

--- Aesop's Fables---

100,000 new jobs in Bosnia and Herzegovina



Chronic unemployment. It is one thing all Western Balkan countries share in common. According to all relevant parameters, Bosnia and Herzegovina (BiH) leads the pack. Despite being recognized as one of the most persistent issues undermining progress and development, solution to chronic unemployment is nowhere in sight. The 2010-2014 Employment Strategy in BiH referred to a 'severe shortage of productive employment and unemployment to be 'persistently high' due to 'difficult labor conditions and structural rigidities'¹.

Unemployment in numbers

The recent 'Labor Market Diagnosis' (LMD), published by the Economics Institute of Sarajevo (EIS) in 2015, listed the unemployment rate at 27.5%, a rate lower than the official statistics of 44%, but still high enough to put BiH among the countries with highest unemployment in the world. This is especially true for women, at 29% (relative to 27% for men), as well as their activity rates (32%, vs. 55% for men). At 62%, the youth unemployment rate is among the highest in Europe, comparable only to Greece. A large share of unemployed persons – 15% (around 217,000 people) admit that they became discouraged from ever finding work.

If you are not completely discouraged and still looking for work, you might fall into a group of 85% looking for jobs for over 12 months: 41% have been searching of employment for two to five years, and as many as 44% five years or longer.

¹ EC: Bosnia and Herzegovina 2014 Progress Report, DG Enlargement, October 2014, p. 37, accessed on 14 September, 2015 at: http://europa.ba/wp-content/uploads/2015/05/delegacijaEU_2014100811032318eng.pdf

In contrast to Bosnia, in 2014 only half of 10.2% of the jobless in the EU were unemployed for more than 12 months and only 30% for two years or longer. Put differently, while long-term unemployment affects only one out of twenty people (employed or unemployed) in the EU, in BiH more than one in every four persons is not part of the labor force. Consequently, employers tend to view long periods of unemployment as an indication of inadequate or obsolescing skills. This makes securing employment a nearly impossible task for that group of job seekers.

Two basic causes of structural unemployment in BiH are poor links between the education system and the business sectors' needs, with the schools failing to adapt their curricula to the economy's changing needs; and the lingering weakness of the BiH economy where new job creation seriously lagged increases in economic output, even during the most dynamic post-war growth periods.

As of December 31, 2014, there were around 812,000 people in employment and some 308,000 unemployed, which constituted the employment rate of 31.7% and unemployment rate of 27.5%.² For deeper understanding of this data, three other categories need to be taken into account: the term 'working age population' means all inhabitants aged 15-64, 'labor force' includes all those who are either working or seeking employment, while 'inactive population' is a sub-category comprising those citizens who are neither 'employed' nor 'unemployed' – not actively seeking employment. The Reform Agenda, agreed in July 2015 after lengthy discussions, puts job creation just after economic growth as one of four cornerstones vital for the country's sustainability and development.

100,000 new jobs

The last general elections in BiH took place in 2014. An election campaign of an established political party promised creation of 100,000 new jobs. The round figure attracted attention, but if one read carefully, the actual wording is '*unemployment reduction of 48,000*' for the 2014-2018 period³. In other words, the unemployment reduction, as coined by the party, may also imply sending people off to retirement with little regard of budgetary implications - just to deliver on a promise. When questioned about the mismatch in figures, the party leaders explained that the larger figure referred to an eight-year period, i.e. that this promise would apply only in case that party would win one more term in the 2018 elections. Thus, we'd have to entrust the parties with two consecutive mandates to make this happen. Why should we?

If one were to dig even deeper seeking the formula on how exactly the jobs will be created, her or his efforts would be futile. The election platform devoted 9 out of 20 pages to economic issues, listing various actions, but the overall absence of a clear [employment] strategy and specific targets was blatantly evident. Moreover, the proposed policies and pieces of legislation, such as the Law on Public-Private Partnership or 'linking the education system with the labor market', have been 'on the table' for years. The platform, however, failed to explain how it would be done and what would be different that time around.

