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BOSNIA AND HERZEGOVINA
Social Protection Situational Analysis

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# List of acronyms

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<tr>
<th>Acronym</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ALMPs</td>
<td>Active labor market programs</td>
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<tr>
<td>BAM</td>
<td>Bosnian Mark</td>
</tr>
<tr>
<td>BiH</td>
<td>Bosnia and Herzegovina</td>
</tr>
<tr>
<td>CSW</td>
<td>Center for Social Work</td>
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<tr>
<td>EC</td>
<td>European Commission</td>
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<td>ECD</td>
<td>Early Childhood Development</td>
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<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FBiH</td>
<td>Federation of Bosnia and Herzegovina</td>
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<tr>
<td>FEI</td>
<td>Federal Employment Institute</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HBS</td>
<td>Household Budget Survey</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>LFS</td>
<td>Labor Force Survey</td>
</tr>
<tr>
<td>NEET</td>
<td>Not in employment, education or training</td>
</tr>
<tr>
<td>PAYG</td>
<td>Pay-as-you-go</td>
</tr>
<tr>
<td>PES</td>
<td>Public Employment Services</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>PSA</td>
<td>Permanent Social Assistance</td>
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<tr>
<td>RS</td>
<td>Republika Srpska</td>
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<tr>
<td>RSEB</td>
<td>Republika Srpska Employment Bureau</td>
</tr>
<tr>
<td>SPEED</td>
<td>Social Protection Expenditure and Evaluation Database</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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</table>
Introduction

While recovering from the COVID-19 crisis, Bosnia and Herzegovina (BiH) is struggling with persistent unemployment and a predicted rise in poverty. Gross domestic product (GDP) is estimated to have increased by 2.7 percent in the first quarter of 2022, compared with a 4.0 percent increase in 2021 and 3.2 percent contraction in 2020.¹ The unemployment rate, which averaged 15.7 percent in 2019 (before the crisis), remains high, exceeding 16.4 percent in third quarter of 2021.² Persistently high unemployment threatens to further increase the share of the population living in poverty, which was 16 percent in 2015 (most recent available estimate) and could increase by 4 to 10 percentage points as a result of the crisis. The poverty reduction challenge is exacerbated by the acceleration of inflation, especially the increase in food prices which tends to disproportionately affect poor households.³

To further reduce the incidence of poverty, measures to create more job opportunities for all BiH citizens must be complemented by an effective social protection framework. Social protection is a fundamental pillar of social policies. It is essential to protect people from falling into poverty and destitution, to help people cope with adverse idiosyncratic or covariate shocks and smooth consumption over their lifetime, and to promote human capital accumulation and ensure better access to jobs for those who need support. Social protection comprises a variety of policy tools, including cash transfers to the poor and people with disabilities, social care services for vulnerable populations, labor market programs and unemployment insurance, and old-age pensions.⁴ While each benefit or service addresses a specific need against which its performance is assessed, it is also important to analyze whether the system as a whole fulfills its objectives.

This note presents a situational analysis of the social protection system in Bosnia and Herzegovina. It assesses the extent to which the social protection system fulfills its purpose; it also proposes policy priorities as well as areas for reform in the short, medium, and long term. To these ends, this note assesses each category of social protection, namely: social assistance, social services, social insurance (specifically pensions), and labor market programs, in terms of program coverage, equity, sustainability and effectiveness. Based on this analysis, it proposes policy priorities and future areas of focus. The note is based on an analysis of administrative data and the most recent Household Budget Survey (HBS 2015) and Labor Force Survey (LFS 2019), a literature review, and an engagement with technical experts in ministries and employment institutes.

This analysis finds that unequal resource allocation, limited targeting, administrative inefficiencies and institutional fragmentation (Federation of Bosnia and Herzegovina) reduce the impact of social protection services in Bosnia and Herzegovina. While considerable sums are spent on social assistance, the poverty impact and cost-effectiveness of social assistance spending are relatively low. Benefit levels are low and the coverage of the poor is limited, while administrative fragmentation reduces cost-effectiveness and results in large disparities in benefits across political subdivisions. Last-resort income support programs and poverty alleviation transfers have a particularly low cost-benefit ratio. An inadequate institutional framework impairs the provision of social services for people with disabilities, the elderly and children. While pensions should be financially sustainable for the next 10-15 years, further policy changes will be required to maintain sustainability beyond this period. Moreover, pension adequacy is low and declining, while the ageing of the population and outmigration limit the ability to support pensioners. Few resources are devoted to employment and labor market policies; the coverage of active labor market programs (ALMPs) is limited; and programs are insufficiently targeted at vulnerable groups. Efforts to protect the population from the COVID-19 pandemic were impeded by limited budgetary resources and a lack of flexibility in some social assistance measures.

Several recommendations arise from this analysis.

⁴ Health insurance is not considered here, although it is a form of social insurance.
A key goal must be to increase resource effectiveness, by expanding support devoted to social assistance, elderly- and child-care, and ALMPs. The coverage of the poorest households, in particular, should be increased in a cost-effective way. This entails improving targeting by shifting social assistance funds from war-related to poverty-targeted programs and shifting ALMPs from support for jobseekers (who are not “hard-to-serve”) to programs focused on unemployed “at-risk” populations and their activation. In FBiH, incentives for formal employment could be increased by de-linking health insurance from unemployment and allowing social assistance beneficiaries to keep a larger portion of benefits as wages rise from low levels. Improved coordination and data exchange are needed across the entities, cantons and municipalities that administer social protection programs, as well as with private sector providers of services. The management of ALMPs could be strengthened through greater focus on monitoring and evaluation, along with improvements in profiling, the use of technology in supporting job applicants and various business processes. Finally, disaster preparedness and response could be strengthened by putting in place contingency financing to fund both social assistance cash transfers and unemployment benefits and introducing the required legislation and implementation arrangements for emergency support programs for households at risk and newly unemployed.

**The remainder of the note is organized as follows.**
Section 2 reviews the country’s main poverty and labor market outcomes; section 3 provides a brief overview of the social protection system; section 4 looks at non-contributory cash transfers to support the poor, the vulnerable and people with disabilities; section 5 examines social care services; section 6 analyzes pensions; section 7 explores employment and active labor market programs; section 8 reviews the social protection response to the COVID-19 pandemic; and section 9 concludes by identifying knowledge gaps and policy priorities for reform.
Poverty, labor market outcomes and demographics

Bosnia and Herzegovina faces significant labor market challenges. The job losses from the pandemic raised unemployment and increased poverty. Bosnia and Herzegovina has the second lowest ratio of employment to working-age population in the Western Balkans, while population, aging and outmigration have reduced the number of working-age persons. A large gender gap impairs economic efficiency and equity. Productivity has stagnated and informality is high.

Poverty remains an important challenge. While the poverty rate in Bosnia and Herzegovina is low compared to most other Western Balkan countries, the COVID-19 pandemic has resulted in significant job losses and worsened poverty levels. Restrictions imposed in response to the COVID-19 outbreak (banning of public gatherings, closure of education and hospitality facilities, travel restrictions, lockdowns, and stay-at-home orders) resulted in a large number of layoffs, particularly in the service and manufacturing sectors. According to official estimates, in November 2020, the number of people in paid employment was down by about 1 percent year-on-year (y-o-y), and the number of unemployed had risen by about 3 percent. Deeper, adverse labor market effects stemming from the pandemic were prevented by wage subsidy programs in both entities and other policy measures targeted to affected economic sectors to prevent more job losses. Simulations undertaken at the beginning of the pandemic indicated that, with falling consumption, an additional 35,000 to 85,000 individuals may have fallen into poverty.

Bosnia and Herzegovina has the second worst labor market outcomes in the Western Balkans and a shrinking workforce. In the second quarter of 2019, only 46.4 percent of the working-age population were employed, the second lowest in the region after Kosovo. Total employment declined from 820,300 in 2010 to 760,500 in the second quarter of 2019. The employment rate of the working-age population increased in the same time period, largely because of the fall in the working-age population from 2.6 million in 2010 to 2.4 million in 2018 due to population aging and continued outmigration. Emigration is most prevalent among the young, working-age population, with 30 percent of those who left in 2018 having been between the ages of 18 and 35. With steady emigration, a low employment rate and an inactivity rate of 44.5 percent in the second quarter of 2019, it is apparent that recent economic growth has not translated into more and better-quality jobs.

