



International  
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Organization



► **Issues in Social Protection  
in Bosnia and Herzegovina:**  
coverage, adequacy, expenditure and financing



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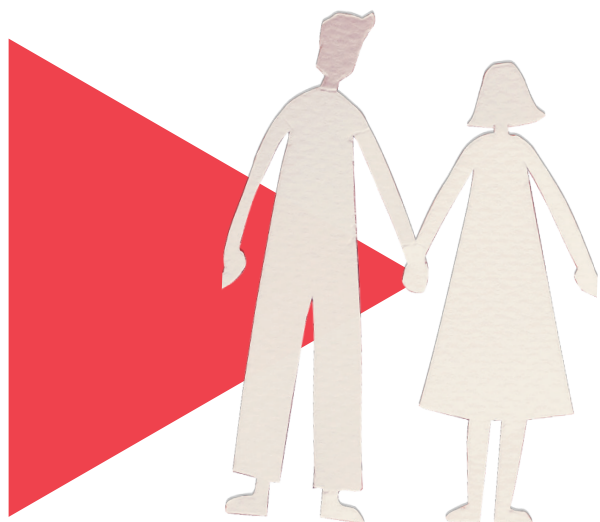
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## Abbreviations

COVID-19	Severe acute respiratory syndrome coronavirus 2
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
GDP	Gross domestic product
ILO	International Labour Organization
KM	The Bosnia and Herzegovina convertible mark
RS	Republika Srpska
SDGs	Sustainable Development Goals
UN	United Nations



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## ► Introduction

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Social protection – contributory or non-contributory – is a key financial mechanism which ensures everyone an access to health care and income security throughout the lifecycle and in times of crisis. The COVID-19 pandemic has further underscored the critical importance of building a comprehensive and resilient social protection system.

As affirmed by the Universal Declaration of Human Rights, everyone as a member of society has the right to social security as well as to a standard of living adequate for their health and well-being. The Sustainable Development Goals (SDGs) call upon all countries to act urgently towards the extension of social protection, including the achievement of universal health coverage and the establishment of national social protection floors, guided by the ILO Social Protection Floors Recommendation, 2012 (No. 202).

The current 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 underlying poor labour market conditions, as well as the slow recovery of labour markets from the COVID-19 pandemic and the anticipated fiscal austerity, have exacerbated the risk of further de facto cutbacks of social protection benefits.

In this context, the ILO has conducted a comprehensive review of the existing social protection system with respect to its coverage, benefit adequacy, expenditure and financing. The purpose of the present report is to present the core problems in the existing social protection system in Bosnia and Herzegovina based on evidence-based analysis and to identify the key issues requiring action.

This report is organized as follows. Chapter 1 provides a brief overview of the social protection system in Bosnia and Herzegovina. Chapter 2 analyses the challenges facing the individual social protection schemes. Chapter 3 provides an update of the social protection response to the COVID-19 pandemic. Chapter 4 analyses social protection from the perspectives of labour market and gender equality. Chapter 5 concludes and makes a number of recommendations for future action.

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We hope that the key findings and recommendations formulated in this report will stimulate national dialogue on the social protection issues by key stakeholders and lead them to take strategic actions to build a comprehensive social protection system in Bosnia and Herzegovina.

## ► Summary

### 1. The social protection system in Bosnia and Herzegovina

#### ► *A fragmented social protection system*

In Bosnia and Herzegovina, social policy and social protection are within the competence of its two entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) – and the Brčko District. A divided organizational structure of social protection without effective coordination mechanisms results in considerable inefficiencies in administration, coverage gaps, and various inequalities based on people's place of residence.

#### ► *Social protection expenditure and its impact on poverty reduction*

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. More than 80 percent of the total social protection expenditure pertains to contributory social insurance, including pensions, health insurance and unemployment insurance. 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 related benefits, followed by benefits for families and children (including maternity benefits), and means-tested social assistance.

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, which mainly consist of means-tested social assistance benefits and unemployment insurance benefits, contributed to reducing the at-risk-of-poverty rate by 7.5 percentage points.

### 2. Problem analysis of the social protection schemes in Bosnia and Herzegovina

- 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 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.

### 3. Social protection responses to the COVID-19 pandemic

The social protection system in Bosnia and Herzegovina partially mitigated the negative impact of the COVID-19 pandemic in the early stages of the crisis, although its full impact has not yet been evaluated.

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.

### 4. Cross-cutting issues in social protection

#### ► *Social insurance coverage and labour market conditions*

The financing structure of social insurance critically depends on the performance and governance of the labour market and the tax collection system. The labour market in Bosnia and Herzegovina is characterized by low levels of participation and high unemployment rates, in particular among youth and women. The shrinking working age population due to the low fertility rate and significant out-migration have also contributed to a decline in the number of contributors. The widespread practice of informal employment and undeclared work results in non-compliance with contributory social insurance schemes. Furthermore, companies underreport wages to pay lower taxes or delay payment of wages and social insurance contributions. The weak labour market governance undermines the sustainability of contributory social insurance systems and leads to significant protection gaps at present and in the future.

#### ► *Gender inequality in social protection*

The labour market and social protection system in Bosnia and Herzegovina are marked by noteworthy gender inequalities. As seen above, there are significant discrepancies in social insurance coverage between men and women. 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. Women constitute only 33.8 percent of old-age pensioners and 30.6 percent of those receiving disability pensions, yet they make up 96.2 percent of those receiving survivors' pensioners as widows. Thus many women acquire their pension rights only as dependent family members.

Gender discrepancies also exist in social assistance. As mentioned already, the recipients of the generous war veteran benefits are primarily men, while the child and family benefits, mostly received by women, are inadequate in terms of coverage and the benefit level. Furthermore, 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.