Nevertheless, it was and remains wholly possible that political parties may win elections tossing around the idea of economic recovery without much substance. Unfortunately, the BiH Council of Ministers' 2015 National Economic Reform Programme does not share the optimism these political promises carried. It forecasted that 'significant positive developments in the BiH labor market are **not likely to occur**'. The programme based its forecasts on the global growth forecasts that projected

² 2014 BiH Labor Force Survey, BH Statistics Agency, p. 31, accessed on 12 September 2015 at: http://www.bhas.ba/tematskibilteni/LFS_2014_001_01_bh.pdf.

³ "Stabilizacija, razvoj i zapošljavanje, integracije", Izborna platforma Stranke demokratske akcije, 18 August 2014, p. 9; accessed on 21 October 2015 at: <http://www.snagabih.ba/wp-content/uploads/2012/09/platforma-ok-1.pdf>

employment increases of 1.6% and 2.1% for 2016 and 2017, respectively.⁴ That meant addition of around 13,000 in 2016 and 17,000 jobs in 2017⁵.

To put things into perspective - the former Yugoslavia had a GDP of USD 10.6 billion and a GDP per Capita of USD 2,429 in 1990. It was experiencing major economic and political crisis, a large drop in industrial production and exports, a major reduction in GDP per capita (to USD 1,900), while its unemployment rose to 27% in 1991.⁶

Enormous physical, economic and social damages inflicted by the 1992-1995 war inevitably derailed the economy and set the country back many years, with damages of estimated USD 15-20 billion solely to manufacturing capacities (the estimates for total damages range between USD 50 and 70 billion) and a staggering 90% unemployment at the end of the war⁷. Extraordinary growth in immediate post-war years⁸, funded initially by a package of international assistance, helped the reconstruction and economic recovery, but slow reform and incomplete transition processes precluded the country from securing more investments and achieving faster economic growth. In the same period, the rate of unemployment had fallen significantly, but never managed to catch up with the neighbouring countries that were less affected by war, let alone with more advanced East European peers. It remained generally well above 25% throughout the post-war period.

So, aside from a prominent rallying cry in the election campaign, where are serious policy discussions on unemployment taking place? National Parliaments? Trade unions? What content is being discussed? Do we even know how many and what kind of jobs would make a difference? How much would it cost and how long would it **really** take?

40 years and counting....

Slovenia, Slovakia and Estonia provide telling examples and models of employment generation, and these cases of will be used for more systematic comparison. This choice of 'comparator countries' was based on their roughly similar population size, similar history as former socialist countries that had separated from previous larger multi-ethnic states and underwent the transition process, and on comparable positions in terms of level of economic development and common geopolitical goals (EU membership). Despite these commonalities, each of these countries traced its own development path over the past two decades, but even with these variations their greater advancement offers valuable inputs.

To understand what would 100,000 new jobs mean for the Bosnian economy, we should first take a look at the order of investment that is required to achieve such an ambitious goal.

Available sources indicate large variations in the total cost per new job created, depending on the country and sector. For instance, the cost of a new [full-time] job varies from EUR 12,400 in Lithuania to EUR 80,000 in the Netherlands, and EUR 300,000 in Germany. The costs of RTDI jobs (Research, Technology Development and Innovation) are as high as EUR 105,000 (Lithuania) and EUR 490,000 in

⁴ BiH 2015 National Economic Reform Programme, January 2015, pp 8-9, accessed on 09 September 2015 at: <http://www.dep.gov.ba/naslovna/?id=1657>

⁵ Populari's calculations

⁶ A. Efendić and A. Hadžiahmetović, 'Post-War Economic Transition in Bosnia and Herzegovina – A Challenging Transformation' in Soeren Keil and Valery Perry (ed.) "State-Building and Democratization in Bosnia and Hezegovina", Ashgate Publishing Ltd, 28 June 2015, pp 110-111; accessed on 25 November 2015 at: <https://books.google.ba/books?id=8FkdCgAAQBAJ&pg=PA111&lpg=PA111&dq=war+damage+estimate+in+Bosnia&source=bl&ots=y-rrXxvm0P&sig=RFjhdTgghtmXd09ubmQmRKROjKcW&hl=en&sa=X&ved=0ahUKEwjU8NSSz7bJAhWIFCwKHR3mAv84ChDoAQgxMAI#v=onepage&q=war%20damage%20estimate%20in%20Bosnia&f=false>

⁷ A. Efendić and A. Hadžiahmetović, p. 111.

