

# **DEVELOPMENT STRATEGY**

***OF THE FEDERATION OF BOSNIA AND HERZEGOVINA***

**2021 - 2027**

**SUMMARY**

**SARAJEVO, FEBRUARY 2021**

## INTRODUCTION

In line with the the Law on Development Planning and Management in the Federation of Bosnia and Herzegovina (hereinafter: the Law), in September 2018 the Government of the Federation of Bosnia and Herzegovina (hereinafter: the FBiH Government) passed the Decision on Developing the Development Strategy of the Federation of Bosnia 2021-2027 (hereinafter: the Strategy).

The preparation process for the Strategy was in line with the provisions of the Law, but it also took into account experiences from other planning processes in BiH and other countries from the region and the European Union (EU). The planning principles defined under the Law were fully applied in the Strategy design process (open coordination method; vertical and horizontal coordination among institutions at various government levels and alignment of development priorities; gender equality and equal opportunities for all citizens in the FBiH; partnership, publicity and transparency in the development planning process).

With its comprehensive content and as an overarching planning document, the Strategy does not only define development priorities and policies in the FBiH but it also reflects international obligations of BiH, stemming from the process of the European integration and UN membership. More specifically, the Strategy reflects the priorities defined within the EU Economic and Investment Plan for the Western Balkans, the Green Agenda for the Western Balkans, the EU Digital Strategy as well as measures related to the S3 Framework (Smart Specialisation Strategy, whose preparation was recommended by the EU Commission). The document also addresses domestic priorities defined within the Joint Socio-Economic Reforms (Reform Agenda 2).

Importantly, the new FBiH Development Strategies reflects the globally accepted Agenda 2030 and the Sustainable Development Goals (SDGs)<sup>1</sup>.

The document of the Joint Socio-economic Reform 2019-2022 (Reform Agenda 2) was taken into account as a set of short-term reform policies at the level of BiH. In addition, with the aim of mitigating economic consequences of the COVID-19 pandemic, the FBiH Government adopted the Program of Economic Stabilization and Recovery 2020-2021. All activities from this program that are of mid-term and long-term nature and related to mitigation of the consequences of the pandemic are reflected in the Strategy.

The Strategy is a basis for the Work Program of the FBiH Government for the mandate period, the Annual Work Program of the FBiH Government, the Public Investment Program (PIP), three-year and annual work plans of the FBiH Ministries and Institutions, the Budget Framework Paper (BFP) and annual budgets. The Strategy is a basis for design and/or alignment of sectoral strategies, development strategies of cantons and local governments, and as such is a main socio-economic development platform of the FBiH.

The process of the Strategy preparation was coordinated by the FBiH Development Planning Institute (hereinafter: the Institute). The Strategy respects the existing constitutional structure, competencies and capacities of the institutions involved in the development process in the FBiH.

The Strategy was prepared with technical support of the Integrated Local Development Program (ILDP), a joint project of the Government of Switzerland and United Nations Development Program in BiH (UNDP). Support for integrating the SDGs in the process of developing the Strategy was provided by the Government of Sweden. Support in preparing the situation analysis and defining the measures in the area of smart specialization was provided by the Government of Czech Republic.

Support in conducting the ex-ante evaluation of the Strategy was provided by GIZ (the German Organization for International Cooperation), who on behalf of the Governments of Germany and the United Kingdom implements "The Program of Strengthening Public Institutions in BiH".

<sup>1</sup> The Development Strategy of the FBiH is aligned with the Sustainable Development Goals Framework in BiH which is in the process of developing.

The SDGs Framework is a strategic document which is developed in a participatory way, it determines broader development pathways of BiH and it serves as a platform for accomplishing the sustainable development goals.

## PLANNING METHODOLOGY

In the process of developing the Strategy, different working and advisory bodies were established: the Executive Team, 4 Thematic Groups and 12 sub-groups, and as an advisory body the Coordination Board. In total, 476 members of these bodies were appointed. Through the established working and advisory bodies participation of the institutions from the BiH, FBiH, cantonal and local government levels was ensured. In addition, these bodies were a platform for inclusion of the business community, non-governmental sector, the academia, and other socio-economic actors and interested parties.

