



UNION OF EMPLOYERS OF
REPUBLIC OF SRPSKA

PROPOSALS AND RECOMMENDATIONS

OF THE UNION OF EMPLOYERS OF THE REPUBLIC OF SRPSKA
FOR THE ECONOMIC REFORM PROGRAMME
OF THE REPUBLIC OF SRPSKA 2023–2025



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INTRODUCTION

The accelerating dynamics of global processes, caused by technological development, the pandemic and the development of conflicts, together with the increasingly present problems caused by global warming, results in global inflationary movements, the difficult functioning of global supply chains, the rise in prices of raw materials, energy, food, etc. Intense global movements and technological development cause changes in geostrategic planning, especially in peripheral economic systems.

Bearing in mind the need to adapt the political and economic system to global processes, the Union of Employers of the Republic of Srpska, with its proposals and recommendations for the Economic Reform Program, wishes to contribute to the identification of adequate strategic and planning documents, as well as to ensure their consistent application by establishing synergistic action of all state and social organizations and institutions. Appreciating the complexity of global processes and the challenges that peripheral economic systems will face, in addition to the structural demographic and socio-economic challenges that the Republic of Srpska has been facing for many years, **the general socio-political consensus** represents the only and most effective way of creating a sustainable and stable Republic of Srpska.

The negative effects of the Covid-19 pandemic, the instability of global economic trends, the money supply growth, the projected government budget deficits and the growth of debts result in the resolution of the aforementioned phenomena with uncontrolled inflation at the global level. This puts future projections regarding the sustainability of the social protection system and economic growth to a serious test, while also indicating the need to take a strategic approach to the sustainability of the system as a whole.

In this regard, this document points to the importance of adopting a general strategic document – the **Sustainable Development Strategy of the Republic of Srpska 2023-2030**. This document would focus on the efficiency of using human and natural resources by defining key development opportunities of the Republic of Srpska and adjusting all sectoral and other strategic and planning acts of the Government of the Republic of Srpska to the general strategic document. The goals of the Strategy need to be considered from the perspective of opportunities related to the processes of “desertification” of Southern Europe, expected migrations caused by food shortages in African and Asian countries, as well as the energy crisis and potential migrations from the north to the south of Europe.

Taking into account certain changes in strategic planning in the field of sustainability and development of the Republic of Srpska, change management needs to be provided and modernized by **strengthening the institutional framework and reorganizing the institutions of the Republic of Srpska**.

The long-standing negative demographic trends, fueled by poor natural growth, aging of the population and continuous growth of migration towards the countries of the European Union, have caused a dramatic drop in the labor supply. The key goal or main vision of the Republic of Srpska system should be redirected to the youth, by means of adjustments in redistribution. **Various concrete and systemic support measures for the youth need to be**

created, to promote job recognition, earlier inclusion of young people in the world of work, and family formation.

Given the quality and approaches to changes in education systems in the areas to which our citizens migrate, special emphasis should be placed on **the modernization of the education system**, not only in terms of its adjustment to the needs of the labor market, but primarily in terms of its adjustment to technological development and the Sustainable Development Strategy of the Republic of Srpska. Although limited progress has been achieved in linking the education system with the economy (secondary education), the reform of education needs to be addressed more decisively as soon as possible, with the aim of modernizing the transfer of knowledge and the learning process in general, as well as to promote early selection and early introduction of pupils and students into the world of work, and to establish centers of excellence.

By reducing fiscal and parafiscal burdens and through a more rational, transparent and efficient public spending (government spending), redistribution in favor of young people and an increase in the standard of living of citizens through faster convergence of incomes with EU countries would be achieved.

The aforementioned reform activities require a general socio-political consensus and institutions with integrity. An opportunity to improve the integrity of tax and inspection authorities, as key institutions of the Republic of Srpska, lies in activities aimed at suppressing the informal economy, which the Republic of Srpska has been facing for many years, with small or almost negligible results, which ultimately results in corruption and low level of citizens' trust in institutions.

We perceive the **digitalization of the education system, administration and the economy** as an opportunity that our community can take to overcome the problems of public spending and the informal economy, as well as problems in the redistribution of social wealth in general. Through the digitalization process, an efficient administration and a competitive economy can be created in a short period of time. These would, based on an efficient natural and human resources management, catch up with developed economies, while creating enough value for a dignified life of citizens.

Taking into account the challenges caused by the pandemic, the development of conflicts around the world and, consequently, the energy crisis that will complicate **the implementation of the Green Agenda**, we especially emphasize that the approach to strategic and economic planning must respect the principles and goals proclaimed in the aforementioned document, as well as the obligations arising from international treaties and agreements.

Based on the above and for the purpose of preparing the document Economic Reform Program of the Republic of Srpska 2023-2025, the Union of Employers of the Republic of Srpska proposes the following 10 reform priorities:

- 1. Improvement of the strategic framework;**
- 2. Improvement of the institutional framework;**
- 3. Systemic youth support measures;**
- 4. Modernization of the education system;**
- 5. Reduction of financial and administrative burdens on the economy;**
- 6. More efficient use of natural and human resources through adjustments in redistribution;**
- 7. Digitalization of administration and the economy;**
- 8. Suppression of the informal economy;**
- 9. Transition from linear to circular economy;**
- 10. Improvement of the business environment at the level of joint bodies of Bosnia and Herzegovina.**

METHODOLOGY OF THE PREPARATION OF PROPOSALS OF THE UNION OF EMPLOYERS OF THE REPUBLIC OF SRPSKA

The Union of Employers of the Republic of Srpska, in accordance with past practice and appreciating the members' contribution to the identification of proposals for the Economic Reform Program, conducted a significant number of discussions within the employers' associations. With the establishment of the Economic Council, a dialogue between the business, scientific and professional communities was achieved, which resulted in a significant number of proposals for the Economic Reform Program. This also created a platform to contribute to the recognition of structural economic and social problems and capacities for the implementation of agreed strategic approaches together with the institutions of the system in the coming period, through the synergy of scientific and business thought.



1. IMPROVEMENT OF THE STRATEGIC FRAMEWORK

1.1. DRAFTING AND ADOPTION OF THE SUSTAINABLE DEVELOPMENT STRATEGY OF THE REPUBLIC OF SRPSKA 2023–2030

The Republic of Srpska has multiple sectoral strategies, some of which have been adopted in accordance with the new Law on Strategic Planning of the Republic of Srpska and the accompanying methodology. However, a key strategic document is missing, as a strategic document/basis for the preparation of sectoral and other strategic documents, which would prevent the possibility of their mutual inconsistency. An essential prerequisite for the future coordinated development of the Republic of Srpska is the drafting and adoption of the Sustainable Development Strategy of the Republic of Srpska for the upcoming seven-year period.

The drafting of the Development Strategy of the Republic of Srpska is defined by the Law on Strategic Planning itself, and it has multiple benefits:

- **Economic** – The Strategy would systematically define strategic sectors of the economy and measures for their improvement, with the aim of changing the structure of the Republic of Srpska economy so that those sectors of the economy that contribute to faster economic growth, especially salary growth and consequently the retention of the

workforce, prevail to a greater extent. This approach would also enable a more correct distribution in terms of equal employment in both the public and private sectors.

- General social – The Strategy would comprehensively (and not partially and sometimes in an uncoordinated manner) define the development of not only economic, but also other areas (health, education, public enterprises, infrastructure, culture, etc.) related to the economy and essential for the long-term development of the country.
- International – Sustainable development strategies are internationally recognized and are in line with the UN Sustainable Development Goals, thus creating a prerequisite for compliance with international goals, and consequently for the withdrawal of funds from international sources, in such a way that the goals of the Sustainable Development Strategy coincide with the defined UN Sustainable Development Goals.



2. IMPROVEMENT OF THE INSTITUTIONAL FRAMEWORK

2.1. STRENGTHENING THE CAPACITIES OF THE MINISTRY OF ECONOMY AND ENTREPRENEURSHIP

In accordance with the Law on Public Administration of the Republic of Srpska, responsibility for certain industries in the economy is assigned to different ministries¹, so it often happens that some industries are left “neglected”, being given less attention due to the focus on other important topics within the sector’s competence (relevant sectors are less concerned with them because the focus is on other segments of the sector, such as pharmaceutical industry, food industry, tourism, IT sector, electrical industry, etc.). Thus, different industries have different conditions for their operation (e.g. the possibility of using incentives).

In this sense, a new organizational structure is necessary, to make sure that all the industries are treated equally in the institutional sense (all industries have competent organizational units for monitoring their work, proposing measures for improvement and implementing

¹ **Ministry of Economy and Entrepreneurship** – construction material industry, metal processing, mechanical engineering, traffic facilities production, shipbuilding, manufacture of electrical machinery and appliances, arms industry, manufacture of rubber and plastic products, industrial wood processing, paper manufacture and processing, natural rubber processing, graphic activity, textile, leather, industrial waste collection and primary processing; **Ministry of Agriculture, Forestry and Water Management** – food industry; **Ministry of Energy and Mining** – energy and mining, chemical industry; **Ministry of Health and Social Welfare** – pharmaceutical industry, partly health tourism; **Ministry for Scientific-Technological Development, Higher Education and Information Society** – IT sector; **Ministry of Trade and Tourism** – tourism, trade...

those measures), with the aim of increasing attention to competitive industries in order to accelerate the growth of the economy.

This can be achieved through the following activities:

- a) strengthening the Ministry of Economy and Entrepreneurship with new sectors (for wood processing industry – including pulp and paper industry and graphic industry; for metal processing and electrical industry – including arms industry; for manufacturing – chemical and pharmaceutical industry; for IT sector and creative industries; for investments in tourism; for food industry; for small and medium-sized entrepreneurship and crafts; for economic development – awarding of incentives; for economic cooperation – export, foreign investments...; for commercial law – commercial registers and strategic planning). In this way, a comprehensive **Ministry of Economy** would be established.
- b) identifying the problem in other ministries and strengthening the economic component. The first proposal is more acceptable for the business community, given that the goal of establishing the Ministry of Economy and Entrepreneurship was precisely to identify one central point for the needs of the economy and to integrate individual measures in one place.

The analytical and planning function in the Ministry of Economy and Entrepreneurship needs to be strengthened. This function would be based on data from the field and on research on a broader level. This in particular because accelerated changes at the international level require quick reactions, so the growth of the domestic economy and risks have to be assessed as often as possible, at least once a quarter, with results being communicated in a timely manner.

To make the aforementioned possible, it is necessary to adopt amendments to the Law on Public Administration, in order to introduce a new organizational structure for the purpose of a comprehensive approach to the economy through one ministry. At the same time, all other necessary changes would also be covered (lack of certain sectors, overlapping of certain sectors – e.g. lack of a sector for internal regional development, rural development, etc. and all other areas that exist in joint institutions of Bosnia and Herzegovina, but not in the Republic of Srpska).

2.2. REORGANIZATION OF THE DEVELOPMENT AGENCY OF THE REPUBLIC OF SRPSKA

A financial, personnel and strategic reorganization of the Development Agency of the Republic of Srpska is needed.

The aim of the reorganization is to align the focus of work with the key reasons for establishing the Agency (the work should not be based only on projects financed from foreign funds). The Agency also needs to fully coordinate its activities with the relevant Ministry and with sectoral strategies, with an increased involvement of the Ministry of Economy and Entrepreneurship in terms of providing guidelines and monitoring the work of this agency.

The Development Agency also requires modernization in terms of organizational and personnel solutions, to follow the trends of similar agencies in the region.

In practice, activities of individual institutions (the Republic of Srpska Investment-Development Bank, Development Agency, and Directorate for Investments) need to be coordinated, in order to avoid overlapping of tasks (e.g. the task of attracting investors should be left to the Directorate for Investments, while the other two institutions should coordinate their activities with their mission).

Support has to be provided to employers in terms of applying and implementing projects from EU funds accessible to Bosnia and Herzegovina.

The Ministry of Economy should be competent for the supervision over the work of all the institutions of importance for the economy (Agency for Intermediary, IT and Financial Services (APIF), Development Agency, Directorate for Investments).

2.3. REORGANIZATION OF THE AGENCY FOR INTERMEDIARY, IT AND FINANCIAL SERVICES (APIF)

Specialization of the Agency, as an institution that provides the public and business sector, as well as citizens, with cheap, fast and reliable services. This relates to both existing and future services that are essential in the modern world and in European business environment. Gradually, the Agency would grow into a central institution for registers in the Republic of Srpska.

Specific goals:

1. Adjusting the status and organizational form of the Agency to user and market requirements;
2. Development of new services according to market and public authority requirements;
3. Establishing a system of financial justification and sustainability;
4. Establishing a system for adapting staff to new market requirements;
5. Enabling the development of administrative services, with the aim of significantly automating the procedures and gradually converting them completely into electronic form, by excluding the paper form of documents and data;
6. Creating preconditions for accurate and up-to-date data in real time;
7. Creating preconditions for public authorities to be provided with consolidated datasets;
8. Considering the option of including APIF into the public administration system, including direct connection with the Ministry of Economy and Entrepreneurship.

2.4. STRENGTHENING THE REPUBLIC OF SRPSKA INVESTMENT-DEVELOPMENT BANK (IRBRS)

Strengthening the capacities of IRBRS for the key functions entrusted to it by law and the recognition of this institution primarily in terms of financial support to the economy. Other

activities of IRBRS should not be duplicated with those of other institutions (e.g. the part related to attracting investors).

