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## Tackling Youth Unemployment in Bosnia and Herzegovina: My Generation's View

### *A Systemic Approach to Improving Youth Employment in Bosnia and Herzegovina*

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Bosnia and Herzegovina (BiH) has one of the world's highest youth unemployment rates in the world, at around 63.1%.<sup>i</sup> The dismal employment situation in BiH is discouraging the youth, leading to their social exclusion and apathy. As a result, nearly two thirds of all youth in BiH want to leave the country.<sup>ii</sup> These poor prospects for youth employment are not limited to BiH alone; in fact, even some developed countries, such as Spain and Portugal, are struggling with high youth unemployment rates. Nevertheless, causes of excessive youth unemployment in BiH are systemic and require a comprehensive, long-term approach that must redefine the country's social, macroeconomic, and business environment.

In that regard, currently, youth employment growth in BiH faces two obstacles: passive and unprepared youth for a competitive market economy and inadequate capacities and policies of the State to support the private sector, and therefore youth employment growth.

#### **Sociological Transformation of Youth**

One reason behind the high youth unemployment is the lethargy with which youth approach their joblessness. The Youth Employment Project in BiH has found out recently that two thirds of registered unemployed youth in Dobož and Novo Sarajevo (the sample) are not actively seeking employment.<sup>iii</sup> This demonstrates the mentality of the youth that expect the State to deliver jobs to them. But, BiH youth do not have the confidence that the corrupt State system will resolve their unemployment issue. So, what are they waiting for and what should they do to improve their employment prospects?

First, they need to abandon the inherited socialist mentality. The youth have to accept that the socialist system in which their parents grew up in is no longer possible, and that the State cannot resolve the jobs crisis among youth the same way the social State dealt with unemployment. They have to "wake up" and take their destiny into their own hands. They need to be mobilized to look actively for jobs. This requires a more proactive engagement of youth organizations and NGOs in supporting the youth job-market awareness and activism through public awareness campaigns and job-preparation workshops. These initiatives should help the Employment Bureaus in performing matchmaking/job brokering for the youth.

The activated youth should then demand from the State to improve economic freedoms. This comes from the belief that the State should deregulate as much as possible in the areas in which the private sector will perform better, in order to support job creation. The State should still maintain its key role in the areas of the rule of law, legal system efficiency, protection of private property, and social security for those in need.

### Business Environment Measures

Adam Smith's "The Wealth of Nations" suggests that free markets, the protection of private property rights, and minimal government interference in the economy lead to prosperity. Therefore, economic freedoms stimulate economic growth. So, what can BiH do through economic freedoms to increase youths' employment opportunities?

BiH has poor scores in most international measurements of economic freedoms and business environment. In Heritage Foundation's *2014 Index of Economic Freedom*, BiH ranked 101<sup>st</sup> out of 178 countries ("mostly unfree"), while in Europe, it was 38<sup>th</sup> out of 43 countries. In World Bank's "Doing Business", BiH ranks 125<sup>th</sup> out of 183 countries. It scores particularly weakly in starting a business, taxation, protecting investors, and enforcing contracts.

In addition, BiH has been ranking poorly in the World Economic Forum's *Global Competitiveness Report*, which means it does not do a good job at attracting foreign investments to create jobs. Overall, BiH ranks 87<sup>th</sup> out of 148 countries. Some of its weakest links are macroeconomic environment, business sophistication, and labor market efficiency. Moreover, the Transparency International's *Corruption Perception Index* ranking for BiH also suggests high presence of corruption.

This shows that companies have many reasons to fear BiH. They do or will operate in a relatively economically unfree market of a country led by perceivably corrupt and inefficient administration that is insensitive towards the real sector.

In order to improve this situation, BiH needs to encourage domestic and foreign investments through guaranteeing business security. Politicians should therefore forget about raising tax rates or introducing progressive tax systems that only punish successful companies and stimulate failures. The government needs to assure through legislation and practice political and legal security for private ownership, increased efficiency of the judicial system, and solid contractual relationships.

BiH also needs to "deregulate" the market and remove administrative barriers. The different government levels have to establish effective dialogue with the private sector—through economic-social councils—and to introduce an institutional regulatory review/guillotine at all levels to eliminate or change regulations that obstruct private sector growth. A good starting point is the implementation of the Foreign Investor Council's "White Book" recommendations. BiH governments should specifically:

- Reduce the time needed for full business registration to at least seven days or less;
- Introduce an online business registration process;
- Reduce the amount of initial capital needed for business registration;
- Accelerate business permitting and utility contracting;
- Remove administrative barriers to doing business or creating jobs; and
- Remove regulatory obstacles to venture capital financing by foreign firms.

The government should also create one-stop-shops for business registration, which would make it easier, faster, and less expensive, especially for foreign investors, to open new businesses and to employ young people.

All these incentives will help improve the business environment and competitiveness of BiH, stimulating SME and job growth.

### **Fiscal Incentives**

The State also has to reduce the overall tax burden, given that total payroll taxes and social contributions amount to 69% of net salaries. Temporary reductions of tax rates could give an incentive to companies to hire more people. Companies that hire young people can also become eligible for temporary graduated exemptions from payroll taxes on those employees. For example, with graduated exemptions, for every newly hired young person, a company could have a 100% exemption from payroll taxes in year one, 70% in year two, and 30% in year three. The State would calculate the impact on revenue from these temporary measures, but in the long-term, the measures should positively impact revenues through youth job creation.