A large gender gap in labor force participation is causing significant economic losses. In the second quarter of 2019, women were more than 21 percent-points less likely to be employed than men, the second largest gap in the region (Figure 1, panel a). Childcare is limited, which is a significant barrier to female labor force participation. Wages for women are approximately 9 percent lower than for men. There are also significant barriers to women accessing productive assets, with gender gaps in property ownership and access to bank accounts. Illustrative of the concern, in a cross-country study, the low participation of women in the labor force is estimated to cost an average of 16 percent of national GDP.

Labor market’s productivity growth has stalled, and informality remains high in some regions. Labor productivity has stagnated since 2015 (Figure 2). Informality is at moderate levels for a middle-income country but has not decreased over the last decade, representing around 26 percent of total employment in 2017. Its prevalence is especially high in rural areas, where 41.7 percent of the employed are in the informal sector, in comparison with 11.5 percent in urban areas. Informal employment is concentrated among people with primary education or less.

Bosnia and Herzegovina relies significantly on remittances in bolstering household income, which plunged during the pandemic. Transfers from the roughly 2 million Bosnian and Herzegovinian citizens living abroad make up about 9 percent of GDP (Figure 3). Remittances play an important role in...
**Figure 1: Labor market indicators, Western Balkans (2018 and 2019)**

- a. Employment rate
- b. Unemployment rate
- c. Inactivity rate
- d. NEET rate, ages 15-24

**Source:** SEE Jobs Gateway: https://data.wiiw.ac.at/seejobsgateway.html.

*Note:* Data for employment, unemployment, and inactivity are for 2019 Q2; data for NEET are for 2018.

**Figure 2: Labor force productivity growth has stagnated**

- **GDP per person employed growth (annual %)**
- **GDP per person employed (constant 2017 PPP $)**

**Source:** World Development Indicators (Accessed December 2021).
supporting households with workers in the informal economy who do not have access to social insurance but also, due to their higher welfare, do not qualify for social assistance. Remittances dropped by 30 percentage points during the second quarter of 2020 (COVID-19 pandemic outbreak) relative to the 2019 average but have since slowly recovered to pre-pandemic levels (Figure 4). Government policies focusing on the facilitation of remittances can help support the recovery.

Figure 3: Bosnia and Herzegovina receives substantial remittances (2021)

![Graph showing remittances]  
Source: Global Knowledge Partnership on Migration and Development (KNOMAD).

Figure 4: Remittances dropped significantly during the COVID–19 pandemic and have slowly recovered

![Graph showing GDP growth and remittances as % of 2019 average]  
Source: Central Bank of Bosnia and Herzegovina (2019).  
Note: Remittances (left-hand axis) are estimates based on private transfers and compensation of employees as per BiH’s balance of payments. Right-hand axis corresponds to GDP growth.
Brief overview of the social protection system in Bosnia and Herzegovina

Many institutions, at the entity, cantonal, and local level, are involved in the design and provision of social protection. The social protection system is highly fragmented: programs are similar but not identical across entities and across cantons. About half of the population benefits from a social protection program, with the largest coverage by social insurance. Social protection expenditures are less than half the European Union (EU) average (as a share of GDP) but higher than in neighboring countries.

Table 1 provides an overview of the BiH social protection system based on the four broad categories of social protection (social assistance, social services, social insurance and labor markets) and the benefits and programs under each. Here, the term “pension” is applied to a number of programs with objectives that range from income security in old age, to assistance for people with disabilities (work related or otherwise) and income support to war veterans and other special categories arising from the war with limited contributions. These pensions are funded largely from the state budget.

<table>
<thead>
<tr>
<th>Category</th>
<th>Benefits and programs</th>
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<tbody>
<tr>
<td>Social assistance</td>
<td>Federation of Bosnia and Herzegovina (FBiH)</td>
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</table>
| Cash transfers to support the poor, the vulnerable and people with disabilities | - Permanent and One-off financial assistance  
- Civil victims of war  
- War veterans’ benefits  
- Family and child allowances  
- Funeral support  
- Scholarships  
- Disability benefits | - Permanent and One-off financial assistance  
- Civil victims of war  
- War veterans’ benefits (including veterans’ supplement)  
- Family and child allowances  
- Funeral support  
- Scholarships  
- Disability benefits |
| In-kind benefits | - Subsidies for housing, heating and health  
- Food distribution  
- Free schoolbooks | - Subsidies for health |
| Social services | - Placement in a Social Welfare Institution for adults and children in need  
- Foster care  
- Special training for people with disabilities in social welfare institutions | - Placement in a Social Welfare Institution for adults and children in need  
- Foster care  
- Home assistance and care for the elderly |
| Social insurance | Pensions and other contributory benefits - Old-age pension  
- Survivor pension  
- Disability pension | - Old-age pension  
- Survivor pension  
- Disability pension |
| | Non-contributory - War veterans’ pension  
- Maternity allowance | - War veterans’ pension  
- Maternity allowance |
| Employment and labor market programs | - Unemployment benefits  
- Wage subsidies  
- Entrepreneurship support  
- Vocational training  
- Public works | - Unemployment benefits  
- Wage subsidies  
- Entrepreneurship support  
- Vocational training  
- Public works |

Table 1: Overview of the social protection system in Bosnia and Herzegovina  
Source: Authors’ elaboration.
The Federation of Bosnia and Herzegovina (FBiH), the Republika Srpska (RS) and the District of Brcko are responsible for social protection, with state-level institutions playing a coordinating role. In FBiH, the social protection system is decentralized across the ten cantons, while RS has a centralized social protection system.

- In FBiH, the main institutions responsible for social protection and labor policies are the Ministry of Labor and Social Policy (FMoLSP), the Federal Employment Institute (Public Employment Services (PES)) and the Ministry for Issues of The Veterans and Disabled Veterans. The FMoLSP implements and coordinates laws and policies that include the payment of permanent social assistance and maintaining a unique registry of social beneficiaries for all non-contributory payments. Programs for war veterans are under the mandate of the Federal Ministry of Veterans Affairs along with eight Cantonal Ministries and two Directorates for Issues of the Defenders. In addition, responsibility for labor and social protection extends to cantons with ten Cantonal Ministries for Social Policy, ten Cantonal Employment Institutes (cantonal PES) and Centers for Social Work (CSWs) which implement the social welfare support and coordinate social services. Although the federal ministry has a regulatory role, the cantonal ministries have authority over adjusting eligibility rules and benefits levels for existing programs as well as introducing new programs. Cantons can also partially or completely finance programs.

- In RS, the main institutions responsible for social protection and labor policies are the Ministry of Health and Social Welfare; the Ministry of Labor, War Veterans, and Disabled Persons’ Protection; RS Employment Bureau with six regional institutes; and CSWs in 51 municipalities. The first two oversee the design, administration, and delivery of programs in the entity. The municipalities develop annual and mid-term social welfare programs based on an analysis of the social status of citizens in their area of jurisdiction. The programs are financed by RS budget with co-financing from the municipalities, and a dedicated Public Fund for Child Protection finances family and child allowances. CSWs are the essential institutions of social welfare; they implement the majority of social welfare measures and coordinate the activities of all social services in local communities, including non-government and government sectors.

FBiH and RS have similar contributory and non-contributory programs (Table 1). In both entities, contributory pensions include old-age, disability and survivor pensions. In terms of non-contributory social assistance benefits, both entities offer two last-resort social assistance programs based on the frequency of the payment: permanent social assistance (PSA) and one-off financial assistance. In FBiH, permanent social assistance is paid from cantonal budgets while one-off financial assistance can be paid from cantonal, city and municipal budgets. Both entities offer various family and child benefits as well as comprehensive benefits for veterans and civilian war victims. RS provides a non-contributory veteran supplement. On employment, both entities offer active labor market programs for unemployed target groups (such as wage subsidies or self-employment programs), pay unemployment benefits to eligible unemployed and offer vocational training. FBiH and RS also offer social services for adults and children in need.