## 5. Conclusions and recommendations

### ► *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.

### ► *Recommendations*

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

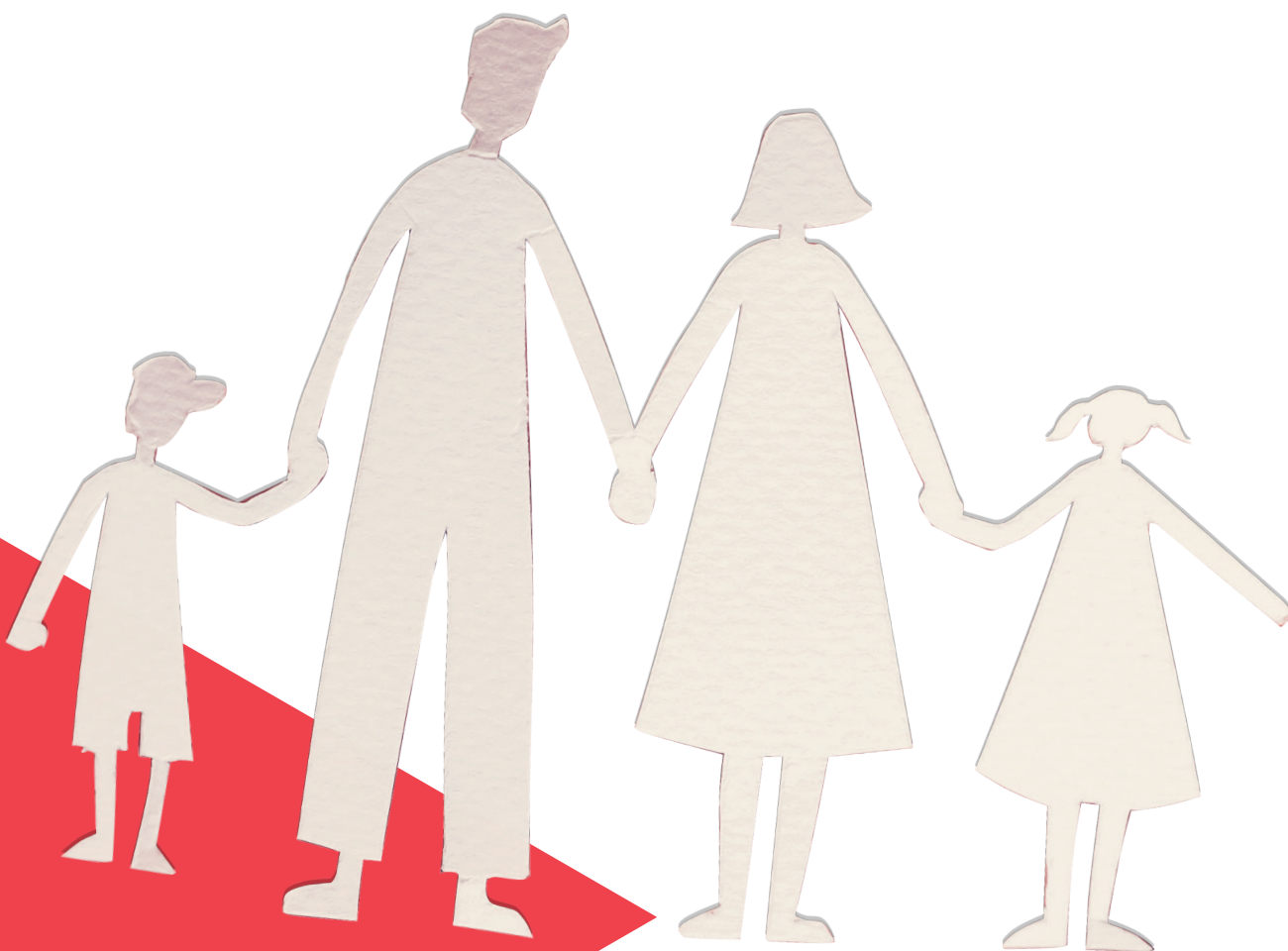
- achieve universal health coverage, with due regard to the population with low income;
- expand child and family benefits and social care services, considering in particular the introduction of long-term care services for older persons and persons with disabilities;
- reprioritize the social assistance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



# ► 1. The social protection system in Bosnia and Herzegovina

## 1.1. A fragmented social protection system

Bosnia and Herzegovina consists of two entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) – as well as the Brčko District. While the Republika Srpska comprises one level of self-government, the FBiH consists of ten cantons which have their own Constitution, Parliament, Government and judicial powers. The Brčko District is an autonomous local authority under direct authority of the state government.

Bosnia and Herzegovina has already developed a fairly comprehensive social protection system. The country has ratified the ILO Social Security Minimum Standards Convention, 1952 (No. 102) in respect of all branches of social security except for family benefits, as well as the Employment Injury Benefits Convention, 1964 (No. 121) which sets higher standards for employment injury benefit.

Social policy and social protection in Bosnia and Herzegovina are within the competence of two entities and Brčko District. Furthermore, health care, social assistance and social care services in the FBiH are within the shared competence of the entity and 10 autonomous cantons. Thus the two entities and Brčko District have separate social protection schemes, which are regulated independently of each other and without any coordination.

The country has two pension funds, one in each entity.<sup>1</sup> Further, the FBiH has 11 health insurance funds consisting of 10 cantonal health insurance funds and a solidarity fund at the entity level. It also has 11 public employment services implementing unemployment benefits. Concerning social assistance for persons in need, family and child benefits, and social care services, the FBiH Law on Principles of Social Protection stipulates a general framework, and its implementation is delegated to the cantons with a wide room for discretion.

Such a divided organizational structure without effective coordination mechanisms results in considerable inefficiencies in administration and various inequalities based on the places of residence. The establishment of state-level coordination mechanisms is one of the prerequisites for the European Union accession. Nevertheless, there has been little sign of a willingness to take a harmonized and coordinated approach.

## 1.2. Social protection expenditure and its impact on poverty reduction

As shown in Table 1.1, Bosnia and Herzegovina in 2019 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 the proportion spent by other Western Balkans countries. Out of the total social protection expenditure, more than 80 percent (15.6 percent of GDP) pertains to contributory social insurance. It includes pensions (9.6 percent of GDP), health insurance (5.5 percent of GDP) and unemployment insurance (0.5 percent of GDP). Non-contributory benefits, financed by the government budgets (3.7 percent of GDP), account for less than 20 percent of the total social protection expenditure.

<sup>1</sup> The Brčko District does not have its own pension fund. The residents should choose to join one of the pension funds of the two entities. The Brčko District does not have its own pension fund. The residents should choose to join one of the pension funds of the two entities.

The largest share of non-contributory benefits is paid to different categories of war related benefits (1.5 percent of GDP). This is followed by benefits for family and children (0.8 percent of GDP), and means-tested social assistance paid through Centres for Social Work (0.4 percent of GDP). Non-contributory benefits, financed by the government budgets (3.7 percent of GDP), account for less than 20 percent of the total social protection expenditure. The largest share of non-contributory benefits is paid to different categories of war related benefits (1.5 percent of GDP). This is followed by benefits for family and children (0.8 percent of GDP), and means-tested social assistance paid through Centres for Social Work (0.4 percent of GDP).

► Table 1.1. Social protection expenditure of Bosnia and Herzegovina, 2015-2019  
(as a percentage of GDP)

	2015	2016	2017	2018	2019
Total social protection expenditure	19.9	20.4	19.7	18.9	19.2
Total contributory	16.5	16.3	15.9	15.3	15.6
• Pensions	10.1	10.0	9.7	9.5	9.6
• Unemployment	0.6	0.5	0.5	0.5	0.5
• Health insurance	5.8	5.7	5.6	5.3	5.5
Total non-contributory	3.4	4.1	3.7	3.5	3.7
• Family and children, including maternity	0.5	0.9	0.8	0.8	0.8
• Means-tested social assistance	0.4	0.4	0.4	0.4	0.4
• War veterans and civilian victims	1.8	1.7	1.7	1.6	1.5
• Others	0.6	1.1	0.8	0.7	1.0

Source: Authors' calculations based on the Eurostat ESSPROS data.

Notes: Figures are rounded and may not add up.

A preliminary estimate based on the 2015 Household Budget Survey shows that 807,747 individuals, or 27.0 percent of the population, had income levels that were below the at-risk-poverty income threshold of KM 204 per month (defined as 60 percent of the median equivalized income).<sup>2</sup>

<sup>2</sup> Note that the Agency for Statistics of Bosnia and Herzegovina estimates that 505,816 individuals or 16.9 percent of the population were consuming below the at-risk-of-poverty consumption threshold of KM 389 per month.