The government could introduce other temporary fiscal measures for newly established firms by youth or employing youth, such as accelerated depreciation of certain property, etc. It could also consider temporarily suspending (for up to three years) the corporate profit tax for youth-run businesses, if permissible under the EU rules.

In addition, for the young starting a business, the government should provide subsidies for total administrative cost of starting a business (pay for expenses of starting a firm, including initial capital, notary public costs, court registration costs, etc.).

### **Private Public Partnerships**

These tax incentives will increase costs to the government and could adversely affect its ability to undertake major public investments. However, many countries overcome the problem by stimulating job growth for youth through infrastructural projects using public-private partnerships or concessions. That way, the government would cover only the necessary project design and administrative costs, while the private sector would secure funding and implement the construction, pay the labor, and manage the work. This can offset some government expenses through higher revenues driven by new job creation.

### **Access to Capital**

In order to stimulate self-employment, the State should also help young people with access to capital. One of the key reasons why they cannot pursue self-employment through entrepreneurship is the lack of capital. The cost of capital is often too high, and they do not have collateral to borrow money. Also, there is not much private venture capital.

In order to improve access to capital, the State should:

- Provide more small grants for promising new business ideas of the young;
- Provide minimal-interest or interest-free loans using the capital of its development banks, but increasingly targeting youth, and working-capital loans for newly established youth firms with liquidity problems; and
- Establish loan-guarantee programs through regional development agencies. These can be combined with business advice.

The government could also support private-public co-investment funds to mobilize private money by committing capital as a match to private sector investments in promising youth-run or majority youth-employing start-ups. This will ensure the money goes into youth's business ideas that experienced private-sector investors see as potentially successful.

### **Support Services**

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While providing capital will help youth-run businesses, these businesses also need other support services to start and grow. Therefore, the government should:

- Create websites with procedures for starting and operating SMEs, including the tools and assistance on how to use available resources;
- Support start-up incubators to help companies managed by youth;
- Support private business accelerators that provide mentorship from experienced business people to the young to develop skills in order to build successful companies; and
- Buy fiscal registers that are rented to new youth-run SMEs for free, for several years.

### Entrepreneurship Culture

Still, to benefit from entrepreneurship in the long-term, BiH must build entrepreneurial mentality and skills. The GEM 2013 BiH Report said that while BiH “showed ... entrepreneurship as a desirable career choice,” “young people ... have poor access to formal education, training, and entrepreneurial opportunities. ...rare self-employed young people learn how to develop business activities mainly through their own experience, rather than through the education.”<sup>iv</sup>

Youth often have skills gained through education that are not in line with the requirements of the job for which they are applying for or for self-employment. Therefore, the educational system needs to emphasize more economics and business education. The schools need to introduce curriculums for entrepreneurial education and should encourage extracurricular activities promoting student entrepreneurship.

Schools need to provide education that is in line with the industries and sectors in which BiH has a competitive advantage. Therefore, the government should develop a strong vocational training system—a good example is the announcement of a dual education system for secondary education in Hercegovacko-Neretvanski Canton, in which students will attend school for three days and will spend two days in apprenticeships.

In universities, BiH can follow Germany's “EXIST scheme,” which promotes entrepreneurial culture, provides start-up grants, and encourages technology transfer. This could be done with the support of the private sector and donor funds, including EU funding. The activities would aim to improve the entrepreneurial environment at universities, which would serve as incubators of technology and knowledge-based firms.

### How to Fund the Costs?

Still, the government needs to pay for some of these measures, and options are limited. It should secure some of the funding through the sale of State-owned enterprises, under conditions protecting the already employed and requiring new investments and job openings. Of course, this would increase the private sector’s share in the BiH economy, improving productivity and competitiveness. Additional funds can come from budget savings and reallocations to improve efficiency of expenditures and to provide funding for new incentives. The government should also use donor funds and low-cost loans from international financial institutions to achieve these goals.

### Conclusion

The aforementioned indicates that the main youth unemployment problems in BiH are the unprepared and apathetic youth and the State interventionism and inadequate government capacity and policy. If the State deregulates the economy, it will ensure the free market that can produce economic growth and opening of new jobs.

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Implementation of business environment reforms and an increase in economic freedoms, tax incentives, private-public partnerships, start-up support schemes, and entrepreneurial education can support youth job creation and self-employment. These efforts can help the BiH economy prosper through the dynamism of the newly employed youth. The youth that learn to take risks and accept that life is a constant struggle requiring adaptation will also be rewarded through seized economic opportunities.

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<sup>i</sup> Global Employment Trends 2014: Risk of Jobless Recovery? ILO. Geneva: 2014, p. 45

<sup>ii</sup> "Towards a Youth Policy in FBiH." Institute for Youth Development KULT, Sarajevo. 2014

<sup>iii</sup> "Only a third of the unemployed are actively looking for a job." E-kapija.ba. (March 14, 2014).

<http://ekapija.ba/en/Vijest/news/only-a-third-of-the-unemployed-are-actively-looking-for-a-job!/37001>

<sup>iv</sup> "GEM BiH 2013 Report: Entrepreneurship Education for Self-Employment of Youth." GEM Consortium/CERPOD.

Tuzla: 2013