One in two individuals in Bosnia and Herzegovina benefited from at least one social protection program in 2015 (Figure 5). This calculation includes coverage by social insurance, social assistance and labor market programs (Box 1). Coverage was below the Europe and Central Asia (ECA) average of around 60 percent. Total coverage is slightly lower in FBiH, at 48 percent, than in RS, at 56 percent. Coverage is mostly driven by social insurance programs, with lower levels for social assistance programs and almost non-existent coverage for labor market programs. In FBiH, social assistance programs reach 13 percent of the total population in comparison to the ECA average of around 30 percent. While social assistance reaches 25 percent of the RS population, these programs have targeting issues.
This analysis of the main drivers of poverty and the performance of social protection programs, including the impact of the recent COVID-19 pandemic, has been constrained by a lack of up-to-date comparable data in Bosnia and Herzegovina (BiH).

BiH is the only Western Balkan country without an EU Statistics of Income and Living Conditions (EU-SILC) survey; a national round of the survey was never implemented in the country. The EU-SILC measures internationally comparable income poverty data in the other Western Balkans and EU economies. As such, the EU-SILC survey would allow BiH to use a welfare and poverty measure comparable to that of other countries in the region.


Nationally and entity-representative Household Budget Surveys (HBS) have been implemented to measure consumption poverty since 2004. These surveys have been spaced about four years, with the 2015 HBS being the latest poverty data available. The country recently finished collecting the new 2021/22 HBS survey, but the results are not yet publicly available.

Data on households along with their level of consumption and benefits received, as provided in the HBS, are therefore used to analyze the cost-efficiency, coverage and targeting of different social protection measures. The results of the 2015 survey are still valuable, as the social protection programs and structures have not changed markedly.

To better understand the performance over time of the overall population in general, and the less well-off, regular and broadly available comparable household data, including information on income, are necessary. Recent shocks, such as the COVID-19 pandemic, illustrate the need to collect surveys on a regular basis and to make the information available publicly in a timely manner.
Total social protection spending is above the Western Balkans average due to higher levels of spending on pensions and on veteran and civilian war victim benefits. In 2017, Bosnia and Herzegovina spent around 12.3 percent of GDP on social protection benefits, including 2.7 percent on social assistance, 9.1 percent on social insurance and 0.5 percent on labor market programs. This spending level is lower than the EU average of 26.5 percent, while still higher than the 10.8 percent of GDP average among Western Balkan countries (Figure 6). Overall, roughly two-thirds of social protection spending is sourced from FBiH while the remaining spending is sourced from RS. This correlates with the population difference between the two entities: 2.3 million in FBiH compared to 1.3 million in RS. The highest spending is dedicated to pension programs, such as old-age pensions, in both entities. For non-contributory benefits, the largest spending is for veteran benefits, followed by civilian war victim support.

Figure 6: Expenditure in social protection programs, selected countries (% of GDP)

Note: *BiH uses 2018 social insurance and labor market data and 2017 for social assistance and social care services due to data availability. *** Simple arithmetic average of the total SP spending (%) among the six Western Balkans countries on the chart: Albania, Serbia, Montenegro, North Macedonia, Kosovo and Bosnia and Herzegovina.
Total social assistance spending in Bosnia and Herzegovina is high relative to other countries in the region, but most resources are devoted to pensions and veteran and civilian war victim benefits. Coverage of and benefit levels for the poor are low. In fact, the cost–benefit ratio of the last-resort income programs responsible for poverty alleviation (permanent and one-off social assistance) is the lowest in Europe and Central Asia, pointing to inefficiencies in the targeting of these benefits. The fragmentation of the programs further contributes to the low cost-effectiveness of social assistance spending and creates disparities across cantons and entities. A comprehensive vision of social assistance spending should be developed, including a new poverty-targeted approach across programs to increase the cost-effectiveness of and to reduce the inclusion of non-poor in social assistance.

A highly fragmented social assistance system

Bosnia and Herzegovina does not have one comprehensive social assistance system; rather its entities and Brcko District BiH have distinct social assistance programs. FBiH adopted five laws that comprise its system: Law on Social Protection, Protection of Civilian Victims of War and Protection of Families with Children; Law on the Rights of Defenders and Members of their Families; Law on the Rights of Medal Holders; Law on Foster Care; and Law on Parents Caregivers. Under these laws, the ten cantons have the authority to expand the policies (e.g., special programs like food distribution, heating subsidies and school transport subsidies) and to redefine eligibility criteria but they do not have the authority to lower benefits. RS adopted three laws that comprise its system: Law on the Rights of Veterans, War Invalids and Families of Killed Veterans of the Defense and Patriotic War of the Republika Srpska; Law on Social Protection of Republika Srpska; and Law on Child Protection of the Republic of Srpska. Brcko District administers social assistance based on separate laws.

In FBiH, the decentralized structure of institutions generates administrative inefficiencies and results in different benefits across cantons and municipalities. At present, only programs covering disability benefits (including care and orthopedic benefits) for war veterans and civilians are financed at the entity level and have harmonized rules across the ten cantons. A large number of local ministries manage the other social assistance programs with mixed sources of financing —entity, canton and municipal—and differing programmatic design parameters—such as eligibility rules and benefit levels.

The social assistance systems in FBiH and RS share similar objectives and instruments, with a strong focus on programs for war veterans and their families. Both systems aim to address similar risks and meet similar objectives, including: (i) poverty reduction, (ii) assistance to families with children, (iii) assistance to individuals with disabilities (including war veterans with disabilities) and (iv) assistance to war veterans and their families and to civilian victims of war. In total, there are close to 80 different social assistance benefits, for which rules differ across entities and within FBiH across cantons (see Table 1 for an overview). The two entities differ on measures supporting families and veterans or victims of war.

Spending on social assistance skews to war veteran and disability benefits

BiH spends more on social assistance than most other ECA countries. In 2017, social assistance expenditure, including cash transfers and in-kind benefits, but excluding social services, represented 27 percent of GDP (of which 1.8 percent in FBiH and 0.9 percent in RS) (Figure 6). This makes BiH the second-largest spender on social assistance in the Western Balkans (after Kosovo) and the sixth largest in the ECA region.

Spending on war veteran benefits as a share of total social assistance expenditure in BiH is the...
Highest in the ECA region (Figure 7). Spending on assistance to war veterans, war veterans with disabilities and their families represented 1.6 percent of GDP in 2017, representing more than 61 percent of total social assistance spending. Disability benefits fell to about 0.6 percent of GDP in 2019. Spending on all other programs represented about 0.3 percent of GDP in 2017.

Targeted benefits in BiH represent a small minority of social assistance spending, and social assistance spending, in general, has been declining. Social assistance spending has declined as a share of GDP since the mid-2010s. While recent, comprehensive data are not available, social assistance spending was roughly constant in real terms from 2014 to 2017 but fell from 3 percent of GDP to 2.7 percent of GDP. More recent data show that disability benefits and family and child allowance programs continued to fall as a share of GDP through 2019. Spending on last-resort social assistance, which is targeted at the poor in the form of permanent social assistance and one-off financial assistance, is particularly low (Figure 8).

Figure 7: War veteran benefits spending as a share of total social assistance expenditure is high in Bosnia and Herzegovina

Figure 8: Spending on last-resort social assistance is particularly low in Bosnia and Herzegovina

Note: Last-resort social assistance measures include permanent social assistance and one-off financial assistance for both entities. WB6 is a simple average of the six Western Balkan countries.
The poor are not benefiting from the high spending on social assistance

Only about a third of the poor are covered by social assistance in BiH. Coverage of the poor with social assistance is higher in Bosnia and Herzegovina than in neighboring Western Balkan countries, although lower than in most other ECA countries (Figure 9). About 32 percent of those in the poorest quintile benefited from at least one social assistance program, which placed Bosnia and Herzegovina 16th among the 24 ECA countries.

Pro-poor spending represents a small fraction of social assistance spending in BiH. The two largest programs in terms of spending, namely war veteran benefits and disability benefits, are not poverty-targeted. While spending on war veteran benefits has been declining over time, a significant share of individuals continues to receive benefits.

The war veteran allowance (present in RS only) has the largest population coverage of social assistance benefits (5 percent of BiH population and 14.1 percent of RS population), followed by war veteran benefits (4.5 percent of the population in BiH) which mainly consist of disability, orthopedic and long-term support benefits for veterans. However, those two benefits cover only 4.8 percent and 8.5 percent of the poorest quintile, respectively, while covering 5 percent and 3.2 percent of the richest quintile, respectively.

The disability transfers (both for war veterans and non-war veterans) cover 5.5 percent of the poorest quintile (versus 0.8 percent of the richest quintile), explained by the high correlation between disability and poverty in Bosnia and Herzegovina and, in general, in the Europe and Central Asia region.

