising the economy?

We set out to answer this question at the Forum for Prosperity and Jobs in May in Sarajevo. We did so to assist Bosnia and Herzegovina to fulfil the Copenhagen economic criteria, which require every future member state of the European Union to have a functioning market economy as well as the capacity to cope with competitive pressures. But, more importantly, we did this to help the people of Bosnia and Herzegovina to improve your own lives and prospects.

The Forum was attended by a broad spectrum of civil, academic, business and political society and it identified a package of six concrete and urgent measures. The measures were supported by the International Monetary Fund, the World Bank Group, the European Bank for Reconstruction and Development, the European Union, the United States of America, other concerned nations and visiting experts. All agreed that reform is possible. Further consultations with local, regional and international experts produced a final package – a Compact for Growth and Jobs - that is presented here.

During our discussions, two overall themes emerged. First, socio-economic modernisation is a process that can be controversial and sometimes painful. For this reason, the reform package must treat everybody equally and allow the majority of the society to profit, especially the youth. Second, the focus of reforms must be on granting many more citizens of this country access to opportunity, benefits and jobs. The grip that some privileged sections of society have on the economy must be loosened. A broad spectrum of support is needed for reform to succeed.

This is where you are needed. I encourage you to get involved, to participate in the debate and to express your support for the Compact through the social media presented below. Ask your political leaders whether they support the Compact. After elections, this Compact could set the agenda for four years of hard work that would produce real results. Your governments must implement these reforms; the international community can only be of assistance.

Many people have helped with this initiative but they are far too many to name. Some 500 people have contributed, and I thank them all wholeheartedly. I would like to extend a special thank you to the Governor of the Central Bank of Bosnia and Herzegovina and to the Ambassador of the Kingdom of Norway whose support was essential for the success of the follow-up event on 15 July in Banja Luka. But the real work will be in supporting the Compact and in trying to bring it to fruition. That is up to you.



Ambassador Peter Sørensen
European Union Special Representative and
Head of the Delegation of the European Union



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COMPACT

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INTRODUCTION

July 24, 2014

In late May, a **Forum for Prosperity and Jobs** convened interested parties and the broader citizenry of Bosnia and Herzegovina to identify a package of 5-6 concrete and urgent measures that would re-ignite the process of modernising the economy. The measures were intended to help reinvigorate investment; spur the creation of jobs, in particular for youth; enhance and properly target social protection; and undermine the stranglehold that incumbents often have on opportunity. A set of priority measures was identified by the participants at the **Forum** and endorsed by the European Union, the International Monetary Fund (IMF), the World Bank Group and the European Bank for Reconstruction and Development (EBRD), as well as by the United States of America and other concerned nations that sought to encourage a fresh socio-economic start in Bosnia and Herzegovina.

The message of the **Forum** was that reform is possible—even if there are some difficult tasks ahead—but the process must start again and in earnest. A determined effort will make a real difference in people's lives. But there needs to be a renewal of confidence that short-term sacrifices are worth making in pursuit of medium-term growth and jobs. This level of trust can only be established on the basis of a firm commitment by political leaders and institutions to meaningful reforms—reforms that will deliver *real* opportunity for *all* of society.

The **Forum** decided to elaborate further on the reform package in a **Compact for Growth and Jobs** that would be offered to political leaders, institutions and civil society alike for their endorsement. This document recognises the need for a renewed socio-economic modernisation effort by all segments of society in Bosnia and Herzegovina—in particular, by political parties and institutions—and the proposed measures are all intended to level the field of

opportunity and smash barriers to growth and prosperity. The recent floods have had a devastating impact on the economy and economic reform is crucial to the recovery effort. The planned inflow of funds to assist in the recovery should be taken as an opportunity to embrace and implement reforms and to use the money wisely.

Consultations with stakeholders continued after the **Forum** through social media and direct discussions that included: political parties, business associations; employers' associations and unions; and representatives from academia and institutions at state, entity and canton levels. They culminated in a Seminar in mid-July that examined how the promise of the **Forum** could be implemented in practice. Experts from neighbouring countries shared their experience with participants from Bosnia and Herzegovina and encouraged the political leadership to embrace reforms quickly.

The socio-economic reform debate within the society of Bosnia and Herzegovina was also launched to assist the country in fulfilling the Copenhagen economic criteria. Bosnia and Herzegovina is a country with a clear accession perspective but, before it can join the European Union, it will have to demonstrate that it has a functioning market economy in place and that it has the capacity to cope with competitive pressures and market forces within the European Union. The reform package identified at the **Forum** and now elaborated in the **Compact** will, once implemented, help Bosnia and Herzegovina to get closer to European Standards in the economic sphere.

