

# Country Evaluation Report: PES BiH

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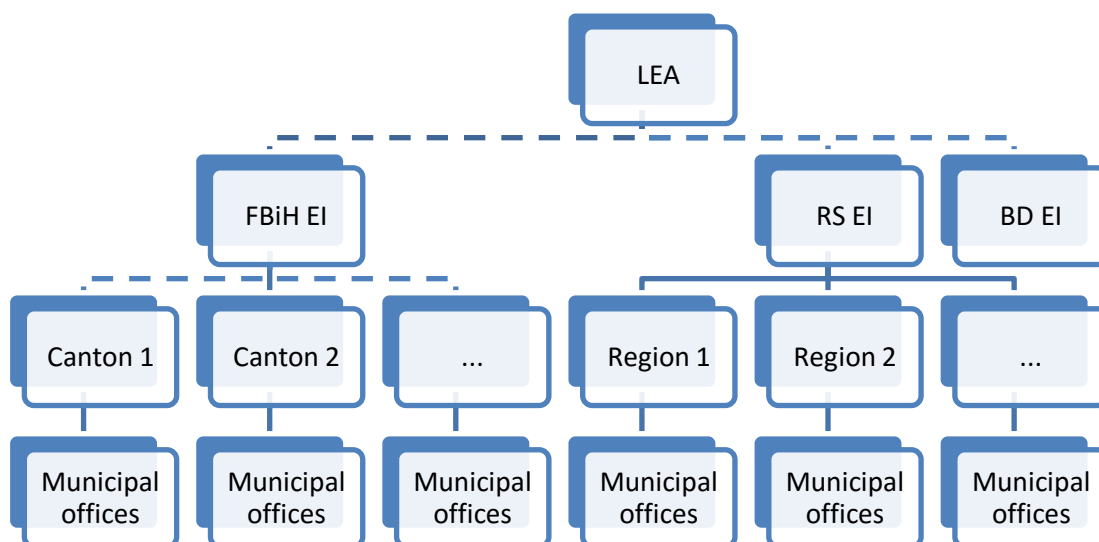
## 1. INTRODUCTION

This report outlines the results of the Benchlearning (BL) external assessment of the public employment services (PES) of Bosnia and Herzegovina (BiH) conducted on the 27-30 November 2017. The team of six external assessors comprised four peer PES staff (Kosovo and Montenegro), a PES expert from Croatia and two experts from RCC. The programme of the 4-day visit included meetings in the Labour and Employment Agency (LEA) of Bosnia and Herzegovina, and all three Employment agencies in Bosnia - the FBiH Employment Institute, Employment Institute of Republic Srpska and the Employment Institute of Brčko District. The visit also included local employment office in East Ilidza, Employment Service in Sarajevo Canton and Employment Service of Zenica-Doboj Canton.

The time and resources invested in the preparation for the Benchlearning visit by each PES and their internal self-assessment were key to the success of the BL external assessment process. The team gratefully acknowledges those efforts.

The main reason for an extended site visit and a number of institutions visited is due to the complex organizational set-up of public employment services in BiH, which is presented in Figure 1.

Figure 1. Institutional set-up of PES in BiH<sup>1</sup>



The PES system in BiH follows the constitutional arrangement of the government of the country set out in the Dayton Peace Agreement. The Labour and Employment Agency (LEA) of Bosnia and

<sup>1</sup> More detailed diagram with institutional set-up of PES, which also includes ministries and other bodies, is provided in Annex.

Herzegovina is a state-level institution with main responsibility for representing BiH in the international arena. In addition, in some cases it is responsible for coordination of the lower levels of PES. For instance, they coordinated PES forums and implementation of agreements on employment. LEA was established in 2003 as an independent administrative organization, with its remit set out in the relevant legislation. It is fully funded from the state budget and currently has 31 employees. The LEA has an Advisory Committee that provides opinion on relevant matters aimed at making improvements to its activities. The Committee comprises one representative from each of the Entity governments and the Brčko District, and three members proposed by the Ministry of Civil Affairs. The LEA's Director and Deputy Director, and the directors of the two Entity Employment Institutes participate in the work of the Advisory Committee without a voting right on issues concerning the work of the Agency. The PES Director and Deputy Director in LEA are appointed (for a four-year term) by the Council of Ministers of Bosnia and Herzegovina and each will be from a different Entity, based on proposals by the Minister and Deputy Minister of Civil Affairs, having in mind equal representation of all ethnic groups.