As a basis for the Strategy preparation, the situation analysis with the SWOT matrix was prepared, as well as the analysis of all available strategic documents (European, regional, state, FBiH, cantonal). These materials were considered at numerous workshops during which the members of the working and consultative bodies created the vision, strategic goals, priorities and measures required for the Strategy. In total, 28 workshops with approximately 900 participants were held.

The draft version of the Strategy was discussed during three events organized with public and civil sector (Tuzla, Mostar and Zenica) and the document was available for comments on the web site of the Institute. Other consultation events and workshops had to be delayed and moved to online communication channels due to the COVID-19 pandemic. However, these online consultations reached 1,400 participants were included. All events were followed by media, ensuring that relevant information is provided to the wider public.

Such an inclusive and transparent approach is a novelty in comparison to previous process of designing strategic documents at the FBiH level.

## DEVELOPMENT VISION

Full implementation of the Strategy leads towards the development vision we want to achieve:

**The Federation of Bosnia and Herzegovina is a prosperous and just society, a society of equal opportunities that is founded on the rule of Law and that values the richness of diversity.**

It is based on the society of knowledge and innovations, efficient and sustainable use of natural resources, with preservation of environment and accessible public health, enabling balanced and high-quality life.

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## STRATEGIC GOALS AND PRIORITIES

The Strategy is an integrated, multi-sectoral strategic document which defines public policies and guides socio-economic development of the FBiH towards reaching 4 strategic goals and 18 priorities:

### GOAL 1: ACCELERATED ECONOMIC GROWTH

- 1.1. Increase digitalization of economy
- 1.2. Support transfer and development of technologies
- 1.3. Support development of the business sector
- 1.4. Support export and creating higher-value added products

### GOAL 2: PROSPEROUS AND INCLUSIVE SOCIAL DEVELOPMENT

- 2.1. Enhance educational system
- 2.2. Improve outcomes of the health system
- 2.3. Mitigate the demographic trend of aging population and improve the family stability and position of young people
- 2.4. Reduce inactivity and unemployment, particularly long-term
- 2.5. Reduce poverty and social exclusion

### GOAL 3: RESOURCE EFFICIENT AND SUSTAINABLE DEVELOPMENT

- 3.1. Enhance protection and usage of natural resources
- 3.2. Improve air quality
- 3.3. Improve energy efficiency
- 3.4. Start implementation of energy transition
- 3.5. Incentivise development of rural areas
- 3.6. Increase resilience to crises

### GOAL 4: TRANSPARENT, EFFICIENT AND ACCOUNTABLE PUBLIC SECTOR

- 4.1. Enhance the rule of law
- 4.2. Make public administration to be at service for citizens
- 4.3. Improve accountability in the area of public finance

Furthermore, 78 measures have been defined as part of these goals and priorities. A detailed overview of all strategic goals, priorities and measures is provided in the Annex to this document.

In addition, an action plan with approximately 550 potential activities was created within the planning process with the aim to support implementation of the 78 measures.

## IMPLEMENTATION OF THE STRATEGY

The Strategy will be implemented through three-year and annual work plans of FBiH ministries and institutions.

All implementing institutions are obliged to include relevant measures from the Strategy into their respective three-year and annual work and budget plans, reflecting the principle the Measure from the Strategy = the Program in the three-year and annual work plan = the Program in Mid-Term and Annual Budget.

Funds for implementing measures are to be secured through institutional mid-term and annual budgets and the Public Investment Programme, while some funding will need to be secured from external sources. Activities for which it is not possible to provide funds will be delayed. Implementation of the measures envisaged within the Strategy requires BAM 2,508 million.

## RESPONSE TO COVID-19 PANDEMIC

The Strategy provides a multi-sectoral and multi-functional response to the pandemic on a long-term basis. The negative impact of the pandemic additionally emphasizes the understanding that economic uncertainty and inequality are structural problems of economy.

As such, the Strategy does not provide a specific short-term response to the pandemic. Instead, it emphasizes the necessity of preparedness for various potential crises and intends to tackle long-term consequences of the pandemic via a new model of development. The new model is to be based on new skills, higher investments in research and development, stronger linkage of science and economy, and more adequate market action in the sense of bigger exposure of firms to best global practices. All these will increase internationalization of the economy and ensure its better inclusion into EU processes.

