



# Bosnia and Herzegovina can be as developed as Republic of Ireland...or not?

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## Introduction

Bosnia and Herzegovina does not have a coherent and structured approach to human resources development; B&H does not have a central state or entity level authority, a coherent mechanism, policies or strategies capable of dealing with this area adequately. Ostensibly, human resources development should not be prioritised considering other challenges B&H is currently facing, largely due to a lack of progress in all fields. This systemic apathy was certainly conducive to the break-up of Yugoslavia and eventually resulted in collapse of social and economic system, and consequently led to war. In the period following the Dayton Peace Agreement (1995), that by large ensured peace in the region, the main focus of policy in B&H has been to a) ensure and maintain peace and b) initiate a process of state-building. Due to a disproportionate focus granted on these two issues, reforms regarding the economy and governance in B&H have been marginalized. At present, the macroeconomic situation is stable, but the structural problems of the economy in B&H remain substantial and serious. Furthermore, the complexity of the governance system<sup>1</sup> in B&H has led to a concentration of power at the entity level.

Since 1996, B&H has been involved in a democratic transition process of economic and social transformation. In line with other transition countries, this process has been complex, and despite the progress made to date, some major challenges still exist in all fields, including the field of social and economic development. The European Union (EU) integration process is moving at a time consuming pace. The Stabilization and Association Agreement (SAA) negotiations commenced in November 2005, being one of the major pre-requisites for gaining a status of a candidate country for the full membership in EU. Regardless of the lethargic pace of these negotiations, B&H politicians reached an agreement on police reform and presently it seems that the SAA will be signed soon. Hopefully, addressing the key priorities, most notably police reform, ICTY co-operation, public broadcasting and public administration reform will be reached in a timely manner and SAA will be signed this year. Given the scale and scope of these reforms, yet to be implemented, it is not surprising that human resources development is dismissed as something less important by the decision-makers.

In such constellation of competing competences, an opportunity for advancing human resources development is presented in the Development Strategy of B&H 2008 - 2013. The Council of Ministers B&H, via its Directorate for Economic Planning (DEP), is responsible for creating this Strategy, where responsibility for the overall implementation of Strategy is shared between state-level and cantons authorities. Therefore, a universal policy on human resources development could be adopted if imbedded in the new Strategy. According to the methodology outlined in the Strategy, DEP is currently conducting a situational analysis (this phase is near completion). Subsequent to that, DEP will proceed to define key development priorities in 4-6 sectors such as agriculture, tourism, road infrastructure or similar. **Key sector prioritization will be concluded by autumn 2008 and human resources development must be included as an essential component of B&H Development Strategy.** Moreover, human resources development would greatly benefit from having an established central coordinating authority, such as Directorate for Human Resources Development.

## 2. Human resources development in EU

Failing to consider human resources development, in line with other European countries, could result in B&H remaining as an underdeveloped country. The example of Republic of Ireland illustrates how seriously human resources development is considered in EU. **Ireland decided to spend € 25.8 billion for further improvement of human capital** (2007 - 2013) recognising strong linkages between the availability and quality of human capital and the economic development (Box 1). The capacity of the workforce for developing and consistently delivering increased value-added goods and services determines the ability of the country to generate wealth and develop. All EU member states jointly agreed to make a knowledge-based economy before 2010, committing to develop their workforce knowledge and skills in order to make their economies vibrant. In the recognition that only through the development of competitive human capital, able to respond to challenges before the knowledge-based economy, they will remain as affluent as they are at the moment. Essentially, human resources equate to excellent investment because it is an investment with the longest running return period - dividends pay off as long as that person lives.

*At present, B&H does not have a central state or entity level authority that can adequately serve as a coherent mechanism for policies or strategies intended for the development of human resources. There is a genuine possibility that B&H will, failing to seriously consider human resource development in line with other European countries, remain at a level of an underdeveloped country. In order to effectively remedy this is to integrate human resources development, at sector wide level, with the new B&H Development Strategy 2008 - 2013 that would include recommendations for the labour market and offer different types of education and training. In line with this, a Directorate for Human Resources Development, next to the Council of Ministers B&H, must be established. Following that, the first challenge would be to integrate human resources development strategies and policies with economic strategies both at education and labour market (employment) levels. Simultaneously, both demand (labour market) and supply side (education system) will have to be subjected to serious reforms and restructuring as to develop competitive human capital capable of responding to the challenges of the knowledge based-economy and satisfy current and future development needs of B&H.*

<sup>1</sup> B&H comprises two entities, the Federation of Bosnia and Herzegovina (FB&H) and Republika Srpska (RS), and district Brcko. The FB&H has 10 mostly autonomous cantons. At the top of this "Frankenstein" like arrangement, Office of the High Representative (OHR) is superimposed as the final authority.