There are three main entity level agencies involved with the delivery of PES services: The FBiH Employment Institute (FBiH EI), Employment Institute of Republic Srpska (RS EI), and The Employment Institute of Brčko District (BD EI). Law establishes these institutes, as a public institution set up in order to implement policies and measures in the field of labour and employment, social security of the unemployed, increase in employment, vocational guidance, training and retraining for the labour market, and other activities in this field. They have a Board of Directors. Most of members are appointed (and dismissed) by the entity level following proposals from the Ministry. The trade union and employers representatives are nominated by their parent organizations.

FBiH EI, RS EI and BD EI serve different geographical areas that correspond to the political divisions of the country. They also differ in their institutional setup. In FBiH, there are 10 cantonal level employment services, which are separate legal entities that are established by cantonal law and are responsible for their work primarily to the cantonal level ministry of labour and cantonal parliament, not to the FBiH Employment Institute. By contrast, the Employment Institute of Republika Srpska is a centralized institution with 7 regional offices and 59 local bureaus that are part of a single institution. The Director of the FBiH EI is appointed (and dismissed) by the FBiH government, while the Director of RS EI is appointed by the RS government using public competition and is ultimately responsible to the government. The BD EI has 21 employees and is in charge of the labour market measures in Brcko District. It is responsible to the government of Brcko District.

The FBiH EI is in charge of cooperation with cantonal employment services, which are responsible for the development of employment and implementation of programmes at the cantonal level. Still, activities are well coordinated between cantonal level services by FBiH EI, including the fact that the majority of the labour market programs are designed at the FBiH level and then implemented by cantonal level services. Although they have the right to design and fund their own measures, it's rarely the case, except in Sarajevo Canton, which is the canton with largest budget and can fund it.

The main source of budget for the entity level PESes are unemployment contributions. For the Employment Service of the Republic of Srpska the allocation of funds is made by the Managing Board on the basis of its Work Programme and Financial Plan. The budget is funded from the unemployment contributions by employees at the amount of 1% of their gross wages. The FBiH EI is

funded through its 30% share of the income from the unemployment contributions by employees at the amount of 2% of their gross wages. The FBiH EI has a coordination role of 10 cantonal employment agencies and directly funds active labour market measures. At cantonal level the funds cover administrative expenses, the cost of the unemployment system, health insurance, and retirement and disability pension contributions. In the event of a surplus, active labour market measures can be funded by cantons. If there is a shortfall, a request can be made to the FBiH EI for financial assistance. The FBiH EI provides cantons with funds to cover such shortfalls. The budget of Brcko district PES is funded from the District's budget.

Despite being separate legal entities that operate according to different laws and entity level employment strategies<sup>2</sup>, PES Institutes and cantonal level Employment Services exercise a high degree of cooperation. In particular it can be seen in the case of FBiH, where almost all ALMPs are implemented at the level of FBiH, with only a couple of exceptions, mainly in Sarajevo Canton, which implements their own ALMPs due to the excess of funds.

According to LEA representatives, 28 different individual rights in the field of social protection in BiH are based on employment status. In BiH, all unemployed are recipients of health insurance so they are obliged to register at the PES. The PES is also responsible for actual payment of unemployment benefits. With regard to labour market policies, entity and cantonal level PESs in BiH are responsible for labour market services and active labour market policy measures.

The most important challenge for PES in BiH is their responsibility to pay health insurance for unemployed, which provides an incentive for both inactive and informally employed to be registered as unemployed. These people are obliged to go to an employment office once in six months, which creates a significant burden for the frontline staff who are left with a very limited remaining time for their key activities related to supporting employment of people.

The employment agencies in BiH, at all levels, are generally overloaded with the activities that fall into the category of passive measures, without allowing much space to redeploy staff to active measures. Therefore, some of the functions of these agencies, such as career advices, motivation of jobseekers and accompanying workers wishing to change the job, are not possible to be implemented in such situation. The undergoing reform of the social benefits system, which includes shifting the burden of administering health insurance and other benefits from the PES, promises better future for these institutions. It may be expected that the PES at all levels, after such reforms, will finally have the adequate capacity to focus on their core functions, to expand the range and improve the effectiveness of the active labour market measures in Bosnia and Herzegovina.

