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LABOUR AND SOCIAL POLICY IN BOSNIA AND HERZEGOVINA: THE DEVELOPMENT OF POLICIES AND MEASURES FOR SOCIAL MITIGATION

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QUALITATIVE STUDY NO. 1

EMPLOYMENT AND LABOUR MARKET STATUS AND POTENTIAL FOR POLICY DEVELOPMENT IN BOSNIA AND HERZEGOVINA

Draft for Discussion

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DFID Foreword

The Department for International Development (DFID) is the British Government department responsible for promoting development and the reduction of poverty.

DFID seeks to work in partnership with governments which are committed to the Millennium Development Goals, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. DFID also works with multilateral institutions including the World Bank, the United Nations agencies and the European Commission.

DFID contributes to poverty elimination and sustainable development in middle income countries, and helping transition countries in Central and Eastern Europe to try to ensure that the widest number of people benefit from the process of change.

DFID welcomes the first Qualitative Study on Employment and Labour in Bosnia Herzegovina, and believes that - alongside the development of panel data - the Qualitative Studies will provide an important platform on which to support the implementation of effective social policies, and the monitoring of changes in employment and poverty in the light of economic restructuring.

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The views expressed are not necessarily those of DFID.

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Overall supervision and guidance was provided by the two Data User Groups (DUGs) of FBiH and RS. The DUGs aided the selection of topic and pilot sites, guided the emphasis of the research and assisted with the interpretation of data. Institutional and individual composition of the DUGs membership is listed in Annex I.

Colleagues in the Employment Bureaux, the state owned and private enterprises visited, and staff in the selected municipalities of Trebinje, Travnik and Zenica gave freely of their time and advice, for which the team are grateful. The respondents to the questionnaire are also acknowledged. The time given by people in the pilot areas is reflected in a widespread desire to gain a better picture of labour market processes in BiH, and confirmed the timeliness of this Study.

The responsibility for the report and its conclusions lies with the authors.

Readers' Note and Next Steps

This document is produced as a discussion text. It is to stimulate discussion amongst the wide group of domestic and international stakeholders in social policy development in the two entities of the Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH) and the state of Bosnia and Herzegovina.

We anticipate the next steps related to this Study to be:

- development of a wider discussion of the report with: entity partners; the international community, especially; the World Bank, OHR, ILO, other initiatives with employment significance;
- detailed follow up of the recommendations at entity level and - as appropriate - at state level;
- support to the development of an explicit, forward looking perspective that is focussed upon mitigating possible future increases in vulnerability to poverty. This is a practical perspective that leads to close cooperation with the next stages of the preparation of the Poverty Reduction Strategy Paper (PRSP);
- provision of support from this Project to the policy discussion and to the establishment of an implementation plan to ensure that the policy developments have practical impact;
- distribution of this report to the wider community, to ensure that ideas and analysis are shared broadly especially with employers and others with an interest in the labour market;
- to support further analysis to be undertaken on employment and social issues based on the full results of the Living Standards Measurement Survey (LSMS) and other available sources. This would take into account appropriate corrective actions needed to remedy sampling shortcomings;
- to fund - through the Project's local research budget - further examination of the real picture of unemployment and job seeking behind the impression given by official statistics. This will include reanalysis of the registered unemployed, and then seeking to establish the characteristics and motivations behind key groups, such as the real unemployed who are looking for employment and who are registered and - equally - the capture of the real unemployed who have for whatever reason not registered with the Employment Bureaux, even though they are seeking work;
- for the Household Survey Panel Series (HSPS) team to review carefully the results of this Study, and determine where adjustment or refinement is appropriate in the questionnaire, now being finalised, for the first round of the HSPS and to ensure these qualitative themes are taken up in the analysis of the HSPS data set; and
- to feed these outcomes into the focus of the second Qualitative Study.

List of Acronyms

ASBiH	Agency for Statistics of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CSW	Centre for Social Work
DFID	Department for International Development
DUG	Data User Group
EB	Employment Bureaux
EU	European Union
FBiH	The Federation of Bosnia and Herzegovina
GDP	Gross Domestic Product
HBS	Household Budget Survey
HSBS	Household Survey Panel Series
IBHI	Independent Bureau for Humanitarian Issues
IDP	Internally Displaced Persons
ILO	International Labour Organisation
I-PRSP	Interim Poverty Reduction Strategy Paper
ISRS	Institute for Statistics of RS (to be called the "Republic Institute for Statistics of Republika Srpska" - according to "The Draft Law on Statistics of Bosnia and Herzegovina" - dated June 2001)
ISTAT	Italian Statistical Agency
KM	Convertible Marka
LFS	Labour Force Survey
LSMS	Living Standards Measurement Survey
NGO	Non Government Organisation
OECD	Organisation for Economic Co-operation and Development
OHR	Office of the High Representative
PRSP	Poverty Reduction Strategy Paper
RS	Republika Srpska
SI	Statistical Institute
SIFBiH	Statistics Institute for FBiH (to be called the "Federal Statistics Institute" - according to "The Draft Law on Statistics of Bosnia and Herzegovina" - dated June 2001)
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
ToRs	Terms of Reference
UNDP	United Nations Development Programme
WB	World Bank

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Owing to their size, the Annexes are not included in the paper copy of the report, but can be accessed through the following websites:

www.Birks-Sinclair.com (in English)
www.ibhibih.org (in the Local Language version)

The First Annual Report of the Project is also available on these sites.

LABOUR AND SOCIAL POLICY IN BOSNIA AND HERZEGOVINA: THE DEVELOPMENT OF POLICIES AND MEASURES FOR SOCIAL MITIGATION

QUALITATIVE STUDY NO. 1

EXECUTIVE SUMMARY

EMPLOYMENT AND LABOUR MARKET STATUS AND POTENTIAL FOR POLICY DEVELOPMENT IN BOSNIA AND HERZEGOVINA

Introduction

For social policy development, reliable information is essential, especially in Bosnia and Herzegovina (BiH), which is recovering from war and undergoing transition to a market economy, with associated social costs. Accordingly, several re-enforcing initiatives have been launched, including: a Living Standards Measurement Survey (LSMS); a Household Survey Panel Series (HSPS), "Living in BiH" (which is a UK DFID Project which draws a weighted and corrected sample from the LSMS to collect data annually from the same households), and a series of Qualitative Studies to compliment the HSPS. A Household Budget Survey (HBS) will follow.

HSPS "Living in BiH" results will be available in July 2003 and will be presented at entity level – the entities' authorities are responsible for social policy - and will also be aggregated to BiH level.

Panel Studies are a leading tool to monitor changes in household welfare, work, income and poverty. "Living in BiH" data will analyse key aspects of the causes of poverty, their changing influence over time and also evaluate the consequences of policy changes upon welfare, work and employment. Thus, the HSPS is a unique instrument to monitor the Poverty Reduction Strategy (PRS) and to inform policy makers' interventions to enhance employment opportunities.

Project Management and Governance

The HSPS is a DFID Project implemented through a partnership of an international (Birks Sinclair) and BiH (Independent Bureau for Humanitarian Issues - IBHI) project team, and BiH authority representatives through entity level Data User Groups (DUGs). This ensures full consultation with the BiH statistical community and stakeholders in social policy. This is a new model of project implementation in BiH and gives gains in development of sustainable institutional capacity and local ownership.

A BiH DUG is under development to: pool entity perspectives; yield a coordinated approach to statistical developments; and facilitate a clearer dialogue with the international community.

Context of the Qualitative Study: Labour Market and Employment Issues

This Study is to: facilitate improvements to the design of the HSPS; assist in the analysis of household data; and to contribute to the discussion on social policy. It involves the entities' policy making and academic communities in the heart of analysis in a close partnership with international colleagues.

This Qualitative Study commenced in February 2002, before preliminary results of the LSMS (also funded in part by DFID) were available, and so has a complementary focus to the LSMS. Preliminary, indicative data from the LSMS is incorporated here to give context to this Study's analysis.

Purposes and Methodology

This Qualitative Study sets out the background to and explores policy options at entity and BiH level ***to promote sustainable jobs, employment and to raise incomes***, by analysing:

- characteristics of demand for labour at state and entity level, assessing how policy can promote an effective and sustainable increased demand for labour;
- the nature of the supply of labour in BiH at state and entity level, assessing how policy can support a more efficient supply of labour to a modern high-wage economy; and
- mechanisms by which employers and workers are brought into contact, assessing how policy can define and support efficient and effective labour market clearing institutions.

This leads to broad conclusions about the current situation, against which are:

- set some immediate practical policy consequences and actions; with
- key needs for future action oriented research.

This Study is based on: the full range of secondary sources; research on employment and the labour market in BiH, most notably the World Bank (WB) Study "Labour Market in the Post War BiH"; initial findings of the LSMS; commissioned overviews of entity employment and unemployment; and labour market surveys in Travnik and Zenica (Federation of Bosnia and Herzegovina (FBiH)) and Trebinje (Republika Srpska (RS)), covering individuals, employers and market clearing institutions (Employment Bureaux (EB), employers' organisations, trades unions and NGOs.

The survey element does not attempt to comprise a representative sample of individuals or employers, but focuses on *processes* in the labour market. Survey outcomes contextualise the results, and combines other data sources, to identify labour market processes leading to policy interventions.

Key Definitions

Concepts are used which give continuity of labour market analysis for BiH and entity policy makers.

The informal sector is defined as: those employed without accruing employment rights because they do not pay taxes and social insurance contributions (consistent with definitions in the entities).

The labour force is defined as: the total number of people who are economically active, consisting of those who have worked in the last week and the unemployed who have looked for work in the last week. Conversely, an individual is considered unemployed if he or she has done no work in the last week, but is looking for work and is able to accept work if it is offered.

The Labour Market Context

Total employment in BiH is estimated – on the basis of preliminary LSMS data - as 999,500 persons, of whom 638,000 (63.8%) are in the formal sector with a 361,500 (36.2%) in the informal sector. The proportion of all employed working in the informal sector in RS is rather higher (41.4%) as compared with the FBiH (31.9%).

Some 498,000 persons are "registered" as unemployed with the EB in BiH as a whole, but not all of these are actually unemployed - the LSMS suggests that only 24% of this total were actually "unemployed". Many of the registered were either actually in employment (24.9%), or were "discouraged" workers (51%) not seeking work but having withdrawn from the labour market altogether. A further 14% of the unemployed total, 69,200 persons, were not registered with the EB.

This suggests a real unemployment rate in BiH of some 16.4% for BiH. (It is for FBiH: 16.9%; and

for RS: 15.8% respectively). These are high by OECD standards, but compare for example to Bulgaria's current rate of unemployment.

Employment, Unemployment and Poverty

Whilst there is no congruence in numbers cited, commentators on key economic and social change in BiH have consistently noted high levels of unemployment that exist in BiH and all sources agree about its importance – so consultations with stakeholders were unanimous that labour market and labour market issues were most appropriate as the first Qualitative Study.

This Study (and also the LSMS data) suggests levels of unemployment and poverty to be lower than the conventional wisdom has suggested hitherto for both entities. Real unemployment is more likely to be closer to 20% than 40%. Higher estimates of unemployment are not properly corrected for vagaries in registration and employment in the informal sector. This suggests that levels of poverty are also lower than some previous estimates suggested.

However, the negative side of the picture is that a large section of the workforce and the population of both entities are:

- just above the poverty line, coping only with difficulty through diverse insecure survival strategies focussed largely on the informal sector;
- insecurely employed or working in the informal sector with no job security;
- working in very localised labour markets with little robustness or growth;
- faced with little prospects of increasing their incomes; and
- very vulnerable to local shocks and downturns, such as those which might be caused by privatisation, local market loss, declines in transfer payments from the international community or loss of investor confidence.

Conclusions Related to Policy Issues

This Study's surveys are not statistically representative, but give analytical insights into the labour market in BiH which:

- signpost direct policy development;
- suggest avenues for policy implementation and institutional development; together with
- some clear implications for future action oriented research.

The insights into the labour market include – for both entities - the following main points:

On the demand for labour

- Aggregate demand and macroeconomic conditions in general are likely to bring about severe constraints on expansion.
- Product (and service) markets within both entities are highly localised.
- The informal sector is substantial, has grown most over the past decade and has the most potential for growth.
- The service sector is the most important part of informal sector employment.
- In spite of high levels of unemployment and formal education, employers reported some difficulty in finding workers with appropriate skills and qualifications.
- Although there is widespread belief that discrimination affects individuals' labour market prospects, the incidence of unemployment rates did not offer much support for this belief, with the exception of women in Zenica and Travnik. The young appeared to find it more difficult to find employment, particularly in the formal sector.

On the supply of labour

- All groups in the case study surveys appear to have high labour force participation rates. The lower rates for the 15 to 21 age group are explicable in terms of continuing education.
- This result does differ strikingly from the LSMS data and further research is required on this important topic. It will be provided by the HSPS analysis and research and by further special focus in DUG and data to policy discussions within the framework of the Project.
- The existence of young children in the household does not significantly reduce labour force participation rates, even for women in the 21 to 40 age groups.
- There is no evidence that social assistance is discouraging workers from participating in the labour market. There would appear to be no disincentive effect in social assistance benefits. However, there is reason to believe that the entitlement to health insurance is distorting the incentives for registering as unemployed.
- Labour mobility is very limited. Workers are reluctant to seek work outside their local area even if they are unemployed.
- There are a substantial number of young people who have never worked at all or who have only worked in the informal sector.

Labour Market Interaction

- There is widespread agreement that the EB do not, by EU standards, play enough of an active role in the labour market broking - bringing together jobs and workers.
- The EB's legal framework, as presently established, leads to an over emphasis upon passive rather than active labour market measures.
- There is a great use of informal methods of job search and recruitment such as personal contacts or help from friends and family.

Policy Issues

These results raise the following main issues in terms of policy interventions to enhance growth of work and employment prospects:

- Macroeconomic factors are likely to deteriorate and prospects for work and employment will worsen over the next few years. In both entities, vulnerability to poverty will increase rather than decline, just when international assistance will become more constrained.
- Labour and product markets are very localised throughout both entities. This limits the potential for expansion, increases the volatility of markets, and raises the vulnerability of communities to local income declines and reductions in jobs and employment opportunities.
- In spite of high levels of formal education and unemployment, employers register a shortage of workers with appropriate qualifications. This gives concern in view of apparently declining enrolment rates in secondary education. Workers indicate that they would be willing to undertake additional training and employers express a willingness to train.
- Most recent growth appears in the informal sector. Younger people and workers with lower educational attainment are over-represented in the informal sector. Many have no formal sector employment experience. Informal activities provide job opportunities for youth and women - relatively disadvantaged in the labour market – but yields long-term problems in:
    - social protection, especially given the rising dependency ratio in both entities, driven by basic demographics and migration; and
    - the quality of future goods and services and the need to enhance and certify products and services for broader markets and exports, especially to the EU.
- Some workers are ageing without any work experience at all.
- The incidence of long-term unemployment is increasing with further skill atrophy.
    - EB does not, in EU terms, provide effective services in job-broking. Active measures are overshadowed by volumes of work involved in passive measures.

- Formal methods of disseminating information about the labour market appear to be used infrequently, relative to informal methods.

Policy Recommendations

The suggestions for directions of policy development – detailed in the main text - derive directly from the leading conclusions and issues that the survey has highlighted.

Macroeconomic Factors

A stable and sustainable macroeconomic environment at the national level is an essential condition for the economic development of the entities and the small state of BiH, so:

action needs to be considered to address the underlying international imbalance.

This requires: rigorous application of currency board principles; responsibility in respect of public finances; and partnership between BiH and entities and international financial institutions.

