

3<sup>rd</sup> PLACE



LET'S WORK  
A global partnership to create  
more & better private sector jobs



---

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

### *A Holistic Approach*

By Damir Kurtagić (24 Years Old)

In many respects, what is viewed as within the confines of normal in many parts of the developed world is an anomaly in the country I call "home". Encountering an employed young individual, successfully standing on his/her own two feet might be common elsewhere, but in Bosnia and Herzegovina (BiH) it is a rare occurrence. As the last stepping stone in the transition from adolescence towards early adulthood and by extension full self-reliance, finding a job is a realistic goal to set for many youth around the globe; yet, in Bosnia & Herzegovina it would be categorized as lofty ambitions.

So what can be done to tackle youth unemployment and reinstate hope into the lives of a whole generation in BiH? Bearing in mind the complexity of the subject, an appropriate response begs for a wider outlook. Surely, private sector development is the indispensable foundation of discussion, but efforts aimed solely at creating new jobs won't suffice. While recognizing the centrality of both the regulatory environment for improved business climate and initiatives for stimulating entrepreneurship, the question has to be dealt with from an educational standpoint as well. This is in line with the key findings of a World Bank report, stressing a holistic approach and the need for both labor and non-labor policies in a broader macroeconomic context.<sup>1</sup> In other words, efforts need to be placed on the demand side (more jobs) as well as the supply side (people with the right skillset) of the problem. In that spirit, it is imperative to enact legislation that would lower taxes, shorten tax and registration procedures, while also enabling financing opportunities for start-ups and further strengthening private-public linkages in education.

While it's far-fetched to state that youth unemployment is specific to only Bosnia & Herzegovina, it is more pronounced than in other places around the world. At a 63.1 % rate, it has taken on epidemic proportions.<sup>2</sup> Part of the solution is obvious and follows a simple line of reasoning; in order to employ more youth, you need more jobs. In other words, it is essential to stimulate job growth in the private sector.

Much remains to be done in the field of improving the business climate in order to attract foreign investors, and due to the deficiency in domestic capital as a driver of economic growth it is the country's best chance for economic prosperity. For the first nine months of 2013, direct foreign investment

---

<sup>1</sup> Fasih, Tazeen. World Bank. *Linking Education Policy to Labor Market Outcomes*. Washington: , 2008. Web. <[http://siteresources.worldbank.org/EDUCATION/Resources/278200-1099079877269/547664-1208379365576/DID\\_Labor\\_market\\_outcomes.pdf](http://siteresources.worldbank.org/EDUCATION/Resources/278200-1099079877269/547664-1208379365576/DID_Labor_market_outcomes.pdf)>.

<sup>2</sup> "United Nations Bosnia & Herzegovina." *UN Report: Almost Two-Third of Unemployed Youth in Bosnia and Herzegovina*. N.p., 30 Jan 2014. Web. 31 Mar 2014.

## 3<sup>rd</sup> PLACE

amounted to 252 million EUR.<sup>3</sup> Compared to other countries in the region, foreign investment figure in BiH is consistently the lowest. According to the Ease of Doing Business index, published annually by the World Bank, BiH ranks poorly at 126 out of 186 countries.<sup>4</sup> The index is compiled based on 11 sub-indices that cover distinct areas of doing business such as taxes, building permits, company registration, investor protection, credit acquisition, etc. The country has made great strides towards reforming company registration procedures, and as a result the process is shortened to 48 hours in Republika Srpska and 27 days in the BiH. Despite the progress, further shortenings should be made in the BiH, while much more effort needs to be made in the field of taxation in both entities. This applies to both taxation procedures and rates.

Specifically, improvements can be made in terms of simplifying complicated income tax filing procedures and adopting clear legal guidelines. As for corporate income tax, a clear distinction needs to be made as to what is considered a gain or loss and what represents taxable income. In addition, bilateral taxation treaties need to be enforced, so as to avoid double taxation. While these are no new initiatives, it is necessary to reiterate their importance and amend the existing laws. However, what hasn't been given extensive thought thus far is the need to alleviate the tax load on foreign investors by lowering the income tax for employees, which currently stands at 10 %. Comparatively, the tax load for low-wage professions (including social and health benefits) in BiH is amongst the highest in Europe. By enacting this, the costs of the domestic workforce and by extension of doing business would be significantly lowered and this would lead to job creation. Furthermore, investors would be drawn to a tax exemption for machinery and equipment in free economic zones that currently operate in BiH, instead of the uniform 17 % tax rate that is in effect as we speak. Another concern is that all of the proclaimed benefits within their boundaries are not implemented in practice. This also provides space for improvement.

Besides attracting foreign investment, private sector development will help create an enabling environment for entrepreneurship. While many past interventions have focused on education by teaching entrepreneurship skills and instilling entrepreneurial values in children, the topic of investment and sources of funding for start-ups and small and medium enterprises in BiH is central to many young entrepreneurs: following a successful transference of idea into business model, how does one finance it? Recently, a step forward in this field was made with the introduction of [katapult.ba](http://katapult.ba), the first-of-its-kind Bosnian online platform which expands the existing funding modalities for start-up businesses. This website is based on the concept of crowd funding, whereby a start-up is financed by small contributions from individuals who like the start-up idea. So, aside from bank loans, micro-credits, family contributions, etc., the community becomes a valuable source. As an actionable recommendation, isn't it sensible to promote this financing instrument as a feasible solution to funding start-ups?