Even poverty-targeted programs have extremely low coverage of the poorest quintile. The last-resort income programs (PSA and one-off financial assistance) and the child allowance cover a small share of the total population, at 1.9 percent and 4 percent of the BiH population, respectively. More importantly, those programs are designed to reach the poor (poverty-targeted) but exhibit low coverage rates of the bottom quintile. Child allowances cover 10.3 percent of the poorest quintile (versus 14 percent of the richest quintile). Coverage of the last-resort income programs is 4.8 percent of the poorest quintile (versus less than 1 percent in each of the richest three quintiles). In comparison, coverage by last-resort income programs of the poorest quintile is significantly higher in other ECA countries (20 percent in Albania and 10 percent in Serbia, for example). The child allowance (in both BiH entities) and permanent social assistance (in FBiH) are means tested (except for the child allowance in Canton 2 which is universal). In RS, permanent social assistance is means tested and restricted to individuals unable to work and households with no members able to work.

Figure 9: Coverage of the poor (bottom quintile) with social assistance is relatively low in Bosnia and Herzegovina compared to neighboring countries

Notes: Non-contributory basic pensions and war-related pensions are not included. Figures for Kosovo represent the Social Assistance Scheme only. Figures for Albania represent the Ndihma Ekonomike only. “Bottom quintile” refers to the bottom quintile for consumption per capita.
The coverage and level of benefits vary significantly across and within entities. According to 2015 data, coverage of last-resort income programs was highest in Canton 2 (Posavski, 6 percent of population) and RS (2.4 percent of the population), but only 0.3 percent of the population in Canton 7 (Hercegovacko-Neretvanski). In terms of benefit levels, there does not seem to be any correlation between average consumption level in each political subdivision and the size of the transfers, nor indications of deliberate decisions to invest more in the poorest areas.\(^3\) The likelihood of the benefit lifiting individuals out of poverty is thus uneven across the country. Similarly, the income eligibility criteria for child allowances varies in each canton, leading to wide disparities in coverage across cantons.\(^3\) Despite the regulatory framework and laws with clear objectives, the implementation of benefits at the canton level is driven by availability of funds rather than actual needs, which creates disparities in terms of access to social assistance.

Permanent social assistance (PSA) acts as a last-resort income, but the transfers are inadequate. The level of PSA and disability allowance benefits compared to the minimum wage and the old-age pension levels provides insights on the (in)adequacy of the transfers to support the basic needs of the poorest households (Figure 10). In 2019, the average PSA transfer per household represented between 12 and 35 percent of the minimum wage in FBiH (11 to 32 percent of average old-age pensions), varying by canton. The PSA benefit level is more substantial in RS where for a two-person household, the benefit represents 40 percent of the minimum wage. This is despite the fact that in 2019, the minimum wage in RS (BAM 450 or approximately USD 235) was higher than in FBiH (BAM 407 or approximately USD 213). In both entities, the disability allowance corresponds roughly to 25 percent of the minimum wage while the ratio changes with the degree of disability.

Low targeting performance limits the poverty impact of social assistance programs

Bosnia and Herzegovina performs worse than most Western Balkan countries in terms of the share of benefits that goes to the poor. The poorest 20 percent received 61.5 percent of the spending on poverty alleviation benefits (PSA and one-off financial assistance) (benefit incidence) (Figure 11); 50 percent of program beneficiaries were in the poorest quintile. This means that half of beneficiaries of last-resort social assistance are not among the poorest households in Bosnia and Herzegovina. The child allowance and disability benefit share similar performance than poverty alleviations benefits (respectively 59 percent and 57 percent of the spending received by the poorest 20 percent). The best-targeted program according to 2015 data is the maternity benefits and newborn package,\(^4\) where 70 percent of total spending on benefits was received by the poorest quintile. However, the program is quite small, reaching only 0.38 percent of the population. Changes were subsequently introduced in RS to improve child protection (new Law on Child Protection adopted in 2017) and require more

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### Figure 10: Adequacy of permanent social assistance transfers and disability allowances

<table>
<thead>
<tr>
<th></th>
<th>a. FBiH - Average PSA per family as a share of minimum wage and average old-age pension, 2019</th>
<th>b. RS - Average PSA and disability allowance as a share of minimum wage and average old-age pension, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><img src="image.png" alt="Graph showing adequacy of social assistance transfers" /></td>
<td><img src="image.png" alt="Graph showing adequacy of social assistance transfers" /></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on legislation on benefits and on pension and minimum wage levels as of 2019.

---

\(^3\) FBiH. To data, benefit formula and eligibility rules vary canton by canton in FBiH and are presented in detail in World Bank (2018b), Annex 3. In most cantons, the child allowance is a percentage of a cantonal base, usually the average cantonal salary of the previous year. Both the base and the allocation percentage vary canton by canton. Each canton set additional rules adjusting the benefit level to certain conditions (e.g., disability, number of household members).

\(^4\) In 2015, cantons 1, 2, 7, 8, and 10 did not provide child allowance benefits, while the benefit levels in cantons 3, 6, and 9 were around 200 BAM compared to 154 in canton 3 and 60 in canton 4 (Cantons 2 and 7 began implementing the program in 2017, but we lack information on benefits levels). Recently adopted legislation (Law on Financial Support to Families with Children, published July 1st, 2022), with child allowance being funded at Federation level, will reduce geographical disparities and guarantee a monthly entitlement of 103 BAM per child for eligible households.


\(^6\) These programs benefit mothers of newborn children and include both means-tested (some maternity benefits) and non-means-tested (one-time support for each newborn and a one-off allowance for every third and fourth child) components.
recent data to be assessed. Veteran allowances in RS have the worst targeting of the poor among all social assistance programs according to 2015 data.

**Overall, the poverty impact of each social assistance programs is low due to poor targeting, limited coverage of the poor or low benefit level.** At the national poverty line of 205 BAM (approx. USD 107) per capita per month, in the absence of all social assistance transfers, the poverty rate would increase by 19 percentage points. The highest impact on poverty is achieved by the war veteran benefits (including disability, survivor, long-term care and orthopedic): in the absence of the program, 0.5 additional percent of the population would fall into poverty. However, war veteran benefits are not targeted to the poor, so the high level of spending (total and per capita) implies a high cost for the poverty reduction achieved, and therefore a low cost-benefit ratio (0.18 for the war veteran benefits and even lower at 0.06 for the war allowance). The highest cost-benefit ratios, which specify how much the poverty gap is reduced by each BAM spent on the program, are found for the maternity and newborn package (cost-benefit ratio of 0.5) and child allowance (cost-benefit ratio of 0.45).

Surprisingly, last-resort income programs (PSA and one-off financial assistance) are among the least cost-effective social assistance programs in BiH. The cost-benefit ratio of the last-resort income programs was 0.2 in 2015, implying that only 20 percent of this spending went directly to reducing the poverty gap. This cost-benefit ratio is the lowest compared to last-resort income programs in other ECA countries. Mediocre targeting accuracy is the main driver. Almost 40 percent of households receiving the poverty alleviation transfers (PSA and one-off financial assistance) are above the poorest quintile (Figure 12). In addition, many households fall just below the poverty line, resulting in small per capita poverty gap reductions. Taken together, this leads to low cost-effectiveness of the BiH’s last-resort income support.

**Figure 11: Benefit incidence of last-resort income programs (percentage of total benefits accruing to the poorest quintile)**

![Figure 11](image)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>MKD</td>
<td>52.3%</td>
<td>61.5%</td>
<td>73.5%</td>
<td>74.7%</td>
<td>76.6%</td>
<td>77.1%</td>
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<tr>
<td>BIH</td>
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<tr>
<td>SRB</td>
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<td>KSV</td>
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<tr>
<td>MNE</td>
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<tr>
<td>ALB</td>
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Notes: “Benefit incidence” refers to the percentage of total benefits accruing to the poorest quintile households. Non-contributory basic pensions (“social pensions”) and war-related pensions are not included. Figures for Kosovo represent only the Social Assistance Scheme (SAS).

**Figure 12: A large share of beneficiaries of the last-resort income programs in BiH are just below or above the 20 percent consumption cut-off**

![Figure 12](image)

Source: Bosnia and Herzegovina HBS 2015 results based on authors’ calculations.