Broadening Product Markets

Concern about sluggish growth of jobs can be addressed by broadening product markets. Increased exports and import substitution would: increase GDP; expand local outputs and employment; and address the adverse balance of trade. Therefore, *we recommend that each entity develops a strategy to encourage employers to expand the geographic spread of their sales*, including:

- Identification of municipal and regional level organisations (e.g. Chamber of Commerce, Employers' Organisation) to lead in promoting the products of that area externally.
- Assistance to employers to review markets and develop broader marketing strategies.
- Identification and mitigation of infrastructure constraints to wider sales of products and services.
- Incentives for the development of small and medium formal sector enterprises.

Broadening Labour Markets

Low labour mobility means workers do not have access to the best job opportunities, nor do employers have the most efficient workforce. This Study *emphasises the importance of measures supporting the geographic mobility of workers both within and across entities,* including:

- Improving available information about job opportunities outside the local area and across both entities, following up on existing EB initiatives.
- Improving general security to give individuals confidence to move to other areas for work.
- Ensuring that individual entitlements to public services and social assistance are independent of the entity, canton and municipality of residence, so that individuals seeking work will not be prevented from moving to obtain a job by a fear of losing entitlements.
- Examining the extent to which social networks (the extended family, religious organisations, local NGOs) are providing support for vulnerable individuals, with a view to identifying the support that would need to be provided as a public entitlement, in order to encourage individuals to accept work outside the security of their current environment.

Development of Skills

Employers reported difficulty in recruiting appropriately qualified workers. We *recommend that measures be taken to analyse in more detail the impact of skill imbalance and shortages on the margins of the labour market.* This evaluation would include in both entities:

- identification of gaps in generic skills;
- development of a strategy to train for these gaps;
- definition of means of supporting employers to identify and train for skills gaps; and then
- casting these short-term actions in a strategic context for educational reforms.

Increasing and Encouraging Formal Sector Employment

The informal sector has enabled many families in both entities to remain outside poverty. Whilst the informal sector is negative in terms of: adverse impact on efficiency, working conditions equity and product quality, and leaving workers without entitlement to social insurance, we do *not* recommend that steps are taken to eradicate informal sector employment. Rather, *we recommend a series of positive measures in both entities that will encourage employers to register their workers and employ them with full employment rights.*

This means providing incentives to support spontaneous transition of work and employment from the informal to the formal sector. This in policy terms is a facet of the transition of the BiH economy into a modern economy with flexibility and limited regulation to enforce basic standards of employment, products and services, compatible with EU legislation, but not stunting international competitiveness. Measures for this are numerous:

- development of incentives for companies to register;
- provision of incentives for companies to register workers; training grants depending in value on the number of registered employees;
- establishment of incentives for workers to work as registered employees;
- reduction of disincentives to register by rationalising taxes, and contributions;
- amelioration and rationalisation of the inspection regimes;
- normalisation of informal and unrecorded production within formal sector enterprises;
- assistance with debt management of fundamentally viable formal sector enterprises; and
- consideration of increased use of NGOs as formal sector employers.

Reorient the Employment Services to be more narrowly focussed on Labour Market Issues and Active Measures

For the EB to provide EU standard active measures of job-broking and job and employment focused training related activities, valued by employers and job seekers, it is *recommended that Employment Services in each entity consider a reorientation and development strategy to develop active labour market measures evolving towards best EU practice* aimed at:

- providing a more efficient job-broking service to job seekers;
- improving relationships with local employers;
- providing labour market intelligence to support expansion and establishment of companies;
- providing job counselling, advice on job-hunting and so on to job seekers;
- organising work experience for those who have never worked;
- seeking local solutions by and facilitating municipal inputs into entity level policy discussions; and
- exploring skill mismatches and gaps and setting out actions needed for skill development.

This accelerated reorientation suggests:

- continued strengthening of EBs at municipal level with refined focus upon active measures;
- support to the functioning of what are effectively new cantonal EB in the FBiH with clarification of their roles and integration with municipal EB;

- enhanced WB activities to support the functioning of Employment Services;
- completion of the transformation of the BiH EB and FBiH EB through the development of legislation in the field;
- the new role of the BiH EB has to be redefined, with a view to stimulating labour force mobility and securing international cooperation on employment issues;
- completion of the work initiated on the development of a new organisational scheme for the RS EB and new functions targeting the development of labour market institutions, in particular for the development of active employment measures;
- changes to secure the transparent use of the EB budget for support to new employment;
- further support to IT developments throughout the EBs, in municipal initiatives;
- consideration of selected active employment measures – in particular work experience - linked to other projects, such as environmental schemes after plant and mine closures;
- across the EBs, simplification of registration procedures; and
- municipal level EB and Centres for Social Work (CSWs) should be assisted to define the principles and procedures for their practical cooperation in terms of active and passive measures for dealing with the unemployed, leaving the CSWs to focus on social care and welfare in the provision of a social safety net.

The FBiH and RS governments, as well as the BiH Council of Ministers, are recommended to consider the development of a transition and development strategy of Employment Services on the basis of these specific recommendations as well as the development of a legal framework at the BiH level that would facilitate a labour market in the state. Effective models of departure exist in Slovenia and the Czech Republic. Such developments would have an important role within the broader context of accession and the establishment of labour market practices that would support the processes of social inclusion and the principles of EU National Employment Action Plans that will become a necessity with the progress toward a Stabilisation and Association Agreement.

LABOUR AND SOCIAL POLICY IN BOSNIA AND HERZEGOVINA: THE DEVELOPMENT OF POLICIES AND MEASURES FOR SOCIAL MITIGATION

QUALITATIVE STUDY NO. 1

EMPLOYMENT AND LABOUR MARKET STATUS AND POTENTIAL FOR POLICY DEVELOPMENT IN BOSNIA AND HERZEGOVINA

I. INTRODUCTION

In order to develop appropriate social policy and monitor its effectiveness, reliable information is essential. This is especially the case under conditions such as those which prevail in Bosnia and Herzegovina (BiH) which is recovering from the war of the early 1990s and undergoing transition to a market economy, with associated social costs. Accordingly, a number of mutually re-enforcing initiatives have been launched, which include, inter alia: a Living Standards Measurement Survey (LSMS); a Household Survey Panel Series (HSPS) (which uses the LSMS as a basis, with a reweighted and adjusted sample, and will collect data annually from the same households) and a series of Qualitative Studies. These Qualitative Studies will complement the household based data sets from the HSPS. A Household Budget Survey (HBS) will follow and a Labour Force Survey (LFS) is also proposed .

The LSMS has been supported by bi-lateral and multi-lateral donors (particularly the World Bank (WB), the United Nations Development Programme (UNDP) and the UK Department for International Development (DFID)).

As indicated, the HSPS will draw, in an adapted manner, to increase efficiency, on the LSMS for the sample of households to be enumerated. The first round of enumeration of the HSPS has been initiated in September, with results available in July 2003. These results will be presented at entity level – the two entities' authorities are responsible for social policy which is the focus of this work - and will be aggregated to BiH level.

Panel Studies in general and the HSPS in particular in BiH are a leading tool to monitor changes in household welfare, work, income and poverty. Panel Studies are used to analyse key aspects of the causes of poverty, their changing influence over time and to evaluate the consequences of policy changes upon welfare, work and employment. Thus, the HSPS is a unique instrument of value in BiH in the context of monitoring the Poverty Reduction Strategy process (PRSP) and to policy makers as they debate future interventions to enhance employment opportunities in the formal and informal sectors and evaluate changes in welfare. More detail on the HSPS, popularly and increasingly widely known as "Living in BiH" is annexed at Annex J.

The initial results of the HSPS will be presented to the entity level Data User Groups (DUGs), like all other outputs under this DFID Project. The various stages and drafts of this Study, have been presented to and discussed with the entity level DUGs, whose comments have determined the nature of this analytical process and have been fully included in this report. Participants in the DUGs include the statistical community in BiH and stakeholders in the evolution of social policy.

The Republika Srpska (RS) DUG membership comprises representation from the Institute for Statistics of RS (ISRS), the Agency for Statistics BiH (ASBiH), the Ministry for Health and Social Protection (two Assistant Ministers responsible for health and social protection issues), the Ministry for Soldiers' Issues, Victims of War and Labour, the Ministry of Education, the Employment Bureau and the Public Fund for Child Protection. The RS DUG is chaired by Mr. Slavko Šobot, Director of ISRS.

The Federation of Bosnia and Herzegovina (FBiH) DUG includes representatives of the Statistics

Institute for the FBiH (SIFBiH), the ASBiH, Ministry for Social Policy, Refugees and Displaced Persons (two Assistant Ministers responsible for labour and social policy issues), the Ministry of Health, Ministry of Education, Science, Culture and Sports, the Federal Employment Bureau and the Employment Bureau, Mostar. The FBiH DUG is chaired by Mr. Hasan Musemić, Director of the Federal Employment Bureau.

A BiH DUG is under development to provide a pooling of entity perspectives and ideas, to yield a more coordinated approach to statistical developments, and to enable a clearer dialogue with the international community.

I.2. Context of Qualitative Study No.1: Employment Issues

Within the context of the HSPS in the DFID Project, 'Labour and Social Policy in BiH: The Development of Policies and Measures for Social Mitigation', support is included for a series of Qualitative Studies. The purpose of these Qualitative Studies is to:

- facilitate improvements to the design of the HSPS;
- assist in the analysis of household data; and to
- contribute to the discussion on emerging key issues in social policy.

Improvements and refinements to the design of the HSPS are also likely to come from several sources, such as, analysis of other surveys, analytical research, findings based on earlier rounds of the HSPS, as well as from the findings based on the Qualitative Studies. This aspect of the Project design allows, in a very explicit way, quantitative and qualitative research to be combined to provide a more holistic picture of poverty, economic and social change in BiH. It also involves the entities' policy making and academic communities in the heart of analysis in a close partnership with international colleagues, such as the team that wrote this report. A second Qualitative Study is under development to be implemented in 2003, as well as a series of smaller action oriented studies to throw light upon policy issues that have been identified by the team and the DUGs thus far.

Whilst there is no real congruence in numbers cited, commentators on key economic and social change in BiH have consistently noted the very high levels of unemployment that exist in BiH. All sources agree about its importance - for example, the authors of the Interim Poverty Reduction Strategy Paper (I-PRSP) cite unemployment as being a principal cause of poverty. Interest in and concern over this issue is prominent in BiH. The selection of employment as the particular topic of the first Qualitative Study reflects this concern and was the outcome of a careful consultative process. The Project team identified several possible research fields and discussed these with the DUGs. The outcome of these discussions, referred to and discussed with DFID, was the topic and focus of the current Study.

It is important to note that this Qualitative Study commenced in February 2002, before preliminary results of the LSMS were available, but in expectation that employment issues were very significant in the context of social policy. It was designed to have – and has - a complementary focus to the LSMS, preliminary and indicative data from which has been incorporated to support this Study's analysis and conclusions as preliminary LSMS results have become available.

I.3 Poverty and Unemployment in BiH

Levels of poverty in BiH are certainly high by regional standards. Preliminary results of the LSMS as cited in a range of sources, indicate an overall level of "poverty" in BiH of 19.1% using the international "absolute level" approach (based on calorific intake and income per capita) to measuring poverty. (See WB, 2002, Preliminary Findings from the LSMS, and the WB presentations of 19 and 21 June 2002 to the DUGs in FBiH and RS). Here we cited LSMS data as indicative, awaiting the

full published results with annotations on the nature of the sample and analytical work. If the definition of poverty is relaxed, slightly, by using a poverty line that is just 50 % above the absolute level, then a total incidence of 50% of the population become classed as "nearly poor". This means – even if we allow for inaccuracies in the data - that a large proportion of the population are just above the poverty line.

The importance of this from the perspective of this Study and, more generally, for social policy is that some 50% of the population of BiH – across both entities - are "poor or nearly poor" and so are vulnerable to poverty if their incomes fall and work opportunities reduce. The character of poverty in BiH, according to this picture – derived in principle rather then detail from the preliminary LSMS data, is of a rather widespread level of poverty, with a significant proportion of the population at risk of poverty, if any of their circumstances deteriorate.

The principal categories vulnerable to poverty are: children, refugees or internally displaced persons (IDPs), unemployed or discouraged workers, importantly, individuals of working age with low education and residents of semi-urban locations in the RS.

It is accepted generally in BiH that a significant amount of privatisation is still to come, particularly in FBiH. This is likely to increase further unemployment and so increase the number of households in poverty[1] and at risk of poverty. Ethnic tensions persist. These are reflected in part by the number of people still displaced by the war (about 750,000), although the number of ethnic minority returns to their former abodes within and across the two entities is gradually increasing. Since few former displaced persons have found employment, however, even this does not reduce - and perhaps tends to increase – unemployment and vulnerability.

Despite such high levels of poverty, and the potential for increased poverty with further lay-offs from the formal sector, the socio-political environment for the creation of sustainable and productive employment opportunities in the formal sector is not encouraging over the short-term. Thus, the development of an effective social policy with a positive approach to employment and work of all kinds is a particular and high priority concern of the entity governments of both the FBiH and the RS.

I.4 Purposes

The purposes of this Qualitative Study are to set out the background to and to explore policy options at entity and BiH level to promote sustainable jobs, employment and to raise incomes. This is approached by looking at the:

- key characteristics of the demand for labour in BiH at state and entity level and assessing the means by which policy can promote an effective and sustainable increased demand for labour;
- key characteristics of the supply of labour in BiH at state and entity level and assessing the means by which policy can support the development of an efficient supply of labour to a modern high-wage economy; and
- mechanisms by which employers and workers are brought into contact with each other and assessing the means by which policy can define and support efficient and effective labour market clearing institutions.

[1] Though it is important to note that this comment has to be moderated to take account of the analysis in WB (2002), which points out the surprisingly limited post privatisation impact on unemployment, due to particular characteristics of the BiH labour market, e.g. the practice of wait listing surplus workers.

I.5 Methodology

I.5.1 Analytical Framework

This first Qualitative Study focuses on employment policy because development of a high-wage and dynamic labour market is the best way to ensure sustainable increases in living standards in the long term. Where living standards are low, wages are generally low and/or there are high levels of unemployment or underemployment. In a transition economy, these outcomes are a result of:

- a low demand for most types of labour because of low levels of labour productivity and/or macro-economic conditions; and/or
- an excess supply of labour because of a change in the structure of the economy and an inability of unemployed workers to offer the skills and characteristics required by employers in the new economy; and/or
- a failure of market-clearing mechanisms to bring suitable workers to employers needing their services and/or to provide the information to workers to allow them to update their skills.

In addition, high levels of unemployment and underemployment may be exacerbated by low labour force participation caused by discouraged workers and workers with little incentive to offer their labour because of the structure of the welfare benefits system. Although such behaviour will, in the short term, relieve the downward pressure on wages, it allows for the continuation of poverty – perhaps also across generations – as a result of long-term detachment from the labour force and the development of a dependency culture.

For these reasons, this Study approaches the development of policy interventions through the three key broad components of the labour market:

- the demand for labour;
- the supply of labour; and
- labour market clearing mechanisms.

Identifying and separating demand and supply factors in order to determine the relative size of their impacts is a complex process, requiring careful economic and econometric analysis. This process is difficult because the data we observe result from the interaction of both supply and demand factors as well as the operation of current market-clearing processes, and we wish to derive policy oriented conclusions, not abstract points. This Study therefore uses the data available to:

- draw broad conclusions about the current situation;
- set out some immediate practical policy consequences; whilst also
- identifying the potential and key needs for future action oriented research.

It seeks to draw analyses which lead to practical and applicable outcomes in terms of suggesting or modifying the nature and styles of intervention to improve labour market operation and the population's work related circumstances.