The **Forum** initiative has become the largest consultative process by far on economic reform in Bosnia and Herzegovina; both in country and from abroad. Nobody thinks it will be possible to change the economy in one night, of course. But the reform process has to start now. And there is an overwhelming consensus on the agenda of priority reforms and on the measures that must be taken. The six priority reforms are the following:

I. TAXES ON JOBS

If an employer in Bosnia and Herzegovina considers paying KM 1,000 to a prospective employee, she will first have to pay KM 600 (on average) to the government in taxes and social contributions (see Figure 1).¹ This very high payment acts as a significant deterrent to employment and often results in employers deciding not to hire anybody at all or to hire people without telling the government. And this leads to the development of a grey economy where workers have severely reduced access to social benefits and do not contribute to the pension and health systems that are supposed to apply to everybody. Many employers avoid paying taxes and contributions and their employees register as unemployed in order to receive minimal social benefits. In April 2013, for example, 550 thousand people were registered as unemployed whereas the true number was probably closer to 190 thousand (that was still 27.6 percent of the working force).²

Moreover, there are inconsistencies and complexities in the taxation systems across different regions that pose major problems for potential investors in the economy. Bosnia and Herzegovina is ranked (by the World Bank) at just 135th out of 189 countries in "ease of paying taxes" and this leaves it in a very bad position to compete for foreign investment.³ The IMF suggests reducing the rates of social contributions through: reducing current government expenditures; broadening the tax base to include more sources; efficiency improvements in the health and pension systems; and substituting a share of financing with other revenue sources (like VAT). This would also reduce the number of people in the grey economy and increase the numbers who actually make contributions.⁴

- Bosnia and Herzegovina needs to spur employment and improve competitiveness by reducing the cost of working to a far lower percentage of labour costs—from levels close to 40 percent toward the average for new EU member states at 35 percent.



2. BARRIERS TO JOBS

The extreme difficulty of getting a job in Bosnia and Herzegovina is well known. In addition to high taxes, high wages in the public sector typify an environment where "insiders" (with secure jobs) protect their positions and incomes at the expense of "outsiders" (especially, the unemployed). Private sector employment creation is hampered by: high administrative barriers; the need to grant extensive benefits; complicated and inconsistent laws that are not harmonised across jurisdictions; and different interpretations of labour relations by the courts that create uncertainty for both employers and employees.^{5,6} And the high costs of starting to work are matched by high costs of terminating employment that include 31 weeks of mandatory severance salaries compared to an average of 25 in new member states of the European Union.³³ Difficulties in terminating employment will severely discourage employers from hiring workers in the first place. Employers need to have a measure of flexibility before they will employ an expensive workforce.

Therefore, while "insiders" get protected jobs based on secure revenues, new private-sector employment is discouraged by such barriers and "outsiders" tend to remain in the lower-productivity sectors or seek employment abroad. Moreover, barriers to the transfer of accumulated social rights and benefits have created a cadre of ghost workers who are just clinging onto the past.⁷ These workers still hope to receive social benefits but no contributions are made for them and they get no salaries. Many more people have just given up on the prospect of finding work at all and, as a result, Bosnia and Herzegovina has the lowest rate of labour-market participation (or "activity") in Europe at just 44 percent of the working-age population (Figure 2).⁸⁹

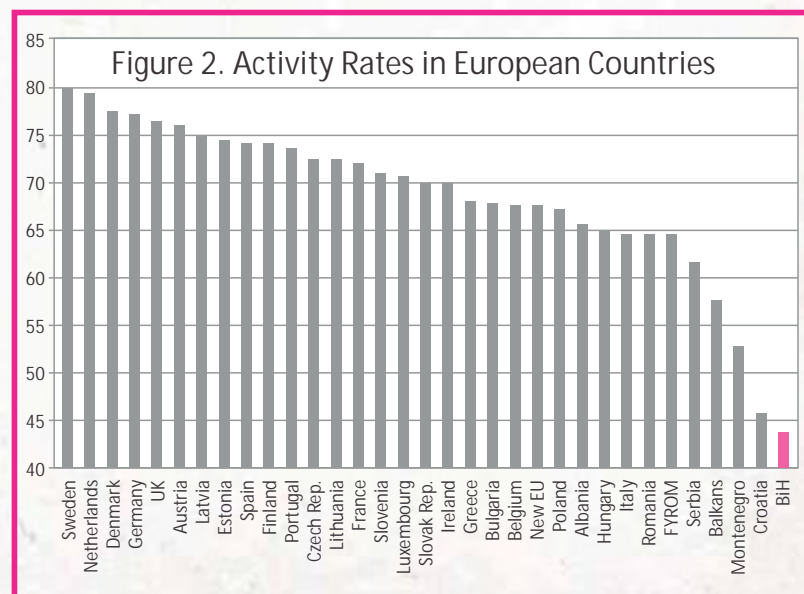
Young people, because they have little employment history, find it even more difficult to get work. And because they are often willing to accept temporary arrangements in order to get a start in life, they are even more damaged and discouraged by restrictive hiring practices, a lack of flexibility in collective agreements (between employers and unions) and barriers to temporary work. They are often driven into a grey market that offers little or no training. There is a general perception that access to a first job depends on being on the "inside" and surveys list the main

barriers to youth employment as corruption and nepotism.¹⁰ In this context, many young people feel that they have no future and only one in eight young people (aged 16-24) have a job¹¹ compared to one in three young people in the European Union.¹²

So, what can be done? The first task is to identify the causes of the problem. There is always a trade-off between job security and employment but, in Bosnia and Herzegovina, the pursuit of security has gone too far: people are not unemployed because they do not have enough job security; they are unemployed because they do not have sufficient opportunity.