At the meeting of the European Council held in October 2020, the leaders discussed potential modalities of a long-term response on the pandemic. According to the conclusions, digitalization is a key for long-term economic recovery of the EU from the COVID-19 and it is crucial for incentivizing new forms of growth and strengthening resilience of the EU<sup>2</sup>.

In compliance with the conclusions of the European Council of Europe, the most important priorities of the EU in the upcoming period are:

- Encouraging development of the future generation of digital technologies, including super-computers and quantum computing, business activities in clouds, chain blocks and artificial intelligence,
- Capacity development in strategic digital value chains, particularly of microprocessors;
- Accelerating introduction of secure network infrastructure of a very big capacity, including optical infrastructure and 5G network in the entire EU,
- Strengthening capacities of the EU to protect from cyber threats,
- Usage of full potential of digital technologies for achieving ambitious goals of the EU in the area of environment and climate, and
- Enhancement of digital capacities in educational systems.

<sup>2</sup> Key conclusions from this discussion may be seen at the site:  
<https://www.consilium.europa.eu/hr/policies/a-digital-future-for-europe/>

A big number of measures within the Strategy (digitalization, transfer of technologies, innovations, education, public administration) corresponds to the conclusions of the European Council.

Measures 2.1.1., 2.1.2. and 2.1.4. within Priority 2.1. with regard to education, corresponds to the need of providing necessary infrastructure for distance work and learning, as well as to the need of a higher level of knowledge and practice of pupils and students in the area of IT.

Measure 2.2.4. (Enhancement of actions in public-health crisis situations) within Priority 2.2., regarding the health sector, entirely relates to enhancement of actions in public-health crisis situations and treats the health response and consequences of the pandemic in the seven-year period. This measure provides the response to strong epidemiological transition (change of a disease pattern), pandemic and occurrence of new communicable diseases (new viruses), migrant crisis, natural disasters (floods, earthquakes, fires), etc.

Priority 3.6. (To increase resilience to crises), with three measures, contribute toward more successful crises management, protection and functioning of crucial infrastructure and functioning of the system for protection and rescue from natural disasters. The priority deals with mitigating the consequences of natural disasters, including the pandemic. Crucial technical basic infrastructure relates to energy supply, transport, (drinking) water supply and waste disposal. Infrastructure of socio-economic services relates public health, food provision for people and animals, rescue services, accident management control, financial and insurance services, media, cultural monuments (cultural-historical heritage), etc.

Digitalization is one of the most important measures of the EU for mitigating the economic consequences of the pandemic. Within the Strategy the entire Priority 1.1. (Increase digitalization of economy), with 5 measures, is dedicated to this area, as well as the measure 4.2.6. (To implement digital transformation of public administration).

The listed 13 measures, with planned 110 activities, directly deal with mitigating the consequences of the pandemic in a long-term period. In addition, there is also a significant number of measures (related to relieving the economy, better business environment, incentivizing research and innovations, diversification of the financial sector, energy poverty reduction, increase of energy efficiency, restructuring coal mines and public enterprises, functional capacities and resilience of agricultural producers, etc), with planned 94 activities, also significantly contribute to mitigating the consequences of the pandemic on economy and citizens (measures 1.2.2., 1.3.2., 1.3.3., 1.3.4., 1.3.6., 1.4.4., 2.5.5., 3.3.1., 3.3.2., 3.4.3., 3.5.2., 3.5.3. and 4.3.6.).

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## ACCELERATORS CONTRIBUTING TO THE BIGGEST DEVELOPMENT EFFECT IN FBiH

In the section of the Strategy related to development accelerators, offensive measures which most significantly impact economic growth and employment growth have been selected. The criteria for selecting offensive measures focused on their contribution to GDP growth and employment.

Accelerators mark the most efficient measures for economic growth, as a precondition for substantial development of other segments of the society (the pension system, health, social protection, etc.).

In this section of the Strategy, a new approach was used so as to focus on “difficult and painful” measures mostly of structural nature that would bring significant growth. These measures are of key importance and very demanding, and therefore separated in a specific section of the Strategy. They give visible results and the biggest contribution to the implementation of the Strategy.

In order to reduce the difference in relation to middle-income countries, for economy of the FBiH the growth rates of GDP are acceptable of minimum 6 -7% annually, and for that it is necessary to have the growth rate of productivity of 3 to 5% at minimum annually.