I.5.2 Data Sources

As well as a wider range of recently produced secondary sources, this Study is based on specially executed:

- entity overviews of employment and unemployment, commissioned as background; and
- labour market surveys which were conducted in three case study areas - Travnik and Zenica (FBiH) and Trebinje (RS).

The entity overviews were entitled:

- Employment, Unemployment and Costs of Labour in the FBiH; and
- Employment and Unemployment Status and Issues in the RS.

These background studies focus in particular upon an analysis of registered unemployed and are presented in the Project Quarterly Progress Report (November 2002). They are referred to again in the conclusions to this Study as they hold potential for further future action oriented analysis, which will be supported under this Project, to assist policy development and application.

The labour market surveys were conducted in three case study areas – Travnik and Zenica (FBiH) and Trebinje (RS). In each area, these surveys were based on:

- a long (110 question) questionnaire on labour market behaviour administered to 300 individuals (the individuals' questionnaire);
- a questionnaire on business prospects and recruitment administered to approximately 50 employers (the employers' questionnaire); and
- a questionnaire on the effectiveness of market-clearing mechanisms administered to approximately 20 key stakeholders such as Employment Bureaux (EB), employers organisations, trades unions and NGOs (the market-clearing questionnaire).

The questionnaires, with a methodological note, are presented at Annex C.

In addition and equally important to the above, the following data and analytical sources have also been utilised in the analysis, to reach as full as possible an understanding of labour market status and process:

- existing published research undertaken on employment and the labour market in BiH, most notably the WB Study "Labour Market in the Post War BiH"[2];
- background analysis on the labour markets of the three sites; and
- the initial findings of the LSMS on poverty and employment.

Further points relating to the methodology of the Study are presented in Annex C. Here, though, it is important to note that the survey element of this Study does not attempt to comprise a representative sample of individuals or employers. The purpose of the survey is to focus on the *processes* which shape the labour market. We report survey outcomes in order to contextualise the results. We need to identify which labour market processes might be the subject of policy interventions which improve the operations of the labour market, with a resultant increase in sustainable job opportunities.

The research team believes that, by taking account of the above wider range of sources of process and survey data and analysis, a more complete picture is gained of this multi-faceted and complex problem. This in turn leads to insights applicable in the development of policy and subsequent practical interventions.

This Study is not at all the final word in inputs in the labour market and employment area to be developed under this Project. This Study will:

- itself be refined in the light of comments from the wider stakeholders as considered by the DUG members;
- input into the future wave of the HSBS "Living in BiH", by refining the questions in the questionnaire to pick up issues suggested as key here and to develop a view of their statistical significance;

[2] WB, Labour Market in the Post War Bosnia and Herzegovina, June 2002

- lead to a second Qualitative Study;
- spawn a further review of registered unemployment figures;
- comprise the ToRs for a series of smaller and specific enquiries carried out by the BiH academic community in partnership with project staff into aspects of employment;

I.5.3 Definitions

A number of the concepts used in this report derive directly from the specialist literature and the analytical framework of the LSMS. The questionnaires for this Study were designed in such a way as to derive measures that were as compatible as possible to those LSMS concepts. This ensures continuity of labour market analysis for policy makers in the BiH entities.

In order to clarify the following discussion, the definitions of these and other key concepts are provided in Annex A. In particular, the informal sector for the purposes of the survey is defined as consisting of those employed without accruing employment rights because they do not pay taxes and social insurance contributions. This has the advantage of being consistent with definitions in the entities.

The labour force is defined as the total number of people who are economically active, consisting of all those who have worked in the last week and the unemployed (who have looked for work in the last week). Conversely, in the surveys an individual is considered unemployed if he or she has done no work in the last week, but is looking for work and is able to accept work of it is offered

I.5.4 Nature and Organisation of this Report

This Study is an early step in the process of policy development within the framework of this Project and within the two entities of BiH as a whole. The data collected by the LSMS when definitively corrected to improve the efficiency of the sample, the data collected in these three case study areas and the future household panel data (from the HSPS "Living in BiH") will together provide a rich data set for further research. Therefore, this report at this stage will:

- not only draw some preliminary conclusions about policy development that can be implemented with a short time horizon and within practical considerations; but will also
- identify directions for future action oriented research and follow up so as to best provide key data, information and indices to policy makers and to those in charge defining and implementing labour market interventions.

Thus the series of policy oriented studies and outputs will continue through the life of this Project until mid 2004.

The report is organised as follows:

- Section II uses existing data and information, together with information from the survey questionnaires, to draw some preliminary conclusions about the demand for labour in BiH;
- Section III draws widely upon existing information, together with information from the survey questionnaires to draw some preliminary conclusions about the supply of labour in BiH;
- Section IV analyses the effectiveness of market-clearing mechanisms in the two entities; and
- Section V offers some preliminary policy recommendations and action oriented steps based on these analyses.

II. DEMAND FOR LABOUR

II.1 The Determinants of Labour Demand

The demand for labour is a derived demand because labour is demanded not for its own sake but for what it can produce. Therefore, in a dynamic economy, employers recruit workers because they expect to be able to sell the output produced by those workers (cars, tyres, restaurant meals) for more than the cost of producing them. The price at which this output is sold must be sufficient to cover the cost of all the raw materials, investment and also the wages (including management salaries) necessary for production. If consumers are not willing to pay sufficient to cover these costs, then either production must cease (or decline) or some way must be found to reduce unit costs. In the short term, government subsidies (or loans) could cover the shortfall of cost over price, but, in the long term, no country can have an efficient economy where the government is continuing to subsidise the production of goods or services that are judged by consumers to be worth less than the cost of production.

This analysis cannot, of course, be applied directly to goods and services that are enjoyed collectively. It would be difficult to have a police force or an army if individuals were free to decide how much they would contribute. In such cases, the level of such services, and the necessary level of taxation, is decided by a communal decision.

Still more subtle choices are required to establish the structure of provision of and – under conditions of transition, as in BiH – the evolution of the most appropriate means of provision of education, health and social services. The determination of the blend of public and private provision of these services, and the means of funding service provision that is at once sustainable, facilitates equity of access to all of the populations in both entities, and which also provides investments in the present and future workforces of BiH that are of EU and international standards, is at the heart of social policy.

The underlying point is that, for taxation to be acceptable, there has to be general agreement that the level of services is desirable and a consensus over the pattern of finance.

As yet, collective decision making and careful discussion in these key sectors in the entities of BiH is limited by shortcomings of data and an inconsistent acknowledgement of the realities of the political economy which underpins policy choices. New data and evaluation of a range of options of service provision and of financing them can be demonstrated with reference to the EU through this Project. The HSPS "Living in BiH" is a unique and powerful tool in this. The HSPS and this Project will provide inputs to the policy making dialogue in a manner that is complementary to the PRSP process, and which enhances domestic decision making based upon fiscal stability and democracy.

For this analysis, the general point remains: labour is demanded only because of what it can produce. Moreover, the value of that labour depends upon the value that consumers place on what is being produced. In other words, the quantity and type of labour demanded depends on the scale and nature of the demand for goods and services; the wages that employers are willing to pay for workers depends on what they are able to charge for their outputs – that is, on the productivity of labour.

The remainder of this section examines the evidence on the demand for labour in BiH, considers the extent to which low living standards are a result of a low demand for labour and, if so, the possible reasons for this low demand.

II.2 The Historical Context

Before the war, many of the state-owned enterprises (SOEs) had patterns of production that were unsustainable in the long term because they required recurring subsidies or inefficient state-controlled markets. By 1992, it was evident that economic restructuring was necessary. Indeed, some steps towards restructuring had already been taken when the war started.

In the aftermath of the war, there was considerable dislocation and by 2000 formal sector employment was still only two thirds of its pre-war level, having increased by only 10% since 1995. In spite of the need for the restructuring of SOEs - in common with other transition economies - and despite the opportunities for restructuring which were apparently offered by the dislocation caused by the war, the formal sector of BiH has shown very little flexibility[3] in adjustment and almost no dynamism.

There have been a number of estimates that claim that the informal sector activities in BiH have grown considerably, and the current position is discussed below. However, given the relatively low levels of formal sector employment and the constraints on the ability of state and entity structures to deliver cash benefits, it is clear that informal sector employment must be substantial in order for many BiH households to survive.

Substantial informal sector employment is problematic, in any economy, not just BiH, for a number of reasons.

- Workers and employers in the sector are not contributing to tax revenues, which results in the tax burden falling on a restricted section of the economy and a restricted proportion of society who are paying disproportionately for public services. Not only is this unfair – inequitable - but it places an unhelpful burden on the margins – and jobs – in the formal sector, which is already under considerable competitive pressure.
- Workers and employers in the sector are not contributing to pension or health funds and the workers are, therefore, not entitled to assistance when required. This is creating a group of potentially vulnerable workers and dependants who are outwith the formal structure of benefits. They are likely to become a disproportionate burden upon the social safety net. This is an important issue in BiH given the relatively and aging ages structure of residents and the tendency for youth to out-migrate internationally.
- Workers in the informal sector are not able to enjoy regulated conditions and occupational safety and health. This is exacerbated in BiH where some formal sector enterprises are put under pressure to adopt very high – costly – standards.
- Although most informal sector employment involves legal activities, some does not. This means that attempts to control illegal activities, such as drug trafficking or smuggling, are made more complex by having a relatively large number of people earning their living through undertaking legal activities, such as car repairs, in an informal and non regulated manner.

For these reasons, it is important to find ways of encouraging formal sector activity by drawing economic activity out of the informal sector into the formal.

II.2.1 Employment, Unemployment and Employment in the Informal Sector

The preliminary results of the LSMS (cited in WB, 2002) are – for all their preliminary nature and questions over the inefficient sample - revealing of the pattern of employment in BiH and the entities. The data are cited tentatively here, pending release of official documentation of the sample and data set.

Total employment in BiH is estimated – on the basis of the preliminary date of the LSMS - as 999,500 persons, of whom 638,000 (63.8 %) are in the formal sector. This suggests a staggering 361,500 (36.2%) in the informal sector. The proportion of all employed working in the informal sector in RS is rather higher (41.4%) as compared with the FBiH (31.9%)[4]. However, the basic point remains for both entities - that this is a very high level of informal sector employment. In fact, these dimensions

[3] See WB (2002)

[4] These figures are preliminary, and should here be used for illustrative purposes.

of informal sector employment are lower than is suggested by some local sources, which have estimated that there are as many as 300,000 working in the informal sector in the FBiH alone[5]. The LSMS does not support such high estimates, but confirms the importance of the contribution of the informal sector to the economy and to coping strategies that reduce the incidence and levels of poverty.

Again, according to WB citations of the LSMS data, at Annex H, at the end of 2001, 498,000 persons were "registered" as unemployed with the EB in BiH as a whole. The LSMS survey suggests that only 24% of this total were actually "unemployed" using International Labour Organisation (ILO) and Organisation for Economic Co-operation and Development (OECD) definitions of unemployment (see Annex A for these conventional definitions). The remainder of those registered were either actually in employment (24.9%), or were "discouraged" (51%) workers not seeking work but having withdrawn from the labour market altogether. In fact, the LSMS shows a further 14% of the unemployed total, 69,200 persons, were indeed actually unemployed, but had not registered with the EB.

This conclusion – which is unlikely to be changed by any revisions of the data - means that the analysis of registered unemployment – as carried out in the entity specific overviews that were commissioned as background to this Study – is not in a narrow sense an analysis of unemployment, but is in fact an assessment of the grounds, under the social policy regimes, for registration with the EB in both entities. This issue is returned to in the policy recommendations section following the presentation of the survey data.

Predominant within the actual unemployed, according to the WB (2002) Study, were young men and women and the unskilled.

On this basis, the real unemployment rate in BiH is therefore calculated as 16.4% for BiH. (It is for FBiH: 16.9%; and for RS: 15.8% respectively)[6]. These are high rates by OECD standards. However these unemployment rates are lower than one might anticipate, given the turbulent history of BiH and the economic dislocation of the last ten years. They are certainly less than the conventional wisdom suggests. As a comparison, for example, these rates are similar to Bulgaria's current rate of unemployment.

These levels of unemployment suggest that in both entities, there are active and effective coping mechanisms, particularly, employment in the informal sector, preventing higher open unemployment and a higher incidence of poverty. Importantly, the unemployment rate in both entities would be significantly higher if:

- there were fewer "discouraged" workers; and if
- labour force participation rates were higher. These participation rates are relatively low in both entities of BiH.

The high dependency rates that stem in both entities from these considerations is a point that underlies several of the conclusions and recommendations. It is an issue that is particularly difficult for policy

[5] Employment Bureau BiH "Labour Market Development in BiH", Sarajevo 2001, p.42 (in local language)

[6] There are other estimates, widely cited, which ought to be noted in this context. One independent study estimates that real unemployment in BiH numbers 837,000 people, of whom 598,000 are in the FBiH and 239,000 in the RS. These estimates of the number of unemployed, when set against the estimated working age population actually resident in the entities of BiH, give unemployment rates for BiH as 41.8%, with a 43% rate of unemployment in the FBiH and 40% in the RS. (UNDP: *Early Warning System in Bosnia and Herzegovina, Base Line Report, June 2000, p. 27*). These estimates contrast with the - at first - surprisingly low unemployment rate provided by LSMS data. As will be seen, the survey data collected for this Study supports the view of a lower rate of unemployment and associated poverty. The Study returns to this point in the conclusions.

makers to cope with constructively

II.3 Labour Demand in BiH

II.3.1 The Sectoral Composition of Employment

The Current Situation

In both entities, the structure of employment has changed since 1990. For FBiH, the WB (2002) estimates that employment in manufacturing fell in absolute terms, reducing its share in total employment from 41% in 1990 to 32% in 2000. During this time, the share of government almost doubled (from 5.9% to 11.6%), while the share of employment in the trade sector increased by over 30% (9.1% to 14%) as did the share of education (5.8% to 8.5%).

It is important to compare these trends to the official statistics from the Statistical Institutes (SIs). These show somewhat lower shares in 2000 for manufacturing (25%), trade (11.9%) and education (7.5%) and a higher share for government (14.5%). But the main point is that the general pattern is consistent.

The surveys of individuals and the labour market, carried out for this Study, show that the share of formal sector employment in manufacturing in Zenica is only 16.4% and in Travnik 6.9%. These numbers are considerably lower than the official figures for FBiH. And when informal sector employment is taken into account, the share of employment in manufacturing is only 13.1% in Zenica and 6.4% in Travnik. A similar pattern is seen in results from Trebinje. See Tables 1 to 3[7].

Table 1: Structure of Formal Sector Employment by Sector: Travnik, Trebinje and Zenica, 2002

	Travnik		Trebinje		Zenica	
	No.	%	No.	%	No.	%
Primary Production	22	21.57	19	13.87	21	20.19
Manufacturing	7	6.86	24	17.52	17	16.35
Construction	3	2.94	8	5.84	3	2.88
Services	40	39.22	48	35.04	49	47.12
Utilities	4	3.92	10	7.30	6	5.77
Transport	2	1.96	2	1.46	4	3.85
Other	24	23.53	26	18.98	4	3.85
Total	102	100	137	100	104	100

Source: Survey of Individuals

Table 2: Structure of Informal Sector Employment by Sector: Travnik, Trebinje and Zenica, 2002

Source: Survey of Individuals

	Travnik		Trebinje		Zenica	
	No.	%	No.	%	No.	%
Primary Production	3	7.69	8	12.90	2	7.69
Manufacturing	2	5.13	2	3.23	0	0.00
Construction	5	12.82	10	16.13	4	15.38
Services	23	58.97	26	41.94	13	50.00
Utilities	5	12.82	8	12.90	6	23.08
Transport	0	0.00	2	3.23	1	3.85
Other	1	2.56	6	9.68	0	0.00
Total	39	100	62	100	26	100

[7] These tables show jobs not individuals. Some individuals have jobs in both the formal and informal sectors. The employed population could therefore be smaller than these figures suggest.