Therefore, access to jobs needs to be opened to everybody—especially young people—and the restrictive practices that protect those who already have jobs need to be broken down:¹³

- Bosnia and Herzegovina needs to enact a set of labour market reforms to increase job creation, including by revitalising the process of collective bargaining, reducing the disincentives for hiring and, in particular, promoting inclusion of the young population in the workforce.



3. BUSINESS CLIMATE

Barriers to investment also need to be broken down. Bosnia and Herzegovina is ranked 131st out of 189 countries in the World Bank's *Doing Business Indicators* (see Figure 3) and sits between Bangladesh and Uganda.¹⁴

Bosnia and Herzegovina sits 38 places behind any other country in the region and is ranked 174th (alongside Libya) on the World Bank's assessment of procedures to start a business. Bosnia and Herzegovina also has the lowest ranking in the region on the EBRD's *Transition Index*; a measure of improvements made over the past 20 years.¹⁵ And it is therefore no coincidence that Bosnia and Herzegovina has the second lowest stock of foreign direct investment (per capita) in the region (after Albania).¹⁶

The low ranking of Bosnia and Herzegovina in the *Doing Business* Indicators reflects severe difficulties in: registering a new business; getting permits and access to services (like electricity); enforcing contracts; and paying taxes.

Regional competitors like FYROM and Montenegro actively target improvements in these areas—to promote investment—and they have had a good deal of success.¹⁷ Moreover, there is strong evidence that progress in one period has a significant effect on growth in the next period and that this can act as a further spur to reform.¹⁸

There are differences in registration and other procedures between the entities, of course, but these only further complicate and duplicate work and offer little assurance to prospective investors.¹⁹ Bosnia and Herzegovina is a rather small economy anyway and it makes no sense to further divide the economic space—ultimately, the market can become too small to make investment worthwhile. As a result of such factors, enterprises spend a far higher proportion of their time dealing with government regulation in Bosnia and Herzegovina than in other countries.²⁰

- Bosnia and Herzegovina needs to boost competitiveness by approving a results-based plan aimed at improving the conditions measured by *Doing Business* indicators to match the regional average.

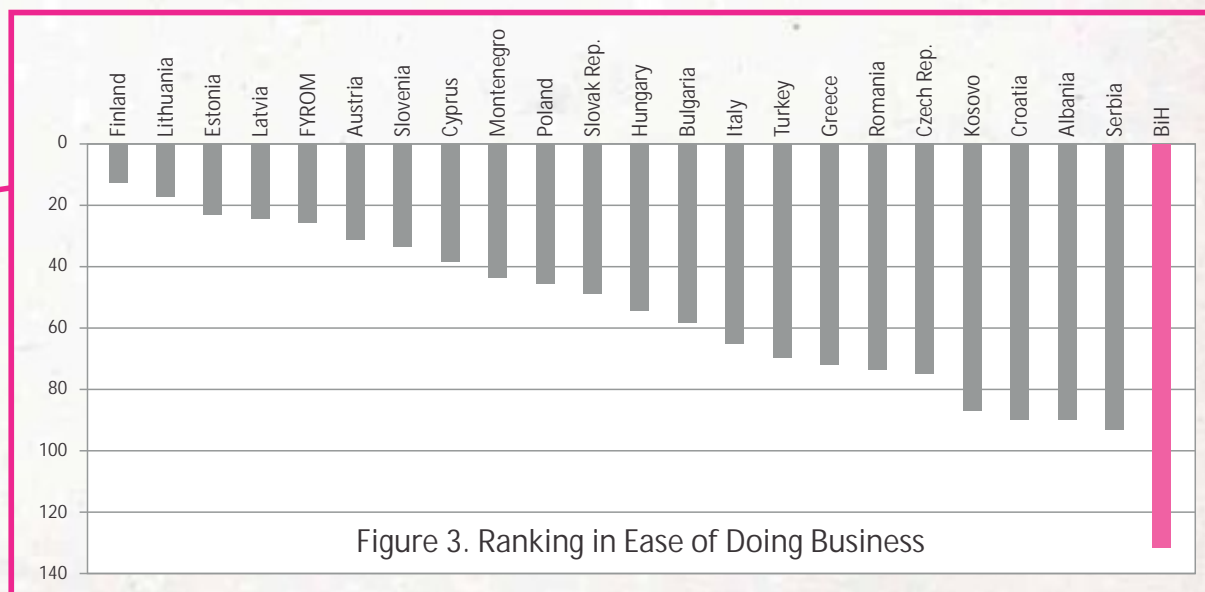


Figure 3. Ranking in Ease of Doing Business

4. ENTERPRISES

The EBRD notes that Bosnia and Herzegovina has significant economic potential in a number of sectors. Moreover, it has a strong industrial heritage, an abundant supply of energy, and significant resources to support processing industries. But there has been very little progress in harnessing this potential in recent years and the country lags behind others in the region on most reform and business indicators.²¹