► Table 1.2. Effects of social transfers on the reduction of at-risk-poverty, preliminary estimates based on the 2015 Household Budget Survey

	Percentage of the population**
At-risk-of-poverty before social transfers*	36.1
• Reduction due to child benefits	0.4
• Reduction due to war veteran, civilian victims of war and disability benefits	1.3
• Reduction due to other social transfers	7.5
At-risk-of-poverty after all social transfers	27.0
Total reduction by all social transfers	9.2

Notes:

\* Pensions are counted as income and not as social transfers.

\*\* Figures are rounded and may not add up.

Source:

Authors' preliminary calculations based on the 2015 Household Budget Survey data.

As Table 1.2 presents, all social protection benefits apart from pensions contributed to reducing the at-risk-of-poverty rate by 9.2 percentage points. Despite the 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 contributed only 0.4 percentage-point reduction. Other social transfers, which mainly consist of means-tested social assistance benefits and unemployment benefits, contributed to reducing the at-risk-of-poverty rate by 7.5 percentage points. If pensions were taken into account in this analysis, there could have been a major additional reduction in the at-risk-of-poverty rate, as pensions make up the largest share of social protection expenditure and most older persons rely solely on pensions for their living.

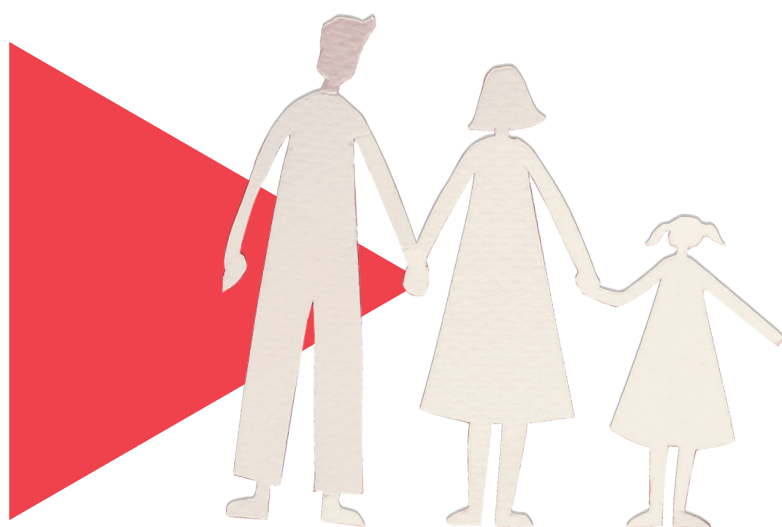
## ► 2. Problem analysis of the social protection schemes in Bosnia and Herzegovina

### 2.1. Pensions

In Bosnia and Herzegovina, only 33.5 percent of the working age population aged 15–64 are contributing to the social insurance schemes (pensions and unemployment insurance).<sup>3</sup> The low contributory coverage reflects the small proportion of employees and self-employed working in the formal economy. Non-compliance with social insurance legislation is a consequence of high levels of informality and widespread undeclared economic activity, which are also related to other legal, financial and administrative barriers.

On the other hand, old-age pensioners account for 72.6 percent of the population aged 65 years and above in 2019. This relatively high pensioner coverage is mainly due to the generous recognition of the past non-contributory period, including the privileged early retirement options available to war veterans. It is reported that privileged war veteran pensioners make up at least 10 percent of the pensioners in the FBiH and nearly 40 percent of pensioners in the RS at the end of 2020.<sup>4</sup> This has led to the situation where one-third of all pensioners are below 65 years of age, while 38 percent of elderly do not fulfil the eligibility conditions for receiving an old-age pension.<sup>5</sup> The substantial number of privileged pension rights acquired without contribution payments constitute considerable implicit liabilities, which put a heavy burden on the financing of the pension systems.

As a result, the pension systems in both entities suffer from unfavourable dependency rates. As shown in Table 2.1, the pension system dependency rate was 1.22 for the FBiH and 1.17 for the RS, indicating that one pensioner is supported by 1.2 contributors. This leads to several adverse consequences.



<sup>3</sup>In 2019, the number of persons in registered employment was 803,849 out of 2,397,990 population aged between 15 and 64 years.

<sup>4</sup>It should be noted that the number of the privileged pensioners in the FBiH does not include those who have fulfilled the statutory eligibility conditions for old-age pensions.

<sup>5</sup>World Bank 2020a.



► Table 2.1. Key indicators of the pension systems by entity, 2010, 2015-2020

			2010	2015	2016	2017	2018	2019	2020
FBiH	Number of the insured	1000 persons	424.6	450.8	462.9	472.6	529.3	525.2	520.5
	Number of pensioners	1000 persons	368.8	402.0	409.3	412.5	415.7	424.0	428.1
	System dependency rate	No. of insured per pensioner	1.15	1.12	1.13	1.15	1.27	1.24	1.22
	Average gross wage	KM/month	1,223	1,269	1,283	1,318	1,365	1,427	1,472
	Average net wage	KM/month	804	830	839	875	914	958	993
	Average pension	KM/month	340.6	368.4	369.8	371.6	399.0	416.5	427.9
	Average replacement rate	% of net wage	42.3	44.4	44.1	42.5	43.7	43.5	43.1
	PAYG cost rate	% of gross wage	24.2	25.9	25.5	24.6	23.0	23.6	23.9
RS	Number of the insured	1000 persons	293.1	286.3	292.8	300.2	309.5	315.9	315.5
	Number of pensioners	1000 persons	226.3	251.9	257.3	260.3	263.7	267.5	270.8
	System dependency rate	No. of insured per pensioner	1.30	1.14	1.14	1.15	1.17	1.18	1.17
	Average gross wage	KM/month	1,199	1,340	1,344	1,331	1,358	1,407	1,485
	Average net wage	KM/month	784	831	836	831	857	939	956
	Average pension	KM/month	320.0	342.0	341.0	351.0	375.0	381.0	393.6
	Average replacement rate	% of net wage	40.8	41.2	40.8	42.2	43.8	40.6	41.2
	PAYG cost rate	% of gross wage	20.6	22.5	22.3	22.9	23.5	22.9	22.7

Source: Authors' calculation based on data from the FBiH Pension Fund and the RS Pension Fund.

First, under the pay-as-you-go financing, the unfavourable dependency rates result in high statutory contribution rates. The current total social insurance contribution is 41.5 percent for the FBiH and 31.0 percent for the RS, plus a flat income tax of 10 percent for each entity (see Table 4.1). The high tax wedge is regressive especially for workers earning low wages and could lead to more informality and evasion in the absence of effective enforcement of labour, tax and social security legislations.

