

HOW TO ACHIEVE A BETTER BUSINESS ENVIRONMENT

What the employers expect from authorities



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ACRONYMS

AEFBiH	Association of Employers of Federation Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CA	Collective agreements
EC	Economy Chamber
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FIC	Foreign Investment Council
FTC	Foreign Trade Chamber
FTV	Federal Television
GB	General Board
HIF	Health Insurance Fund
MIO/PIO	Pension and Disability Insurance
IMF	International Monetary Fund
RS	Republik Srpska
SSS BiH	Trade Unions of Bosnia and Herzegovina
VAT	Value Added Tax
WB	World Bank

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1. INTRODUCTION

Economic environment in Bosnia and Herzegovina and Federation of BiH have some positive characteristics such as: a stable currency, a stable banking sector, geographical location, good telecommunications and energy networks, natural resources, ecologically clean environment, potentially good staff, growth of macroeconomic indicators in the last year; **the economic environment in BiH and FBiH is not good and stimulating for investments and new employment.**

Basic characteristics which have negative effects on the economic environment in BiH are:

- ▶ The absence of single economic space;
- ▶ The political instability and tensions that significantly affect the business climate;
- ▶ Lack of a strategy for overcoming current situation;
- ▶ Lack of political will for implementation of structural reforms;
- ▶ Non-selective introduction of new beneficiaries of social rights;
- ▶ Enormous public spending;
- ▶ Salary taxes which are highest in Europe
- ▶ The load of work that is at the forefront in Europe;
- ▶ High tax rates, comparing with neighboring countries and most of the European countries;
- ▶ High proportion of informal economy and corruption;
- ▶ Outdated technology;
- ▶ Inadequate legislation and legal framework;
- ▶ Irresponsibility of a high number of state institutions towards employers.

The consequences of this inadequate business environment in Bosnia and Herzegovina and in Federation of BiH are:

- **Reduced competitiveness of the local economy.** Global Competitiveness Index ranked Bosnia and Herzegovina 87th, the second lowest in the region, ahead of Albania (ranked 90th);¹
- **High export trade deficit.** In 2013, deficit was BAM 6.79 billion, and in the second month of this year deficit is already about BAM 1.6 billion;²
- **General insolvency and situation where everyone owes everyone threatens to completely stop the registered, legal businesses.** On August 1st, the total number of blocked accounts in the Registry of Transaction Accounts of the Central Bank of Bosnia and Herzegovina was 66,753;³
- **Reduction of foreign investment and private investment in general.** BAM 2,776,648,000 were investments realized in 2011; BAM 2,869,965,000 were investments realized in 2012.; and BAM 2,885,006,000 were investments realized in 2013;⁴

¹ www.worldbankbh.ba

² The Agency for Statistics of BiH

³ The Central Bank of BiH, http://www.cbbh.ba/files/blokirani_racuni/2014/blokirani_racuni_01_08_2014.pdf

⁴ The Federal Office for Statistics; Investitions: p. 31-55, <http://www.fzs.ba/Podaci/Brojke2014.pdf>

- **The highest unemployment rate in Europe** after Kosovo, with the highest proportion of young people among the unemployed.⁵

It is expected that we all know we are in a deep crisis. Equally, we should all be aware of the consequences that will occur, if we do not begin with rapid and structural reforms. Nevertheless, we know what measures need to be taken and nobody but employers want to take responsibility and move forward. This primarily refers to the political elite and the Trade Union because they are the main obstacles in the process of structural reforms and social and economic changes. Unfortunately, most of the citizens are afraid that reforms will be shifted “on their shoulders” and they cannot and do not want to be a social force that will pressure government institutions at all levels to undertake urgent structural reforms.

The „international community“ is slowly beginning to change priorities in BiH. "Bosnia and Herzegovina needs reform. Otherwise, the country runs the risk of further falling behind its neighbors in terms of business environment and other policies needed to encourage investment and job creation. The overall unemployment rate already covers more than a quarter of the workforce, and the youth unemployment rate is the highest in Europe. You already know that as well as you know that reforms are necessary."⁶

However, employers expect from the „international community“ to recognize who are obstructionists of reforms and who are the ones who want to keep the "status quo." Certainly, this is not enough, and will not change the current situation. Obstructionists of reforms must be publicly labeled as such, and in some ways, their work should be sanctioned, through lack of financial support and limited level of communication in the first place. In the end, it is necessary to identify the natural partners in this process and enable these partners to receive an adequate response to their demands.

We, at the Association of Employers of FBiH, are aware of a deep social and economic crisis in the country and its negative consequences on the position of most citizens and business organizations; and we have defined a **„Proposal of urgent, mid-term, and system measures that could contribute to overcoming the current crisis“**. The proposal is a result of broader **consultations among our members, representatives of chambers of commerce, academia, and the round table public debate** on this specific topic.

Employers are convinced that measures related to attraction of investments, improvement of liquidity, adequate fiscal and economic environment, fight against crime and corruption, reduction of public spending and encouragement of consumption, are the key to continued economic development and job creation. Economic growth and employment lead to improved social status of citizens.

Urgent implementation of proposed measures must be accompanied with system solutions in the field of social policy, which will lead to a minimum of social justice, more balanced distribution of social wealth and protection of vulnerable groups of the population.

⁵ Group of authors: „Growing with jobs in Europe and Central Asia“, World Bank

⁶P. Sorensen: „Compact for Growth and Jobs in BiH“, Introduction, The EU delegation to BiH, 2014.

In our opinion, the government have to achieve synergy of socio-economic partners, and other social categories. We are confident that joint actions of social partners would significantly improve the social standard and quality of life of citizens of the FBiH. In this regard, employers want to give their contribution and we are ready to engage in implementation of these agreed measures that would, as soon as possible, lead to changes of the current situation.

We want to work together with socio-economic partners and we are committed to improving the business environment and new employment, in order to alleviate the consequences of negative influences that slow economic activity and worsen social status of citizens of the Federation of BiH.

As an association of socially responsible and socially aware employers, on the basis of our members' propisions, the Association of Employers of FBiH (AEFBiH) delivered material entitled "**Proposal of measures to overcome the social and economic crisis**" to the Government of Federation of BiH and the Association of Independent Labor Unions of BiH. Accordingly, we proposed the **holding of permanent sessions of the Economic and Social Council** for the territory of FBiH. We have also expressed our expectations from **all levels of executive and legislative bodies and the Economic and Social Councils of other levels to hold permanent sessions** and adopt decisions that will help to rapidly overcome the current crisis.

Since the answer from the government was not adequate, the AEFBiH decided to create a proposal of macroeconomic objectives and proposal of priority activities of government of different levels. The prime minister of FBiH and the Government of FBiH have supported our proposal during the thematic session held in March, with attendance of the AEFBiH delegation. But, beside verbal support, there is no implementation of any proposed measure.

Right after the general elections in Bosnia and Herzegovina this document will be delivered to elected representatives of legislative and executive authorities of all levels, and we will ask from them to include these measures in their programs of work. We will also ask support from the international community which will have the chance to support concrete and official demands of employers' community in FBiH for the first time.

2. OBJECTIVES TO BE ACCOMPLISHED THROUGH REALISATION OF SUGGESTED MEASURES

Employers of FBiH demand that legislative and executive authorities clearly define objectives and provide mechanisms for their implementation in the period 2014-2017. The objectives are related to FBiH, for the period 2014-2017 and are reflected in the following:

2.1. Real GDP growth rate, in the next period, should increase at least 3,5% compared to GDP in the previous year

This means that real GDP of BAM 27.7 billion in 2013 needs to rise to 28.7 billion in 2014; 29.7 billion in 2015; 30.7 billion in 2016; and to 31.8 billion in 2017. The real GDP in FBiH was BAM 16.5 billion in 2012 and 16.9 billion in 2013. In 2017, the real GDP in FBiH should be BAM 19.4 billion.⁷

Only a significant growth of real GDP could provide a higher standard of living. This goal is quite realistic and doable. Low starting point, positive developments in the region and overcoming of the recession of all EU countries (except Croatia), positive trends of other macroeconomic indicators - make this goal realistic. Confirmation for this is the Framework Budget of FBiH 2014-2016 that predicts higher rates of annual GDP growth, except in the first year.⁸

2.2 Employment growth rate in real sector primarily, in the specified period, should not be less than 2,5% compared to the previous year

The issue of employment must be a part of a general policy of employment and must be simultaneously accompanied by policies and development strategies, and certainly by structural reform of fiscal politics that will reduce the burden on the EU countries average.

Number of employees (February 2014):	<ul style="list-style-type: none"> • FBiH 438.011 • RS 240.309
Number of employees in the real sector (August 2013):	<ul style="list-style-type: none"> • FBiH 268.780
Number of retirees (August 2013):	<ul style="list-style-type: none"> • FBiH 388.152

In February 2014, the number of employees in FBiH was 438,011, while in RS it was 240,309. Number of employees in the real sector, for the month of August 2013, was 268.780. In the same time, the number of pensioners in FBiH is 388,152.

⁷ Budget Framework Paper 2014-2016; The Federal Ministry of Finance, June 2013

⁸ . ib idem

The next fact is almost unbelievable: 268,780 employees from the real sector, who create new value, are carrying 438,000 unemployed on their shoulders; 388,011 pensioners; 170,000 public employees paid from budget; 350,000 students and 500,000 beneficiaries of different social rights. There is no need for any additional explanation to conclude this situation is totally unsustainable.⁹

Realization of the proposed minimum objective would lead to an increase in employment to 500,000 at least, which is an increase of 13% or more than 56,000 new jobs.

2.3 Public expenditure in GDP in Federation of BiH should be reduced for at least 4% per year, compared to previous year

This objective will be difficult to meet due to ethnic and political divisions, which almost completely incapacitate policy-making. Public spending at all levels must be reduced below BAM 6 billion. However, public spending in 2014 is planned at the level of approximately BAM 6.5 billion, what makes 22.24% of share in GDP.

2.4. Coverage of import by export should increase for at least 5 percentage points compared to coverage in the previous year

It is of concern that Government of FBiH in the Framework Budget 2014 -2016 did not plan any increase of the coverage of import by export, but they had planned to keep it at the same level.

EXPORT AND IMPORT OF BIH 2013. i 2014.			
EXPORT		IMPORT	
2013	2014	2013	2014
4.205.483	4.182.760	7.248.790	7.616.0279⁹

We are of opinion that gradual balancing of trade balance is one of priority task for governments at all levels. With intensification of economic activities, it is completely realistic to expect that the degree of coverage of import by export will increase in the next five years and reach the figure bigger than 70%. Especially when investments in the electro energy sector and road construction sector start to provide their full effects, when we substitute parts of import with goods and services of domestic origin, and when we enable conditions for continuation of a trend of increasing foreign tourist arrivals.

2.5 Public investment share in GDP should be at least 25% of GDP

Continues economic growth can not be based on public investment only. However, until business environment and political climate encourage private investment, both foreign and domestic, it is necessary to initiate the economic growth by public investments. Particularly

⁹ www.fzs.ba Office for statistics of the Federation of BiH

in the electro energy sector and the transport sector (road building, railways, airports, ports, etc.), because these sectors bind a large number of supporting activities.

If investment plans in this area are to be realized, this objective is realistic and achievable.

2.6. Public administration reform with rationalization of administration and number of public administration employees that will cut public administration expenditures by at least 5 %

Realization of this objective will provide: public spending reduction where these funds will be used for development projects and new employment, public administration to be at the service of the real sector, and equal treatment of employees in the public and private sector. Instead of being „reform obstructionists“ and direct or indirect preservers of "the status quo", state administration will become one of the factors of change and economic development.

Consumption structure in FBiH in 2011 compared with neighboring countries (one: total spending, and two: salaries and benefits).

FBiH	Montenegro	Croatia	Romania	Bulgaria	FYR Macedonia	Albania
46,6	46,2	41,3	40,9	38,1	35,9	29,8
13	11,5	10,5	9,8	9,3	8,1	5,3 ¹⁰

2.7. Informal sector percentage should be reduced for at least 5% compared to estimation of the previous year

There are no precise analyses or numerical indicators of informal sector participation, and we can only rely on estimations that 35% of economic activities are located in a gray and black zone. Participation of gray economy is over 65% in certain industries, such is bread-making.¹¹

2.8. Enhancement of the business environment

BiH, according to the business indicators (currently 131th), must start with elimination of business barriers, in order to get ranked at the average level of the neighboring countries, at least: Albania 91th, Croatia 89th, Kosovo 86th, Czech Republic 75th, Greece 72nd, Montenegro 44th.¹²

If competitiveness of BiH economy does not increase it will not be possible to maintain the achieved degree of economic development in the long run, even if the economic

¹⁰http://predstavnickidom-pfbih.gov.ba/upload/file/sjednice/Studija_javnih_rashoda_u%20Federaciji.pdf
strana 11.

¹¹<http://library.fes.de/pdf-files/bueros/sarajevo/09248.pdf>, str. 73. Kriza i siva ekonomija u BiH, dr. Rajko Tomaš, Friedrich-Ebert-Stiftung BiH, 11 strana

¹² strana 5 http://www.fzzpr.gov.ba/upload/file/dokumenti/drugi_o_nama/Lako%C4%87a_poslovanja_2014_final.pdf

development level is not sufficient. In this case, we can't even discuss about any significant economic growth and increase of the number of employed.

2.9. Liberalization of the labor market in order to reach higher employment

Adoption of the labor market reform is needed as soon as possible. After this, it will be necessary to amend the legislation in this field, and to review existing and negotiate new collective agreements.

Labor market reform must provide flexicurity (labour market liberalization and minimum worker safety simultaneously), all in order to maintain the number of employed, to give chance to a large number of the unemployed to find a job instead of those who are employed and who do not know or do not want to work but receive salaries, and maintain investment and economic development that will create new jobs. It is also necessary to transform the system of employment services and to focus their activities where they are supposed to be - active employment measures.

2.10. Harmonization of legislation

Entities and Brcko District should make efforts to harmonize their legislation. Without entering into constitutional competences of different levels of government, harmonization of legislation is necessary for establishing of single economic space, horizontal and vertical mobility of students and workforce, elimination of business barriers and attracting new domestic and foreign investment. This situation where in BiH there's a 14 completely opposite legal systems is untenable.

2.11. Unburdening the economy in order to achieve economic development and higher employment

Taxes and fees on wages must be reduced from the level of 40% of total labor costs to at least 35%, which is the average in the new EU member states. This is quite a realistic goal that can be achieved by combining cost rationalization, policy of new employment stimulation, reduction in public expenditure and increase in the number of employed.

2.12. Defining a social minimum in Federation of BiH and ensure protection of standards of the most vulnerable categories of the population

It is necessary to define a social minimum that must be provided to every family for survival. This has to be provided by the state, through minimum wage for employees or through adequate social assistance for people in state of a social need. At the same time: number of users of these benefits must be reduced, testing of available income introduced, and a revision of rights undertaken so social assistance that satisfies minimum of existential needs will be delivered only to those in need.

Social transfers

FBiH	Montenegro	Croatia	Romania	Bulgaria	FYR Macedonia	Albania
15,8	13,7	16,2	13,8	14,3	15,5	10,1

2.13. Intensifying and enhancing efficiency in fight against crime and corruption

BiH is, according to TI's Corruption Perceptions Index, ranked 72nd and located at the bottom compared to the former Yugoslav republics. In Europe, we are ranked at the same level with Bulgaria and Greece, and only Albania and Kosovo are in worse position.¹³

Corruption slows economic development, lead to excessive public expenditure, encourage fiscal indiscipline and erodes the foundations of BiH society.

Social and economic progress in BiH is possible, even if heavy and painful measures and tasks are coming. This process has to be serious and synergistic effect of all the most important social factors is prerequisite. With implementation of reforms many will lose in the short term. We should not have any illusions that a good part of citizens and businesses will feel negative effects of reforms. However, BiH society has no other option if we want to ensure economic growth, political system stability and raise of living standards.

In order to secure effects mentioned above, on medium and long term basis, the general social consensus must also be secured, the one that will include commitment by political leaders and institutions to implement reforms that will provide a realistic chance for the whole society.

The Association of Employers of FBiH wants to make a contribution and proposes concrete measures to achieve above mentioned objectives, which can be classified as: urgent measures, measures to be implemented over the next 12 months, and system measures whose implementation requires more time. Based on these measures, the institutions at all levels of legislative and executive authorities should set their working priorities and incorporate them into their programs of work.

¹³ <http://www.index.hr/vijesti/clanak/transparency-international-mali-pomak-hrvatske-u-borbi-protiv-korupcije-ne-bi-smio-zadovoljiti-vladu/714521.aspx>
<http://republikainfo.com/index.php/top-teme/11798-analiza-ifimes-a-korupcija-posast-koja-unistava-bih>
<http://www.transparency.hr/hr/clanak/objava-za-medije-povodom-ipk-2013/49>

3. MEASURES TO UNBURDEN ECONOMY

The burden on employers' is largest in region and one of the largest in Europe. Amount of burden is 72,2 %, and employers **must pay 0,72 BAM to the state for every BAM 1 paid to the workwrs**. This ratio is getting worse if parafiscal taxes are included, in wich case the **employer must pay up to BAM 0,90 to the state for the BAM 1** paid to worker, wich differes between cantons and municipalities.

Consequently, **the employer is paying a lot and the worker is getting a little**. Salaries are low and in line with (low) productivity. The tax wedge is quite high. That is one of the main reasons why employers give up on new employment and why they hire workwers at the black labour market.

High amount of labour costs represents one of basic factors for employers deciding whether the company will make new investments and new hiring or not. This is specially visible in the time of economic crisis. High amount of taxes and contributions from salary and on salary are directly influencing the number of workers in companies, and general level of employment at the same time.

High rates of contributions and taxes on salary are certainly one of the most important factors of the black and gray economy. One good part of small businesses especially do not register all workers, and avoid payment of taxes and contributions. Other companies pay a part of salaries without calculation and payment of taxes and contributions. In such a way, they are reducing their costs of operations, which result in lower revenue amounts in budget and non-budgetary funds.

With an adequate reduction of contribution rate for employees, new employment can be launched, unemployment reduced, expenditure increased and greater inflow to budget and non-budgetary funds secured. Mr. Obhodaš, Vujić and Vujić from University of Travnik made a survey to prove this thesis. As a model, they analyzed the Milk Company, which employs 112 people.

Table 1.: Net salary of employees

Amount of net salary in BAM	Number of workers who receive salary	Xifi	(Xi-X)2 fi
900	16	14.400	3.237.408,51
1.050	25	26.250	2.247.750,56
1.350	30	40.500	0,97
1.500	20	30.000	451.080,64
1.790	17	30.430	3.293.893,35
2.200	3	6.600	2.168.418,09
3.000	1	3.000	2.722.500,00
Σ	112	151.180	14.121.052,12

Table 2.: Calculations of employee salary (2012)

Contracted salary		1.350,00 BAM
Contributions FROM salaries (31%)		651,45 BAM
Income tax		100,00 BAM
GROSS I		2.101,45 BAM
Contributions ON salaries (10,5%)		220,65 BAM
GROSS II		2.322,10 BAM
Total taxes and contributions		972,10 BAM
CALCULATION OF SALARY OF EMPLOYEE		
Contributions FROM salaries (31%)		651,45 BAM
Contribution for pension and disability insurance (17%)		357,25 BAM
Contribution for health insurance (12,5%)		262,68 BAM
Contribution for insurance in case of unemployment (1,5%)		31,52 BAM
SALARY BEFORE TAXES		1.450,00 BAM
PERSONAL DEDUCTION	1,5	450,00 BAM
Tax rate		1000,00 BAM
Income tax		100,00 BAM
Contributions ON salary (10,5%)		220,65 BAM
Contribution for pension and disability insurance (6%)		126,09 BAM
Contribution for health insurance (4%)		84,06 BAM
Contribution for insurance in case of unemployment (0,5%)		10, 51 BAM
SALARY AFTER TAXES		1.350,00 BAM

It is clear that taxes and contributions are 972,10 BAM which is 72% on net salary. In a year it makes 1.306.502,40 BAM for 112 workers. If we reduce taxes and contributions by 10%, we will get an amount of 130.650,24 BAM. When we divide this amount with an average gross salary of worker, which is 27.865,20 BAM, the amount left for the company after reduction of taxes and contributions, is enough for coverage of salaries for 4,7 new workers.

This means **that in case of 10% reduction of taxes and contributions, the company could increase employment by 4.2 percent, while overall costs remain exactly the same as they were with a smaller number of workers.**

This calculation was proved and it was statistically determined that the variations in this research can be up to 1% (when compared to 4.2%), what makes these deviations negligible, and we can be confident in the accuracy of the above calculation.

If the state provides initiatives for new workers to the company, in terms of exemption from payment of taxes and contributions for these workers, the number of new workers employed would be 8, **which is an increase in employment by 7.1%.**

Positive sides are higher:	Threats:
<ul style="list-style-type: none"> • Employment; • Production budgetary funds; • Consumption stimulations. • Liquidity; • Economy • Inflow to budgets and extra budgetary funds. 	<ul style="list-style-type: none"> • Lower inflow to budget; • Lower inflow to non- • Possible manipulations with

If we apply this model to the entire FBiH we might expect the following effects:

- **11,250 new employees**, on an annual basis, without stimulations, what is an increase of 4.2%;
- **19,352 new employees**, on an annual basis, with stimulations, what is an increase of 7.2%;
- **95.2 million BAM** bigger expenditure, annually, generating growth and new jobs;
- **16.2 million BAM higher** collection of VAT, per year;
- **Reduction of** budget for budget users and directing funds for stimulations;
- Higher production and higher consumption;
- **Additional employment** on this basis.

It is proven, in theory and practice, that, it is necessary to access, urgent and with a plan to unburdening of Employers. All these parameters are telling us that slight economic growth and positive trends regarding growth of GDP, growth of export and lowering of import, growth of industrial production, are not even close enough good for improvement of situation in this area. If Governments in BiH, don't start urgently to take measures on burdening of economy and growth of employment, nothing will save the State from bankruptcy and total collapse, no matter how many credits from MMF we take.

a-1) Reduction of 4 % of salary contribution for mandatory health insurance



Legislation

- × **Law on Contributions**
(Official Gazette of FBiH, no. 35/98, 16/01, 37/01, 1/02, 17/06, 14/08);
- × **Law on Health Protection**
(Official Gazette of FBiH, no. 46/10, 75/13);
- × **Law on Health Insurance**
(Official Gazette of FBiH, no.3 0 / 97, 7/02, 70/08 and 48/11);
- × **Instruction on settlement of debt based on contributions for mandatory health insurance**
(Official Gazette of FBiH, no. 62/06);
- × **Instruction on the manner of exercising the right of mandatory health Insurance**
(Official Gazette of FBiH, no. 31/02);
- × **Instruction for accounting in the health sector**
(Official Gazette of FBiH, no. 26/03 and 43/04).



Assessment of situation

In 2013, total collected amount on behalf of health insurance contributions was BAM 1, 075 billion.¹⁴ Employers paid more than 90% of that amount. Despite the fact that this is an

¹⁴ The working group of the Ministry of Finance, "Unburdening of employers by reducing contributions for mandatory health insurance," 2013.

extremely high burden for employers, it is clearly not sufficient for the proper functioning of the system.

Participation of industry in the structure of insured persons is only 23.85%, while industry is participating in funding of mandatory health insurance for the huge 86.68%, which stifles employment. **Social groups of insured persons** whose insurance carrier are governments and governmental institutions, **participate with 32.49% in the structure of the insured persons, and their insurance carriers participate with 3.61% of total income health insurance.**¹⁵

Current actual role of most health insurance funds is to be a service for funding of existing health institutions, instead of taking on the role of health insurance customer. In the current health care system in the FBiH, nearly all health care workers are paid with a salary system, where the amount of salary depends on the coefficient of the "job complexity" (completed university degree), and almost none depends of the volume and quality on the work performed.¹⁶

Business of companies in the FBiH is significantly burdened with high "taxation" of work, based on the allocations for mandatory health insurance. Therefore it is extremely important to unburden employers. One of the ways is reduction of contributions for mandatory health insurance. "We believe that this unburdening of employers must be stronger, in order to produce a significant effect."¹⁷

On the other side, the sensitivity of the health care system and the importance of the stability of its financing should be taken into account. Health protection funding, decreased due to the reduction of contributions from employers, must be recovered from:

- *Savings in the system of health care services;*
- *Increased collection of contributions on the basis of new employment;*
- *Increased tax discipline;*
- *Tax and excises revenue without influence on reduction of expenditure.*

These funds from tax and excises sources should be spent for health insurance for all citizens except those employed by employers, in order to secure that all population have health insurance.



Reasons for reduction

- High burden for employers, which influences the employment;
- Disproportionately small participation of the state as health insurance carrier in revenues of the Health Insurance Fund (HIF);
- Disproportionately large share of social groups participation in the costs of the HIF;
- Huge percentage of expenditures for this purpose, relating to the largest number of EU countries and countries in the region;
- High internal costs in the health care system and the HIF;
- Poor system of health insurance contribution;
- Poor collection of contributions for mandatory health insurance.

¹⁵ Doc. Dr. S. Vukic: "Fiscal unsustainability of mandatory health insurance in BiH", University of Vitez, PKF, 2012;

¹⁶ The working group of the Ministry of Finance : "Unburdening of employers by reducing contributions for mandatory health insurance," 2013.

¹⁷ Ibidem.



Suggested measures

- Completely eliminate employers' payment of contributions firms by 1% immediately and additional 3% when condition allow it;
- Reduce the rate paid by the employee;
- Reform the health care system;
- Rationalize operations of the HIF and health services institutions;
- Introduce new methods for payment of health professionals that will stimulate them to provide higher volume and quality of services and to rationally use available resources;
- Find a way to compensate for lack in funds.



Jurisdiction

Ministry of Health of FBiH
Government of FBiH
Parliament of FBiH
The Ministry of Finance and Treasury of BiH
Council of Ministers of BiH
Parliamentary Assembly of BiH
Cantonal governments and parliaments
The HIF



Deadlines

Reduction of the contribution by 1%	3 months after the new government formation;
Reduction of the contribution by additional 3%	12 months;
Reduction of the contribution from the salary	24 months
Action Plan for savings	12 months.



The role of the AEFBiH

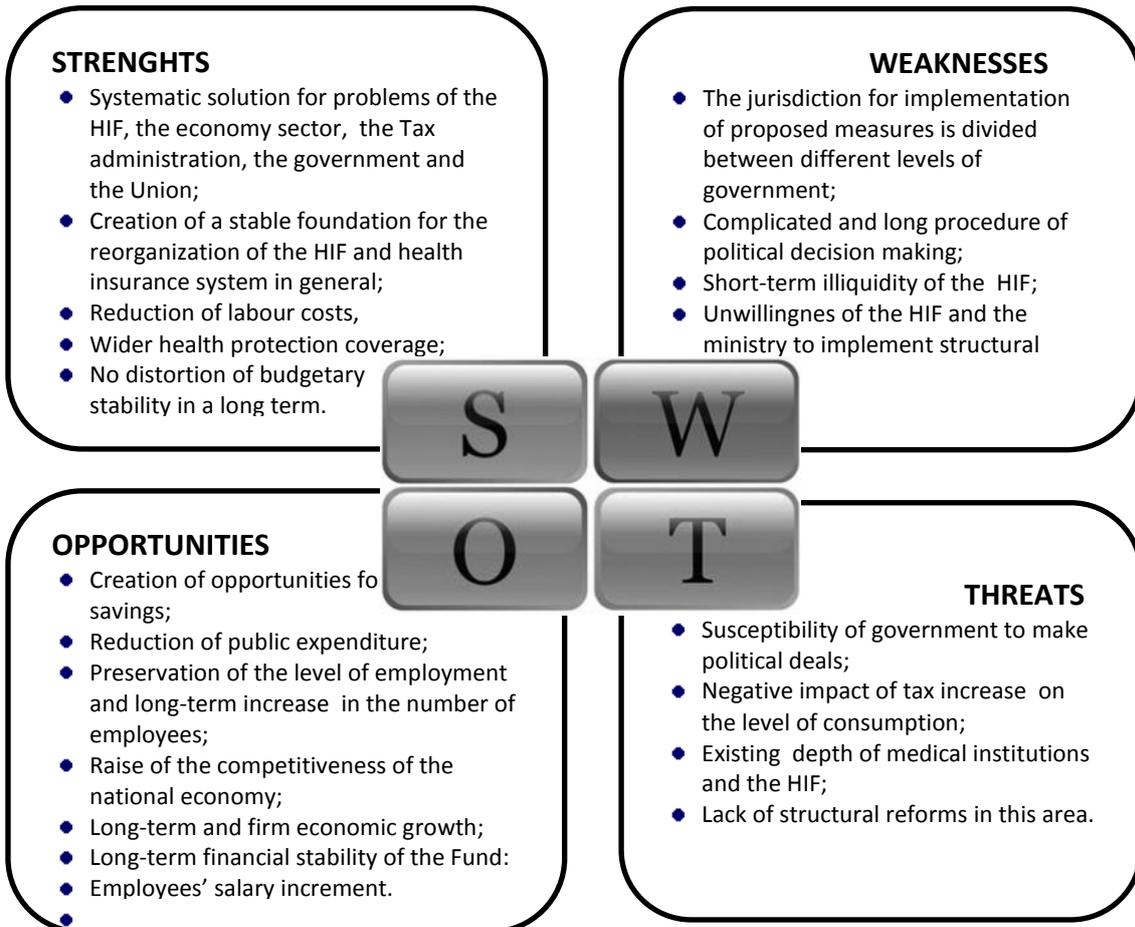
- Engage experts;
- Draft amendments;
- Participate in working groups;

- Organize public hearings;
- Organize a press conference;
- Advocacy;
- Prepare comparative analysis, if necessary;
- Organize expert discussions.

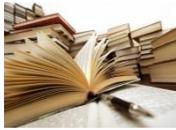


Assessment of benefits

- The proposed reduction will result in employers’ savings of approximately 350 million BAM, and in workers’ savings of 100 million KM, annually;
- With investments of the money in new jobs, indirectly benefit increases for 15%;
- Cost savings for the health insurance for unemployed would be about 20 million BAM;
- Rationalization of operations in the health care sector could save another 25-30 million BAM.



a-2) Decision to write off the unpaid contributions for health insurance



Legislation

× **Law on Contributions**

(Official Gazette of FBiH, no. 35/98, 16/01, 37/01, 1/02, 17/06, 14/08);

× **Law on Obligations**

(Official Gazette of RBiH, no. 2/92, 13/93, 13/94, and Official Gazette of FBiH, no. 29/03, 42/11).



Assessment of the situation

As of 30.06.2014, **business entities owe BAM 1,613,926,957.46 to the HIF of Federation BiH, in unpaid contributions.**¹⁸ It is symptomatic that the **largest debt on this basis was created by state-owned companies which did not pay contributions.**

During privatization of state companies, buyers usually did not know the actual amount of debt on this basis, so they came into a situation that these inherited debts are jeopardizing not only liquidity but also solvency of these companies. The consequence of this is that a number of these companies is executing bankruptcy proceedings and they have lost several thousands of jobs.

During this time, the workers had no right to medical treatment as persons insured at the HIF of FBiH, and they had to pay all the costs of treatments. The question arises: Is it fair and based on the law to request payment of service that is out of date? In addition, many of these claims are not only outdated but uncollectible for other reasons.



Reasons to write off

- Rehabilitation of large number of business entities;
- Failure to collect these claims in many cases;
- Outdated claims;
- Violation of the Constitution of FBiH;
- Creation of conditions for financial consolidation of the HIF and health institutions.

¹⁸ Review of tax payers with tax, contributions, fees and other charges debt that is bigger than 50.000 KM, according to cantonal tax offices evidence, The Tax Office of FBiH, p. 125.



Suggested measures

- Establish a working group with the participation of representatives of governments, employers, trade unions and academia, which will create a proposal of solution;
- Prepare analysis of unpaid contributions;
- Write off the debt on this basis, except for contributions based on solidarity;
- Make a decision on the payment of the remaining part of the debt in the next 10 years;
- In the case of insolvency, convert claims into shares;
- Propose lex-specialis that will allow it.



Jurisdictions

Ministry of Health of FBiH
Ministry of Finance of FBiH
Government of FBiH
Parliament of FBiH
Cantonal governments and parliaments
The HIF of FBiH



Deadlines

Establishment of a working group	60 days after formation of the new government;
Creation of analysis and proposals	90 days after the formation of working groups;
Drafting of the law	90 days after the completion of the analysis;
Adoption of the law	6 months after the adoption of the Draft law.



The role of AEFBiH

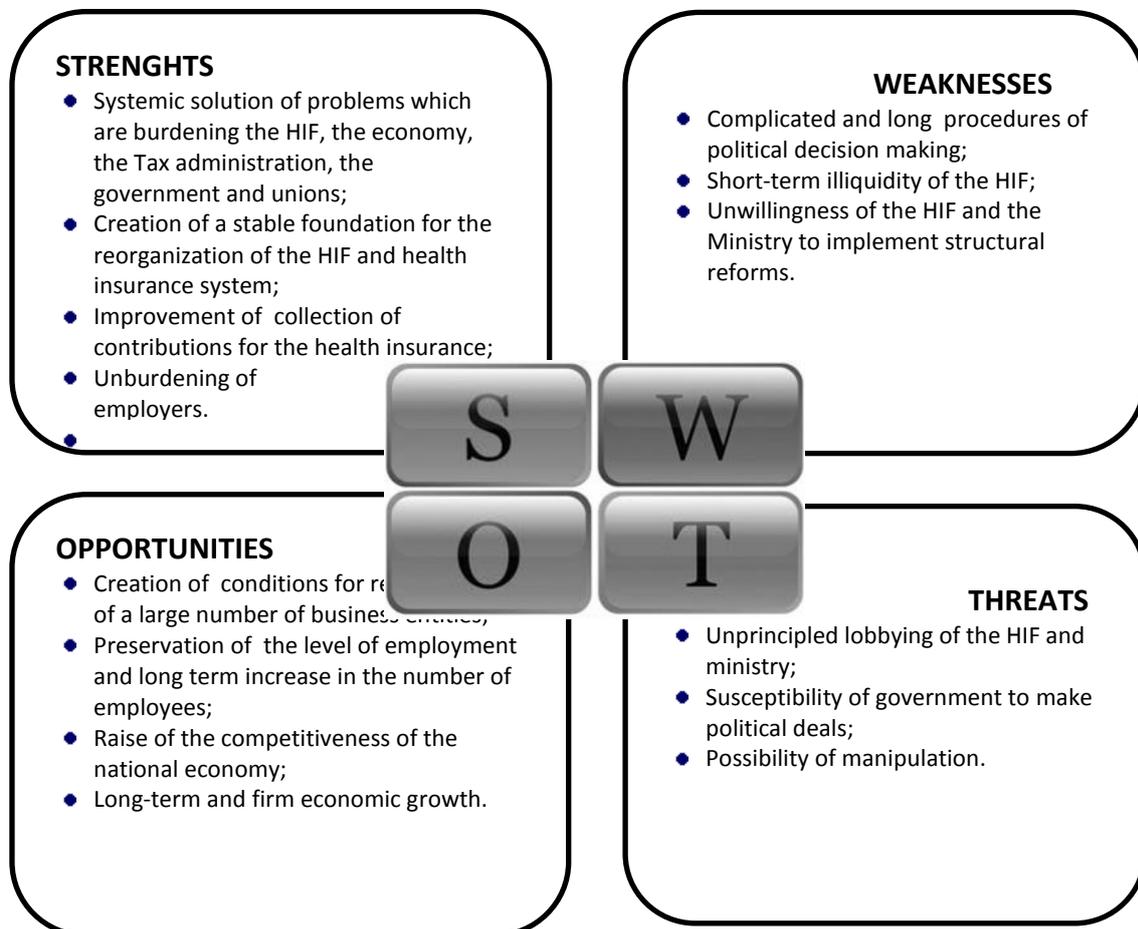
- Participate in the expert team;
- Lobbying and advocacy for proposed solutions;
- Organize and participate in a public debate;
- Organize round tables;

- Draft legal arguments of the Law, if necessary.