Notes: Welfare aggregate is calculated using poverty team’s aggregate gallT minus the specified program on the figure to simulate the absence of the specific program. Two histograms look at the beneficiaries of last-resort income support (LRIS) and those in Q1 that do not receive LRIS.
A poverty-based approach can increase the cost-effectiveness of social assistance spending in BiH. In RS, the PSA only targets households whose members are unable to work; the PSA does not target households whose members are working (i.e., the working poor). In FBiH, PSA eligibility is measured by total household revenues and a threshold (i.e., minimum household revenue). In terms of beneficiary identification, improvements can be made to effectively identify the poorest.

In countries with limited administrative data and high levels of informality, a proxy means test (PMT) formula has proven to be more effective than categorical targeting or targeting based on reported income. To improve the cost-effectiveness of social assistance spending, a PMT formula would be appropriate. A PMT formula can be applied across a number of social assistance programs, including last-resort social assistance, family and child allowances and war-related benefits.

Further, the FBiH and RS single registries need to be updated and maintained. Each entity has developed its own unique registry for non-contributory payments. The objective is to centralize information on all non-contributory cash payments to individual beneficiaries (citizens) who are paid from government and institutional budgets in order to improve efficiency, effectiveness, coverage and targeting in social protection.

The COVID-19 crisis demonstrated the value of an up-to-date single registry, which was not the case in the BiH entities. In FBiH, the social registry was established based on the 2017 Law on Unique Registry of Cash Payments Beneficiaries. In 2019, the Federal Ministry of Labor and Social Policy began implementing the law, and across all levels of FBiH government. The ministry entered into an agreement with the USAID E-Governance Project to centralize mandatory identification documents, data on income and household property, expenditures, and household social and health needs, with the objective of providing more efficient and accurate social assistance. One current limitation of the unique social registry in FBiH is that there is no legislation making compulsory the registration of benefits provided at the municipal level (e.g., one-off financial assistance).
BOSNIA AND HERZEGOVINA
Social Protection Situational Analysis

Social services

Bosnia and Herzegovina lacks an institutional framework to guarantee adequate social services for children and people with disabilities. In particular early childhood development services are inadequate and access is unequal. While foster and institutional care services for children have improved, more emphasis is required on preventive services and avoiding the unnecessary institutionalization of children. The coverage of people with disabilities by services is unequal, with inadequate services for individuals, particularly children, whose disability was not caused by war. Services for the elderly are limited and not commensurate with the growing share of elderly in the population.

The delivery of social services at the local level is underdeveloped and affected by the low level of financial resources, impacting the amount of human resources and the availability of services for those in need. Social services are overburdened because of limited time and resources. This affects their quality and accessibility, especially in rural areas and for marginalized groups (Roma minorities, among others). The financing of social services is only about 1 percent of social protection spending, and most of the funding goes to institutionalized care. Access to community-based social services is lower in rural areas and in smaller communities. While case management is in place in some CSWs, it is not legally mandatory in FBiH. An assessment of social services carried out by UNDP in 2020 concludes that the current funding arrangements cannot ensure the equitable provision of essential social services for all.

Access to early childhood development (ECD) services and in particular early childhood education remain unequal, and more investment is needed to cover all children. ECD services are not fully institutionalized and have significant inequities in access, with lower attendance rates among families in rural areas, families with unemployed parents and Roma families. While FBiH integrated ECD into the primary healthcare package in 2018, there is wide variation across the ten cantons because the cantons are responsible for funding the package. RS adopted the Multisectoral Programme for Early Childhood Development 2016–2020, with the commitment to focus on marginalized groups. There have been improvements in pre-primary programs, with close to 80 percent of children entering primary school enrolled in pre-primary education in 2018/19. But preschool education is often financed from municipal budgets, creating geographical inequalities as municipalities which are less economically developed allocate lower and irregular funds to pre-school education. Overall, the absence of regular, reliable or appropriate funding mechanisms structurally undermines the sustainability of early childhood education. Multi-sector financing and public-private partnerships have not yet been established.

Foster care and institutional care for children have seen significant improvements over the past few years, but preventing institutionalization needs greater attention. The development of standardized case management tools for Centers for Social Work (CSWs) has improved the social services for children. In both FBiH and RS, guidelines for Child Protection Case Management were developed in 2018 and have been rolled out in all RS municipalities and several FBiH cantons. The foster care system has been significantly improved through legislation and regulations, professionalization of the social service workforce in foster care and education, and foster parent education and certification. Child and family welfare services have started replacing long-term institutional care. Yet, there remains a lack of preventive services. Unnecessary placement into alternative care needs to be reduced, especially among children with disabilities who are not referred to appropriate services or care arrangements. More investments are needed to deinstitutionalize children through preventive and reintegration efforts.

Social services for people with disabilities are unequal. Bosnia and Herzegovina lacks a clear social model for disability, including no standardized methodology to assess disability. There are three categories for the consideration of disabili-

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49 Enrollment of all children of pre-school age (3-6 years old) is much lower: 25 percent in 2018/19 (UNICEF. 2020. Situational Analysis of Children in Bosnia and Herzegovina.)
ties—war veterans, civilian victims of war, and civilians with non-war-related disabilities—and the separate legislation for the three categories leads to different levels of benefits, procedures and treatments for individuals who have exactly the same level of impairment. While the three share the same needs, the third group is not given priority in terms of funding and is left without adequate coverage. This affects particularly children with disabilities, who have a disability not caused by war. In addition, children with disabilities are not sufficiently included in mainstream education, due to lack of required infrastructure and insufficient training of teachers. In particular, schools lack assistants who are specialized to support children with disabilities and their teachers.

**Services for the elderly are scarce even though the population is aging.** The share of the population aged 65 or above rose from 6.5 percent in 1991 census to 14.2 percent in the 2013 census, and the total fertility rate fell from 1.65 in 1996 to 1.26 in 2017.\(^50\) According to a 2020 representative survey led by the United Nations Development Programme (UNDP), 33 percent of citizens think that there are no care facilities for the elderly and 11 percent report that the prices of elderly care facilities are too high. While laws at the entity and canton level prescribe services for the elderly—such as home care and assistance, and day care and institutional care—the kinds of services and levels of benefits differ significantly. Community services remain underdeveloped and are often provided by private organizations where support tends to be project-based and financial limitations can impair service delivery.\(^51\)

**Based on the most recent data (2015), BiH had lower spending on elderly care than any other country in Europe.** BiH spent 0.1 percent of GDP on long-term care within the health system and 0.1 percent of GDP on long-term care within the social protection system.\(^52\)

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Pensions

Prior to the outbreak of COVID-19, the pension systems in the two entities were estimated to remain fiscally sustainable over a period of 10 to 15 years. Pandemic-related pension measures temporarily widened the pension deficits and shortened the expected sustainability period. Further changes to the rules governing years of service for eligibility and early retirement will be necessary to maintain sustainability beyond this period. Moreover, both pension systems are structurally challenged by population aging and outmigration, which have led to low support ratios (contributors compared to pensioners). The adequacy of pension benefits is low and declining (while the pension contribution rate is already substantial) and can be organically improved in the future through further reforms of the parameters and by encouraging participation in voluntary pension programs.

FBiH and RS operate two separate public pension systems covering old-age pension, disability pensions and survivors’ pensions. In January 2022, the system covered 430,365 beneficiaries in FBiH and 269,139 in RS, with around 60 percent receiving the old-age pension (58 percent of pensioners in FBiH, 60 percent in RS). Around 15 percent of beneficiaries receive a disability pension and remaining 25 percent a survivor pension. The average monthly net pension is similar across entities, BAM 490 (approx. US$ 255) in FBiH and BAM 431 (approx. US$ 225) in RS. Total expenditures in pandemic-distressed 2021 increased to 10.5 percent of GDP in FBiH and 11 percent of GDP in RS.

While the two pension systems are expected to be sustainable in the medium run, parametric reforms will be required in the longer run. Before 2011, the two systems were similar. In 2011, RS launched a reform to restore its fiscal balance and to reduce pension contribution arrears. In 2018, FBiH launched a reform to strengthen the link between benefits and contributions and to improve the long-run systemic adequacy while maintaining fiscal sustainability. With the 2018 reform, the parameters of the two systems were again similar. Both reforms introduced a point system with clear valorization and indexation rules (which differ across entities) and tightened early retirement rules as well as disability pension rules (Table 2). The parameters of both systems should stabilize COVID-19 pandemic impacts over the next few years; however, further reforms will be required.