In a similar fashion, further efforts need to be aimed at improving access to financial capital for starting up businesses and the Swiss government provides a good example to follow. The federal government encourages the flow of private capital through government guarantee programs of up to CHF 500,000, with 65% exposure assumed by the government.<sup>5</sup> Efforts should hence be directed towards setting up a government seed fund that would partly fund start-ups on a competitive basis.

---

<sup>3</sup> "Foreign Investment Promotion Agency of Bosnia and Herzegovina." *FDI Position and Performance*. Foreign Investment Promotion Agency of Bosnia and Herzegovina, 2 Feb 2014. Web. 31 Mar 2014. <<http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=en-US>>.

<sup>4</sup> Bosnia & Herzegovina. Federal Institute for Development Planning. *Lakoća poslovanja 2013. Bosna i Hercegovina*. Sarajevo: , 2012. Web. <[http://www.fzzpr.gov.ba/upload/file/Doing business 2013.pdf](http://www.fzzpr.gov.ba/upload/file/Doing%20business%202013.pdf)>.

<sup>5</sup> "Manpower Group." How policymakers can boost youth employment. Manpower Group Milwaukee, n.d. Web. 31 Mar 2014.

### 3<sup>rd</sup> PLACE

A lack of funds not only causes problems in the process of setting up a business, but it also hinders young entrepreneurs in accessing markets to sell their products. In response to this problem, the Youth Trade project provides a platform for certifying, promoting, and distributing goods created by young entrepreneurs who would otherwise lack access to distribution networks.<sup>6</sup> The project works with retailers directly to brand and place these products, and has reached an agreement with Whole Foods Market to place the products of young entrepreneurs in 28 stores across the north Atlantic region. This type of intervention could be replicated in BiH by engaging the two big retail stores, Konzum and Mercator in providing a distribution network for young entrepreneurs.

Nevertheless, while it is crucial to work on labor policies to stimulate job growth, a holistic solution to the problem needs to involve the educational sector as much as the private sector. Despite an overwhelming lack of job opportunities, youth unemployment in BiH is also linked to the skills and professional qualifications (or lack thereof) of those that are unemployed. The crux of the problem lies in the disconnection between the labor market and the educational system. Employers often cite that young people do not possess adequate skills to be hired for positions they apply for. This skill-deficiency is manifested in areas such as IT, knowledge of English, but also in the soft skills areas (interpersonal communication, time management, decision-making, writing, critical thinking) that are needed to thrive in the workplace. The educational system does not take into account the “modern” market needs, resulting in a generation of youth possessing a diploma, but not the qualifications to enter their field of expertise. Not only that, but in certain skilled professions there is quite a high demand for manpower but not enough supply of qualified workforce to fill the gap. This creates a paradox, where the unemployed flood the economy but employers cannot find workers to satisfy their needs.

To this day, there have been a number of similar initiatives designed to tackle this problem. For instance, the UNDP initiated the Youth Employability and Retention Programme (YERP) in 2009, which established 17 centers countrywide in order to provide counseling, training workshops for needed skills, and information on employment opportunities. Notwithstanding the efforts and sincerity of this intervention, it does however only treat the immediate labor needs but do not address the problem in a systematic way. FIRMA, a USAID-funded project provides a commendable example of how the link between private and public can be established. As part of the project, Prevent – a company from Visoko specializing in manufacturing different automotive parts – agreed on the introduction of a systematic way of linking vocational schools with the private sector by adjusting the vocational curriculum and training programme to the long-term skill competencies needed for employment in their company.<sup>7</sup> While this is a great example of linkages between the private sector and educational institutions, still more could be done. Real-time labor market information can help balance the demand and supply side and serve as a continuous tool for adaptation of courses. In that respect, more effort needs to be placed in data collection and monitoring systems.

In short, tackling youth unemployment is not a matter of only addressing insufficient employment opportunities, but should be viewed as an intervention combining the afore-mentioned with proper educational policies that would align labor market needs with academic institutions. Due to the long-time neglect of education in the country, a whole generation lacks the skills to be employable in today’s market conditions. From an educational standpoint, in order to address the problem of sky-high youth

---

<sup>6</sup> "PRWeb." *Whole Foods Market and Youth Trade to Host Young Entrepreneurs Event March 15-16, 2012*. N.p., 27 Feb 2012. Web. 31 Mar 2014. <<http://www.prweb.com/releases/2012/2/prweb9227753.htm>>

<sup>7</sup> "USAID." *WORKERS SEW UP JOBS IN BOSNIA AND HERZEGOVINA*. N.p., 4 Feb 2014. Web. 31 Mar 2014. <<http://www.usaid.gov/results-data/success-stories/specialized-training-600-travnik-workers-sew-jobs-bih>>

### 3<sup>rd</sup> PLACE

unemployment in BiH, efforts will need to be focused on linking the private and educational sectors for both highly-skilled (higher tertiary education) and skilled workers (vocational education). This would lead to curriculum and training programme adjustment based on labor market needs. As a young person who has struggled to find employment, this subject lies close to my heart and I believe it is my duty to offer a contribution even if only in the form of a piece of writing. Without employment, masses of young men and women are not simply cut off from an opportunity to earn an income or contribute productively to their communities – ultimately they are losing out on a chance to lead a dignified life. History repeatedly shows that people are driven to desperate solutions when they find themselves in desperate situations. If we wait too much longer, we might find ourselves fixing a lot more problems than we are currently engulfed in. Consequently, youth unemployment should be at the top of the agenda.