Assessment of benefits

- It is not possible to estimate direct material benefit for employers now but it shall be measured in **the hundreds of millions of BAM.**
- Indirect social material benefit **will be reflected in better inflow to budget and non-budgetary funds.**
- Direct general social benefit will be **the survival of hundreds of business entities and preservation of thousands of jobs.**



a-3) Elimination of 0,5 % insurance for unemployment, paid by employers;



Legislation

- × **Law on Contributions**
(Official Gazette of FBiH, no. 35/98, 54/00, 16/01, 37/01, 01/02, 17/06, 14/08);
- × **Law on mediation in employment and social security of the unemployed**
(Official Gazette of FBiH, no. 41/01, 22/05).



Assessment of situation

Article 10 of the Law on contributions of FBiH regulates the obligation to pay contributions for the case of unemployment with rate of 1.5% paid by the employee and 0.5% paid by employers.

These amounts are used for passive measures (health and pension-disability insurance, benefits for the case of job loss, etc.), as well as covering the costs of the functioning of the Bureau for employment and cantonal employment services. The remaining funds are used for active employment measures.

Total amount collected on this basis was 122.329.576 of BAM, in 2013, according to the data of Ministry of Finance of Federation of BiH.¹⁹



Reasons for elimination

- Reduction of labour costs;
- Transfer of the health protection of unemployed to the Fond for health insurance;
- Funds were not used in the past years.

¹⁹ Ibidem.



Suggested measures

- Amendments to the Law on contributions;
- Amendments to provisions which regulate insurance in case of unemployment;
- Elimination of 0.5% rate, at the expense of the employer.



Jurisdictions

Federal Ministry of Labour, Employment and Social Policy
Federal Ministry of Finances
Government of FBiH
Parliament of FBiH
Employment Bureau of FBiH and cantonal services



Deadlines

- | | |
|--|---------|
| ○ Creation of the Preliminary Draft Law on Contributions | 30 days |
| ○ Adoption of the Draft Law on Contributions | 30 days |
| ○ Adoption of the Law | 60 days |
| ○ Creation of the Preliminary Draft Law on Insurance in case of unemployment | 30 days |
| ○ Adoption of the Draft Law on insurance in case of unemployment | 30 days |
| ○ Adoption of the Law on insurance in case of unemployment | 60 days |



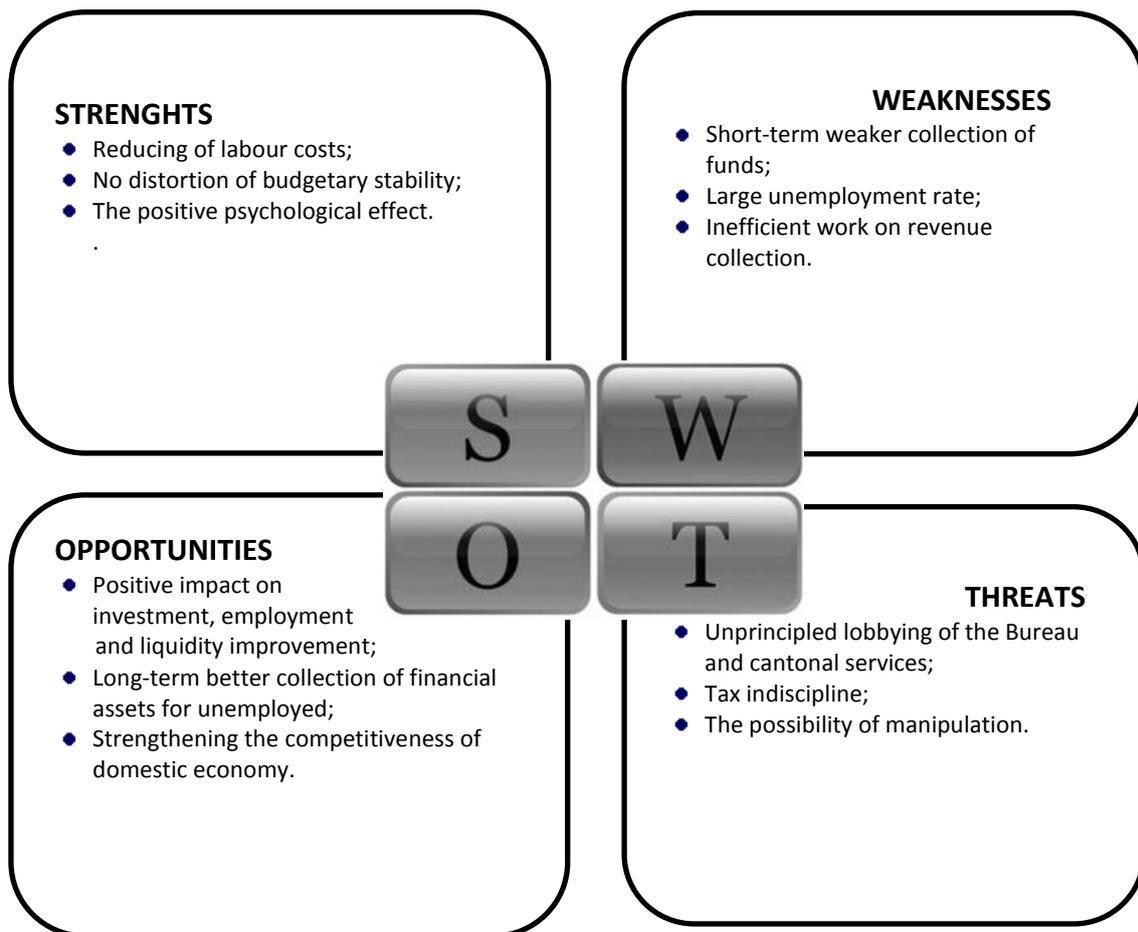
The role of AEFBiH

- Create drafts of both laws, if necessary;
- Prepare comparative analysis of the legislation of the countries in the region and the EU, if necessary;
- Refer to the Economic-Social Council for the territory of FBiH;
- Public lobbying for the proposal;
- Organize expert discussions;
- Organize public hearings.



Assessment of benefits

- It is estimated that unburdening of economy would be around 30 millions of BAM.
- If the specified funds are directed for development and new employment, indirect benefit will be greater.



a-4) Reduction of contributions from salary



Legislation

- × **Law on contributions**
(Official Gazette of FBiH, no. 35/98, 16/01, 37/01, 1/02, 17/06, 14/08).

- × **Rulebook on the method of calculation and payment of contributions**
(Official Gazette of FBiH, no. 64/08, 81/08).



Assesment of situation

The tax wedge in the FBiH and salary taxes are among the highest in Europe. If we compare with countries at similar level of economic development, we'll get even worse information. Contributions and taxes on salary are 21.5%, and of salary are 31%, what makes 72.4% in total.²⁰

Adequate reduction of the contribution rate for employees in small and medium enterprises can launch new employment and create a precondition for reducing unemployment in BiH. In this context, the academic work investigates the hypothesis that the funds generated on the basis of reductions of contributions for employees can cover the total cost of salaries for newly employed workers. The academic paper proposed affirmation of salary tax reduction and show how the reduction influenced creation of new jobs.



Reasons for elimination

- Large tax wedge is one of the main reasons for the lack of competitiveness of domestic economy;
- Reduction in labour costs;
- Growth of standard of employees;
- Increases in consumption;
- Better inflow to budget.



Suggested measures

- **Reduction of contribution from salary;**
- **Increase of non-taxable portion of salary;**
- **Introduction of progressive taxation of salaries.**

²⁰ I. Obhodaš. Vujić, Vujić: „The impact of taxes and contributions on employment in enterprises“, Annual of the University of Vitez, 2012.



Jurisdiction

Ministry of Finance of FBiH
Government of FBiH
Parliament of FBiH



Rokovi

Creation of proposal	120 days;
Adoption of amendments	90 days.



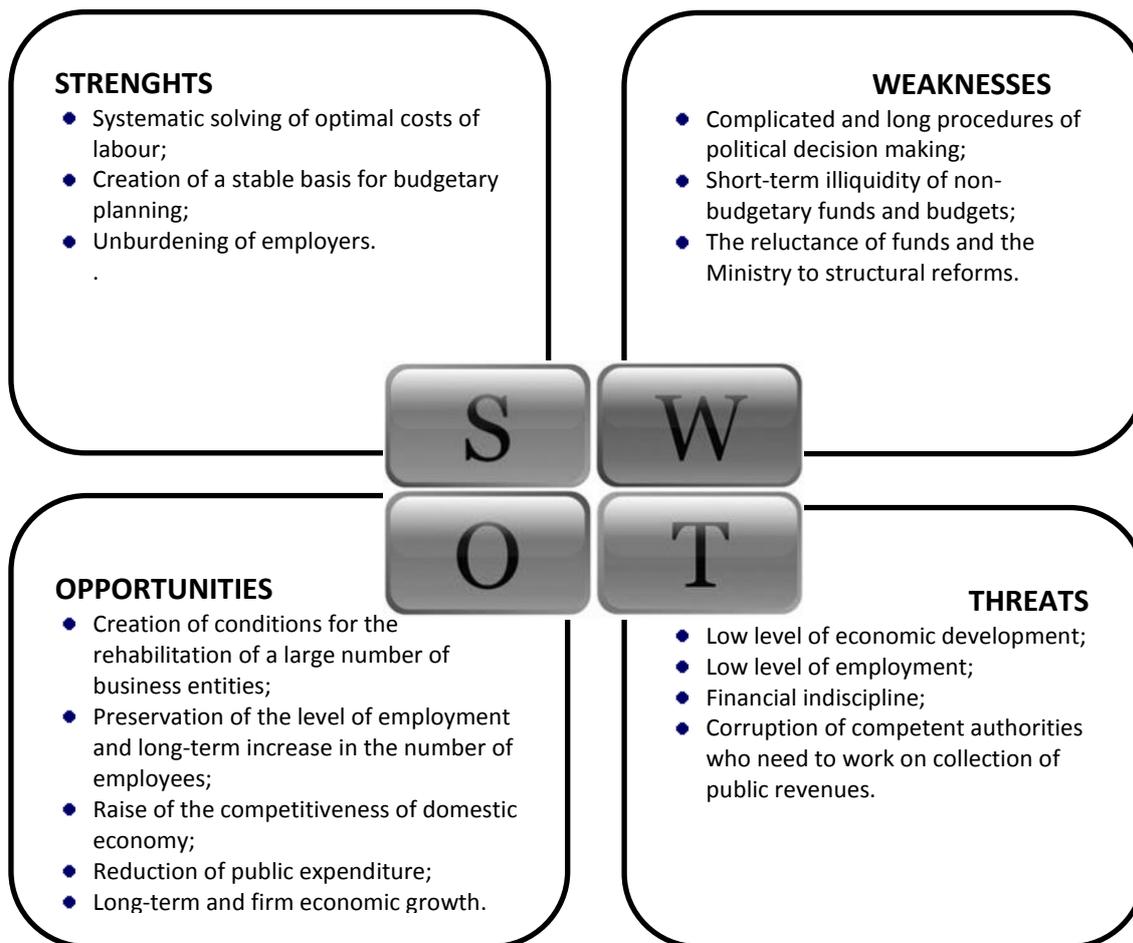
The role of the AEFBiH

- Engage external experts, if necessary;
- Propose amendments to regulations, if necessary;
- Organize public hearings;
- Organize round tables;
- Public Advocacy.



Assessment of benefits

- It is estimated that **the cost of labor will be reduced for BAM 100-120 millions.**
- Public expenditure would be reduced for approximately **BAM 60-70 millions.**
- Since this money goes in consumption, **the government would collect VAT of BAM 35-40 million per year**, for new employment.



a-5) Reduction of the rate for payment of contributions for workers employed abroad;



Legislation

- × **Law on Contributions**
(Official Gazette of FBiH, no. 35/98, 16/01, 37/01, 1/02, 17/06, 14/08).
- × **Rulebook on the method of calculation and payment of contributions**
(Official Gazette of FBiH, no. 64/08, 81/08).



Assessment of situation

Law on Contributions regulates that the minimum rate for calculating contributions for domestic workers who were sent to work abroad is an average salary in FBiH. This means, the employer has to pay BAM 605 per month for every worker.

Largest number of workers who were sent to work abroad are in the building and metal sector, they have low education level, **and an average monthly salary lower than the average salary in FBiH.** When they are working abroad, **the employer is obliged to pay additional BAM 100-250 per month for their contributions.** It is important to mention that our workers mostly work in countries where an average salary is lower than the average salary in FBiH. We should also know that, for these workers, part of the tax is also paid in the countries of operation.

That is why our companies are not competitive abroad, and they are forced, due to loss of jobs, to lay off workers, or to establish companies abroad and register our workers in these countries. To our knowledge, a few thousand of BiH citizens are unregistered in FBiH and registered as workers abroad. In both cases, our budgets and non-budgetary funds generate less revenues.



Reasons for reduction

- Lack of competitiveness of domestic economic entities;
- Unnecessary and unreasonable burden on employers;
- Less inflow to budget and non-budgetary funds.



Suggested measures

- Amendments to Article 7 of the Law on contributions.



Legislation

Ministry of Finance of FBiH
Government of FBiH
Parliament of FBiH



Deadlines

Amendments to Law

3 mjeseca



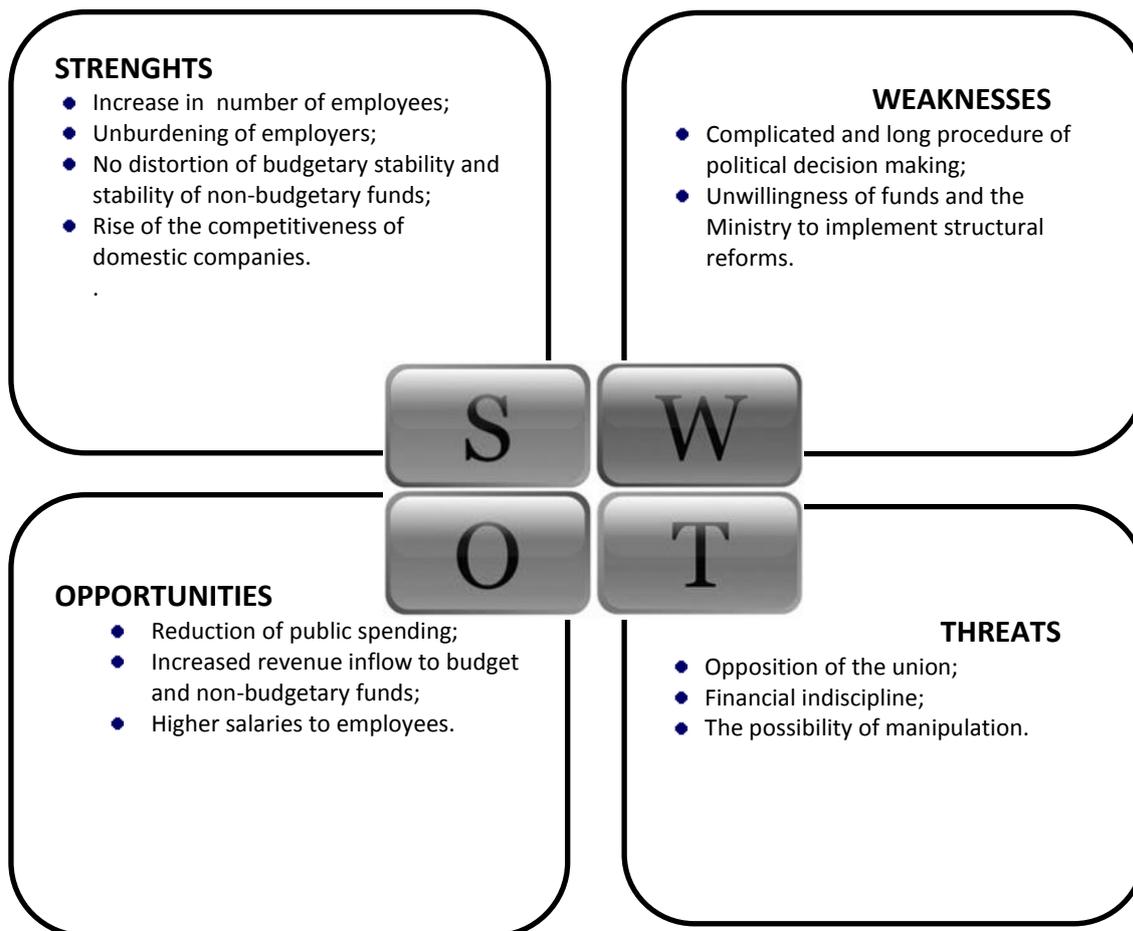
The role of the AEFBiH

- Create proposal based on arguments, if necessary;
- Organize expert discussions;
- Public Advocacy.



Assessment of benefits

- Direct benefit to employers is around BAM 12 million per year for estimated number of 5000 workers who work or might work abroad.
- Indirect benefit for new business abroad would be about BAM 50 millions.
- Budget and non-budgetary funds would generate new revenue of approximately BAM 5 millions.
- Cost savings of non-budgetary funds, due to elimination of payment of contributions for unemployed and health insurance, would be about BAM 2 million.



e-1) Identification of para-fiscal charges at all levels and their reduction;

e-2) Reduction of para-fiscal charges at all levels for 5 index points;



Legislation

- × **There are dozens of law in BiH, FBiH and at cantonal level, as well as regulations at the municipal level.** They are regulating various para-fiscal charges, such as fees (water, forest, fire, natural disaster, roads, frequency, food control, charges for issuing of decisions, land use, advertising, construction of urban land, etc.), taxes (highlighting of the company, quality control, control during export or import, bomb shelters construction, the use of roads, development of tourism and so on), utility charges, etc. Therefore, it is irrational, at this point, to mention all the legislation.



Assessment of the situation

The height of these charges, in principle, should be equivalent to the amount of improvement of the property and maintenance costs of the goods on which taxes are paid. They should be paid in the case of use of goods of general interest or for the service of the administration.²¹ However, the situation is completely different in practice.

All levels of government, from municipalities to the state, are introducing these charges when they need to fulfill budgetary deficits, not taking into account the real needs and economic strength of taxpayers.

This shows the accuracy of the statement that the public revenue system is not based on scientific principles, but on political compromise, in order to find new sources for financing public expenditure.²²



Reasons for reduction

- Unburdening of economy;
- The discrepancy between price and value of the service;
- In modern states these charges are, because of the many deficiencies, replaced with taxes.



Suggested measures

- **Prepare an overview of all para-fiscal charges from the municipal level to the state level;**
- **Some charges should be reduced and other charges should be abolished;**
- **Taxpayers of certain charges should be changed, in accordance with the benefit principle.**



Jurisdiction

Municipal councils
Cantonal governments and parliaments
Federal government and the parliament
The Parliament of BiH and the Council of Ministers of BiH

²¹ F. Barjaktarevic: „Analysis of the burden of economy in BiH“, The AEFBiH, Sarajevo, 2011.

²² Đ. Pavlović, g. Popov Ilić: „Public finance lexicon“, TheOffice for business enhancement, Belgrade



Deadlines

Amendments to legislation under the jurisdiction of the executive branch	90 days;
Amendments to legislation under the jurisdiction of the legislative branch	180 days.



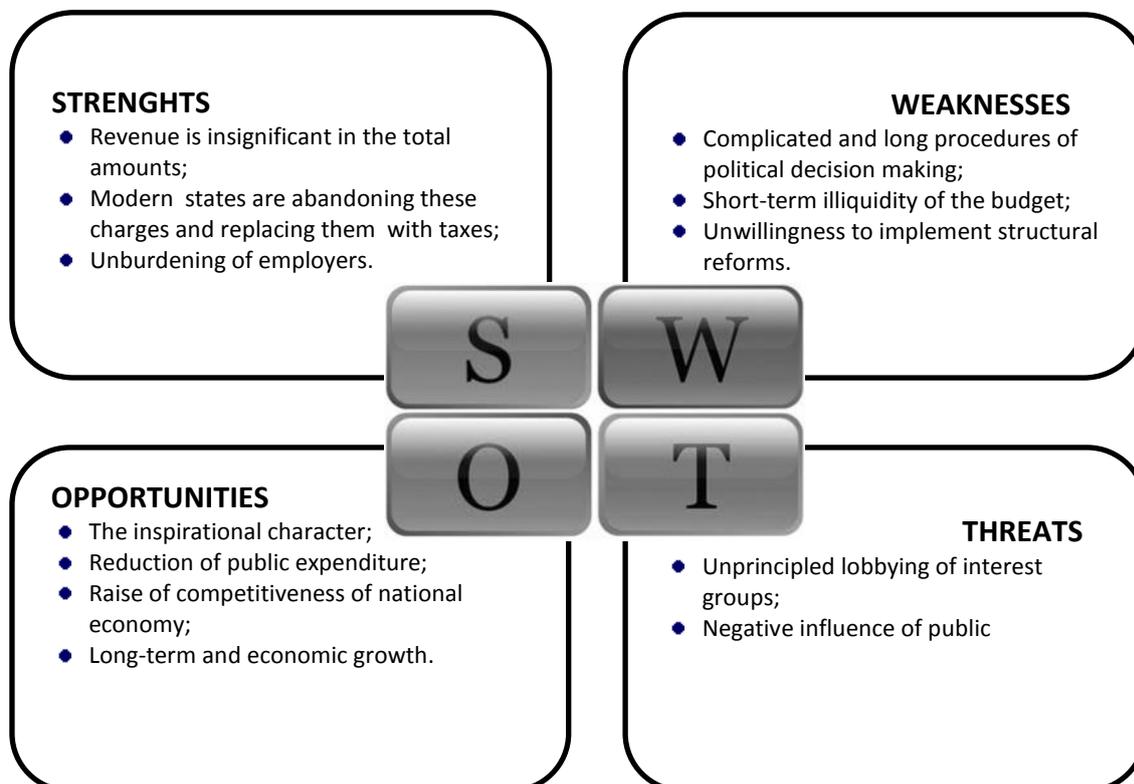
The role of AEFBiH

- Engage external experts;
- Create a proposal for reduction of these charges;
- Organize public hearings;
- Organize roundtables;
- Public Advocacy.



Assessment of benefits

- **Direct benefit** from this measure would be BAM 15-20 millions of employers' savings.
- **Indirect benefits could be much higher.** Specifically, the measure would be an impulse and would directly affect reduction in public expenditure.



e-3) Elimination of membership fees in tourist communities;



Legislation

- × **Law on Tourist Communities and Promotion of Tourism in FBiH**
(Official Gazette of FBiH, no. 19/96, 28/03) - hereinafter referred to as “the Law”;
- × **Regulation of the Government of FBiH on membership fees in tourism communities**
(Official Gazette of FBiH, no. 18/09, 04/12) - hereinafter referred as “Regulation”



Assessment of situation

Article 6 of the Law regulates that compulsory members of the tourist community are private and legal persons with registered office or business establishment in FBiH that generates revenue from gastronomy and tourism operations, and activities directly related to tourism.

Article 53 of the Law regulates jurisdiction of the Government of FBiH to establish the membership fee in tourism communities, with its regulation.

Article 6 of the Government's Regulation established the membership fee:

Legal person	A class 0,05 BAM	B class 0,045 BAM	C class 0,04 BAM	D class 0,035 BAM
Private person	A class 0,025 KM	B class 0,02 KM	C class 0,015 KM	D class 0,01 KM

In article 11 of Regulation, the Government of FBiH referring to the decision on the standard classification of occupations in FBiH (Official Gazette No. 28/98) regulates that private and legal persons engaged in activities listed in the article are required to pay membership fee in tourism communities.

In article 13 of Regulation, it is regulated that the base for calculation of membership fees is total income realized in occupations listed in paragraph 1 of Article 11.

Article 18 of Regulation is a particular problem, it regulates that the Inspection Office and cantonal authority responsible for inspection supervise collecting membership fees from legal and private persons.

According to the Ministry of Finance of FBiH, the total fee charged at the tourist office in 2013 (except in the Tuzla Canton, the Bosnian Podrinje, the West Herzegovina and the Livno Canton) was BAM 6,522,929. They estimates that a total amount paid for membership on this basis is approximately BAM 9,000,000, including four cantons with no official data who are mentioned above.

At the same time the income generated from tourism tax in Tourist community of FBiH, according to their data, was BAM 271,314 in 2013. Due to missing data for the Herzegovina-Neretva Canton, estimation is that on this basis less than one million of BAM was charged.²³



Reasons for elimination

- Regulation is not harmonized with decisions of the Constitutional Court of FBiH;
- Regulation is not harmonized with the Constitution of FBiH;
- Regulation is not harmonized with the Law on Tourist Communities and Promotion of Tourism in FBiH;
- Non-existence of tourist trade and directly related activities;
- Disproportion in income from tourist fees and contributions;
- Unburdening of employers.



Suggested measures

- We think this is the right time for elimination of this completely unnecessary fiscal burden, because it was passed without constitutional and legal basis, and is discriminatory and unreasonable;
- Introduce voluntary membership in tourism communities;
- introduce a uniform system of tourism communities and a mechanism for implementation of such solutions;
- Continuously improve collection of tourism tax.



Jurisdiction

Government of FBiH
Federal ministry for tourism and environment
Government of cantons
Parliament FBiH

²³ The Federal Ministry of Finance: „Overview of collected public revenues from January to December 2013”, no. 05-15-3170/14 of 23.05.2014.



Deadlines

Amending the Regulation	3 weeks
Preparation of the Draft Law	2 months
Harmonization of legislation with cantons	2 months
Adoption of the Law	3 months



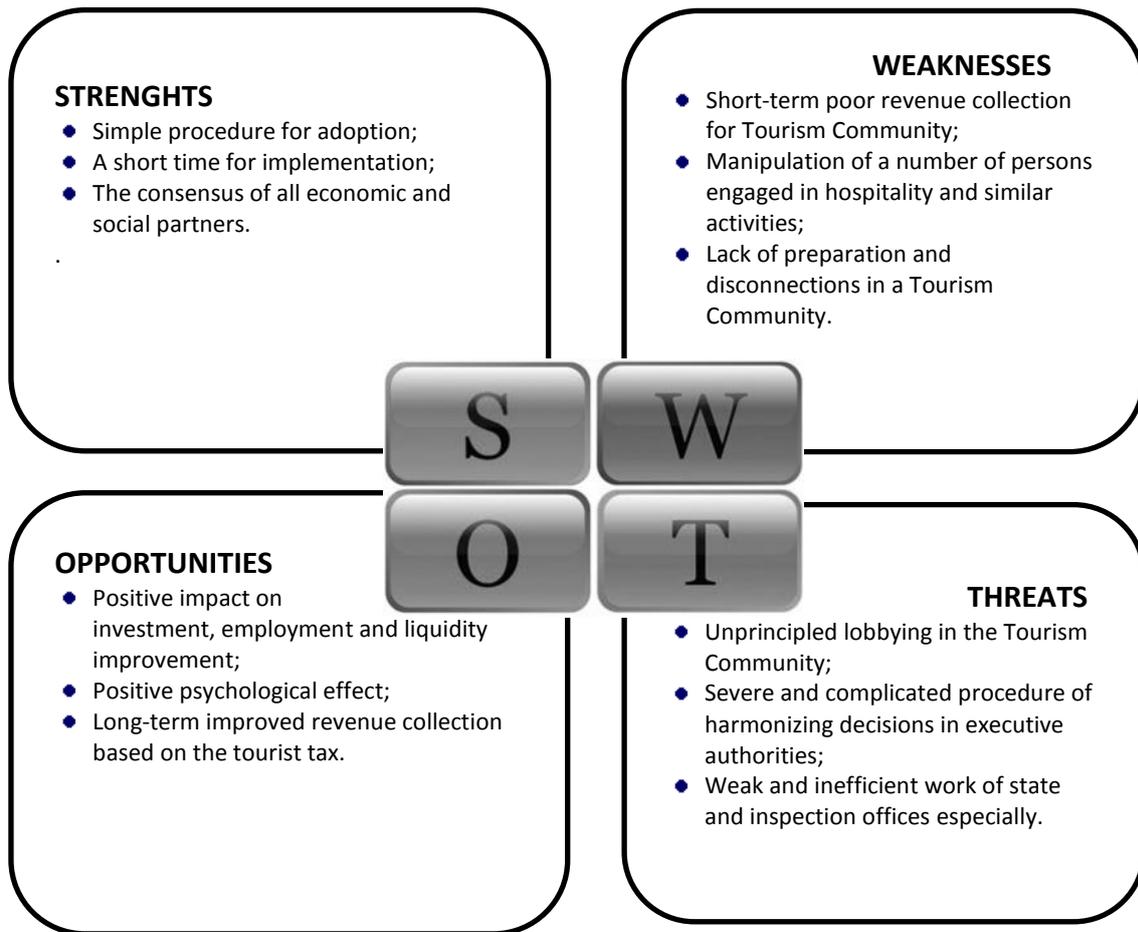
The role of the AEFBiH

- Expertly assess and prepare a statement with request for elimination of the para-fiscal tax;
- Prepare and send amendments to the Regulation of the Government of FBiH on membership fees in tourism communities;
- Ask, in this regard, an opinion from the ESC for the territory of FBiH;
- Prepare and send proposal for the review of the constitutionality of the Law and Regulation to proposer, if necessary;
- Prepare an action manual for members of the AEFBiH, who are liable to pay the membership fee, deliver the manual to them directly, and publish it on the Web site of the AEFBiH;
- Organize and hold a press conference and inform the general public about this problem;
- Lobby up until reaching the ultimate goal of elimination of the parafiscal-tax.



Assessment of benefits

- Elimination of the para-fiscal taxes **would unburden economy by BAM 10 million**. The money could be used for investment and consequently new employment. Certainly, the implementation of the proposed measure should slightly influence on improving of liquidity. However, the biggest benefit of this measure would be on a psychological level.
- **The Tourist community and its activities would not come into question**. More money would be collected from tourist tax and voluntary fees, than the amount that is charged by the current system. With this system, quality of work of Tourist community could be at a much higher level, and entities involved in tourism would have a greater benefit.



e-4) Elimination of charges for general benefit function of forest or alternatively, defining of citizens as payers ;



Legislation

- × **Law on Forests**
(Official Gazette of FBiH, no. 20/2, 29/3 and 37/04);
- × **Law on Forest**
(Official Gazette of Bosnian Podrinje Canton, no. 4/13);
- × **Law on Forest**
(Official Journal of the Una-Sana Canton, no. 22/12);
- × **Law on Forest**
(Official Gazette of the Sarajevo Canton, no. 5/13);
- × **Law on Forest**
(Official Gazette of the Zenica-Doboj Canton, no. 8/13);

- × **Law on Forest**
(Official Gazette of the West Herzegovina Canton, no. 8/13);
- × **Law on Forest**
(Official Gazette of the Tuzla Canton, no. 9/12);
- × **Law on Forest**
(Official Gazette of the Posavina Canton, no. 9/13);
- × **Law on Forest**
(Official Gazette of the Srednja Bosna Canton, no. 5/14);
- × **Regulation on Forestry**
(Official Gazette of the Livno Canton, no. 6/10).



Assessment of situation

The legal basis for the adoption of cantonal legislation on forest, which introduce this kind of public revenue, is very questionable and requires review of the Constitutional Court of FBiH. Article III. 2, paragraph I) of the Constitution of FBiH among other things regulates divided responsibilities between the Federation and cantons, regarding the exploitation of natural resources. However, cantonal legislation in this case may regulate the same subject matter as federal, but only as a more detailed elaborations. Since the federal law on forests does not exist, the same matter could not be regulated.

In this regard, there are two different opinions of the Federal Ministry of Agriculture, Water and Forestry (hereinafter: the Ministry):

- 1) Opinion, no. 07-26 / 1 to 1785/12 of 13.09.2012;
- 2) Opinion, no. 01-02 / 1 to 2445/12 of 08.11.2012.

The ruling of the Constitutional Court of the FBiH, no. U-26/08 of 14 April 2009 is establishing that the Law on forest (Official Gazette of FBiH, no. 20/02, 29/03 and 37/04) violated the local self-government right of municipalities. The new Law on forest is not adopted until today, so the matter of forests and forest land is regulated by cantonal legislation.

Cantonal legislation on forests regulate a charge for general benefit function of forest whose taxpayers are legal persons registered to perform activities. The basis for regulation of the charge are forest functions of a general benefit such are: making of oxygen, the beauty of the landscape, prevention of erosions and so on. These functions of forests represent a public good of general interest to all citizens, and not for employers only. The basis for calculating the charge for general benefit function of forest is total income of the legal person.

In the countries of the region, in Croatia for example, the charge for general benefit function of forest has been eliminated in 2013. In Montenegro, the basis for calculating the charge paid by legal persons is their profit in proportion to contribution of forest functions in the creation of profit or in proportion to jeopardizing these functions.

It is completely unconstitutional that only employers are taxpayers of the charge for general benefit function of forest. The charge is a kind of giving for a particular benefit, and the question arises - in a relation to other citizens, what is a particular benefit of employers only. Beneficial functions of forests are useful benefits to man and his environment so the charge should be paid not only by legal persons engaged in economic activity but also by all citizens.

Additionally, the public sector entities are not obliged to pay the charge for general benefit function of forest, and only employers registered to conduct economic activities are named as payers.

In contrast to the charge for general benefit function of forest, there are other types of charges paid by businesspersons for benefit realized by economic exploitation of forests, or a charge for environmental protection in the case of environmental pollution that comes from technological processes, industrial plants, equipment and facilities, etc.



Reasons for elimination

- Legislation is not harmonized with decisions of the Constitutional Court of FBiH;
- Non-existence of constitutional or legal basis for the adoption of legislation;
- The charge is paid by the one who does not have a benefit from forests as goods of common interest or whose activities do not jeopardize these goods;
- Discrimination of employers;
- Violation of right to property;
- Unburdening of employers.



Suggested measures

- **Elimination of this completely unnecessary fiscal burden, which was declared unconstitutional, adopted without constitutional and legal basis, discriminatory and irrational;**
- **Alternatively, payers of the charge for general benefit function of forest should be citizens who are employed and who will pay 2 per mille on their monthly net income, and persons who generate income from service contracts and compensations for work in management and supervisory boards;**

- Ask proposers to adopt constitutional review of mentioned laws;
- Insist on adoption of the Law on forest of FBiH.