Proposals for new types of support to IRBRS:

Due to additional pressure on price growth as a result of the emergence of Covid-19 infection and international disturbances, it is necessary to ensure technological development and competitiveness of domestic companies through favorable lines of credit. As a type of support, the proposal is to establish a line of credit in the amount of 150 million BAM for the technological development of the economy and the development of new products in cooperation with employers and faculties, through long-term loans with low interest rates (the existing lines of credit of IRBRS do not provide funds for such purposes).

It is also necessary to insist on restoring the possibility of direct placements through IRBRS, under appropriate conditions that would prevent lending to insolvent users.

The banking sector in the Republic of Srpska is not adaptable to the needs of the economy in conditions of disturbances (which was obvious during the corona virus pandemic, but also due to the disturbances at the international level caused by the war in Ukraine). Thus, domestic sources of financing for the needs of the domestic economy need to be ensured in order to mitigate the shortcomings of the banking sector. This could be achieved by encouraging IRBRS to assume the role of a national bank (as the optimal option), or by establishing a new national bank of the Republic of Srpska.



3. SYSTEMIC YOUTH SUPPORT MEASURES

Present situation

Problems

- Redistribution in favor of the elderly population due to negative demographic trends and an inadequate distribution system;
- Poor attitudes of young people towards work and work habits;
- Unadjusted and archaic education system and long-term lack of interest of young people in work, growth and development within the education system of the Republic of Srpska (the system is not adapted to technological development and interests of young people, but to employees in education);
- Underdeveloped economy that cannot offer highly productive jobs;
- Long-term political instability and legal uncertainty;

3.1. MEASURES IN THE FIELD OF EMPLOYMENT

By making employment and all forms of work more flexible, it is necessary to ensure the recognition of work and work habits in our community and the earlier inclusion of students and young people in the world of work. Given that the share of inactive population in our community is very large, it is particularly worrying that the business community is forced to initiate the hiring of foreigners. This indicates a serious structural discrepancy between the labor force and the labor market, community problems related to the recognition of work and work habits, existence of the informal economy, and other anomalies that can be overcome by a more flexible regulatory framework. We especially emphasize digital solutions and the flexibility of tax and regulatory institutions, which could quickly solve the problem of discrepancies between the labor potential and the labor market in the Republic of Srpska.

In relation to the above, the Union of Employers proposes the following measures:

- Through a special law, allow for **procedures of digital recruitment of pupils, students or unemployed persons** (a new type of contract, taxable at the minimum tax rate or only with occupational safety insurance, with employer filling out the application).
- Given that the employment procedure requires registration in the unique register, it is also necessary to improve **the digital recruitment process** by means of the aforementioned procedures;
- In cooperation with the Tax Administration of the Republic of Srpska, by amending and adapting the unique system, it is necessary to allow for prepaid taxes and contributions, thus **allowing for legal employment for 1 to 30 days per month by purchasing vouchers or purchasing taxes and contributions according to the phone top-up system** (potential abuse of the system must be tested prior to its implementation);

3.2. TAX, INFRASTRUCTURE AND OTHER INCENTIVES

- Subsidies for the **purchase of the first property** (in the amount of VAT on the first property).
- Refund of taxes and contributions for newly employed workers and for newly established companies (including micro companies) whose owners are young, for the first year of operation.
- Provide **systematic training for young people** on how to establish a business entity, how to run a company, what taxes should be paid and how (unfamiliar business operations cause resistance and fear of starting a business and leaving the gray zone).
- Establishment of **an interdepartmental working group and amendments to regulations in the field of labor, education and taxes**, to encourage young people to work in the early stages of development and to enable them to do so in practice (adopting the Law on Pupil and Student Work, different taxation of work and education with the aim of stimulating internship and work on vacation, that is, with the aim of introducing young people to the world of work earlier and mastering work ethics and culture – non-taxable compensation for internships and work on vacation). For this project to come

to life, good practices from the region in establishing a program of rapid registration of pupils and students need to be implemented.

- Maintain the **apprenticeship support program, but with a limitation** when it comes to public administration (in percentage or for certain professions).
- Provide **kindergartens and extended care in most schools for at least two years**, in order to facilitate work for young parents. At the same time, the issue of labor surplus in education would be solved.
- Establish the Government's program of media promotion of good practices in order to promote entrepreneurship and knowledge (socially responsible employers, the largest and most responsible taxpayers, technologically advanced companies, internationally recognized products, fast-growing companies, etc.).



4. MODERNIZATION OF THE EDUCATION SYSTEM

Present situation

Considering the continuous decline in the number of students and the continuous increase in the number of employees in education over the past 10 years, a key step in changing the approach to financing and modernizing the education system is diverting the funds currently spent on salaries of employees (92% of the total budget of the Ministry of Education and Culture) to the modernization of teaching processes.

The human development index of BiH in 2019 was 0.769. Action aimed at human development index components (education, health and national income measured by purchasing power parity in dollars) has a positive effect on economic growth. If we were to improve this index to the level of 0.83, it would result in additional economic growth rates of 2.3% per year. Investing in human capital is becoming an imperative if we strive to achieve higher rates of economic growth.

A key challenge for the education system, in addition to the large number of employees, is technological development, which also represents a challenge for future functioning of the economy that will also face a change in its structure and the need to create high-quality jobs.

Problems

- Labor surplus in primary and secondary education;
- Education system is adapted to the interests of employees in education, not to the interests of students and the community as a whole;
- Low level of funds for material investments (ranging from 5% to 10% of the total RS Budget for education and culture);
- Unjustified network of schools with many branch schools that have a small number of pupils;
- Secondary schools are not well equipped;
- Other.

Proposals for improving the education system

Education is the key to survival of the Republic of Srpska, given that an educated population represents a prerequisite for its development. In addition, education reform would represent a basis for new generations to stay in the country, as an increasing number of young people decide to study outside the Republic of Srpska and stay abroad due to the insufficient quality of education.

Knowledge is a key resource for the progress of society. Investments in science and education are considered the most profitable investments in the 21st century.

For this reason, education and creating conditions for its improvement must become a key priority of all policies of the Republic of Srpska.

An important measure would be to create material conditions for schooling (equipment for subject-based classrooms, furnishing of halls of residence for pupils and students, etc.). The costs are very low in comparison with the benefits.

10 kilometers of highway = equipment for all schools

4.1. PRIMARY EDUCATION

Improve material conditions for primary education (while reducing costs where possible):

- Increase material costs to the level that the ratio of funds for personal income of school employees to material costs is 70% : 30% (currently the ratio is 90% : 10%, which leaves schools with no resources for important segments of development – equipment for subject-based classrooms, staff training, organization of other aspects, etc.)
- Provide extended care in most schools for at least two years, in order to facilitate work for young parents. At the same time, the issue of labor surplus in education would be solved
- For the purposes of cost-effectiveness, organize work in schools only in the first shift, where possible.

Improve the quality of teaching

- **Make changes to the curricula, modernize them** and adapt them to modern approaches to education; amendments to the regulation would allow for rapid revision and adaptation of the curricula to the dynamics of technological, communication and other changes
- The curricula should include more significantly improved content from the field of computer science, programming, entrepreneurship, financial literacy, technical education.
- **In cooperation with domestic IT companies, modernize** the existing methods of knowledge transfer by introducing video content, digital textbooks, etc.
- Equip all classrooms and subject-based classrooms with **cutting-edge teaching and communication tools** (two pupils – one i-pad – laptop / video beam, sound system, smart boards, etc. / 5G in all schools);

Improve the quality of teaching staff

- Given the dynamics of change, establish continuous professional education for teaching staff based on the Catalog of topics that will be accredited and that will influence the promotion of directors, teachers and associates
- Adopt the Rulebook on continuous professional development, evaluation and promotion of directors, associates and teachers. The goal is to create the situation in which the level of knowledge and competencies acquired through continuous education of teaching staff is the **key criterion in further selection of teaching staff**
- Establish external evaluation of the school work quality, which would also include a high-quality **evaluation system for teaching staff**

Establish a system of directing pupils to those areas in which they have most development capacities

- Establish the principle of **early selection** based on the most modern psychometric models and consistently apply the established criteria. In the teaching and extracurricular processes, **use state-of-the-art tools in assessing pupils' psychological profiles** in order to identify their preferences and other characteristics important for their development as early as possible.

Promote knowledge

- Establish a high-quality **system for rewarding gifted, talented and successful pupils** – work, commitment, social responsibility, innovation, etc. (organization of camps, incentives for participation in international competitions, incentives for enrollment in higher education levels, scholarships)

Establish a system of continuous monitoring of teaching quality and continuously improve primary education

- Establish a public and comprehensive system for checking pupils' acquired knowledge and competencies (External evaluation of pupils' knowledge, final exams upon completion of primary and secondary school)

4.2. SECONDARY EDUCATION

Priorities:

Urgently initiate the establishment of a reorganized network of secondary schools, based on actual needs and the economic justification of their existence

- **Reform the network of secondary schools based on a previous analysis of the justification for the existence of certain schools, with changes in the structure of occupations in them, which also implies the closure of a number of schools and occupations. (A network of secondary schools is the key to all changes in secondary education).** In this regard, grammar schools should be reorganized to provide an increased pool of classes in required subjects (e.g. technical subjects).

Improve material conditions for secondary education

- Increase material costs to the level that the ratio of funds for personal income of school employees to material costs is 70% : 30% (currently the ratio is 90% : 10%, which leaves schools with no resources for important segments of development – equipment for subject-based classrooms, staff training, organization of other aspects, etc.)

Other activities:

Improve the quality of teaching staff

- Adopt and apply the Rulebook on mandatory professional education, training, evaluation and promotion of directors, associates and teachers
- Amend the Law on Salaries, with regard to staff professional expertise
- Establish a system of recording lessons, both for the purpose of digitalization and for the improvement of the teaching staff quality

Establish a system for evaluating the quality of schools and their compliance with the needs of the labor market and national priorities

- Strengthen the role and capacity of local and regional councils for education
- Establish a secondary school accreditation system, based on the level of school equipment, the level of staff competencies and the number of students employed after completing secondary vocational education (External evaluation of the school work quality)
- Establish a student monitoring program after completing education in order to identify the profession in which they started working and to collect other data important for creating enrollment and employment policies (in cooperation with the Employment Service)

Improve the quality of teaching by introducing more vocational training

- Within the Ministry of Education and Culture of the Republic of Srpska, establish a special department for improving education of students who attend vocational training outside of school; improve cooperation between education and the economy

- Adopt the Law on Pupil and Student Work
- Establish standards for the equipment in subject-based classrooms used for theoretical and practical instruction
- Invest in equipping secondary schools by launching a special Secondary School Equipping Program in the Republic of Srpska, which would be jointly financed by the Government of the Republic of Srpska, employers, local communities, donors

Promote knowledge

- Review the existing scholarship system for secondary school students (scholarships for shortage occupations did not prove to be productive). Scholarships should be dependent on success in school and granted to the most successful students.

Lifelong learning

- Return retraining projects and other education support projects to the formal education system for the results to be systemic and of better quality

4.3. HIGHER EDUCATION

Modernization of higher education institutions and improvement of teaching quality

- Reform of study programs at public higher education institutions (merging into two-subject programs, closing programs for which there is no need, public interest or student interest), change of level (from first to second level) and scope (from 180 ECTS to 240 ECTS or 300 ECTS, introducing the STEAM system to teacher study programs) of studies in programs that have been shown to not meet the requirements and needs of the market, establishment of programs for which there is a regional or global need in the labor market
- Increase the level of entry competencies of candidates enrolling in study programs (especially those leading to regulated professions: medicine, healthcare, pharmacy, architecture, construction, law, pedagogy/teaching programs, psychology) by introducing entrance exams and minimum grade point averages from secondary school
- Introduce a test of English language skills for candidates enrolling in study programs, with the obligation to attend preparatory classes in this language for those who do not meet knowledge requirements
- Establish a system of monitoring the scientific, teaching and professional competencies of full-time professors, as a periodic check whether they meet the conditions for selection into this position
- Enable the acquiring of a doctoral degree through scientific research projects in cooperation with domestic and/or foreign scientific research institutions
- Introduce mandatory training for academic staff at higher education institutions, aimed at increasing digital competencies
- Digitalize a part of the teaching process, in a percentage that does not threaten the traditional teaching method, but facilitates it and enables the internationalization of

studies and a more rational use of teaching resources, especially in programs with a small number of students

- Establish or improve the existing legislative framework for the establishment of qualification framework, dual education, protection of regulated professions, student work, establishment of joint studies (Joint Degrees and Double Degrees)
- Complete the program accreditation for all programs at all accredited higher education institutions in the Republic and continuously monitor the implementation of measures recommended by the accrediting commissions
- Provide a system of monitoring the success of higher education institutions through the analysis of students' use of acquired competencies

Compliance with the needs of the labor market

- Identify the actual market needs (including educational institutions at all levels) for staff education, including staff at programs that narrowly belong to national identity disciplines
- Determine the actual cost of study programs and establish the system of financing from the budget only for those professions that are needed on the labor market and for those for which there is a clearly established public interest by the Government
- Oblige higher education institutions to develop qualification standards and occupational standards for all qualifications that can be acquired at domestic higher education institutions and provide them with personnel and expert support from the Government, the Ministry and the Agency for Higher Education for this task
- Establish Centers of Excellence (development and resource centers) with the aim of synergizing knowledge and labor market requirements
- Establish the Innovation Fund as a central fund for all budget allocations and investments of the business community and employers for project financing
- Introduce short study programs (60 to 120 ECTS) at higher education institutions for those who show interest in this, with previously established formal cooperation with employers in the form of contracts, in order to ensure staff with specific knowledge and skills required by the labor market in a short period of time
- Increase the number of practical classes and student training in all study programs to reach the level of European standards for the given type of programs
- Form a "spin-off" at higher education institutions with the aim of developing entrepreneurial initiatives and maintaining cooperation with the economy
- Improve the system of support measures for those studying for shortage occupations by introducing additional measures (except for scholarships)