## 2. CONTEXT

Economy of Bosnia and Herzegovina in the previous years was characterised by growth in real GDP (3,0% in 2015, 3.1% in 2016) and deflation (-1,0 in 2015). Consumption remains the main driver of growth. Despite some improvements, economy environment in Bosnia and Herzegovina is still

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<sup>2</sup> There is no state level strategic document on employment, only Guidelines on Employment Policies. In addition, strategic document in FBiH is still in the draft version.

burdened by instability, high labour taxes, inflexible labour market policies, uneven transport infrastructure, energy inefficiency and other constraints. Unemployment is over 20% and only about half of working age people are economically active. Although beginning to decline, unemployment, especially among the youth, remains high, despite significant improvements in the labour market. The unemployment rate fell from 25.4% in 2016 to 20.5% in the first half of 2017, driven by a fall in the activity rate and a slight rise in the employment rate. Unemployment among the youth has also decreased from 54.3 to 45.8 percent in 2017. The poverty rate in the country is 15% and has not declined since the global financial crisis in 2008.

BiH, since the start of its transition to a market economy, has very high levels of inactivity and unemployment. Both population and working age population of the country are decreasing due to very low fertility rates and negative net migration, keeping dependency ratio constant over time. Labour force participation is low, particularly among women and youth 16-24. Employment rate is low, particularly among women. Unemployment among women is higher, while activity rate is lower, compared to men. Unemployment rate is highest among young people. More than 80% of total unemployment is long-term unemployment. More than half of total employments is in the services sector.

There are two broad reasons for the existing, predominantly structural,<sup>3</sup> level of unemployment: (1) inadequate quality of education, which provides competences and skills that employers do not need, and (2) inefficient companies, which do not generate demand for new workers.<sup>4</sup>

The cause of the high youth unemployment rate is the inadequate quality of education, which is largely a consequence of the delayed reforms in the educational sector. Lack of practice during education and obsolete teaching curricula contribute to the skills mismatch and difficult transition of youth into the labour market.

As regards the opening of new jobs, the situation is even more difficult than in case of education. In order for the economy of BiH as one of the least competitive in Europe to create new jobs, deep structural reforms must be carried out. They are the pre-requisite for preparing the grounds for the achievement of high economic growth rates, needed for the increase in productivity (and increase in competitiveness in order to eliminate high foreign trade deficits) and increase in the employment rates (in order to decrease mass inactivity and unemployment). In addition, unfavourable climate and complicated administrative procedures for starting a business create strong barriers for both FDIs and self-employment through start-ups. Finally, there are also considerable disincentives to work through the large inflow of remittances and poor targeting of social benefits.

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<sup>3</sup>It is structural in nature, since more than four fifths of unemployed persons are waiting for a job for more than a year.

<sup>4</sup> However, the fundamental cause of mass long-term unemployment is inefficiency of the whole system of BiH. In economic terms, the system is inefficient in static terms (poor allocative efficiency) and dynamic terms (low accumulation of all assets, primarily infrastructure) (Domljan, 2012).

### 3. STRENGTHS

Employees are a key strength of all the PES in BiH. PESs' staff are clearly motivated and confident to make further development of the PES a success. During the visit, the assessors had the opportunity for several individual discussions, which indicated that employees appears to be open-minded to actively deal with the challenges ahead. In particular, at the local level, the sense of responsibility for services provided and the team spirit are strong assets.

Staff development and training are being introduced through YEP project where set of trainers were trained in order to outreach all staff facing clients.

Implementation of standardised counselling process which has been developed within the YEP project and now is being rolled-out throughout the country.

The BiH PESs are in the middle of a restructuring process and a number of changes have already taken place. The number of changes already initiated indicate the presence of a vision of their own development.

### 4. CURRENT AND POTENTIAL GOOD PRACTICES

The strengths outlined above are supported by potentially transferable good practices. These include the following:

- Local Partnership for Employment (LPE) - active co-operation within local labour market actors including schools and key employers, where local stakeholders have a common mission, based on an agreed joint vision of local labour market development. The LPEs monitor the local labour market. This activity of the LPEs includes identification and meeting the needs of employers in the local labour market;
- the bottom-up element which is being carried out in designing new IT application where front-line staff are directly involved in the upgrading of IT infrastructure;
- Pilot project – pilot office through which the counselling and job mediation process was designed and established;
- Mobile office available in the area where there are no local offices. They offer the same set of services to clients in the remote area.