Jurisdictions

Governments FBiH
Parliament of FBiH
Governments of cantons
Parliament of cantons



Deadlines

Amendments to cantonal laws	3 months
Adoption of the Law on Forest of FBiH	9 months
Constitutional review	3-4 weeks



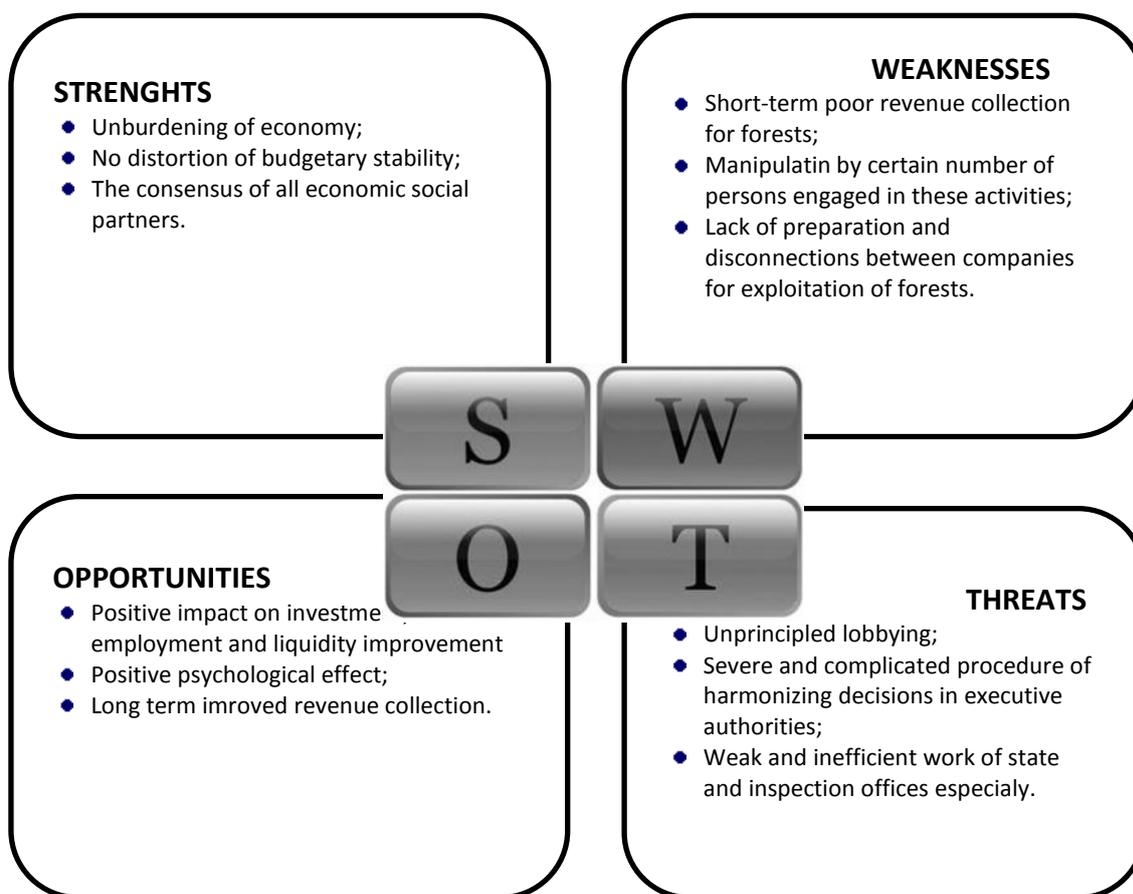
The role of the AEFBiH

- Expertly assess and prepare a statement with request for elimination of the para-fiscal tax;
- Prepare and send amendments to the Government of FBiH in order to change the rules on payers;
- Ask, in this regard, an opinion from the ESC for the territory of FBiH;
- Prepare a proposal for constitutional review of legislation and submit it to proposers, if necessary;
- Prepare an action manual for members of the AEFBiH, who are liable to pay the charge, deliver the manual to them directly, and publish it on the Web site of the AEFBiH;
- Organize and hold a press conference and inform the general public about this problem;
- Lobby up until reaching the ultimate goal of elimination of the para-fiscal-tax.



Assessment of benefits

- Elimination of the para- fiscal **taxes would unburden economy by BAM 10 million.**
- **That money could be used for investment** and consequently new employment. Certainly, the implementation of the proposed measure should slightly influence on improving of liquidity.
- However, **the biggest benefit of this measure would be on a psychological level** and sending of positive message.



e-5) Elimination of water fee



Legislation

- × **Law on Waters of FBiH**
(Official Gazette of FBiH, no. 70/06)



Assessment of situation

According to Article 169, paragraph 1, **obliged persons for paying a water fee are all legal entities and individuals registered for doing activities**. Obligated persons of general water fee are obligated to pay a fee in amount of 0,5 % from basis of neto salary of employee in full time or part time industrial relation, and fees on piece work agreement.

Basis for the regulation of general Waters fee is general use of water regulated by Article 46 of the Law on waters. Article 46 (1) of the Law on waters regulates that everyone is allowed to use water in a regular way that does not require special devices and does not exclude others from using the same water same way (general use of water).



Reasons for elimination

- It is unconstitutional that the fee is paid by the one who does not have a benefit from water goods as of goods of common interest;
- Discrimination of payers;
- Violation of right to property;
- Unburdening of employers.



Suggested measures

- **Amendments to the Law on Waters of FBiH (Official Gazette of FBiH, no.70/06);**
- **Elimination of this para-fiscal burden or alternatively regulate that payers are all employees, and persons who generate income on the basis of service contracts or membership in management and supervisory boards.**



Jurisdiction

Ministry of Agriculture, Water Management and Forestry

Government of FBiH

Parliament of FBiH



Deadlines

Creation of the Preliminary Draft	15 days
Adoption of the Draft Law	15 days
Adoption of the Law	60 days



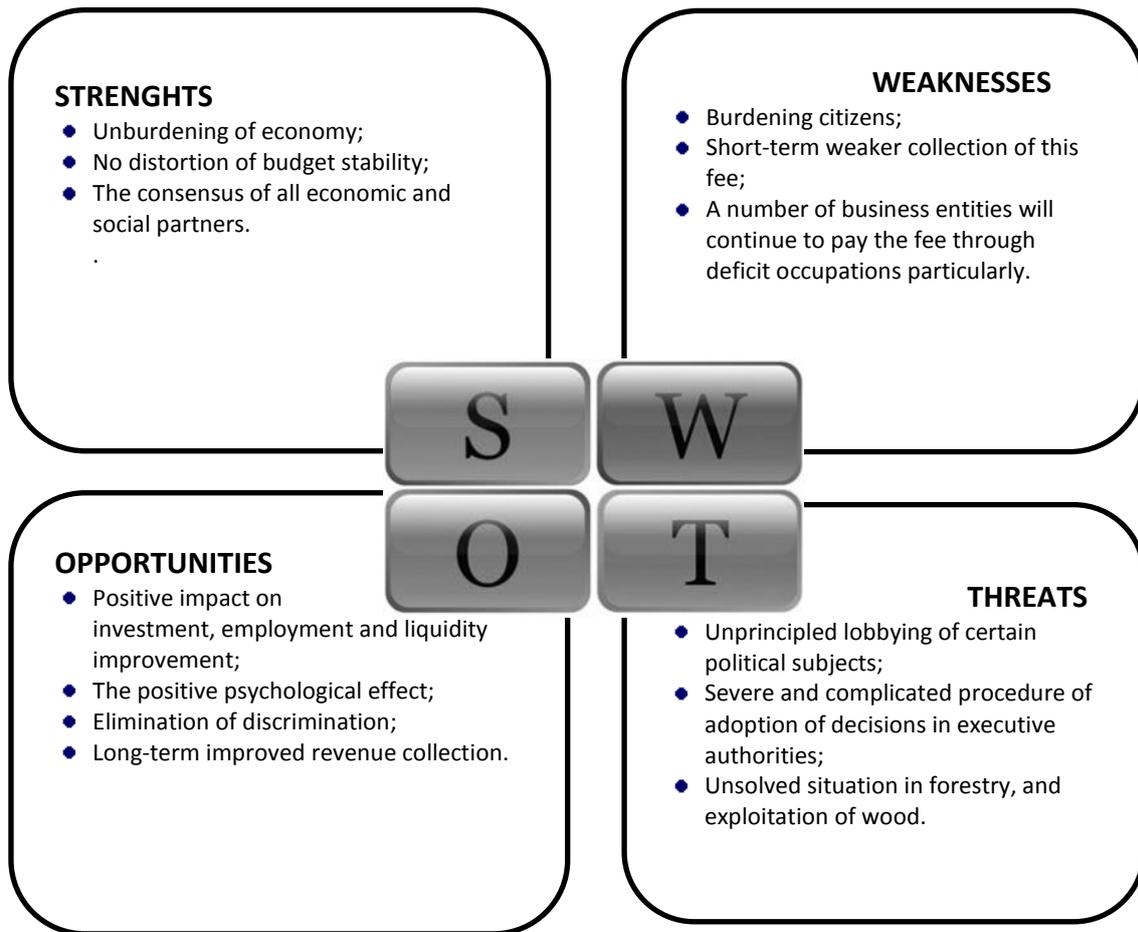
The role of the AEFBiH

- Prepare the Preliminary Draft Law;
- Prepare a comparative analysis of legislation in the neighbouring countries and in the EU countries;
- Refer to the Economic-Social Council for the territory of FBiH;
- Public lobbying for proposed solutions.

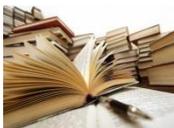


Assessment of benefits

- The Ministry of Finance of FBiH data show that total amount of collected water charges in 2013 is BAM 77,560,092, and we estimate that half of the amount is collected from the general water fee, **approximately BAM 36 million**.
- Indirect benefit will be that this amount will be used for development and new employment, and better inflow to budget and non-budgetary funds.



e-6) Elimination of obligation to notarial verification for legal persons;



Legislation

- × **Law on Registration of Business Entities**
(Official Gazette of FBiH, no. 27/05; 68/05; 43/09), hereafter „the Law“;
- × **Law on the Securities Market**
(Official Gazette of FBiH, no. 85/08; 109/12);
- × **Notary tariff of fees**
(Official Gazzete of FBiH, no. 57/13);
- × **Law on Notaries**
(Official Gazete of FBiH, no. 45/02);



Assessment of situation

For establishment and validation of general and specific data that shall be mandatorily entered into the register, in a procedure of a business entity foundation or changes relevant for legal trade, the registration court shall request the submission of the following documents:

- *Notary certified act of foundation;*
- *Notary certified act on modification of general data relevant for legal trade;*
- *Notary certified statute of business entity or its amendments.*

These act are to be submitted during registration procedure for: joint-stock company (d.d./JSC), banks or other financial organizations, joint-stock insurance companies, limited liability company (d.o.o./Ltd), unlimited joint liability company (d.s.n.s.o./UnLtd), privatization of public company, business association, collectives and cooperative unions.

However, according to the Law, this is not necessary when a company which exercise public authority enters into the register. In such a situation, employers are directly discriminated.

There is no, in our opinion, any objective reason why this work is exclusively entrusted to notaries. The largest number of business companies has its legal departments and outstanding lawyers who can expertly finish this job. A large number of companies have engaged law firms for conducting legal transactions, and attorneys at law are also experts for this kind of work.

An increasing role of notaries in establishment of business entities, transfer of share and statutory changes, is seen in many countries of European and the world (See CE Regulation 2157/2001 of 08.10.2001. on the Statute for a european company (SE); and Directive of the European Parliament and the Council of 26.10.2005. Notaries are authorised to control legality of all actions necessary for the establishment of companies and registration of changes in the court registry. They are also uploading electronic documents in commercial registers and giving recipes from registries. Notaries provide expertise and security for clients who look for a legal service, in a prescribed form.

The accent is on „look for a legal service“ and clients should not be obliged by law. There is no country in a world with such exclusivity relative to attorneys at law or lawyers in business entities. It is not questionable notaries are authorized to conduct in this legal matter, their exclusivity is questionable.



Reasons for elimination

- Unburdening of employers;
- Unfounded favoring of notaries;
- Absence of similar provisions in the laws of neighboring countries and countries of the EU;
- Harmonization of legislation;



Suggested measures

- Prepare amendments to Law on Establishment of Business Entities,
- Eliminate the exclusivity of notaries in this area,
- Reduce notary fees.



Legislation

Ministry of justice FBiH
Government FBiH
Parliament FBiH



Deadlines

Creation of the Preliminary Draft	15 days
Adoption of the Draft Law	15 days
Adoption of the Law	60 days



The role of the AEFBiH

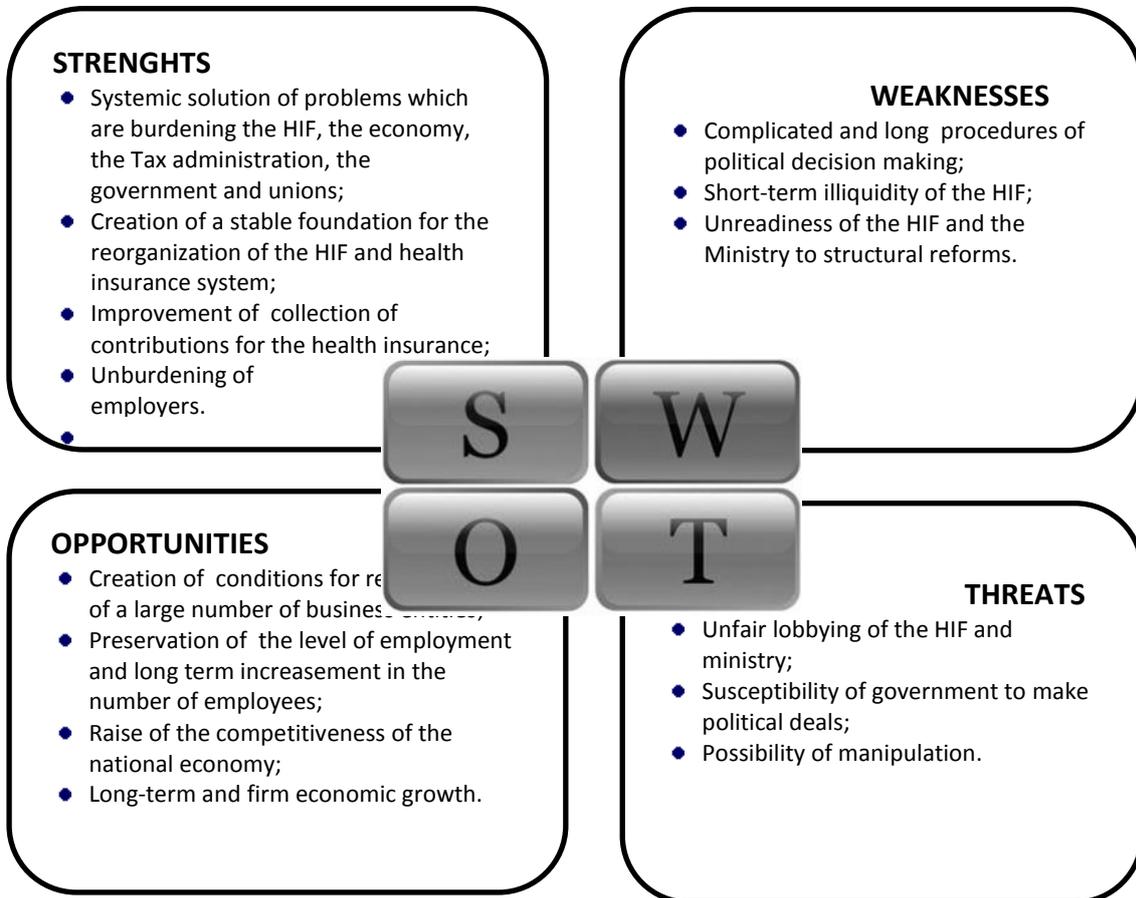
- Prepare the Preliminary Draft Law;
- Prepare a comparative analysis of legislation in the neighbouring countries and in the EU countries;

- Refer to the Economic-Social Council for the territory of FBiH;
- Organize expert debates;
- Public lobbying for proposed solutions.



Assessment of benefits

- Depending on the amount of capital and business entity founder's capital, an average costs for notarial service is BAM 1500 per year, **per one legal subject**.
- If we assume that there are 300.000 legal subjects in FBiH, this amount rises up to **BAM 45 million per year**.
- In our opinion, if money has to be taken from employers, it is smarter to pay this money in the job creation fund, managed by employers.



e-7) Reduction of administrative and court fees, elimination of requirement that documents to be submitted must not be older than 6 months;



Legislation

- × **Law on Administrative Taxes in BiH**
(Official Gazzete of BiH, no. 16/02, 19/02, 43/04, 08/06, 76/06, 76/07);
- × **Law on the Federal Administrative Fees and Tariff of the Federal Administrative Fees**
(Official Gazzete, no. 06/98, 08/00, 45/10, 43/13);
- × **Law on Court Fees**
(Official Gazette of the Sarajevo Canton, no. 21/09);
- × **Law on Court Fees**
(Official Gazette of the Una-Sana Canton, no. 0/97, 6/98, 9/98, 4/03, 8/05, 22/07);
- × **Law on Court Fees**
(Official Gazette of the Zenica-Doboj Canton, no. 1/97, 11/98, 14/98, 16/00, 4/04);
- × **Law on Court Fees**
(Official Gazette of the Herzegovina-Neretva Canton, no. 4/09);
- × **Law on Court Fees**
(Official Gazette of the Tuzla Canton, no. 5/09);
- × **Law on Court Fees**
(Official Gazette of the Srednja Bosna Canton, no. 02/92);
- × **Law on Court Fees**
(Official Gazette of the Livno Canton, no. 5/98);
- × **Law on Court Fees**
(Official Gazette of the Posavina Canton, no. 2/09);
- × **Law on Court Fees**
(Official Gazette of the Bosnian Podrinje Canton, no. 6/10);
- × **Law on Cort Fees**
(Official Gazzete of West Herzegovina Canton, 8/08, 10/09);
- × **Law on Court Fees in Proceedings Before the Supreme Court**
(Official Gazette of BiH, no. 48/99);
- × **Law on Curt Fees in Proceedings Before the Court of BiH**
(Official Gazzete of BiH, no. 39/03);
- × **Law on Proceeding Before the Constitutional Court of FBiH**
(Official Gazette of FBiH, no. 6/95).



Assessment of situation

Administrative fees, regulated by the Law on Administrative Taxes in BiH and the Law on the Federal administrative Fees and Tariff of the Federal Administrative Fees, **are not proportional to the services provided for their payment**. The administrative fees are enormously high, compared with a monthly income of companies and private persons. With amendments of both laws, the number of taxes that individuals and legal persons must pay is increased, as well as the amount of taxes, **in some cases for 50% or even more**. For example, with the Law on Amendments to the Law on Administrative Taxes of BiH, the list of tariff of administrative fees is expended from 40 to 82 tariffs; with the same law amendments from 2006., the list was expended again, from 82 to 105 tariffs.

The Law on Amendments to the Law on the Federal Administrative Fees and Tariff of the Federal Administrative Fees substantially increased the amount of business taxes that are regulated by tariff 8-18.

For example, tariff number 8, in all paragraphs, predicts increase of taxes in paragraphs (1), (2) and (4): (1) - Amount of BAM 100 is changing with amount of BAM 200, and that is a tax paid for a decision on establishment and performance of a company, a bank, an insurance or reinsurance company abroad, or redemption of the founding of a company, a bank and an insurance or reinsurance organization abroad; (2) – Ammount is is increased from BAM 50 to BAM 150; (4) amount of tax is increase from BAM 50 to BAM 100.

Tariff number 13 regulates a tax for registration of agency contract, contract on selling foreign goods from consigned warehouse, contract on services for the maintenance of imported equipment and contract on representation of legal persons; and increases the amount of tax from BAM 100 to BAM 250.

In Bosnia and Herzegovina, the amount of net salary is smaller, and the amount of taxes regulated by the Law on the federal administrative fees and tariff of the federal administrative fees is different from 1 to 3% comparing with the neighbouring countries.

In FBiH, fees for requests submitted by legal entities is BAM 5, and the average net salary for the month of April 2014 in FBiH was BAM 836,00. In Croatia, for example, average net salary for the month of April 2014 was 5,497 HRK (BAM 1.454.23), and administrative fees, such are fees for requests submitet by legal entities and individuals amounted to HRK 20.00 (BAM 5.29). In fact, the average salary in FBiH is about 40% smaller then in Croatia, and the amount of the tax for request is 2% higher. A similar situation is in Serbia.

Reductions of coefficients for the administrative and other fees are planned in the neighbouring countries. According to the State Budget for the period 2014-2016 of the Ministry of Finance of the Republic of Croatia, coefficients of administrative fees regulated by special rules are the followwing:

Year	2012.	2013.	2014.	2015.	2016.
Coefficient	1,4	1,4	1,4	1,3	1,3



Reasons for elimination

- The fees should be proportionate to the services they are paid for;
- The fees should be proportionate to the economic strength of the country;
- Unburdening of employers;
- Reduction of public spending.



Suggested measures

- Amendments to the Law on Administrative Taxes in BiH;
- Amendments to Law on the Federal Administrative Fees and Tariff of the Federal Administrative Fees ;
- Reduction of taxes for 50%;
- Elimination of time limit of validity of documents;
- Reduction of the number of requested documents;
- Authorities need to officially obtain most of documents, electronically.



Jurisdictions

Parliament of FBiH and Parliament of BiH
Council of Ministers of BiH
Government of Federation of BiH
Cantonal governments
Municipalities



Deadlines

Reduction of taxes	60 days
Amendments of regulations	60 days

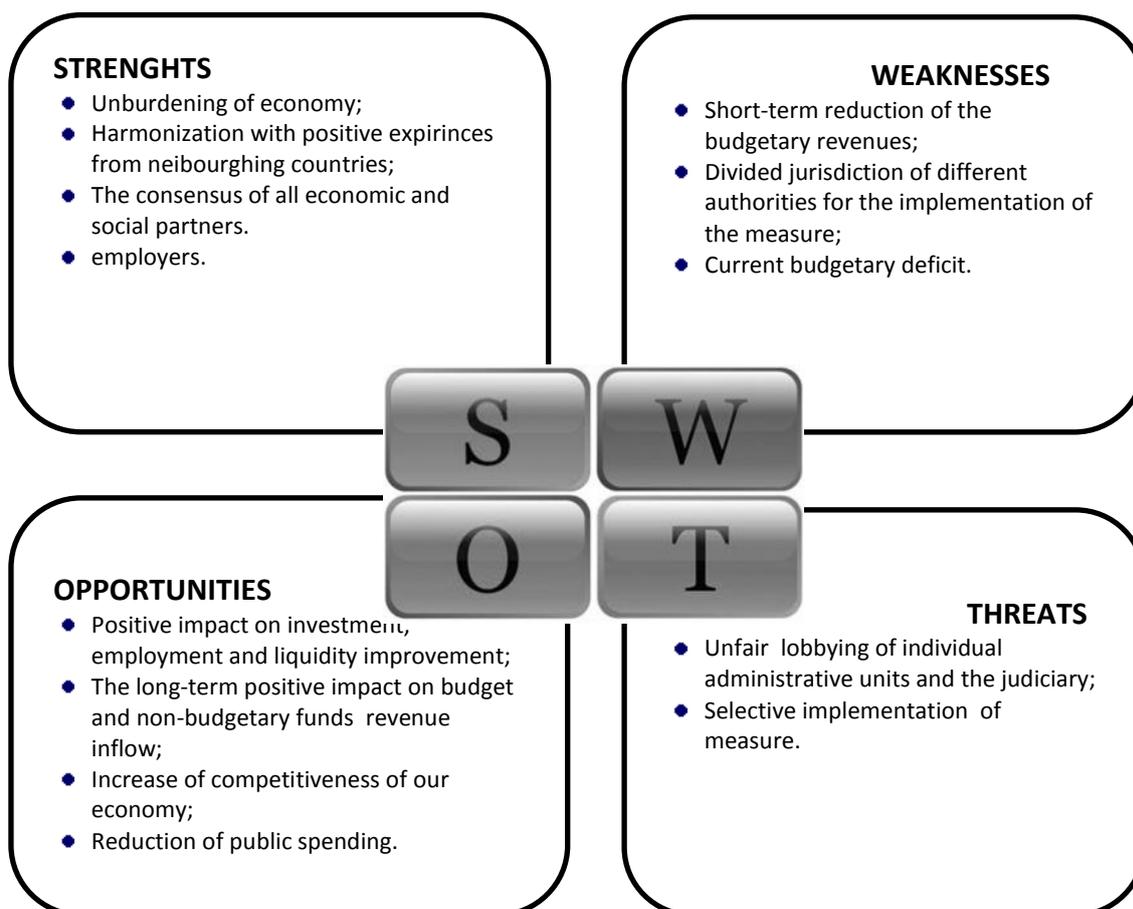
The role of the AEFBiH

- If necessary, prepare a comparative review of taxes in the countries of the region;
- Engage experts to make proposal based on arguments on reduction of taxes;
- Organize a press conference to inform the public about this issue;
- Organize expert debates;
- Public lobbying for proposed solutions.



Assessment of benefits

- According to the Ministry of Finance of FBiH, BAM 245,5 million of administrative and court fees are collected in a year.²⁴ **Reduction by 20%, will provide another BAM 50 million for investment and development in the economic sector.**
- Indirect benefit is the growth of employment and a higher charge of the budget and extra-budgetary funds.



²⁴ Federal Ministry of Finance, "Review of collected public revenues from January to December 2013, No. 05-15-3170 / 14 of 05.23.2014. year

e-8) Elimination of several membership fees for the Economy Chamber;



Legislation

- × **Law on the Foreign Trade Chamber of Bosnia and Herzegovina**
(Official Gazette of BiH, no. 30/01, 72/13);
- × **Decision on membership fees in the Foreign Trade Chamber of BiH**
(Official Gazette of BiH, no. 29/14);
- × **Law on the Commerce Chambers in FBiH**
- × (Official Gazette of FBiH, no. 35/98, 34/03)
- × **Decision on membership fees in the Chamber of commerce in FBiH**
(Official Gazette of FBiH, no. 20/04)



Assessment of situation

All legal persons with registered foreign trade activity, are obliged by the law to be members of the Foreign Trade Chamber of BiH and to pay a fee, depending on foreign trade, or on monthly gross salaries of their employees. The decision on the amount of membership fee is passed by the Assembly of the FTC and approved by the Council of Ministers of BiH. In FBiH, membership is voluntary but membership fee is paid for every level of the organization. **Economic entities in FBiH are paying three membership fees.**



Reasons for elimination

- Excessive burden of employers;
- The need to introduce voluntary membership in the FTC;
- The existence of three separate chambers system.



Suggested measures

- **Amendments to the Law on the FTC of BiH;**
- **Amendments to Decision on membership fee in the FTC of BiH;**
- **Amendments to the Law on the Economy chambers in FBiH;**

- **Amendments to Decision on membership fee in the EC of FBiH and cantonal chambers of economy**



Jurisdiction

Assembly of the FTC of BiH
Ministry of Foreign Trade and Economic Relations, with its supervisors function
Council of Ministers of BiH
Government of the FBiH
Assembly of the Chamber of economy of FBiH
Cantonal assemblies of chambers of economy



Deadlines

Creation of the Preliminary Draft	15 days
Adoption of the Draft Law	15 days
Adoption of the Law	60 days
Amendments to Decision	15 days after adoption of the law



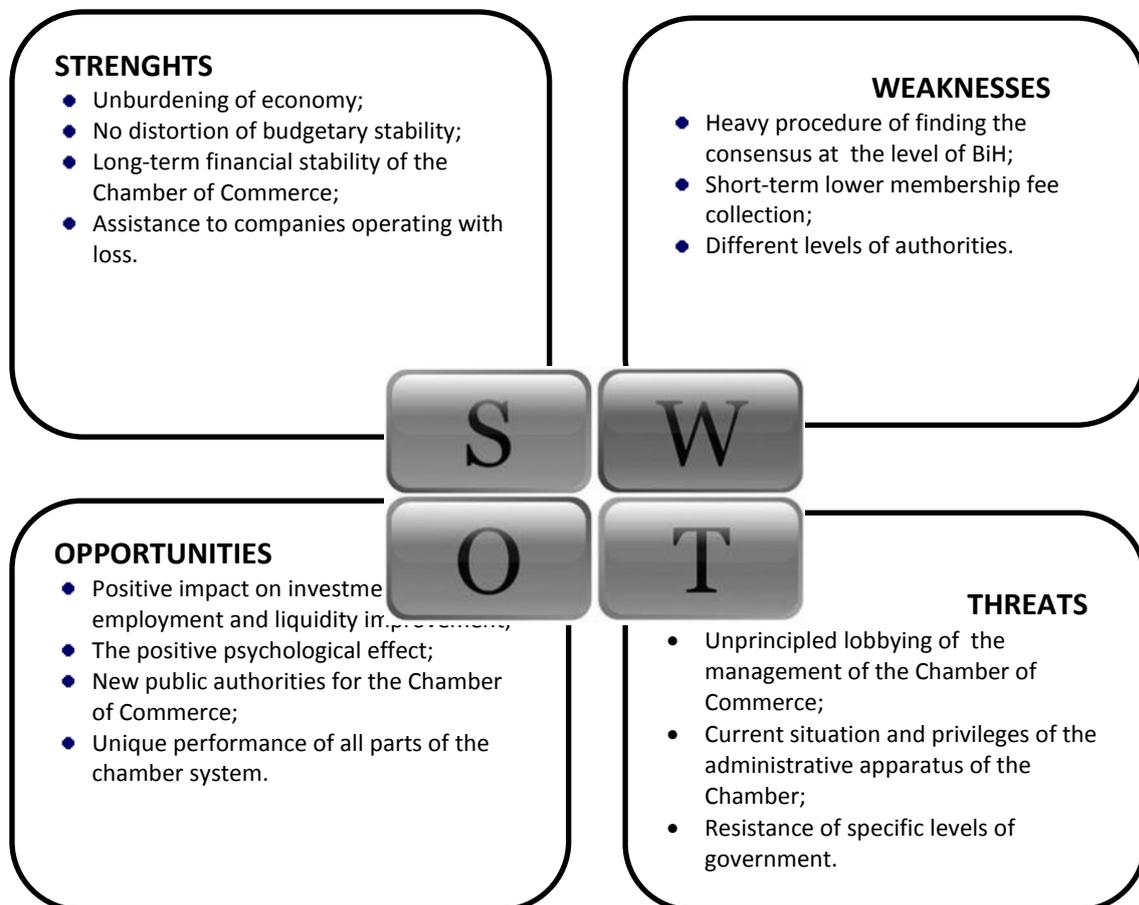
The role of the AEFBiH

- Prepare the Preliminary Draft Law;
- Preparation a comparative analysis of legislation of the countries in the region and the EU;
- Refer to the Economic-Social Council for the territory of FBiH;
- Organize expert discussions;
- Public lobbying for proposed solutions.

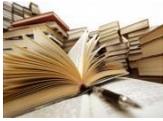


Assessment of benefits

- Material benefit is not the essence of this measure. **The essence is to get an adequate reward for the amount that is paid.**
- **The goal is to transfer more public authorities to the Chamber of Economy**, as these authorities would be the basis for the funding of its work. Membership fees should not be paid by those who do not perform foreign trade, and those whose businesses are making loss.
- **By paying a single membership fee, BAM 5-7 million** would remain for the economy and for long-term, chambers would have more money.



f) The amendment of the Law on Personal Income Tax



Legislation

× **Law on Personal Income tax**
(Official Gazette of FBiH, no. 10/08, 09/10, 44/11)



Assessment of situation

Personal Income tax is calculated on rate of 10 % and basis is total amount of realized income. Mentioned basis is reducing on basis of personal deduction, and that's BAM 300 per month, or BAM 3600 on yearly basis, which can be multiplied from 0,3 up to 0,9 % on basis of subsistence of family members.

Tax incentives on basis of new employment or employment of disabled persons are not anticipated in this Law. Such tax incentives are existing in neighbouring countries, as well in the Laws in EU. Experience showed that such solutions are giving great results in reducing of labor costs and raising level of employment.



Reasons for amendments of the Law

- Lower labor costs;
- Incentive for new employment;
- Making conditions for better consumption;
- Raising of employees standard.



Suggested measures

- **Raising the amount of personal deduction on BAM 450**
- **Anticipate exemption from income tax for each new employee;**
- **Anticipate exemption from profit tax on the basis of new employment;**
- **Anticipate tax relief for disabled persons for all businesses entities.**



Jurisdictions

Ministry of Finance of FBiH
Government of FBiH
Parliament of FBiH



Deadlines

Amendments to the Law on Income Tax	12 months
Amendments to the Law on Corporate Income Tax	12 months
Amendments to the Law on the employment of disabled people	12 months;
Adoption of bylaws	6 months.



Role of AEFBiH

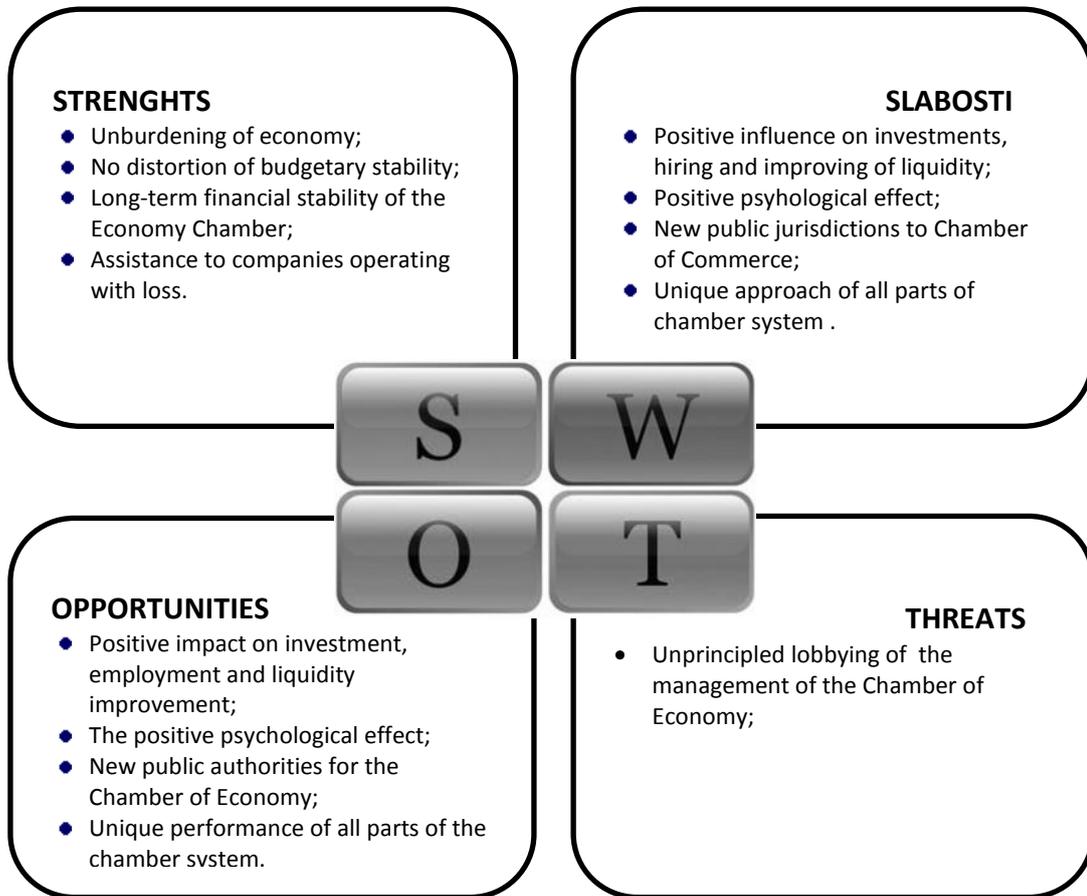
- Prepare the Preliminary Draft Law;
- Preparation a comparative analysis of legislation of the countries in the region and the EU;
- Refer to the Economic-Social Council for the territory of FBiH;
- Organize expert discussions;
- Implementation of public debate on legislation;
- Public lobbying for proposed solutions.



Assessment of benefits

- Savings on basis of amendments to the Law on Personal Income Tax would be about BAM 20 million annually;
- Savings on basis of amendments to the Law on Employment of Disabled Persons would be about BAM 5 million
- New revenue of budget on the basis of higher consumption (VAT) would be about BAM 20 million;

- New revenue of budget and non-budgetary users would be approximately BAM 70 million.



4. AMENDMENTS TO THE LABOUR LEGISLATION

The main causes of unemployment in the FBiH are: inadequate labor legislation, collective agreements, and burdens on employers, inefficient judicial system and inadequate education system. About the burdening of employers and inadequate education system more will be said elsewhere in this document. In this part, we will focus our attention to labor legislation, collective agreements and to the judicial system.

Inadequate labor legislation in FBiH is not promoting entrepreneurship and positive attitude towards work. It is not flexible regarding: duration of employment, working hours, payment and organization of work. It contains solutions taken from legislation of other countries without any critical analyses. Labor legislation based on the principle "more is less" is hyper production of worker protection. This does not correspond to real relations and leads to solutions that cannot be implemented. This is all a consequence of populism of governments towards requests of the unions, especially during the election time.

Collective agreements in the FBiH are concluded for an indefinite period of time, and they do not contain and regulate methods and conditions for their cancellation. The General Collective Agreement is not what it should be, it is a tariff scale. There are six collective agreements in the FBiH, signed between the government and unions, and these agreements are applied to private companies too. There are four collective agreements between the Government of the FBiH the union signed after establishment of the Association of Employers of FBiH, even the law forbids such action. Moreover, there are other four collective agreements signed between unauthorized organs.