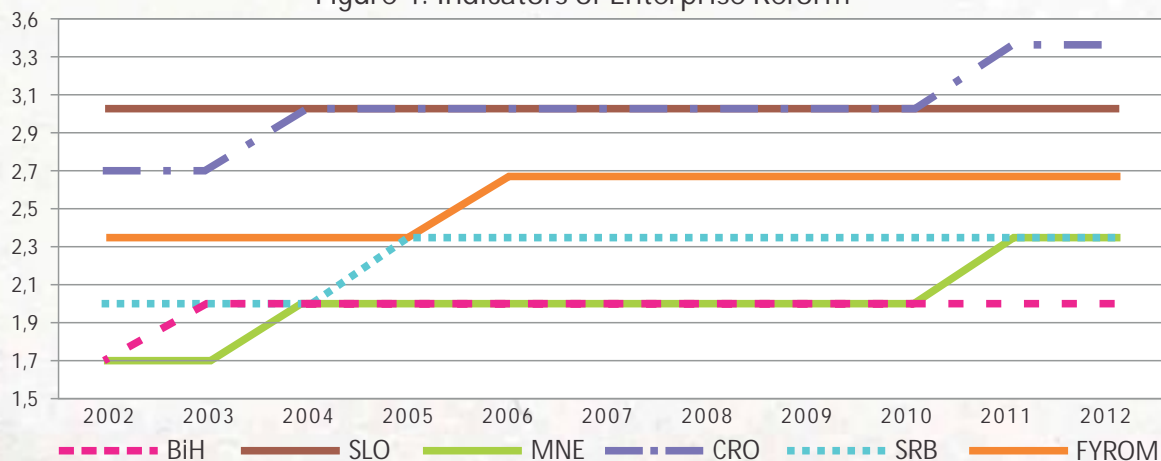
Bosnia and Herzegovina scores worst of all in the restructuring of large enterprises (Figure 4).²² Many of them still rely on (hidden) assistance or subsidies instead of being run on a professional and financial basis. There is weak enforcement of bankruptcy legislation and, while a significant privatisation agenda exists, few major enterprises have been brought to the market. Dominant firms with links to the state often abuse their market power (and connections) and undermine the potential for other firms to compete. This means, in effect, that valuable resources are being wasted in outdated activities instead of being used to increase productivity in the economy and to add to employment potential.

More generally, both the EBRD and the International Finance Corporation (IFC) find that the managers of enterprises are often not held sufficiently accountable for their performance (i.e. that corporate governance is weak).²³ This means that: investors have insufficient protection; key information for many companies is not available or is of poor quality; the duties of board members are unclear; and there is little penalty for poor performance and reporting. Codes of corporate governance are not always implemented and this is yet another example of a mentality that protects incumbents at the expense of attracting new investment. In addition, there are significant differences between existing corporate regimes in the entities and this is a source of further confusion and cost for potential investors:

- Bosnia and Herzegovina has a weak private sector and serious difficulties in attracting investors. Better investor protection laws and practices are needed including corporate governance, strengthened risk-management practices to improve access to financing (especially for new enterprises) and a more efficient insolvency framework.



Figure 4. Indicators of Enterprise Reform



5. CORRUPTION

Corruption kills initiative and investment in any economy but it is very difficult to measure or predict. Potential investors rely on surveys (like the *Corruption Perceptions Index* compiled by Transparency International) to tell them where they should not go and Bosnia and Herzegovina sits on the bottom rung of republics of the former Yugoslavia. Bosnia and Herzegovina is ranked 72nd out of the 175 countries surveyed in the world (see Figure 5).²⁴

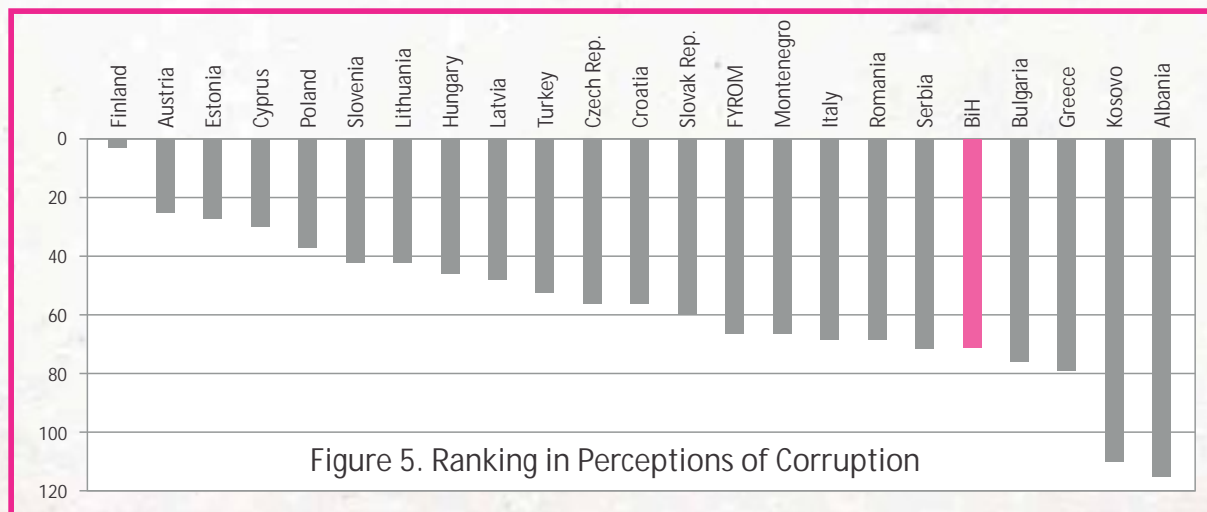
According to other surveys, almost three quarters of business people in Bosnia and Herzegovina view corruption as a significant obstacle to doing business²⁵ and, most concretely, more than 5 percent of them decided not to make a major investment (in the 12 months prior to a survey) due to fear of bribery. Of course, only some 20 percent of businesses even consider making major investments in any given year, so the proportion that stopped because of corruption is probably closer to a quarter. More broadly, corruption is ranked as the third most important obstacle to investment in the region.