Full implementation of all nine offensive measures brings GDP growth in the percentage of 9,2 to 13,7% annually.

According to the estimations of the Executive Team, for implementation of these measures will require approximately BAM 530 million in a 7-year period (BAM 75 million annually).

The offensive measures are grouped in 3 development accelerators:

# 1 INNOVATIONS AND DIGITALIZATION, WITH THE FOLLOWING MEASURES:

- Develop artificial intelligence and its application,
- Conduct digital transformation of the public administration,
- Support research and development,
- Support linking the economy and scientific and research institutions.

The needs for IT experts in the EU by 2023 are 2 million IT experts annually. The IT sector in the FBiH, with a half of resources (business asset by an employee amounts 49% of the economy average), makes almost six times higher profit (560%) than the economy average. This sector is among rare ones in BiH whose products and services are at the level of the most developed countries.

Artificial intelligence contributes to economic growth through increasing work productivity, spreading innovations, supporting creation of new products and services, increasing demand by clients and new revenue sources. The measure related to development of artificial intelligence (AI) envisages establishing an AI Institute and purchase of a platform for AI. According to the McKinsey Institute, approximately 70% of companies at the global level will use at least one technology of artificial intelligence by 2030, and slightly below 50% will have more technologies of artificial intelligence. According to the estimations of the WEF (the World Economic Forum), robots will cause 85 million job cuts at the global level in the next 5 years (to which the pandemic will significantly contribute as well).

In the long-term, there is no growth of competitiveness without growth of productivity, and there is no growth of productivity without technological development and innovation. Therefore, strong support to research, development and innovation in the private and public sectors is required. It is extremely important to provide enterprises with access to infrastructure for research and development, and through strategic partnership with research and development institutions to develop new products and technologies, but also to jointly participate in EU projects.

Within these measures it is envisaged to establish a fund for technologies, research and development as well as scientific and technological parks at the cantonal level. The Executive Team conducted discussions with a number of businesses and they are ready to match investments from public budgets as initial capital for operation of this fund. Within scientific and technological parks research and innovations will be carried out with concrete application in the production process. These parks would be specialized and established according to the principle of interests and comparative advantages of the cantons. Each scientific and technological park would be at service for the entire FBiH.



## 2 OPENING AND DEVELOPMENT OF ENTERPRISES, WITH THE FOLLOWING MEASURES:

- Relieve the economy by reducing fiscal burden on labour,
- Encourage linking with BiH diaspora,
- Support transparency, restructuring and privatization of enterprises with an ownership share of the state.

For employment growth a key factor is to open new and develop existing companies. Activating potentials of diaspora, relieving the economy and restructuring state owned enterprises are among the most efficient measures for this purpose.

FBiH has to focus on removing obstacles and creating opportunities for connecting with diaspora and opening new business entities with capital of diaspora.

Since the BIH economy is the least competitive in Europe, only significant relieving of the economy will bring growth of tax competitiveness, and thereby growth of total competitiveness of the economy. Relieving the economy would be done according to a neutral principle, thereby the public revenues from direct taxes based on labour contribution reduction would be compensated by taxes which do not burden the economy. The economic growth and employment growth, which would result from reduction of salary burden, would bring significant growth of public revenues in the future.

Public enterprises are one of engines for development of each economy. Micro, small and medium enterprises branch from them and in that way they contribute to economic growth through the growth of a number of private firms and sustainable operation of the existing ones. It is necessary to restructure public enterprises based on the principle of corporative management which is applied in developed countries. It is required to distance them from the influence of political parties in power and to provide them with identical conditions and manner of business operations like in private companies.

### 3 FINANCIAL SYSTEM AND PUBLIC FINANCE,

WITH FOLLOWING MEASURES:

- Diversify and enhance the financial system,
- Increase impact in spending of public funds as well as the scope and efficiency of public investments.

There can be no high economic growth rates, productivity growth or reduction of unemployment without high rates of savings and investments. The financial system, based on a monopoly position of banks in the FBiH, only in the last three years has been succeeding to generate a positive rate of domestic savings. The financial system is not yet able to fully respond to needs of undeveloped economy like economy in FBiH. Therefore, it is necessary to introduce new financial institutions (savings banks, saving-credit cooperatives, etc.), mechanisms (project finances, etc.) and instruments (commercial bonds, etc.) in order to mobilize savings and initiate a whole spectrum of investment projects. There is no doubt that it is needed to further develop the banking system, but it is also necessary to expose banks to competition.