Second, the financial constraints do not allow for significant improvement of pension levels. In both entities, the average pension is marginally above 40 percent of the average net salary,<sup>6</sup> which is considered to be minimal based on the ILO Social Security Minimum Standards Convention No. 102. Bosnia and Herzegovina has ratified this Convention since 1993. It should also be noted that a significant number of pensioners receive minimum pensions.<sup>7</sup>

Third, failing to secure sufficient contribution revenue under the current contribution rates and compliance level, both pension funds have been increasingly dependent on the entity government budgets.

<sup>6</sup> In the FBiH, the average pension in January 2021 was KM 427.77, which was 43.0% of the net average salary. In the RS, the average pension in January 2021 was KM 405.81, which was 42.5% of the average net salary.

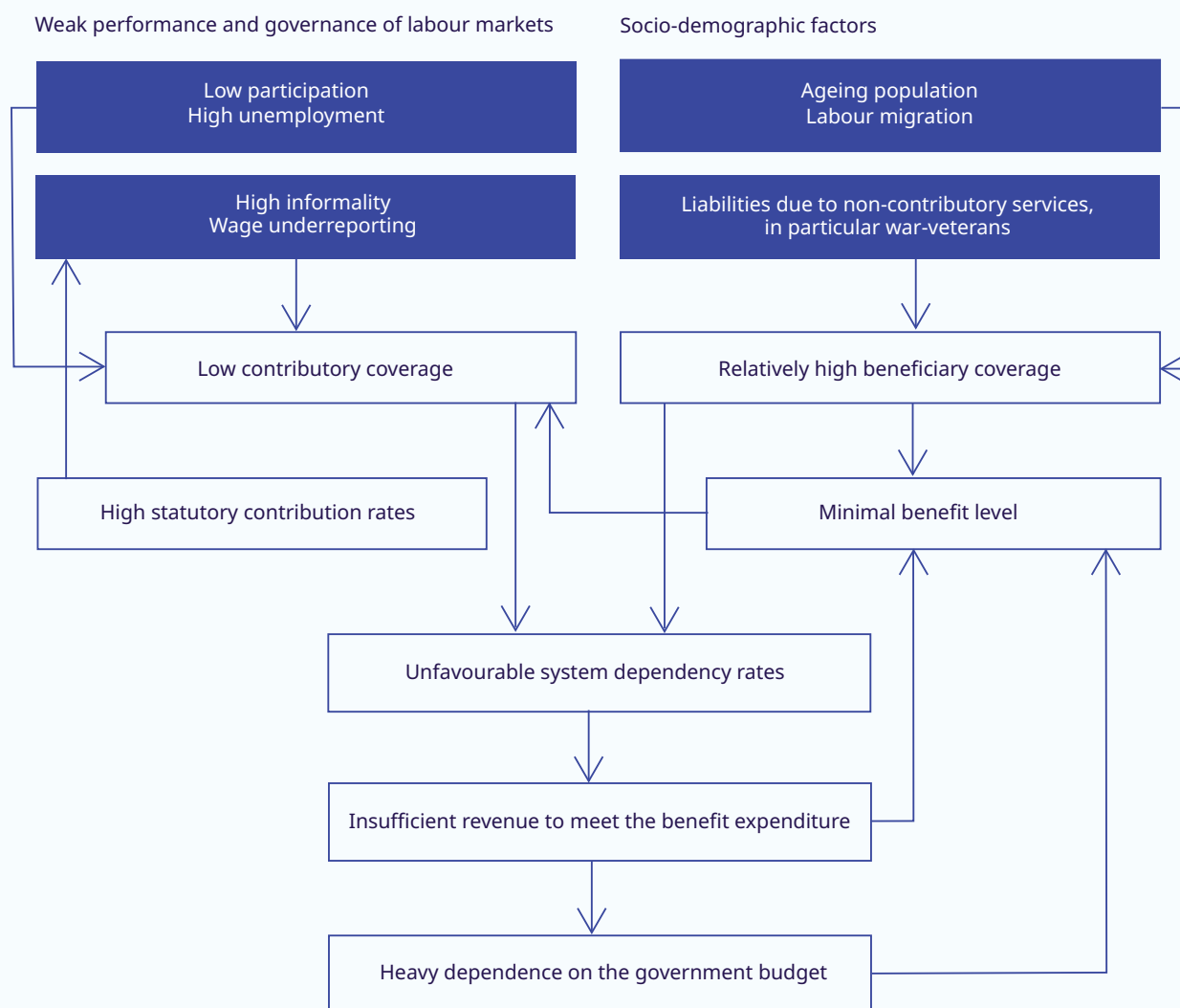
<sup>7</sup> The share of pensioners receiving minimum pensions was 46.0% in the FBiH in October 2021, and 27.9% in the RS in December 2020.

<sup>8</sup> In both entities, the entity government budgets are responsible for financing the obligatory pension benefits (such as pensions of war veterans and the cost of the minimum pension) and covering any deficit of the pension funds.

Since 2016 in the RS and since 2020 in the FBiH, the pension funds have been transferred to the respective entity government budgets. Thus, both funds have lost their extra-budgetary status in exchange for receiving the guarantee of pension payments by the entity government budgets.

Figure 2.1 depicts the interlinkages between the population coverage, benefit adequacy and financial sustainability of the pension systems based on the above observations.

► Figure 2.1. Linkages between coverage, adequacy and sustainability of the pension system in Bosnia and Herzegovina



## 2.2. Health insurance

Health insurance has a wider coverage than pension or unemployment insurance because it additionally covers the population with low or no contributory capacity. However, despite the legal intention to achieve universal health coverage, the percentage of population covered by health insurance stood at 85.9 percent of Bosnia and Herzegovina (78.7 percent for the RS and 89.7 percent for the FBiH) in 2017. Moreover, health insurance coverage for the working population is strictly linked with the payment of monthly contributions. There are many cases in which people registered with health insurance had to pay the full cost of health care when their health insurance contributions were not paid in time.

The National Health Accounts data show that the total health expenditure of Bosnia and Herzegovina was 9.0 percent of GDP in 2019. However, only 70.6 percent of the health expenditure is financed by public sources and the remaining 29.4 percent of health expenditure is paid by households as out-of-pocket payments. Out-of-pocket payments are the source of financial hardship and the main obstacle to accessing health care, particularly for low-income households. Extensive out-of-pocket payments also negatively affect the adequacy and sustainability of the health care system.

The fragmented and decentralized health insurance system in the FBiH results in considerable inefficiencies in administration, limited risk pooling, and multiple inequalities among beneficiaries. As mentioned above, health care in the FBiH is implemented at the canton level. Hence, the FBiH has 11 health insurance funds consisting of 10 cantonal health insurance funds and a solidarity fund at the entity level. The FBiH solidarity fund receives between 8 and 10 percent of health insurance contributions and finances treatment of certain diseases<sup>9</sup> to ensure that all citizens in the FBiH receive equal treatment. However, due to its limited resources, the FBiH solidarity fund has a rather limited role in reducing inequalities between cantonal health insurance funds.<sup>10</sup>

As shown in Table 2.2, the population coverage of cantonal health insurance funds varies between 58.6 and 100 percent. The health insurance coverage is valid only within the health care institutions contracted by the cantonal health insurance fund. Furthermore, the package of health care services covered by health insurance differs between cantons. In this context, the FBiH in 2009 adopted a Decision on the basic package of health care rights. However, the necessary bylaw which provides rules for implementing the Decision has not been adopted yet. Thus cantons apply the Decision independently subject to their priorities and capacities. Weak governance of the health care system also negatively affects the quality of health care.