Table 3: Structure of Total Employment by Sector: Travnik, Trebinje and Zenica, 2002

	Travnik		Trebinje		Zenica	
	No.	%	No.	%	No.	%
Primary Production	25	17.73	27	13.57	23	17.69
Manufacturing	9	6.38	26	13.07	17	13.08
Construction	8	5.67	18	9.05	7	5.38
Services	63	44.68	74	37.19	62	47.69
Utilities	9	6.38	18	9.05	12	9.23
Transport	2	1.42	4	2.01	5	3.85
Other	25	17.73	32	16.08	4	3.08
Total	141	100	199	100	130	100

Source: Survey of Individuals

Perhaps most interesting is the very high share of services in employment, and this is particularly in the informal sector. Services account for - across the three case study areas - between 37% and 47%. Although this may not seem very high in international terms[8], this is a sector that is very sensitive to the state of the *local* economy. Any falls in *local* consumer demand, perhaps because of further job losses under privatisation or because of a decrease in external donor funding, for example, would have an immediately deleterious impact on employment and incomes in this sector.

Tables 2 and 3 also yield estimates of informal sector employment, the proportion being 28% in Travnik, 31% in Trebinje and 20% in Zenica. While not as high as some earlier estimates, this is still a substantial amount[9]. The pattern of informal sector employment across economic sectors differs from the formal sector, in that employment in the informal sector is more concentrated in construction, services and utilities. Formal sector employment is more concentrated in primary production (though only in FBiH) and manufacturing. None of this is particularly surprising[10] but it confirms what has hitherto been speculation. It is of concern that so much of the employment growth which has occurred in both entities since the war has been in the informal sector.

In recent weeks, the RS has introduced attempts to enforce proper registration of workers. These efforts have been rewarded in a number of places by a considerable increase in registration. This is an important development because it demonstrates a commitment to treat all employers equally. However, it will be important to support enforcement measures with incentives for both employers and workers to participate in the formal sector. Sensitivity is also required to militate against aggregate reductions of employment across formal and informal sectors, which would be self-defeating, as is set out in the policy recommendations. In particular, such an effect would increase vulnerability to poverty as peoples' informal sector coping strategies were eroded.

[8] In the UK, a highly developed economy, 71% of total employment is in services. However, if financial services are excluded, this share drops to 52%.

[9] Our estimates are somewhat lower than those of WB (2002) from the LSMS, whose data imply a share of informal sector employment in FBiH of 31% and in RS of 41.4%. These higher LSMS estimates are likely to be the result of somewhat different definitions and practical application of the questionnaires. WB (2002) uses an international definition based on the question of whether the enterprise is an incorporated business. Such a definition has the considerable advantage of being internationally comparable. This Study has used a definition based on the payment of social insurance costs and taxes. In spite of the loss of international comparability, the definition used in this Study was chosen as it has the major advantage of being consistent with the BiH's own definition of the "grey" economy. This has important policy implications, for which interpretation is relatively straightforward.

[10] The concentration in utilities may at first sight seem surprising. However, this sector includes street cleaning which has both seasonal elements and provides opportunities for informal sector employment. The extent to which the informal sector is socially legitimised in BiH may be inferred from the experience of street-cleaning in Zenica which is undertaken by a foreign contractor using a local labour force, many of which are employed casually or informally.

Turning to the employers' responses, it is notable that almost 43% of the employers had recruited new workers in the last 12 months. In both Trebinje and Zenica, private companies were the most likely and SOEs were the least likely to have recruited new workers.

The service sector for most types of company (except for SOEs in Zenica) was the sector most likely to have recruited new workers. For other sectors, the numbers represented in the survey were too small to be reliable enough to demonstrate points, but manufacturing in Trebinje and construction in Zenica were also sectors that had recruited new workers. This is supported by wider interviews and circumstantial evidence which serves to give confidence in the picture given by the data.

Prospects for the Future

Employment in manufacturing may be expected to fall further as privatisation and restructuring of SOEs continue. Moreover, as was discussed above, jobs in the service sector are and will remain vulnerable, because of the:

- expected impact of reduced incomes;
- local nature of markets and the geographical concentrations of layoffs; and
- directly because of a fall in external donor funding.

It is important to note that this rather gloomy view was not reflected in employers' own expectations. Employers expressed themselves to be quite optimistic about future prospects (Table 4). Only 12% of employers (excluding NGOs) in Travnik, 10% in Zenica and 13% in Trebinje said that they expected the demand for their output to decrease in the next 12 months.

This optimism was widespread but varied by sector and type of employer. In Zenica, for example, none of the SOEs expected an increase in demand while none of the private companies expected a decrease. In Trebinje, the private sector was again the most optimistic with only one company (5%) expecting a fall in demand. However, the SOEs were also more optimistic in Trebinje with no employers expecting a decrease.

Somewhat surprisingly, employers in the manufacturing sector were quite optimistic, with only one employer in Trebinje[11] and none in Travnik or Zenica expecting a decrease. Similarly, employers in the service sector did not usually expect a decrease in demand for their output.

NGOs were also optimistic about their prospects. Only 14% of NGOs in Trebinje and 18% in Zenica (but 50% in Travnik) expected their income to decrease over the next 12 months.[12]

On the other hand, when asked about the principal constraints on business expansion (Table 5), 35% of employers in Trebinje, 42% in Travnik and 43% in Zenica identified "lack of demand" as the most important. Another 35% in Trebinje – but only 24% in Zenica and 27% in Travnik – identified lack of investment finance as the principal constraint. The payment of bills was recognised as a problem by 12% of the employers in Zenica and 8% in Travnik and Trebinje. Although these numbers are relatively small, a number of respondents identified this as a subsidiary constraint. This was also the case for the identification of the legal framework as a constraint, even though only 12% of employers in Zenica, 8% in Travnik and 3% in Trebinje identified it as their primary concern.[13]

The nature of the constraint identified was not highly correlated with expectations about future

[11] This optimism among manufacturing enterprises in Trebinje is consistent with their experience of having recruited new workers in the last 12 months.

[12] The results in this paragraph can only be considered indicative given the small number of observations in each category.

[13] These results are consistent with those reported for 2000 in WB (2002).

demand, 45% of employers in Trebinje, 19% in Travnik and about 30% in Zenica expressed the belief that the demand for their output would increase, while also believing that lack of demand could be a problem.

A closer examination of the answers to this question gives some clues about the reason for the apparent optimism. Many of the respondents clarified their position by saying that the major constraint was that consumers had little money or that the general financial situation was poor. Therefore, it may be that they were not telling us that they expected sales of their products to increase but that they were producing a good product which consumers would want to buy if they had the money. In other words, their expectations about the demand for their own output was related to their views about consumers' desires but they saw macroeconomic constraints as constraining consumers' ability to make their demand effective.

Table 4: Expectations about Future Output by Sector and Ownership: Travnik, Trebinje and Zenica, 2002

	Private Company			State-Owned Enterprise			Mixed-Ownership Company			Independent Trade Company			Independent Sales Company			Public Administration			Other Public Organisation			NGO			Total		
Trebinje	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=
Primary	2	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	1
Manufacturing	3	0	1	1	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	4	1	2
Construction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Services	5	1	6	3	0	1	2	0	0	0	0	1	2	3	1	0	0	0	0	0	0	1	0	0	13	4	9
Utilities	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Transport	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**11**	**1**	**8**	**4**	**0**	**2**	**2**	**1**	**0**	**0**	**0**	**1**	**2**	**3**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**0**	**0**	**20**	**5**	**13**
Zenica	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=
Primary	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Manufacturing	2	0	0	0	0	0	0	0	1	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	3	0	2
Construction	1	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	2
Services	1	0	5	0	1	1	0	0	0	1	0	1	0	0	0	0	0	0	1	0	0	0	0	1	3	1	8
Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transport	0	0	0	0	0	2	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	2
Other	5	0	0	0	0	1	0	0	1	0	0	0	0	3	3	0	0	0	3	0	0	0	0	0	8	3	5
Total	**9**	**0**	**8**	**0**	**1**	**5**	**2**	**0**	**2**	**2**	**0**	**2**	**0**	**3**	**3**	**0**	**0**	**0**	**4**	**0**	**0**	**0**	**0**	**1**	**17**	**4**	**21**
Travnik	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=	+	-	=
Primary	1	0	2	1	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	3	0	3
Manufacturing	2	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0
Construction	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
Services	2	0	1	3	0	0	0	0	0	1	0	0	0	0	2	0	0	0	0	0	0	1	1	0	7	1	3
Utilities	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0
Transport	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Other	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Total	7	1	4	5	0	0	2	0	0	1	1	0	0	0	3	0	0	0	0	0	0	1	1	0	**16**	**3**	**7**

Source: Survey of Employers

Notes: + Output expected to increase in the next 12 months
- Output expected to decrease in the next 12 months
= Output expected to remain the same in the next 12 months

Table 5: Views on Constraints to Expansion by Sector and Expectations about Future Output: Travnik, Trebinje and Zenica, 2002

	Lack of Demand			Lack of Capacity			Labour Costs			Transport of Goods			Lack of Investment Finance			Customers not paying bills			Unclear Ownership			Unsuitable Legal Framework			Other			Total		
Trebinje	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**
Primary	1	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Manufacturing	2	0	0	0	0	0	0	0	1	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	1	1	0	2	1	2
Construction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Services	6	2	6	2	0	0	0	0	0	0	0	0	5	1	1	0	0	1	0	0	0	0	1	0	0	0	0	7	2	2
Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Transport	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**9**	**2**	**6**	**2**	**0**	**0**	**0**	**0**	**2**	**0**	**0**	**0**	**7**	**1**	**2**	**1**	**0**	**2**	**0**	**0**	**0**	**0**	**1**	**0**	1	1	0	**11**	**3**	**6**
Zenica	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**
Primary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	2
Manufacturing	1	0	1	0	0	0	0	0	0	0	0	0	1	0	1	1	0	0	0	0	0	0	0	0	0	0	0	2	0	1
Construction	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
Services	1	0	4	1	0	1	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	1	1	0	0	0	2	1	3
Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transport	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	1	1	0	2
Other	1	2	4	0	0	0	0	0	0	0	0	0	4	0	0	2	1	0	0	0	0	1	0	0	0	0	1	7	1	1
Total	**5**	**2**	**10**	**1**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**5**	**0**	**4**	**4**	**1**	**0**	**0**	**0**	**0**	**2**	**1**	**2**	0	0	3	**12**	**2**	**10**
Travnik	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**	**+**	**-**	**=**
Primary	2	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	1	0	2
Manufacturing	2	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Construction	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Services	1	1	2	0	0	0	0	0	0	1	0	0	3	0	1	0	0	0	0	0	0	2	0	0	0	0	0	6	0	1
Utilities	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Transport	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Total	5	3	3	0	0	1	1	0	0	1	0	0	5	0	2	1	0	1	0	0	0	2	0	0	1	0	0	**11**	**0**	**4**

Source: Survey of Employers

Notes: + Output expected to increase in the next 12 months

\- Output expected to decrease in the next 12 months

= Output expected to remain the same in the next 12 months

However, expectations about future demand were indeed related to past experience. Companies in Zenica and Trebinje (though not in Travnik) which had recruited new workers over the past 12 months were more likely to be optimistic about their future prospects than those that had not (see Table 6).

Table 6: Employers' Expectations about Future Sales by Recent Recruitment Experience: Travnik, Trebinje and Zenica, 2002

Travnik	Expect Increase in Sales	Expect Decrease in Sales	Expect No Change in Sales	Total
Recruited in last 12 months	12.0	2.0	2.0	16
Did not recruit in the last 12 months	4.0	1.0	6.0	11
Total	16	3	8	27

Trebinje	Expect Increase in Sales	Expect Decrease in Sales	Expect No Change in Sales	Total
Recruited in last 12 months	13	0	4	17
Did not recruit in the last 12 months	7	5	9	21
Total	20	5	13	38

Zenica	Expect Increase in Sales	Expect Decrease in Sales	Expect No Change in Sales	Total
Recruited in last 12 months	11	1	7	19
Did not recruit in the last 12 months	6	3	14	23
Total	17	4	21	42

Source: Survey of Employers

It is interesting to note that only one employer in all of the three areas identified "transport of goods" as a constraint to expansion. This is consistent with the low priority given to "difficulties in exporting goods" by the Small and Medium Enterprises (SMEs) surveyed in 2000, and quoted by WB (2002). On their own, these observations could be interpreted as satisfaction with the transport system. However, when taken together with the observation that throughout both entities, product markets are highly localised (section II.3.3), these responses suggest that employers are not currently interested in expanding the geographic size of their markets. This is a rather important and negative finding in terms of economic prospects, and is returned to below.

II.3.2 Worker Characteristics

The Demand for Skills

Table 7 shows that 43% of employers in Zenica and Trebinje and 59% in Travnik had recruited new workers in the last 12 months. Of these, 48% in Trebinje and 49% in Zenica (but only 25% in Travnik) said that they had experienced difficulties in recruitment and that the main difficulty (50% in Trebinje and Travnik and 78% in Zenica) was finding workers with appropriate qualifications.

In a state with such high levels of education[14], this is a disturbing conclusion. It must be set against other data that suggest enrolment rates in secondary education are lower than pre war levels and perhaps still declining. However, 43% of employers in Trebinje, 42% and 52% in Zenica said that they would be willing to train recruits and a further 19% in Trebinje, 31% in Travnik and 20% in

[14] In Trebinje, 67% of the individuals interviewed had completed secondary education and a further 17% had college or university education. In Zenica, the corresponding figures were 70% and 8%; in Travnik, they were 58% and 8%.

Zenica said they would do so if they were financially able to do so.

Table 7: Difficulty of Recruiting Employees by Sector: Travnik, Trebinje and Zenica, 2002
Source: Survey of Employers

Trebinje	Total	Recruited Workers in last 12 months	Difficulty in Recruiting	Difficulty in Obtaining Qualified Workers
Primary	1	0	0	0
Manufacturing	7	3	2	1
Construction	0	0	0	0
Services	36	15	8	4
Utilities	2	0	0	0
Transport	1	1	0	0
Other	0	0	0	0
Total	**47**	**19**	**10**	**5**
Zenica				
Primary	1	1	1	0
Manufacturing	5	2	0	0
Construction	3	2	1	0
Services	12	8	5	3
Utilities	0	0	0	0
Transport	4	1	0	0
Other	16	5	2	2
Total	**41**	**19**	**9**	**5**
Travnik				
Primary	7	3	1	0
Manufacturing	3	1	1	1
Construction	2	2	0	0
Services	11	6	1	1
Utilities	2	2	1	0
Transport	1	1	0	0
Other	1	1	0	0
Total	**27**	**16**	**4**	**2**

Although the numbers are too small to place too much reliance upon them, the service sector appears to have consistent difficulty in finding qualified workers. The manufacturing sector in Trebinje and Travnik also appears to have some difficulty. Again circumstantial evidence – contacts with employers - supports these findings and confirms concerns.

Examination of the employment and unemployment pattern of individuals indicates that formal education plays a part in the acquisition of skills required by employers (Table 8). Those with university or college education consistently had the lowest unemployment rates. The completion of secondary education appeared to offer some benefits in terms of reduced unemployment rate.[15] However, given that the vast majority of workers have completed secondary education (though this share might be falling), the employers' response strongly suggests that formal education is not producing the required skills.

[15] This pattern is also reflected in the results from the LSMS although the estimated unemployment rates for the three case study areas are somewhat higher than those of WB (2002).