Countries in transition, particularly open economies like economy of BiH, may not incentivize the growth of economy with fiscal stimulus. According to OECD's estimations, growth of public expenditures for one € in FBiH discourages the private sector and causes reduction of GDP for 0,19 € in a short-term period, and in a long-term period it brings growth of GDP for 0,38 €. Since foreign trade significantly participates in GDP, in that way economies of the countries from which we have high imports is stimulated. Therefore, the increase of public investments is the right way to incentivize the economic growth in the FBiH. The estimations of OECD indicate that 1€ of public investments in developing countries brings in the first quarter GDP growth for 0,6 €, and in a long-term it brings GDP growth for 1€.

## DEVELOPMENT STRATEGY OF FBİH 2021 – 2027

## OVERVIEW OF STRATEGIC GOALS, PRIORITIES AND MEASURES

	Strategic goal	Nr.	Priorities	Nr.	Measures
STRATEGIC GOAL: 1	ACCELERATED ECONOMIC DEVELOPMENT	1.1.	To increase digitalization of economy	1.1.1.	Establish public digital infrastructure
				1.1.2.	Accelerate digital transformation of small and medium enterprises
				1.1.3.	Enhance digital skills of citizens, particularly the skills adjusted to labour market needs
				1.1.4.	Develop artificial intelligence and its application
				1.1.5.	Encourage development of innovative digital solutions and software companies
		1.2.	To support transfer and development of technologies	1.2.1.	Support research-development and innovative activities
				1.2.2.	Support linking the economy and scientific-research institutions
		1.3.	To support development of the business private sector	1.3.1.	Facilitate and accelerate the process of starting business activities and exit from them
				1.3.2.	Relieve economy by reducing fiscal burden on labour
				1.3.3.	Support development of entrepreneurship of the creative sector
				1.3.4.	Support development of entrepreneurship in the tourism sector
				1.3.5.	Support spatial concentration of entrepreneurship
				1.3.6.	Diversify and enhance the financial system
		1.4.	To support export and creating higher value-added products	1.4.1.	Enhance protection of intellectual property
				1.4.2.	Support application of international standards, certification and accreditation of conformity assessment bodies
				1.4.3.	Strengthen internationalization and involvement in global value chains
				1.4.4.	Encourage linking with diaspora

## DEVELOPMENT STRATEGY OF FBH 2021 – 2027

## OVERVIEW OF STRATEGIC GOALS, PRIORITIES AND MEASURES

	Strategic goal	Nr.	Priorities	Nr.	Measures
STRATEGIC GOAL: 2	PROSPEROUS AND INCLUSIVE SOCIAL DEVELOPMENT	2.1.	To improve the education system	2.1.1.	Improve the quality of higher education, scientific work and scientific base
				2.1.2.	Improve the quality of pre-school, primary and secondary education for the needs of development and insure inclusive education for all
				2.1.3.	Develop the functional educational system for adults and life-long learning
				2.1.4.	Encourage educational institutions to provide a higher level of knowledge and practice particularly in the area of ICT
				2.1.5.	Improve work with talents and the standard of pupils and students
		2.2.	To improve outcomes of the health system	2.2.1.	Improve access and to reduce inequalities in health services
				2.2.2.	Strengthen potential of preventive medicine
				2.2.3.	Strengthen informatization and digitalization of the health protection system
				2.2.4.	Enhance actions in public health crisis situations
				2.2.5.	Strengthen financial sustainability of the health system and to enhance fairness in financing health protection
				2.2.6.	Create an environment for scientific-research work and bio-medical research
		2.3.	To mitigate the trend of demographic aging of population, to improve family stability and position of young people	2.3.1.	Encourage birth-rate and protection of families with children
				2.3.2.	Enhance reproductive health and the area of child's early growing and development
				2.3.3.	Improve housing policy
				2.3.4.	Promote tolerance, non-violence and gender equality in the family and society
				2.3.5.	Improve conditions for development and playing sports
		2.4.	To reduce inactivity and unemployment, particularly long-term	2.4.1.	Develop and implement an efficient and active employment policy
				2.4.2.	Create conditions for availability of labour force at the labour market
				2.4.3.	Strengthen the function of mediation in public employment services
		2.5.	To reduce poverty and social exclusion	2.5.1.	Improve social inclusion of marginalized groups
				2.5.2.	Improve better targeting of social protection
				2.5.3.	Improve inter-sectoral cooperation, infrastructure and competencies of service providers of social protection
				2.5.4.	Improve the position of vulnerable groups in the labour market
				2.5.5.	Ensure social programs for energy poverty reduction