Some of the main reasons for this trend is that Ireland recognised the importance of this investment because human resources consist of knowledge, skills, competences and other attributes of an individual that are important for his/her economic and social activities. Continuous professional and social development raises persons' human assets. Lifelong learning, education and training, is a prerequisite for adapting to conditions in the international and local environment, and they are major influence on overall socio-economic development of any country. Human resources development improve the quality of human capital through increased employment, higher level of income and social integration, which in turn provide higher living standards. In essence, human resources development is investment in human capital which is, in fact, investment in people. The move to a knowledge economy brings skills profiles demanding a mix of both enabling skills (such as technological, informational, problem solving, adaptability and team working) and specific knowledge (such as science and engineering, mathematics, languages and commercial knowledge). While the individuals need to take personal responsibility for skills development, the businesses need to take on greater role in articulating the skills they require from individuals. The learning institutions need to move towards a position whereby education is approached as a continuous process of development that lasts a lifetime and policy and decision makers need to play the key role in supporting and stimulating these actions.

**Box 1:**  
**Human resources development definition**

<sup>2</sup> National Development Plans of seven (7) European countries (Bulgaria, Czech Republic, Estonia, Ireland, Latvia, Poland, Romania) can be found in Appendix 1 of the full version of study.

**Box 2: Examples of human resources development at municipal level in B&H**

Mrkonjić Grad municipality

This municipality is relatively underdeveloped even for B&H standards. Economic activity is limited to service provision, agriculture and forestry. After the local elections, a new administration was put in place and they are trying to capitalise on development of SMEs. Single largest cluster of employment and revenue in this municipality is provided by primary wood production and decision makers are trying to expand this activity even further. For these purposes they are giving various subsidies (one-time grants, no registration fees, lower taxes) to wood processing business to expand their activities, managing to do so in 2007. The need for 100 skilled wood mill workers was presented very early. The representatives of wood processing cluster contacted the municipal authorities, explaining their requirements. The Municipality contacted its local development agency asked them to organise training. After one month, 100 persons were educated to work in wood processing industry.

Kozarska Dubica municipality

Main economic activity within this municipality is agriculture, predominately dairy and meat production, within the agricultural total output and it is in constant need of highly skilled workers. Veterinarians and food processing technicians are in high demand as the industry is big and constantly expanding. For example, 59 million litres of milk is produced in 2007, compared to 8 million litres that Zenica municipality produced. The only measure that decision makers are doing to answer to this demand of the local industry is by providing scholarships for students that decide to pursue these professions. At the moment, they are procuring this kind of subsidy to 50 students taking courses in B&H, Croatia and Serbia.

Zenica municipality

This is the second most populous municipality in FB&H. Their economic activity is diverse and municipal authorities are trying to increase outputs of existing businesses and stimulate introduction of new activities. The most successful activity, undertaken by them, is in their "business incubator" for SMEs that are focused onto production rather than service industry. Businesses situated on premises of incubator are paying only utility bills for first two years. In some instances they are given one-time grants for each employee that they hire (up to 2.200KM). In instances where businesses need specific skilled workers they are not expected to train them. For example, a new factory for Persian rug-making is opening and 10 persons are going to Turkey to acquire this specific knowledge and be trained on how to train others once they are back to B&H.

Visible dividends from investing in human resources can be observed from the following analysis - it is estimated that that when the average number of years of schooling in a country was higher, **the GDP grew at a higher annual rate over subsequent decades by about 0.37 percentage points.**

**3. Human resources development in B&H**

Human resources development, in the context of social and economic improvement (national development), is governed by *demand* (labour market) for work force and *supply* (education system) of work force. Unfortunately, both the labour market and the education, major components of human resources development, are extremely politicised. The component of education is particularly sensitive in the current political setting. Therefore, there is a **lack of political will** by decision-makers to create a unified approach to solving this issue.