Corruption retards development and growth and leads to the inefficient implementation of public policies. It leads to a waste of public expenditure

More generally, it leads to an ineffective distribution of the talent and resources available to the economy. Once again, incumbents benefit at the expense of others and any social consensus behind reform is undermined.

There were improvements in Bosnia and Herzegovina over the past few years, like the passage of Laws on Public Procurement and Whistleblowing and some high-profile arrests, but these must be supported by stronger implementation, corroborating law enforcement measures and overall support for the rule of law. More generally, economic corruption will continue to thrive in an environment of complicated and semi-hidden rules and regulations and uncertainty over procedures for the issuance of licenses and permits—complicated and vague laws and regulations heighten the opportunity for corruption. Therefore, there is a need for greater clarity, simplicity and transparency in administrative procedures and fees:

- Bosnia and Herzegovina needs stronger adherence to the rule of law and deep public administration reform. In the short-term, there should be a comprehensive public listing of para-fiscal fees and other costs, permits and licenses with a view to elevating their transparency.



6. SOCIAL PROTECTION

In addition to promoting initiative and industry, a modern caring society must provide for those that cannot take care of themselves. And there are two broad categories of social assistance in Bosnia and Herzegovina: insurance-based benefits that are funded by contributions from workers; and non-insurance cash transfers from the budget to some members of the general population. The first category is supposed to fund itself, with a minimum distortion to economic incentives, and the second category is properly intended to make transfers to those people who are most in need of help.

Unfortunately, we have already seen that the level of social contributions is prohibitively high in Bosnia and Herzegovina. The system was developed during socialist times, when the economy was operating near full employment and the grey economy was small, but times have changed and many people are no longer making contributions. And everybody still expects to get assistance. Therefore, the burden on those who contribute is even greater. Currently, the ratio of those who work in the formal sector and pay social contributions to

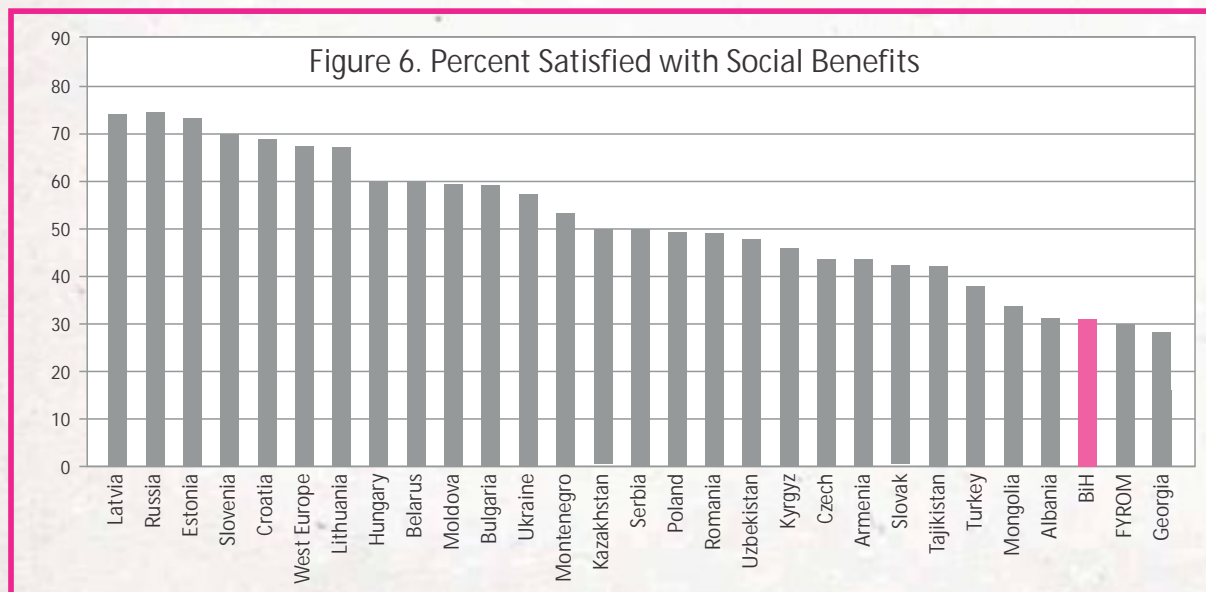
those who are entitled to healthcare is around one in five. This is not only unfair; it also undermines enterprise competitiveness and creates disincentives to work in the formal economy.²⁶ Meanwhile, the pension system pays high benefits to some people and has a low ratio of contributors to beneficiaries (including large numbers of early retirees). It is far too easy to get disability benefits and there is a high number of unfunded privileged pensions.²⁷