The judicial system is slow and inefficient and has a largely negative impact on the labor market and relation between capital owners and workers. Duration of early dispute in FBiH, from filing of the complaint until the final verdict, is 5-7 years. "The inability" of employer to win the labor dispute, is almost a rule. This is due to the misapplication of the principle "In favor laboratories."

Without economic growth, all measures on the improvement of the labor market are "form without content" and without an employer, who is the only subject that employs, rights of workers are: "Nullum ius" - the right without content. Therefore, new labor legislation needs to reconcile the right to decent work and worker safety, and social justice with flexibility, with the aim of ensuring economic growth and development.

Using the example of Germany, we can see what brings excellent results that is a flexible labor market, uncomplicated dismissal of workers especially in small companies, and reduced risk for new employment. Employment for shorter working hours and temporary or periodical jobs enable entrepreneurs to new investment and new employment. Normally, everything must be accompanied by adequate social support for those who lose their jobs.

Certainly, **solutions from Spain** should also be carefully considered especially solutions concerning the liberal dismissal of workers, salary negotiations, and working time at the company level, as well as solutions concerning stimulation for youth employment and employment of heavy employable categories.

Countries which faced major financial problems and economic crisis, **like Greece, Italy and Portugal**, were forced to react. They applied solutions like that gave excellent results: flexibility in determining the salaries, lower amount of paid vacations and the number of paid state and religious holidays, flexibility of implementation of collective agreements and speeding up the court procedure regarding labour disputes. Those countries are getting out of recession in faster or slower tempo but the number of workers is increasing in every one of them.

It is clear that all social partners must be aware that future salaries must increase slower than the productivity of growth, for a longer period. Personal benefits can increase only with new working knowledge and skills and progression in career, but not through increasing of labour costs.

a) Collective agreements, especially for public sector, should be harmonized with real economic situation and level of economic growth



Legislation

- × **Labor on Low**
(Official Gazette of FBiH, no. 43/99, 32/00, 29/03);
- × **General Collective Agreement for the territory of FBiH**
(Official Gazette of FBiH, no. 54/05, 62/08);
- × **Collective agreement for the field of telecommunications in FBiH**
(Official Gazette of FBiH, no. 78/06);
- × **Collective agreement of the Railway Workers Federation**
(Official Gazette of FBiH, no. 11/07, 68/10);
- × **Collective agreement on rights and obligations of employers and employees in the graphical-publishing and media industry in the FBiH**
(Official Gazette of FBiH , no. 48/08);
- × **Collective agreement on rights and obligations of employers and employees in the field of electro industry in the FBiH**
(Official Gazette of FBiH, no 61/07);
- × **Collective agreement on rights and obligations of employers and employees in the health sector in the territory of the FBiH**
(Official Gazette of FBiH, no. 61/07);

- × **Collective agreement in the field of forestry**
(Official Gazette of FBiH, no. 49/00);
- × **Collective agreement Oil and Petro Chemistry**
(Official Gazette of FBiH, no. 49/00);
- × **Collective agreement Chemistry and nonmetal**
(Official Gazette of FBiH, no. 53/00);
- × **Collective agreement on rights and obligations of employers and employees in the field of communal economy for the territory of FBiH**
(Official Gazette of FBiH, no. 48/06);
- × **Collective agreement on rights and obligations of employers and employees in the sector of production and processing of metals in the FBiH**
(Official Gazette of FBiH, no. 77/06);
- × **Collective agreement on rights and obligations of employers and employees in the area of transport for the territory of FBiH**
(Official Gazette of FBiH, no. 71/07);
- × **Collective agreement on rights and obligations of employees and employers in trade, catering and tourism in the territory of FBiH**
(Official Gazette of FBiH, no. 53/00);
- × **Collective agreement on rights and obligations of employers and employees in the areas of agriculture, food, tobacco and water industries in the FBiH**
(Official Gazette of FBiH, no. 57/00);
- × **Collective agreement on rights and obligations of employers and employees in the construction, building materials industry and design in the FBiH**
(Official Gazette of FBiH, no. 49/00);
- × **Collective agreement on rights and obligations of employers and employees in the field of mining in FBiH**
(Official Gazette of FBiH, no. 53/07);
- × **Collective agreement for the secondary education activities in the territory of the FBiH**
(Official Gazette of FBiH, no. 51/00);
- × **Collective agreement for public and judicial servants in the FBiH**
(Official Gazette of FBiH, no. 23/00);
- × **Collective agreement for the elementary education activities in FBiH**
(Official Gazette of FBiH, no. 53/00);
- × **Collective agreement for postal services**
(Official Gazette of FBiH, no. 01/7);
- × **Collective agreement for the finance branch**
(Official Gazette of FBiH, no. 29/14).



Assessment of situation

Collective agreements, at the moment, **are one of the major obstacles for foreign investment** and economic growth in generally. Because of rigid solutions and inability of their implementation, most of employers do not want to face the risk of long and expensive judicial proceedings, and face the risk of unnecessary and irrational costs, so they also do not want to invest in expansion of production or in the new production.

Impossibility of modification or cancellation of collective agreements is a special problem. The rigid solutions are created as a result of unprincipled agreement between the government and employers, usually in order to ensure votes in elections. To our knowledge, there is no country in the world with collective agreements concluded for unlimited period.

There are 18 collective agreements in force in the FBiH: the General Agreement and 17 collective agreements for different fields of activity. Only the General Agreement and four sector collective agreements are signed in accordance with the law and they are applied to members of the Association of Employers of FBiH only. Other are signed by Government and they are not applied to private employers, or they are invalid due failures in procedure of their conduction.



Reasons for harmonization

- The largest number of agreements apply only to state-owned companies;
- One portion of all agreements are invalid agreements;
- They are signed in entirely different socio-economic circumstances;
- They are not signed in accordance with the law and the Conventions of the ILO;
- They are signed for unlimited period and they do not contain provisions on their termination.



Suggested measures

- **Initiate the procedure for abolishment of invalid CA;**
- **Initiate the procedure for cancellation of other CA;**
- **Initiate the process of negotiations with the union in order to conclude new CA;**
- **Initiate the procedure for amending the legislation governing this issue.**



Jurisdiction

The AEFBiH
Government of FBiH and relevant ministries
Trade Union (SSS BiH)



Deadlines

Abolition procedure	90 days
Process of cancellation	90 days
Process of conclusion of the new CA	15 days after the previous two phases
Procedure for amending the Law	90 days



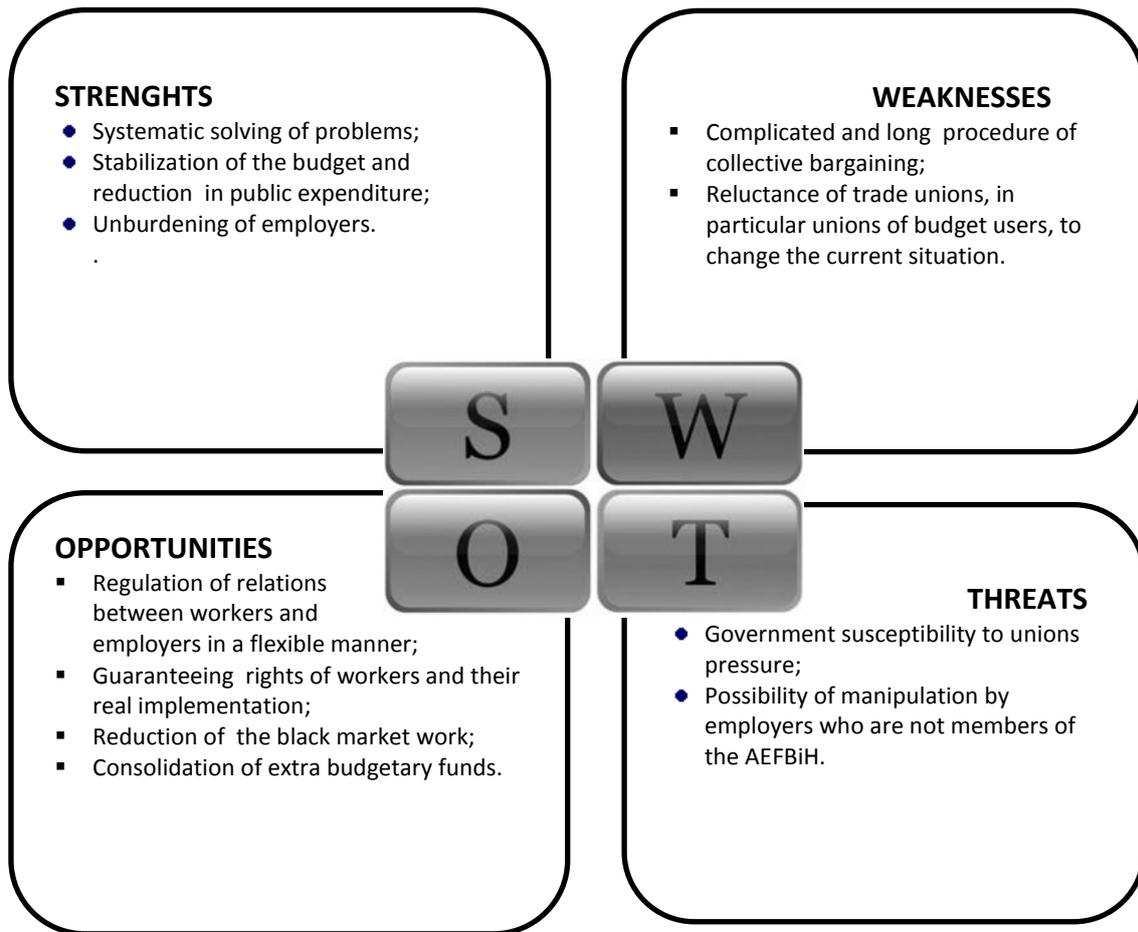
The role of the AEFBiH

- Start procedure to declare CA invalid;
- Start procedure to cancel CA;
- Propose amendments to labor legislation;
- Create an expert study which will be the basis for the above activities;
- Initiate procedure to conclude new CA.
- Organizing of expert discussions



Assessment of benefits

- There are thousands of final judgments on non-observance collective agreements in FBiH. On this basis, more than BAM 500 million, plus interest and costs of proceedings, should be paid. **Estimated amount of the claim on the lawsuits that are pending is more than BAM 600 million.** At this moment, the annual budget of the FBiH would hardly settle these claims. More than 90% of this amount relates to budget users.
- If this problem is not solved urgently **there will be a collapse of the federal and cantonal budgets.** These depths cannot be compensated by any credit arrangements. According to estimates, there is a dozen of new claims on this ground every day.



b) The Law on Labour;



Legislation

× Law on Labor

(Official Gazette of FBiH, no. 43/99, 32/00, 29/03);



Assessment of situation

There is totally inadequate labor legislation in the FBiH. The Law on labor was adopted 15 years ago and is still in force with some minor changes, although the socio-economic circumstances have dramatically changed in relation to the situation, which existed at the time of the adoption of the law. In the moment of adoption, it was far the most liberal and

modern Labor law in the region, we are afraid that a large number of its solutions are outdated with changes in social and economic relations.

It is almost seven years since negotiations for adoption of the new Law on labor in FBiH started. During this time three governments changed, and soon we will get the fourth. **The Association of Employers of FBiH and the Federation of Independent Trade Union of BiH twice agreed on the text of the Law on labor and signed two written protocols. The Union withdrew its signatures and abandoned the deal both times.** Governments of times calculated both times and did not send agreed texts of laws in parliamentary procedure, fearing from reaction of trade unions and the loss of votes in the election.



Reasons for the amendments

- Changed socio-economic circumstances in relation to the time of the adoption of laws;
- Harmonization of legislation to international conventions and laws of the EU countries;
- Stimulation of the foreign and domestic investment;
- Reduction of employers' costs;
- Harmonization of legislation.



Suggested measures

- **Adopt the new Law on labor;**
- **Introduce flexicurity in labor relations, liberalization of dismissal of employees and enhancement of the security of employers;**
- **Enable termination of collective agreements and cancel their indefinite duration;**
- **Eliminate unnecessary compensations;**
- **Limit the duration of courts' proceedings in resolving labor disputes;**
- **Allow flexible working hours and flexible application of collective agreements.**



Jurisdictions

Ministry of Labor, Employment and Social Policy of the FBiH

Government of the FBiH

Parliament of the FBiH



Deadlines

Adoption of the Law

90 days after appointment of the new government



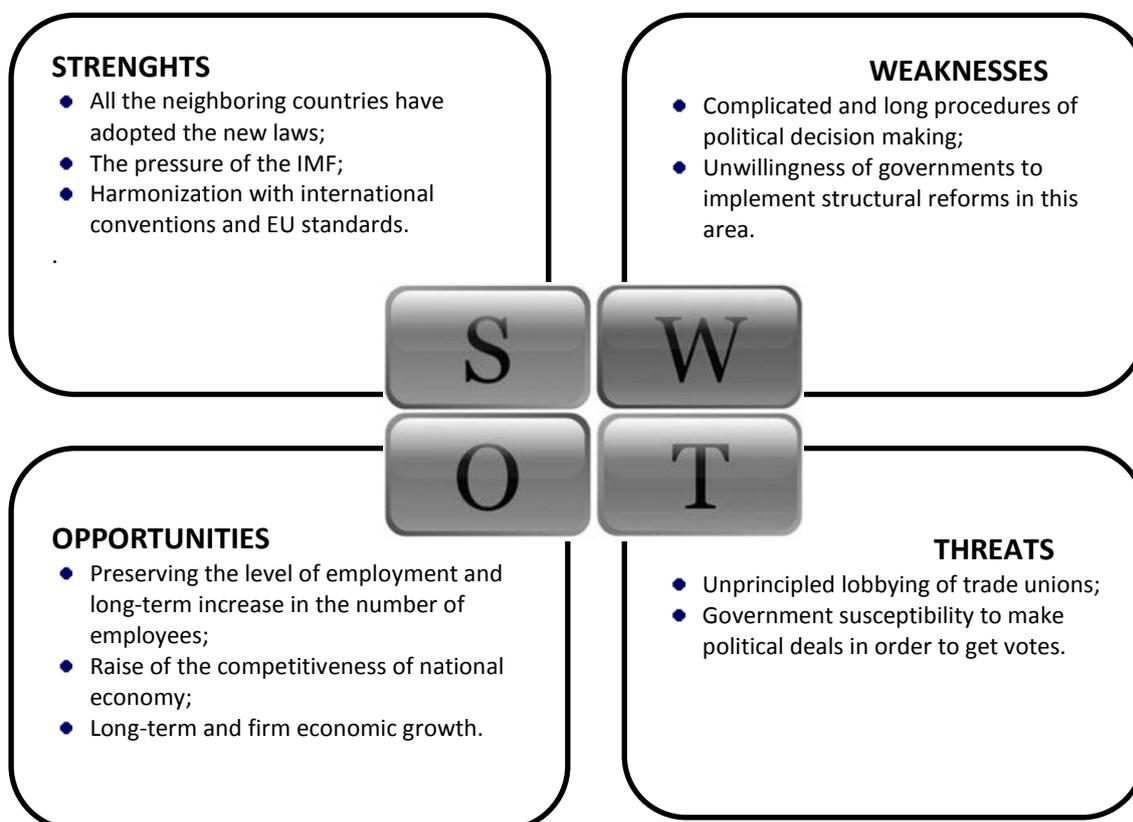
The role of the AEFBiH

- Prepare analysis and research, if necessary;
- Propose solutions;
- Organize professional discussions;
- Public Advocacy.

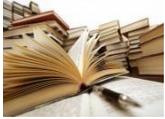


Assessment of benefits

- General social benefit will be **to preserve the level of employment** and to eliminate the threat of bankruptcy of a large number of companies.
- Indirect benefits, in the long term, will be reflected in **the economic development and increase of the number of employees.**
- Benefit of employers will be **reduction of the costs of business.**



c) Other legislation in area of working relations and employment



Legislation

- × **Law on occupational safety at work,**
(Official Gazette of SRBIH no: 22/90)
- × **Law on strike,**
(Official Gazette of FBiH no: 14/00)
- × **Law on insurance in case of unemployment**
(Official Gazette of FBiH no: 41/01, 22/05, 09/08)
- × **Cantonal regulations on Intermediation of employment and social security for the unemployed**
- × **Law on pension and disability insurance,**
(Official Gazette of FBiH no: 29/98, 49/00, 32/01, 29/03, 73/05, 59/06)
- × **Law on health insurance,**
(Official Gazette of FBiH no: 30/97, 7/02, 70/08, 48/11)
- × **Cantonal legislation on health insurance**
- × **Law on social protection, protection of civil war victims and families with children**
(Official Gazette of FBiH no: 36/99, 54/04, 39/06, 14/09)
- × **Cantonal legislation on social protection, protection of civil war victims and families with children**
- × **Law on professional rehabilitation, qualification and employment of disabled persons**
(Official Gazette of FBiH no: 09/10)
- × **Law on employment of foreigners,**
(Official Gazette of FBiH no: 111/12)



Assessment of situation

The labor legislation in the FBiH, like many other legislation, is burdened by the legacy of socialistic social relations and rigid solutions that originated from this period. Such is the situation with the **Law on Occupational Safety** adopted during the existence of the Socialistic Republic of BiH and in use today. The law contains a number of solutions that were characteristic for socialistic planning, public property and planned economy. It means, the law is almost inapplicable in the present circumstances.

Law on strike is regulating these problems in a totally inadequate way. Mentioned law needs to prescribe: conditions, procedure, time and a place of a strike, which is not a case now.

Also, it must be clear that organizer of the strike must pay damage caused with such kind of a strike. Workers, as well, needs to be aware that they have no rights on wage benefits when they are not working because of the strike.

Law on employment and social security of unemployed persons does not allow identification of the status of unemployed person and the loss of this status. Benefits for unemployed are equal with minimum wage and that's the reason why they are not stimulant to potential job seekers. Active measures of employment are not treated adequate by this law, at first for additional qualification and over qualification, and qualification of unemployed persons in accordance to the needs of Employers.

Law on social protection, protection of civil war victims and families with children and Law on pension and disability insurance is not providing protection of workers, and from the other side it burdens the Employers over measure and unjustified at most of the times.

Law on professional rehabilitation, qualification and employment of disabled persons as well is the same like a.m.

After this, stance of potential investors should not be surprising since they are not stimulated for investments. According to Council of foreign investors White Book, inadequate labor legislation is one of the main reasons for low interest of foreign investors for investment in new businesses in Bosnia and expansion of existing ones.²⁵



Reasons for the amendments

- Changed socio-economic circumstances in relation to the time of the adoption of laws;
- Harmonization of legislation to international conventions and laws of the EU countries;
- Stimulation of the foreign and domestic investment;
- Reduction of employers' costs;
- Harmonization of legislation.



Suggested measures

- **Adopt the new Law on Labor;**
- **Adopt the new Law on Occupational Safety at Work**
- **Adopt the new Law on Strike**
- **Adopt the new Law on Employment and social security of unemployed persons**

²⁵ FIC: White book, 2012/2013

- Change the Law on social protection, protection of civil war victims and families with children
- Change the Law on pension and disability insurance
- Change Law on professional rehabilitation, qualification and employment of disabled persons
- Cancel all unnecessary givings and benefits
- Adopt regulations with curent economic situation
- Provide flexible solutions
-



Jurisdictions

Ministry of Labor, Employment and Social Policy of the FBiH
Government of the FBiH
Parliament of the FBiH



Deadlines

Adoption in one package of Law on Labor, Law on Occupational Safety, the Law on Strike, Law on Employment and social security of unemployed persons

90 days after appointment
of the new government;

Amendments of the other Laws

12 months



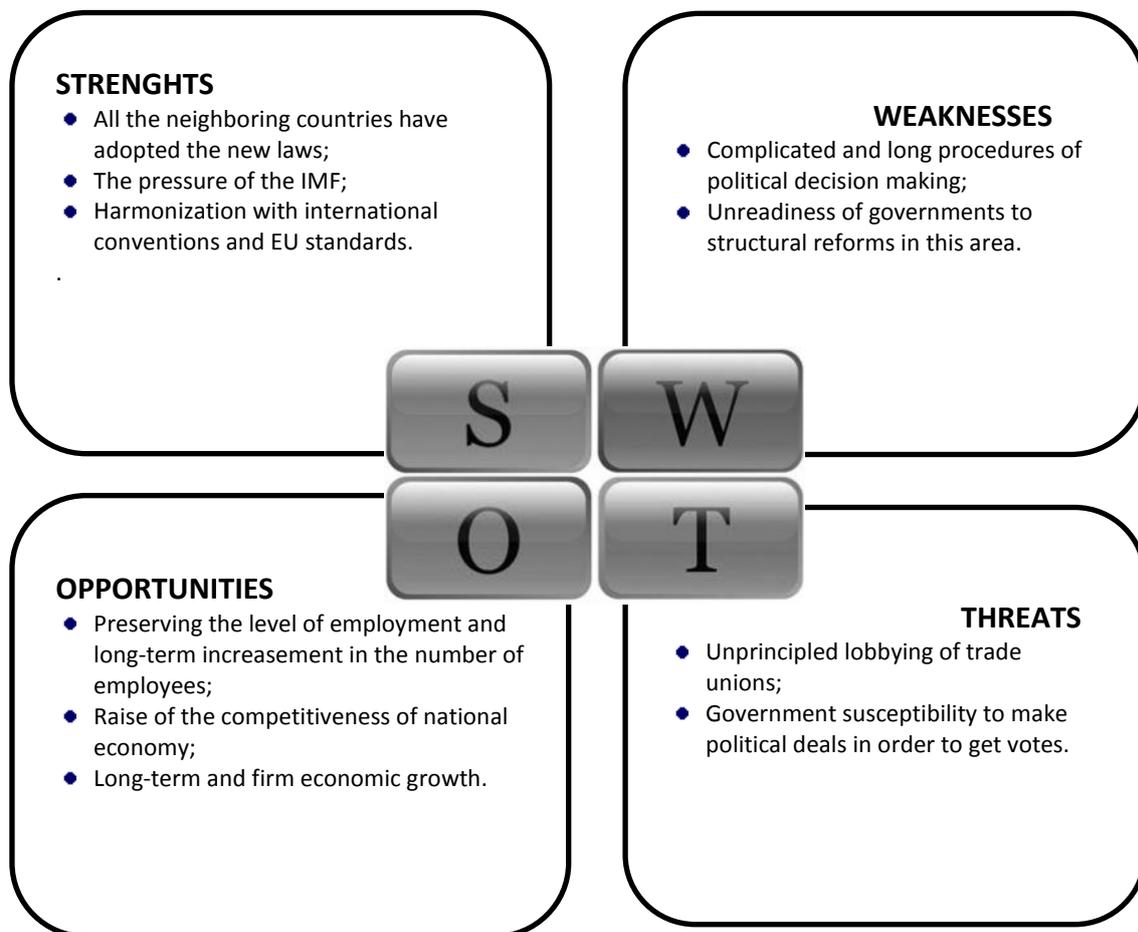
The role of the AEFBiH

- Prepare analysis and research, if necessary;
- Propose solutions;
- Organize professional discussions;
- Hire experts, if necessary;
- Organize public discussion
- Public Advocacy.



Assessment of benefits

- General social benefit will be to preserve the level rights which Employers and Government can provide.
- Indirect benefits, in the long term, will be reflected in the economic development and increase of the number of employees.
- Benefit of employers will be reduction of the costs of business.



5. MEASURES TO ENHANCE LIQUIDITY

We are witnessing the further deepening of already high illiquidity problems of the economy in Bosnia and Herzegovina and the FBiH. But we still can't see designed and consistent plan to address this "chronic" problem. It may sound absurd that government did not deal with this problem yet. However, if we know that the state is the basic cause of insolvency due to excessive public expenditure and huge budget deficits, then we should not be surprised why we have this kind of situation.

Debts due to illiquidity are now exceeding 80% of GDP in BiH. Insolvency has reached such proportions that complete collapse threatens registered economic activity. Therefore, if we start serious action against corruption and informal economy, one of the first activities should be to reduce illiquidity. In fact, a large number of businessmen are forced to knowingly break the law, in an attempt to preserve their businesses. But in such a way they further stimulate illiquidity even more.

Due to illiquidity, one part of business persons is trying to solve the problem of lack of working capital at the capital market. These loans are usually expensive, with high interest rates, short terms of return and extremely high collateral and security assets. Therefore it is very difficult to pay back the loan. In such a way, they are solving their problem in a short term, and in a long-term, they multiply and repeat illiquidity problem. This results in less favorable access to capital in general.

If provisions of the Law on bankruptcy are respected, the bankruptcy proceedings against more than 30% of registered economic entities, and more than 80% of state-owned enterprises, should be started in this moment. There is no doubt that consequences of reduction of economic activity and reduction of number of employed would be catastrophic.

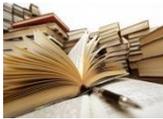
Certainly, measures with direct influence to decrease of illiquidity are needed and welcomed. Their goal is to stop the negative trend that is reflected in the constant growth of illiquidity and to preserve the level of economic activity and the level of employment. In the short term, these measures may bring certain improvements. However, the greatest significance of these measures is that they "buy time" to economy, until the final resolution of this problem.

The only way to solve illiquidity permanently is an urgent commitment of government to establish an adequate business environment. Only the raise of the competitiveness of local economy can provide growth in economic activity, increased consumption and economic growth. Of course, this is not an easy task. It is not achievable in a short term. Therefore, it is extremely important to start that the above-mentioned activities as soon as possible.

The slightest loss of time would have as consequence that this little of "healthy" domestic economy quit or drastically reduce performance of activities, or transfer its business and operations in the part of informal zone, in whole or in part. Obviously, there

is no need to mention consequences to budgets, extra budgetary funds and all social needs they are funding.

a) Payment of VAT after payment collection;



Legislation

- × **Law on Value Addad Tax**
(Official Gazette of BiH, no. 09/05, 35/05, 100/08);
- × **Rules on implementation of the Law on Value Added Tax**
(Official Gazette of BiH, no. 93/05, 21/06, 60/06, 06/07, 100/07, 35/08, 65/10).
- × **Rules on registration and signing in Unique Register of indirect taxes**
(Official Gazette of BiH, no. 51/12)
- × **Rules on control of indirect taxes**
(Official Gazette of BiH, no. 78/07)



Assesment of situation

Law on Value Added Tax regulates in Article 17 that the tax obligation begins with delivery of goods or performance of services, and with the invoice issueing, if that is an earlier action. Articles 38 and 39 of the same law regulate the tax period, calculation and payment of VAT. The tax period for VAT calculation is one month and the registration is made until the 10th day of the month after expiration of the tax period, as well as the payment of VAT.

The rules of taxation of services are regulated by the Law on VAT in BiH and they are still at the level of the EU legal framework from 2004, which means that the rules of taxation of services in BiH are not in fully harmonized with Directive 2006/112/EC, which entered into force on January 1st 2007.

The lack of harmonization of tax treatment leads to cases of non-taxation or double taxation of services between the EU and BiH, producing a detrimental effect on the local taxpayers and BiH budget.

Acception of modern standards of unique scheme of VAT administration in the EU is a necessary step if the economic entities in BiH wish to qualify for doing business in the Union market. The aim of the reform of policy on taxation of services in the EU, which is entering its final phase of implementation, is that taxation of services in the EU complies with the

rules of the main competitors at the world market. New rules for taxation of services in the EU produce negative effects on BiH trade with the EU in the form of double taxation of service companies from BiH and double non-taxation of service companies from the EU. Bearing in mind the lack of competitiveness of domestic companies in the domestic, global and the EU market, as well as the distortion produced by these rules in the domestic market of services and bearing in mind the fiscal losses due to legal tax evasion because of non-taxation, amendments to the Law on VAT in the field of taxation of services are imperative for fiscal authorities in BiH.



Reason of measure

- Harmonization with EU regulations;
- Improving of liquidity;
- Provide an opportunity to small entrepreneurs to survive in the market;
- Preservation of employment level.



Reason of measure

- **Amendments to the Law on value added tax;**
- **Amendment of Rules on value added tax;**
- **Introduce payment of Vat after collection of claims;**
- **An alternative: introduce the previous measure for small businesses and crafts;**
- **Move the deadline for payment of VAT from the 10th to the last day of the month, for the previous month.**



Jurisdiction

Council of Ministers of BiH
Parliamentary Assembly of BiH
Managing Board of the Indirect Taxation Authority



Deadlines

Change of Rules	30 days
Change of the Law	90 days



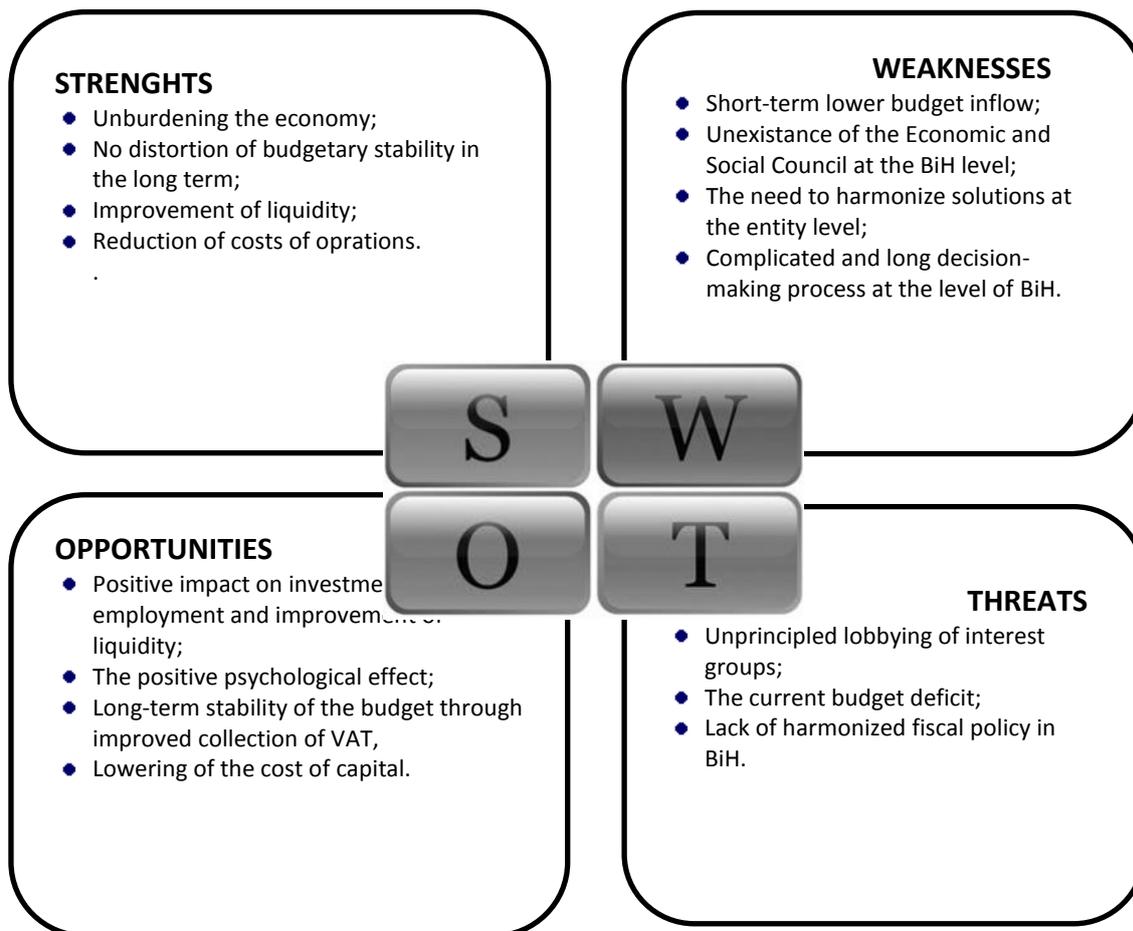
The role of the AEFBiH

- Prepare the Law on Amendments to the Law, if necessary;
- Prepare a comparative analysis of legislation of the countries in the region and the EU countries, if necessary;
- Refer to the Economic and Social Council for the FBiH;
- Public lobbying for the proposal;
- Organize expert discussions;
- Organizing public hearings, if necessary.



Assesment of benefits

- At this point it is difficult to give an estimate of direct and indirect benefits. It would be good to prepare a serious simulation to assess the benefits in terms of reducing costs, and improvement of liquidity. In doing so, the indirect benefit, whose effects would also be significant, should not be neglected.



b) Elimination of deductible VAT for unpaid invoice;



Legislation

- × **Law on Value Added Tax**
(Official Gazette of BiH, no. 09/05, 35/05, 100/08);
- × **Rules on implementation of the Law on Value Added Tax**
(Official Gazette of BiH, no. 93/05, 21/06, 60/06, 06/07, 100/07, 35/08, 65/10).
- × **Rules on registration and signing in Unique Register of indirect taxes**
(Official Gazette of BiH, no. 51/12)
- × **Rules on control of indirect tax**
(Official Gazette of BiH, no. 78/07)



Assesment of the situation

The Law on Value Added Tax regulates in the article 32 what the input tax is. This is the amount of VAT calculated on supply of goods and services and the VAT that is paid or should be paid during the import of goods, where goods or services are used or should be used for the purpose of business of a taxpayer.

A large number of economic subject make an enormous benefit by using the right to tax deductions without payment of the same invoice, and in such a way they manipulate the law. When their suppliers make a rebellion they switch suppliers. A large number of economic subjects are consequently led to illiquidity and even insolvency, and the budget is damaged in the same time due to small collection of VAT. Illiquidity in the Federation reached such proportions that everyone owes everyone.



Reasons for elimination

- A significant number of companies is becoming insolvent;
- Part of economic subjects are coming to the state of insolvency because of that;
- This situation leads to layoffs;
- Individuals manipulate with the law and gain enormous property gain at the expense of employers;
- Weaker inflow to budget;
- Promotion of crime and corruption.



Suggested measures

- **Amendments to the Law on Value Added Tax;**
- **Amendments to Rules;**
- **Disable tax deduction on the invoice that is not paid.**



Jurisdiction

Council of Ministers of BiH

Parliamentary Assembly of BiH

Managing board of the Indirect Taxation Authority



Deadlines

Change of Rules	30 days
Change of the law	90 days



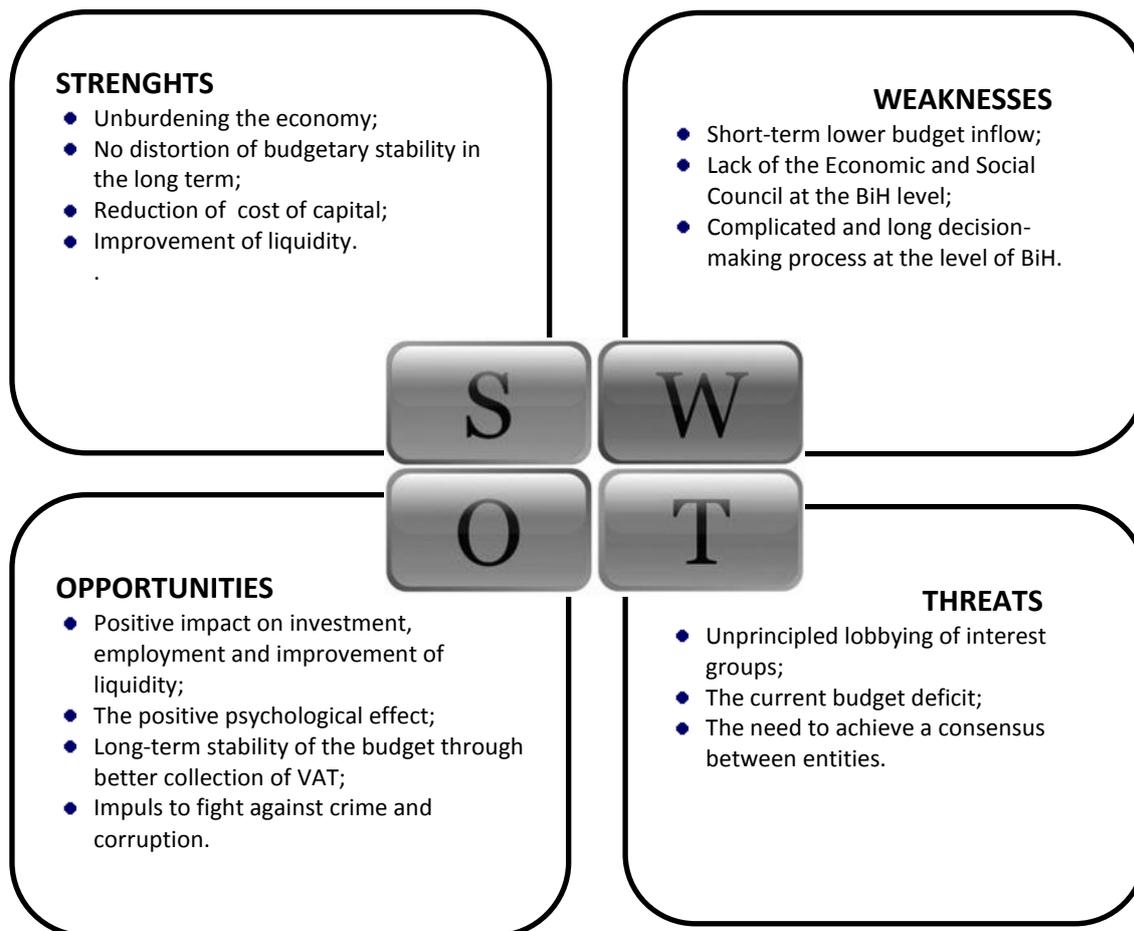
The role of the AEFBiH

- Draft amendments to the Law, if necessary;
- Prepare comparative analysis of legislation of the countries in the region and the EU, if necessary;
- Organize public hearing;
- Organize expert discussions, if necessary
- Public lobbying for the proposed solutions.