Secondly, the **institutional arrangement is a substantial hindrance** as well. The complex governance structure results in difficulties when it comes to reaching a consensus on variety of issues. This structure also permits that entities and cantons produce and function under different legal regulations, different standards, variety of languages, different textbooks and curricula, different institutional arrangements and settings. In this context, **any initiative regarding human resources development that would be universal throughout B&H must be discussed within thirteen (13) Ministries of Education and thirteen (13) Ministries of Labour.** Such fragmentation of regulatory and implementation bodies is a serious obstacle for any policy on



state-level. Coupled with slow progress in legislation due to political tensions, the outcome is an extremely slow process of policy making.

In sum, there is no coherent planning or institution on state, entity or canton level capable of dealing with human resources development. Regardless of the above mentioned hindrances, B&H economy requires specified knowledge and skills, unfortunately not readily available, on daily basis. The only place where some human resources development activity takes place is at the municipal level (Box 2).

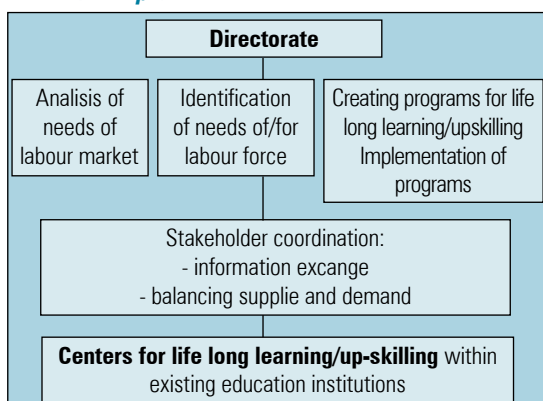
As can be seen, the human resources development is occurring at the municipal level. However, it is dealt with almost exclusively at an *ad hoc* basis. Furthermore, it occurs providing that there are substantial incentives to private businesses. In addition to this, persons acquiring new knowledge and skills do not have certificates that can be used for their future employment as the current education system does not deem them valid. For this reason, these individuals are having difficulties acquiring jobs once unemployed or wishing to change place of work, than persons that have "official" diplomas or certificates regardless of their work experiences.

#### 4. Initiating development

It is imperative that B&H starts investing in human resources development immediately. Firstly, a central authority must be established that would harmonise education and labour market as **all reforms in the sectors of education and labour market are completely detached from each other**. The central authority must be established because there is no single institution that has competences to deal with education and labour market simultaneously and holistically ensuring adequate balance of supply and demand.

A tailor-made solution would be a Directorate for Human Resources Development accountable to the Council of Ministers (CoM) with similar competences that the Directorate for European Integrations (DEI) or DEP have (Scheme 1).

**Scheme 1:**  
**Tasks and responsibilities of Directorate HRD**



Through the analysis of key constraints and obstacles for the human resources development, several scenarios for possible solutions present itself. The criteria for solutions followed the identified main problems:

- lack of a single institution with competences to deal with education and labour market simultaneously and holistically,
- human resources development not integrated as part of B&H Development Strategy at sector wide level,
- lack of policy or strategy for human resources development at state and entity levels.

Following policy options have been considered, with their expected results:

Policy option	Consequences
1. Status quo is nourished and human resources development remains neglected as there is no single institution dealing with this issue, it is not included in the new B&H Development Strategy and there is no policy or strategy at state and entity levels.	There is no real progress in development as economy remains stagnant. The IPA and the ESF funds are not absorbed sufficiently and B&H is not prepared for future absorption of these funds. Negative trend of low level of job creation continues as pressure on the labour market grows leaving economic activity at low base level. There is no coherent approach on how to develop a knowledge-based economy.
2. Human resources development is integrated as part of a new B&H Development Strategy at sector wide level (labour market, different types of education and training, SME development, higher education).	There is a consensus among top level decision makers that human resources development is important and integral part of development. A first decisive action is taken, putting B&H development on a right track. Planned approach to development. Mechanism for drawing IPA and ESF funds is established.
3. Directorate for Human Resourced Development is established at state level directly responsible to CoM, human resourced development is integrated as part of new B&H Development Strategy at sector wide level and there is Policy/Strategy for Human Resources Development at state and entity levels.	Planned approach to development is taking place as seriously as in other European countries; several decisive actions are taken and B&H is on right track. Institutions in charge are strengthened to develop strategy / policy and framework of legislations is in place. Integrated human resources development strategies and policies are initiated at education and labour market (employment) levels.
4. Directorate for Human Resourced Development is established at state level directly responsible to CoM, human resourced development is integrated as part of new B&H Development Strategy at sector wide level and there is Policy/Strategy for Human Resources Development at state and entity levels followed by comprehensive labour market reform and educational reform.	Competitive human capital is starting to be generated which is able to respond to challenges before the knowledge based economy paving the road to quick economic recovery due to removal of essential obstacles to development because both demand side (labour market) and supply side (education system) are being planned and programmed for the purposes of rapid development of whole society.