The pension system will need to tackle low and gradually declining pension adequacy. Both pension systems face similar challenges, related to their features. They are characterized by low support ratios (1.21 contributors per pensioner in FBiH and 1.16 in RS) (Figure 13), high pension expenditures and low pension adequacy. The average benefit ratio in both pension systems is among the lowest in the ECA region and Europe (Figure 14). In December 2021, the average gross replacement rate stood at 30 percent in FBiH and 28.1 percent in RS. The pension contribution rate, however, was 23 percent of gross wage in FBiH and 18.5 percent of gross wage in RS, which is above the rates in many other countries. In both FBiH and RS, the share of disability pensioners in 2021 was relatively high: 15.4 percent in FBiH and 13.1 percent in RS. This reflects the historical context of disability pensions for war veterans and civilian victims of the war and the relatively generous definitions of disability.

Currently, both reforms are focused on cushioning the consequences of the COVID-19 pandemic and emerging inflation through pension supplements and alternative pension indexation formulas. Longer-term policies should, however, be revisited, including specific pension system issues. This includes early retirement in hazardous occupations, privileged pensions and the disability assessment process; improving administrative capacity and user-friendliness of pension administration; and addressing and reducing the stock of unpaid pension contributions.

Eventually, in both entities, further parametric pension reforms to improve adequacy organically by extending service periods will have to be implemented. Service periods can be extended by raising ...
### Table 2: Pension parameters in 2021

<table>
<thead>
<tr>
<th>Federation of Bosnia and Herzegovina</th>
<th>Republika Srpska</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retirement age</strong></td>
<td></td>
</tr>
<tr>
<td>Male/female with 15 years of contribution</td>
<td>Male/female with 15 years of contribution</td>
</tr>
<tr>
<td>Any age with 40 years of contribution</td>
<td>Early retirement: 60 years with 40 years of contributions (men), 58 years with 35 years of contributions (women)</td>
</tr>
<tr>
<td>Early retirement phased out by 2026 (men) and by 2036 (women)</td>
<td>Early retirement phased out by 2026 (men) and by 2036 (women)</td>
</tr>
<tr>
<td><strong>Accrual rate/point value</strong></td>
<td></td>
</tr>
<tr>
<td>1.6% of net wage = 1 point</td>
<td>1.33% of net wage = 1 point</td>
</tr>
<tr>
<td><strong>Pensionable base</strong></td>
<td></td>
</tr>
<tr>
<td>Sum of points over full career</td>
<td>Sum of points over full career</td>
</tr>
<tr>
<td>Minimum point value = 0.5</td>
<td>Maximum point value = 4</td>
</tr>
<tr>
<td>Maximum point value = 5</td>
<td></td>
</tr>
<tr>
<td><strong>Indexation post-retirement</strong></td>
<td></td>
</tr>
<tr>
<td>50% of CPI change + 50% of real GDP growth</td>
<td>50% of CPI change + 50% of nominal average gross wage growth</td>
</tr>
<tr>
<td><strong>Eligibility for disability pension</strong></td>
<td></td>
</tr>
<tr>
<td>Contributed for one-third of working life from age 20 to age of disability</td>
<td>Minimum 2-5 years of service and at least 35 years of age</td>
</tr>
<tr>
<td><strong>Level of disability pension</strong></td>
<td></td>
</tr>
<tr>
<td>Same level as old-age pension (and not lower than the level for 15 service years)</td>
<td>Same level as old-age pension (and not lower than the level for 15 service years)</td>
</tr>
<tr>
<td>In case of work injury, not lower than the level for 40 service years</td>
<td>In case of work injury, not lower than the level for 40 service years</td>
</tr>
<tr>
<td><strong>Eligibility for survivor pension</strong></td>
<td></td>
</tr>
<tr>
<td>Age 45 or 50, incapacity or caring for a child in case of widow</td>
<td>Age 50 years, incapacity or caring for a child in case of widow</td>
</tr>
<tr>
<td>Age 60, incapacity or caring for a child in case of widower</td>
<td>Age 60, incapacity or caring for a child in case of widower</td>
</tr>
<tr>
<td>Children ages 15 years or under and until age 26 years if students or lifetime if incapacitated</td>
<td>Children ages 15 years or under and until age 26 years if students or lifetime if incapacitated</td>
</tr>
<tr>
<td><strong>Level of survivor pension</strong></td>
<td></td>
</tr>
<tr>
<td>70%-100% of disability pension depending on number of survivors</td>
<td>70%-100% of disability pension depending on number of survivors</td>
</tr>
<tr>
<td><strong>Contribution rates</strong></td>
<td></td>
</tr>
<tr>
<td>23% of gross salary</td>
<td>18.5% of gross salary</td>
</tr>
</tbody>
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**Figure 13: Support ratio in EU and Western Balkans, 2016 or recent (Contributors per 100 pensioners)**

![Support ratio graph]

Source: European Commission (EC). 2018. The 2018 Ageing Report, PAYG pension agencies in Western Balkans countries. Support ratio is the number of contributors / number of pensioners.

**Figure 14: Average gross pension benefit ratio, EU and Western Balkans, 2019 or Recent**

![Benefit ratio graph]

Source: EC. 2021. The 2021 Ageing Report, pension agencies in Western Balkans countries. Gross benefit ratio is the ratio of average pensions to average gross wages.
the retirement age and eliminating early retirement.

Expansion of voluntary pension savings would also help cushion the eroding adequacy of public pensions, but the development of voluntary pension savings schemes has been slow and subjected to legal obstacles. Both entities have been working on a legal framework and on stimulating voluntary pension savings to improve the pension adequacy in the long run. In FBiH, the establishment of voluntary pension funds has been slow and affected by political constraints. Despite the required laws enacted in 2017, no license for pension fund management in FBiH was either issued or applied for until January 2022. In RS, the voluntary pension system has been operating since 2017. There is however only one pension fund in operation, covering around 15 percent of active workers. RS stimulates voluntary pension savings through tax stimulus on both employee and corporate income. Contributions up to BAM 100 (approx. US$ 52) per month are free from personal income tax and social contributions, and, simultaneously, the amount is added to corporate expenses and thus deducted from corporate profit tax. RS has prepared a legal framework to introduce automatic voluntary opt-out enrollment system in 2020, but its implementation has been delayed due to the COVID-19 pandemic and not yet implemented in 2022.
Employment and ALMPs

Similar to other Western Balkan countries, Bosnia and Herzegovina spends little of the social protection budget on employment and labor market policies (ALMPs). While intermediation services improved their business processes, the case load of counsellors remains high. The coverage of ALMPs is limited and the targeting of vulnerable groups can be improved. The menu of ALMPs remains narrow, mostly focused on wage subsidies. Efforts recently undertaken for evidence-based decisions on the design of ALMPs should be continued. There are several structural disincentives to go back to work and no linkages between Public Employment Services (PES) and Centers for Social Work (CSW) to activate social assistance beneficiaries.

Labor policies and programs are implemented separately by each entity. Labor policies are developed at the ministry level in each entity (the Ministry of Labor and Social Policy of Federation of Bosnia and Herzegovina in FBiH and the Ministry of Labor, War Veterans, and Disabled Persons’ Protection in RS) and implemented by their respective PES agencies. In FBiH, the Federal Employment Institute (FEI) coordinates the implementation of activities in ten cantonal employment institutes, which are to a large extent financially independent and perform all functions of job registration, job intermediation and payment of benefits as well as implement ALMPs. In RS, there is one centralized PES, the Republika Srpska Employment Bureau (RSEB), with six regional branches.

In total, the two PESs represent the second highest level of expenditures on ALMPs in the Western Balkans, but considerably less than in the EU. In addition to the agencies’ counselling activities and intermediation services, they also offer a menu of ALMPs, provide jobseekers with health insurance and pay out unemployment benefits. In 2018, they spent the equivalent of 0.23 percent of GDP on ALMPs, largely toward wage subsidies for employers. In both entities, the PES budget supports the payment of unemployment benefits. In 2019, an average of 10,732 beneficiaries received unemployment benefits per month in FBiH, whereas an average of 2,148 beneficiaries received unemployment benefits per month in RS. Spending on unemployment benefits accounted for the equivalent of 0.2 percent of GDP in 2018, around the average spending on passive labor market measures in the Western Balkans but significantly less than in the EU (Figure 15). In 2019, the PESs paid health insurance for a total of 213,416 registered jobseekers, slightly more than half of the average 411,230 registered jobseekers in BiH.