Assesment of benefits

- Assesment of benefits can not be given at this moment, but that doesn't mean that analysis and simulations can not be done, in order to establish direct and indirect property benefit.



c) **Acceptance of principle of reciprocity, conclusion of bilateral agreements on VAT refund with primarily Croatia and Slovenia, as well as Switzerland, Turkey, Italy, Slovakia, Czech Republic and Hungary;**



Legislation

× **Rules on implementation of the Law on Value Added Tax**

(Official Gazette of BiH, no. 93/05, 21/06, 60/06, 06/07, 100/07, 35/08, 65/10).



Assesment of situation

Rules on implementation of the VAT law, article 94, item D: "submit a proof of export of goods." Such a provision is illogical and practically inapplicable, "out of time", and this kind

of provision does not exist in tax legislation of any state of the EU or of any state of the Ex Yu countries. In practice, this provision prevents VAT return to BiH companies, particularly in the following areas: telecommunications, transport, tourism, trade and so on.



Reasons for elimination

- Final effect of changes of the article 94 of the Rules would allow VAT return to BiH companies, primarily from Croatia, Slovenia, but also Switzerland, Italy, Hungary, Turkey, Czech Republic;
- Enhancement of the foreign trade balance of BiH for tens of millions of KM.



Suggested measures

- Amendments to Article 94 of the Rules on implementation of the VAT law;
- Sending of official letter to tax administration of aforementioned countries;
- Signing of bilateral agreements.



Jurisdiction

Governing Board of the Indirect Taxation Authority of BiH

Council of ministers of BiH



Deadlines

Change of Rules	30 days
Sending of letters	30 days
Concluding of bilateral agreements	6 months



The role of the AEFBiH

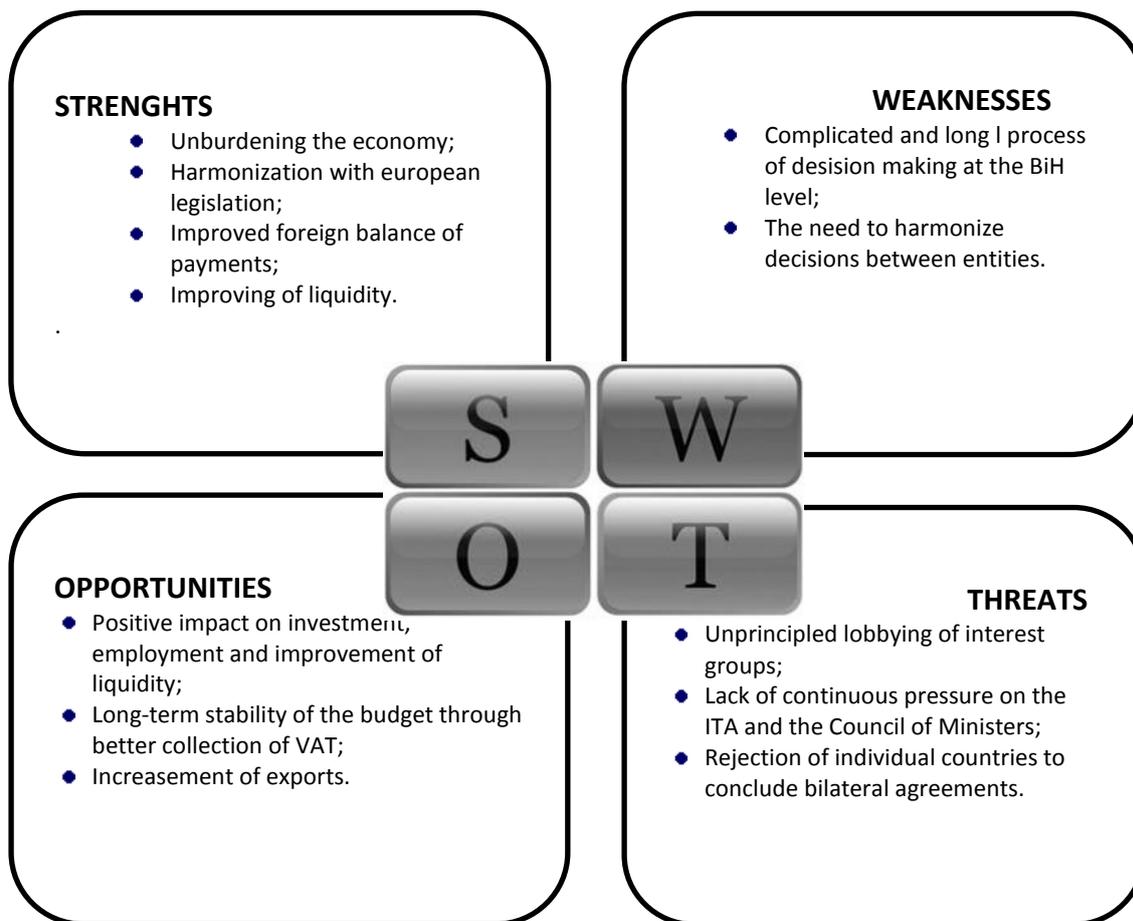
- Prepare a proposal for amendments to Article 94 of the Rules, if necessary;

- Expertly analyze the problem, if necessary;
- Hold a press conference to inform the public about the problem;
- Organize public hearings, if necessary;
- Public Advocacy until problem is solved.



Assesment of benefits

- With establishing the reciprocity, net effect, only on the basis of VAT paid for tolls, in favor of BH economy would be, relative to Croatia, higher for 200 TIMES (not percent but times because Croatia has 1000 km of motorway where the toll is paid, and BiH only 50 Km). This effect would be, relative to Slovenia, higher for 80 TIMES (Slovenia has 400 km of roads where the toll is paid).
- This change will allow BiH companies to refund other costs from abroad, such are: hotel accommodation, fairs, seminars, training, advertising costs, cost of processing and finishing of products and others. On the basis of foreign VAT return of all the listed costs, BiH economy and the ITA of BiH would also have a huge positive net effect.
- It is necessary to emphasize the importance of reciprocity with Slovenia, which is extremely important for mobile operators from BiH. The Slovenian mobile operators account Slovenian VAT on roaming services that persons who are residents of BiH use in Slovenia. Therefore, they are users of mobile operator's services in BiH. However, mobile operators from BiH do not charge VAT on roaming services in general. With the introduction of reciprocity, mobile operators in BiH could refund VAT on the basis of costs of roaming services.



d) Introduction of multilateral compensation;



Legislation

× Law on obligations

(Official Gazette of RBiH, no. 2/92, 13/93, 13/94, and the Official Gazette of FBiH, no. 29/03, 42/11)

× Law on the domestic payment system

(Official Gazette of FBiH, no. 2/95, 35/98, 40/99);

× Law on financial operations

(Official Gazette no. 2/95, 13/00, 29/00).



Assesment of situation

Debts related to illiquidity exceed the amount of 80% of actual GDP. The extent of illiquidity problems threatens to completely stop publicly registered business, which directly threatens: collection of public revenues, economic growth, and employment.

Such a situation encourages the gray economy because it's forcing employers to arrangements hidden from the tax authorities and the public statistics. Due to increased demand for credits and their unfavorable conditions, this situation considerably increases cost of production, which becomes uncompetitive. Employers are forced to take a path of least resistance and of disrespect positive legislation. And last but not least important consequence would be bankruptcy of a large number of economic subjects and their workers, instead of those who fill the budget and extra budgetary funds, become their users.



Reasons for initiation

- The gray economy;
- Increase of business' costs;
- Failure to meet the positive legislation in business;
- Bankruptcy of subjects in economy;
- Loss of jobs;
- Incensement of public expenditure.



Suggested measures

- **Adoption of the Law on multilateral compensation.**



Jurisdictions

Ministry of Finance of the FBiH

Government of the FBiH

Parliament of the FBiH



Deadlines

Proposing of the Law
Adopting the the Law

90 days
 90 days



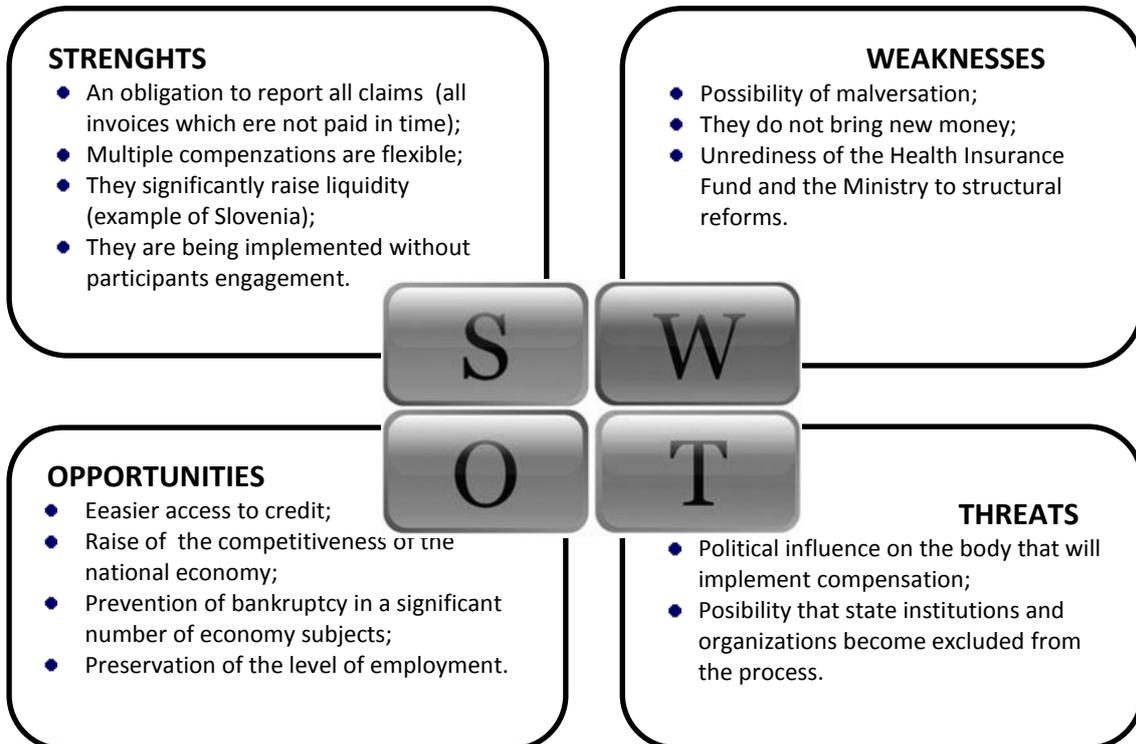
The role of the AEFBiH

- Propose solutions for the new law;
- Participate in the working group;
- Organize public hearings;
- Organize round tables.



Assesment of benefits

- Direct and indirect benefits are yet to be estimated, although there is no doubt that they will be huge. In addition to material benefits, there is are benefits reflected in the reduction of public expnditure, better inflow to budget and extra-budgetary funds, maintainance of the level of employment and reduced cost of operations.



f) Urgent adoption of the Law on settlement of obligations that establishes 60 days payment deadline for budget users;



Legislation

- × **Law on the domestic payments system of FBiH**
(Official Gazette of FBiH, no. 2/95, 35/98, 40/99);
- × **Law on financial operations**
(Official Gazette of FBiH, no. 2/95, 13/00, 29/00)
- × **Law on establishment and settling of internal obligations**
(Official Gazette of FBiH, no. 66/04, 49/05, 35/06, 31/08, 32/09, 65/09, 42/11);
- × **Law on settlement of debts to the Federal Institute for pension and disability Insurance**
(Official Gazette of FBiH, no. 14/13, 91/13).



Assesment of situation

Payment time of state bodies and institutions at different levels, for goods or services, is longer than 180 days. Deadlines for payment between business entities are also too long, but the main cause of insolvency is delay in the payment of state authorities.

It is therefore necessary to regulate mandatory payment deadlines with the law, and introduce sanctions for legal and responsible persons who fail to comply with the provisions of law.



Reasons for adoption

- The general lack of liquidity;
- Introduction of financial discipline;
- Reduction of costs of operations;
- Reduction of the cost of capital in the market;
- Avoidance of the bankruptcy proceedings for a large number of companies.



Suggested measures

- Adoption of the Law on multilateral compensation



Jurisdiction

Ministry of Finance of FBiH
Government of FBiH
Parliament of FBiH



Deadlines

Preparation of proposal of the law

90 days

Adoption of the law

90 days



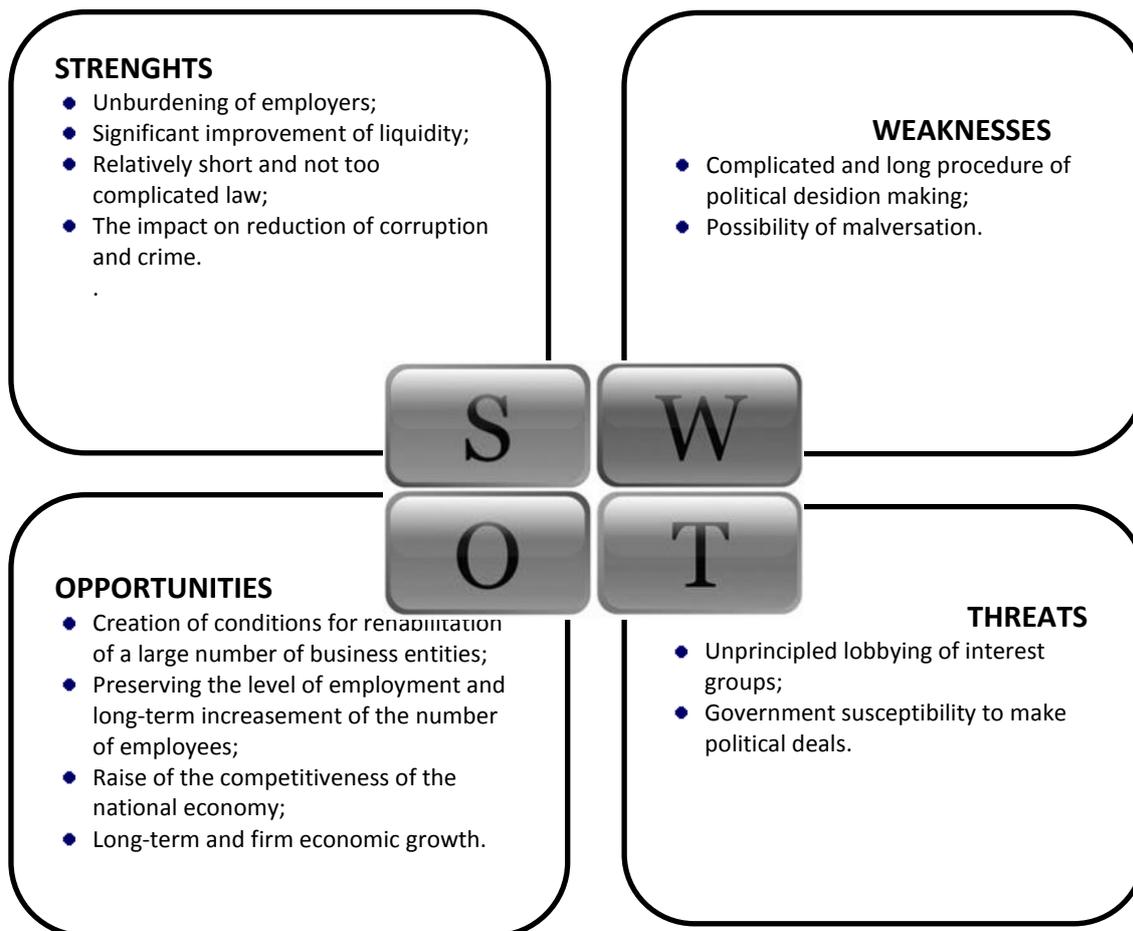
The role of the AEFBiH

- Participate in the working group for drafting of the law;
- Organize public hearings;
- Propose solutions;
- Organize round tables;
- Public Advocacy for adoption of the law.



Assesment of benefits

- Direct and indirect benefits are yet to be estimated, although there is no doubt that they will be huge. In addition to material benefits, there are benefit reflected in the reduction of public expenditure, better inflow to budget and extra-budgetary funds, maintainance of the level of employment and reduced cost of business.



g) Amendments to the procedural legislation;



Legislation

- **Law on enforcement procedure of the Federation of BiH**
(Official Gazette of FBiH, no. 32/03, 52/03, 33/06, 39/06, 39/09, 35/12);
- **Law on civil procedure the Federation of BiH**
(Official Gazette of FBiH, no. 53/03, 73/05, 19/06);
- **Law on budget of FBiH**
(Official Gazette of FBiH, no. 102/13).



Assesment of situation

The total number of pending cases at the first and second court' instance in 2013 is 36,786.²⁶ The total number of judges at first instance and second instance is 192.²⁷ The average number of preliminary hearings per case was 4²⁸, and the average duration of disputes, from the beginning to the execution, is incredible 2,724 days²⁹, which goes beyond minimum EU standards of 374 days.³⁰

We can conclude from these figures, that the number of cases run by one judge is an average of 200 cases. The total value of disputes in 2013 amounted to 3,385,003,768. KM.³¹ If we add interest, court and attorney costs to this ammount, we will get ammount of approximately 6 billion KM. This ammount is three times bigger than the budget of Federation of BiH for 2013. To conclude, overloaded courts and judges run disputes whose value is three times bigger than the for seven and a half years, in average.

Furthermore, according to current Law on income tax, it is mandatory to cancel all claims older than 12 months. Based on that, if claims are written off, and the company desides not to sue the party, 10% of the amount of claim must be paid due to the various contributions. If a company decide to sue the party, 3% of the court fee has to be immediately paid and other costs, like lowyers cost, etc., will also appear. In every case, this process represents another charge and it is additional burden on economic subjects in the FBiH.



Reasons for action

The legislative framework of Bosnia and Herzegovina, its entities and cantons, will have to be harmonized with the framework of the law of the European Union, in the near future. There are also implicit reasons for establishment of arbitration, and the establishment of processes that would, among other things:

- Shorten the long duration of court proceedings,
- Reduce the high cost of court proceedings;
- Achieve legal stability.



Suggested measures

- Reform of the judiciary, which will secure that the court proceeding is finalized in one year;

²⁶ Eurostat (22.05.2014)..

²⁷ Ibidem.

²⁸ Ibidem.

²⁹ Ibidem.

³⁰ Ibidem

³¹ Datas of the HJCP (22.05.2014).

- Reform of the judiciary (small claims proceedings, communal services proceedings, court decisions without public hearing, the appeal does not have suspensive effect, 6 months litigation, additional 3 months for execution, settlements before bankruptcy, etc.);
- Amendments to the Law on execution procedure in order to limit enforcement on budget funds.



Jurisdiction

Ministry of Justice of FBiH
Government of FBiH
Parliament of FBiH
The High Judicial and Prosecutorial Council of BiH



Deadlines

Proposal of amendments	90 days
Proposal of the judicial reform	180 days



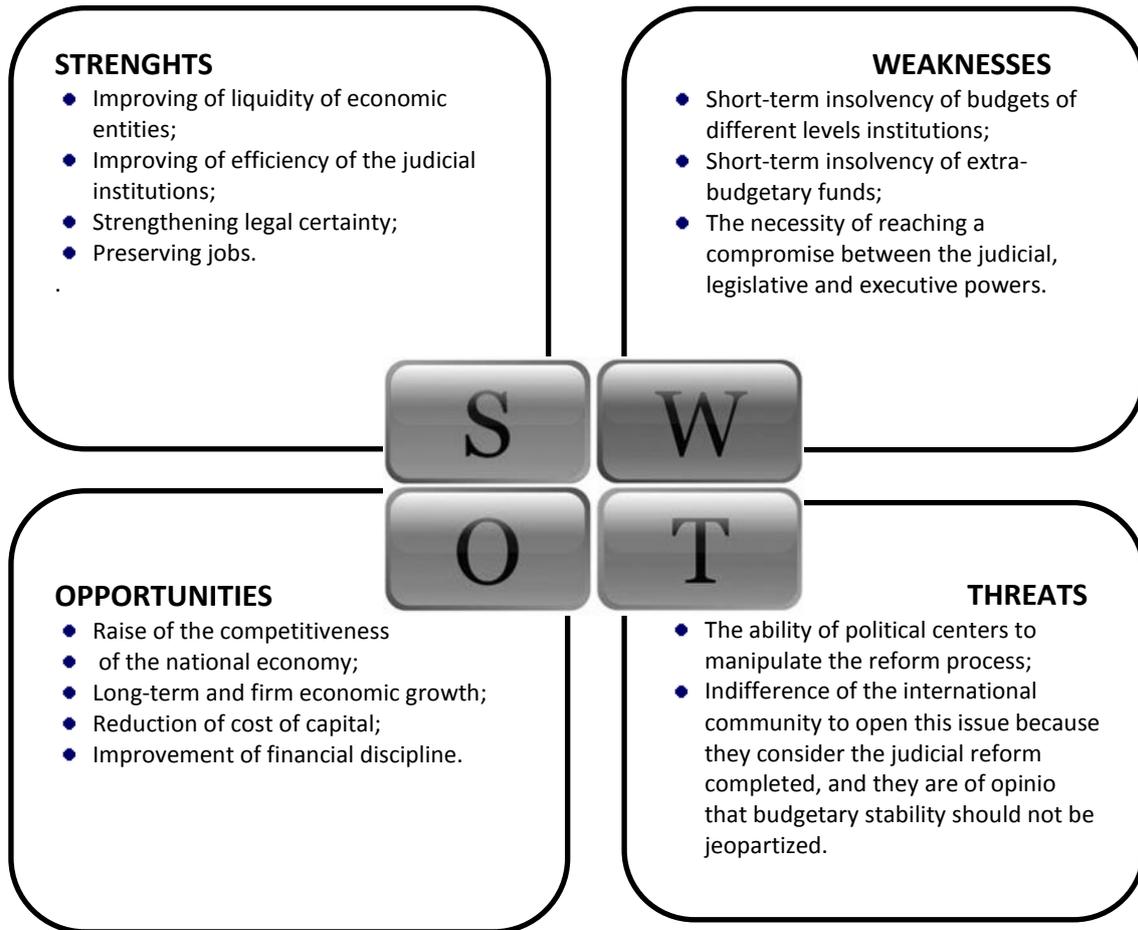
The role of AEFBiH

- Create expert proposal;
- Participate in working groups;
- Prepare a project on establishment of commercial arbitration;
- Organize public hearings;
- Organize round tables and expert conferences.



Assesment of benefits

- Direct and indirect benefits from the implementation of the measure will be immeasurable. In addition to the financial effects, this will enhance liquidity, preserve jobs and, in the long run, provide better inflow to budget and reduction of public expenditure.



6. MEASURES FOR IMPROVING THE BUSINESS ENVIRONMENT

Working conditions in BiH and the Federation of BiH are related to working conditions in the neighbouring or even EU countries, which is seen in influence of global economic crisis on our business environment. However, it's completely wrong to claim that the reason for the lack of competitiveness of the majority of domestic companies is caused by influences from abroad.

In all researches into investment condition and competitiveness indicators, BiH is ranked at the bottom of that chart or even occupies the last place. Reasons for this are: high level of grey economy, inadequate legislation, weak approach to capital, lack of transparency in business of extra-budgetary funds and institutions, without opportunity for employers and unions to exert influence on decision making, political influence in great number of public companies, long and complicated administrative and court procedures, large bureaucracy and high level of corruption.

So, if we are to analyse business from the beginning, which implies establishment of a company, access to the labour market, finding adequate location and obtaining building permits and all other permits and approvals, access to finance, protection of investors, incentives, daily payments, taxes, export and import, compliance and quality of legislation, we will see that **this whole area requires structural reform and a totally different approach in terms of establishment and definition of priorities.**

Special attention needs to be focused on legislation, especially systemic laws because they are of crucial importance in terms of creating favourable business environment. It is necessary to ensure the effectiveness of legislation, i.e. making it achieve desired effect and have measurable positive effect on facilitating relationships on the market. Legislation needs to be transparent, in adoption procedure and implementation procedure as well, and must be adaptable to changes in the environment. Certainly, it is very important that this legislation be proportional to problems, since they are adopted for that purpose.

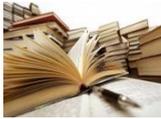
Favourable business environment with stable security-political climate represents one of the basic motivating factors for investment. Therefore, it is very important to provide synergetic efforts aimed at its improvement in BiH and the Federation of BiH. It is only in this manner that we can expect to see significant and faster economic development and better living standard of citizens and there is no doubt that all of this stabilizing impact in terms of social relations in the country.

This is why the AE FBiH chose acting on improvement of business environment and raising of competitiveness of domestic economy as one of the focuses of its activities.

With implementation of a.m. measures, we are certain that progress in this area will be achieved relatively quickly. Because of that, we expect legislative and executive powers at all

levels, from municipalities up to the state level, to start solving the aforementioned problems in planned manner as soon as possible.

a) Repression of grey economy



Legislation

- × **Law on Inspections,**
(Official Gazette of BiH, no. 69/05)
- × **Law on Contributions**
(Official Gazette of BiH, no. 35/98, 16/01, 37/01, 1/02, 17/06, 14/08)
- × **Law on Health Insurance,**
(Official Gazette of BiH no. 30/97, 02.07, 70/08 and 48/11)
- × **Law on Pension and Disability Insurance of FBiH,**
(Official Gazette of BiH, no. 29/98, 49/00, 32/01, 29/03, 73/05, 59/06)



Assessment of situation

In this document term grey economy will be used as an economic term, **meaning the performance of economic activities without appropriate legislation** (informal economy). Grey economy exists when the results of performing a completely legal activity are deliberately declared in a smaller amount (**underestimation**) or are not reported at all (**masking**) for economic reasons

Our society and economy are characterized by a relatively large informal sector, which represents a significant obstacle to the modernization of the economy and society. **The share of the grey economy is usually estimated at 30 to 50 percent of the official GDP.** Inadequate economic and social policies, lack of appropriate legal and institutional framework, poor enforcement, and reduced trust in institutions and excessive administrative procedures combined with the economic crisis, represent major drivers to move one segment of the economic activities towards informality, either by bypassing any legal obligations when they operate in the formal economy, or complete switch towards the informal economy, where economic activity or subject is not reported.

Due to the weak creation of new jobs, high unemployment and low levels of unemployment insurance and social assistance, workers and small businesses have no choice but to seek employment in the informal economy. The fact is that these participants register a fairly

small profit and partially retain them in 'business'. However, **significant part of realized earnings on the part of small participants in the activities of the underground economy is using for satisfying their spending and living needs, so these components of income are still flowing into the formal economy.** That's the reason why it's not representing a great social danger, but it is important that this part of economic activities redirects from grey to formal economy.

As the wealth of participants in the activities of the underground economy grows, a smaller part of the income is used to meet consumer and vital needs of the population.

As the wealth of participants in activities of grey economy grows, a more significant part of accumulation, created in grey economy, still remains there and is not going into regular, formal financial flows of transition countries.³² Because of that, this part of grey economy must face an adequate answer from the state and its institutions through preventive acting as well as repressive measures so that its harmful consequences could be eliminated.



Reasons for implementation of this measure

- Poor filling of the budget and extra-budgetary funds;
- Disloyal competition and uneven business conditions;
- Low productivity and competitiveness of employers;
- High cost of capital;
- The inability of the state to introduce an effective system of social protection;
- Workers in the informal economy are doomed to low-paying jobs, uncertain status, inadequate safety measures, without being able to protect their rights.



Suggested measures

- **Develop a program to combat the grey economy;**
- **Develop programs for the collection of unpaid taxes and contributions;**
- **Reducing the informal sector by improving legislation;**
- **Reducing the informal sector by strengthening the control functions.**

³², Lj. Vladošić, V Pavlič: „Non-observed gray economy in B&H“, Central bank of B&H



Jurisdictions

Government of the Federation of B&H
Canton Governments
Parliament of the Federation of B&H
Cantonal Assemblies
Directorate for Inspection Affairs of the Federation of B&H



Deadlines

Development of programs to combat the gray economy	6 months;
Development of programs related to collection of unpaid taxes and contributions	90 days;
Drafting of proposals	1 year.



Role of the AEFBH

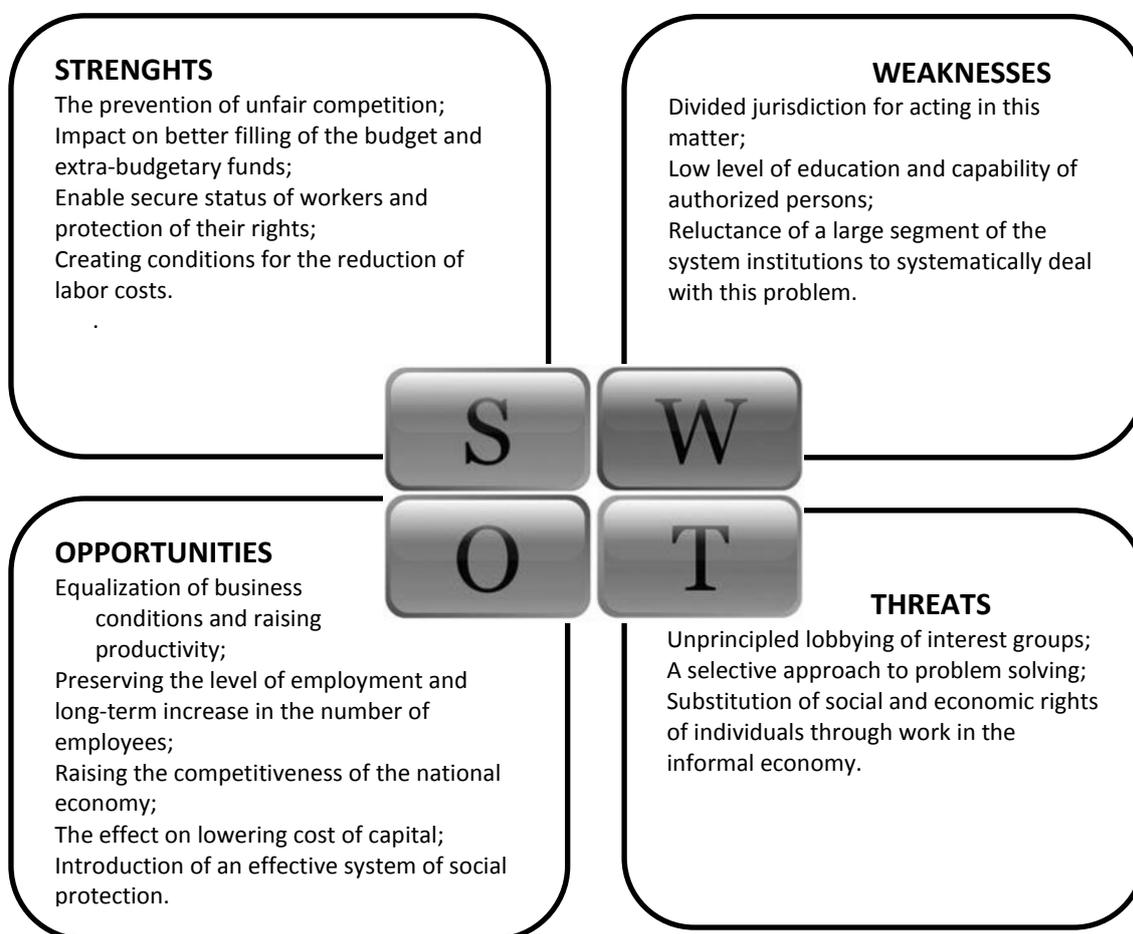
- Participation in working groups;
- Preparation and proposing of solutions;
- Organization of public hearings;
- Organization of round tables and expert discussions;
- Public Advocacy.



Assesment of benefits

- If assessments are accurate regarding the percentage of participation of informal economy in the amount of 30 up to 50 % of GDP, and if with suggested measures that participation is reduced by ten index points, filling of the budget and extra-budgetary funds will amount to more than **BAM 200-350 million** on yearly basis.

- **Indirect benefits** from implementation of suggested solutions, through higher consumption, employment, raising of productiveness and competitive ability, **will amount to the aforementioned amount at minimum.**



b) Amendments to systemic laws



Legislation

- × **Law on Companies of BiH**
(Official Gazette of BiH, no. 23/99, 45/00, 02/02 and 6/02 and 29/03);
- × **Law on Inspections**
(Official Gazette of FBiH no. 69/05);
- × **Law on Public Procurement**
(Official Gazette of BiH, no. 39/14)
- × **Law on Registration of Companies**
(Official Gazette of BiH, no. 27/05, 68/05, 43/09)
- × **Law on Offenses**

- × **Law on liquidation proceedings**
(Official Gazette of FBiH no. 23/09)
- × **Law on Bankruptcy Proceedings**
(Official Gazette of BiH, no. 9/23, 42/06)
- × **Law on Consolidation of Companies**
(Official Gazette of BiH, no. 52/14)
- × **Law on Concessions**
(Official Gazette of BiH, no. 40/02)



Assesment of situation

Some of these laws have been adopted by the parliaments under an urgent procedure because they were a condition for the continuation of the arrangement with the IMF or the World Bank loans. Therefore, all of these laws contain a number of serious flaws that may represent an obstacle to creating a favorable business climate. The AE of FBiH noticed these things at the time and responded to them in the form of amendments. Yet, the government responded that we needed to adopt legislation in this form and that it would be amended after their adoption

This primarily deals with the Law on Enterprises, the Law on Inspections, Law on Public Procurement Law, the Law on Registration of Companies, the Law on Offenses and some other laws.

Although the largest number of the aforementioned laws contain certain qualitative improvements compared to the laws that were in force before their adoption, they still contain some essential deficiencies which can produce serious consequences.

The provisions of these laws introduce legal uncertainty and indirectly encourage corruption. Such are, for example, the provisions that allow for the possibility of withdrawal of assets from companies, prescribing penalties for the same offense in the range of BAM 500- 200,000, certification of inspectors, lump penal provisions which do not include misdemeanor liability of the responsible persons in the administrative bodies, lack of transparency in the public procurement system, complicated and expensive procedure for registering companies, inadequate judicial protection, validity of penalties even when you are not aware of the proceedings against you etc.

Some of these systemic laws were adopted a few years ago, in a form and format that does not meet the current needs of the market, i.e. it does not in any way contribute to the development of an adequate business environment. They must therefore undergo a significant revision.

