

▶ Policy note

Social Protection in Bosnia and Herzegovina: challenges and key policy issues

1. Introduction

The social protection system in Bosnia and Herzegovina is facing formidable challenges stemming from insufficient investment in closing the social protection gaps, inefficient resource allocation, and persistent inequalities, particularly in terms of gender. The COVID-19 pandemic has further underscored the critical importance of building a comprehensive and resilient social protection system.

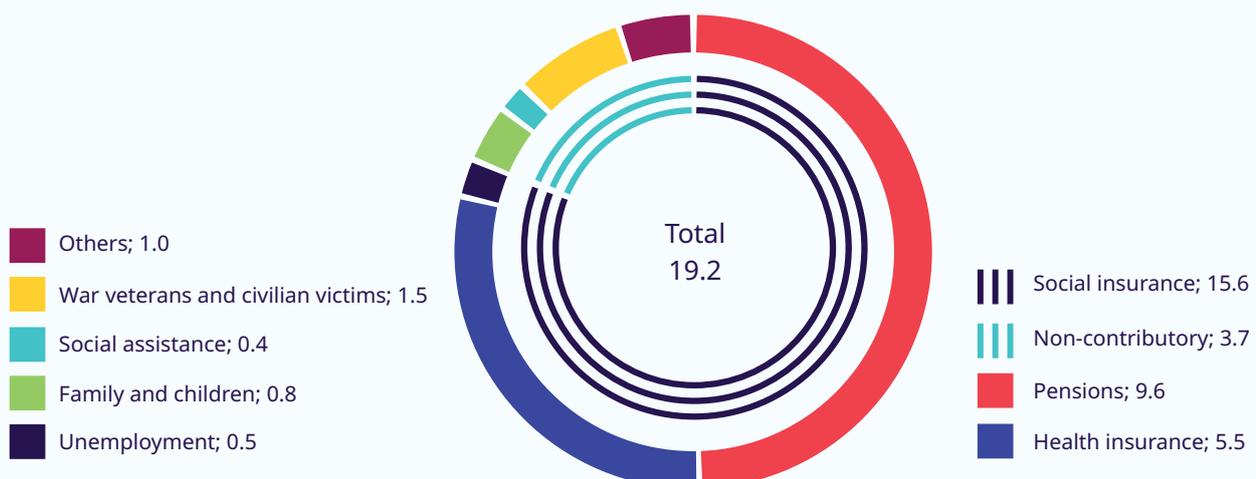
This policy note summarises the key challenges in the social protection financing in Bosnia and Herzegovina and presents recommendations for action. This note is based on the report: *Issues in Social Protection in Bosnia and Herzegovina: coverage, adequacy, expenditure and financing*. 2022. ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe. Budapest.

2. Challenges facing the social protection system in Bosnia and Herzegovina

▶ The overall social protection expenditure is low. A predominant share is provided by social insurance which suffers a substantial gap in contributory coverage.

In 2019, Bosnia and Herzegovina spent 19.2 percent of GDP on social protection, which is only two-thirds of the EU average of 28 percent and generally lower than what other Western Balkans countries spend (Figure 1). More than 80 percent of the total social protection expenditure pertains to contributory social insurance. Only 33.5 percent of the working age population aged 15–64 are contributing to the social insurance system. A significant number of the working age population are excluded from the social insurance system due to their work in the informal economy, long-term unemployment and non-participation in the labour market.