#### 4.1. Areas where Improvements may further enhance PES operations and outcomes

As requested by PES representatives, the following sections will first describe areas for improvements and recommendations common for each PES, and then specific areas and recommendations for each PES will be discussed separately.

Despite being a key strength, there also seems to be an underused potential for improvements of employees at each PES in BiH, which could be exploited in order to accelerate reforms.

Although BiH PESs are in the middle of a restructuring process, the impact on the performance of the whole organisations is not yet completely visible.

To the assessors, political influence appears to be an obstacle for the sustainability of PES's reform process. Increased political independence and a stronger orientation towards labour market requirements could be steps towards for BiH PESs securing sustainability of the reforms.

The establishment of defined, core operational process has been mentioned, however, the processes are often fragmented and they do not always link to each other in the way they should to be efficient and to provide the customer with closely connected services. An example of this is the process of registering as an active or passive/semi-passive jobseeker. From the organisation's point of view, it is considered more efficient by local experts to split the jobseekers in two groups with the different rights and obligations, since the efforts will be focused on employment of active job seekers, while less efforts can be put on to activating the inactive ones.

Regarding Human Resources, it is acknowledged that PESs are facing restrictions in recruiting. However, since the motivation of the staff is a strong asset and should be maintained, a strategic approach through the use of non-financial incentives should be pursued, such as recognition, awards and the utilisation of every possibility to support and to ease everyday work (e.g. distribution of workload).

#### **a. BiH**

Advisory Council of LEA is currently not operational, since the issue of financing its work is not yet regulated. This needs to be resolved.

#### **b. FBiH**

According to the information provided by the FBiH EI, the Institute is currently considerably understaffed and employment of new staff should be done soon.

Regular communication between PES Services in FBiH is not fully functional and needs to be improved. In addition, it has been realized through the external assessment that there are variations in performance between PES Services of different cantons. Many of reforms implemented in more advanced PES Services can be transferred to other PES Services through peer learning.

Some PES Services are not fully satisfied with the communication with FBiH EI concerning drafting the Strategy of Employment and with the formula for allocation of the budget for ALMPs. Establishing a channel for regular consultations between all PES Services and EI in FBiH would be helpful.

#### **c. RS**

The budget of RS EI is centralized and although regional offices participate in planning, their specific roles and criteria for allocation of the central budget to regional offices based their needs should be clearly specified.

The performance indicators for local level offices are non-existent and these should be introduced.

The IT system in use by employees of the PES is obsolete (based on DOS operating system) and should be upgraded.

#### **d. BD**

As soon as technical requirements are fulfilled, particularly related to building a new office space, the BD EI should start offering counselling services to the jobseekers.

Establishment of an office for cooperation with employers would be an important step towards improving performance of PES.

## **5. RECOMMENDATIONS**

All PESs have one goal and that is to move people from unemployment to employment.

The main general recommendation must be for all PESs is to proceed with the current path of change. Investment in a functioning PES will exhibit pay-offs since matching jobseekers with jobs, engaging with employers and improving career perspectives for jobseekers contribute to a functioning labour market.

With regard to the services for employers, it is important to develop a clear strategy that includes a shift from the current orientation to a more pro-active approach with more ambitious targets. An important element of this strategy is the active acquisition of vacancies that needs to be accompanied by a better use of labour forecasts. A more pro-active employer service delivery could further increase the reputation of PES.

General recommendations for all PES in BiH, divided by the time required for their implementation, are the following:

The list of activities that could be implemented in the short term are:

1. Become aware of performance and establish a performance management system. In this context, regular performance dialogues between management, local offices, and employment counsellors should be established. Furthermore, establishing a system to ensure that targets are result-orientated adds up to the efficiency of PES. Consider local labour market characteristics when setting targets.

The list of activities that could be implemented in the medium term are:

1. Re-establish certified Quality management system. Specifically, establish a systematic approach to assure the quality of profiling, segmentation and individual action planning e.g. by randomized checking of the content of IAPs or supervised counselling interviews.