Improving internal efficiency of the work of higher education institutions

- Adopt a unique decision at the Republic level that study programs which do not have a minimum teaching group will not be carried out, and provide students enrolled in these programs with the possibility to study at another higher education institution

in the Republic, including assistance in the form of allowances for staying in a place outside the place of residence, and student accommodation and catering services

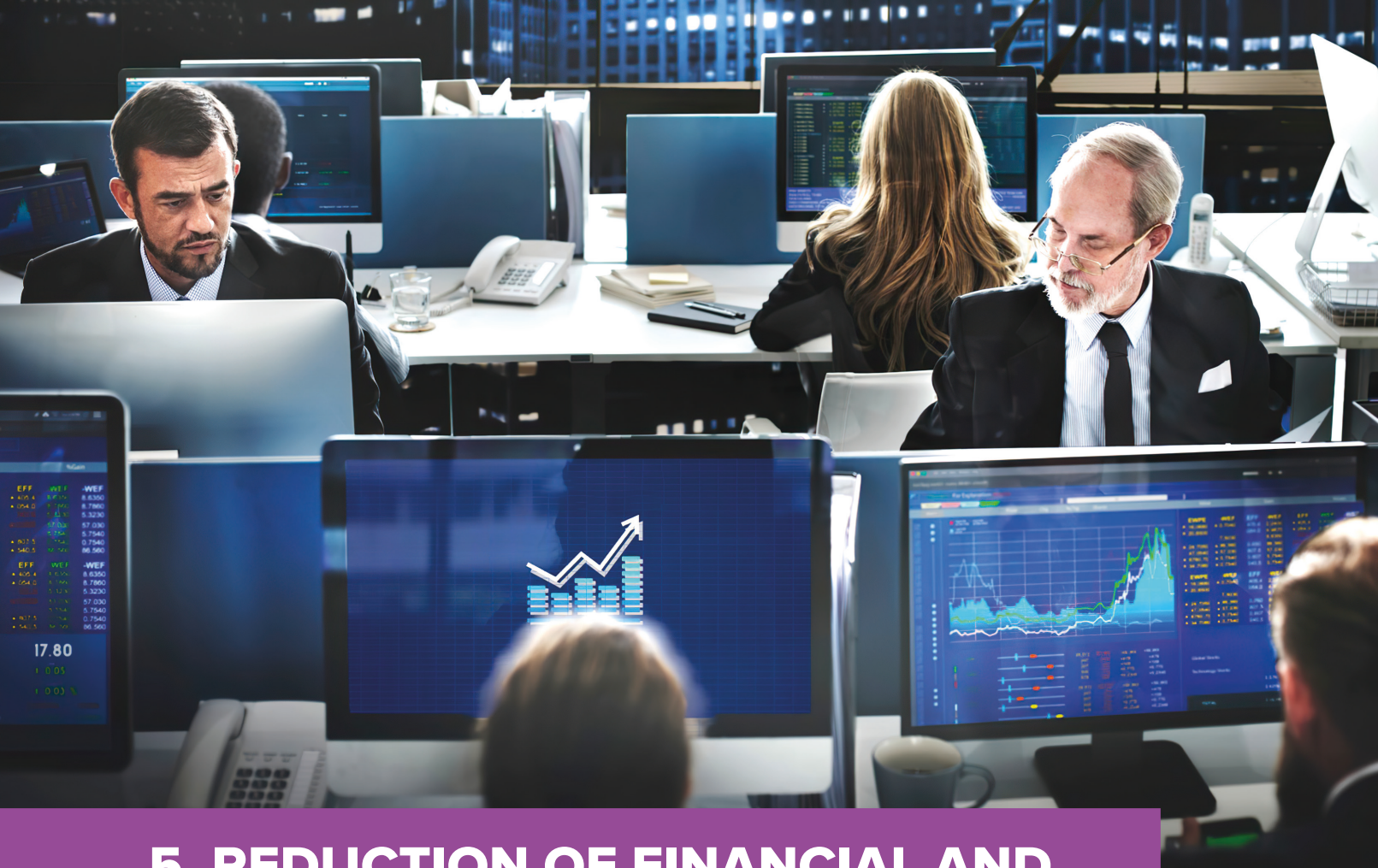
- Establish institutes and faculties/academies where the number of students is constantly decreasing and therefore the teaching process cannot be conducted as there is no minimum teaching group, with the obligation to employ teachers from these faculties/academies in institutes with the same employment law status, who would conduct scientific research and write, prepare and implement development projects, instead of teaching
- Clearly define national identity disciplines and programs for whose survival there is a public interest of the Republic
- Reform the system of norms and financing of salaries of employees at public higher education institutions in such a way that the salary is divided into the part earned by participating in the teaching process, the part earned by scientific research work and the part earned in other ways (consultations, cooperation with the economy, projects, etc.).

Urgent internationalization of study programs

- Accredite programs in English or another foreign language, with the obligation to ensure teaching staff with proper knowledge of the foreign language, as well as the obligation of those who do not know the language to acquire knowledge at the advanced level (C2) within the deadline set by the higher education institution
- Accelerate the internationalization of higher education in all forms: bilateral and multilateral cooperation agreements with foreign higher education institutions, which include incoming and outgoing mobility of students and academic staff, development of marketing plans and activities to promote domestic programs in English in underdeveloped and other countries where there is interest in studying in Europe in order to attract foreign students, increasing the visibility of higher education institutions and their programs outside the borders of BiH
- Provide a legal basis for the establishment of joint studies, especially in the second and third cycle, with foreign and international organizations engaged in scientific research directly associated with the needs of society and the economy
- Oblige the representative offices of the Republic of Srpska in foreign countries to promote domestic study programs, especially those conducted in English
- Introduce mandatory training for academic staff at higher education institutions in the field of project writing and using European and international funds for the development of science and education

Knowledge promotion and support

- Establish a Student Fund from which students will receive loans until the end of their studies, which they would repay once they start a job
- Strengthen the student standard infrastructure through further investments in student accommodation, benefits, incentives and other types of financial and material support
- Oblige higher education institutions to form student alumni associations



5. REDUCTION OF FINANCIAL AND ADMINISTRATIVE BURDENS ON THE ECONOMY

Present situation

In addition to the redistribution in favor of the young, it is necessary to make distribution adjustments in favor of workers who create new value, primarily workers in the economy of the Republic of Srpska, that is, in the manufacturing industry. By implementing the Memorandum on Joint Policies, the Government of the Republic of Srpska and the Union of Employers of the Republic of Srpska have made certain distribution adjustments in favor of workers in the manufacturing industry. However, with the additional growth of public spending resulting from the increase in pensions and salaries in the public sector in 2022, the efforts made in the past period in terms of distribution adjustments in favor of workers in the economy have been nullified. The growth or stagnation of public spending at this level, in conditions of further growth of demographic deficits, gives rise to concerns when it comes to the financing of the social protection system. On the other hand, this creates additional pressure on salary growth in the real sector, which low-accumulation sectors in particular will not be able to withstand in the short term.

5.1. FINALIZE THE PROJECT OF REDUCING NON-TAX RECEIVABLES

In November 2019, the Government of the Republic of Srpska formed a working group for the reform of tax and non-tax receivables and procedures for their payment. Certain non-tax receivables have been selected from the Register of tax and non-tax receivables, with proposals for their reduction, abolition or different calculation method.

In the previous period, significant progress was made in reducing non-tax receivables by abolishing the special republic tax and by reducing certain utility charges and court and administrative fees. These measures brought the business community annual savings of about 30 million BAM.

In the coming period, the plan is to continue with analyzes and to provide additional relief for the economy and the population through the reduction, abolition or different calculation of certain non-tax receivables.

According to the recommendations of the working group for the reduction of non-tax receivables, the process needs to be finalized in the following aspects:

No.	Proposal of non-tax receivables to be reduced/abolished/ optimized	Register number	Description / explanation of the proposal	The amount charged in 2021 (BAM)	Beneficiary
1.	Fee for the improvement of forest functions of general interest	56.	Abolition or reduction of the rate is proposed	17.648.715 BAM	Budget of the RS
2.	Water charges	43–48.	The Ministry of Agriculture, Forestry and Water Management and Vode Srpske should conduct an analysis of the competitiveness of this fee in comparison with the region, while also explaining in more detail and more clearly the criteria for calculating the fee	18,517,657 BAM (for all water charges)	Budget of the RS Budgets of local communities Vode Srpske
3.	Fee for the registration of real estate rights and mortgage registration and cancellation	89.	The proposal is to reduce the fee by changing the method of its calculation	The Republic Administration for Geodetic and Property Affairs has not submitted the amounts of financial resources collected on this basis	Republic Administration for Geodetic and Property Affairs of the Republic of Srpska
4.	Contribution for the financing of surveying and the real estate cadaster establishment from the Program of surveying and the real estate cadaster establishment	96–97.	The following is proposed: 1. to abolish the fee 2. to reduce the fee to 0.1%	2,883,652 BAM	Republic Administration for Geodetic and Property Affairs of the Republic of Srpska

5.	Fee for copies of geodetic plans in digital (vector) form	101.	A reduction of fees is proposed	(4,694,543 BAM) (the revenue figure represents the total revenue from data usage. Thus, several fees are included. 91, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107)	Republic Administration for Geodetic and Property Affairs of the Republic of Srpska
6.	Environmental packaging waste burden fee	69.	The proposal is for the Republic of Srpska to launch an initiative to equalize the amounts to the amounts paid in the FBiH	(Revenue in 2018 amounted to 316,722 BAM; more recent data not available)	Environmental Protection Fund of the Republic of Srpska
7.	Financial resources for financing special fire protection measures – Fire protection fee	204.	The proposal is to abolish this fee, as it represents a parafiscal charge on the economy It was proposed that only certain business entities be liable for this fee The proposal of the Ministry for Scientific-Technological Development, Higher Education and Information Society is to allocate some of the financial resources arising from this fee for the launching of research projects in this field	7,911,606 BAM	Budgets of local self-government units Civil Protection Administration of the Republic of Srpska
8.	Membership fee to the Chamber of Commerce of the Republic of Srpska	611.	Amendments to the Law on the Chamber of Commerce of the Republic of Srpska		Chamber of Commerce of the Republic of Srpska

5.2. REDUCTION OF ADMINISTRATIVE PROCEDURES AND FORMALITIES AND THEIR DIGITALIZATION

5.2.1. Implementation of the Project for optimization of administrative procedures and formalities at the level of the Republic

In late 2021, the Government of the Republic of Srpska adopted an action plan to reduce administrative procedures and formalities (permits, certificates, decisions), with the aim of reducing costs, time and procedures for the needs of citizens and the business community.

The number of formalities proposed for abolition is 42 (of 932), or 4.40% of the total number. The number of formalities proposed for simplification is 243, or 25.47%. The remaining formalities require no changes.

The project needs to be finalized according to the plan, with full support to its implementation.

5.2.2. Launch the Project for optimization of administrative procedures and formalities at the local level

The ongoing Project for optimization of administrative procedures at the level of the Republic is to be finalized. Using the same methodology, the project should be implemented at the local level, in as many local self-government units as possible, with the aim of reducing time, procedures and costs required when issuing permits, certificates and other formalities issued by republic and municipal authorities, using the digitalization process when possible. The results of the project should serve as a quality basis for establishing as many digital services for citizens and employers as possible.

5.3. STIMULUS MEASURES FOR NEW INVESTMENTS

- Recognition of building construction as an item eligible for corporate tax deduction;
- Improving the definition of real estate tax by means of:
 - Expanding the scope of taxpayers and real estate—the project is being implemented.
 - The expansion covers real estate taxpayers. It is necessary to intensify activities within the project and make amendments to the law and regulations in order to achieve the desired objective.
- Specifying the competences and obligations of all institutions involved in the process of collecting and analyzing the data needed to determine the real estate tax base;
- Regulate in detail the determination of initial real estate values in local self-government units;
- Consider changing the real estate tax rates in terms of introducing a differential tax rate that would be determined in relation to the higher value of the real estate or the number of real estate items owned by the given taxpayer;
- Amendments to the penal provisions, to additionally sanction non-compliance with the law.

5.4. REIMBURSEMENT OF SICK PAY AFTER 30 DAYS

In addition to the net salary compensation, financial resources of the Health Insurance Fund should also serve to pay both the contributions and taxes on compensation. Such a solution is already being applied in the neighboring countries.

In the Republic of Serbia, after the first 30 days of paid sick leave compensated by the employer, the National Health Insurance Fund pays the salary compensation belonging to the employee temporarily incapable for work in the gross amount to the employer's dedicated account. The employer is in obligation to pay taxes and contributions on compensation from this amount. In the Republic of Croatia, salary compensation in case of temporary incapacity for work for up to 42 days is at the expense of the employer. For incapacity for work that lasts

longer than that, salary compensation with the associated tax and contributions is paid by the Croatian Health Insurance Fund.