On the whole, the social welfare system is not financially stable. And, most importantly, the dynamics and incentives are toward further deterioration in the funding base and an increase in costs. World Bank studies have concluded that "a complete makeover is needed" if the system is not to implode.²⁸ And only 30 percent of the people of Bosnia and Herzegovina are satisfied with the benefits that are available (see Figure 6).²⁹

Bosnia and Herzegovina spends twice as much on non-insurance cash transfers as the average in transition economies. However, the system is so flawed that help does not reach the people who need it most.³⁰

Benefits based on privilege use three-quarters of total spending and many beneficiaries are not even poor—the benefits go to the better off.³¹ This system also needs to be changed.

- Bosnia and Herzegovina must improve the targeting of social assistance through a set of measures that would make social protection policies more effective, efficient and equitable. Social protection needs to work for those who really need it—or who pay for it—and must be put on a sustainable financial footing.



THE CONCISE AGENDA FOR REFORM

The proposed agenda is concentrated on six sets of measures. They were strongly supported by *Forum* participants on the basis that they would launch Bosnia and Herzegovina on a path to growth and jobs. The selection was further endorsed by the International Financial Institutions and European Union and was elaborated in more detail in subsequent consultations. The final Agenda is as follows:

1. Taxes on jobs: Bosnia and Herzegovina needs to reduce the cost of working from current levels that are close to 40 percent of total labour costs toward the average for new EU member states at 35 percent. This would be achieved through a combination of:

- Reducing current government expenditures;
- Broadening the tax base to include more sources of revenue;
- Efficiency improvements in the health and pension systems; and
- Substituting a share of financing with other revenue sources (like VAT)

2. Barriers to jobs: Bosnia and Herzegovina needs to enact a set of labour market reforms to increase job creation, including measures that will:

- Promote wage setting based on skills and performance instead of on seniority;
- Reduce administrative disincentives to hiring and harmonise labour legislation;
- Reform the process of collective bargaining and of setting minimum wages; and
- Actively promote inclusion of young people in the workforce and enable temporary jobs.

3. Business climate: Bosnia and Herzegovina is ranked 131st in the World Bank's *Doing Business* Indicators and needs to approve a results-based plan to lift its ranking toward the regional average. Measures to achieve this will include:

- Slashing the number and duration of requirements to start a business;
- Expediting procedures for obtaining construction permits and

getting electricity; and

- Streamlining tax procedures to make adherence to the system less onerous.

4. Enterprises: Bosnia and Herzegovina has a weak private sector and serious difficulties in attracting investors. Better investor protection laws and practices are required, including:

- Stronger codes of corporate governance, comprising enforcement of sanctions;
- Strengthened risk-management practices to improve access to financing (especially for new enterprises); and
- A stronger insolvency framework to make resolution faster and restructuring easier.

5. Corruption: Bosnia and Herzegovina needs stronger adherence to the rule of law and public administration reform. This medium-term effort should be enhanced by short-term measures to increase the transparency of regulations and cut opportunities for corruption:

- Produce a comprehensive online mapping of para-fiscal fees & charges for services; and
- Produce comprehensive e-registers of procedures for licenses and permits.

6. Social protection: Bosnia and Herzegovina must improve the targeting of social assistance through a set of measures that would make social protection policies more effective, efficient and equitable. Insurance-based systems must be put on a firm financial footing through:

- Streamlining of privileged pensions and early retirement for hazardous occupations;
- The introduction of reasonable penalties for early retirement and bonuses for late retirement in order to raise the effective retirement age;
- The introduction of sustainable benefit indexation; and
- Raising social assistance for those who are most in need.

IMPLEMENTATION OF THE COMPACT

The six priority reform measures would be implemented by governments after the October elections. They have been endorsed by the International Financial Institutions and the European Union who have plans at the ready to assist with their implementation and to provide financial assistance to alleviate their short-run effects. To facilitate and accelerate the process of tackling reforms, the European Union in Bosnia and Herzegovina will host a roundtable with International Financial Institutions and new governments after elections.