The list of activities that could be implemented in the medium term (relevant for FBiH, RS and BD PES) are:

1. All jobseekers should be included in the counselling process. Consider extending the mentioned process to inactive jobseekers (passive/semi-passive jobseekers).

2. Re-establish certified Quality management system. Specifically, establish a systematic approach to assure the quality of profiling, segmentation and individual action planning e.g. by randomized checking of the content of IAPs or supervised counselling interviews.
3. Classify employers into different segments and link each type of employer with tailored services, distinguishing the mainstream services (e.g. publishing vacancies and job matching) with specific services (such as recruitment drives, training etc.). Enhance services for the demand side of the labour market, through systematic co-operation with employers' associations, Chambers etc.
4. In the area of Human Resources, capacity building is recommended in both, the jobseekers and employers area. In order to provide quality service to clients, upskill front-line staff by designing and implementing additional trainings in a systematic way.

The list of activities that could be implemented in the long term are:

1. There is a need for aggregating all labour market data in one place in order to have an overview of labour market changes. In addition, there is a need to have all vacancies in the country available in one place (portal) in order to provide information on posts for all jobseekers on the country level. Finally, analytical capacities of all PES should be further invested in.
2. It would be useful to establish a training centre for employment counsellors, for regular improvement of their skills.

Specific recommendations for each PES are the following:

**a. BiH**

The list of activities that could be implemented in the short term are:

1. Secure funding of expenses of the Advisory Board.

**b. FBiH**

The list of activities that could be implemented in the medium term are:

An IT tool for regular communication between PES Services in FBiH should be upgraded from current shared folder, particularly given that a version of intranet is developed but not yet put into work. In addition, cooperation between PES can be improved, particularly through peer learning. For example, an internal performance monitoring system was implemented in Sarajevo Canton PES Service only. Moreover, this PES Service is advancing its reforms aiming at better performance through separation of counselling roles from recording unemployed people in the register.

The list of activities that could be implemented in the short term are:

1. Establish regular communication and exchange of good practices between cantonal Employment Services.

The list of activities that could be implemented in the long term are:



1. In order to design and provide more effective ALMP it is necessary to carry out an evaluation especially due to the limited budget for ALMP implementation. Ensure that evaluation supports strategic and managerial decision-making. Use pilots before implementing new schemes, initiatives, programmes etc. This may be organised in addition to or instead of ex-ante analysis. It is also recommended that evaluation results should reach the widest possible audiences, including the public, government and all the staff in a client-oriented and user-friendly format.
2. Ensure the quality of profiling. Profiling of jobseekers, detailed knowledge of what qualifications employers ask for, relevant training programmes and a very strong cooperation with employers is necessary to meet the development on the labour market. Consider establishing close monitoring of the activities agreed in the Individual Action Plan.

#### **c. RS**

The list of activities that could be implemented in the long term are:

1. In order to design and provide more effective ALMP it is necessary to carry out an evaluation especially due to the limited budget for ALMP implementation. Ensure that evaluation supports strategic and managerial decision-making. Use pilots before implementing new schemes, initiatives, programmes etc. This may be organised in addition to or instead of ex-ante analysis. It is also recommended that evaluation results should reach the widest possible audiences, including the public, government and all the staff in a client-oriented and user-friendly format.
2. Ensure the quality of profiling. Profiling of jobseekers, detailed knowledge of what qualifications employers ask for, relevant training programmes and a very strong cooperation with employers is necessary to meet the development on the labour market. Consider establishing close monitoring of the activities agreed in the Individual Action Plan.

#### **d. BD**

The list of activities that could be implemented in the short term are:

1. Start offering counselling services to jobseekers.
2. Establish an office for cooperation with employers.
3. Ensure the quality of profiling. Profiling of jobseekers, detailed knowledge of what qualifications employers ask for, relevant training programmes and a very strong cooperation with employers is necessary to meet the development on the labour market. Consider establishing close monitoring of the activities agreed in the Individual Action Plan.