Table 8: Employment Status by Education: Travnik, Trebinje and Zenica, 2002

	Worked for Money	Worked for Goods or Services	Did not work			
Trebinje			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment rate**
None	0	1	0	0	0	0.0
Incomplete Primary	2	0	0	0	2	0.0
Primary	9	3	2	1	8	14.3
Incomplete secondary	3	0	2	0	12	40.0
Secondary	130	4	43	7	12	24.3
College	12	1	1	0	1	7.1
University	25	1	6	0	2	18.8
Masters Degree	2	0	0	0	0	0.0
PhD	0	0	0	0	0	
Total	**183**	**10**	**54**	**8**	**37**	21.9

Zenica			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment rate**
None	1	0	1	0	3	50.0
Incomplete Primary	1	0	4	0	4	80.0
Primary	7	1	22	6	22	73.3
Incomplete secondary	1	0	4	0	7	80.0
Secondary	111	8	107	7	35	47.3
College	18	1	3	0	4	13.6
University	4	0	0	0	0	0.0
Masters Degree	0	0	0	0	0	
PhD	0	0	0	0	0	
Total	**143**	**10**	**141**	**13**	**75**	48.0

Travnik			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment rate**
None	0	0	0	0	8	0.0
Incomplete Primary	2	0	4	0	10	66.7
Primary	13	0	23	3	16	63.9
Incomplete secondary	5	0	3	1	7	37.5
Secondary	86	0	42	4	31	32.8
College	10	1	2	0	2	15.4
University	3	1	1	0	1	20.0
Masters Degree	0	0	0	0	0	0.0
PhD	0	0	0	0	0	0.0
Total	**119**	**2**	**75**	**8**	**75**	**38.3**

Source: Survey of Individuals

However, this concern with skills is not recognised by key stakeholders that were interviewed using the market-clearing questionnaire. Only 16% (3 people – numbers become small) of respondents in Zenica, 14% (4 people) in Travnik and none in Trebinje thought that lack of qualifications was a barrier to unemployed people obtaining a job. Those who identified this factor as a barrier in Zenica were the two employers' associations (though not the Chamber of Commerce) and one of the trades unions. In Travnik, a Trades Union recognised this barrier as well as two Non Government Organisations (NGOs) and the EB. This is confirmed by the fact that the EBs have carried out work that suggests that demand for labour was focused upon only some 20% of the skills produced by the secondary level system.

Discrimination

Individuals in Zenica and Trebinje expressed the belief that there was some discrimination in employment on the grounds of gender, ethnicity, age and status. Only 25% of people in Zenica, 27% in Travnik and 16% in Trebinje believed that there was no discrimination.[16] On the other hand, when individuals were asked about each source of discrimination, only a minority in each case thought that discrimination existed. In other words, most people believed that there was job discrimination of some sort, but there was no clarity or general agreement about the nature of that discrimination.

Employers claimed that, when recruiting workers, they were primarily interested in their ability to do the job. Qualifications and work experience were overwhelmingly the criteria that employers claimed to be of importance. They also think age is an important criterion but we do not know whether they prefer older or younger people.

On the basis of individual unemployment rates (Table 9), it appears that there is a preference for employing and hiring older people[17]. In both Trebinje and Zenica, unemployment rates generally decline with age. In Travnik, although the oldest age group has the highest unemployment rate, younger workers appear to be more highly favoured.

Table 9: Employment Status by Age: Travnik, Trebinje and Zenica, 2002

	Worked for Money	Worked for Goods or Services	Did not work			
Trebinje			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
15-21	10	0	10	2	17	50.0
22-30	49	1	18	3	6	26.5
31-40	39	4	15	2	1	25.9
41-50	60	1	9	1	3	12.9
Over 50	25	4	2	0	10	6.5
Total	**183**	**10**	**54**	**8**	**37**	21.9

Zenica			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
15-21	4	0	19	2	16	82.6
22-30	40	3	56	0	11	56.6
31-40	46	2	33	2	5	40.7
41-50	34	4	27	4	10	41.5
Over 50	19	1	6	5	33	23.1
Total	**143**	**10**	**141**	**13**	**75**	48.0

Travnik			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
15-21	13	0	10	1	24	21.3
22-30	36	2	24	2	11	32.9
31-40	29	0	17	0	7	32.1
41-50	28	0	21	1	9	36.2
Over 50	13	0	3	4	24	7.5
Total	**119**	**2**	**75**	**8**	**75**	27.7

Source: Survey of Individuals

There does not appear to be discrimination on the basis of gender in Trebinje, where men and women appear to have the same unemployment rates (Table 10). However, the female unemployment rate in Zenica is 36% higher than the male rate and in Travnik it is 22% higher.

[16] Somun et al (2001) also found a widespread belief that employment discrimination existed. See also WB, ECSSD, Local level institutions and social capital study, Vols. 1 & 2, June, 2002

[17] This is also consistent with the findings of WB (2002).

Table 10: Employment Status by Gender: Travnik, Trebinje and Zenica, 2002

	Worked for Money	Worked for Goods or Services	Did not work			
Trebinje			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
Male	112	6	33	4	19	21.9
Female	71	4	21	4	18	21.9
Total	**183**	**10**	**54**	**8**	**37**	21.9

Zenica			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
Male	97	7	75	6	34	41.9
Female	46	3	66	7	41	57.4
Total	**143**	**10**	**141**	**13**	**75**	48.0

Travnik			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
Male	67	1	36	4	32	34.6
Female	52	1	39	4	43	42.4
Total	**119**	**2**	**75**	**8**	**75**	38.3

Source: Survey of Individuals

Table 11: Employment Status by Ethnicity: Travnik, Trebinje and Zenica, 2002

	Worked for Money	Worked for Goods or Services	Did not work			
Trebinje			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
Bosniac	1	0	0	0	0	0.0
Serb	179	10	51	8	37	21.3
Croat	0	0	2	0	0	100.0
Other	3	0	1	0	0	25.0
Total	**183**	**10**	**54**	**8**	**37**	21.9

Zenica			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
Bosniac	122	9	127	12	60	49.2
Serb	11	1	5	0	8	29.4
Croat	6	0	7	1	3	53.8
Other	4	0	2	0	4	33.3
Total	**143**	**10**	**141**	**13**	**75**	48.0

Travnik			**Unemployed**	**Not wanting work**	**Unable to work**	**Unemployment Rate**
Bosniac	83	2	43	4	41	33.6
Serb	12	0	2	0	4	14.3
Croat	22	0	29	4	28	56.9
Other	2	0	1	0	2	33.3
Total	**119**	**2**	**75**	**8**	**75**	38.3

Source: Survey of Individuals

The evidence from the survey responses of discrimination on the grounds of ethnicity is unclear. In all areas, there is a dominant, or at least majority, ethnicity (Serbs are 98% of the respondents in Trebinje while Bosniacs are 85% of respondents in Zenica and 62% in Travnik). However, on the basis of these small numbers, Serbs in Zenica and Travnik seem to have a lower unemployment rate

than the Bosniac majority (Table 11), while Croats in Zenica experience a rate which is only slightly higher (by about 5%). However, Croats in Travnik experience a considerably increased unemployment rate.

On the basis of individual unemployment rates, there is little consistent evidence of discrimination against particular types of workers – although there is consistent evidence that young people find it more difficult to find jobs[18]. There is some evidence of discrimination against women in Zenica and Travnik (though not in Trebinje) in terms of finding jobs. In all areas, women are underrepresented in management positions. In addition, WB (2002) uses LSMS data to estimate an earnings function that shows that there is wage discrimination against women in both FBiH and RS.

II.3.3 Consumer Demand

Since the demand for labour is a derived demand, it is important to consider the nature of the market in which employers sell their products. These markets, in both entities, appear to be very limited geographically. In Trebinje, 89% of outputs from businesses are sold in the local area and another 3% sold in the rest of BiH; in Zenica, the proportions are 75% and 21% respectively; in Travnik, 65% and 24%. In all case study areas, less than 11% is exported. This is the first empirical data of this nature for BiH and is of considerable importance to policy makers.

This very restricted geographic market implies that a true BiH economy does not yet exist. There appear to be a number of local economies within both entities with only limited overlap. This situation is of concern for a number of reasons:

- local markets offer few opportunities for economies of scale and specialisation of production according to comparative advantage;
- the smaller the market the more volatile demand is likely to be; and
- local markets offer few opportunities for business – and, therefore, employment – expansion.

Thus, although local markets might offer employers the advantage of good information about their customers, the disadvantages are potentially very serious. In the case of both entities in BiH, the potential volatility of demand is a serious issue because, if an important source of local income disappears or reduces, for example, the with the restructuring of a large company or a decrease in international donor funding, then the local economy could contract sharply – even collapse. People in that area would be likely to suffer increased actual or vulnerability to poverty.

This is important in the light of the large numbers in both entities who are vulnerable to poverty, with incomes just above the poverty line.

II.3.4 Macroeconomic Factors

As was noted earlier, many employers implicitly saw aggregate demand as a constraint on business development. Indeed, there is reason to believe that the situation is more serious than many realise. Papic (2001) estimates that the costs of activities in BiH to the international community was a minimum of $8 billion per year for the six years between 1995 and 2000. While by no means all of this amount would have been spent within BiH, it could be expected to have a large impact.

Another indication of the amount spent within BiH is given by the trade deficit, which was estimated by Stojanov (2001) to be 4,402 million KM (approximately $2,100 million) in 1999 – about 52% of GDP. Such a scale of trade deficit has continued. Recent figures from the central bank show a trade

[18] This could be an indication that the transition process has barely begun since, in a dynamic economy, the flexibility of young workers is usually at a premium.

deficit for the first nine months of 2001 of 3,000 million KM (approximately $1,500 million). Since the currency is not collapsing, we can assume that inflows from international donors are probably at least largely covering these deficits.

Thus, approximately 50% of the BiH economy is still being driven by international donor funding. As this funding starts to fall over the next five years, aggregate demand will become increasingly constrained and the local markets in which most employers are selling will become increasingly unprofitable.

II.4 Further Action Oriented Research

This analysis has indicated a number of areas where further research would be worthwhile in terms of facilitating key actions by policy makers intent on reducing income poverty and facilitating expansion of employment.

A lack of appropriate skills is a concern expressed by employers recruiting labour. We have little information at present about precisely what types of skills are in short supply. These may be specific skills (for example, software programming) or generic skills (such as flexibility of approach to a job, or the ability to work in a team). It is important to identify the nature of the skills required in order to define an appropriate policy response. This is a high priority for further background work to policy development. EU Phare had taken some steps in this direction with a view to curriculum reform on vocational training. A focused complementary approach to the skills required by recruiting employers is also needed

The limited geographic size of the markets for most businesses is a concern. It will be important in understanding the constraints to longer term economic growth and the environment for transition to identify the reasons why businesses are not seeking markets further afield.

The Study gives a limited insight into *NGOs as a sector of employment*. NGOs are one of the most rapidly growing sub-sectors of employment opportunity in the European Union (EU). As set out in the conclusions, it is now becoming important to baseline the position with NGO employment in the entities of BiH and to examine the future potential.

Finally, from the analysis reviewed here, *employment discrimination* does not appear to be a general problem. This is not the conventional wisdom in BiH. However, as policy makers concerned with equity in many developed economies have discovered, discrimination is a complex issue and will require more layers of careful analysis than has been possible in this Study. Certainly this is an issue that needs further exploration in both entities.

III. SUPPLY OF LABOUR

III.1 The Determinants of Labour Supply

Individuals provide their labour because they expect to receive benefits from doing so. Although some work is inherently rewarding[19], most people would not do the amount of work they do in the place they do it, if they were not paid to do so. Therefore, most people need to receive payment in cash or goods or services in order to work. Their willingness to participate in the labour market depends on the relationship between the payment they can expect and the benefits they can get when they are not working. These benefits can include one or more of the following:

- welfare benefits;
- output from working in some other way (for example, on land owned by the household or taking care of children);
- improved qualifications from training; and
- leisure activities.

Thus, any analysis of labour supply has to take into account such alternatives.

III.2 Labour Supply in BiH

III.2.1 Labour Force Participation

Overall labour force participation rates among the respondents in the three case study areas appear to be high (84.6%, 77% and 70% in Trebinje, Zenica and Travnik respectively). Table 12 shows that between the ages of 22 and 50, labour force participation rates in all areas exceed 75%, even for women, and most of the labour force participation rates for this age group are close to or exceeding 90%.

These rates – particularly for women – are high and are high in comparison to other transition economies and other countries in the region. There are three possible reasons for such high labour force participation:

- low value alternatives to work make labour force participation more attractive;
- some of the declared unemployment is, in fact, voluntary so that such people are not really seeking work. This could be the case, for example, where unemployment (or other welfare) benefits are high relative to wages; or
- sample selection bias has resulted in a sample of individuals with higher-than-average labour force participation rates, and an under-representation of those who are economically inactive.[20]

[19] A musician, for example, would continue to play some music even if he/she were not paid for doing so.

[20] This may well be part of the reason here. Women appear to be underrepresented in the samples (41% of respondents in Trebinje and 39% in Zenica) as are young people aged 15-21 (13% in Trebinje and 7% in Zenica) as compared with those in the age group 22-30 (27% in Trebinje and 33% in Zenica). On the other hand discussions of data in the DUGs suggest that female labour participation rates might be higher than in neighboring states.

Discussion in the DUGs, during the data analysis phase of this Study suggests that all these factors may be of influence here.

Table 12: Labour Force Participation by Age, Gender and Household Structure: Travnik, Trebinje and Zenica, 2002

Source: Survey of Individuals

All Households %

Trebinje	Men	Women	Total
15-21	58.3	40.0	51.3
22-30	88.7	87.5	88.3
31-40	96.8	93.3	95.1
41-50	95.1	93.9	94.6
Over 50	84.0	62.5	75.6
Total	86.8	81.4	84.6

%

Zenica	Men	Women	Total
15-21	61.1	52.2	56.1
22-30	92.6	85.7	90.0
31-40	100.0	83.3	92.0
41-50	87.0	75.8	82.3
Over 50	46.3	30.4	40.6
Total	81.7	70.6	77.0

%

Travnik	Men	Women	Total
15-21	53.8	40.9	47.9
22-30	78.9	86.5	82.7
31-40	96.3	76.9	86.8
41-50	92.0	76.5	83.1
Over 50	45.8	25.0	36.4
Total	74.3	66.2	70.3

Households with No Dependent Children

Trebinje	Men	Women	Total
15-21	100.0	40.0	72.7
22-30	84.2	77.8	82.1
31-40	100.0	87.5	91.7
41-50	92.9	100.0	96.7
Over 50	86.7	63.6	76.9
Total	89.7	79.6	85.0

Zenica	Men	Women	Total
15-21	N/A	N/A	N/A
22-30	100.0	0.0	88.9
31-40	100.0	75.0	83.3
41-50	83.3	83.3	83.3
Over 50	42.9	25.0	36.4
Total	69.4	55.2	64.1

Travnik	Men	Women	Total
15-21	85.7	40.0	66.7
22-30	100.0	90.9	95.5
31-40	100.0	100.0	100.0
41-50	100.0	77.8	86.2
Over 50	41.2	28.6	35.5
Total	80.4	64.7	72.9

Households with Dependent Children

Trebinje	Men	Women	Total
15-21	58.3	40.0	42.9
22-30	88.7	87.5	91.8
31-40	96.8	93.3	95.9
41-50	95.1	93.9	93.2
Over 50	84.0	62.5	73.3
Total	86.8	81.4	84.3

Zenica	Men	Women	Total
15-21	61.1	52.2	56.1
22-30	92.6	85.7	90.1
31-40	100.0	83.3	92.7
41-50	87.0	75.8	81.6
Over 50	46.3	30.4	45.2
Total	81.7	70.6	80.3

Travnik	Men	Women	Total
15-21	53.8	40.9	41.7
22-30	78.9	86.5	77.4
31-40	96.3	76.9	82.5
41-50	92.0	76.5	80.0
Over 50	45.8	25.0	38.5
Total	74.3	66.2	68.6

The estimates of WB (2002) from the LSMS data do result in rather lower labour force participation rates (particularly for women) and correspondingly lower unemployment rates. This is an area of analysis that the HSPS will deal with and analyse very carefully. It is a methodology which is immediately available to shed light on this issue.