⁸ 80%, 34%, 16% and 10% respectively in 1996-1999. A. Efendić and A. Hadžiahmetović, p. 111.

Germany.⁹ In the infrastructure sector, one direct job costs between US\$ 11,000 in Djibouti and US\$ 78,000 in Lebanon for power infrastructure, US\$ 9,000 and US\$ 64,000 in construction and US\$ 17,000 and US\$ 114,000 in the transport and communications.¹⁰ A study of employment effects of investment into energy efficiency found the average value of EUR 52,000 per job, with a wide range of costs in countries spanning from EUR 17,000 to EUR 156,000.¹¹ The World Bank Group's IFC estimated that US\$ 1 million generated 31, 116, and 247 jobs in Jordan, Ghana and Tunisia, respectively.¹² These numbers are summarized in the table below:

Country	Cost per one job (in EUR)					US\$ 1million can create this many jobs
	Low cost	RTDI	Infrastructure	Construction	Transport and Communication	
Lithuania	12,400	105,000				8-70
Germany	300,000	490,000				2-3
Djibouti			11,000	9,000	17,000	50-90
Lebanon			78,000	64,000	114,000	7-15
Jordan						31
Ghana						116
Tunisia						247

For our comparator countries, it was possible to determine low, average and high costs of creating a new job. The ranges are calculated using EU investments in various job creation programs. Indicative costs of new job creation schemes in comparator countries are:

Country	In EUR		
	Low cost	Average	High cost
Estonia ¹³	6,000	73,000	
Slovenia ¹⁴	142,000	294,000	425,000
Slovakia ¹⁵	57,000	249,000	399,000

⁹ EEN: Job Creation as an Indicator of Outcomes in ERDF Programmes; August 2013; accessed on 24 September 2015, at: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/job_creation/evalnet_task1_job_creation_synthesis.pdf

¹⁰ A. Estache, E. Ianchovichina, R. Bacon, I. Salamon, Infrastructure and Employment Creation in the Middle East and North Africa, World Bank, 2013, p. xxiii; accessed on 25 September, 2015 at: https://books.google.ba/books?id=igFeg4uJm4C&pg=PA53&lpg=PA53&dq=job+creation+cost+per+job&source=bl&ots=G1Ns2xkoFa&sig=csJNGig4yv62ETp8TITCSRIneBI&hl=en&sa=X&ved=0CC8Q6AEwAzgKahUKewj_uqmEK7DIAhVHqoAKHVeoCel#v=onepage&q=job%20creation%20cost%20per%20job&f=false

¹¹ R. Janssen and Dan Staniazsek, 'How Many Jobs' A Survey of the Employment Effects of Investment in Energy Efficiency of Buildings, the Energy Efficiency Forum, May 2012, p. 11, accessed on 6 November 2015 at: http://www.euroace.org/PublicDocumentDownload.aspx?Command=Core_Download&EntryId=433

¹² Estimating Economy-wide Job Creation Effects; p.9; accessed on 19 September 2015, at: <http://www.ifc.org/wps/wcm/connect/f0be83804f7cdf68b7deff0098cb14b9/chapter3.pdf?MOD=AJPERES>

¹³ T. Kalvet, 'Job Creation as an Indicator of Outcomes in ERDF Programmes: Estonia, Talinn University, 2013, p. 7-8; accessed on 12 October 2015 at: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/job_creation/ee_task1_2013_job_creation.pdf

¹⁴ D. Kavaz, 'Job Creation as an Indicator of Outcomes in ERDF Programmes: Slovenia, Institute for Economic Research, 2013, p. 6-7; accessed on 12 October 2015 at: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/job_creation/si_task1_2013_job_creation.pdf

¹⁵ K. Frank 'Job Creation as an Indicator of Outcomes in ERDF Programmes: Institute for Economic Research, 2013, p. 8; accessed on 12 October 2015 at: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/job_creation/sk_task1_2013_job_creation.pdf