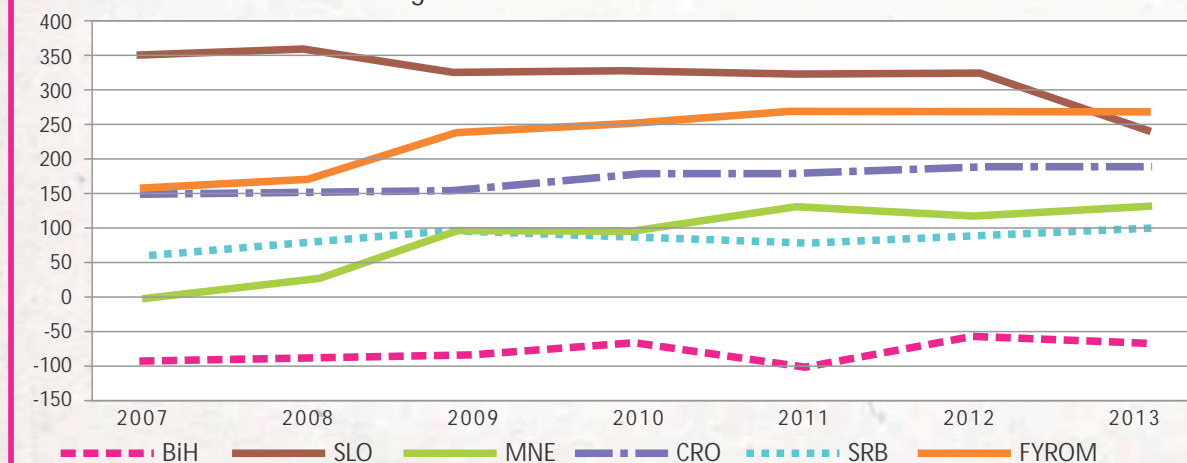
MONITORING AND IMPLEMENTATION

When governments have been formed and they have (hopefully) agreed programmes with the International Financial Institutions, the implementation of the *Compact* will need to be closely monitored. And, ultimately, it should be monitored by the population of Bosnia and Herzegovina and by its civil society. But it is difficult for diverse sets of people to come together to undertake such an exercise. Therefore, to assist in this process, the European Union will produce a regular non-technical Report on the Implementation of the Compact—in consultation with local partners and leading participants from the *Forum*. The Report will be brief, clear and understandable; and will outline facts more than make assessments.

In this spirit of factual reporting, progress will be measured with a specially formulated index based on the six priority areas (Figure 7).³² An update of the Index will be contained in each Report and it

will be set against developments in other countries—it is time for Bosnia and Herzegovina to catch up with its neighbours and this will require quicker reforms. As of now, Bosnia and Herzegovina trails its neighbours badly—as illustrated for the countries of the former Yugoslavia in Figure 7. Montenegro and FYROM made rapid progress in recent years. Bosnia and Herzegovina would need to make substantial progress over the next five years to catch up but, if nothing is done, it will most certainly fall further and further behind.

Figure 7. Index of Economic Reform



ENDNOTES

¹ In Figure 1, taxes are expressed as a percentage of net salaries plus taxes. These taxes (and contributions) drive a "wedge" between what the employer pays and what the worker receives. The tax wedge in BiH is over 40 percent of total labour costs compared to the average for the 12 new member states of the European Union (excluding Croatia) of about 35 percent. See http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-DU-14-001/EN/KS-DU-14-001-EN.PDF. Data for Bosnia and Herzegovina were calculated from official sources.

² Compare official unemployment at www.bhas.ba/saopstenja/2013/ZAP_2013M04_001_01_Bos.pdf with (more reliable) survey results at http://www.bhas.ba/tematskibiltenti/BHAS_Ars_BH_press.pdf.

³ See Doing Business rankings, the World Bank Group at <http://www.doingbusiness.org/rankings>.

⁴ See IMF Country Report number 12/282 (p. 8) at <http://www.imf.org/external/pubs/ft/scr/2012/cr12282.pdf>.

⁵ Employment Guide 2011, South East Europe Legal Group. Available at <http://www.polenak.com.mk/The%20SEE%20Employment%20Guide.pdf>

⁶ White Book 2012/13, Foreign Investors Council, Sarajevo. At http://www.fic.ba/pdf/White_Book_2012-13.pdf

⁷ Labour Market Review of Bosnia and Herzegovina, European Training Foundation, Torino, 2006 (p. 38). At [http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BG12572CF0059128E/\\$file/NOTE72TLZT.pdf](http://www.etf.europa.eu/webatt.nsf/0/C12578310056925BG12572CF0059128E/$file/NOTE72TLZT.pdf)

⁸ See ILO-based survey results at http://www.bhas.ba/tematskibiltenti/BHAS_Ars_BH_press.pdf.

⁹ For Figure 2 data, see "Boosting Job Growth in the Western Balkans" by Kovtun, Meyer-Cirkel, Murgasova, Smith and Tambunlertchai. IMF Working Paper 1416, January 2014, page 5. Available at <https://www.imf.org/external/pubs/ft/wp/2014/wp1416.pdf>.

¹⁰ Study on Youth Employment in Bosnia and Herzegovina, CISP Sarajevo, 2007.

Available at <http://cerpcentar.com/download/davorin-pavelic/Youth-Employment-Davorin-Pavelic.pdf>.