► Table 2.2. Health care coverage by entity and canton, 2017

	Population	Number of insured persons	Coverage rate (in percentage)
Bosnia and Herzegovina	3,382,895	2,905,466	85.9
Federation of BiH	2,201,193	1,975,447	89.7
Cantons in FB&H	Una-Sana	198,805	73.6
	Posavina	26,926	64.0
	Tuzla	427,193	96.7
	Zenica-Doboj	336,307	93.4
	Bosnia-Podrinje	25,404	108.8
	Central Bosnia	213,678	85.0
	Herzegovina-Neretva	190,336	87.1
	Western-Herzegovina	80,650	86.1
	Sarajevo	428,470	102.4
	Canton 11	47,678	58.6
Republika Srpska	1,181,702	930,019	78.7

Sources: Author's calculations based on data from the FBiH Institute of Health Insurance and Reinsurance and the RS Health Insurance Fund.

<sup>9</sup> The health treatments covered by the FBiH solidarity fund include renal dialysis, hepatitis B and C, radiotherapy for cancer patients, HIV, among others.

<sup>10</sup> Note that the FBiH Law on Health Insurance stipulates that the entity should allocate the same amount of funding but this provision has never been implemented in full.

A major financial problem with the health care system in Bosnia and Herzegovina is the extensive debts accumulated by the health care institutions, such as health centres established by municipalities and hospitals established by entities and cantons. A large part of the debts consists of arrears of unpaid wages, taxes and social security contributions of the employees of the institutions, and unpaid payments to private suppliers. The total reported debt of the health care system was KM 438.7 million (2.0 percent of GDP) in the FBiH at the end of 2020, and KM 1,055 million (9.5 percent of GDP) in the RS as of 30 June 2021.<sup>11</sup> These accumulated debts are not only a threat to the sustainability of the health care system but also obstacles to much-needed health sector reforms.

This situation calls for urgent reforms of the health care system with a view to improving its efficiency and sustainability, achieving universal access to health care while reducing out-of-pocket payments, and improving the quality of health care. Both entities have only taken ad hoc responses to the emergent problems without a systematic approach to address the core problems with the health care system.

### 2.3. Unemployment benefits

Public employment services of the two entities and Brčko District are responsible for implementation of employment measures, including the administration of unemployment cash benefits. The unemployment benefits are mainly financed from unemployment insurance contributions, but also from government grants and credit funds allocated for active labour market measures which are primarily directed to employment subsidies.

The unemployment benefits consist of the cash unemployment benefits (called unemployment assistance by the Law) and the payment of pensions and health insurance contributions. For most of the unemployed persons, the unemployment benefits do not adequately bridge the income gap until they are able to find a new source of employment. In 2018, only 2.9 percent of the registered unemployed received unemployment benefits.<sup>12</sup> Such a low beneficiary coverage is due to the fact that a large share of long-term unemployed outlive the duration of the unemployment benefit, which varies from 3 months up to 24 months. The level of the benefit is also not high enough. In the FBiH, the unemployment benefit is a flat rate of 40 percent of the average wage in the FBiH, whereas in the RS, the level of benefit depends on previous earnings and the insurance period, but it cannot be lower than 80 percent of the minimum salary.

Unemployed persons registered with public employment services can also receive active labour market measures including employment mediation, reskilling and upskilling, and employment subsidies. In recent years, both entities have increased funding for employment programmes which were implemented primarily as employment subsidies. In 2018, expenditure on activation measures was 0.23 percent of GDP, which exceeded the spending on unemployment benefits. However, the existing financial and institutional capacities of public employment services are not sufficient to cope with the magnitude of unemployment.<sup>13</sup>

<sup>11</sup> These figures were mentioned in the FBiH Law on financial consolidation and restructuring of public health institutions adopted in February 2022, and 6yka.com (16.09.2021) concerning the RS.

<sup>12</sup> Centre of Public Employment Services of Southeast European Countries, 2019.

<sup>13</sup> For instance, according to the FBiH employment institute, the ratio between the number of officers and the number of beneficiaries in the public employment system was 1 to 2,023 in the FBiH in 2019.

## 2.4. Social assistance

Social assistance benefits are financed by entities, cantons and local authorities. Concerning means-tested social assistance benefits and social care services, the entity level laws provide a general framework, and their implementation is largely delegated to the local governments with a wide room for discretion. As a result, each entity/canton/municipality has its own social assistance legislation, providing different eligibility conditions and benefit formula. There is no effective mechanism for balancing the difference in fiscal capacities of the local governments.<sup>14</sup>

In both entities, priority consideration of social assistance is given to war veterans, including war veterans with disabilities, holders of war medals, demobilised soldiers, and their family members. War veterans are entitled to various forms of favourable conditions for eligibility and benefit levels.<sup>15</sup> In addition, as mentioned earlier, war veterans are entitled to privileged treatment in pensions and unemployment benefits.

Contrary to war related benefits, genuine social assistance benefits for poverty reduction purposes, typically the means-tested social assistance for poor households, play a very limited role. Based on the 2015 Household Budget Survey data, it is estimated that 807,747 individuals had income levels falling below the at-risk-poverty income threshold of KM 204 per month. However, in 2020 means-tested social assistance benefits were paid only to 14,571 adults who fulfilled very stringent eligibility conditions. Moreover, the levels of means-tested social assistance benefits (which vary between KM 100 and KM 145 for a single person household) are below the at-risk-poverty income threshold.

Many studies point to the unequal treatment between war veteran benefits and the social assistance benefits directed to poor households. An earlier study has shown that war veteran benefits are paid largely to high income groups.<sup>17</sup> Due to their generous conditions, war related benefits amounted to 1.5 percent of GDP and take up a considerable share of entity government budgets,<sup>18</sup> but they contributed to only 1.3 percentage-point reduction of the at-risk-of-poverty rate. On the other hand, only 1.9 percent of the total population and 6.2 percent of people in the poorest quintile benefit from the means-tested social assistance.<sup>19</sup> In addition, approximately only 34 percent of the population who receive social transfers are lifted out of the at-risk-poverty.<sup>20</sup>

Such a large discrepancy between war veteran benefits and social assistance benefits raises questions about equity 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.

<sup>14</sup>In the FBiH, the costs of the benefits for civilian victims of war are shared between the entity and cantons. In the RS, the Law on Social Protection stipulates that the entity and local authorities equally share the costs of the means-tested social assistance benefits.

<sup>15</sup>In the FBiH in 2018, the benefit for permanent total disability was KM 850 per month for war veterans and KM 595 for civilian victim of war, while it was KM 109.2 for persons with disabilities due to non-war related causes.

<sup>16</sup>Agency for Statistics of Bosnia and Herzegovina 2021a.

<sup>17</sup>Initiative for Better and Humane Inclusion 2013.