Before we dig in, it is also worth noting that BiH lacks a country level strategy that clearly lists economic sectors that hold greatest promise for economic growth and job creation. There are only limited number of identified strategic sectors, including the following key sectors with growth and employment potential: **wood-processing industry with furniture manufacturing, mining of basic metals**, manufacturing of **machinery and car parts**, some **agricultural subsectors, food-processing**, and **tourism**.¹⁶ The World Bank believes that Bosnia has a chance in the **wood sector and light manufacturing**, and notes that opportunities may emerge in ‘green’ industries – particularly in the emerging **energy efficiency** sector.¹⁷ An OECD study found that, in addition to the automotive sector, apparel industry and business services (such as call centers), could develop and maintain competitiveness,¹⁸ but these two sectors cannot become major sources of sustainable long-term growth and increasing employment.

To assess the country’s potential to create 100,000 new jobs we used the LFS data¹⁹ and the comparison table presented in the 2015 BiH Labor Market Diagnostic Study²⁰. We then projected the effects of the targeted increase in employment. This simply meant “moving” the 100,000 of unemployed persons from the ‘Unemployed’ to the ‘Employed’ category:

	2013	2014	100,000 jobs	308,000 jobs
	1	2	3	4
Working age population	2,566	2,565	2,565	2,565
Labor force	1,131	1,120	1,120	1,120
Employed	814	812	912	1,120
Unemployed	317	308	208	0
Unemployment rate	28%	28%	19%	0%
Employment rate	32%	32%	36%	44%

BHAS, 2014 LFS²¹, and Populari calculations

The change would result in a 9% drop in the **unemployment rate**. The rate would remain at a very high 19%; nearly double the 2014 EU average unemployment rate of 10.2% and higher than all EU

¹⁶ Dijagnoza tržišta rada, May 2015, p. 74; accessed on 22nd June, 2015: www.fzzz.ba/doc/DIJAGNOZA_TRZISTA_RADA.pdf

¹⁷ Interview with a World Bank Group expert, 3 November 2015.

¹⁸ Defining and Strengthening Sector Specific Sources of Competitiveness in the Western Balkans Recommendation for a Regional Investment Strategy, OECD 2008; accessed on 25 October 2015 at: http://www.rcc.int/pubs_archive#page3

¹⁹ 2014 BiH Labor Force Survey, p. 31, accessed on 6 November 2015 at: http://www.bhas.ba/tematskibilteni/LFS_2014_001_01_bh.pdf

²⁰ Dijagnoza tržišta rada, May 2015, p. 9; accessed on 22nd June, 2015: www.fzzz.ba/doc/DIJAGNOZA_TRZISTA_RADA.pdf

²¹ Most information used for the economic statistics is based on the Labor Force Survey (LFS) methodology of the International Labor Organization, which was adopted by the BH Statistics Agency in 2008. Two key distinctions of the LFS methodology as opposed to the official BiH statistics are that LFS permits international comparisons and that it is better at capturing informal employment. In contrast to this, the official statistics in BiH, which conforms to domestic legislation and captures only official employment. Another reason that makes official statistics less precise is that domestic regulations extend health insurance to registered unemployed, which motivates people who are not in the job market, or those in informal employment, to register with employment bureaus. Still, even following the international methodology that captures informal/unregistered employment, since the end of the war there was always at least one unemployed person for every three person working.

member countries with notable exception of Spain and Greece²². The corresponding 4% increase would take the **employment rate** to 36%, well beyond the EU rate of 51.3%²³.

Let's take the exercise even further to find out what it would take to reach the average EU employment rate. If we take BiH to full employment and add a wholesome 308,000 new jobs (column 4) to do so, the employment rate would increase to 44%. BiH would enjoy the full employment, but still lag behind the EU. To reach the EU average BiH would need to create 502,000 new jobs and activate as many as 194,000 of 1.4 million currently inactive residents of "working age". How likely is that scenario? We'd love to stay and ponder but we need to move on and ask this question:

How long would it take to create the 100,000 jobs to fulfil the political promise, the 308,000 jobs to reach full employment, or the 502,000 jobs to reach the EU average?