Alternatives to Labour Force Participation

The principal alternatives to labour force participation are:

- investment in human capital by full-time training and education;
- care of children or other dependants;
- work on land owned by the family; and
- leisure.

With the high levels of poverty observed in BiH, leisure will be relatively unattractive.

The impact of investment in education and training is seen by the relatively low participation rates of the group aged 15 to 21. However, the fact that this is limited to that age group, in spite of the employers' identification of skills shortages, is of some concern.

Only 29% of respondents in Zenica, 38% in Travnik but 55% in Trebinje live in households with no children under the age of 15. One would expect the participation rate to be lower in Trebinje than in Travnik or Zenica but this is not the case. Indeed, when participation rates by age, sex and the existence of dependent children in the household are examined, it can be seen that in Trebinje, the presence of dependent children increases the participation rate even for women in the age group 22 to 40. In the case of Zenica, a similar pattern is observed, although the numbers of respondents in

households with no dependent children are quite small. Only in Travnik does the expected inverse relationship exist between the existence of dependent children and labour force participation.

We may be observing a large number of single-parent households leading to a situation where the income effect is outweighing the substitution effect and the parents seek and gain work. In addition, the close-knit character of families in BiH may provide ready access to effective child-care so that care of dependent children is undertaken by grandparents rather than parents. Both hypotheses are worthy of further investigation. In particular, the issue of child care is important in the context of labour market flexibility. If grandparents – or the extended family in general – is of critical importance for labour force participation, then this has implications for labour force mobility, associated with the later stages of economic transition.

Only 28% of respondents in Zenica but 46% in Trebinje and 45% in Travnik have access to land for growing food or rearing animals. Again this would lead us to expect a lower participation rate in Trebinje and Travnik, which is not the case for Trebinje although it is consistent with the observations for Travnik. In addition, although access to land varies across employment status, there is no clear pattern that indicates that such access reduces the willingness to work.

Social Welfare Benefits

None of the registered unemployed were entitled to unemployment benefits or pensions. Indeed, very few of the unemployed – whether registered or not - were receiving pensions or social assistance (14% in Travnik, 7% in Trebinje and 2.5% in Zenica). The vast majority of the unemployed in both places relied on financial support from other family members. Although 95% of the registered unemployed in Zenica and 78% in Travnik (but only 51% in Trebinje) were eligible to receive health insurance, this benefit is unlikely to explain why these people were not working.

However, this *eligibility for benefits, however token,* provides a powerful reason for registration with the EB[21] and could explain the high proportion of the registered unemployed in the LSMS data (76%) that were either economically inactive or, in fact, employed.[22]

Thus, the high rates of labour force participation observed in this survey are difficult to explain in terms of most of the usual alternatives. Preliminary analysis appears to lead to the conclusion that the income effect (that is, low earnings of other household members and low levels of other financial resources) is so large that most people in our sample wish to participate in the labour force.

However, the determinants of labour force participation have a complex set of interactions and more robust conclusions would depend on more detailed econometric analysis. A first step in this will be the analysis of the longitudinal panel data gained under the HSPS "Living in BiH" survey. Future stages will involve monitoring the responses to policy through analysis of the data from recurrent waves of the "Living in BiH" survey.

[21] Somun *et al* (2002) found that people in their surveys were very concerned about access to health care.

[22] It is important that those identified as unemployed in this survey are not in fact economically inactive. This means that those classed as unemployed are in fact job seekers and are not discouraged workers. In Zenica, 50% said they would accept any job that paid regularly and a further 22% said they would accept any job at all. The corresponding figures in Trebinje were 31% and 32% respectively. Only 8% in Zenica and 11% in Trebinje said that they would require a job suitable to their education and/or qualifications.

III.2.2 Participation in the Informal Sector

In spite of high unemployment rates, 20% of respondents in Trebinje with a job in the formal sector (28 people), 11% in Zenica (14 people) and 9% in Travnik (9 people) have one or more additional jobs. There is extensive dual employment and, because of employment law, this additional work is necessarily work within the informal sector.

As was noted, the share of informal sector employment of the survey's respondents is 31% in Trebinje, 20% in Zenica and 28% in Travnik. Also, the share of employment in services and construction in the informal sector is generally greater than in the formal sector.

The surveys of individuals show that men are more likely than women to work in the informal sector. Over 35% of men, but only 24% of women in Trebinje work in the informal sector; the corresponding proportions for Zenica are 25% of men and 16% of women; in Travnik, they are 37% and 26%. The estimates of WB (2002) based upon the LSMS also show that men are more likely than women to work in the informal sector (41% of men against 25% of women). WB data suggest though, that, in FBiH, women are slightly more likely to work in the informal sector (31% male, against 34% female).

Table 13: Structure of Formal and Informal Sector Employment by Age and Gender: Travnik, Trebinje and Zenica, 2002

Source: Survey of Individuals

All

Trebinje	Men	Women	Total
15-21	5.9	4.0	5.2
22-30	28.0	22.7	25.9
31-40	19.5	26.7	22.3
41-50	28.8	36.0	31.6
Over 50	17.8	10.7	15.0
Total	100.0	100.0	100.0

%

Zenica	Men	Women	Total
15-21	1.9	4.1	2.6
22-30	30.8	22.4	28.1
31-40	30.8	32.7	31.4
41-50	23.1	28.6	24.8
Over 50	13.5	12.2	13.1
Total	100.0	100.0	100.0

%

Travnik	Men	Women	Total
15-21	13.2	7.5	10.7
22-30	27.9	35.8	31.4
31-40	26.5	20.8	24.0
41-50	20.6	26.4	23.1
Over 50	11.8	9.4	10.7
Total	100.0	100.0	100.0

Formal Sector

Trebinje	Men	Women	Total
15-21	1.3	1.8	1.5
22-30	18.2	21.1	19.4
31-40	24.7	29.8	26.9
41-50	39.0	43.9	41.0
Over 50	16.9	3.5	11.2
Total	100.0	100.0	100.0

Zenica	Men	Women	Total
15-21	1.3	4.9	2.5
22-30	24.4	14.6	21.0
31-40	33.3	31.7	32.8
41-50	24.4	34.1	27.7
Over 50	16.7	14.6	16.0
Total	100.0	100.0	100.0

Travnik	Men	Women	Total
15-21	4.7	7.7	6.1
22-30	25.6	30.8	28.0
31-40	27.9	25.6	26.8
41-50	23.3	28.2	25.6
Over 50	18.6	7.7	13.4
Total	100.0	100.0	100.0

Informal Sector

Trebinje	Men	Women	Total
15-21	14.6	11.1	13.6
22-30	46.3	27.8	40.7
31-40	9.8	16.7	11.9
41-50	9.8	11.1	10.2
Over 50	19.5	33.3	23.7
Total	100.0	100.0	100.0

Zenica	Men	Women	Total
15-21	3.8	0.0	2.9
22-30	50.0	62.5	52.9
31-40	23.1	37.5	26.5
41-50	19.2	0.0	14.7
Over 50	3.8	0.0	2.9
Total	100.0	100.0	100.0

Travnik	Men	Women	Total
15-21	28.0	7.1	20.5
22-30	32.0	50.0	38.5
31-40	24.0	7.1	17.9
41-50	16.0	21.4	17.9
Over 50	0.0	14.3	5.1
Total	100.0	100.0	100.0

Table 13 shows that in the three case study areas both men and women working in the formal sector tend to be older than average, while those working in the informal sector tend to be younger than average.

The WB (2002) reports the same finding based on case study data. Similarly, those working in the formal sector tend to be better educated than those working in the informal sector (Table 14).

Table 14: Structure of Formal and Informal Sector Employment by Education and Gender: Travnik, Trebinje and Zenica, 2002

All

Trebinje	Men	Women	Total
None	0.0	1.3	0.5
Incomplete Primary	0.8	1.3	1.0
Primary	2.5	12.0	6.2
Incomplete secondary	1.7	1.3	1.6
Secondary	72.9	64.0	69.4
College	6.8	6.7	0.0
University	14.4	12.0	13.472
Masters Degree	0.8475	1.3	1.0363
PhD	0	0	0
Total	100	100	100

Formal Sector

Trebinje	Men	Women	Total
None	0.0	0.0	0.0
Incomplete Primary	1.3	0.0	0.7
Primary	0.0	7.0	3.0
Incomplete secondary	0.0	0.0	0.0
Secondary	71.4	68.4	70.1
College	6.5	7.0	6.7
University	19.5	15.8	17.91
Masters Degree	1.2987	1.8	1.4925
PhD	0	0	0
Total	100	100	100

Informal Sector

Trebinje	Men	Women	Total
None	0.0	5.6	1.8
Incomplete Primary	1.1	5.6	1.8
Primary	3.2	27.8	14.5
Incomplete secondary	2.1	5.6	5.5
Secondary	91.5	50.0	72.7
College	0.0	5.6	0.0
University	2.1	0.0	3.6364
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

All

Zenica	Men	Women	Total
None	1.0	0.0	0.7
Incomplete Primary	1.0	0.0	0.7
Primary	4.8	6.1	5.2
Incomplete secondary	1.0	0.0	0.7
Secondary	82.7	67.3	77.8
College	7.7	22.4	0.0
University	1.9	4.1	2.6144
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

Formal Sector

Zenica	Men	Women	Total
None	1.3	0.0	0.8
Incomplete Primary	1.3	0.0	0.8
Primary	1.3	7.3	3.4
Incomplete secondary	1.3	0.0	0.8
Secondary	82.1	63.4	75.6
College	10.3	24.4	15.1
University	2.6	4.9	3.3613
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

Informal Sector

Zenica	Men	Women	Total
None	1.1	0.0	0.0
Incomplete Primary	1.1	0.0	0.0
Primary	5.3	0.0	12.1
Incomplete secondary	1.1	0.0	0.0
Secondary	91.5	87.5	87.9
College	0.0	12.5	0.0
University	0.0	0.0	0
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

All

Travnik	Men	Women	Total
None	0.0	0.0	0.0
Incomplete Primary	0.0	3.8	1.7
Primary	10.3	11.3	10.7
Incomplete secondary	4.4	3.8	4.1
Secondary	73.5	67.9	71.1
College	5.9	13.2	0.0
University	5.8824	0	3.3058
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

Formal Sector

Travnik	Men	Women	Total
None	0.0	0.0	0.0
Incomplete Primary	0.0	2.6	1.2
Primary	7.0	10.3	8.5
Incomplete secondary	0.0	2.6	1.2
Secondary	74.4	69.2	72.0
College	9.3	15.4	12.2
University	9.3023	0	4.878
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

Informal Sector

Travnik	Men	Women	Total
None	0.0	0.0	0.0
Incomplete Primary	0.0	7.1	2.6
Primary	11.7	14.3	15.8
Incomplete secondary	5.0	7.1	10.5
Secondary	83.3	64.3	71.1
College	0.0	7.1	0.0
University	0	0	0
Masters Degree	0	0	0
PhD	0	0	0
Total	100	100	100

Source: Survey of Individuals

This implies that many young people – the unemployed, but also those active in the informal sector, - may never have had the experience of a job in the formal sector. Indeed, of respondents, 54% of those working in the informal sector in Trebinje, 65% in Travnik and 69% in Zenica had never worked in the formal sector.

The advantage of this situation is that these informal sector workers are likely to be obtaining experience in growth sectors. They are also utilising antipoverty coping strategies. However, the disadvantage is that a group of workers is developing that have no entitlements to social or health insurance. Nor are they contributing to pensions schemes which is accentuating the present and future difficulties over pension provision.

If these patterns persist, this group without social insurance will grow over time. This will add a difficult extra dimension for policy makers to contend with in both entities, within the environment of an aging population, with a growing dependency ratio.

III.2.3 Labour Mobility

In section II it was noted that the markets facing enterprises was very limited geographically. It is worth looking at how mobile workers are.

When asked where they would like to find another job, 71% of those looking for another job and currently working in the formal sector in Trebinje, 73% in Travnik and 57% in Zenica said they were only looking locally. None of the respondents were prepared to look in another part of the entity – nor in the other entity – although a few were considering work in another country.

For those working in the informal sector and looking for another job, 26% in Trebinje, 23% in Travnik and 39% in Zenica were only looking locally although 3% in Trebinje and 6% in Zenica were prepared to consider work elsewhere in the entity.

Even the unemployed said that they were relatively unwilling to move to seek work. 65% in Trebinje and 63% in Zenica[23] said that they would be unwilling to accept a formal or informal sector job outside the town, although 17% in Trebinje and 17% in Zenica did indicate a willingness to accept a job anywhere in either entity.

Effort in the survey was made to establish how willing respondents were to accept new or alternative jobs. When asked for what reasons they would refuse a job offer, only 23% in Trebinje and 18% in Zenica said that they would be "not prepared to change their place of residence" or would not be prepared to travel "great distance from home" as reasons for not accepting a new job.

In Travnik, the unemployed who were seeking work, said they were less willing to take an informal sector job outside the town than a formal sector job: 62% said that they would be unwilling to take a job in the informal sector outside the town while only 18% were unwilling to accept a formal sector job outside the town. Individuals therefore express through this a strong preference for formal sector employment. While it is not surprising that the unemployed should show less commitment to obtaining an informal sector job[24], the acuteness of these results in Travnik provide another reason for policy makers to encourage employment in the formal sector, but again not at the expense of bringing about aggregate job destruction.

The overall impression from the three case study areas is of a rather immobile labour force. This reinforces the findings of WB (2002), based on job mobility analysis. The policy implications of this are considerable, especially when combined with employers' geographically limited view of product and service markets: efforts to broaden the geographic extent of markets need to be accompanied with initiatives to improve local job creation on a municipal level. Particular responsibilities accompany this for municipal (and cantonal) level EBs.

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[23] Unemployed respondents in Travnik were more willing to move. Only 19% said they were unwilling to take accept a job outside the local area.

[24] Indeed, the results in Trebinje and Zenica are surprising.

III.2.4 Work Skills and Skill Acquisition

However, it is important that the unemployed do appear to be ready to obtain new skills. 84% of the unemployed in Trebinje, 70% in Travnik and 95% in Zenica expressed themselves interested in receiving free training for new skills. However, this apparent enthusiasm in Zenica for the acquisition of new skills is contradicted somewhat by the 13% of the unemployed who said that the necessity of acquiring new skills would be a reason for their refusing a job offer.

Work related skills among the unemployed are likely to be low in any case. They are likely to drop further as the incidence of long term unemployment bites further. As noted above, the unemployed are in any case likely to have lower levels of education than the employed. The unemployed also have more limited work experience. 5% of the unemployed in Trebinje, 35% in Travnik and 49% in Zenica had never worked and a further 28% in Trebinje, 32% in Travnik and 24% in Zenica had been unemployed for more than 5 years.

Thus, a majority of the unemployed in Zenica and Travnik and over one third in Trebinje have no recent work experience. This is a serious and growing impediment to their entering work.