<sup>18</sup>For instance, the financing of war related benefits in the RS required more than KM 403 million, which was 10.6 percent of the RS budget for 2021.

<sup>19</sup>World Bank, 2020b.

<sup>20</sup>Authors' preliminary estimates based on the 2015 Household Budget Survey.

## 2.5. Child and family benefits (including maternity benefits)

The two entities in Bosnia and Herzegovina adopt different systems for financing child and family benefits. In the RS, child and family benefits are a part of the social insurance system, financed through the RS Fund for Child Protection. On the other hand, in the FBiH, child and family benefits are part of the social assistance financed by cantonal budgets. In the Brčko District, child and family benefits are financed from the public budget.

In Bosnia and Herzegovina, cash benefits for children and families include paid maternity leave for employed mothers; maternity allowance for non-working mothers; child benefits; and assistance for newborn equipment. However, the level of benefit and eligibility conditions for these benefits vary across the cantons and entities, leading to inequalities in provision and access to these benefits.<sup>21</sup> The entities also stipulate some additional benefits.<sup>22</sup> At the aggregate level, the 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.

The labour law in both entities stipulates paid maternity leave until the child reaches 12 months of age. In this regard, the FBiH system is clearly disadvantageous compared to the RS system.

In the RS, the Fund for Child Protection refunds the employers in respect of the full salary compensation for women workers during the maternity leave. However, in the FBiH, the benefit level is between 40 and 80 percent of the previous salary depending on the canton and payable to the mothers who have paid social insurance contributions for at least one year (despite the fact that the benefit is non-contributory and financed from the cantonal budgets). Further, it is reported that many women workers in the FBiH, especially those working in the private sector, do not take a full 12-month maternity leave granted by the labour law for fear of losing their jobs.

In these circumstances, the FBiH government developed a new draft Law on Support to Families with Children. The initial draft proposes that the entity will finance a uniform amount of child benefit, and cantons will finance a uniform amount of maternity allowance for non-working mothers. Both benefits will be paid to families whose income per family member is below 20 percent of the average salary. The law also proposes that the salary compensation during maternity leave is paid through the health insurance system, but this will require changes in the health insurance laws of the FBiH and cantons.

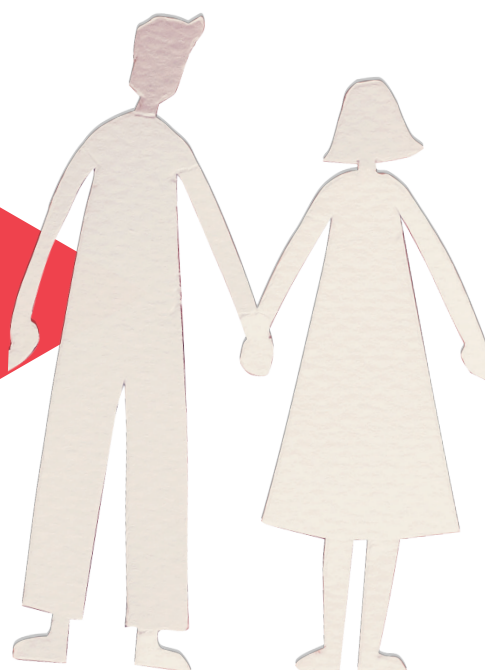
## 2.6. Social care services

Social care services are an underdeveloped and underfunded branch of the social protection system in Bosnia and Herzegovina. Social care services are delivered by Centres for Social Work and other institutions, such as kindergartens and day care centres at the local government level. In addition to services stipulated by the entity legislation, local authorities may introduce additional services in response to the needs identified in their communities. Limited financial and institutional capacities of local governments, and a large disparity between urban and rural areas, result in inadequate provision of these services. Non-government organisations are active on a project basis financed by foreign donors, but only a few local authorities have integrated these services into the public system.

<sup>21</sup> In the RS, the amount of child assistance is KM 46.8 for the second child, KM 93.6 for the third child and KM 46.8 for the fourth child. In Brčko District, child assistance is KM 91 in 2020. In the FBiH, the amount of child benefit varies between KM 15 and KM 50. In most cases, child assistance is payable to families which meet certain income conditions.

<sup>22</sup> In the FBiH, the benefits also include assistance for food supplement for children up to 6 months and nursing mothers. In addition, the RS provides out salary compensation for parents working part-time who need to care for children (for children up to 3 years or children with disabilities). In 2019, the RS also introduced the carers' allowance for parents of children who need constant care. In the FBiH, the carers' allowance was introduced recently for taking care of persons with disabilities.

As a result, highly demanded social care services, such as education and care for children, long-term care for people with disabilities and the frail elderly, are provided by families especially through unpaid work of women family members. In particular, in the face of the ageing population,<sup>23</sup> the demand for long-term care for the elderly is expected to rise rapidly. In this context, Bosnia and Herzegovina is facing a great challenge in increasing investments in social care services to ensure universal access to affordable and quality services for all people in need.



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<sup>23</sup> According to the Agency of Statistics of Bosnia and Herzegovina (assuming the official international migration), the share of the elderly population aged 65 years and above is projected to increase from 16.5 percent in 2018 to 23.0 percent in 2030, 26.7 percent in 2040, and 30.6 percent in 2050.



### ► 3. Social protection responses to the COVID-19 pandemic – a 2021 update

The COVID-19 pandemic had a profound impact on the economy and the labour market. While GDP contracted by 3.2 percent in 2020 but has recorded a positive growth in 2021. The GDP growth in the second and third quarters of 2021 were 12.1 and 8.4 percent, respectively. Despite the sign of economic recovery, the labour markets have been struggling to recover as the pandemic persists. According to the ILO estimates,<sup>24</sup> the index of working hours in 2020 decreased by 7.4 percent (equivalent to 85,000 full-time jobs) compared to the baseline of the latest pre-crisis quarter, i.e. the fourth quarter of 2019. In 2021, the index of working hours was still 3.3 percent (equivalent to 37,000 full-time jobs) below the pre-crisis level.

The Labour Force Survey shows that both employment and unemployment rates increased, while inactivity rates decreased in 2020. The recorded job losses in both entities were mainly in the private sector, while the public sector jobs were less affected. According to the Labour Force Survey of the third quarter of 2021, the employment and activity rates increased by 1 percentage point and the unemployment rate decreased by 1 percentage point compared to the first quarter of 2020. In the FBiH, there was a simultaneous decrease in the registered employment and increase in the registered unemployment in 2020. Although the registered employment in the FBiH in 2021 has increased by 1.7 percent compared to 2020, it has not reached the pre-pandemic level.

Based on the available information on the response measures enacted by each government,<sup>25</sup> the following observations are made:

► Employment protection measures were given priority by the two entity governments and Brčko District. These measures include subsidies of social security contributions and income tax for all registered employees, and the wage subsidies at the minimum gross salaries for full-time employees in the private sector who were affected by the government-imposed lockdown and the economic downturn. It is reported that these employment protection measures in 2020 amounted to around KM 179.9 million in the FBiH, and KM 74.8 million in the RS. These employment protection measures have been extended in 2021 by both entities.