5.5. IMPROVEMENT OF THE LEGAL FRAMEWORK FOR BUSINESSES

■ *Amendment to the Law on Spatial Planning and Construction*

Simplify and shorten the procedures for obtaining documentation and issuing construction permits, and implement digitalization, as the current situation slows down investments.

■ *Amendment to the Law on Companies*

The Law on Companies does not provide the necessary protection to minority shareholders, thus discouraging the establishment of investment funds that would invest in companies, which is especially significant in the period when banks are withdrawing from business financing.

■ *Amendment to the Law on Occupational Safety*

To achieve better occupational safety, amend the legal solutions in order to give greater powers and responsibilities to occupational health and safety inspectors, all with the aim of preventing injuries at work, especially in sectors such as construction.

■ *Amendment to the existing Labor Law or enactment of a new labor law*

The existing limitations on overtime hours should be abolished and the possibility of electronic recording of working hours should be fully utilized. In this way, the right of workers to receive higher wages for overtime work and work on public holidays and other non-working days would become protected. Additional changes in the field of labor legislation are dealt with in Chapter 6. By redistribution adjustments, a more efficient use of natural and human resources would be achieved.

■ *Enactment of the Law on Electronic Commerce*

This law would define electronic commerce, in order to protect traders from competition in the form of foreign online chains that do not pay taxes in our country. At the same time, consumers would be protected from possible fraud. In this way, the Republic's revenues would also increase, as conditions would be created for the collection of VAT from online merchants from abroad.

■ *Law on Foreign Exchange*

The following is necessary: aligning certain solutions with the solutions from the Federation of BiH, specifying the determination of temporary resident status of the bank client, specifying the determinants such as "moderate amount", "expatriate", as well as direct investments in which the investor acquires less than 10% participation in the capital and voting rights. Adopt regulations to prescribe in more detail the conditions and submission of necessary documentation by clients for foreign payment orders, as well as to prescribe cases (exceptions) in which banks will be able to implement client orders without submitting the payment purpose. In this way, banks could more

easily fulfill their legal obligations, while the risk of implementing simulated contracts would be reduced. As an exception to payments in foreign currency and effective foreign currency in the Republic of Srpska, we propose donations for humanitarian, scientific and cultural purposes. We also suggest to allow the possibility of transferring foreign currency “from one foreign currency savings account ledger to another, that is, from one foreign currency account to another” between spouses and relatives, not only between the accounts of the same person. A law or regulation should specify the way in which a non-resident pays for purchased real estate in the RS. It is also necessary to define provisions related to the treatment of foreign securities and exchange transactions, as well as provisions on conditions for granting financial loans and credits to non-residents, especially for natural persons. We propose introducing the obligation of reporting to the Ministry of Finance all credit transactions with foreign countries, not only for legal entities, which is the case now. It is also necessary to clearly define provisions in the Misdemeanors section, because the current solution leads to difficulties in distinguishing between the misdemeanor liability of the bank and of other participants in foreign exchange operations.

- *Enactment of the Law on Pupil and Student Work*

This law would allow for easier registration in the required records, while also providing a basis for a more favorable tax treatment for temporary and occasional jobs and internships for pupils and students in the Republic of Srpska. The goal is to increase the number of pupils and students engaged in work, who would gain experience through work and contribute to easier financing of their education. In this way, we can contribute to the youth deciding to stay in Srpska, as well as help employers facing labor shortages.

- *Law on e-Government*

The aim of the Law on e-Government is to establish a single interoperable and systemic development of e-Government.

- *New Law on Information Security*

This area needs to be legally regulated with the aim of establishing a standardized management of information security, critical, key and other information infrastructure, public administration and business entities.

- *Law on Incentives in the ICT Industry*

Initiate the adoption of a set of financial and non-financial measures with the aim of establishing a stimulating legal framework for the accelerated development of the ICT industry, the development of the domestic market, ICT technologies and the digital economy.

- *Law on Civil Servants*

The new Law on Civil Servants should be drafted in accordance with the EU and SIGMA principles. The deficiencies that were identified in the previous period have to be eliminated and there is the need to resolve the issue of transition in the civil service system, which in its current form shows certain deficiencies in practice, especially in

terms of transfers from one job position to another. In addition, each job position should be analyzed, with clear job descriptions, and reduced only to the tasks deemed necessary for the activity of the given authority, in accordance with provisions of the Law on Public Administration.

Special attention should be paid to shortage occupations. If it is not possible to fill the vacancy or maintain the job position, it should be replaced by renting services.

The term “non-civil-service staff” should be omitted, to prevent abuse. In this regard, provisions related to higher education should be defined more clearly, with special focus on the qualifications framework of 180-240 ECTS.

- *Law on Salaries*

The new Law on Salaries should provide for pay grades and a graded salary determination system, as it happens that employees of the same category but with different workloads and responsibilities receive the same salary. Responsibility provides greater chances for both promotion and salary increase, but it also provides grounds for demotion and lower income.

- *Law on Inspections*

All the inspection services should be put under the competence of the Republic Administration for Inspection Activities, in order to achieve a better quality of inspection control and prevent double control.

- *Harmonize the Law on Archives with the laws in the region*

The obligation to keep paper archives for companies that have a legally created digital archive should be abolished. Modernization of the outdated law would also result in a reduction in paper consumption, facilitated use of archives for employers and institutions / the Inspectorate, and greater employee efficiency.

- *Law on the Protection of the Population from Infectious Diseases (Official Gazette of the Republic of Srpska, 90/17) – minimum hygiene requirements and sanitary booklets*

Our proposal is to amend Article 20, paragraph 1, point 1 to read:

In order to prevent the transmission of infectious diseases, persons working in the following job positions are placed under sanitary supervision:

1) In the production, processing and **sale of unpackaged food;**

All sanitary booklets need to be abolished.



6. MORE EFFICIENT USE OF NATURAL AND HUMAN RESOURCES THROUGH ADJUSTMENTS IN REDISTRIBUTION

Present situation

Efficient use of human potential represents the essence of any political and economic system, that is, of the functioning of a community. The system of distribution – redistribution of natural and public resources of the Republic has been damaged in the long term and is perceived as unfair because the population does not recognize this system as an adequate place to live in. The key to the reform process aimed at creating a sustainable system of the Republic of Srpska lies in the **distribution adjustments**:

1. **in favor of young people** – the most proactive and productive part of the population;
2. **in favor of workers who create new value**;
3. **towards equality in the use and management of natural and public resources of the Republic.**

6.1. IMPROVING LABOR LAW

Present situation

The existing Labor Law is not affirmative in terms of work and work habits and does not promote the economic and market framework in which productivity is emphasized. Such a regulatory framework not only threatens the competitiveness of the domestic economy and encourages consumption, but also creates preconditions for inadequate distribution – redistribution in the community. This results in redistribution in favor of the elderly population, which ultimately sends a bad message to the youth and the more productive part of the population that is leaving the Republic of Srpska.

The Union of Employers of the Republic of Srpska believes that it is necessary to adopt a new labor law, with the aim of adapting it to the market conditions of business operations and global processes driven by technological development and climate change. All of the above indicates the need to make labor relations more flexible, while balancing the relationship between labor and capital through such an approach.

Proposals and recommendations

- Enactment of a new labor law, with the aim of making labor relations more flexible, with respect for the functioning of the community, based on the market economy principles and with a focus on labor productivity;
- Enactment of the Rulebook on setting minimum wage levels.

6.2. SOCIAL PROTECTION SYSTEM

Present situation

- Negative demographic trends (low total fertility rate, population aging, life expectancy increase, migrations)
- Insufficiently targeted social protection (receiving a large number of those who are not in the system of social protection needs)
- Inadequate amounts of social benefits (as social benefits are received by those who should not receive any benefits, the amounts received are insufficient to meet the needs of those who are in dire need of social protection)
- Significant presence of the informal economy (part of the salary being paid “in cash”, turnover not being recorded, etc.);

Proposed measures

- Create a **social map of the Republic of Srpska** (USAID is interested in providing technical and financial assistance, a proposal Memorandum of Cooperation has already been submitted to the General Secretariat of the Government of the Republic of Srpska)
- Create an analysis and trend projections of the social protection system according to current principles, after creating the social map
- Define a new model of social protection financing
- Limit cash payments, that is, encourage debit card payments as much as possible

6.2.1. Health care system

Present situation

- High and uncontrolled consumption in the health care system;
- Negative demographic trends (low total fertility rate, population aging, increase in life expectancy, migrations, reduction of the working-age population in relation to the total population);
- Rights given to certain categories of the population for which there are no adequate payments to the health care system;
- Significant presence of the informal economy (part of the salary being paid “in cash”, turnover not being recorded, etc.);
- Abuse of sick leave;
- Accumulated outstanding liabilities;
- The issue of prices of services paid by the Health Insurance Fund to health institutions;
- The network of health institutions is too large;
- High dependence of the health care system on contributions of employees, etc.

Proposed measures for restructuring the health care system

- Based on the available analyzes of the World Bank and other relevant research, through savings in the health care system and with financial support of international financial institutions, launch the **process of restructuring the health care system of the Republic of Srpska**, with the aim of creating conditions for sustainable financing of the health care system, reducing debts and adjusting the system to the needs and interests of the citizens of the Republic of Srpska;
- By reducing the expenditures on salaries of non-medical personnel, **increase salaries for the shortage staff in health care** – not by changing the tariff system, but through contracted salaries;
- Given the development of road infrastructure (highway and road network), as well as the continuous decrease in the number of health care users, **consider further investments**

in building a network of health care institutions and the **sustainability of the existing health care institutions**;

- Given the income structure (90% from labor – from health contributions) and considering the responsibility and interest in managing the resources that come from labor, **representative organizations of employers and employees should be allowed to be represented in the Board of Directors of the Health Insurance Fund of the RS**;
- Continually introduce all health care institutions into the treasury mode of business, taking into account fiscal risks;
- **Optimize the number of employees** and comply with the standards applied in sustainable health care systems, taking into account primarily the parameters - number of inhabitants, population structure, etc.;
- Involve people with managerial competencies, experiences and skills in the management of the health care system and health care institutions;
- In order to rationalize the costs in the health care system, **reduce the network of health care institutions** to a level that respects demographic trends (migration - village/city, natural increase, etc.).
- For other forms of health insurance (e.g. health tourism), provide conditions for the development of private-public partnership in the field of health insurance;
- Determine **several levels of health care that should be commensurate with the level of payments** based on health insurance;
- **Salaries in health care should be linked to the price of the delivered service in health care**;
- Define the method of settling outstanding liabilities for each health care institution separately and then include it in the treasury system of business through its founder;
- Review the «price list» of the Health Insurance Fund of the RS;
- Standardize the network of health care institutions and services they provide, taking into account demographic trends and the development of road infrastructure;
- Optimize the number of employees;
- Define new models and sources of financing the health care system – diversification of financing models – shift towards a “mixed” model (contributions represent a “regressive” method of health care financing, as they do not tax other types of income earned by wealthier groups in the population; the system should rely more on “non-contributory” income, that is, to tax profits, dividends and property income)
- Introduce **“targeted charges”** that tax products harmful to health; ensure dedicated spending of financial resources collected based on introduced excise taxes,

Мјере за побољшање амбијента за пословање:

- **In order to prevent abuse and negative trends related to sick leave**, the competent Commission for the assessment of workers’ ability to work should be placed under the direct control of the Minister of Health / Director of Health Insurance Fund;

- Given that the proposal to introduce a **temporary pension** for workers whose medical treatment is not completed within 12 months was rejected, it is necessary to introduce the possibility to **start the retirement procedure ex officio**, in accordance with the applicable laws;
- By an **agreement between the Union of Employers of the RS and the Health Insurance Fund of the RS**, clearly define an action plan to reduce the use of sick leave entitlements. In case of ineffective implementation of measures defined by the agreement, amend the regulations whereby the Fund **will assume the obligation of financing the absence from work due to illness in the gross amount during the period of absence**;
- By amending regulations in the field of health insurance, provide **representative organizations of employers and employers individually with insight into analytical and statistical data on sick leave of up to 30 days and over 30 days** (types of diseases, duration of sick leave, location, etc.);
- Given the problem of labor force outflow to EU countries, **communication between the institutions of the system and the State Border Service needs to be arranged**, with the aim of clearly **determining the length of stay of RS/BiH citizens outside the territory of Bosnia and Herzegovina**. Another option is to amend regulations and procedures under the jurisdiction of the Ministry of Health and the Ministry of Labor, to prevent abuse related to employment obligations and health care rights, and other RS/BiH regulations;
- In order to increase the level of health care and to **establish prevention as one of the most efficient forms of health care**, that is, with the aim of reducing the expenditures in the health care system, the Health Insurance Fund, the Union of Employers of the RS, the Public Health Institute and the Institute of Occupational Health and Sports Medicine should carry out **continuous activities to educate workers** on occupational health and safety, healthy lifestyles and other topics that may increase the level of health of the population.