▶ Figure 1. Social protection expenditure, Bosnia and Herzegovina, 2019 (% of GDP)



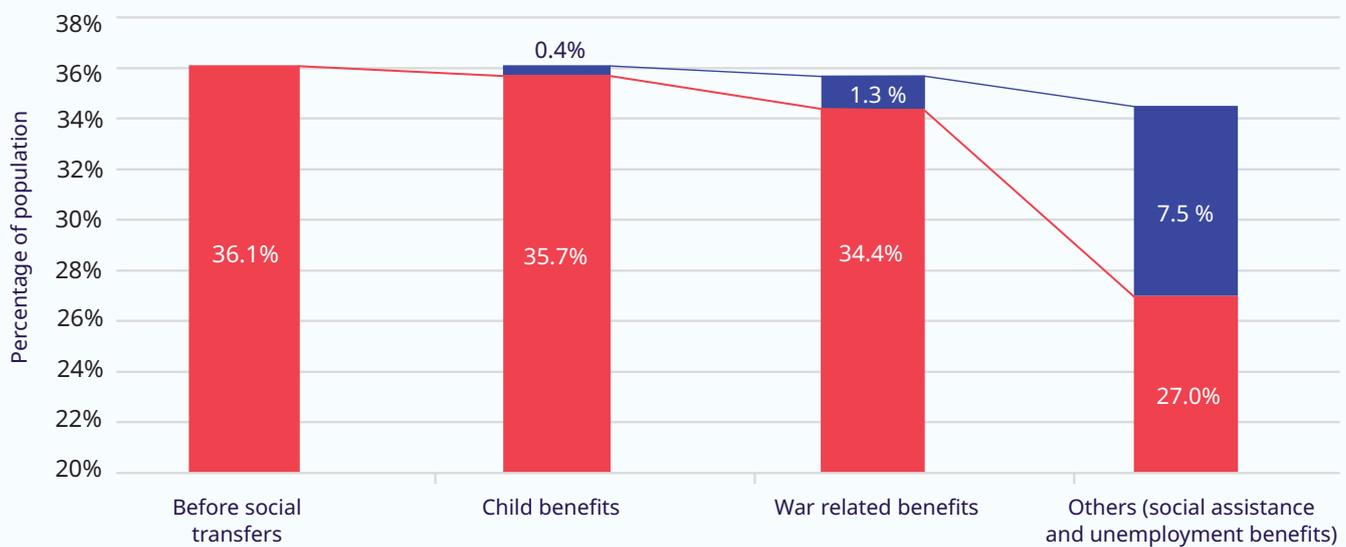
► Social assistance is geared towards war related benefits, while the other beneficiaries receive insufficient benefits and services. The imbalance in resource allocation decreases the impact on poverty reduction and creates various inequalities especially between men and women.

Non-contributory benefits, which are financed by the government budget, account for less than 20 percent of the total social protection expenditure. The largest share of non-contributory benefits is allocated to war veterans and civilian victims who are entitled to higher benefits and privileges. On the other hand, child and family benefits and social assistance benefits as well as social care services are provided insufficiently.

► Social protection benefits contributed to reducing the risk poverty but their impacts vary considerably.

All social protection benefits apart from pensions contributed to reducing the at-risk-of-poverty rate by 9.2 percentage-points. If pensions were also taken into account, there could have been a major additional reduction in the at-risk-of-poverty rate. Despite making up a relatively large share of expenditure, war related benefits contributed to the reduction of the at-risk-of-poverty rate by only 1.3 percentage-points. Child benefits and maternity benefits contributed to only 0.4 percentage-point reduction. Other social transfers, mainly means-tested social assistance benefits and unemployment insurance benefits, contributed to reducing the at-risk-of-poverty rate by 7.5 percentage-points (Figure 2).

► Figure 2. Effects of social transfers (excluding pensions) on the reduction of at-risk-poverty, preliminary estimates based on the 2015 Household Budget Survey



Notes:
Figures are rounded and may not add up.

► A fragmented and decentralized social protection system without effective coordination mechanisms results in inefficiencies and inequalities.

The social protection system in Bosnia and Herzegovina is highly fragmented and decentralized, in particular in the Federation of Bosnia and Herzegovina (Table 1).

Such a divided structure results in considerable inefficiencies in administration, limited risk pooling, and multiple inequalities among beneficiaries.