► The government subsidies of wages and social security contributions provided partial relief to workers and employers and compensated the loss of revenue to the social insurance funds. However, these employment protection measures assisted primarily full-time employees in registered companies. Thus, 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.

<sup>24</sup> See ILO 2022.

<sup>25</sup> The main references in this section are ILO 2021a and Obradović 2021.



- The FBiH and Brčko District issued recommendations that employers should approve paid leave to employees with children during the school closure, but the recommendations were applied only in the public sector. The RS did not take any measures for working parents of school children. The insufficient support negatively affected working parents, especially women workers who are more likely to assume the responsibility for childcare.
- During the pandemic, health care costs related to COVID-19 cases were covered to the population not covered by health insurance. The RS enacted necessary legislation in March 2020, but the Brčko District adopted a decision in November 2020. In the FBiH, the entity decided to retrospectively reimburse the COVID-19 related health care costs for persons not insured by health insurance for the period from March till June 2020. For the following period, the issue of COVID-19 related health care costs for uninsured persons was left to the decision of cantons.
- Except for some one-off benefits,<sup>26</sup> no new measures have been introduced in social assistance to assist the low-income families affected by the pandemic. In the FBiH, some local authorities increased the level of social assistance benefit, but the number of means-tested social assistance benefits paid in 2020 was fewer than the previous year.

The impact of the above-mentioned measures was not fully evaluated. In June 2021, the Audit Office in the FBiH conducted an evaluation of the employment measures in the FBiH Law on alleviating the negative economic consequences (called the “Corona Law”) from March to December 2020.<sup>27</sup> A key finding of the report is that the implementation of the measures envisaged by the law was ineffective and lacked appropriate monitoring. Access to the wage subsidies in the FBiH was not ensured to all affected enterprises, and some enterprises laid off their employees even though they received wage subsidies. As a result, only 18.6 percent of the planned budget of KM 488 million was actually distributed in 2020 by the entity government. In addition, it is pointed out that the wage subsidies based on minimum wages gave incentive for employers to pay only minimum wages to the workers who maintained their employment.

In Bosnia and Herzegovina, the social protection system partially mitigated the immediate negative impact in the early stage of the pandemic, although its full impact has not yet been evaluated. However, the analysis of the response measures to the COVID-19 pandemic highlighted the need to further extend social protection to the population who are currently excluded or insufficiently covered by existing mechanisms.

<sup>26</sup> For instance, one-off assistance was paid to the registered unemployed in Brčko District in 2020. Also, one off assistance to pensioners was provided in the RS in April 2021, and in the FBiH in July 2021.

<sup>27</sup> Audit Office of the Institutions in the FBiH 2021.

## ► 4. Cross-cutting issues in social protection

### 4.1. Social insurance coverage and labour market conditions

Since payroll contributions from employees and employers are the main source of revenue of the social insurance system, its financing structure critically depends on the performance and governance of the labour market and the tax collection system. The shrinking working age population, due to the low fertility rate and significant out-migration, has also contributed to the decline in the number of contributors.<sup>28</sup>

As shown in Figure 4.1, the labour market in Bosnia and Herzegovina is characterized by low levels of participation and high unemployment. By age group, the youth aged 15–24 years exhibit high unemployment and inactivity rates (which could possibly include discouraged youth workers). In the prime working age between 25 and 45 years, women exhibit significantly high inactivity and low employment rates. The labour force participation rates drop significantly for the age group of 50–64 years, mainly due to the fact that some of them have access to pensions before 65 years of age.

► Figure 4.1. Labour market status by sex and age, 2020



Sources: Agency for Statistics of Bosnia and Herzegovina, Labour Force Survey 2020.

Moreover, the widespread practice of informal employment and undeclared work in Bosnia and Herzegovina is associated with non-compliance with regard to contributory social insurance schemes. According to the ILO estimates, the share of informal employment in the employed population was 30.5 percent (30.9 percent for men and 29.8 percent for women) in 2019. Furthermore, there were reported cases where registered companies underreport wages to pay fewer taxes (this practice is prevalent in the private sector) or delay payment of wages and social insurance contributions (prevalent in state-owned companies).

<sup>28</sup> According to the Agency of Statistics of Bosnia and Herzegovina (assuming the official international migration), the working age population between 20 and 64 years of age is projected to decrease by 11.4% by 2030, 20.6% by 2040, and 31.8% by 2050.

It is estimated that the wages equivalent to 10.7 percent of GDP was unreported in 2008.<sup>29</sup>

The weak governance of labour markets blurs the border between registered and unregistered work, leading to the general deterioration of labour rights and widespread work precarity and undermining the sustainability of contributory social insurance systems.

The existing social insurance and tax legislation excludes a significant number of the working age population from the social security system. The current total social security contribution is 41.5 percent for the FBiH and 31.0 percent for the RS levied to the gross wages, as shown in Table 4.1. Plus there is a flat income tax of 10 percent for each entity. The high tax wedge, combined with minimum salary thresholds, is regressive especially for workers earning low wages and could increase informality and evasion in the absence of effective enforcement of labour, tax and social security regulations.

► Table 4.1. Social security contribution rates by branch and entity, 2009-present (as of 1 January 2022)

	FB&H		RS					
	2009-present	Proposed changes	2009-10	2011-12	2013-17	2018-19	2020-21	2022-present
Pensions	23.0%	18.0%	17.0%	18.0%	18.5%	18.5%	18.5%	18.5%
Health	16.5%	13.5%	11.5%	12.5%	12.0%	12.0%	12.0%	10.2%
Unemployment	2.0%	1.0%	0.7%	1.0%	1.0%	0.8%	0.6%	0.6%
Child benefits	-	-	1.4%	1.5%	1.5%	1.7%	1.7%	1.7%
Total	41.5%	32.5%	30.6%	33.0%	33.0%	33.0%	32.8%	31.0%

Sources: Various Laws of the FBiH and RS (see References).

Furthermore, the FBiH Law on Contributions requires workers on temporary and service contracts to pay a lower social insurance contribution rate at 10 percent. This serves as an incentive for employers to hire workers on temporary and services contracts. However, the contributions paid by workers on temporary and service contracts do not give any right to benefits. The RS legislation requires workers on temporary contracts to contribute to pensions and health insurance, and workers on special service contracts to contribute to only pensions.

<sup>29</sup> Hirose and Hetteš 2016.

## 4.2. Gender inequality in social protection

The labour market and social protection system in Bosnia and Herzegovina exhibit various forms of gender inequality, not least in terms of effective maternity coverage which can enhance women's labour market inclusion. As seen above, there are significant discrepancies in social insurance coverage between men and women. In Bosnia and Herzegovina, women face numerous obstacles in entering the labour market. Hence, shorter or interrupted contribution periods, combined with lower wage levels, directly contribute to women's weaker access and lower benefit levels. As shown in Table 4.2, the share of women is only 33.8 percent for old-age pensioners and 30.6 percent for disability pensions, yet women make up 96.2 percent of survivors' pensioners as widows. Thus many women acquire their pension rights only as dependent family members.