6.3. RESTRUCTURING PUBLIC ENTERPRISES

Present situation

- Segmented management and non-centralized supervision of the work of public enterprises
- “Fictitious” public enterprises (enterprises that are not public enterprises by their function and mode of operation, but are registered as public enterprises)
- Lack of a register of public enterprises
- Inadequate planning, reporting, management and control processes in public enterprises
- Lack of a clear ownership policy for public enterprises
- Lack of a restructuring plan for public enterprises

- Lack of a clear methodology for determining revaluation gains and losses and asset value corrections in public enterprises
- Lack of clear policy and procedure for the valuation of publicly owned infrastructure used or exploited by public enterprises
- Lack of a policy and procedure for the calculation of capital expenditures and depreciation of publicly owned infrastructure used or exploited by public enterprises
- Cross subsidization between public enterprises, especially between subsidiaries in the system of Elektroprivreda
- Inadequate and unsustainable number of employees and expenditure on salaries in public enterprises
- Lack of action plans for the restructuring/reform of public enterprises...

Proposed measures

- Establish a supervisory unit for public enterprises at the General Secretariat of the Government of the Republic of Srpska
- Introduce the function of determining, monitoring, assessing and managing fiscal risks originating from public enterprises, through a new job classification in the Ministry of Finance, in the Department for Macroeconomic Analysis and Policy
- Adopt the definition of public enterprises in accordance with international standards
- Establish a register of public enterprises, which would be administered by the Supervisory Unit for Public Enterprises, in accordance with the new definition of public enterprises
- Analyze and improve the legal framework regulating the functioning, management and responsibilities in the management of public enterprises, in order to improve planning, reporting and management, thus improving the success rate of public enterprises
- Amend the Law on Public Enterprises and special laws for each public enterprise, in order to allow for the following: (1) setting of performance goals by the Supervisory Unit and relevant ministries; (2) standardization of methodology, forms, deadlines for reporting on operations by public enterprises and relevant ministries; (3) submission of periodic financial and non-financial reports to relevant ministries and the Supervisory Unit; (4) submission of annual reports to the Supervisory Unit; (5) mechanisms for monitoring implementation and sanctions for non-compliance; (6) publication of annual reports; (7) specifically regulating the responsibility of management structures in public enterprises
- Create and adopt the **Ownership Policy for Public Enterprises in the Government of the Republic of Srpska** (the Policy should establish clear ownership criteria and basic principles of corporate management in accordance with OECD standards)
- Public enterprises will adopt a methodology, or incorporate planning, reporting and control processes into their existing internal acts, in accordance with the new prescribed general procedures

- Public enterprises will improve the planning process and timely adoption of business plans in accordance with three-year projections and strategic development documents
- In accordance with international good practice, establish/harmonize the principles, criteria and procedures for: (1) the appointment of directors, boards of directors and supervisory boards in all public enterprises, (2) the evaluation of performance of the boards and individual board members, and (3) the application of disciplinary measures and decisions on the terms of office of board members
- Establish regulations for temporary appointments or acting appointments in management positions in public enterprises, including the following: (a) the maximum number of acting appointments is limited to two at a time; (b) officials appointed as acting officials should meet the expert (expertise) and professional (experience) requirements for the positions to which they are appointed, and (c) top management positions and positions in supervisory boards cannot be filled on a temporary or acting appointment basis
- Align the legislation on compensation of management staff, supervisory boards and directors of public enterprises with the corresponding amendments to internal acts of public enterprises (in this way, the limits on the maximum amount of compensation would be abolished, to ensure that public enterprises can attract and retain high-quality professionals, while at the same time prescribing and providing the methodology for compensation that will depend on the achievement of objectives defined in business plans of public enterprises)
- Provide necessary support to the Supreme Office for the Republic of Srpska Public Sector Auditing, to increase the number of financial audits and performance audits in public enterprises
- Adopt the categorization and restructuring plans of public enterprises, in accordance with international standards
- Organize and carry out reporting by providing information on the execution of business plans, as a basis for evaluating the performance of public enterprises in accordance with established procedures
- Introduce more rigorous professional criteria for the selection of independent external auditors for conducting audits in strategic public enterprises
- The management bodies of public enterprises will ensure, within their competence, the timely consideration of performance reports and adoption of measures and action plans for the improvement of performance and the fulfillment of business objectives
- Create a website with a complete list of public enterprises, searchable at the entity level and at lower levels of government, including comprehensive financial statements
- Adopt amendments to laws and regulations to establish criteria, procedures, information and transparency requirements, as well as support mechanisms for the restructuring and /or privatization of public enterprises
- Adopt a policy/legal requirement for all public enterprises to publish detailed reports on revaluation gains and losses and asset value corrections for the previous ten-year period

- Adopt policies and procedures for the valuation of publicly owned infrastructure used or exploited by public enterprises and related reporting requirements, using proven internationally used methodologies
- Adopt policies and procedures for the calculation of capital expenditures and depreciation of publicly owned infrastructure used or exploited by public enterprises and related reporting requirements, in accordance with the International Financial Reporting Standards
- Prohibit subsidization between subsidiaries in the system of Elektroprivreda Republike Srpske
- Enact regulations to abolish the practice of cross-subsidization in all public enterprises
- Define mid-term goals in terms of the number of employees in public enterprises and develop workforce rationalization plans
- Assess the situation and needs of individual prioritized public enterprises from the list of strategic public enterprises and develop reform/restructuring proposals
- In accordance with legal regulations, write off uncollectible receivables from the records of the Tax Administration for public enterprises that have been closed, liquidated or for which the bankruptcy procedure has been finalized
- Adopt policies and action plans for starting a time-limited restructuring/reform process in strategic public enterprises

6.4. SUPPORT TO THE DEVELOPMENT OF THE ECONOMY BY STRENGTHENING MANAGEMENT FUNCTIONS

Present situation

The domestic economy lacks knowledge in various areas of importance for business, which is a significant limiting factor for further development of the domestic economy.

6.4.1. As soon as possible, it is necessary to devise a program to support the economy in certain segments:

- *Risk management*
- *Crisis management*
- *Finances*
- *Introduction of corporate management*
- *Marketing and international market entry...*

6.4.2. Improve bookkeeping and accounting

In practice, the problem of poor quality and lack of knowledge of bookkeepers and accountants in the management of business entities is becoming more and more obvious. In order to improve the quality and knowledge, establish the procedure of issuing licenses to accountants and auditors within the Ministry of Finance, through a body that will be responsible for issuing and approving education plans and supervising them.

6.5. PROPOSALS AND RECOMMENDATIONS FOR IMPROVING THE LABOR MARKET

Present situation

The labor market of the Republic of Srpska is characterized by very serious structural problems that threaten to jeopardize economic growth and the stability of the social protection system. Based on available analyzes and reports of institutions in charge of statistics and reporting in the field of employment, the Union of Employers of the Republic of Srpska recognizes the following structural problems of the labor market of the Republic of Srpska:

Structural problems of the labor market in the Republic of Srpska

- Aging labor force (average age 45 years);
- Late entry of young people into the world of work;
- Poor territorial and sectoral labor mobility;
- Outflow of labor force from the real to the public sector;
- Outflow of the most productive part of the population to developed countries (brain – skills drain);
- Low activity rate of working-age population;
- The education system does not fit the needs of the labor market.

Causes should be sought in:

- Poor demographic trends (declining birth rate, population aging, rural-urban mobility direction, outflow of the population to developed countries, etc.);
- Attractiveness of the status of an unemployed person;
- Attractiveness of employment in the public sector – difference in salaries in the economy and non-economy;
- Decades of poor attitudes towards work and work habits;
- Inflexible labor legislation;
- Slow adaptation of the entire society to living and working conditions in the market economy;

- The informal economy as a way of survival of the state and its citizens.

General observations:

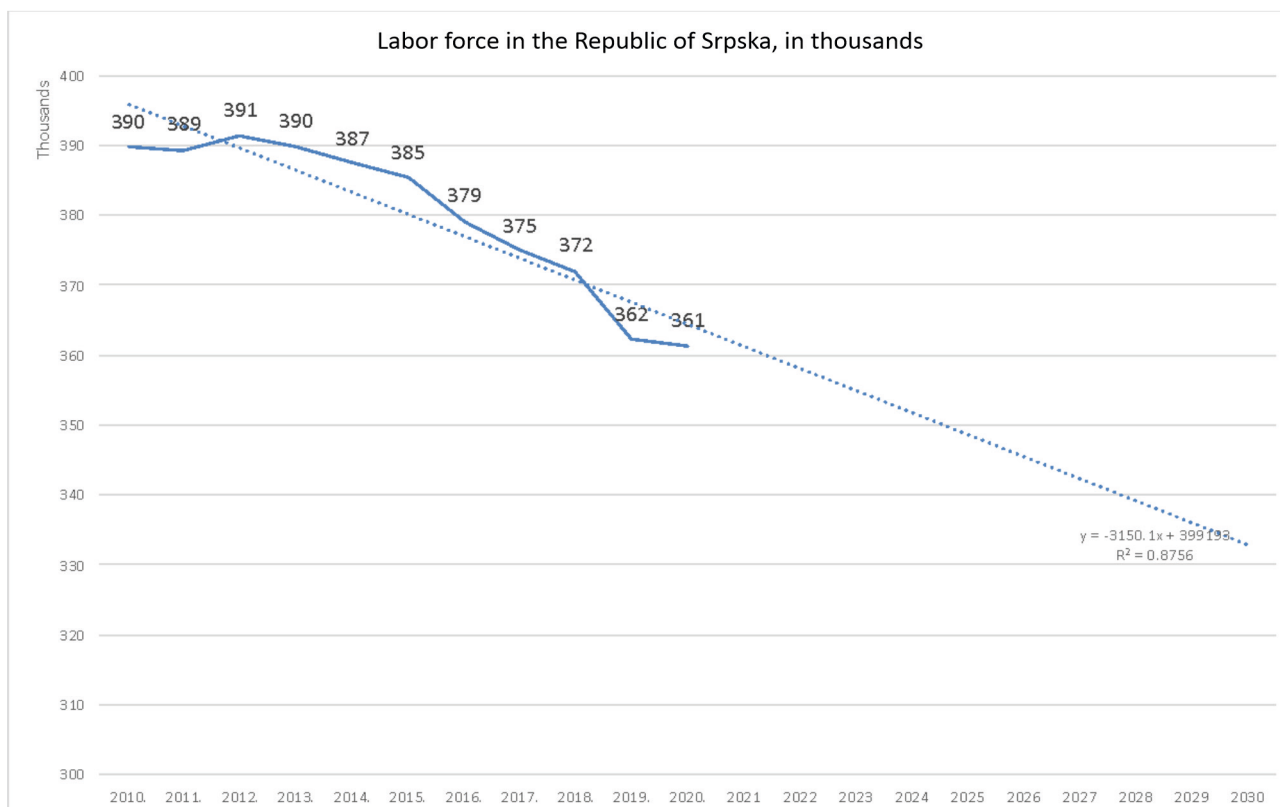
1. **There are no quality indicators for monitoring the performance of employment intermediaries**, that is, for monitoring the effects of the work of the Employment Service in the implementation of its key function – employment mediation;
2. **There is no statistical and analytical assessment of labor supply and demand** at the level of local communities and the Republic, based on which the institutions of the Republic could approach strategic planning in the field of education, labor market and development in general;
3. **There are no quality indicators** based on which monitoring of the implementation of individual measures defined in the Employment Action Plan and the Employment Strategy of the RS would be carried out;
4. **Activities and performance indicators** – tasks and effects must be defined much more clearly, for easier and improved monitoring of the performance of institutions and persons engaged in the implementation, as well as the efficiency of spending public resources.

Labor force flow projections in the Republic of Srpska

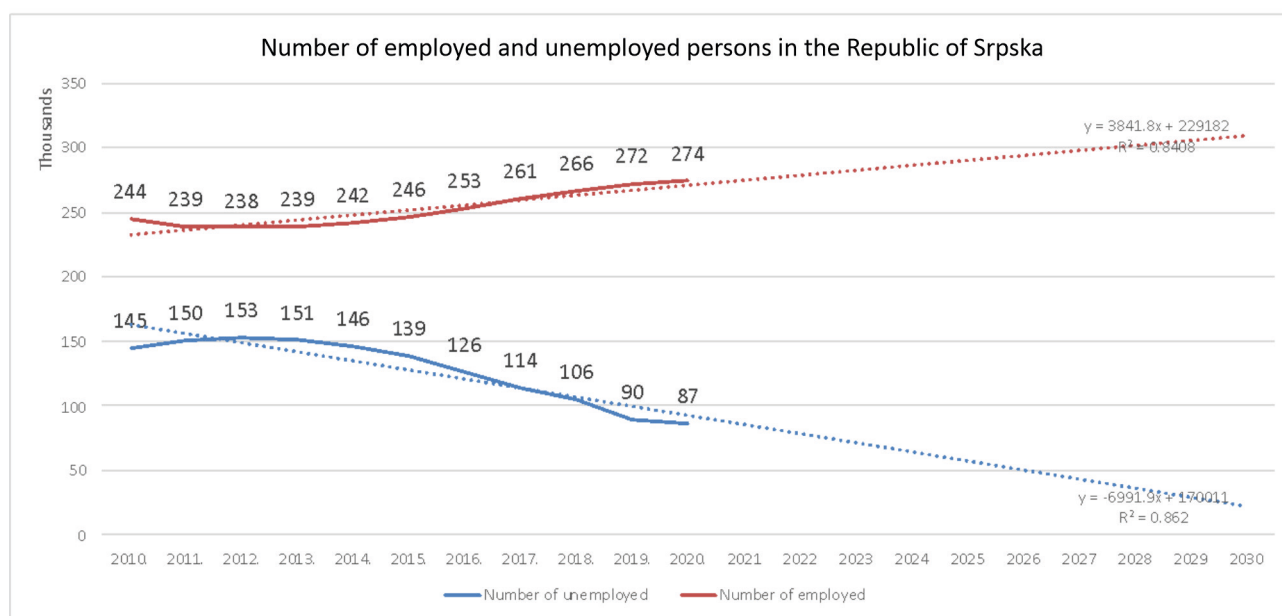
Working-age population - active population, i.e. the labor force (sum of the employed and the unemployed) is continuously decreasing and this trend will continue in the coming period (Diagram 1)². Particularly worrying projections refer to the number of children under the age of 15, which will decrease by 35,000 by 2022. The reason is, above all, the negative natural increase, in addition to migration.