Bankruptcy and liquidation proceedings represent a special problem, for the provisions of the law, which is not good anyway, are abused and there is no will to initiate bankruptcy proceedings against a number of state companies whose debts exceed the amount of their capital several times. Similar cases occur with some private companies, for purely political reasons. Social peace is to be kept by “torturing” the workers of these companies and the companies of their partners who will never be able to receive what is owed to them. In this way, the vicious circle is closed and it is getting bigger every day.



Reasons for reform

- Changes socio economic circumstances comparing to the time of adoption of these laws
- Adjustment of legislation with international conventions and laws in EU countries
- Encouraging of foreign and domestic investments
- Cyclic expansion of the number of companies that come into crisis;
- Reducing the cost of employers;
- Harmonization of legislation.



Suggested measures

- **Adoption of new laws**
- **Amendments on existing laws**
- **Provide that these laws are going to be effective, flexible and relevant**
- **Provide participation of social partners in their drafting**



Jurisdictions

Parliament and Government of FBiH
Parliament assembly and council of ministers of BiH
Cantonal governments and assemblies



Deadlines

Adoption of the law

2 after establishment of new government



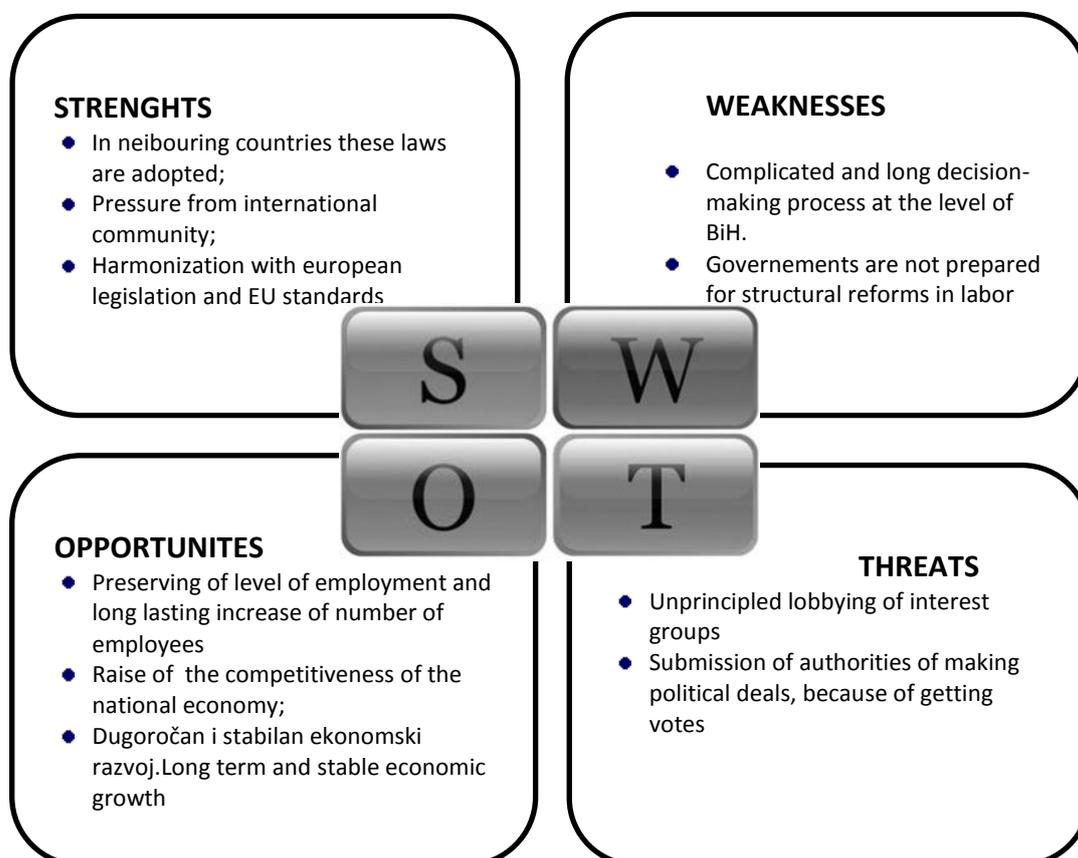
Role of UPFBiH

- Make an analysis and comparative
- Propose argued solutions;
- Organisation of expert discussions
- Organization of public hearings;
- Public Advocacy.

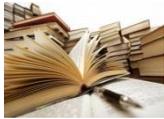


Assesment of benefits

- Direct and indirect benefit from implementation of this measure can not be given at this moment, but it needs to be analyzed.



c) Strengthen the credit potential of the Development Bank;



Legislation

- × **Law on Development Bank of the FBiH**
(Official Gazette of BiH, no. 37/08)



Assesment of situation

Economists agree that a development bank in any country, by definition, should be focused primarily on financing large infrastructure projects that yield extremely positive effects, and support to the development of small and medium enterprises. They also agree that the equity capital is necessary for the formation of the development bank and it should be provided from the state budget and subsequently include other sources of funding.

If the state is unable to provide a sufficient amount of initial capital and cannot guarantee the stability of the business activities of a development bank for at least the next five years, then this project should not be implemented. Still, the FBiH initiated this and established the Development bank more than 6 years ago, although it failed to fulfill the legal basis of the obligation of recapitalization.

Credit potential of the Development Bank is insufficient to finance the needs of the real sector with reasonable cost of capital, appropriate grace period and sufficiently long period of repayment. According to its credit potential, it is found in the second half of the scale of BiH banks. On 31/12/2013 it amounted to approx. BAM 175 million.



Reasons for recapitalization

- The need for economic operators to get easier access to capital;
- Reducing the production cost;
- Transparency in bank's business;
- Aligning business policy of the bank with the needs of the economy;
- Providing stable economic growth.



Suggested measures

- Electing GB where their representatives shall have the representatives of employers and trade unions;
- Adoption of the new Law on the Development Bank;
- Provide long-term international credit for increasing the capital of the bank, which would be returned from increased budgets on the basis of increased economic activity;
- Identify new policy of the bank that will provide funding for new employment, exports, low accumulative activities, and activities that have denied access to funds, based on the principles of balanced regional development and on the basis of activities;
- The interest rate needs to be less than 4% with appropriate grace period.



Jurisdiction

Ministry of Finance
Government of Federation of B&H
Parliament of Federation of B&H



Deadlines

Drafting of laws six months after the formation of the new government;	
Adoption of laws	6 months after drafting;
Appointment of the GB	3 months after the law has been passed;
Adoption of policies	3 months after the appointment of GB and the new Board.

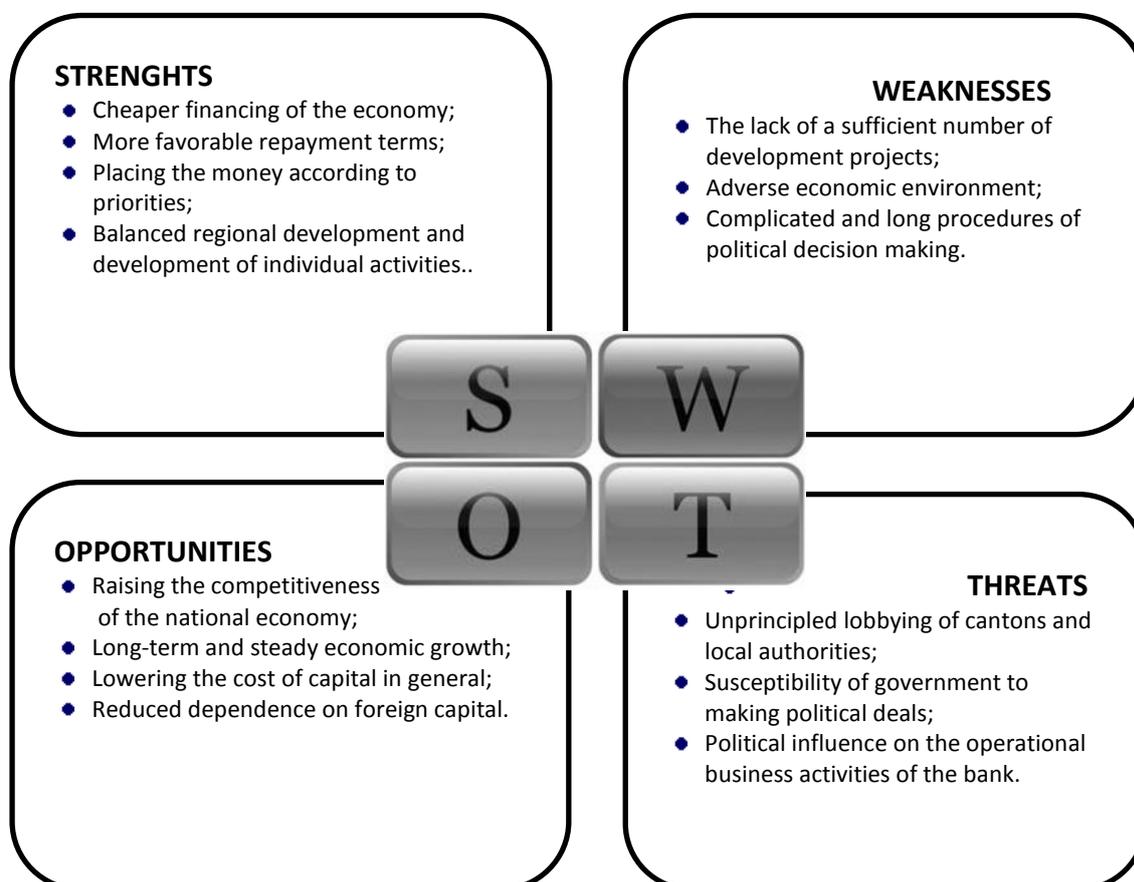
Role of AEFBiH

- We are ready to participate in the drafting of the text draft of the law;
- We will animate the widest circle of employers to submit their comments during public debates;
- Organizing roundtables and ensure the participation of foreign and local experts;
- We can provide and propose more than a good solution for the GB;
- Provide suggestions for drafting of development bank policy.



Assesment of benefits

- Direct benefits cannot be accurately estimated, but if these measures have contributed to industrial production growth of 2-3% that would be more than fine.
- Indirect benefits would be enormous, as a reduced cost of capital would secure greater and faster economic growth and new employment and thus more efficient budget filling.



d) The participation of social partners in the extra-budgetary funds, public institutions, FTV service and public enterprises.



Legislation

- × **International Labour Organisation Convention No. 102**
- × **Law on Mediation in Employment**
(Official Gazette of FBiH no: 41/01, 22/05, 09/08)
- × **Law on PDI**
- × **Law on Health Insurance**
(Official Gazette of FBiH no 30/97, 7/02, 70/08 i 48/11)
- × **Law on pension and disability insurance of FBiH**
(Official Gazette of FBiH no 29/98, 49/00, 32/01, 29/03, 73/05, 59/06)
- × **Law on Development Bank**
(Official Gazette of FBiH no 37/08)
- × **Law on public broadcasting**
(Official Gazette of FBiH no 40/02)



Assesment of situation

Currently, the governing boards of extra-budgetary funds, institutions and other aforementioned entities are made up of candidates selected by political parties, so an equal representation of socio-economic partners is not achieved within them. In some of them, a simulation of such representation is attempted through the creation of advisory bodies.

It is an attempt to ostensibly comply with ILO Convention 102. However, the Convention makes it **clear that the participation of socio-economic partners should be ensured in such institutions, in the bodies which have real power to make managerial decisions, on the basis of equal representation.**

Such representation exists in all EU countries, neighboring countries and even in Republika Srpska. This practice has produced excellent results so there is no doubt that it would be a right reform-oriented move in FBiH as well.



Reasons for harmonization

- Better management;
- Depolitisation of the management
- Transparency of work;
- Better control of expenditure of funds;
- Harmonization with international conventions.



Suggested measures

- Changing the law governing the appointment of management boards;
- Amendment of bylaws;
- Modification of internal documents.



Jurisdictions

FBiH Ministry of Labor, Employment and Social Policy
FBiH Ministry of Health
Ministry of Culture and Information
Ministry of Education
FBiH Government
FBiH Parliament



Deadlines

Changing all of the necessary legislation	12 months after forming the government;
Changing the bylaws	3 months after the adoption of laws;
Changing the internal bylaws	3 months.



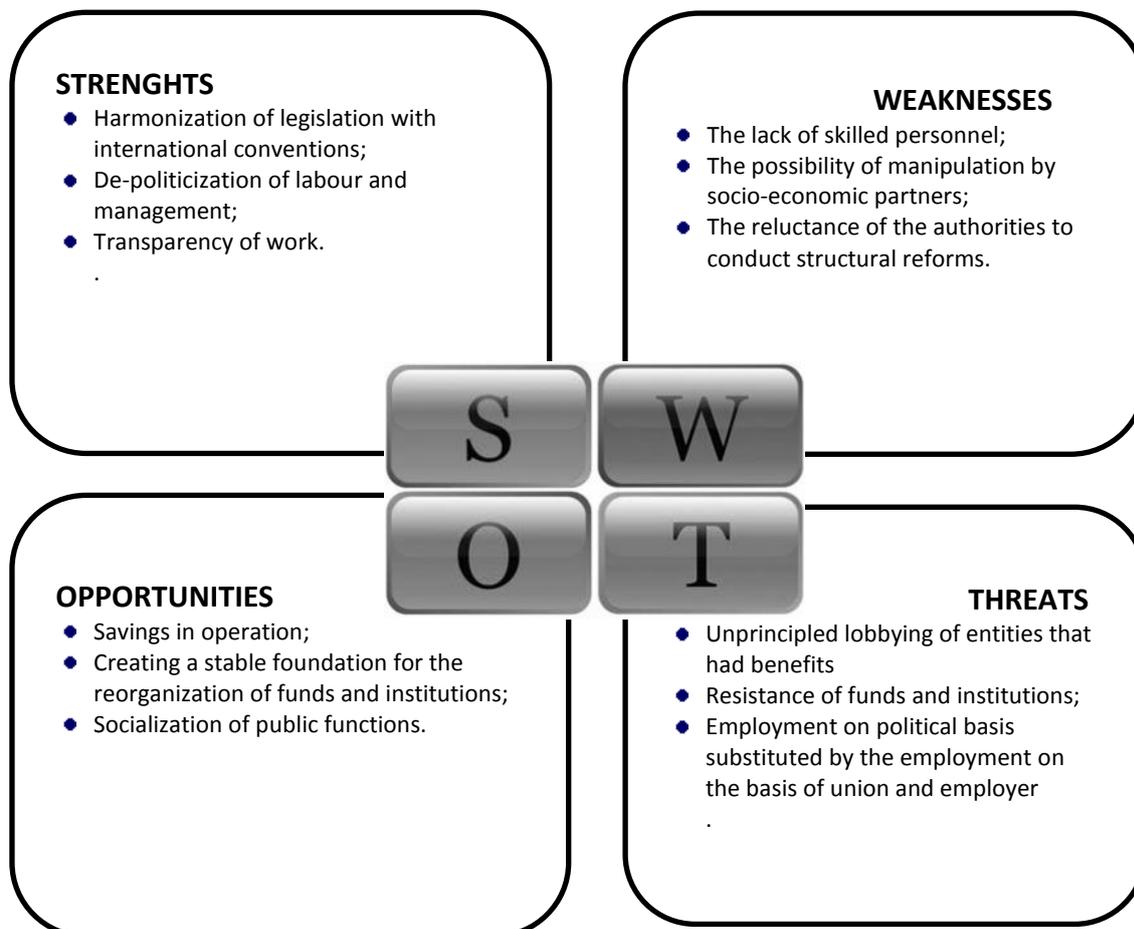
Role of the AE FBiH

- Making an elaborated proposal;
- To provide decision of the ESV on this point;
- If necessary, drafting of analysis and comparative research;
- Organization of public hearings;
- Organization of expert discussions;
- Public advocacy.



Assesment of benefits

- Benefit cannot be quantified.



e) To intensify activities on regulatory reform (former so-called Guillotine of Regulations);



Legislation

× **Law on obligatory rights**

(Official Gazette of FBiH, no. 2/92, 13/93, 13/94 and Official Gazette of FBiH, no: 29/03, 42/11)

× **Law on concessions**

(Official Gazette of FBiH, no: 40/02)

× **Law on constructions**

(Official Gazette of FBiH, no: 55/02)

× **Law on electro energy inspection**

(Official Gazette of FBiH, no: 08/02)

× **Law on electricity**

(Official Gazette of FBiH, no: 41/02)

× **Law on protection of environment**

(Official Gazette of FBiH, no: 33/03)



Reasons for reform

- Complicated and long lasting procedure
- Inadequate legislation
- Divided jurisdiction between different levels of authorities
- High costs;
- Untrained personel.



Assesment of situation

In FBiH, there are a number of regulations that significantly complicate and slow down starting up a new business and expansion of existing ones. Their existence not only raises the cost of the procedure but also indirectly encourages corruption. To start a business, you need to obtain dozens of permits and certificates at different government levels and if you do not want to wait for months, you have to pay for each of them.

This particularly applies to procedures for obtaining building permits, zoning approvals, location permits, environmental permits, concessions, energy permits, financial procedures, payment of taxes and contributions, and forwarding. **Number of certificates which need to be collected is too big, the procedure takes too long and the regulations have not been harmonized.**

Basically, there are no electronic databases or and they are not connected, so a person needs to obtain each document separately instead of doing so through official channels. The situation is very complex even for entities operating in centres in which the institutions that issue certificates are located and you can only imagine the situation the entities from small towns find themselves in since they have to travel on several occasions for one document only.



Suggested measures

- Identify all regulations that unnecessarily complicate the procedures and make them more expensive;
- Making electronic databases;
- Secure their online networking with authorities and institutions;
- Full functioning of the electronic signature;
- Amendment of legislation.



Jurisdictions

Municipalities
Cantons
Government of the Federation of B&H
Parliament of the Federation of B&H



Deadlines

- | | |
|---|------------|
| ○ Identification of regulations | 12 months; |
| ○ Amendment of regulations | 24 months; |
| ○ Establishment of electronic databases | 18 months; |
| ○ Their networking | 6 months. |

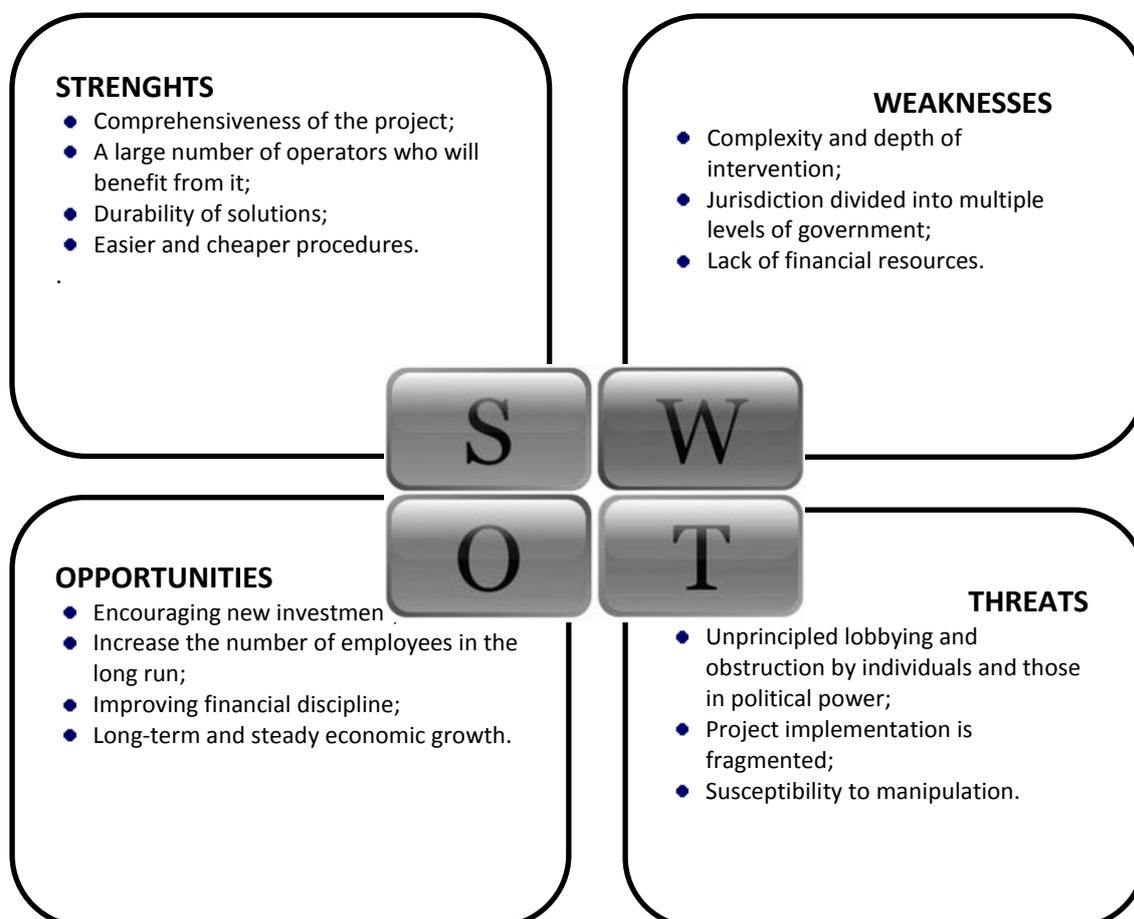
Role of the AE FBIH

- Participation in work teams;
- Participation in the identification of problems;
- Expert analysis and comparative research, if necessary;
- Organizing expert discussions;
- Organization of public debates;
- Public advocacy.



Assessment of benefits

- Direct and indirect benefits of implementation of the proposed measure will provide substantial direct and indirect benefits to a high degree, which is difficult to assess at this moment.



f) Depolitisation of management of public companies, with implementation of OCED principle of corporate managing, and prevention of their monopolistic position;



Legislation

- × **Law on Public Enterprises in FBiH**
(Official Gazette of BiH, no. 08/05, 81/08 and 22/09)
- × **Zakon o privrednim društvima**
(Sl. novine FBiH broj: 23/99, 45/00, 2/02, 6/02, 29/03)



Assesment of situation

Today, most public companies are considered a simple transmission of power at different levels. One of the first measures undertaken by every government up to now has been to take over the companies, especially profitable public enterprises. **Interference of the government at various levels in operational activities and election of board members is evident.** Also, such companies have been the place for securing the livelihoods of party officials and family members. However, with the change of government, they remained there and a new government would bring its people.

Management of these enterprises, no matter whether they are members of political parties or not, should be granted autonomy in the implementation of corporate governance and avoid the possibility of their removal with every change of government. All those managers who achieve the given plans and successfully manage their businesses must be given the opportunity to continue their work. Of course, all directors whose companies do not operate successfully should be replaced, regardless of the political option in power.

This is very important since public companies, like Telecom, both electric utilities, companies for road construction, energy and transport sectors should be engines of economic development and investment in order to gain time to establish a proper business environment which will provide increase in the competitiveness of the private real sector. Therefore, it is extremely important that the political influence ends at the level of assemblies of the companies, and it should be removed from the management and operational activities.

A number of such companies, should surely be subject to market conditions, instead of being favored compared to private companies from the sector. Only those companies that secure their market status in environment of fair competition can count on long-term survival.

Reasons for reform

- Increasing the competitiveness of public companies;
- Enable new investments;
- Equalization of business conditions in the market;
- Streamlining the number of employees.



Suggested measures

- **Changing the law on public companies;**
- **Introduction of material, political and criminal liability for interference in the management of public companies;**
- **Adopt sectorial and individual plans for the restructuring of public enterprises.**



Jurisdictions

Government of the Federation of B&H
Parliament of the Federation of B&H
Cantonal Governments
Municipalities and cities



Deadlines

Adoption of restructuring plans
Amendment of the law

12 months;
6 months.

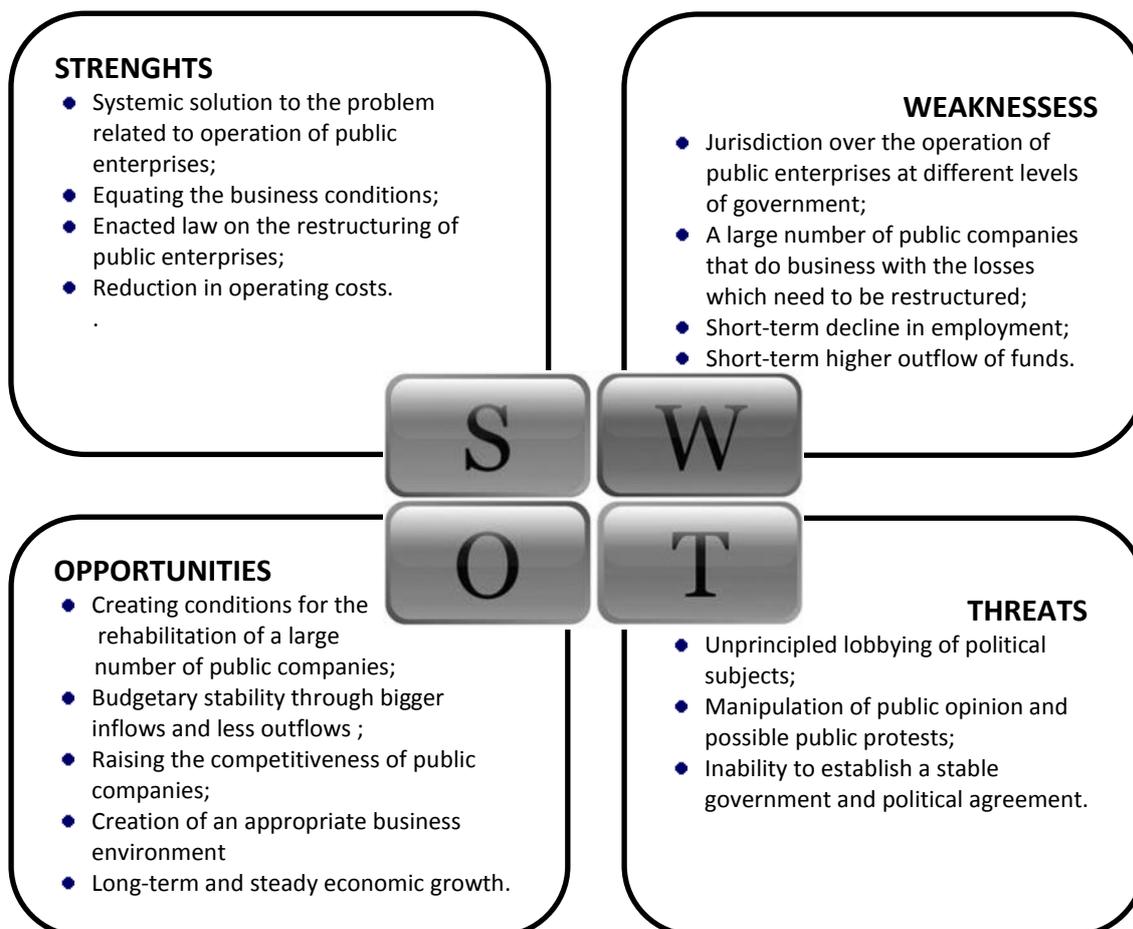
Role of the AE FBIH

- If necessary, making comparative analysis involving the EU and neighboring countries;
- Proposing solutions;
- Organization of public debates;
- Organization of round tables and symposiums;
- Public advocacy.

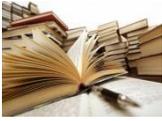


Assesment of benefits

- Direct and indirect benefit from the application of these measures is difficult to determine. But there is no doubt that it will have a very beneficial medium and long term effect on the creation of an appropriate business environment.



g) Establishment of electronic databases and their linking;



Legislation

- × **Law on Electronic Signature**
(Official Gazette of BiH, no. 91/06)
- × **Law on cadastral books**
(Official Gazette of FBiH, no. 19/03, 54/04)
- × **Law on procedures of registration of legal entities in court registry**
(Official Gazette of FBiH, no 4/00)
- × **Law on tax direction of FBiH**
(Official Gazette of FBiH, no 33/02, 28/04, 57/09, 40/10, 27/12, 7/13)
- × **Law on basis of security of traffic on the roads in BiH**
(Official Gazette of BiH, no 6/06, 75/06, 44/07)
- × **Rules on registration of vehicles**
(Official Gazette of BiH, no 69/09)
- × **Rules on establishment of database of Unique system of exchange of datas with users, reporting and plan of control.**
(Official Gazette of FBiH, no 22/10)



Assesment of situation

When applying for the tender or obtaining documentation for permits, certificates, licenses, approvals, consents, or during court proceedings, business operators are faced with a very slow and complicated procedure. **It is unnecessary to collect documentation that the authority conducting the proceedings may obtain through official channels.** This is waste of time and it augments the costs needlessly.

Another big problem arises when one application needs to be decided on by a judicial authority based on the documentation of the executive authority and vice versa. In this case, a party is required to obtain these documents instead of competent authority doing so in an official manner by examining the database and public records.

A particular problem is divided jurisdiction for certain areas. When an application is sent to the Federal authority or an institution, they need to obtain the opinion or approval of the cantonal authorities, while, in turn, these authorities need to obtain it from local self-governance authorities. This procedure has disincentive effect on entrepreneurs.



Reasons for establishing

- complicated procedures;
- long-term process;
- Higher operating costs;
- Divided jurisdiction.



Suggested measures

- To introduce public registers in electronic form at all levels of government;
- All data that are not secret need to be made transparently available to the public;
- Network the institutions and authorities and their data electronically;
- Prescribe obligation for the authorities to obtain information through official channels;
- Prescribe a single form in electronic form whenever possible;
- Enable electronic submission of requests.



Jurisdiction

Council of Ministers and Parliament assembly of B&H
Government and Parliament of the Federation of B&H
Cantonal Governments and Cantonal Assemblies
Municipal Authorities



Deadlines

Drafting laws	6 months;
Creating database	12 months;
Networking databases	12 months.

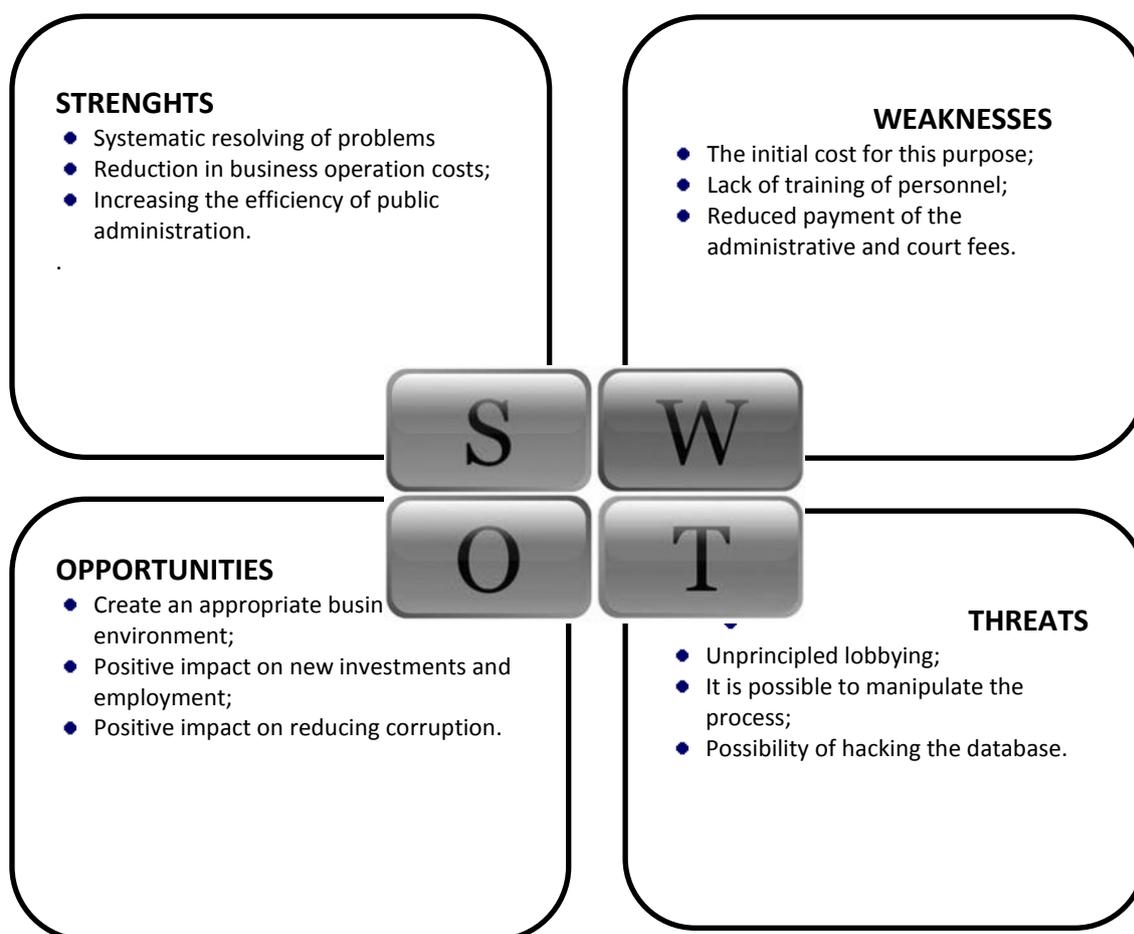
Role of AE FBIH

- Draft comparative analysis if necessary
- Participation in the working group;
- Organizing expert discussions;
- Organizing public debate;
- Public advocacy.



Estimated benefit

- It is not possible to assess material benefit at this time, but lowered costs of conducting business will not be small for sure.
- Public spending will be lower as well.



h) Reduction of corruption



Legislation

- × **Law on the Agency for the prevention of corruption and the coordination of the fight against corruption**
(Official Gazette of BiH, no. 103/09, 58/13)
- × **Law on Conflict of Interest in Governmental Institutions**
(Official Gazette of BiH, no.16/02,12/04, 63/08)
- × **Law On Freedom Of Access To Information Of Bosnia and Herzegovina**
(Official Gazette of BiH, no. 28/02)
- × **Law On Political Party Financing**
(Official Gazette of BiH, no. 22/00, 102/09, 54/10)
- × **Law on Public Procurement for Bosnia and Herzegovina**
(Official Gazette of BiH, no 49/04, 19/05, 52/05, 8/06, 24/06, 70/06, 12/09 i 60/10)
- × **Criminal Code of Bosnia and Herzegovina**
(Official Gazette of BiH, no. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05,53/06, 55/06, 32/07, 8/10)
- × **Criminal Code of Federation of Bosnia and Herzegovina**
(Official Gazette of BiH, no. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10, 42/11, 59/14)



Assesment of situation

Corruption is a systemic problem which interferes economic development and equality on the market. According to research of public opinion, **employers cannot see any progress in public administration which is considered a source of corruption.** They consider these procedures complicated and do not have any confidence in institutions and appeal mechanisms. Trust in government institutions directly depends on level of corruption.

Fight against corruption is a responsibility of the state. Establishment of effective administrative and legal framework for public sector is condition for reduction of corruption. Therefore, it is necessary to establish a system of prevention of corruption in all structures of public administration, with active support of economy.

It is necessary to build capacities of the bodies for fight against corruption at all levels of government to manage anti-corruption programs in efficient manner, educate BiH public on corruption-related risks, coordinate fight against corruption, discover and check corruption cases and initiate adequate proceedings against perpetrators.

Employers face corruption on daily basis. **Obtaining building permits, participation in public procurement procedures, allocation of concessions, inspections and activity of traffic police are areas which the employers point to as most numerous examples of corruption.**



Reasons for analysis

- Extremely high level of perception of existence of corruption among employers
- inequality on the market
- higher costs of business activities
- Inefficient reaction to corruption on the part of governmental bodies in charge of fighting corruption:
- Need to introduce legislative measures to simplify the verification and judicial procedures for the detection of corruption;



Suggested measures

- Perform a detailed analysis of existing procedures and criteria for issuance of certificates, licenses and other registration documents by areas;
- Eliminate unnecessary procedures and simplify the existing procedures of registration, issuance, licensing and approval of registration documents to eliminate opportunities for corruption;
- Introduction of systems for forfeiture of illegally acquired property and loss of earnings from corruption;
- Adopt necessary legislation to ensure that the issuance of certificates, licenses and other registration documents is supervised by parliament and only after an independent evaluation;
- Introduce the analysis of the annual report in this area during the ESV and parliamentary meetings;
- Introduce criminal liability of state authorities, responsible persons in those bodies and civil servants.