► Table 1. Number of institutions in the social protection system in Bosnia and Herzegovina

	Federation of BiH	Republika Srpska	Brčko District	Bosnia and Herzegovina
Pension fund	1	1	0*	2
Health insurance fund	11	1	1	13
Public employment office	11	1	1	13
Social assistance and services**	At the entity, canton and municipality levels	At the entity level and municipality levels	At the district level (Department of Health)	-

Notes:

* Brčko district does not have its own pension fund. The residents should choose to join one of the pension funds of the two entities.

** There are 93 Centres for Social Work and 28 social protection services at the municipality level in the country.

► The labour market and social protection system in Bosnia and Herzegovina exhibit various forms of gender inequality.

In Bosnia and Herzegovina, women face numerous obstacles in entering the labour market and holding onto their jobs. Hence, shorter or interrupted contribution periods, combined with lower wage levels, directly result in less access and smaller benefit entitlements for women. Many women acquire their pension rights only as dependent family members.

While the recipients of the generous war veteran benefits are primarily men, the child and family benefits, mostly received by women, are inadequate in terms of coverage and the benefit level. In addition, the provision of paid maternity leave in the FBiH does not facilitate women's participation in the labour market and help women reconcile work and family responsibilities. Moreover, insufficient provision of highly demanded social care services, such as early childhood education and care, long-term care for people with disabilities and the frail elderly, imposes disproportionate share of family responsibilities upon women through informal unpaid work.

► The social protection system in Bosnia and Herzegovina partially mitigated the negative impact of the COVID-19 pandemic but revealed its gaps.

In response to the health and economic crisis caused by the COVID-19 pandemic, the government introduced various measures. The priority was given to employment protection measures that provided partial relief to workers and employers and compensated the loss of revenue to the social insurance funds. However, these measures assisted primarily full-time employees in registered companies. A large number of unregistered workers and workers in non-standard forms of employment (such as workers on temporary or special service contracts, who are not liable to the payment of full social security contributions) were excluded from the scope of these measures despite that these groups of workers face more risk of employment termination and loss of income.

Despite the sign of recovery in GDP growth rates in 2021, the labour markets have been struggling to recover as the pandemic persists. The analysis of the response measures to the COVID-19 pandemic highlighted the need to further extend the social protection system to the population that is excluded or insufficiently covered by the existing mechanisms.

3. Problems with the individual social protection schemes

- ▶ The pension systems suffer unfavourable dependency rates as a consequence of relatively high pensioners coverage and low and shrinking coverage of the working-age population through contributory schemes. Compliance with contribution payment is hindered by a widespread informal employment and undeclared work. As a result, one pensioner is supported by 1.22 contributors in the FBiH and 1.17 contributors for the RS. This leads to high statutory contribution rates, which could further prompt informality and undeclared work. Moreover, it led to an average pension level which barely meets the minimum social security standards, with a significant number of pensioners only receiving the minimum pension. Failing to secure sufficient contributory revenues under the current contribution rates and compliance level, the pension funds in both entities have been transferred to the respective entity government budgets. Both funds are now subject to the general budget constraints which depend on the priorities under current fiscal and political situation.
- ▶ More than 85 percent of the population are covered by health insurance, but effective coverage is considerably less due to non-portability between funds and strict contribution requirements. Almost 30 percent of health expenditure is paid by households as out-of-pocket payments. Extensive out-of-pocket payments are sources of financial hardship and obstacles to accessing health care, particularly for low-income households. In addition, the large debt accumulated by the health care institutions is a major financial problem for the health care system and constitutes a major obstacle to improving its efficiency and sustainability.
- ▶ Due to the large share of long-term unemployed, the unemployment benefits do not adequately bridge the income gap for most unemployed persons. In 2018, less than 3 percent of the registered unemployed received unemployment benefits. Furthermore, the level of the benefit is also insufficient. Although funding for activation measures has increased in recent years, the existing financial and institutional capacities of public employment services are not enough to cope with the magnitude of unemployment.
- ▶ With respect to social assistance, war veterans are entitled to favourable conditions for social assistance as well as privileged treatment with regard to pensions and unemployment benefits. War related benefits amounted to 1.5 percent of GDP and take up a considerable share of entity government budgets, but they contributed to only 1.3 percentage-point reduction of the at-risk-of-poverty rate. On the other hand, the means-tested social assistance for poor households is paid to only 6.2 percent of the poorest quintile and has a limited impact in poverty reduction. A large discrepancy between war veteran benefits and social assistance benefits entails inequalities and discrimination against beneficiaries facing the same social risks. The imbalance in resource allocation results in ineffectiveness in poverty targeting and thus in poverty reduction.
- ▶ Child and family benefits face the dual challenge in terms of access and benefit levels. At the aggregate level, expenditure on child and family benefits was only 0.8 percent of GDP, and it contributed to only 0.4 percentage-point reduction of the at-risk-of-poverty rate.
- ▶ Social care services – such as early childhood education and care and home care services for the elderly in need of care – are an underdeveloped and underfunded branch of social protection in Bosnia and Herzegovina. Limited financial and institutional capacities of local governments, and a large disparity between urban and rural areas, result in inadequate provision of these services.