![Figure 15: Expenditure on labor market policies as a percent of GDP, 2018](image)


Note: 7STEE refers to the seven small transition economies of Europe: Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic and Slovenia.
Since 2018, PESs have been implementing reforms to strengthen counseling and intermediation services to improve employment outcomes for jobseekers. Offices across Bosnia and Herzegovina face different challenges in terms of caseloads and labor market tightness. A review of PES efficiency led in 2016 by the World Bank found that the average effectiveness of offices was moderate and that they could better use their resources (both staff and expenditures) to reach higher levels of jobs placements. The recorded case load is very high, partly because about half of the registered unemployed benefit from health insurance but do not really search for a job. The ratio of unemployed workers to counsellors ranges between 200 and 1,300 across the different branches and entities, far above the recommendations of the International Labor Organization (ILO). The same review identified areas requiring improvements, in particular, the business processes to better serve jobseekers and employers and the relationship with the private sector. A series of reforms have been implemented since 2018. These include a more rigorous assessment of jobseeker needs, the systematic development of individual action plans for jobseekers, and using improved methodologies to understand employer needs and labor demand. In RS, all jobseekers now have an action plan. The Federal Employment Institute is also rolling out an mandatory action plan for its registered jobseekers. The outreach to employers has increased, leading to a 15 percent increase in the collection of vacancies for intermediation services since 2017. The number of successful matches thanks to the intermediation services of the PES increased by 38 percent between 2017 and 2020, with 63 percent of the vacancy requests shared by employers being matched with a registered jobseeker and leading to a job placement in 2020. Between December 2020 and July 2021, despite weak labor market conditions, close to 70,000 jobseekers have been de-registered from the PES (unemployment registry) because they found a job. Both PES job portals have been upgraded to become job platforms where vacancies and jobseekers can be matched and to raise the level of available data on labor markets. The adoption rate of automated matching remains low in FBiH, and more outreach to cantonal PES staff is planned.

The menu of ALMPs is narrow, mostly focused on wage subsidies to employers to support job placement. The menu of ALMPs remains essentially focused on job placements with formal employers expressing needs during specific calls for proposals and receiving subsidies (in the form of reimbursement of social contributions) for the jobseekers employed, or jobseekers receiving vouchers to be incentivized to find a job (the voucher decreasing their cost of employment to employers for the first months). Both entities introduced a measure to support jobseekers interested to become self-employed, but for a very limited number of individuals. Both entities are considering introducing coaching or mentoring to such programs. Finally, both entities also implement public works on a needs basis, but not as regular annual programs. The Federal Employment Institute introduced a new program in 2021 to place hard-to-serve youth and those aged 40+ with low skills into jobs and to benefit from on-the-job training. The program is incentivizing employers to conduct three months of technical training for unemployed persons with an additional 6-12 months of employment. This program provides modest compensation to employers for the training which also includes a stipend for the unemployed person/trainee for the entire duration of the training. Employers who participate in this program are obligated to keep at least 60 percent of the total number of trainees formally employed upon completion of the training. The Federal Employment Institute pays a one-time compensation to employers for every person they employ after the completion of the training.

The performance of ALMPs has been improving over the last few years as they become more responsive to employer and jobseeker needs but remains insufficiently targeted. Improvements have included changes in the delivery and targeting of ALMPs and changes in the services provided to improve cost-effectiveness. The PES in both entities have been conducting evaluations and adjusting the design of ALMPs over the last four years, an effort that should be continued by implementing rigorous impact evaluations for evidence-based decisions. In line with the findings of evaluations and the changing labor market conditions, ALMP menus have become better targeted toward hard-to-serve groups (which constitute 80 percent of all registered unemployed), including less skilled workers, women, self-employed and youth, and away from higher-skilled jobseekers. In both entities, ALMPs for jobseekers interested in self-employment have been created. The support for start-ups in RS was modified following an evaluation to include mandatory training and mentorship. In 2019, the Federal Employment Institute introduced ALMPs specifically targeted at women (Employment of Women...
and Entrepreneurship for Women) and others specifically targeted at hard-to-serve groups (such as, ALMP Employment of Roma that has been active since 2017, “Second Chance”, “I Am Looking for an Employer” (a voucher program) and “Training and Work”). For selected ALMPs with the largest number of beneficiaries, the employment rate 12 months after the program completion is close to 60 percent, depending on the programs and entity, which attests to the relative success of the programs in supporting employment. However, there are no ALMPs specifically adapted to and targeting women in RS. In general, beyond the broad eligibility criteria, no further targeting is implemented. There is no initial profiling of the jobseekers that would lead to placements into specific ALMPs.

The menu of ALMPs has improved but there is room for further innovation, expansion of coverage, and targeting of resources to those most in need for support. The coverage of programs remains low at about 5 percent of the total registered unemployed, while there is oversubscription for such programs. The targeting of ALMPs could be further improved by ensuring the wide and consistent use of the profiling system introduced as part of reforms in 2019 to assess clients’ likelihood of finding employment. There is a lack of coordination and referrals as well as an absence of data sharing between social assistance systems (Centers for Social Work) and employment services (PES). No specific effort is made to identify those with the highest potential to be activated, in large part due to weak or non-existent linkages between CSWs, who deal with social assistance beneficiaries, and PES, who implement labor programs where some could be referred.

The combination of a relatively high tax wedge and no progressivity generates incentives for informality and disincentives for formal job creation. The relatively high tax wedge results from high pension and health contributions (as high as 42 percent of the total labor cost in FBiH). This, combined with a tax system that penalizes low-income workers (with relatively low nontaxable minimum threshold and a flat personal income tax), helps to keep unemployment and inactivity high. Introducing the phased withdrawal of social assistance benefits combined with social services (e.g., in form of income disregards, in-work benefits and vouchers to facilitate access to care services) would encourage employment among poorer groups and help to boost the prospects of the poorest 40 percent of households. Further, in FBiH, the lack of de-linking of free health insurance for unemployed workers from unemployment registration increases the number of administratively registered unemployed who are not actively searching for a job (some working informally).
Learning from the COVID-19 pandemic response

The challenges of the social assistance system were magnified during the COVID-19 crisis. Last-resort income support was able to slightly expand vertically but less so horizontally. Both entities ensured continuous payment of benefits to all permanent social assistance and home care support beneficiaries, including top-ups in FBiH. However, legislative and budget restrictions limited the ability to respond to the crisis in both entities. With the exception of the use of one-off assistance in RS, no new measures were introduced for the newly poor as a result of increased unemployment during the pandemic. The lack of a comprehensive and updated social registry in each entity also limited the ability to reach newly poor and households at risk. Public Employment Services were quick in responding to crises and provided timely registration and payment of unemployment benefits despite budget constraints. However, strict unemployment benefit eligibility rules combined with the legislation on severance pay left many workers who were previously employed for a short period of time without appropriate financial support.

Bosnia and Herzegovina took measures to contain the spread of COVID-19, which have resulted in an economic slowdown and threaten economic prospects. In response to the COVID-19 outbreak, both entities declared a state of emergency, which included travel restrictions, lockdowns and stay-at-home orders. These restrictions had a serious impact on economic activity. While the emergency status was lifted in late May 2020 in both entities, FBiH declared an epidemic again in mid-July 2020 after a renewed spike in infections but did not impose lockdown or travel restrictions. Welfare also was affected by a reduction of remittances from abroad, which are a major source of income for the poor. A household survey conducted from November 18 to December 11, 2020, indicates that 15 percent of households experienced a decline in remittances.69

Cash transfers

During the COVID-19 crisis, the benefit levels of permanent social assistance and one-off financial assistance (existing in both entities) were slightly increased (vertical expansion) but the interventions were not able to reach additional households at risk of poverty or the newly poor (horizontal expansion). Both entities ensured continuous payment of benefits to all permanent social assistance and home care support beneficiaries. However, legislative and budget restrictions limited the ability to respond to the crisis in both entities, in particular, in terms of reaching additional households. In RS, eligibility for permanent social assistance is set in the primary legislation; it is categorical and cannot cover individuals who are able to work but who have lost their job.70 While the legislation in FBiH sets the basis for a flexible system, the number of beneficiaries did not increase. The lack of a comprehensive and updated social registry in each entity also limited the ability to reach the newly poor and households at risk. No specific outreach to households that might have become eligible for support has been undertaken. No new measures were introduced for the newly poor, with one exception in RS where around 5,800 additional beneficiaries were reached through one-off financial assistance delivered by municipalities. Otherwise, top-ups have been paid to increase the level of support to former beneficiaries of permanent social assistance in both entities, as well as for the disability benefit in RS and homecare cash assistance in FBiH. More generally, assistance provided to the poor during the pandemic varied from one municipality to another, so that many beneficiaries may have been left without any additional support during the pandemic.71

Pensions

The economic consequences of the COVID-19 pandemic on the pension system are expected to be temporary. In 2020, the fall in the number of contributors impacted the pension deficit. In 2021, the contribution base strongly recovered. In 2021, pension expenditures in both entities stood about 1 percentage point above the pre-pandemic level (equivalent to 10.5 percent of GDP in FBiH and 11...
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percent of GDP in RS) and pension revenues above that, resulting in slightly smaller pension deficit in comparison to the pre-pandemic period.