III.2.5 Survival Strategies

Very few of the respondents are receiving social insurance payments, pensions or social assistance. Most of those who are not working survive on financial support from other family members. This is often from the international diaspora. In common with many poor societies, it seems that the family is the main source of social and economic support. This factor may go some way to explain the apparent unwillingness of workers to find work outside their local area. They may well believe, often correctly, that such a strategy would increase their vulnerability[25]. These contemporary expressions of human capital militate, in both entities of BiH, against flexibility and economic growth.

In addition, as we saw above, 28% of respondents in Zenica, 45% in Travnik and 46% in Trebinje have access to some land used for growing food or rearing animals. Such land is likely to contribute significantly to household survival strategies and individuals might be unwilling to move out of the local area for this reason.

However, although this is a rational strategy for individuals, it inhibits and will continue to inhibit the development of a dynamic economy unless some way is found to encourage the development of a labour market that has an orientation that is less local in orientation and related to the common economic space of BiH in character. Here we see again the importance of formalising the social safety net and improving the capacity of the EBs.

III.3 Further Research

Identifying the determinants of labour supply is a complex matter. There is a broad literature upon this that contains many insights applicable to BiH, an indication of which is given in a summary of the sources set out in Papps[26]. It would be impossible in a Study of this size to disentangle the impact of all relevant factors. We have reviewed some factors that have proved to be important in other contexts but further detailed data collection and econometric research will be worthwhile.

The HSPS will provide a valuable data set for this research and it has been structured so that

[25] See also WB, ECSSD, Local level institutions and social capital study, Vols. 1 & 2, June, 2002

[26] See Papps (1992) which contains a survey of the literature on labour supply as well as that referring particularly to women.

particular emphasis can be placed on analysis of participation rates and their responses to economic and policy changes. This is an urgent priority for further enquiries that will have action oriented outcomes and which will impact upon:

- labour mobility;
- employability,
- employment; and
- equity of access to the labour market and job opportunities.

The complement to these foci is the stimulation of entrepreneurship. This is both in the direct sense of imbuing the spirit and skills needed for entrepreneurship into individuals, but is also to bring about a legal and financial milieu that facilitates self employment and the development of small enterprises.

These are avenues of policy supporting activities, which are high upon the EU agenda and the social policy of negotiating states. As the project progresses, and as "Living in BiH" data become available for analysis, the DUGs will discuss, for example, National Employment Action Plans and National Plans for Social Inclusion developed by EU member states. These will at once:

- suggest avenues for focussing the discussion between statistics producers and the line ministries using data; and
- set out further refinements and priorities to the action oriented studies that can be put forward for support under this project and from other sources.

This will place the line ministries involved in the DUGs and the discussions around this Project in a position to make a timely and high quality contribution towards their responsibilities under the Road Map to the Stabilisation and EU Association Process.

IV. LABOUR MARKET INTERACTION

IV.1 The Determinants of Labour Market Outcomes

An efficient labour market outcome occurs where employers and workers are matched in such a way that neither employers nor workers could not improve their position by a change, unless that change caused costs to some other person/company in the market that were greater than the benefits resulting from the change. For example, if an employer could only increase profits by recruiting a particular worker from another employer and if the second employer's profits fell as a result by more than the first employer's profits rose, then the original position was more efficient than the second. In such a case, the rational response for the second employer would be to increase the worker's wage to encourage him/her to stay. In this way, the original employment structure would be maintained and neither employers nor workers could be made better off by a change.[27]

This ideal position is, of course, rarely observed in the real world because employers and workers do not have the full information about all possibilities open to them. In addition, the ability of employers to hire the best workers for their business is limited by the willingness of workers to move to the employer's location. Therefore, the ability of the labour market to achieve an efficient outcome depends on:

- the effectiveness of job search by workers;
- the effectiveness of recruitment mechanisms used by employers; and
- the effectiveness of mechanisms used to provide information about the labour market.

IV.2 Labour Market Interaction in Bosnia and Herzegovina

IV.2.1 Job Search and Recruitment Strategies

One of the consistent messages from all three of these surveys (employers, individuals and key stakeholders) is that the EBs do not at present, by EU standards, play an important enough role in facilitating job search.

No respondents in the stakeholders' survey think that the EBs know all job vacancies. This response is consistent with the information on how employers have actually recruited and how individuals have found jobs. In Trebinje and Travnik, only 19% of employers used the EB as an important method of recruiting new workers. In Zenica, employers made more use of the EB with 36% of those recruiting new workers viewing it as an important method.

However, in both Trebinje and Zenica – though not in Travnik - both advertising[28] and personal contacts were seen as more useful methods of finding new workers. This is an interesting result because it shows that the employers are in fact as willing to use modern impersonal methods of recruitment (advertising) as more informal personal methods.

A similar pattern emerges from individual responses in Trebinje and Zenica. Table 15 shows that the EBs were not the method of job search used by most people.

[27] This situation is Pareto optimal. See Le Grand et al (1992) for a more detailed discussion of Pareto optimality.

[28] In Trebinje, advertising was only as important as the Employment Bureau.

Table 15: Methods of Job Search by Individuals: Travnik, Trebinje and Zenica, 2002

	Employed finding Current Job in Formal Sector		Employed finding Current Job in Informal Sector		Employed in Formal Sector Looking for New		Employed in Informal Sector Looking for New		Currently Unemployed		Students		Total	
Trebinje	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Answering Advertisements	15	10.0	1	2.0	1	2.9	1	3.0	4	6.9	1	3.3	23.0	6.5
Employment bureau	40	26.7	0	0.0	0	0.0	5	15.2	10	17.2	5	16.7	60.0	16.9
Personal Contact with Employer	26	17.3	9	18.0	3	8.6	2	6.1	1	1.7	5	16.7	46.0	12.9
Placing Ads in Newspapers	0	0.0	0	0.0	0	0.0	0	0.0	1	1.7	0	0.0	1.0	0.3
Through Family & Friends	60	40.0	30	60.0	26	74.3	19	57.6	32	55.2	15	50.0	182.0	51.1
Other	9	6.0	10	20.0	5	14.3	6	18.2	10	17.2	4	13.3	44.0	12.4
Total	**150**	**100**	**50**	**100**	**35**	**100**	**33**	**100**	**58**	**100**	**30**	**100**	**356**	**100**

	Employed finding Current Job in Formal Sector		Employed finding Current Job in Informal Sector		Employed in Formal Sector Looking for New		Employed in Informal Sector Looking for New		Currently Unemployed		Students		Total	
Zenica	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Answering Advertisements	50	37.3	1	3.4	4	28.6	6	25.0	12	9.4	0	N/A	73.0	22.2
Employment bureau	27	20.1	1	3.4	0	0.0	1	4.2	33	25.8	0	N/A	62.0	18.8
Personal Contact with Employer	17	12.7	6	20.7	1	7.1	2	8.3	2	1.6	0	N/A	28.0	8.5
Placing Ads in Newspapers	0	0.0	0	0.0	0	0.0	0	0.0	2	1.6	0	N/A	2.0	0.6
Through Family & Friends	39	29.1	20	69.0	9	64.3	14	58.3	79	61.7	0	N/A	161.0	48.9
Other	1	0.7	1	3.4	0	0.0	1	4.2	0	0.0	0	N/A	3.0	0.9
Total	**134**	**100.0**	**29**	**100.0**	**14**	**100**	**24**	**100**	**128**	**100**	**0**	N/A	**329**	**100**

	Employed finding Current Job in Formal Sector		Employed finding Current Job in Informal Sector		Employed in Formal Sector Looking for New		Employed in Informal Sector Looking for New		Currently Unemployed		Students		Total	
Travnik	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Answering Advertisements	24	23.5	1.0	3.1	0	0.0	6.0	13.3	14	9.9	11	19.6	56.0	14.4
Employment bureau	24	23.5	16.0	50.0	1	9.1	16.0	35.6	34	23.9	16	28.6	107.0	27.6
Personal Contact with Employer	25	24.5	0.0	0.0	1	9.1	7.0	15.6	17	12.0	8	14.3	58.0	14.9
Placing Ads in Newspapers	1	1.0	12.0	37.5	0	0.0	11.0	24.4	11	7.7	20	35.7	55.0	14.2
Through Family & Friends	27	26.5	3.0	9.4	9	81.8	5.0	11.1	53	37.3	1	1.8	98.0	25.3
Other	1	1.0		0.0	0	0		0.0	13	9.2		0	14.0	3.6
Total	**102**	**100**	**32**	**100**	**11**	**100**	**45**	**100**	**142**	**100**	**56**	**100**	**388**	**100**

Source: Survey of Individuals

This is true, whether we are considering how those currently employed originally found their jobs, or how people are currently looking for new jobs. Unsurprisingly, the groups that used the EBs most were:

- those currently employed in the formal sector (who used the EBs to find their current job); and
- the currently unemployed.

However, those currently employed in the formal sector do not see the EBs as an important method of

finding a new job - no individual employed in the formal sector in either Trebinje or Zenica, and only one in Travnik, was using the Employment Bureau to find a new job.

On the other hand, 15% of people currently employed in the informal sector in Trebinje, 35% in Travnik but only 4% in Zenica were using the EB in an attempt to find a new job. Presumably, these people are hoping to find a job in the formal sector. However, the help of family, friends and acquaintances is consistently seen as the best way to find a job although personal contact with employers is also seen as a good route, particularly in the informal sector.

The experience of modern economies is that a number of different job search and recruitment strategies can be efficient, and the use of informal networks as an integral part of broad pattern of job search strategies is not unusual in such economies. This is set out, for example, in the series of OECD working and policy papers developed under the Employment and Social Affairs Committee, which includes Martin, 1998, "What works among active labour market policies: evidence from OECD countries experiences" and Fay, 1996,"Enhancing the effectiveness of active labour market policies: evidence from programme evaluations in OECD countries". These analyses contain much that will be the objective of discussion in the DUGs in terms of data to policy training and setting out the detail of what might be the most appropriate policy interventions in the area of labour market clearing. A conclusion that can be derived at this stage though, is that it is unusual to have such a heavy degree of reliance on informal methods, particularly in the growing sectors of the economy.

Where labour markets are local and restricted in size, the use of such methods is entirely rational. They provide employers with relatively good information about the availability and characteristics of workers; they also allow for flexible and useful information flows for workers. However, in this case, the reliance on these informal methods underlines the fragmentation of the labour markets in both entities of BiH. It leads to the conclusion that it is unlikely that labour market interaction is operating efficiently.

IV.2.2 The Work of the Employment Bureaux

The respondents suggest that there appears to be considerable variation in the effectiveness of the EBs.

Table 16: Work of the Employment Bureaux: Travnik, Trebinje and Zenica, April 2002

	Registered Unemployed	Vacancies registered	Unemployment Rate, %	Job Placements in the last month	Number of Staff
Travnik	5400	6	38.3	11	3
Trebinje *	2492	0	21.9	0	26
Zenica	15651	74	48.0	74	7

Source: Market Clearing Questionnaire

Note: The unemployment rate was derived from Table 8

* The data for Trebinje to be clarified further with the Employment Bureau

Table 16 shows that the EB in Trebinje placed fewer people (actually none) in the last month than did those in Travnik and Zenica although both the number of registered unemployed and the unemployment rate estimated from our survey of individuals are higher in Travnik and Zenica than in Trebinje. Our survey of employers showed that employers in Trebinje were about as likely to recruit new workers over the preceding 12 months as those in Zenica. Moreover, the number of Employment Bureau staff is lower in Travnik and Zenica than in Trebinje.

All this seems to imply that the EBs in Travnik and Zenica are operating in a more cost-effective manner than that in Trebinje. This does not, of course, take into account local environmental factors

and aspects such as:

- incidence of IDPs;
- truncation of former employment (travel to work) areas by international borders; and
- the rate of change in these very localised labour markets.

There may therefore be special reasons for this difference and similar differences in operational outcomes. Even so, it will be worthwhile considering if there are aspects of the work in Zenica that could help the effectiveness of EBs elsewhere. This is cast in a broader context below when recommendations for examination of reapportionment of emphasis within the EBs on active and passive measures is discussed.

V. CONCLUSIONS AND RECOMMENDATIONS

V.1 Conclusions Related to Policy Issues

The results from the surveys are interesting and informative, but it must be remembered that they were small and limited in geographic area. Although the sampling methodology was designed to obtain a random sample of individuals, this was not the case for employers, because of the attempt to include companies in the informal sector. By the very nature of such employers, this was made possible only by the use of local knowledge. We do not assert that our survey of employers is a representative sample. For this to be the case, a more sophisticated sampling methodology would be required that would use information from a random selection of individuals to sample their employers.

This caveat prevents us from placing too much reliance on the quantitative results. Even so, there are some:

- interesting insights into the labour market in BiH;
- clear sign posts to direct policy development;
- avenues for policy implementation and institutional development; together with
- some clear implications for future action oriented research.

It is important to note in evaluating the data that, in most cases, the results from the surveys are consistent with and enhance the preliminary and tentative results from the LSMS as reproduced in the WB (2002) Study. Also, the conclusions drawn from the survey results are only interpreted in the light of the mosaic of secondary sources and interviews carried out by the joint BiH and international team during the period of data collection and analysis. This gives us every reason to assert that the policy related conclusions derived from these analyses are appropriately focussed.

The insights into the labour market include – for both entities - the following main points:

On the demand side

- Aggregate demand and macroeconomic conditions in general are likely to bring about severe constraints on expansion.
- Product (and service) markets within both entities are highly localised.
- The informal sector is substantial, has grown most over the past decade and has the most potential for growth.
- The service sector is the most important part of informal sector employment.
- In spite of high levels of unemployment and formal education, employers reported some difficulty in finding workers with appropriate skills and qualifications.
- Although there is widespread belief that discrimination affects individuals' labour market prospects, the incidence of unemployment rates did not offer much support for this belief, with the exception of women in Zenica and Travnik. The young appeared to find it more difficult to find employment, particularly in the formal sector.

On the supply side

- All groups in the case study surveys appear to have high labour force participation rates. The lower rates for the 15 to 21 age group are explicable in terms of continuing education.
- This result does differ strikingly from the LSMS data and further research is required on this important topic. It will be provided by the HSPS analysis and research and by further special focus in DUG and data to policy discussions within the framework of the project.
- The existence of young children in the household does not significantly reduce labour force participation rates, even for women in the 21 to 40 age groups.

- There is no evidence that social assistance is discouraging workers from participating in the labour market. There would appear to be no disincentive effect in social assistance benefits. However, there is reason to believe that the entitlement to health insurance is distorting the incentives for registering as unemployed.
- Labour mobility is very limited. Workers are reluctant to seek work outside their local area even if they are unemployed.
- There is a substantial number of young people who have never worked at all or who have only worked in the informal sector.

Labour Market Interaction

- There is widespread agreement that the EBs do not, by EU standards, play an important enough role in the particular function of labour market broking - bringing together jobs and workers.
- The EB's legal framework, as presently established, leads to an over emphasis upon passive rather than active labour market measures.
- There is a great use of informal methods of job search and recruitment such as personal contacts or help from friends and family.

V.2 Policy Issues

These preliminary results raise a number of issues that provide an opportunity for the consideration of policy interventions to enhance growth of work and employment prospects. These issues include the following.