The migration outflow of the population is an important reason for the depopulation of the territory of the Republic of Srpska. Due to migration outflow, the Republic of Srpska is losing a significant number of young, working-age population. According to Eurostat, residence permits in the countries of the European Union were issued to over 200,000 citizens of Bosnia and Herzegovina in the last 10 years.

2 Stevo Pucar, PhD, "Proposals and Recommendations of the Union of the Employers' Associations of the Republic of Srpska for the Economic Reform Program of the Republic of Srpska for 2022-2024, page 64



Employment and unemployment projections in the Republic of Srpska

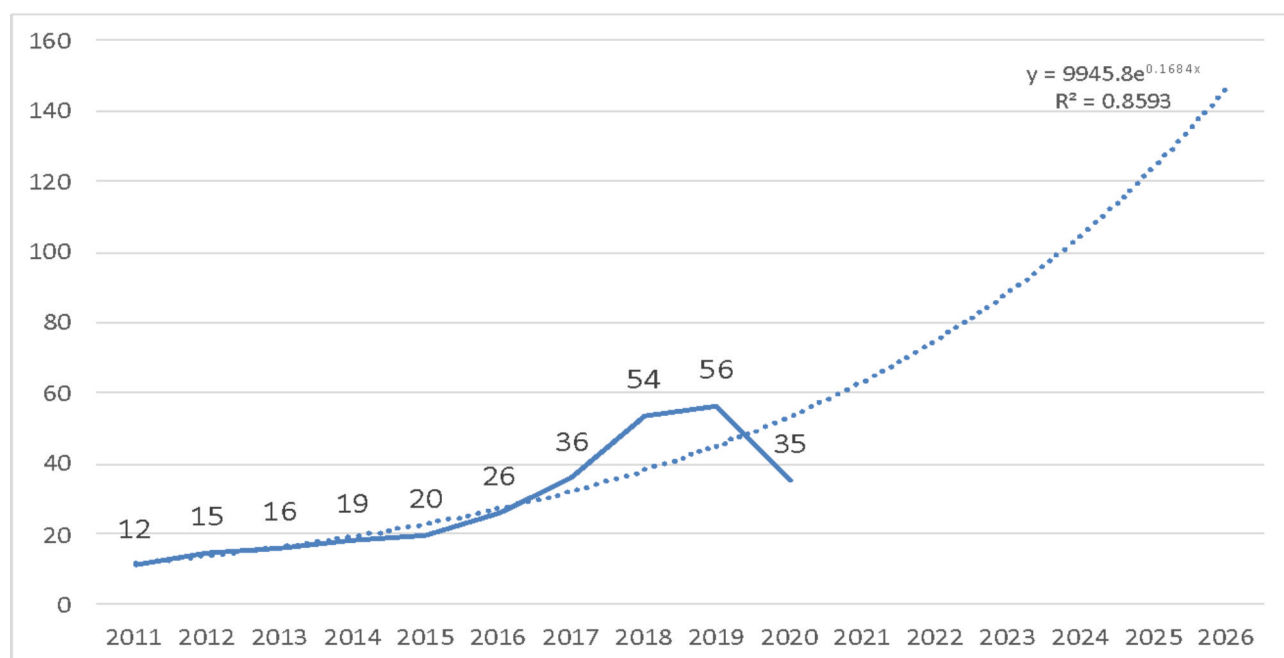


Challenges

Taking into account the employment and unemployment projections in the Republic of Srpska up to 2030, as well as the inevitable continuation of labor force outflow towards the countries of the European Union³, and the proven proportion between the drop in labor supply and the increase in salaries, the challenges related to these trends must be recognized:

- **Potential stagnation or decline in employment due to the impossibility of finding labor force on the domestic labor market**, as well as the outflow of working-age population and workers employed in the manufacturing industry of the Republic of Srpska to the EU countries, as a result of the non-competitiveness of domestic industry in terms of productivity and salaries;
- An inevitable drop in labor supply (number of unemployed persons) and the questionable quality of the remaining labor supply (mobility, expertise, informal work, etc.) will cause **further pressure on salary growth and a decline in the competitiveness of domestic industry, especially in low-accumulation sectors**. This will additionally complicate the issue of sustainability of certain sectors and the achieved level of employment in the Republic of Srpska;
- An inevitable stagnation or decline in employment, in addition to a continuous increase in the number of pensioners, may, in the short term, jeopardize the **stability of financing the pension and disability insurance system**, which will result in higher remittances from the RS Budget. This consequently represents a continuation of the negative trend in terms of redistribution to the detriment of young people,

Projection of migrations from BiH to the EU (thousands)



3 Stevo Pucar, PhD, "Proposals and Recommendations of the Union of the Employers' Associations of the Republic of Srpska for the Economic Reform Program of the Republic of Srpska for 2022-2024, page 66

6.5.1. Proposals and recommendations

Protective measures for the labor market of the Republic of Srpska

The departure of a significant number of citizens of the Republic of Srpska to the countries of the European Union indicates the inadequacy of the strategic approach and the ineffectiveness of institutions in the implementation of policies in the field of labor and employment. In this regard, the Union of Employers of the Republic of Srpska points out that the aforementioned trends threaten not only the economic and social protection system, but also the biological survival and further functioning of the Republic of Srpska system.

Taking into account the inefficiency and misspending of financial resources collected based on unemployment insurance contributions and public revenues of the Republic of Srpska, as well as the questionable execution of basic functions prescribed by the Law on Employment Mediation of the Republic of Srpska, which primarily refers to the immeasurable performance in employment mediation and inadequate analytical monitoring and reporting on labor market trends, the Union of Employers proposes the following, with the aim of protecting the domestic labor market and preventing the outflow of labor potential to the countries of the EU:

- By amending the Law on Employment Mediation, **reduce the amount of unemployment compensation**, thus reducing the possibility of abuse for persons over 60 years of age, that is, the possibility of transitioning to informal employment;
- Introduce the **obligation to produce labor demand projections for all local communities and define secondary school enrollment policies based on the projections**;
- **Revision of the Employment Strategy of the Republic of Srpska 2021-2027**, because the measures and activities are not aimed at resolving the structural problems of the labor market of the Republic of Srpska;
- **Termination of all employment support programs for which the efficiency of spending public resources and the sustainability of jobs cannot be proven**;
- The main goal of all employment policies should be to **support the creation of jobs where higher productivity and higher salaries can be achieved**. In this regard, all employment support programs should be merged into one. Generating employment growth in conditions of a rapid decline in labor supply creates even greater pressure on salaries, which are already burdened by inflationary pressures and non-competitiveness compared to the EU countries
- **Consider the introduction of disincentives** (charges, fees or other tax and non-tax receivables) **for persons residing outside BiH for a certain period of time**, as well as restrictive measures related to the rights of persons residing in Bosnia and Herzegovina who exercise their health insurance rights based on kinship with a person who resides permanently or temporarily (up to 90 days) outside of Bosnia and Herzegovina, with the aim of protecting the interests of the Republic and citizens in the field of health insurance;

- In order to reduce the attractiveness of the status of an unemployed person, all regulations in this field need to be amended, **to reduce the level of rights exercised based on the status of an unemployed person;**
- Bearing in mind the complexity of challenges when it comes to the growing needs to hire foreigners for work in Bosnia and Herzegovina, it is necessary to adopt documents that will clearly define the **immigration policy of the Republic of Srpska and Bosnia and Herzegovina;**
- Taking into account the growing need to hire foreigners for work in Bosnia and Herzegovina, the proposal is to form **a team that would work on scouting the labor market from which foreigners would be hired to work in Bosnia and Herzegovina,** with the aim of ensuring quality of the process (expertise, security assessment, etc.);
- Through the cooperation of domestic institutions, employers' associations, trade unions and local communities, continuously **implement positive actions** through which foreigners would be integrated both in the working and in the living environment;

Support program for new employees in the first year of work

- **Provide all employers** with the opportunity to participate in the existing program of tax and contribution refunds for new employees during the first year of work, **on the principle of equal rights and opportunities.** This approach would ensure that small entrepreneurs who are on the verge of sustainability (especially young ones) during the first year are also supported through the program. The program should be further promoted in order to stimulate individual groups of citizens to enter legal business processes (e.g. freelancers).



7. DIGITALIZATION OF ADMINISTRATION AND THE ECONOMY – DIGITAL REPUBLIC OF SRPSKA

Present situation

Certain studies show that countries can increase their gross domestic product (hereinafter: GDP) by 1% thanks to a 20% increase in investment in ICT technologies. In addition, research has shown that a 1% increase in investment in ICT technologies can cause a 2.1% increase in competitiveness, a 2.2% increase in innovation, and a 2.3% increase in productivity in all economic sectors (Global Connectivity Index, 2018).

In the Republic of Srpska, a significant progress has been made in the previous period in the field of information society and the development of information and communication (hereinafter: IC) technologies.

Key priorities for the development of the information society of the Republic of Srpska in the period 2023-2025 are divided into three interconnected areas, namely:

- Digitalization of public administration
- Digitalization of the economy
- Accelerated development of IC industry (*Dealt with in Sectoral Measures*)

7.1. DIGITAL PUBLIC ADMINISTRATION OF THE REPUBLIC OF SRPSKA

Present situation

The public administration in the Republic of Srpska should comprehensively be oriented towards users, by expertly monitoring and understanding their needs and expectations. Based on these, it should improve its business processes and administrative procedures, reduce the administrative burden and enable the availability of services through various communication channels, while ensuring high quality services and reducing their prices. Thus, it is necessary to find new channels of communication between the public and private sectors and establish a single point of contact, which will make access to Government service more convenient and reduce response time.

Digital administration implies a unified, centralized and unique place where citizens, the economy and public administration bodies meet mutual needs and expectations, using modern IC technologies.

The development of e-Government has its justification in reducing costs, procedures and time that the economy, citizens and the administration itself spend in their daily work. At the same time, it creates preconditions for better management of public data (all data in one place). It should be noted that the development of e-Government is a mechanism by which the public administration is adapted to modern working conditions that require new skills (thus reducing the part of the administration that is not ready for such changes). In addition, e-Government development projects can and should be the driving force behind the development of domestic IT industry.

However, further development of e-Government is conditioned, most of all, by a significant, but profitable investment in further development of the **key IC infrastructure** of e-Government, necessary for the complete provision of electronic services, e-service development and human resources development.

Proposed measures

- In accordance with the obligations arising from the Law on Public Administration and good practices established in the OECD/SIGMA Principles of Public Administration, draft a plan to reduce the number of employees with the aim of increasing the efficiency of local administration, reducing the level of public spending, and preparing local communities for the process of digitalization of procedures and work processes, while also reducing the level of parafiscal burdens,
- In 2023, with the aim of starting the comprehensive digitalization of the public and local administrations, launch the **digitalization project in all municipalities in the Republic of Srpska**, with the deadline for the digitalization process completion by 2025 (digitalization of services, internal procedures, cadasters, etc.);
- Resolve the issue of establishing a digital signature;

- Ensure the **compatibility of databases at all levels of government in the Republic of Srpska**;
- Begin the **“guillotine” process, i.e. adjusting regulations to the needs of digitalization** of work processes at all levels of administration;
- **Create a social map** that would be used for all transfers of funds originating from the budget and which would create the possibility and basis for shifting the even burden from income taxation to consumption taxation, while controlling poverty rates in the society;
- **A single register of all social receivables** at the level of the Republic.

Key IC infrastructure

1. Priority development / procurement of key IC infrastructure, namely:

- Mass production of qualified digital certificates of the Certification Body of the Ministry for Scientific-Technological Development, Higher Education and Information Society (e-signature and e-seal), with eID features, which can be used on smartphones and the Cloud-Based Digital Signing Service (this will enable every citizen and business entity to assume rights and obligations in electronic form)
- Interoperable information system
- Platform for qualified electronic delivery – “e-box” (which will provide an electronic place for the qualified exchange of electronic documents and an interoperable information system for all public administration data to be available in one place)
- Platform for electronic payments of e-services (which would enable quick execution of electronic payment orders and receiving feedback on payments made to the public administration system)

2. E-Government portal – “all e-services in one place”

3. Development of the Republic (Cloud) Data Centre

4. 4. Introduce special information security measures and provide 24/7 automated monitoring of information security for critical/key IC infrastructure

Human resources and legal framework

1. Establish a point of contact in the Government of the Republic of Srpska within the Ministry for Scientific-Technological Development, Higher Education and Information Society – “DIGITAL SRPSKA in one place”, which implies strengthening the capacities of the Ministry in terms of both strategic planning and operational activities in the implementation of measures,
2. Launch a program of retraining/professional development of employees in public administration bodies,
3. Provide financial resources for increasing the income of IC employees in administrative bodies, based on achieved and measurable results in digital transformation projects,
4. In certain areas, provide public services based on the principle of public-private partnership,

5. Enact the Law on e-Government and the new Law on Information Security, in order to achieve a faster, more flexible and more economical digital transition.