► Table 4.2. Number of pensioners by type and sex, 2019

	Total	Old-age pensions	Disability pensions	Survivors' pensions
Total	680,758	432,503	54,088	194,168
Share of men (in percent)	48.6	66.2	69.4	3.8
Share of women (in percent)	51.4	33.8	30.6	96.2

Source: Agency for Statistics of Bosnia and Herzegovina 2021b.

The gender discrepancies also exist in social assistance. As mentioned already, the recipients of the generous war veteran benefits are primarily men, while child and family benefits that typically help women reconcile work and family responsibilities are inadequate both in terms of coverage and the adequacy of benefits, especially in the FBiH.

Under the traditional gender division of family responsibilities, insufficient provision of child and family benefits (such as paid maternity leave)<sup>30</sup> or unavailability of social care services (such as early childhood education and care, and home care services) result in many women confined to informal unpaid work such as household work and caring for children, elderly and other family members. Major expansion of child and family benefits and social care services will not only achieve a better balance between work and family responsibilities but also support the inclusion of more women in the labour market.

<sup>30</sup> Furthermore, in both entities, the laws do not provide paternity leave but only allow fathers to use part of the maternity leave with the consent of the mothers. These provisions are not harmonised with the EU Work-Life Balance Directive which entered into force in 2019.

## ► 5. Conclusions and recommendations

### 5.1. The need to reinforce the social protection system in the context of a changing world of work

In Bosnia and Herzegovina, contributory social insurance benefits play a predominant role in social protection. The pension funds and health insurance funds are amongst the largest financial institutions in the country. As these funds have been increasingly dependent on the government budget, restoring their long-term sustainability is crucial for achieving fiscal stability.

It is generally considered that contributory schemes have an advantage over non-contributory schemes because people are more willing to pay social security contributions than taxes because of the perceived link between their contributions and the benefits they receive. In addition, payroll contributions collected at the source on behalf of both employees and employers enable great administrative efficiency.

However, it appears that the social insurance system in Bosnia and Herzegovina does not fully harness these advantages. As seen earlier, the contributory base is limited due to the low social insurance coverage and not fully captured due to under-reporting of wages. In the pension system, since a large share of retired workers acquire benefits that fall below the minimum pensions, additional contribution payments do not increase the level of benefits they receive. In addition, unfavourable dependency rates result in high statutory contribution rates. All of these disincentivise employees and employers from paying contributions.

The pension funds of both entities have recently been transferred into the entity government budgets. Moreover, the health insurance funds and health care institutions have accumulated huge debts. It is reported that both entity governments plan to transfer all the other social insurance funds to the entity government budgets to increase the transparency and ensure better oversight over the expenditure. The full impact of the integration of the social insurance funds with the government budget is not yet known. However, it is conceivable that this may have adverse implications for the benefit level as both funds are now subject to the general budget constraints which invariably depend on the priorities under current fiscal and political situation.

In the future, it will become increasingly important to ensure at least a minimum level of income and health protection for all. This objective is expected to be met by an efficient combination of universal health insurance, social insurance and social assistance. However, in social assistance, the utmost priority is given to war veterans who receive generous benefits and privileges. Social assistance benefits cover only a small proportion of those living at risk of poverty and provide low benefit levels. Accordingly their impact on poverty reduction is limited. Thus, they do not act as an effective safety net for the poor. In addition, apart from the financial challenges, the health insurance system has yet to achieve effective universal coverage, requiring extensive out-of-pocket payments on the part of those seeking healthcare. Furthermore, insufficient provision of child and family benefits and social care services imposes a disproportionate share of family responsibilities on the shoulders of women.

These observations highlight the need to reinforce the existing social protection mechanisms while adapting them to the 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 downward spiral and to reinforce social assistance benefits and social services supporting 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.

## 5.2. Recommendations

Based on the analysis presented in this report, the following recommendations should be considered:

Firstly, the coverage of the contributory social insurance schemes, especially the pension and health insurance funds, should be extended in order to improve the benefit levels and strengthen their revenue structure, in particular by restoring or maintain their extra-budgetary status from the government budget. Effective reduction of the deficit critically depends on the performance and governance of the labour market.

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 through more stringent enforcement and compliance with labour, tax and social security legislations; and
- extend the social insurance coverage to all types of employment contracts, including workers with temporary and service contracts, workers on digital platforms, as well as self-employed workers, with due regard to the heterogeneity of the working arrangements.<sup>31</sup>

These measures should be accompanied by the tax reform aiming at redressing the regressive income tax and strengthening the effective tax base.

Secondly, while reinforcing the contributory schemes, Bosnia and Herzegovina should secure fiscal space<sup>32</sup> to close the remaining protection gaps and to ensure effective access to 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 or no contributory capacity;
- 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.

Thirdly, Bosnia and Herzegovina, in particular in the FBiH, should establish an effective coordination mechanism between different levels of government responsible for social protection policies. In addition, higher level governments (i.e. the State over the entities and the Brčko District, and the entity over its cantons and municipalities) should provide effective oversight and monitoring to improve the policy coherence and management accountability of highly fragmented institutions.

<sup>31</sup> For more information, see ILO 2021c.

<sup>32</sup> The technical guide of fiscal space analysis, developed by ILO, UNICEF and UNWOMEN (Ortiz et. al. 2019), has identified eight financing options: (i) re-allocating public expenditures; (ii) increasing tax revenues; (iii) expanding social security coverage and contributory revenues; (iv) lobbying for aid and transfers; (v) eliminating illicit financial flows; (vi) using fiscal and foreign exchange reserves; (vii) managing debt: borrowing or restructuring existing debt; and, (viii) adopting a more accommodative macroeconomic framework. Each country should exploit all possible fiscal space options available for the country, and adopt the optimal mix of public policies for jobs and social protection.

Lastly, in order to enable these reforms, democratic policymaking processes should be ensured via tripartite and social dialogue. In Bosnia and Herzegovina, policy discussions on social protection reforms often face obstacles due to the complex and competing interests of different stakeholders. Also, the policy making process lacks transparency and genuine stakeholder involvement. Only through a 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.

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 social protection system they want to create and a political will to build a universal, comprehensive, adequate, sustainable and well-functioning social protection system, including a solid social protection floor.

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 to action.

## ► References

### Websites of national and international institutions

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FBiH Employment Institute	<a href="https://www.fzzz.ba">https://www.fzzz.ba</a>
FBiH Pensions Fund	<a href="https://www.fzmiopio.ba">https://www.fzmiopio.ba</a>
FBiH Fund of Health Insurance and Reinsurance	<a href="http://www.zzofbih.ba">http://www.zzofbih.ba</a>
RS Institute for Statistics	<a href="https://www.rzs.rs.ba">https://www.rzs.rs.ba</a>
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RS Health Insurance Fund	<a href="https://www.zdravstvo-srpske.org">https://www.zdravstvo-srpske.org</a>
RS Fund for Child Protection	<a href="http://www.jfdz.org/sr">http://www.jfdz.org/sr</a>
BD Health Insurance Fund	<a href="https://fzobrcko.ba">https://fzobrcko.ba</a>
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International Labour Organisation	<a href="https://www.ilo.org">https://www.ilo.org</a>
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