- Macroeconomic factors are identified as a constraint on current expansion. There are strong reasons to believe that the situation will deteriorate and prospects for work and employment will worsen over the next few years. Thus, in the near term, in both entities, vulnerability to poverty will increase rather than decline, just over the period when international assistance is likely to become more constrained.
- There is considerable evidence that both labour and product markets are very localised throughout both entities. This limits the potential for expansion, increases the potential volatility of markets, and raises the vulnerability of communities to local income declines and reductions in jobs and employment opportunities.
- In spite of the high levels of formal education and incidence of unemployment, some employers are registering a shortage of workers with appropriate qualifications. This gives especial concern in the light of apparently declining enrolment rates in secondary education. Workers indicate that they would be willing to undertake additional training and employers express a willingness to provide training.
- Most of the growth since 1995 appears to have taken place in the informal sector. Workers under the age of 31 and those with relatively low levels of education are over-represented in the informal sector. Many of these have no formal sector employment experience. Although the informal sector does provides job opportunities for two groups – youth and women - that are relatively disadvantaged in the labour market, the concentration of these groups in this sector provides the potential for long-term problems in:
    - social protection especially given the rising dependency ratio in both entities, driven by a combination of basic demographics and migration; and
    - the quality of future goods and services and the need to enhance and certify products and services for broader markets and exports, especially to the EU.
- A number of potential workers are aging without any work experience at all; others have experience only in the informal sector.
- The incidence of long term unemployment is increasing with the impact of further discouragement of workers and skill atrophy.

- EBs do not, in EU terms, appear to be providing an effective and efficient service in terms of job-broking. Active measures are in some senses overwhelmed by the responsibilities and volume of work involved with passive methods. It can be said that the major reasons which exist for this are that the:
    - institutional structure and organisation forms of EBs were taken from the ex-socialist period in which the modern labour market did not function;
    - organisation of EBs has – understandably - taken some time to adapt to the new, complex and ill staffed administrative structure, in the FBiH in particular (for example EBs in certain Cantons of the FBiH were only been established at the end of 2001, have only recently begun to function and are very thinly staffed); and
    - financial resources that the EBs have at their disposal for support to employment (from taxes on salaries of the employed) have routinely been used for other functions with aims broader than job-broking. During 2001, this practice was changed and the resources have been used for purposes more focussed upon the margins of the labour market.
- Formal methods of disseminating information about the labour market appear to be used infrequently relative to informal methods. Improvement in the dissemination of information is likely to result in improved efficiency of labour market interactions.

Employment, Unemployment and Poverty

The context for these policy issues and recommendations is one which this Study (and also the LSMS data) suggests levels of unemployment and poverty to be lower than the conventional wisdom has suggested hitherto for the two entities. The overall weight of evidence suggests that real unemployment is more likely to be closer to 20% than 40%. The higher estimates of unemployment are not properly correcting the data for:

- vagaries in registration; and
- the high level of employment in the informal sector.

These same factors suggest that the level of poverty is also lower than some previous estimates suggested.

This does not give cause for complacency though. For the negative side of the picture given by the data is that a large section of the workforce and the population of both entities are:

- just above the poverty line, coping only with difficulty through diverse insecure survival strategies;
- insecurely employed or working in the informal sector with no job security;
- working in very localised labour markets with little robustness or growth;
- have little prospects of increasing their incomes; and
- very vulnerable to local shocks and downturns, such as those which might be caused by privatisation, local market loss, declines in transfer payments from the international community or loss of investor confidence.

These workers and their dependent populations are therefore at high risk of job loss, income decline and collapse of their survival strategies. A large section of the population of both entities are therefore close to being catapulted into poverty at any time.

Since – see below – economic prospects are not healthy, it is the concern with the future likelihood of decline in work, employment and income earning prospects, which drives the analysis here and suggests that there is some urgency to policy development and implementation. It is the concern to mitigate the potential impact and future growth of extent and depth of poverty that form the underlying theme of these policy issues and recommendations.

V.3 Policy Recommendations

These are suggestions for directions of policy development which derive directly from the leading conclusions and issues that the survey has highlighted.

V.3.1 Macroeconomic Factors

Employers identified a lack of demand for their product as the most serious constraint on expansion. While some of this concern is likely to be a result of the volatility of demand arising from the localised nature of product markets, some must be a result of general macroeconomic conditions.

A stable and sustainable macroeconomic environment at the national level is an essential condition for the economic development of the entities and the small state of BiH.

Although there is currently monetary stability, the deficit in the balance of trade is very high and the stable exchange rate is being maintained primarily by the inflow of donor funds. As these funds decline over the next few years, we would expect to observe a downward pressure on the exchange rate *so:*

action needs to be considered to address the underlying international imbalance.

The stable economic environment will only be maintained by rigorous application of the principles of the currency board. This requires continued responsibility in respect of public finances on the part of the public sector, detailed by partnership between BiH and entity governments and international financial institutions.

V.3.2 Broadening Product and Labour Markets

Product Markets

Much of the concern about a lack of demand – and the consequent sluggish growth of jobs and employment - could be addressed by broadening product markets. In particular, an increase in exports and in import substitution could at once:

- increase GDP;
- expand local outputs and domestic employment; and
- address the adverse balance of trade.

The research suggests in several reinforcing ways that, in general, employers are not currently exploring the potential for selling their products outside the local areas.

Therefore, *we recommend that each entity develops a strategy to encourage employers to expand the geographic spread of their sales.*

Such a strategy could include the following:

- identification of a local organisation in each municipality (e.g. Chamber of Commerce, Employers' Organisation) to take the lead in promoting the products of that area externally;
- assistance to individual employers to undertake a market review and develop a marketing strategy with a broader than local basis;
- identification of which infrastructure constraints that are inhibiting groups of employers from selling their products more widely, with an integrated approach to mitigating these

constraints; and
- within this, specific incentives for the development of small and medium formal sector enterprises.

In addition to the work with employers at the local level, it will be necessary to address institutional issues to increase the confidence of employers. Such issues include listening to employers' views of how to address and mitigate:

- a general lack of trust in the entity and state level bureaucracies;
- the problematic legal framework; and
- an inability to enforce the payment of bills.

Remedying these would again be to the particular advantage of smaller enterprises in the formal sector.

Labour Markets

With very low labour mobility, many workers are unlikely to have access to the best job opportunities and employers are unlikely to have the opportunity to recruit the most efficient workforce. The WB (2002) publication focuses on this issue and makes a number of recommendations, with which we would broadly agree.

This Study *emphasises the importance of measures supporting the geographic mobility of workers both within each entity and across entities*. These measures could include:

- improving available information about job and training opportunities outside the local area and across both entities. The EBs have begun a series of initiatives which are the basis for practical action in this. Further strengthening at entity level needs integration at cantonal (in FBIH) and entity level in both entities;
- continuing to improve the general security situation so that individuals seeking jobs will have the confidence to move to another area in to order to obtain work;
- ensuring that individual entitlements to public services and social assistance are independent of the entity, canton and municipality of residence, so that individuals seeking work will not be prevented from moving to obtain a job by a fear of losing entitlements; and
- examining the extent to which social networks (the extended family, religious organisations, local NGOs) are providing support for vulnerable individuals, with a view to identifying the support that would need to be provided as a public entitlement, in order to encourage individuals to accept work outside the security of their current environment. The WB evaluation of the various kinds of local social capital[29] is a valuable initiation of this line of enquiry and shows that the nature of social capital in BiH does not necessarily facilitate mobility, job search and enterpreneurship. We broadly agree with these findings and recommendations

V.3.3 Development of Skills

In spite of high levels of unemployment and of formal education in both entities, a considerable proportion of employers reported difficulty in recruiting appropriately qualified workers. This is of especial concern in the light of suggestions that enrolment levels at secondary level have not recovered to their pre war levels. Therefore, in addition to measures to improve labour mobility, we *recommend that measures be taken to analyse in more detail the impact of skill imbalance and shortages on the margins of the labour market:*

[29] WB, ECSSD, Local level institutions and social capital study, Vols. 1 & 2, June, 2002

This evaluation would include in both entities:

- identification of gaps in generic skills;
- development of a strategy to provide training to address these gaps;
- evaluation and implementation of means of supporting employers to:
    - identify specific skills gaps; and
    - provide training to develop such skills.

The identification of short term actions closely related to the labour market need also to be cast in a strategic context to provide recommendations about the:

- longer term re orientation of the education and training system to maintain the quality of the workforce in BiH;
- best form of life long learning for application in the context of the two entities in BiH; and
- formulation of a strategy to accredit such forms of education and learning to EU standards.

This will be the theme of the second Qualitative Study carried out under this Project in this series, which has been approved by DFID in principle and now is to get more detailed refinement and endorsement from the DUGs.

V.3.4 Increasing and Encouraging Formal Sector Employment

This Study confirms that most of the growth since 1995 appears to have come from informal sector employment. This has enabled many families in both entities to remain outside poverty. Although the persistence of a substantial informal sector might be considered undesirable because:

- of its current adverse impact on efficiency and equity; and
- it results in a large number of workers without entitlement to social insurance;

we do *not* recommend that steps are taken to eradicate informal sector employment. Rather, *we recommend a series of positive measures in both entities that will encourage employers to register their workers and employ them with full employment rights.*

This means taking positive actions to support spontaneous transition of work and employment from the informal to the formal sector. This should be seen in policy terms as another integrated facet of policy development for the overall transition of the BiH economy into a modern market economy with flexibility blended with limited regulation to enforce basic standards of employment product and services, compatible with evolution in EU compatible legislation, but not stunting developing international competitiveness.

Measures that could support this process, with variants in both entities are:

- development of incentives for companies to register such as:
    - access to subsidised credit;
    - training grants; and
    - assistance with marketing;
- provision of incentives for companies to register workers such as:
    - the value of loans available depending on the number of registered employees; and
    - training grants depending in value on the number of registered employees;
- establishment of incentives for workers to work as registered employees such as ensuring that entitlements to social insurance benefits depending on contributions are, in fact, paid;
- legislation and operational procedures to reduce the disincentives to register by rationalising

and reducing social insurance contributions and income and local taxes[30];

- amelioration and rationalisation of the inspection regimes to which enterprises are subjected in order to diminish the impact of inspections that result from registration of enterprises;
- normalisation of informal and unrecorded production within formal sector enterprises;
- assistance with debt management of fundamentally viable formal sector enterprises; and
- consideration of increased use of NGOs as formal sector employers. In the EU, NGOs have an increasingly important role in providing formal – but often flexible or part time employment opportunities. In cities in the UK which lead in this NGO based employment approach - such as Bristol - over 20% of employment is thought to be through NGOs. They often provide services and sub contract to central and local authority to provide complementary approaches to a range of development issues which are high on the agenda in RS and FBiH.

V.3.5 Reorient the Employment Services to be more narrowly focussed on Labour Market Issues and Active Measures

If the EBs are to:

- justify their continuing existence within the narrow sphere of the labour market as against within the broader sphere of the implementation of social policy; and
- contribute to labour market policy development and approaches compatible with EU states employment action plans with focus upon mobility, employability, equity and life long job related learning;

the EBs must:

- start to provide a labour market service of active labour market measures – of job broking and job and employment focused training related activities - that is valued by both employers and job seekers;

rather than

- continuing to be implementers of a range of passive and administrative labour market measures, and welfare payments and assessments.

It is recommended that the Employment Services in each entity consider a reorientation and development strategy to develop more effective active labour market measures evolving towards best EU practice aimed at:

- providing a more efficient job-broking service to job seekers;
- improving relationships with local employers by providing more efficient job-broking service;
- providing local labour market intelligence to support the expansion of existing companies and the establishment of new companies;
- providing job counselling, advice on job-hunting and so on to job seekers;
- organising work experience for those who have never worked;
- seeking local solutions by and facilitating municipal inputs into entity level policy discussions; and
- exploring skill mismatches and gaps and setting out actions needed for labour market and job related skill development and as might be appropriate commissioning such training.

[30] The experience in other countries is that such reductions usually increase the overall receipts as more companies and individuals are prepared to pay.

For the implementation of this suggested reorientation and development strategy it is necessary to continue and speed up the transformation of Employment Services in BiH through:

- continued strengthening of EBs at municipal level in conjunction with refining their focus upon active measures;
- support to the functioning of what are de facto new cantonal EBs in the FBiH and the clarification of their roles and manner of integration of their activities with municipal EBs;
- enhanced WB activities to support the functioning of Employment Services;
- completion of the already initiated transformation of the BiH EB and FBiH EB through the development of legislation in this field, which would define their roles and activities with focus upon labour market efficiency rather then broader essentially passive issues;
- the new role of the BiH EB has to be redefined, with a view to stimulating labour force mobility and securing international cooperation on employment issues;
- completion of the already initiated work on the development of a new organisational scheme of the RS EB as well as new functions targeting the development of labour market institutions, in particular for the development of active employment measures;
- changes to secure the transparent use of the EB budget for support to new employment;
- further support to IT developments throughout the EBs, especially with a view to linking municipal initiatives;
- evaluation of selected active employment measures – in particular those designed to give work experience to the unemployed who have never been in a job – linked perhaps to other projects and schemes, such as environmental schemes after plant and mine closures, to imbue now skills and approaches to work amongst targeted groups of the unemployed;
- municipal level EBs and Centres for Social Work (CSWs) should be assisted to define the principles, structures and procedures for their practical cooperation in order to reduce confusion, streamline procedures in both institutions for dealing either the unemployed, and to facilitate the labour market focus of EB operations, leaving the CSWs central to the social protection and care and welfare roles in the provison of a social safety net;

The FBiH and RS governments, as well as the BiH Council of Ministers, are recommended to consider the development of a transition and development strategy of Employment Services on the basis of these specific recommendations as well as the development of a legal framework at the BiH level, which would allow for a labour market in the state.

The implementation of this strategy would have considerable training and institutional development implications. Effective programmes elsewhere serve, in part as models of points of departure for this process – as in Slovenia and the Czech Republic. Such developments would have an important role within the broader context of accession and the establishment of labour market practices that would support the processes of social inclusion and the principles of EU National Employment Action Plans that will become a necessity with the progress toward a Stabilisation and Association Agreement.

Individual EBs have benefited from institutional development activities provided by international donors, but these have been to a degree disparate and fragmented. The WB seminar "Functioning of Employment Services in the FBiH" (27 to 28 February, Sarajevo) was a desirable start in the more strategic activation of the Cantonal EB. It is now time to build on this experience to take a more strategic approach to institutional development and training of EB staff at entity, canton and municipal level.

V.3.6 Clarify and Simplify Registration Criteria

As a particular facet of the above point it is worth stressing that, in order for the EBs to play the active and leading part in labour market management issues that successful transition requires, a clarification is needed in respect of their terms of reference, which reflects directly in a simplification of registration and the criteria for registration procedures.

Specifically, the registration of unemployed should reflect the sharper focusing of the functions of the EB more clearly on labour market and employment issues that support active measures. The need for registration for other, passive, purposes - such as for qualification of particular benefits could be diminished, even largely removed, or treated in a different way administratively.

For example, employed people should not feel motivated to register as unemployed in order to receive medical assistance from the state.

Similarly, internationally accepted definitions of "unemployment" should be introduced practically into the registration process. This would for example, exclude discouraged workers from registering as "unemployed".

The reasons behind this suite of recommended changes are entirely positive. If just two of these steps were taken, then the EBs would release considerable resources to play a more effective role in active labour market functions and management. The current regime places an unwarranted burden on the EBs to administer aspects of the Social Protection system, which detracts from the main mission of the EBs. This slows the EBs from taking the active and positive role in transition that would be suggested by applications of EU best practice in RS and FBiH.

As a first step to this process we *recommend that the analysis of registered unemployed in both entities undertaken as background to this Study, and presented in the Project Quarterly Progress Report be re-evaluated*.

- in the light of the LSMS results; and
- from this policy perspective of a focus upon clarification of the nature of registrants to focus upon the real unemployed seeking work; and that

as a second practical step, implementing actions be set out in the move towards the possible redefinition of registration criteria within a re-orienting set of employment services at canton, entity and state level.

These are all key processes in assembling a strategy to prevent the increase of hardship, unemployment, deteriorating employment conditions and increased incidence of poverty as BiH enters the next phases of post war recovery and transition.