Jurisdictions

Government of FBiH
Ministry of Internal Affairs
Ministry of Justice of FBiH
Parliament of FBiH
Courts
Administrative bodies



Deadlines

Analysis of existing procedures	6 months
Simplification of procedures	6 months
Amendment of the law	18 months



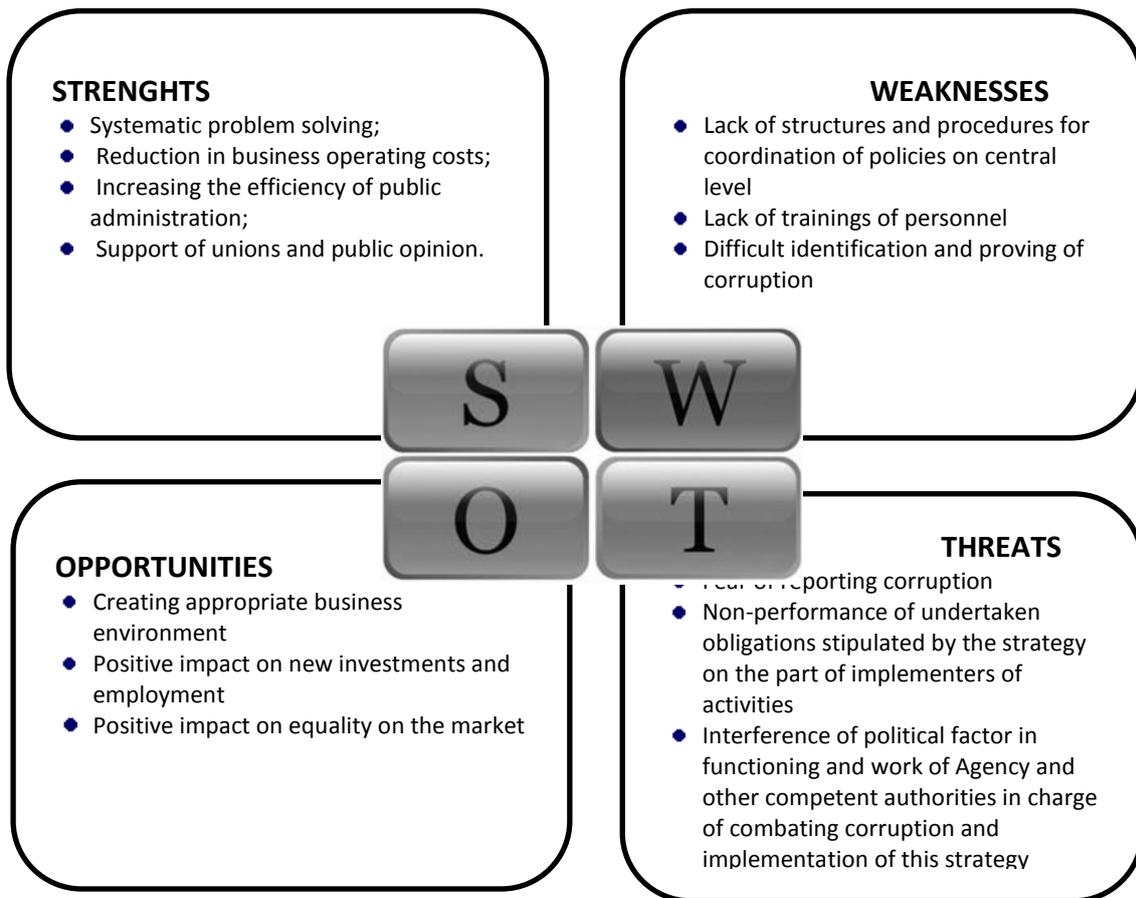
Role of the FBiH AE

- Surveying of employers about the perception of corruption;
- Participation in the working bodies;
- Organizing expert discussions;
- Organizing public debates;
- Public advocacy;
- Cooperation with NGOs and government institutions in preventing and combating corruption.



Assessment of benefits

- At the moment, it is not possible to estimate material benefit but it is certain that a reduction in business operating costs will not be insignificant;
- Public spending will be reduced as well;
- Extremely positive psychological effect.



7. MEASURES TO REDUCE PUBLIC SPENDING

In the Federation of BiH, as a result of strong decentralization, we have: the Federation, 10 Cantons, 79 municipalities and even 36 extra-budgetary funds (one pension fund, one fund for taking care of disabled persons, eleven funds for employment, eleven health funds, eleven funds for roads and one for motorways).

The amount of expenditure went up with increasing of expenditure among incomes and growth of GDP. As a result, we have a public sector which is significantly bigger compared to countries with approximately same level of development, or countries of approximately same size.

If we analyze the structure of public expenditure, we will see that its larger segment refers to current expenditure, in which allocations for social transfers, wages and other fees dominate and grow faster compared to total public expenditure.

Allocations are also high when it comes to public order and safety and social protection as well. We have a similar situation with allocations for health and education. Internal external debt of the Federation of BiH is growing as well.

Despite relatively high level of public expenditure and current low level of infrastructure quality, the FBiH (with exception of Croatia) has the lowest level of capital expenditures compared to analyzed countries and this confirms the orientation towards current expenditure.

This situation is unsustainable and employers in the Federation of BiH are not capable of financing such level of public expenditure. Unfortunately, „The Document on Framework Budget 2014-2016“ drafted by the Ministry of Finance of the Federation of BiH does not foresee reduction of public expenditure. At least in its initial years, it foresees maintaining it on the same level or even slight growth in certain segments. It is unsustainable for the public expenditure in the Federation to grow faster than GDP and the government can offer no arguments to defend it.

Therefore, it is extremely important for employers to present unique, reasoned and clear demand for reducing of public expenditure. Such demand should be supported by all Chambers, Associations of Employers, academic communities, and we expect international institutions in Bosnia and Herzegovina to exert pressure on the authorities for reduction of public expenditure.

Funds saved from lower public expenditure should be redirected as stimulus for employers for new investments and jobs, and it is clear that one segment of these funds should be redirected towards social protection programs for all of those included in lower public expenditure program.

- a) **Reduction of public expenditure (wages paid to officials and directors, fees, flat-rates, severance pay, family separation, material costs etc.) 3 to 5 index points;**



Legislation

- × **Law on wages in bodies and Institutions of BiH**
- × **Law on Wages and Benefits of Authorities in the Federation of BiH**
(Of. Gazette num. 45/10, 111/12);
- × **Law on Employees in the Civil Service in BiH**
(Official. Gazette. 49/05);
- × **Budgets on different levels**
- × **Canton and municipality legislation**



Assessment of situation

We could discuss whether the wages of authorities are too high or not, yet, without any doubt, we can say that they are the highest in the region if we take level of economic growth of the country as criteria.

Aggravating circumstance in this case is also the number of administrative units in the Federation of BiH and the accompanying number of wages. Apart from them, there is a large number of other jurisdictions which total to a high amount of funds and produce justified dissatisfaction on the part of a large number of citizens.

That is the reason for citizens' distrust of authorities and this could be potential source of social revolt and destabilization of society. In total, these savings do not represent substantial amounts, yet their significance on psychological level would be very important.



Reasons for reduction

- Reduction of public expenditure;
- Stability of fiscal system;
- Control of expenditure and decrease of budget deficit;
- Creation of political environment for implementation of system and structural reforms;
- Sending positive message.



Suggested measures

- **Amendments to the Law on Salaries in Authorities and Institutions of BiH;**
- **Amendments to the Law on Salaries and Benefits in Authorities of FBiH;**
- **Analyse the number of elected officials, public service managers and functionaries;**
- **Amendments of collective agreements;**
- **Amendments to municipal and cantonal legislation in this area.**



Jurisdiction

Government and Parliament of FBiH
Council of Ministers and Parliamentary Assembly of BiH
Cantonal governments and parliaments
Municipal authorities



Deadlines

At all levels

90 days after appointment of government

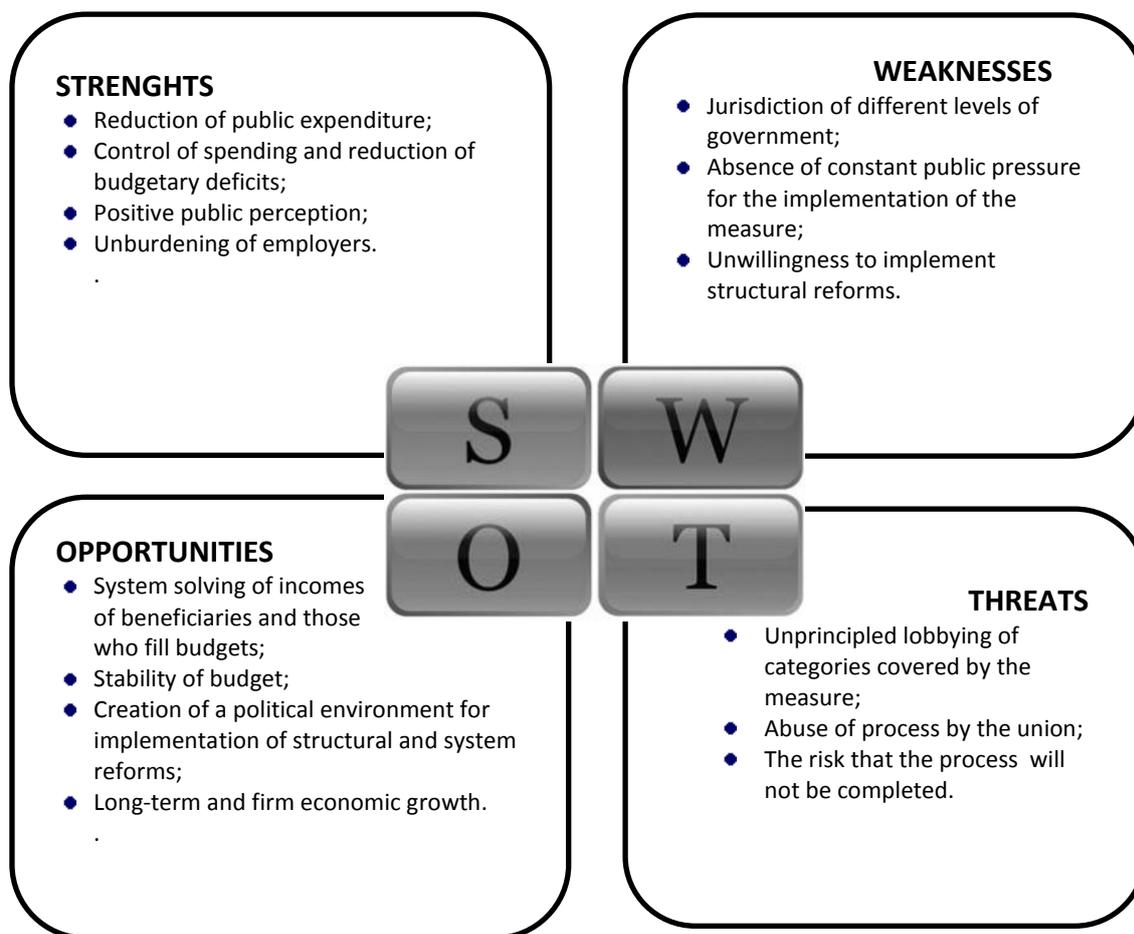
The role of the AE FBIH

- Prepare a comparative analysis, if necessary;
- Organize public hearings;
- Organize expert discussions, if necessary;
- Public Advocacy.

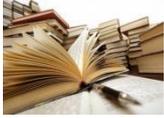


Assessment of benefits

- Direct benefit from this measure would be BAM 5 to 8 million savings in budgets
- Indirect benefit through sending a positive message would be more significant.



b) Reduction of other costs



Legislation

- × **Law on organisation of administrative bodies in FBiH**
(Official Gazette of FBiH, no. 35/05);
- × **Budgets of different levels.**



Assessment of situation

Government implements a restrictive policy of public expenditure through limitation of current expenditure growth. It reflects in suspension of employment in public sector, maintenance of achieved level of salaries and limitation of payments of certain benefits. But, that is not enough. It is necessary to reduce all budget costs, except incentives, stimulations and capital transfers.

Allocations for capital projects from the budget of Federation BiH are lowest, comparing with neighbouring countries and the countries with almost the same level of development and size.



Reasons for reduction

- Creation of conditions to solve budget deficit;
- Excessive public expenditure;
- Transfers that do not correspond to the amount of budget and the achieved level of economic development;
- Excessive public debt.



Suggested measures

- **In the budget for the next four years reduce expenditures, except subventions, stimulations and capital investments and transfers.**



Jurisdiction

Council of Ministers and Parliamentary Assembly of BiH
Government and Parliament of FBiH
Cantonal governments and assemblies
Municipal authorities



Deadlines

Constant activity



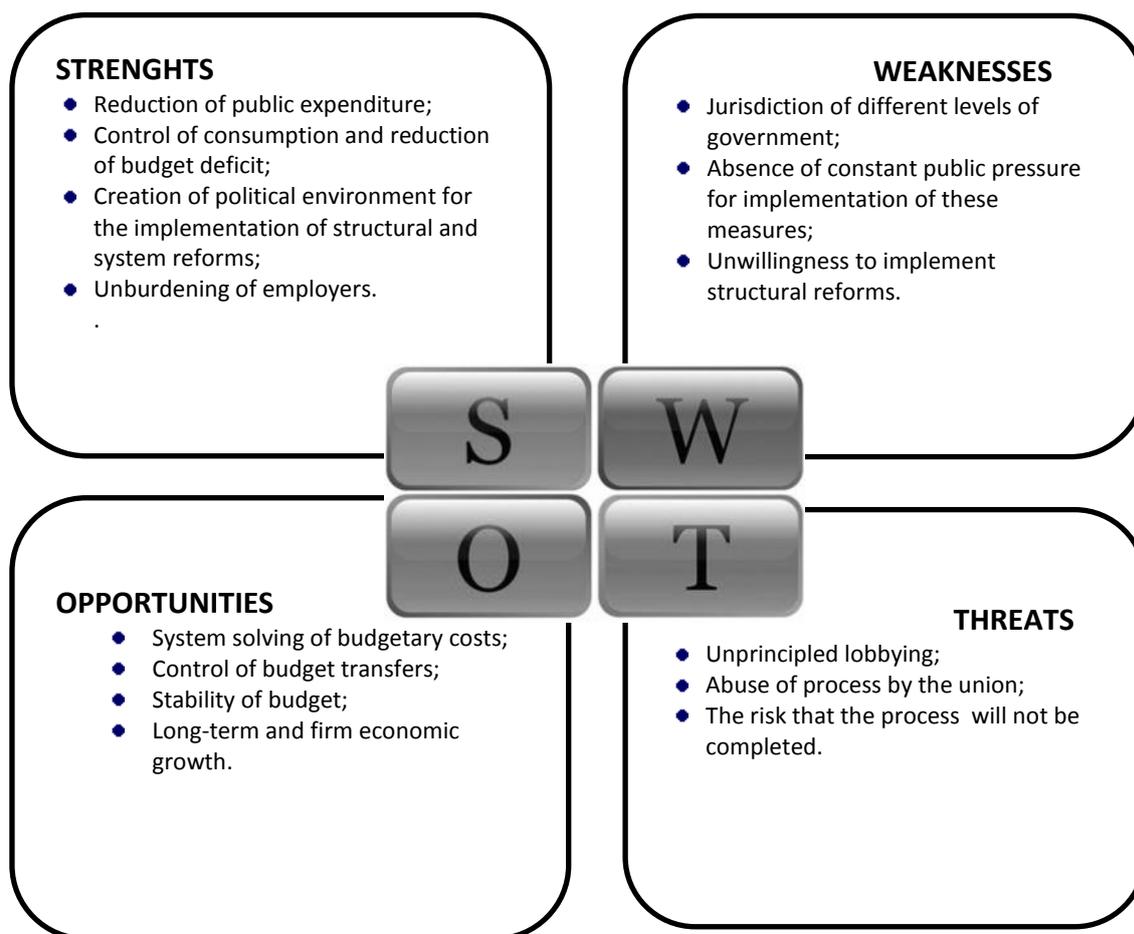
The role of AEFBiH

- Prepare a comparative analysis, if necessary;
- Organize expert discussions, if necessary;
- Organize public hearings;
- Public Advocacy.



Assessment of benefits

- Implementation of this measure will provide from BAM 60 up to 80 million in budgets at all levels.
- Indirect benefit needs to be evaluated.



c) Reduction of social transfers



Legislation

- × **Law on social protection, protection of civil war victims and protection of families with children**
(Official Gazette of FBiH, no. 36/99, 54/04, 39/06, 14/09);
- × **Law on pension and disability insurance of FBiH**
(Official Gazette of FBiH, no. 29/98, 49/00, 32/01, 29/03, 73/05, 59/06);
- × **Law on labour**
(Official Gazette of FBiH, no. 43/99, 32/00, 29/03).



Assessment of situation

Bosnia and Herzegovina, and specially Federation of BiH, is an example of a country or entity where highest percentage of GDP is allocated for this purpose. In the same time, level of social protection is low and inadequate. High number of persons in social need is not covered with social protection system but high number of persons exercise these rights without legal basis what is a consequence of vote-buying in the elections, criminal and corruption.

The largest part of current expenditure refers to social transfers. Transfers for this purpose grew faster than the total government expenditure in the period from 2005 to 2011. Their share was increased from 33% in 2006 to 37.1% in 2011. The most important component of social transfers, are pensions as a result of population aging, but also as a result of practice of retirement under so called "privileged conditions". The rest of the social transfers are transfers for the support of the unemployed, the protection of children and civilians and war veterans.³³

Social support for war veterans, which is not based on social security contributions, but founded directly from budget or the resources of extra-budgetary funds, is around 4% of GDP and is the highest in the region. This area transfers at the entity level only. If we join transfers of cantons and municipalities, the amount would probably go up to 6% of GDP. The low level of effectiveness is the biggest problems of social support programs, since much of transfers do not reach the poor and the most vulnerable categories of the population.



Reasons for actions

- Create social protection system that would be adequate to the needs and achieved level of economic development;
- Provision of adequate level of social protection;
- The non-selective introduction in the law;
- Allocation for social protection in line with real possibilities.



Suggested measures

- **Develop the program of projects aimed to solve problems of social inequality of people in social need, in accordance with the real financial resources;**

³³M. Halilbašić: „A study on Public expenditure in FBiH“.

- Introduce property census;
- Deprive of rights those who have been introduced without any legal basis or who are using social benefits on several grounds;
- Conclude social agreement for the period 2014 -2017, with concrete measures, deadlines and stakeholders roles and responsibilities;
- Connect pensionable service and solve the debts to the Fund for pension and disability insurance.



Jurisdictions

Ministry of Work, Social policies and Employment of FBiH
Government of FBiH
Parliament of FBiH



Deadlines

Drafting of program	6 months
Drafting of social agreement	3 months
Proposal of the Law on connection of pensionable service	6 months



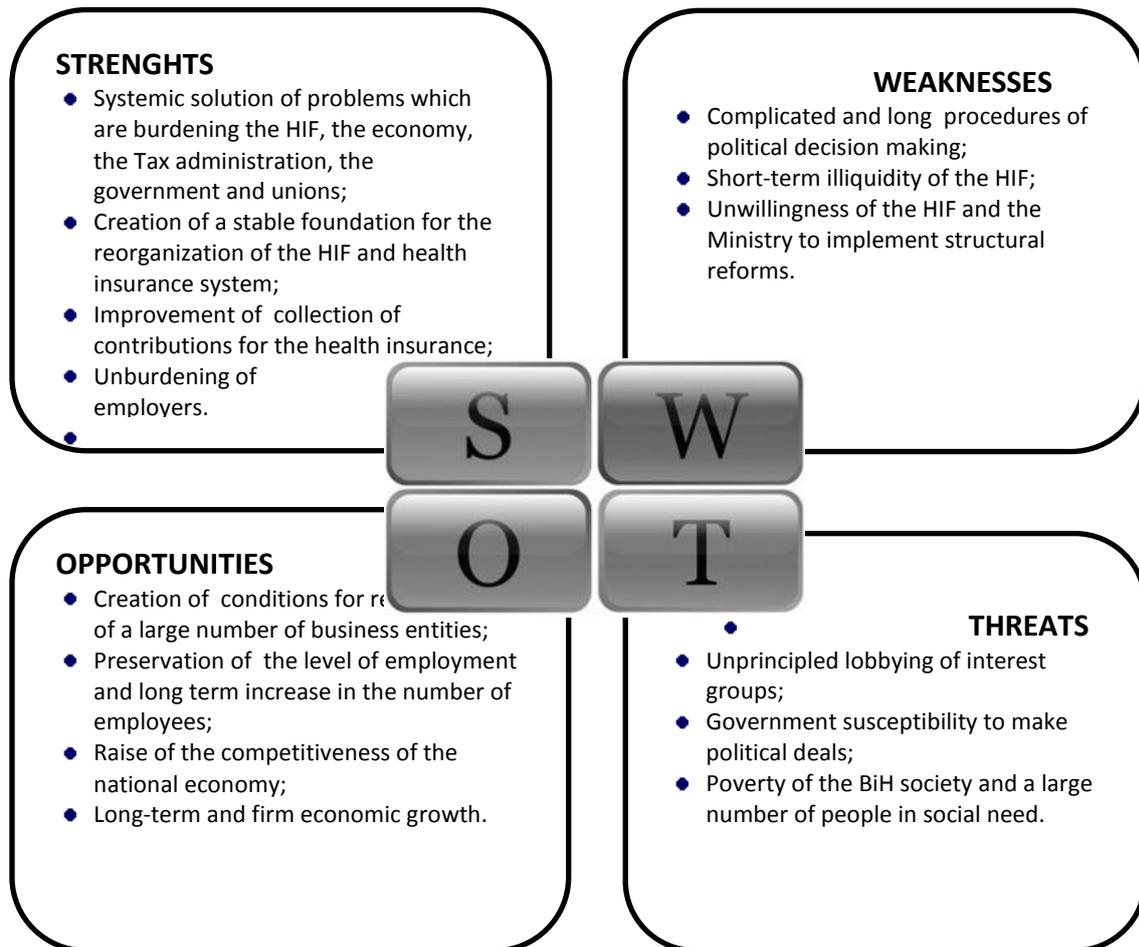
The role of the AEFBiH

- Participate in creation of program;
- Participate in creation of social agreement;
- Participate in activities at the expert level;
- Propose laws and other regulation.

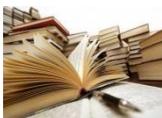


Assessment of benefits

- Benefit from implementation of proposed measures would be multiplied: material savings in budgets with amount that needs to be anticipated; the psychological effect in terms of calming tensions, influence on reduction of corruption.



d) Reduction of internal and external debt



Legislation

- × **Law on Debt, Borrowing and Guarantees in the FBiH**
(Official Gazette of FBiH, no. 86/07, 24/09, 44/10);
- × **Law on Establishing and Settlement of Internal Obligations of the Federation of BiH**
(Official Gazette of FBiH, no. 66/04, 49/05, 35/06, 31/08, 32/09, 65/09, 42/11);
- × **Law on settlement of obligations arising from old foreign currency deposits**
(Official Gazette of BiH, no. 28/06, 76/06, 72/07, 97/11);
- × **Law on settlement of obligations arising from old foreign currency deposits**
(Official Gazette of FBiH, no. 62/09, 42/11);
- × **Law on government debt and guarantees in the Federation of BiH**

(Official Gazette of FBiH, no. 86/07, 24/09);

× **Law on budgets in the FBiH**

(Official Gazette of FBiH, no. 19/06);

× **Law on treasury in the FBiH**

(Official Gazette of FBiH, no. 19/03, 79/07).



Assesment of situation

Total debt in FBiH, defined by the law, was BAM 5,8 billion on 30.06.2012. The external debt is BAM 4,3 bilion and internal debt is BAM 1,5 billion. Total external debt is BAM 4.298.826.917. Additionally, debt of companies owned by the Government of FBiH is BAM 1,1 billion.

Verified claims of unpaid obligations, on the basis of internal debt, amounted to BAM 888.18 million at 30.06.2012: the old foreign currency deposits - BAM 528.11 million; the verified war debts – BAM 191.03 million; the outstanding obligations which arises from unpaid salaries and benefits of the ex-Federal Ministry of Defense and the Federal Army – BAM 5,19 million; the obligations of unpaid suppliers of the Federal Ministry of Defense and the Federal Army – BAM 7.36 million. Obligations on the basis of issued treasury bills of the Federation of BiH – BAM 59.31 millions; the issued debentures of Federation of BiH - BAM 97.17 million. Since the inner part of the debt must be verified, we can expect higher amount of debt.³⁴

This amount is certainly higher if we add tranches from the IMF used to cover budget deficits, as well as current debts arising from purchase of goods and services, and final verdicts for non-compliance of collective agreements. So, it is a debt of budgets of all levels of government. These are enormously high amounts which significantly increase budget expenditure, and appropriate attention should be given to their reduction. Although the debt is not large, it is still a limiting factor for new borrowing, especially under favorable conditions.



Reasons for reduction

- Reduction of budget expenditure;
- A high amount of interest to be paid on 40% of the amount of the debt;
- Unfavorable structure of budget expenditure.

³⁴ Information on external and internal debt of FBiH, 30.06.2012.



Suggested measures

- Create a strategy to solve this problem;
- Reprogramming of adverse credit;
- Find affordable sources of financing to cover debts;
- Borrow only for capital projects which will be paid off by itself.



Jurisdictions

Ministry of Finance of FBiH
Government of FBiH
Parliament of FBiH



Deadlines

Development of strategy	12 months
Reprogramming of adverse credit	12 months



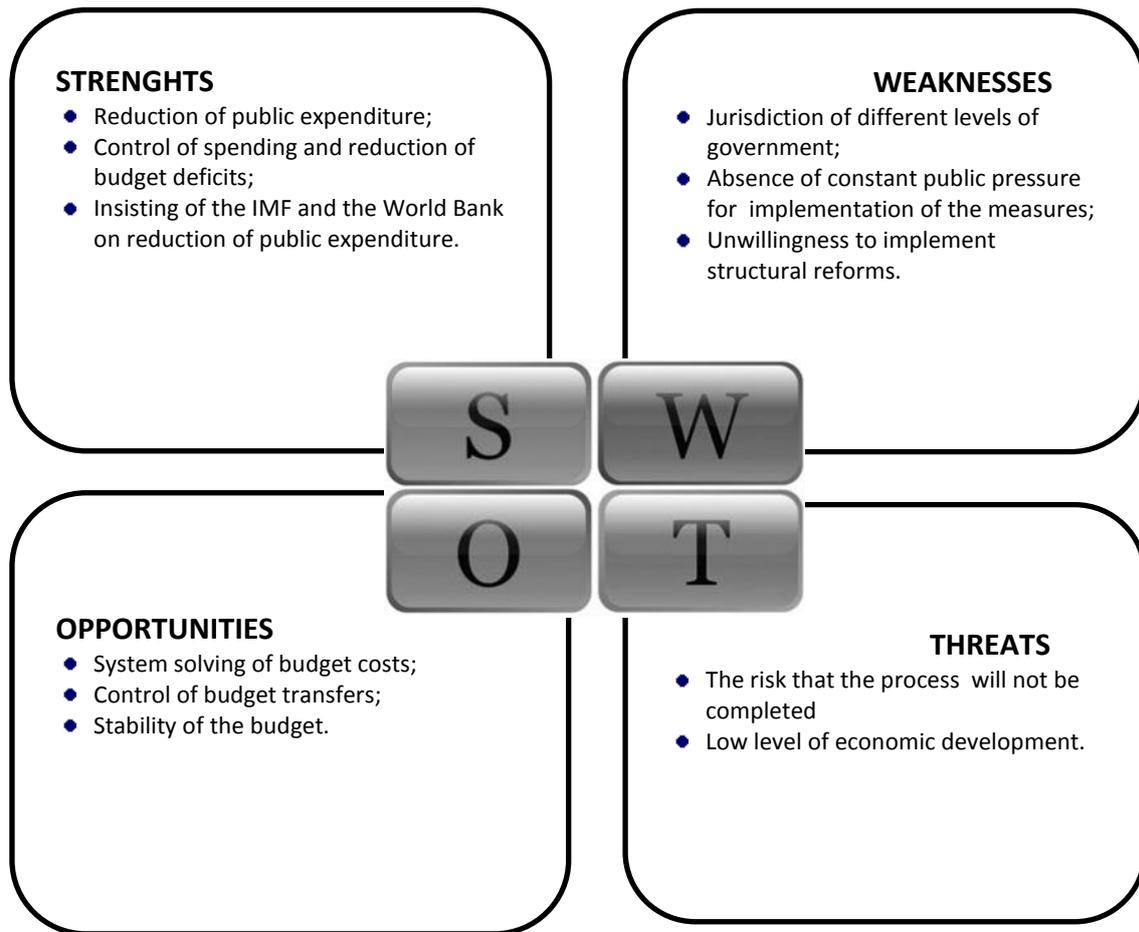
The role of the AEFBiH

- Participate in development of the strategy;
- Organize expert discussions;
- Public advocacy.



Assessment of benefit

- It is estimated that the implementation of these measures will reduce budget expenditure. The total amount is approximately BAM 30-50 million from the budgets of all levels.
- Indirect benefits is to be assessed.



8. SYSTEMATIC REFORM MEASURES

Systematic measures are measures demanding multidisciplinary approach, and longer period for implementation. Because of that, it is extremely important that these goals are well defined for its quick design. Those measures will have the most significant effect on improving of business environment in FBiH.

It is clear that these measures are followed with adoption of policies and strategies for certain industries, reforms, public administration, reform of pension system, reform of social policies, reform of fiscal policies and reform of education. Implementation of these reform measures will have its full meaning in combination with implementation of all other measures.

These areas are not the only ones demanding essential change, but we think that these areas mentioned in this document have priority among other ones on aspect of Employers interest and general interests.

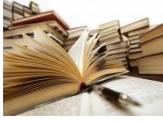
In this part every kind of help from international community is more then welcome. Design and implementation of these measures are demanding high level of theoretically and empirical knowledge, but they are the most expensive. At the same time implementation of these measures will encounter strong resistance of all of those not wanting to adopt to new standards. We are afraid that it will be more of those in the future.

This is great opportunity for implementing EU directives and standards in our legislation. Because of that we are convinced that these measures can not be implemented without help from international community. We are not thinking only on material help even if it is very important as well. We think that hiring of foreign experts, sharing of experiences, expert literature, education of domestic stuff and constant making of political pressure is more important.

There is no doubt that implementing of suggested measures will cause social tensions on a short term. One part of people could not avoid being passed with negative consequences which these measures will cause. Because of that it's extremely important to achieve minimum approval from social-economic partners on one side and political parties on the other.

Effects of implementation of suggested measures will have positive, long term aspect on economic development, investments, new hiring, raising of competent capability of domestic market. That will of course, reflect on raising the quality of life of normal person but also on raising of capability of BiH for fulfilling of conditions for Euro-Atlantic integration.

a) Development and adoption of strategies and policies for specific areas



Legislation

- × This activity is not specifically regulated by certain regulations.



Assessment of the situation

In some areas there is no strategy. In those areas and sectors that have adopted strategies and policies, there are two types of problems. **These documents had long passed, in quite different circumstances and different social and economic environment**, so they cannot be adequate to today's needs. It is obvious that they must assume a substantial review.

Second, **certain strategies and policies that are relatively good and appropriate to the circumstances**, are not implemented. Their operational part is not realized yet, so they remain a dead letter. It would be good to refresh them and re-actualize and then implement them in practice.



Reasons for development and adoption

- The need to adopt a general strategy or policy before making a single law, which will provide the instruments for their implementation;
- Harmonization with the changed socio-economic circumstances;
- Providing a basis for adopting the strategy at the national level and their harmonization.



Suggested measures

- Establishment of working groups with the participation of economic and social partners;
- Adoption of strategies and industrial policies that do not exist;
- Alignment of existing strategies with the necessary reform processes;
- Harmonization of regulations and the creation of a single economic space at State level;



Jurisdictions

Government of Federation of Bosnia and Herzegovina

Parliament of Federation of Bosnia and Herzegovina



Deadlines

Establishment of expert teams

3 months after selections of new
Government of FBH

Proposal of new strategies

1 year after established teams

Adoption of strategies

6 months after prepared draft



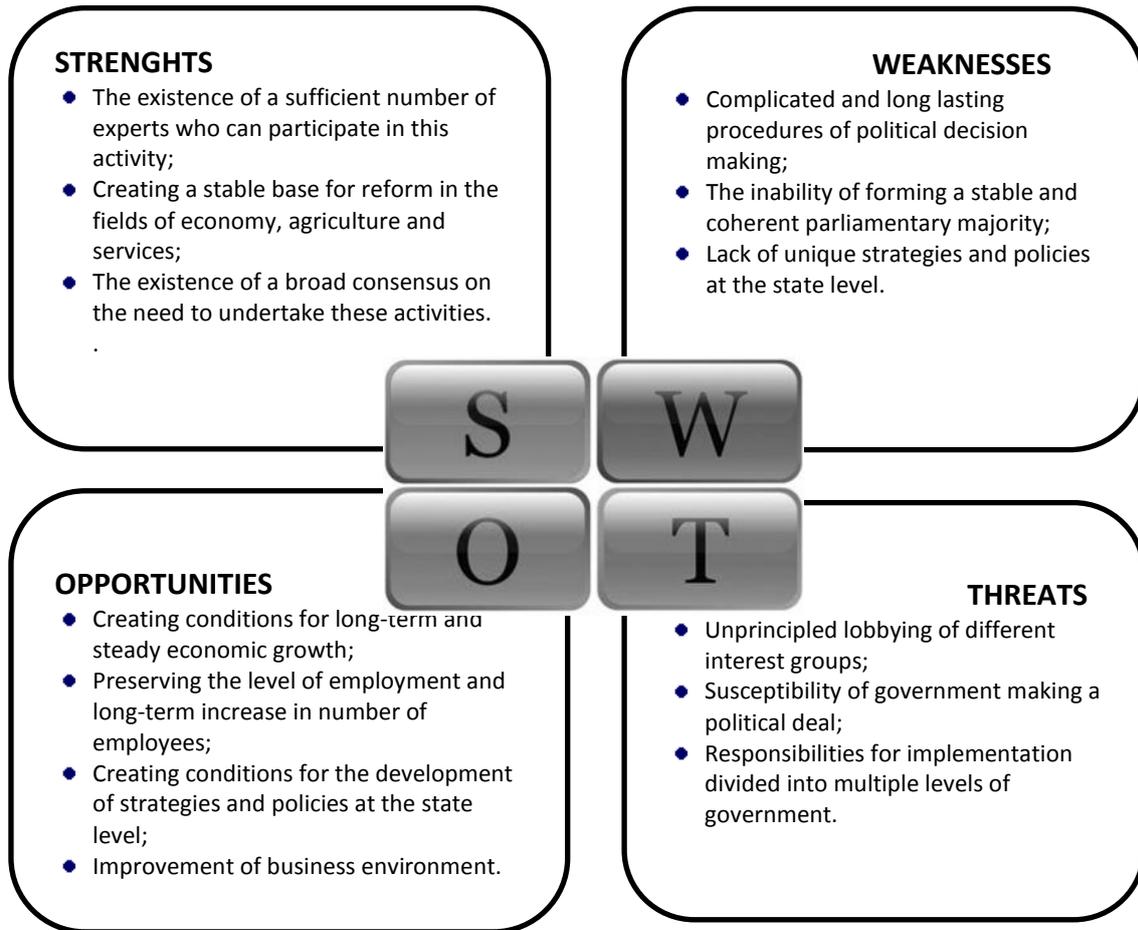
Role of AEFBiH

- Addressing the priorities;
- Giving experts in expert teams;
- Giving ideas and suggestions;
- Organization of public hearings;
- Organization of round tables and expert discussions.