7.2. DIGITALIZATION OF THE ECONOMY OF THE REPUBLIC OF SRPSKA

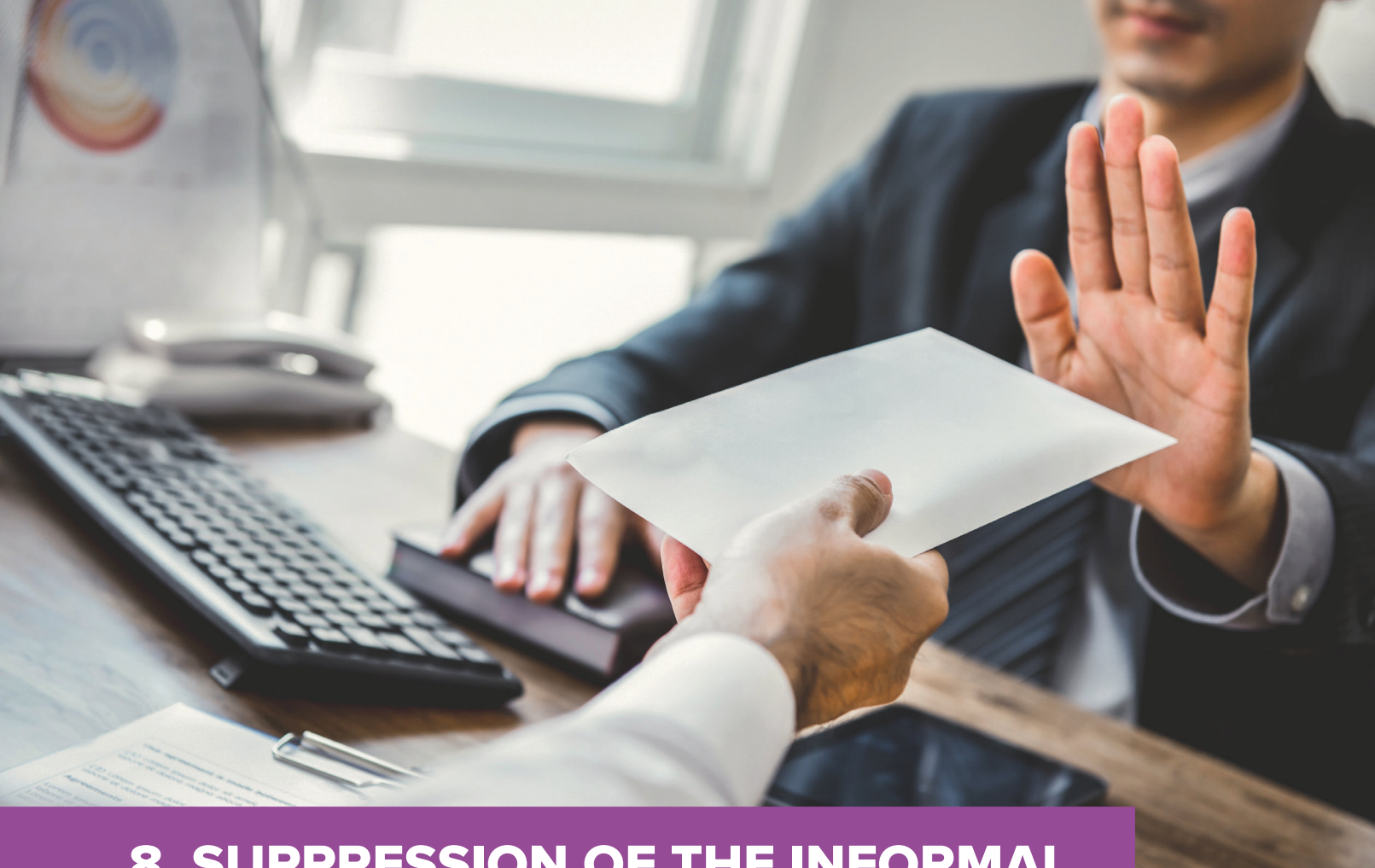
Present situation

Digitalization and automation in the economy of the Republic of Srpska is the basis for improving its competitiveness.

Several individual support programs for the digital transformation of the economy in various sectors have been launched in the Republic of Srpska. However, these are individual temporary projects. Considering the development of this field worldwide, systemic programs to support the digital transformation of the economy need to be created, for the effects to be greater and more recognizable.

Proposed measures:

- Launch a program of support and promotion of the development and application of domestic (business) software solutions in the economy
- Increase the amount of financial resources and improve the promotion of digital transformation of production and other business processes of the economy through existing support programs for the procurement of new technologies, digitalization of small and medium enterprises, etc.
- Identify a set of key indicators for statistical monitoring of the success of the digital transformation process in the economy following the example of EU countries (e.g. number of digitally active business entities; number of business entities that have exercised the right to receive incentives; number of trained employees in the economy with basic digital skills; number of business entities that use domestic software solutions; number of business entities integrated with the e-Government system, etc.) and monitor their development through the point of contact at the Ministry for Scientific-Technological Development, Higher Education and Information Society.



8. SUPPRESSION OF THE INFORMAL ECONOMY

Present situation

Given that the majority of analyzes and reports of domestic and international scientific and professional organizations indicate a high presence of the informal economy in the Republic of Srpska and Bosnia and Herzegovina, it is necessary to approach the adoption of a plan and the implementation of measures aimed at suppressing the informal economy in the Republic of Srpska. Particularly because it inevitably jeopardizes, among other things, the business environment and competitiveness of employers who operate in accordance with the regulations of the Republic of Srpska. Taking into account the importance of the integrity of tax and inspection authorities for the entire system of the Republic of Srpska, and in view of providing key preconditions for the economic growth and the sustainability of the social protection system, the Union of Employers proposes the following measures and activities as a contribution to the improvement of the business environment and better overall functioning of the community:

Political support

- Making a political decision to express the willingness to work seriously and consistently towards suppressing the informal economy. As one of the ways of demonstrating the willingness and essentially ensuring the achievement of this goal, the proposal is to establish a coordinating body for tackling the informal economy, under the leadership

of the Prime Minister (representatives of judicial institutions need to be involved), with a strong operational structure accompanying the coordinating body.

Organizational changes

- Amendment to the Law on Inspections, with the final goal of integrating the functions of local and republic inspections;
- Increasing inspection of employers who hire workers at a significantly lower salary than the previous employer from the same economic activity and promoting this procedure;
- Increasing the number of labor inspectors and organizational strengthening of labor inspection;
- Establish a special status of inspectors in terms of pay grades, in order to further stimulate and reward their work, given the complexity of their tasks;
- Implementation of a number of quick checks of illegal work, following the example of quick checks of fiscal accounts conducted by the Tax Administration of the Republic of Srpska (these should be increased as well) and promotion of this procedure;
- Establishment of the Government Centre for information and education of employers regarding compliance with regulations in the field of the functioning of inspection bodies. The aim would be to improve communication between taxpayers and inspectors and strengthen knowledge about the rights and obligations of employers and inspectors (inspectors nearing retirement, who have vast knowledge, but are no longer involved in the fieldwork, could be partly involved in this activity).

Regulatory actions

- Taxation of dividend payments;
- Changing the rules for the use of cash by reducing its use in order to reduce tax evasion;
- Limiting banks' margins on the use of debit cards, while encouraging debit spending increase;
- Introduction of e-invoice, with the aim of achieving faster and more efficient operations for the business community and improved control for the state;
- Improving e-registration of employees;
- E-registration of workers for temporary and occasional jobs (with the adoption of accompanying legislation modeled on neighboring countries);
- Amendments to the Labor Law - increasing the number of overtime hours allowed with the simultaneous digitalization of working hours recording, thus creating conditions for recording actual working hours and all increases in employee salaries (overtime hours, work on Sundays and holidays, etc.);
- Analysis and proposals for improving the pension insurance contribution system with the aim of motivating workers to demand full pension insurance contributions from the employer;
- Analysis of the existing system of health care contributions and proposals for improving the system (health care services provided are the same for everyone, while payment amounts differ significantly);

- Introduction of the minimum tax rate by sector of the economy.

Promotional activities

- Publication of average gross wages per company and economy sector;
- Promotion of good taxpayers;
- Promotion of activities aimed at tackling the gray economy, as well as the funds used by the state;
- “Open door days” for employers and employees at the Tax Administration of the RS and the RS Inspectorate;
- Carrying out continuous promotional activities with the aim of informing citizens about the importance of paying taxes and contributions;
- Promote the “point of contact” (Tax Administration and Inspectorate) for reporting illegal work.



9. TRANSITION FROM LINEAR TO CIRCULAR ECONOMY

Present situation

Green Agenda for the Western Balkans predicts that the average temperature in the Western Balkans will rise by the end of this century between 1.8 and 4 degrees Celsius, and even up to 5 degrees Celsius. With regard to these climate challenges, with this act the European Commission proposes the goal of reducing greenhouse gas emissions by 55% by 2030.

Taking into account the ambitious plans arising from the aforementioned document, as well as the regulations and planning documents adopted so far at the level of the European Union and an inevitably significant impact on the economic growth and sustainability of the countries of the Western Balkans, the Union of Employers of the Republic of Srpska points to the need to harmonize all segments of the Economic Reform Program of the Republic of Srpska with documents arising from the Green Agenda for the Western Balkans and other documents regulating this area at the level of the European Union (A new EU Strategy on Adaptation to **Climate Change**⁴, **Organic Action Plan**⁵, **Action Plan Towards Zero Pollution**⁶, **Delivering the European Green Deal...**)⁷, in addition to the revision of all strategic and planning documents of the Government of the Republic of Srpska.

4 https://ec.europa.eu/commission/presscorner/detail/en/ip_21_663

5 https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/organic-action-plan_hr

6 https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2345

7 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_hr

In addition to the above, with the aim of involving the Republic of Srpska in the process of implementing the Green Agenda for the Western Balkans and beginning to adapt to the processes initiated at the level of the European Union, the Union of Employers also proposes:

Measures:

- **Establishment of a special unit** – division within the Department for Strategic Planning, which would be **in charge of planning and implementing the Green Agenda for the Western Balkans**;
- Create an **analysis of the impact of these regulations** on the regulatory framework of the Republic of Srpska and Bosnia and Herzegovina, with clear recommendations for necessary amendments to the regulations, the need to revise strategic documents of the Republic of Srpska, projections of the impact on economic growth and projections of potential implementation costs (state, the economy, citizens), etc.
- Define an **incentive model for the construction of solar power plants in companies**, with the aim of protecting companies from rising energy prices in the world; consider models of participation of the Government of the Republic of Srpska in decarbonization projects (co-financing by the Government, foreign donor, employer);
- Support **private and public buildings renovation schemes** and secure appropriate financing;
- Ensure participation in the **Coal Regions in Transition Initiative for the Western Balkans**;
- Increase **the share of renewable energy sources** and provide the necessary investment conditions;
- Develop **circular economy strategies** looking at the entire lifecycle of products, waste prevention, modern waste management and recycling;
- Design and implement **consumer-targeted initiatives raising awareness of citizens on waste, separate collection and sustainable consumption**;
- Develop **the Smart Specialization Strategy**;
- Develop **programs for addressing energy poverty and financing schemes for household renovation and providing basic standards of living**;
- Promotion and education of employers and citizens regarding energy efficiency;
- Provision of subsidized loans for the implementation of energy efficiency programs;
- A more active role of institutions (Environmental Protection and Energy Efficiency Fund, relevant ministries) in applying for international funding in order to support the economy and citizens in the implementation of energy efficiency measures.



10. IMPROVEMENT OF THE BUSINESS ENVIRONMENT AT THE LEVEL OF JOINT BODIES OF BOSNIA AND HERZEGOVINA

Indirect taxation

Law on Value Added Tax

- Amendments to the Law on VAT to exempt from payment of value added tax on hot meals (all three bases) and transportation, as these are employers' expenses from which no additional value is obtained;
- Extension of the deadline for VAT payment from the 10th of the month to the end of the month;
- Shortening the VAT refund period to 30 days;
- Raising the VAT threshold for all taxpayers to 100,000 BAM, modelled on solutions applied in the region.

Public procurement

- Through an open and transparent procedure and a wider social dialogue, a new Law on Public Procurement should be adopted with the aim of significantly increasing the integrity of public procurement procedures in Bosnia and Herzegovina, taking into account positive practices and EU Directives in this area;
- Continue and speed up further activities on the digitalization of the public procurement procedure (e-procurement), with the aim of achieving full transparency of the process;
- Continue activities aimed at increasing the level of competencies of participants in public procurement procedures, with a special emphasis on establishing continuous training for bidders.

SECTORAL MEASURES

1. TOURISM

Present situation

The Republic of Srpska has an exceptional, but insufficiently recognized tourism potential, especially attractive for the current demands of the modern tourist (unspoiled nature, active tourism, etc.). Some of the attractions are:

- Strict nature reserves (rainforests Perućica, Janj and Lom)
- The deepest canyon in Europe and the second deepest in the world (Tara)
- UNESCO-recognized treasures (Mehmed Paša Sokolović Bridge in Višegrad, stećci medieval tombstones, Zmijanje embroidery, picking of iva grass on Ozren mountain, etc.)
- The largest outdoor swimming pool in Europe (NP Sutjeska)
- 200 geothermal springs
- 400 species of aromatic and medicinal plants
- Olympic mountain Jahorina
- Exceptional potential for hunting and fishing

Tourism has multiple potential. Winter, spa and adventure tourism can represent a significant development opportunity. However, it is even more important to emphasize that this industry opens up opportunities for rural development by providing additional contents and services in small rural areas where industrial development is not possible (additional services in production of domestic healthy food, collection and sale of forest fruits and medicinal plants, handicrafts, related craft services, etc.). In this way, the conditions for the survival of the population in small rural areas are created directly and quickly.