In the optimistic, yet "not likely to occur"²⁴ scenario of BiH following global trends and generating new jobs as promised by the political party, these 100,000 new jobs could be created in eight years. BiH could experience full employment in 23 years, while it would catch up with the EU in no less than 40 years! Nevertheless, we need to ask the next question to find how feasible is to create those jobs:

What are the costs of generating these new jobs?

Following the general trends observed for comparator countries above, for the purposes of this discussion, we assume that 40% of new jobs will be in manufacturing, and 60% in services. The information presented above provided useable guidelines for estimation of an average cost of EUR 120,000^{25,26,27} per new job in manufacturing in BiH²⁸. It follows that the cost of generating 100,000 jobs in BiH would total **EUR 8.4 billion**²⁹. Even when taken only as an indication it does show the order of magnitude of investments required for fulfilling an ambitious employment generation target such as adding more than 10% of new jobs in an economy. Which brings us to the final question:

Where would the money come from and how fast would it come?

The 2015 flow of foreign direct investment (FDI) into BiH was only EUR 244 million³⁰. At this rate it would take 33 years³¹ to generate 100,000 new jobs and over a century to reach full employment.

²² Eurostat, 'Unemployment Statistics', accessed on 6 November 2015 at: http://ec.europa.eu/eurostat/statistics-explained/index.php/unemployment_statistics#A_detailed_look_at_2014

²³ World Development Indicators, 2015.

²⁴ BiH 2015 National Economic Reform Programme, January 2015, pp 8-9, accessed on 09 September 2015 at: <http://www.dep.gov.ba/naslovna/?id=1657>

²⁵ Investments required to some of these jobs to the economy, particularly an economy that 'runs on one engine and is far from optimum resource utilization, need not necessarily be very high. Particularly in agriculture and food processing, provision of light machines and large aggregator facilities, such as refrigerator and packing plants, would require relatively limited investments and may serve to 'activate' more small farmers. Similar effects are possible with targeted investments in missing links in tourism infrastructure. To a degree, this is evident in an example from enterprise support programs in a comparator country, where a cost per job could be less than EUR 10,000.

²⁶ World Bank Group: BiH Country Program Snapshot, p. 4.

²⁷ Interview with IFC expert, 3 November 2015.

²⁸ In the absence of similar data for the service sector jobs, we assume that an average cost of one new service job would be equal to 50% of one new manufacturing job. We have also assumed that in a fast-paced, changing economy new service jobs will not simply replace old ones, but will be more demanding in terms of both technology and skills acquisition.

²⁹ [40,000 manufacturing jobs x EUR 120,000] + [60,000 service jobs x EUR 60,000] = EUR 8.4 billion.

³⁰ <https://goo.gl/gMlws0>

³¹ It is also worth noting that, while the sources of investment would likely include FDI, borrowing and domestic savings, the FDI inflows have decreased more than five times over the last eight years and that the country's low economic strength, structural impediments to growth, low institutional strength and protracted political instability will most likely continue to keep the investors at bay. Source: <https://goo.gl/6cqrP>

There is one final consideration in our discussion on job generation. As we all know - there are jobs and there are jobs - some more or less stable, secure, well paid and satisfying. The concept of a good job is culture-dependent, nevertheless most sources agree that a good job should provide a decent income, reasonable job satisfaction, be (reasonably) secure, and offer opportunity for advancement. Acquiring skills needed for new types of employment can take a long time. As technology races ahead, low-skill workers will reallocate to tasks that are unsuitable for automation, tasks requiring creative and social abilities. Knowing in advance what job opportunities may exist is the primary condition for making both individual and national-level education and skills-development plans. Regardless, this election cycle is an opportunity to redefine the '100,000 jobs' political promise to '100,000 **good** jobs' - and it should not be missed. The goal of 'good' jobs may seem illusory in the light of so many who today do not have even a chance of getting a job, but a pursuit of this lofty goal will in the longer-run help aim for an economy with better paid jobs.

To conclude, the current political and economic situation in BiH makes it difficult to believe that the meaningful job creation policies and strategies, for 100,000 or any other number of new jobs, can be adopted within a mandate, let alone implemented. We were asked to entrust the politicians with at least two consecutive mandates, in advance, based on a political promise that would take decades to fulfil in the current economy. Next time you vote, make sure you understand what is on offer.