Assessment of benefits

- Direct benefit from this activity can not be quantified, but it is not a primary consideration.
- Indirect benefits can not be estimated, but it is a systemic reform effort that will have a decisive impact on the business environment and economic development. Consequently the benefits from these activities will be huge



b) Public administration reform;



Legislation

- × **Law on Administration of the FBiH,**
(Official Gazette of FBiH, no. 28/97)
- × **Law on Organization of the administration in FBiH,**
(Official Gazette of FBiH, no. 35/05)
- × **Law on Employees in state Service in the FBiH,**
(Official Gazette of FBiH, no. 49/05)
- × **Law on Ministerial, Government and other appointments FBiH,**
(Official Gazette of FBiH, no. 12/03)
- × **Law on State Service in the FBiH,**
(Official Gazette of FBiH, no. 29/03, 67/05, 08/06)

- × **Law on Rights of of elected officials, executive office holders and advisors in government institutions FBiH,**
(Official Gazette of FBiH, no. 59/06)



Assessment of situation

Bosnia and Hezegovina, especially Federation of Bosnia and Herzegovina have extremely complex constitutional arrangements in which there are five levels of government (in Federation: municipality, city, canton, entity and state). This results in a very expensive and inefficient system of government.

At the same time the existing Law on Civil Servants, Law on Salaries of administrative bodies and collective agreements in the public sector, are allowing unrealistically high number of employees with unrealistically high wages, and a large number of disinterested and inefficient civil servants and other government employees.

European standard for determining the number of employees in the municipal administration is one employee per 100 inhabitants. In municipalities in Federation that number is 2-4 times higher.

Currently at courts in FBiH there are thousands of final judgments, by which municipal, cantonal and federal authorities must pay, to public sector employees, more than BAM 500 million. This amount is based on claims for interest and court costs in real terms by 25-30%. This amount is higher from the actual budgets of every canton in Federation of Bosnia and Herzegovina.



Reasons for reform

- Creating efficient, cheaper and more flexible public administration that will be a service of economic development;
- Harmonization with EU standards;
- Equal status and rights of the public and the real sector;
- Reduction of public spending.



Sugested measures

- **Establishment of expert teams with the participation of economic and social partners;**

- To determine the optimal number of cantons and municipalities;
- Identify the different levels of competence in relation to the size and economic power of the cantons and municipalities;
- After that access amending the Constitution of FBiH, which will allow it;
- Changing the law;
- Modification of collective agreements in the public sector;
- parallel with the process of rationalizing the number of employees, create the conditions for employment of staff who will lose their jobs, and creating of social programs.



Jurisdictions

Government of Federation of Bosnia and Herzegovina
Parliament of Federation of Bosnia and Herzegovina
Canton Governments
Canton Parliaments



Deadlines

The Establishment of expert teams	3 months after the election of a new government;
Drafting of amendments to the law	6 months after the new government;
Adoption of laws	6 months after delivery;
Proposals for amendments of the Constitution	18 months after the new government;
the adoption of the new Constitution	6 months thereafter;
Modification of collective agreements	6 months after the new government.



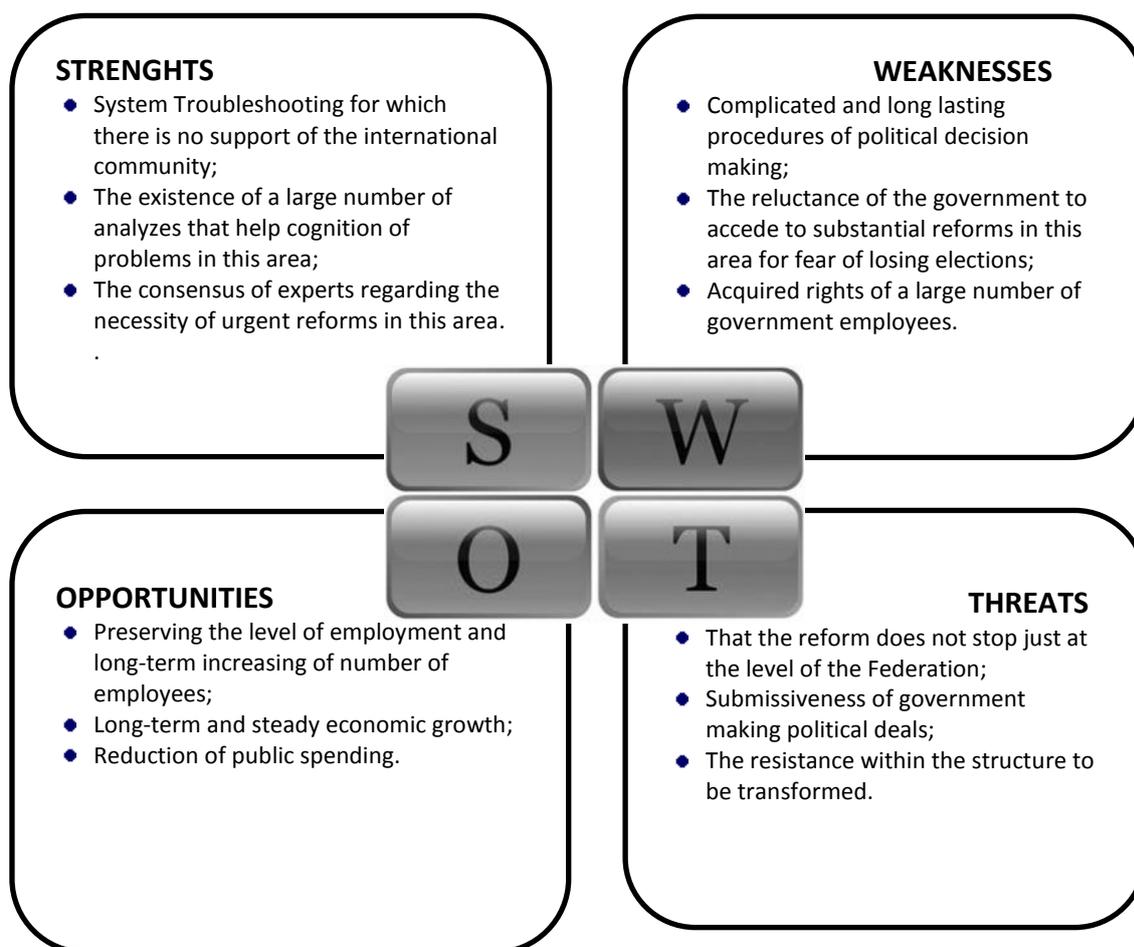
Role of AEFBiH

- Provide experts for this activity;
- Propose argued solutions;
- Public advocate the necessity of the reforms mentioned;
- Organization of public hearings;
- Organization of round tables and expert discussions of Government.



Assesment of benefits

- The expected direct benefit is the reduction in public spending by 6% in the next 4 years, which amounts to approximately BAM 150 million.
- **Indirect benefit** which is reflected in the creation of conditions for new investment and new jobs, and better filling of the budget and extra-budgetary funds, estimated at **more then BAM 150 million.**



c) Pension system reform;



Legislation

× Law on Pension and Disability Insurance of FBiH

(Official Gazette of FBiH, no. 29/98, 49/00, 32/01, 29/03, 73/05, 59/06)

- × **Law on early retirement of favorable soldiers of Patriotic War**
(Official Gazette of FBiH, no. 41/2013)
- × **Law on Service in the Armed Forces of BiH**
(Official Gazette of FBiH, no. 88/05, 53/07, 59/09 and 74/10)
- × **Labour Law**
(Official Gazette of FBiH, no. 43/99, 32/00, 29/03);
- × **Law on Contributions**
(Official Gazette of FBiH no. 35/98, 16.01, 37/01, 1/02, 17/06, 14/08);
- × **Appropriate rules and other subordinate, the implementing legislation.**



Assessment of the situation

In Bosnia and Herzegovina pension system is based on the principle of intergenerational solidarity. The basic principle of the system of intergenerational solidarity is the generation that works, make contributions to pension funds, serving a generation which has expired lifetime, either because of age or because of disability.

The system of pension and disability insurance in Bosnia and Herzegovina, is conducted by two carriers into two entities: the Federation of Bosnia and Herzegovina Federal Office MIO / PIO in the Serbian Pension Fund of RS.

Such a solution is not based on the principles of rationality and functionality, but it is the result of a political compromise reached and the Dayton Constitution, as its result.

Fund PIO / MIO of the Federation, is burdened by some uncertainties due to the large number of retirees, and the introduction of the right of a large number of persons on the grounds, special decrees that are retired under favorable conditions, without adequate material basis for it. By adopting of the new law, this problem is solved to some extent but is still the problem the large number of persons who are the retired under favorable conditions. This results in a low pensions and huge burden on employers.



Reasons for reform

The application of intergenerational solidarity, in circumstances where the overall lifespan, was much lower, so these financing needs for funds for the funding of pension expenditure in total GDP were much lower than today, and the financial load current labor contribution to PDI was relatively acceptable.

With time, it comes to an untenable financial burden on funds that were formed for the implementation of the right to pension and health insurance, because this obligation was not secured by revenues.

The situation is significantly worsened by the fact, **that the average length of service retirees is less than 25 years**, a large share of the informal economy and tax indiscipline, and the relatively low level of economic activity that follows a small number of employees.



Suggested measures

- Establishment of expert teams with the participation of economic and social partners;
- Develop a draft reform of the pension system;
- Gradual increase of service for retirement;
- Penalty of retirement before age 40 years of work;
- Introduction of voluntary insurance;
- reactive approach for going into a disability pension;
- The stability of PDI / MIO, through increased financial resources in discipline and control of payment of contributions;
- Retirement particular grounds kept to a minimum and only by providing budgetary resources for this purpose.



Jurisdictions

Government of Federation of Bosnia and Herzegovina

Parliament of Federation of Bosnia and Herzegovina



Deadlines

Establishment of teams	30 days after the formation of the new government;
Adoption of reform of the pension system	12 months after the formation of the new government;
Changing of laws	6 months after the adoption of the reform;
Changing of subordinate legislation	6 months after the law passed.

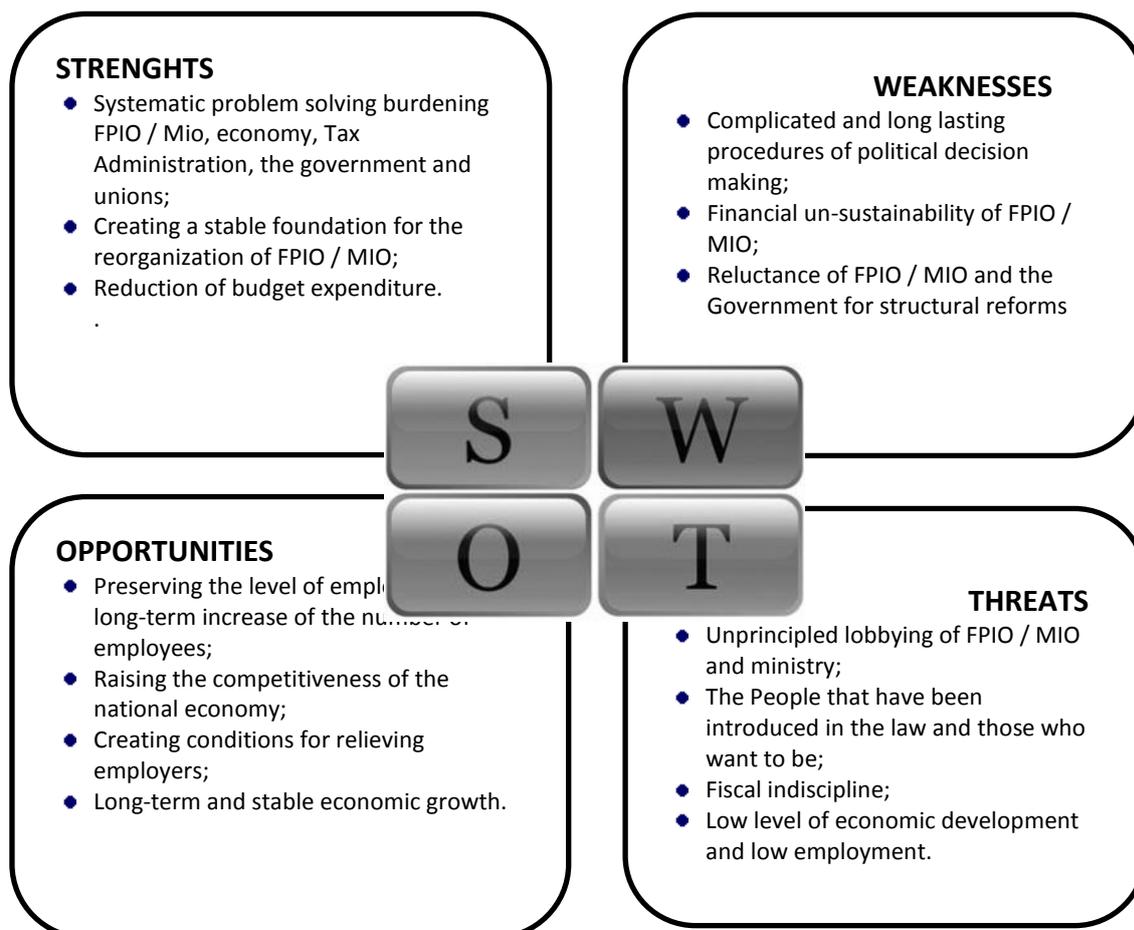
Role of AEFBiH

- Participation in expert teams for drafting strategies;
- Organization of public hearings;
- Organization of round tables and symposiums.

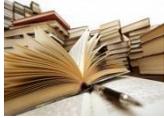


Assessment of benefits

- The direct benefit will be in evident financial consolidation of FMIO / PIO, increasing pensions and reducing labor costs. How much will it be, it is difficult to assess at this time.
- Indirect benefits will be manifested through increased financial discipline and increased number of registered workers, and thus better filling of the Fund PIO / MIO.



d) Reform of social policy;



Legislation

× **Law on Social Protection, Protection of Civilian Victims of War and Protection of Families with Children**

(Official Gazette of FBiH, no. 36/99, 54/04, 39/06, 14/09);

× **Law on Pension and Disability Insurance of FBiH**

(Official Gazette of FBiH, no. 29/98, 49/00, 32/01, 29/03, 73/05, 59/06);

× **Labor Law**

(Official Gazette of FBiH, no. 43/99, 32/00, 29/03).



Assesment of situation

The social protection system is based on social rights rather than on actual needs. **The poorest fifth of the state received only 17.3% of the total amount of money for social protection.** Such a system of social protection in any way cannot eradicate poverty. **Moreover when it would not be at all, the proportion of poor would increase only by 1.7%.³⁵**

At the same time allocations for this purpose are among the highest in comparison with other European countries. This has the effect that the allocations for this purpose are high and the inadequate to the level of economic development of Federation, and at the same time, individuals which has needs gets nothing or little.



Reasons for reform

- The system is discriminatory (status, fee, territorial, etc.);
- The system has a passive character, and does not include these categories in the business;
- Excessive allocation for this purpose;
- Extremely expensive and ineffective svstem

³⁵ IBHI: „From protection to social envolment“, www. lbhi.ba



Suggested measures

- Establishment expert teams with the participation of economic and social partners;
- Development of social policy, as part of public social policy;
- Design and EU funding for social inclusion;
- Legal and fiscal policy to support social entrepreneurship (: Social enterprises and cooperatives);
- Develop and implement incentives for employers in the case of social work;
- The remuneration system in place for the status attached to the need.



Jurisdictions

Ministry of Labor and Social Policy of Federation of Bosnia and Herzegovina

Government of Federation of Bosnia and Herzegovina

Parliament of Federation of Bosnia and Herzegovina



Deadlines

Creating of expert teams	30 days after Government is established
Development of strategy	12 months
Changing the Law	12 months



Role of AEFBiH

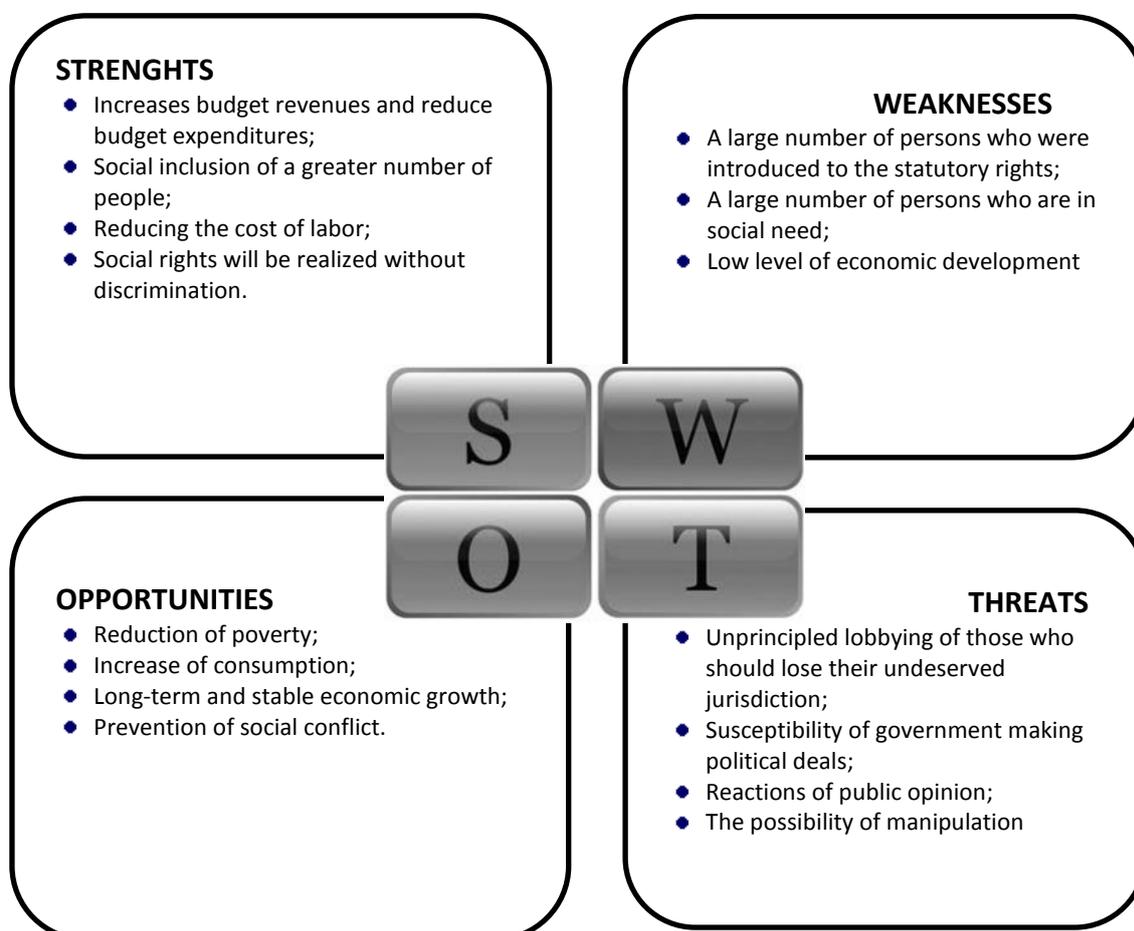
- Participation in the working group;
- Engaging external experts;
- Organization of public hearings;
- Organizing roundtables and public hearings;
- Delegation issues the session ESC's.



Assesment of benefits

- Direct benefits will be reflected in the creation of conditions for burdening of employers and cuts in public spending, but this needs to be evaluated.

- Indirect benefits will be manifested by the new employment of persons with disabilities and their inclusion into society. In this way, the user of the budget and extra-budgetary funds will become the people who are filling the fund.



e) Reform of fiscal policy which will brought burden on average EU country;



Legislation

- × **Law on Income Tax,**
(Official Gazette of FBiH, no. 10/08, 9/10, 44/11)
- × **Law on Income Tax,**
(Official Gazette of FBiH, no. 97/07, 14/08, 39/09)
- × **Law on Contributions,**

(Official Gazette of FBiH, no. 35/98, 16/01, 37/01, 01/02, 17/06, 14/08)

- × **Law on fiscal systems,**
(Official Gazette of FBiH, no. 81/09)



Assesment of situation

The tax system in Bosnia and Herzegovina (indirect taxes) and tax system in Federation (direct taxes) is not encouraging for the current economic entities, and consequently is not motivating for new investments. They do not provide fiscal transparency or developing tax discipline. Such systems require the necessary reform and modernization, which must be accompanied by decreasing public spending, budget deficits, the negative balance of payments and public debt.

Direct taxes at the first place: income tax and personal income tax and taxes citizens are not sufficiently generous, and not fair as well, and it can be said that not anticipate stimulating tax relief. The situation with the charges, which involve hundreds (from municipality to State) is even worse. It is a completely inflexible giving, which are also discriminatory.

In VAT system there is a single rate of 17% and very symbolic and strict exemptions for certain goods on which VAT is not charged. That rate is the lowest in Europe, and certainly there is room to increase it symbolically, or to bring in more interest, but so important not to jeopardize consumption. The reform of indirect taxes must be carried out synchronized with the reform of direct taxes. Otherwise, one can expect very questionable results.



Reasons for reform

- Install tax harmonization;
- Reducing the tax burden;
- To introduce a simple system of taxation;
- Ensure the efficiency of taxation;
- Introduce fairness in taxation;



Suggested measures

- **Forming of expert teams with the participation of economic and social partners;**
- **Amendments to the Law on Value Added Tax;**

- Amendments to the law on direct taxes;
- Reforms obligated to go in direction of stimulating tax system: burdening of economy, radical reducing of public administration, harmonization of taxes (inside of BiH with neighboring countries) and those needed to be followed with social policy measures)



Jurisdiction

Council of Ministers of Bosnia and Herzegovina
Parliamentary Assembly
FBiH Government
FBiH Parliament
Cantonal parliament



Deadlines

- | | |
|---|--------------------|
| ○ Forming of expert team | 30 days |
| ○ Developing a comprehensive tax reform | 12 months; |
| ○ The adoption of new legislation | next 6 months; |
| ○ The adoption of implementing acts | the next 3 months. |



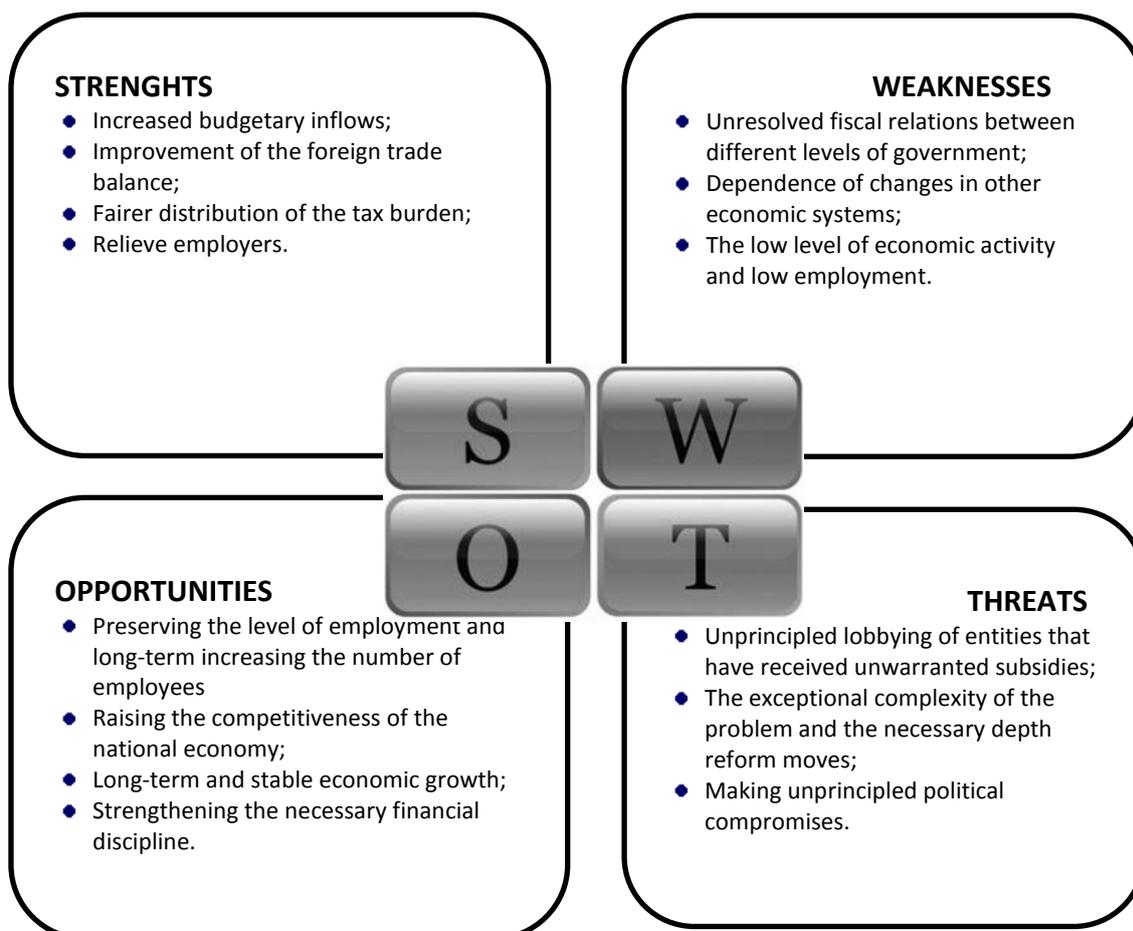
Role of AE FBiH

- To propose solutions;
- Participation in the work of expert teams;
- If necessary, preparing expert analysis and research;
- Organization of public hearings;
- Organization of round tables and symposiums;
- Public Advocacy.



Assesment of benefits

- This is a system of measures whose implementation should result in a structural change of social and economic relations. The benefit of this will have all the actors of society. Assessment of direct and indirect benefits needs to be determined.



f) Education reform;



Legislation

- × Constitution of BiH in Article II. 4 point b) governs the cantons regarding determination of educational policies, including the adoption of regulations and provision of education;

- × **Law on Framework on Preschool Education in Bosnia and Herzegovina**
(Official Gazette of BiH, no. 88/07)
- × **Law on Framework on Primary and Secondary Education in Bosnia and Herzegovina**
(Official Gazette of BiH, no. 18/03)
- × **Framework Law on Higher Education in Bosnia and Herzegovina**
("Official Gazette" 59/07; 59/09);
- × **Law on Framework on Vocational Education**
(Official Gazette of BiH, no. 63/08)
- × **Draft law on the basis of scientific research activities and the coordination of internal and international scientific and research cooperation between Bosnia and Herzegovina**
(Official Gazette of BiH, no. 43/09)
- × **Law on High Education**
(Official Gazette of Tuzla Canton, no. 8/08, 11/09, 12/09)
- × **Law on High Education**
(Official Gazette of Sarajevo Canton, no. 43/08, 18/10, 22/10)
- × **Law on High Education**
(Official Gazette of Zenica-Doboj Canton, no. 06/09)
- × **Law on High Education**
(Official Gazette of the Una-Sana Canton, no. 8/09)
- × **Law on High Education**
(Official Gazette of West Herzegovina Canton, no. 10/09)
- × **Law on High Education**
(Official Gazette of Herceg Bosnia Canton, no. 09/09)
- × **Law on High Education**
(Official Gazette of Bosnia-Podrinje Canton, no. 2/10)
- × **Law on High Education**
(Official Gazette of Posavina Canton, no 1/10)
- × **Law on High Education**
(Official Gazette of Herzegovina-Neretva Canton, no. 04/12)
- × **Law on High Education**
(Official Gazette of Central Bosnia Canton, no. 4/13)
- × **Law on the Agency for Pre-Primary and Secondary Education**
(Official Gazette of BiH, no. 88/07)
- × **Law on Primary Education**
(Official Gazette of SR BiH, No. 39/90 and "Official Gazette SR BiH, no. 3/93, 24/93 and 13/94)
- × **Law on Secondary Education**
(Official Gazette of SR BiH, No. 39/90 and "Official Gazette SR BiH, no. 3/93, 24/93, 13/94 and 33/94)



Assesment of situation

Competencies for education is divided between the municipalities who are responsible for primary education and canton authorities in charge of secondary and higher education, while at the FB&H level there are framework laws that regulate this area. At the state level there is a framework law on higher education, the Framework Law on Preschool Education, Framework Law on Primary and Secondary Education, Framework Law on Vocational Education and framework law on the basis of scientific research activities and the coordination of internal and international scientific and research cooperation between Bosnia and Herzegovina. The system of non-formal education is not legally resolved.

The education system does not follow the needs of the labor market and not allows the end of the horizontal and vertical mobility of students. **The level of knowledge, skills and abilities of students**, is very uneven and in **any case inadequate for needs of employers**. This has the effect that the list of unemployed is about 40% of people who cannot participate in the labor market.

In FB&H, but also throughout the country, there has been a deflation of private colleges, with very questionable quality of the teaching staff, and the conditions studying. On great number of such faculties knowledge is not acquired, diplomas are sold. It is very hard to get a job to graduate from these faculties.



Reasons for reform

- Incoherence of educational systems with labor market needs;
- curriculum plans are not compatible with modern knowledge, skills and competencies;
- Inability of vertical and horizontal mobility;
- Absence of legally recognized non-formal education;
- Poor quality of knowledge, skills and abilities of graduated pupils and students;
- Non-compliance with European standards and directives.



Suggested measures

- **Draft and implement the reform of secondary education;**
- **Draft and implement the reform of higher education;**
- **Legal regulation of informal education.**



Jurisdiction

Cantonal Assemblies and the Parliament of FBH.
Ministry of Education of Canton and Federation;
Cantonal governments and Federation Governments;



Deadlines

Developing of Strategies	12 months;
Adoption of the law	6 months;
The adoption of legislative acts	under 3 months.



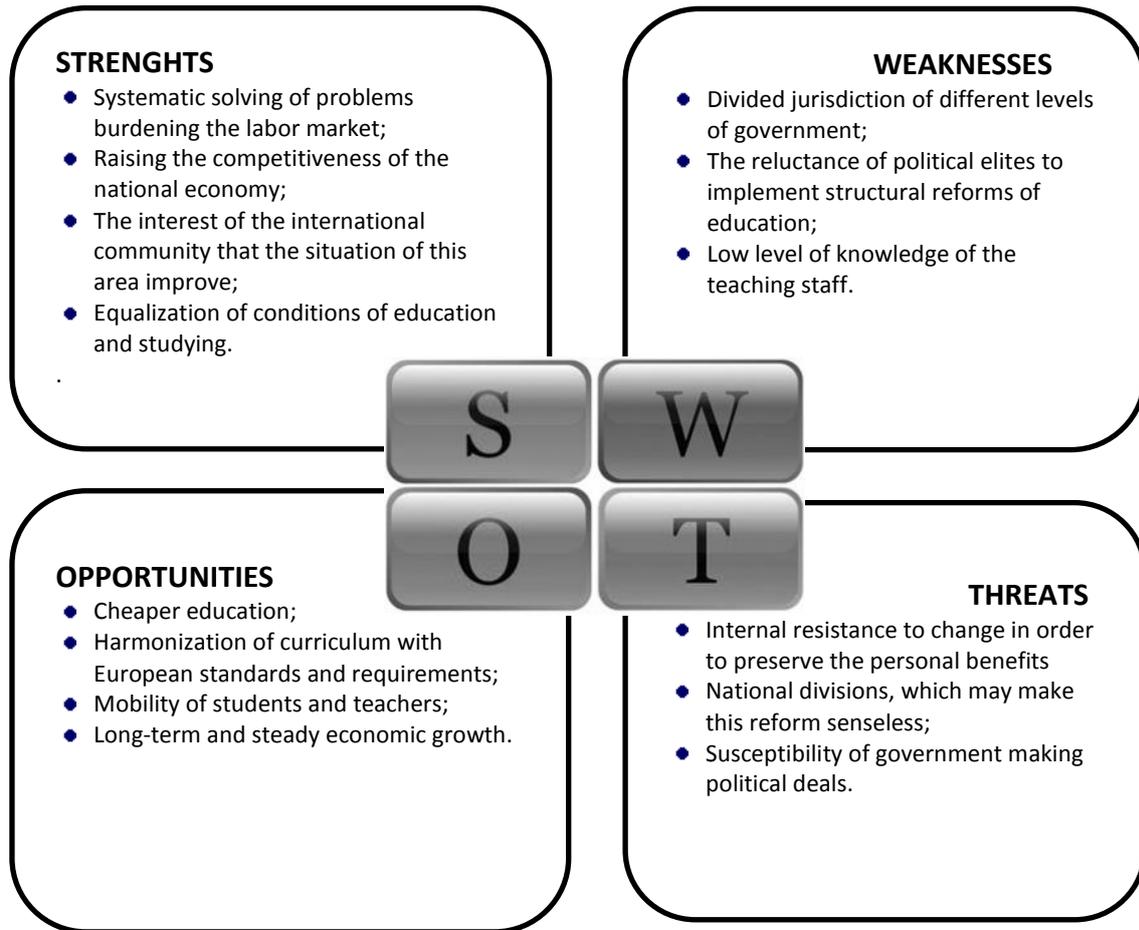
Role of AEFBiH

- To propose solutions;
- Organization of public hearings;
- If necessary, conduct research and expert analysis;
- Organization of round tables and symposiums;
- Public Advocacy.



Assesment of benefits

- Assesment of benefits still needs to be done but it is undoubtfull that it's going to be great.



9. CONCLUSION

This problem is big and extremely complex. Long lasting recession, low level of economic activities, high level of unemployment brought this society to poverty. Disappearing of middle class and polarisation of society on extremely low number of the rich and high number of the poor will soon bring a large social bunt and social conflicts, unless some prevention measures are taken on time.

Our society, poor and divided with war, tortured with national, religious and world views conflicts for more then 20 years, **is too weak to step out of the crisis alone, without intensive and planned international community assistance.** Euro-Atlantic integration is a great challenge, but only way for our society to adopt and implement standards that will provide its sustainability.

Political problems will not be solved easily, without lowering tensions and relaxation of relations. It is unrealistic to expect that at the moment, so enhancement of quality of life should be the primary focus. If we do not address burning social-economic problems right away, political tensions will continue to grow and our goal of accession to the community of European people will remain a dream.

Without transfer of knowledge and experience from international community this will be a very hard job. However, we need their mediator role and financial assistance. In this sense, key domestic economic partners are employers' and non-governmental sector. Both sectors cannot survive without EU market, european standards and regulated market conditions.

That is why it is so important to let employers, who are members of the AEFBiH and the healthiest part of our societies, to give their contribution to economic growth and employment. However, in order to achieve their role, employers need developed and favorable market environment. We offered partnership to government and unions and we gave our proposal for overcoming of the social and economic crisis. We are ready to commit and to work but we are expecting the same from others.

Jurisdiction for implementation of several proposed measures has government at the BiH level. Other measures are jurisdiction of entities, cantons and municipalities. It is important to look and find the political consensus for implementation of proposed measures. It is also necessary to achieve the quality of economic-social dialogue and general consensus at all levels.

That is why we expect a clear manifest from all levels of authorities and political parties. If they accept to work on implementation of proposed measures, we are offering our help and support. But, if they do not accept our proposals, we expect them to offer their programs without delay and to secure general social consensus for their implementation. We also expect them to demonstrate accountability and periodically report their work to public.

Since these are structural reforms, permanent sessions of parliaments and governments of all levels are needed, as well as constant sessions of the Economic and Social Council. For implementation of planned measures it is necessary to prepare and implement specific sector activities to reduce public expenditure, unburden economy, enhance liquidity, enhance legislation and maintain investment level.

We didn't have pretensions to give final solutions in this document. That is a job of governments of all levels. But if government calls, we are ready to offer our argued proposals and solutions and to work together with all social partners. If we do not receive adequate response from executive authorities, we will offer our solutions to representatives of legislative branch. **We will not give up.**

Media and public in general have very important role in this project. If media supports this initiative, the institutions of the system will easily accept to become involved in implementation of proposed measures. We will try to involve media from the beginning, and we will also try to constantly inform the public about implementation of measures and eventual obstructions.