However, the Republic of Srpska currently does not have a well-rounded tourist offer that would enable the development of a tourist product for a high-quality performance on the regional and international markets. The tourist offer of the Republic of Srpska is fragmented; it does not exhibit variety and is most often located in only one micro-location, which is insufficient for the modern tourist. Such a fragmented and non-compact offer also makes it impossible to properly define the needs in terms of all other indispensable factors essential for the development of tourism (infrastructure, high-quality institutions, synchronized promotion).

A competitive tourist product implies an integrated offer composed of several tourist sub-products, that is, appropriate package tours.

A planned development of tourism on a sustainable basis is missing. Such development would entail tourism clusters (e.g. tourist offer in the region of Banja Luka differs significantly from the offer of Istočno Sarajevo or the eastern part of the Republic of Srpska), including

as one of the priorities clearly defined necessary investments in infrastructure, institutional support and synchronized promotion with the aim of building the brand of the Republic of Srpska and the brand of its tourist destinations.

Proposed measures:

1.1. Cluster mapping of tourism in the Republic of Srpska

Cluster mapping of tourism allows the Republic of Srpska to determine geographic areas for tourism development, relying on existing characteristic and unique resources and experiences that attract tourists.

Cluster mapping of tourism implies the identification of attractions within the cluster, by integrating the primary attraction with secondary or tertiary attractions, with the attractions being located in different geographical locations.

The benefits of planned tourist destination clusters are:

- Creating a critical mass, to make the provision of different types of content and services within a given area sustainable.
- Bringing variety into the product offer in such a way that products can be promoted in different market segments, thus facilitating product branding.
- Facilitating the symbiosis of different forms of tourism development – identifying areas intended exclusively for adventure tourism or tourism in nature, but also other areas for more intensive use.
- Providing additional value by creating a well-rounded tourism whole that is greater than the sum of its parts.

The implementation of this project will require the following:

1. Identifying and determining priority clusters according to the availability, readiness and attractiveness of products to tourists from the main target markets.
2. Identifying the primary center within each cluster and the surrounding secondary centers and designing road plans that connect the primary to various secondary centers, as well as the secondary centers to each other. The primary center is identified as the most prominent attraction of the given cluster, regardless of it being cultural or other heritage, and irrespective of its sports and recreation capacities and nature or other resources. Secondary centers are determined on the basis of proximity to the primary center, as well as based on the existing offer of thematic events and experiences, attractions and other contents and the distance from the primary center. Primary and secondary centers are identified through consultations with operators and local communities of the given cluster.
3. Designation of a recognizable experience that meets the criteria of international standards.
4. Defining clear needs in terms of necessary infrastructure for each cluster.

5. Defining institutions that would be responsible for the development of each individual cluster.
6. Promotion plan proposal

The implementation of this activity requires a Study of Cluster Mapping of Tourism in the Republic of Srpska, with corresponding specific data – a preliminary list of infrastructure projects, an overview of competent institutions and possibly a proposal for their reorganization, a clear plan of marketing activities, etc.

The Ministry of Trade and Tourism needs to define clear terms of reference, propose the implementation of this project to the Government of the Republic of Srpska, secure the necessary financial resources and define bodies in charge of the implementation of this project. In this way, it would be possible to carry out the cluster mapping of tourism in the Republic of Srpska in the first half of 2023.

The importance of this project is also reflected in the fact that it is a prerequisite for planning and implementing the priorities covered by the following strategic goals:

1.2. Strengthening and reorganization of institutions responsible for the development of tourism in the Republic of Srpska

- The body in charge of tourism development activities in the Republic of Srpska should be the relevant ministry; in addition, strengthen personnel capacities.
- Increase budget allocations for the purpose of tourism development, but also for the purposes of previously clearly defined projects (infrastructure in particular, but also marketing) resulting from the previous cluster mapping of tourism project.
- The Government of the Republic of Srpska must, as soon as possible, form an Expert Team for the Development of Tourism (and legally define it, if possible), which would involve representatives of the relevant Ministry, the professional academic community, local communities and the business community. This team would continuously monitor the development of the sector and provide guidance for improvement.
- Reorganize tourism organizations in the Republic of Srpska with the aim of optimizing costs and improving their work (data from the field warn that certain local tourism organizations do not justify their existence as they spend a lot of money and do not produce any results).
- For the needs of local self-government units, organize educational and promotional campaigns about the importance of tourism and their roles in the development of this industry. Monitor the work of local self-governments (participants in the tourism offer warn that certain local self-governments are decades behind in terms of understanding and supporting the development of this industry in comparison with the environment, thus hindering further development).

1.3. Incentives in tourism

- Further activities related to tourist vouchers, with the aim of stimulating the development of domestic tourism.

- Provide incentives for travel agencies that engage in receptive tourism.
- Favorable lines of credit for tourism and hospitality at the Investment-Development Bank of the Republic of Srpska.
- Allow the possibility to take trophies out of Srpska (allowed in the region).

1.4. Education in tourism and hospitality

- Reorganization of curricula in secondary vocational schools in the field of tourism and hospitality
- Education in the economy (courses within business entities for waiters, cooks, receptionists, hotel maids, etc.)
- Education of service providers in rural tourism
- Education of specialized guides who provide services in adventure tourism (rafting, hiking, cycling, etc.)
- Involvement of agricultural producers in the marketing of their own production in hotels and restaurants

2. ICT INDUSTRY

Present situation

- ICT sector is the largest net export industry in the Republic of Serbia, surpassing for example the entire agricultural export, while the share of ICT in the GDP structure is higher than that of the construction sector.
- In the Republic of Srpska, the highest average gross salary in January 2022 was the one recorded in the IC activity.
- Significantly more stimulating working conditions for IC human resources abroad, accompanied by unsystematic opportunities for professional training and promotion and the slow growth of the IC industry due to the insufficient development of e-Government, make foreign markets even more attractive, which accelerates the process of brain-skills drain from the Republic of Srpska.
- However, the existing trends could be successfully reversed with the accelerated development of the IC industry, as the example of the Republic of Serbia shows.

Proposed measures:

- Introduce the maximum taxation threshold for salaries in the IT industry at 3,000 BAM net, on the condition that the amount of taxes and contributions on salaries above the taxation threshold is directed to the net income of employees, in order to reduce the departure of workers in this industry abroad and/or to the informal economy

- Develop e-Government projects as a flywheel for the development of the domestic IC industry
- Strengthen the public-private partnership in the process of supporting and encouraging the digital transformation of the economy and society, thus also strengthening the domestic IC industry
- Stimulate additional growth of income of employees in the IC field, with the aim of retaining them and expanding collective IC knowledge and skills through tax policy measures
- Attract and stimulate the opening of development centers of large IC companies in Srpska, and enable and support their cooperation with academic development and research centers;
- Simplify and facilitate entry into legal channels and taxation for independent entrepreneurs and freelancers
- Provide business entities, independent entrepreneurs and freelancers with the opportunity to use shared specialized services, such as bookkeeping services, modern co-working spaces, interactive instructions for establishing business entities, online registration of independent entrepreneurs, etc.
- Provide institutional support to the clustering of IC companies
- Establishment of a single register of IC entrepreneurs, business entities, experts and IC infrastructure in order to map available and prospective capacities in IC activities and to connect with potential investors
- Based on public-private partnership and the needs of local IC business entities, create a formal professional study program for acquiring IC skills
- Strengthening the professional IT staff at faculties (as they are becoming the bottleneck of development)
- Retraining programs of other professions for IC specialists, which would enable the effective application of IC technologies in their original professions
- Establish a special mentoring program and tax treatment for beginner students who want to independently engage in IC activity
- Strengthen the «open data» policy and, through the allocation of grant funds, stimulate the development of various «socially useful» applications
- Improve the legislation in the area of foreign exchange and banking operations, in order to enable the recognition of different types of digital money

3. AGRICULTURE AND FOOD INDUSTRY

Objective

Systemic and efficient support to domestic primary agricultural production and food industry, with the aim of increasing the competitiveness of the sector

Restrictions

- The system of incentives is not efficient enough
- The social component of support to rural areas is not separated from the systemic support to agricultural producers
- Support to rural development should integrate multiple areas (cooperatives, infrastructure, water supply, health care, etc.)
- Domestic agricultural production is insufficiently linked to the domestic food industry
- The veterinary service is not efficient enough to provide systematic and quality support to the entire sector
- Insufficient technological development of agriculture
- Lack of laboratories and accredited laboratory methods

Proposed measures:

- Introduce an information system for the identification of land parcels as a basic prerequisite for monitoring the implementation of incentives per hectare of registered agricultural land
- Establish an animal identification system as a basis for planning higher quality incentives/ incentives per head
- Establish a system for monitoring the results of agricultural holdings and, based on these data, analyze the justification for providing incentives for certain crops
- Increase incentives for capital investments in agriculture
- Link domestic primary production to domestic food industry, by awarding incentives to manufacturers when they purchase domestic raw materials
- Define the second pillar of the agricultural budget for rural development
- Further activities on drafting the Law on Incentives
- Improve the situation in the veterinary service
- Update the Action Plan for the implementation of strategic measures for the development of agriculture and rural areas
- Establish a systemic dialogue and cooperation between representatives of the economy, science and the Ministry
- Introduce a disincentive tax policy for non-cultivated land
- Improve cooperation between agricultural producers and educational institutions
- Resolve the issue of certification laboratories, provide the necessary documentation for exporting as many products as possible both to the EU and to other markets
- Simplify the certification of organic products and their labeling on the shelf

4. WOOD PROCESSING INDUSTRY

Objective

The wood processing industry that consists of export-oriented wood processing entities with a high degree of processing, modern technologies and high-quality and well-paid staff.

Restrictions

- The distribution of wood assortments is not respected in the field, which does not give the final wood processing entities security in terms of the supply of sufficient amounts of raw material, despite the existence of criteria on the basis of which the available raw material should be distributed;
- Uncertainty regarding the dynamics of delivery of contracted quantities of raw materials due to failure to comply with Government decisions in the field;
- Uncontrolled export of raw materials;
- Lack of quality staff (e.g. woodworking technicians, graduate engineers in the field of wood processing industry);
- Lack of export incentives;
- Tackling unfair competition.

Proposed measures:

Basic measures:

- Strict contractual compliance regarding the delivery of forest wood assortments (dynamics and quality) on one hand, and regular payment on the other. Sanctions for failing to comply with contracts against persons responsible in the Public Company “Šume Republike Srpske” JSC Sokolac and in the wood processing entities (confiscation of quantities of forest wood assortments or contract termination);
- Persist on the initiative of the Government of the Republic of Srpska and the FBiH in terms of a systemic approach to banning the export of raw materials;
- After establishing a more efficient management in the Public Company “Šume Republike Srpske», which will result in better business results (profit), direct 50% of the company’s profit to the final wood processing entities with the aim of technological improvement of employers’ production capacities and increase in the competitiveness of domestic companies in relation to the region and the EU (following the example of Croatia);

Other measures:

- Expand inspection activities to reduce the informal economy (checking the accuracy of the information provided by companies);
- Support cluster development.

5. TRADE

Proposed measures:

- Recognize certificates of organic products from the EU;
- Simplify and reduce the cost of certification and recertification of domestic products;

Justification:

- Currently, the process is expensive and complicated, which is why there are no certified organic products on the market. Although many small producers have organic products, they are not allowed to advertise them as organic.

- **Harmonize the Law on Archive with the laws in the region, to abolish the obligation to keep paper archives for companies that have a legally created digital archive**

Justification:

- Modernization of the outdated law, reduction of paper consumption, easier use of archives for companies and institutions/the Inspectorate, higher efficiency of employees.
- As information technologies and business practices are changing rapidly, legal solutions need to be flexible and open to new technological developments and based on solutions contained in international documents, regulations and standards of the European Union, and in particular on solutions applied in technologically advanced countries.

- **Define in the law or regulations the space where products sold in the store can be consumed**

Justification:

- **We propose** to add a new paragraph 5 in Article 7 of the Law on Trade, which reads:
(5) A store may have self-service display cases with ready meals, as well as a space where these meals can be consumed.

Documents used in the preparation of the Proposal of Measures of the Union of Employers of the Republic of Srpska:

- *Work Program of the Government of the Republic of Srpska for 2022;*
- *Republic of Srpska Economic Development Guidelines 2019–2023. (2018);*
- *UN – Sustainable Development Goals of BiH 2030 (2015);*
- *Green Agenda for the Western Balkans;*
- *Analysis and Projections of the RS Labor Market for the period 2019–2023. (2019);*
- *Labor taxation and the Informal Economy (Union of Employers' Associations of the Republic of Srpska, 2016);*
- *Proposal of the population policy measures of the Republic of Srpska (The Center for Demographic Research, 2019);*
- *IMF Working Paper – Performance Appraisal and Supervision of State-Owned Enterprises in BiH (2019);*
- *Joint Socio-Economic Reforms for the period 2019–2022 (2019);*

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