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### Evaluation of policy options:

Evaluation criteria	Policy options			
	Option 1	Option 2	Option 3	Option 4
Time efficiency	high	high	moderate	low
Political support	high	high	moderate	low
Synergy effect	low	moderate	high	high
Expected financial commitment	low	moderate	high	high
Development effect	low	Low-moderate	moderate	moderate

**Third policy option is recommended** as the best option due to following reasons. **Firstly, it is reasonably time efficient** as existing institutional arrangements can be effectively utilised to put this policy option in place. The Directorate for Human Resources Development can be established following the procedures used for establishing DEI and DEP as they are also directly responsible to CoM; the new Directorate can be organised in similar fashion as DEI and DEP. **Secondly, there will be limited political opposition** as administrative structures and competences at various levels will not be meddled with due to the fact that this Directorate would operate just as established ones do (DEP and DEI). **Thirdly, the outcome of having human resources development at central level synchronised with entity levels** is a coherent state-wide approach. By establishing a Directorate, a synergetic effect would be created with DEP (directly responsible for creating B&H development strategy) ensuring that human resources development is integrated as part of new B&H Development Strategy at sector wide level. **Fourthly, it will address human resources at its core and prepare ground works for next steps** such as reforms of labour market and education.

Two possible shortcomings of this policy option are: firstly, the strategic priorities fail to become operational, due to a lack of secured and steady sources of funding (however, this threat can be eliminated if Ministries of Finance and Treasury, at state and entity level, are involved through the whole process and are put in charge of implementation, as experiences of EU countries with successful development track record are showing) and secondly, the threat is that establishing a Directorate becomes a prolonged affair due to political squabbling.

### 5. Recommendations

Considering the current substandard state of human capital and its development in B&H, it is of utmost importance for B&H to seriously approach this issue immediately. The government needs to become actively involved in the advocacy and promotion of, as well as development of the friendly conditions for, human resources development. For the adequate development of the human resources

in B&H, the government needs to adopt the legal frameworks for development of universities that would adequately prepare human capital, encourage entrepreneurship and support innovations and of science and technology sector capable to meet the challenges of knowledge driven economy.

It is prudent that improvement should start with development of adequate institutional setting. Here, it is advisable that a central authority on human resources development is established at state and entity levels. Ideally this central authority would be a Directorate for Human Resources Development attached/responsible to CoM.

After/during the establishment of central authority it is imperative to achieve policy coherence, reduce operational costs and overcome the notion of separateness and fragmentation of the labour market and education; ensure that reforms in labour market and education are interconnected and have cross-entity character. It is necessary to adopt a required legal framework and ensure its qualitative implementation (Law on Higher Education respecting principles set by the Bologna process, ensuring of the adequate accreditation system, allowing for mobilization, securing the quality of education; Amend Laws on Work with special attention to the voluntary work and internships regarding their work experience same as paid work experience).

Integration of human resources development as part of new B&H Development Strategy at sector wide level that would include labour market and different types of education and training must take place also. Simultaneously, B&H must create a complementary sector Strategy/Policy for Development of Human Resources at state-level and entity level, which would enable coherent and unified approach to overall social and economic development.

After that, the first challenge would be to integrate human resources development strategies and policies with economic strategies both at education and labour market (employment) levels. Simultaneously, both demand (labour market) and supply (education system) side will have to undergo serious reforms and restructuring in order to develop competitive human capital able to respond challenges before the knowledge based economy.