¹¹ See ILO-based survey results at http://www.bhas.ba/tematskibiltenti/BHAS_Ars_BH_press.pdf.

¹² See: EU Employment and Social Situation, Quarterly Review, March 2014 (p. 24). Available at <http://ec.europa.eu/social/main.jsp?catId=737&langId=en&pubId=7699>.

¹³ An IMF study estimates that, because of such barriers, six percentage points of growth are needed for unemployment to fall by one percentage point. This means that unemployment could still be 20 percent in 2030. See <https://www.imf.org/external/pubs/ft/wp/2014/wp1416.pdf>

¹⁴ See <http://www.doingbusiness.org/rankings> for data for Figure 3.

¹⁵ See <http://www.ebrd.com/pages/research/economics/data/macro.shtml#ti>.

¹⁶ See <https://www.imf.org/external/pubs/ft/wp/2014/wp1416.pdf>, p.18.

¹⁷ See <http://www.investinmacedonia.com/en> and <http://www.mipa.co.me/>.

¹⁸ See Falcetti, Lysenko and Sanfey, "Reforms and growth in transition: Re-examining the evidence." Journal of Comparative Economics, 34 (2006), pp. 421–445. Available at http://www.relooney.info/SI_Expeditionary/Vicious-Circles-Transition_10.pdf

¹⁹ See "The Business Registration Process in South East Europe: A Peer Review." OECD, Stability Compact and Investment Compact, 2005, <https://www.wbginvestmentclimate.org/uploads/4.SouthEastEuropeCompact.pdf>.

²⁰ Senior management spends 50 percent more time dealing with the requirements of government regulation than in other countries. See <http://www.enterprisesurveys.org/Data/ExploreEconomies/2013/bosnia-and-herzegovina#regulations-and-taxes>.

²¹ See EBRD Strategy for Bosnia and Herzegovina, 2014. Available at <http://www.ebrd.com/pages/news/press/2014/140122.shtml>

²² Data for Figure 4 are at <http://www.ebrd.com/pages/research/economics/data/macro.shtml#ti>.

²³ Corporate governance refers to the structures and processes for the direction and control of companies. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

²⁴ For data for Figure 5, see Transparency International at <http://www.transparency.org/cpi2013/results>.

²⁵ By comparison, just 40 percent of enterprises in FYROM and Montenegro view corruption as an obstacle.

See Business, Corruption and Crime in the Western Balkans: The impact of bribery and other crime on private enterprise, UNODC, 2013 (p.46). Available at http://www.unodc.org/documents/data-and-analysis/statistics/corruption/Western_balkans_business_corruption_web.pdf

²⁶ See World Bank, Program Document for a Proposed First Programmatic Public Expenditure Development Policy Loan, Washington DC, 2010, p.22. Available at http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2010/03/21/000333037_20100321234557/Rendered/PDF/493590PGD0P116101OfficialUseOnly1.pdf

²⁷ See World Bank, Public Expenditure and Institutional Review, Washington DC, 2012 (pp. ii-iii).

Available at <http://documents.worldbank.org/curated/en/2012/02/16626251/bosnia-herzegovina-challenges-directions-reform-public-expenditure-institutional-review>

²⁸ See World Bank at <http://documents.worldbank.org/curated/en/2012/02/16626251/bosnia-herzegovina-challenges-directions-reform-public-expenditure-institutional-review>

²⁹ See <http://www.ebrd.com/downloads/research/surveys/lits.pdf>, page 30.

³⁰ See <https://www.imf.org/external/pubs/ft/wp/2014/wp1416.pdf>, p.10.

³¹ See World Bank, Proposed Credit for Social Safety Nets and Employment Support Project, Washington DC, 2010, page 1.

At http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2010/02/10/000333037_20100210003029/Rendered/PDF/509170PAD0P1161y100IDA1R20101002611.pdf

³² The index has six components that loosely reflect progress in the six areas. They are intended to capture (and measure) the spirit of the reforms sought at the Forum but the Index must rely on annual data that become available on a regular basis and from a reliable source. In practice, this sets a narrow limit on what can be done. The following components were chosen (from the source indicated):

1. Rank in the Doing Business Indicator (World Bank)
2. An index of progress in enterprise restructuring/governance (EBRD)
3. Score on Corruption Perceptions Index (Transparency International)
4. The labour force participation rate (World Bank)
5. Government expenditure in percent of GDP (IMF World Economic Outlook)
6. Score on the Human Development Index (UNDP)

An increase of 100 points in the index represents progress at the average rate achieved by the countries of the former SFRY over the past 5-6 years. Therefore, any country that is 100 points behind another is also 5-6 years behind that country (at the average rate of progress).

³³ See World Economic Forum, Global Competitiveness Report, 2011-12 at <http://www.weforum.org/reports/global-competitiveness-report-2011-12>.

LIST OF ACRONYMS

BiH	Bosnia and Herzegovina
EBRD	European Bank for Reconstruction and Development
EU	European Union
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
FBiH	Federation of Bosnia and Herzegovina
RS BiH	Republika Srpska

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