4. Key messages – Need to reinforce the social protection system in the context of a changing world of work

The social protection system in Bosnia and Herzegovina is at a critical crossroads. The current situation calls for urgent actions to rescue the contributory social insurance system from the critical challenges it is facing, and to reinforce social assistance benefits and social services to enhance gender equality. The COVID-19 pandemic has further underscored the critical importance of investing in social protection to ensure that everyone is protected against both systemic shocks and lifecycle risks. Failing to invest in social protection will imply trapping the country in a low human development pitfall.

The following recommendations should be considered.

► Concerning the contributory social insurance schemes, especially the pension and health insurance funds, extend the coverage in order to improve the benefit levels and strengthen their revenue structure, in particular by restoring or maintaining their extra-budgetary status from the government budget.

For the existing contributory social insurance system to act as the main provider of income and health security, measures should be taken to

- increase overall labour force participation and employment rates, in particular for youth and women;
- improve labour market governance by formalizing informal enterprises and reducing undeclared work; and
- extend social insurance coverage to workers in all types of employment contracts, including workers under temporary and service contracts, workers on digital platforms, as well as self-employed workers.

These measures should be accompanied by the tax reform aiming at redressing the regressive effects of flat income tax on low-income earners, and strengthening the effective tax base.

► Concerning the non-contributory benefits and services, secure fiscal space to close the remaining protection gaps and to ensure access to adequate social assistance and social services as well as to refocus the priority target groups.

Measures should be taken to

- achieve universal health coverage, with due regard to the population with low income;
- expand child and family benefits and social care services, considering in particular the introduction of long-term care services for older persons and persons with disabilities;
- reprioritize the social assistance benefits so that the benefits are more effective in preventing poverty.

These measures will allow the social protection systems to find a more appropriate mix of contributory and non-contributory benefits and services.

► Establish an effective coordination mechanism between different levels of government responsible for social protection policies, in particular in the Federation of Bosnia and Herzegovina.

To advance the reform agenda, democratic policymaking processes should be ensured via tripartite social dialogue. It is essential that key stakeholders in Bosnia and Herzegovina – the government at all levels, trade unions and employers – develop a clear vision of the future social protection system and the political will to build a universal, comprehensive, adequate, sustainable and well-functioning social protection system, including a solid social protection floor. Only through long-term commitment and continuous efforts of all stakeholders, can we advance the reform agenda and restore public trust in social protection systems in Bosnia and Herzegovina.

In line with these recommendations, the ILO, in collaboration with the UN Country Team in Bosnia and Herzegovina, stands ready to further assist Bosnia and Herzegovina to respond to this urgent call for action.

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