## **6. Summary of external scoring**

As Bosnia and Herzegovina has multiple public employment services and due to the large number of enclosed self-assessment exercises the assessors were not able to give a unique scoring. The potential scoring is indicated through the recommendations. However, the general view is that

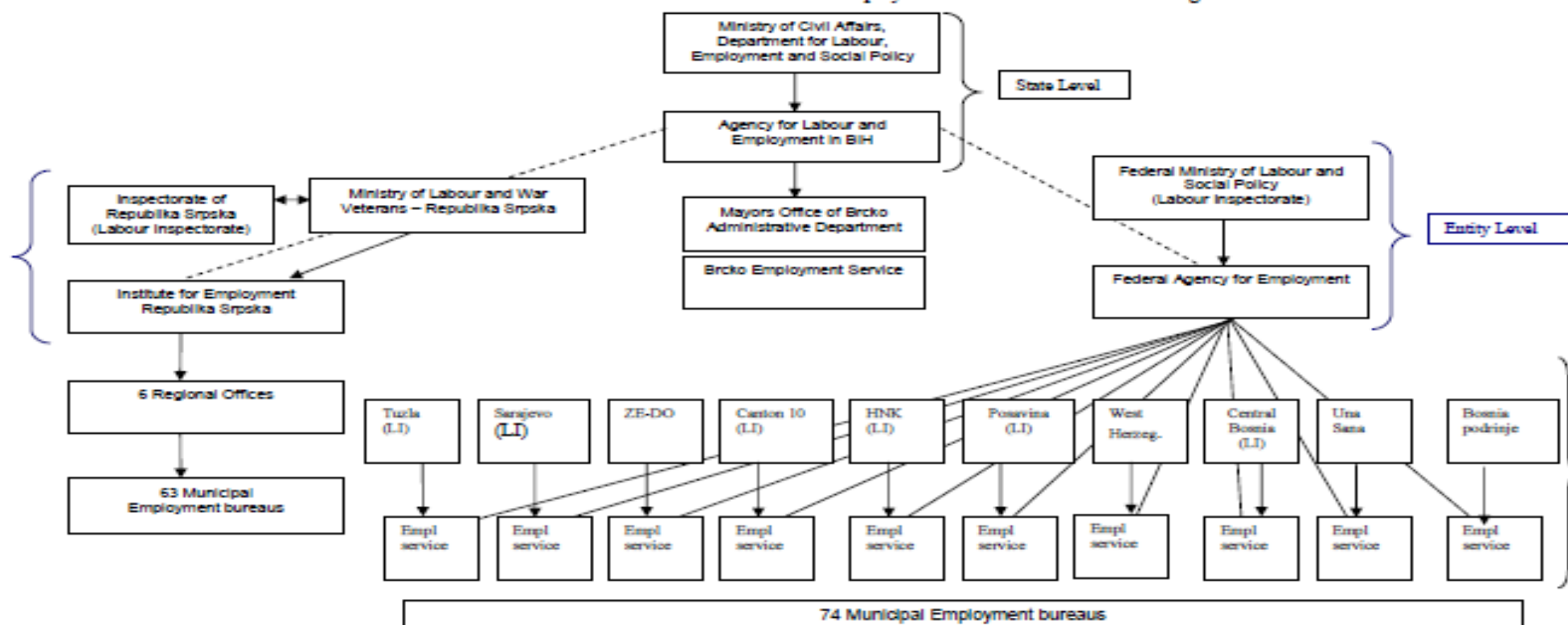
enablers where internal assessors gave the lowest grades due to the lack of written evidence, but explained that there is a certain established practice, in fact deserve a higher score.

There is room for improvement in most factors in the planning phase, where appropriate by-laws or internal regulations need to be developed in order to define more clearly the procedures and tasks. In addition, the procedures and records on monitoring and corrective measures can be improved.

## ANNEX

Scheme 1

Institutional structure of the labour and employment sector in Bosnia and Herzegovina



Canton Ministries in charge of labour and employment sector: Ministry of Labour and Social Policy – Tuzla Canton, Ministry of Labour, Social Policy, Refugees and Displaced Persons – Sarajevo Canton, Ministry of Labour, Social Policy and Refugees – Zenica-Doboj Canton, Ministry of Labour, Social Policy and Refugees – Canton 10, Ministry of Health, Labour and Social Protection – Hercegovacko – Neretvanski Canton, Ministry of Health, Labour and Social Protection – Posavina Canton, Ministry of Health, Labour and Social Protection - West Herzegovina Canton, Ministry of Economy – Central Bosnia Canton, Ministry of Economy – Una – Sana Canton and Ministry of justice, public administration and labour – Bosnia-Podrinje Canton.