## DEVELOPMENT STRATEGY OF FBH 2021 – 2027

## OVERVIEW OF STRATEGIC GOALS, PRIORITIES AND MEASURES

	Strategic goal	Nr.	Priorities	Nr.	Measures
STRATEGIC GOAL: 3	RESOURCE AND EFFICIENT SUSTAINABLE DEVELOPMENT	3.1.	To improve protection and usage of natural resources	3.1.1.	Raise awareness on environmental protection, climate change and necessity for development of green skills
				3.1.2.	Improve legal and institutional framework for regulating environment and development of communal infrastructure
				3.1.3.	Improve research, protection and usage of natural resources and bio-diversity
				3.1.4.	Ensure sustainable usage of water resources
				3.1.5.	Ensure sustainable usage of land resources
				3.1.6.	Ensure sustainable forest and game management
				3.1.7.	Improve integral waste management and the system of circular economy
				3.1.8.	Establish the system of sustainable and responsible research, exploitation and management of mineral raw materials
		3.2.	To improve the air quality	3.2.1.	Reduce emissions of polluting materials and greenhouse gases
				3.2.2.	Reduce negative impact of the transport sector on environment
		3.3.	To increase energy efficiency	3.3.1.	Improve energy efficiency of buildings
				3.3.2.	Provide support to small and medium enterprises to improve energy efficiency and the principle of "green economy" and "ecologization"
		3.4.	To start implantation of energy transition	3.4.1.	Increase security of energy supply
				3.4.2.	Increase a share of renewable energy sources in final energy consumption
				3.4.3.	Implement restructuring of coal mines and structural transformation of economy of mining regions
		3.5.	To incentivize development of rural areas	3.5.1.	Develop rural infrastructure and availability of services in rural areas
				3.5.2.	Establish functional capacities for agriculture and rural development
				3.5.3.	Enhance the quality and competitiveness of agricultural and food production, and resilience of agricultural producers
		3.6.	To increase resilience to crises	3.6.1.	Enhance crisis management
				3.6.2.	Ensure protection and functioning of crucial infrastructure
				3.6.3.	Improve functioning of the protection and rescuing system from natural and other disasters

## DEVELOPMENT STRATEGY OF FBH 2021 – 2027

## OVERVIEW OF STRATEGIC GOALS, PRIORITIES AND MEASURES

	Strategic goal	Nr.	Priorities	Nr.	Measures
STRATEGIC GOAL: 4	TRANSPARENT, EFFICIENT AND ACCOUNTABLE PUBLIC SECTOR	4.1.	To improve the rule of law	4.1.1.	Increase efficiency of the judiciary system
				4.1.2.	Strengthen protection of human rights
				4.1.3.	Improve fight against crime, hatred speech and terrorism
				4.1.4.	Develop an efficient system of prevention and fight against corruption
		4.2.	To make public administration to be at service to citizens	4.2.1.	Strengthen political and institutional leading and coordinating public administration reform and economic reforms
				4.2.2.	Establish functional and rational organization of the public sector
				4.2.3.	Strengthen the system and coordination, implementation and reporting on development policies
				4.2.4.	Ensure preconditions for bigger absorption of EU funds
				4.2.5.	Strengthen the statistical base as a foundation for determining policies
				4.2.6.	Implement digital transformation of public administration
		4.3.	To enhance accountability in the area of public finance	4.3.1.	Improve transparency in public finance management
				4.3.2.	Increase the impact in spending public funds and the scope and efficiency of public investments
				4.3.3.	Increase efficiency in collection of public revenues
				4.3.4.	Enhance fiscal stability and settlement in the area of public finance
				4.3.5.	Ensure sustainability of the Pension and Disability Insurance System
				4.3.6.	Support transparency, restructuring and privatization of enterprises with an ownership share of the state