Measures implemented during the COVID-19 crisis aimed at supporting formal employment and the level of pension revenues by subsidizing contributions. In FBiH, business entities severely hit by the crisis (defined by a 20 percent or larger fall in turnover, compared to the same month in 2019) received subsidies to cover mandatory contributions (pension and disability insurance, health insurance and unemployment insurance) up to BAM 244.85 (or approx. USD 128) per month per employee.72 Beyond that, in 2021, FBiH paid out a COVID-19 supplement and proposed a modification to the pension indexation mechanism. However, no adjustment was done on the level of pensions in 2021.73 In RS, the full amount of contributions was covered for all contribution payers who were prevented from doing business.74 In 2020, pension levels were regularly adjusted (at the rate of 3.11 percent) and in 2021, at 5.08 percent (out of which, there were two extraordinary indexations: 0.86 percent in March 2021 and 2 percent in September 2021).

Employment and ALMPs

The sharp increase in unemployment following the lockdowns increased the budget need for unemployment benefits in both PESs, while reducing their revenues and the provision of ALMPs. The three months of lockdown throughout BiH increased unemployment and reduced business activity. The rise in unemployment reduced social security contributions, thus reducing PES revenues, and created an urgent need to increase funding for unemployment benefits, which was not initially budgeted.75 As the first priority of PES was to pay unemployment benefits, the funds available for ALMPs declined sharply. Any new calls for ALMPs were stopped until late 2020, and their scope was limited. In 2020, FBiH published only two calls for ALMPs titled “I Am Looking for Employer,” and RS published no calls. The number of recipients of unemployment benefits increased starkly both in RS and FBiH in response to job losses. In RS, the number of recipients peaked in February 2021 at 4,567 recipients and has declined since. In FBiH, the number of recipients spiked more starkly and peaked in May 2020 at 19,000. While the number of jobseekers still receiving benefits in RS is higher than on average in 2019, the recipient count in FBiH has since approximately returned to its pre-crisis average (Figure 16).

Eligibility rules for unemployment benefits and legislation on severance pay left many workers without appropriate financial support. While unemployment benefits were offered to the registered unemployed who have been continuously employed in formal jobs for a certain period of time, no measures were taken to support those who were employed for less than eight months before losing their job due to the pandemic. In addition, the legislation requires severance payments in case of dismissals only for those cumulating two years of continuous work in their firm and for indefinite-term contracts, therefore excluding fixed-term contracts and recent workers.

Figure 16: Unemployment benefits expanded as a response to the crisis

Bosnia and Herzegovina can prioritize policy along a continuum of short-, medium- and long-term choices to develop a more robust social protection system. Table 3 summarizes recommendations of this analysis, divided into short-term, medium-term and long-term goals. A key goal must be to increase the effectiveness of resources spent, by expanding the resources devoted to social assistance, the elderly and childcare, and ALMPs. The coverage of the poorest households, in particular, should be increased in a cost-effective way. This entails improving targeting by shifting social assistance funds from war-related to poverty-targeted programs, and shifting ALMPs from support for jobseekers (that are “not hard-to-serve”) to programs focused on “at-risk” unemployed and activation. In FBiH, incentives for formal employment could be increased by de-linking health insurance from unemployment benefits and allowing social assistance beneficiaries to keep a larger amount of benefits as wages rise from low levels. There is a need for improved coordination and data exchange across the entities, cantons and municipalities that administer social protection programs, as well as with private sector providers of services, including up-to-date social registries. The management of ALMPs could be strengthened through a greater focus on monitoring and evaluation, along with improvements in profiling, the use of technology in supporting job applicants, and various business processes. Finally, disaster preparedness and response could be strengthened by putting in place contingency financing to fund both social assistance cash transfers and unemployment benefits and introducing the required legislation and implementation arrangements for emergency support programs for households at risk and newly unemployed.

In parallel, there are several areas presented in Table 4 where further research would be useful to better assess the situation and provide further guidance.

<table>
<thead>
<tr>
<th>Table 3: Reform priorities</th>
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<tbody>
<tr>
<td><strong>Cash transfers and in-kind benefits to support people with disabilities, poor and vulnerable groups</strong></td>
</tr>
<tr>
<td><strong>Short-term</strong></td>
</tr>
<tr>
<td>• Make the unique social registry in FBiH and RS active, up-to-date and comprehensive.</td>
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<tr>
<td>• Analyze options for improved poverty-targeting of social assistance programs (e.g., last resort, child allowances, war veterans) to capture informal income and better target the poor.</td>
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## Social Protection Situational Analysis

### Social services
- Improve access to childcare and elderly care by expanding public supply and subsidies for private care (e.g., with vouchers).
- Reorient CSWs to work in closer collaboration with public employment services through integrated IT systems and services.

### Pensions
- Review pension indexation frequency and its effectiveness to prevent real pension erosion
- Revise early retirement options for hazardous occupations.
- Revise privileged pensions and the disability assessment process.
- Improve administrative capacity and user-friendliness of pension administration.
- Analyze and engage in reducing the stock of unpaid pension contributions.
- Stimulate expansion of voluntary pension savings.
- Improve adequacy organically by extending service periods (by raising retirement age and eliminating early retirement).

### Employment and ALMPs
- De-link provision of health insurance from unemployment registration (in FBiH).
- Continue to strengthen monitoring and evaluation of ALMPs, including regular impact evaluations.
- Strengthen collection and analysis of data on occupations and skills on demand and growth sectors.
- Further improve PES's online job portals to increase job matching (and labor market information).
- Institute a performance monitoring mechanism in local PES to check on the quality of counseling and application of the "Rulebooks" and regulations by counselors.
- Digitalize services for jobseekers, introduce digital learning for soft skills development.
- Change call-based procedure for ALMPs to programs with continuous enrollment.
- Improve coordination between federal and cantonal PES (in FBiH) to improve the monitoring of vacancies and harmonize the use of automated tools for matching.
- Refer jobseekers to ALMPs based on profiling.
- Redirect ALMP resources from wage subsidies that are not spent on hard-to-serve jobseekers to programs that promote "activation" and target vulnerable jobseekers; implement more ALMPs tailored to the needs of vulnerable groups of jobseekers.
- Prepare strategies for partnering with the private sector to boost skills development and increase efforts to promote work-based learning and career guidance for students in schools and universities.
- Increase budget for ALMPs (rather than a residual budget) to reduce caseload per counselor.
- Invest in collaboration or contracting of private employment agencies to support activation of hard to employ.

### Disaster preparedness and response
- Put in place contingency financing for cash transfers in case of disasters such as pandemics and natural events (floods, earthquakes).
- Introduce flexibility to existing Laws to be able to introduce emergency support programs for newly unemployed and households at risk of falling into poverty.
- Carry out a systematic assessment of social protection programs for crisis response, focusing on the operational aspects of outreach, targeting, enrollment and payment, among others.
- Identify options for contingency financing to support the scale-up of such programs to respond to shocks.
### Table 4: Knowledge gaps

<table>
<thead>
<tr>
<th>Cash transfers and in-kind benefits to support people with disabilities, the poor and vulnerable groups</th>
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<tbody>
<tr>
<td>• Review outreach, intake, eligibility criteria and enrollment and identify gaps and inequalities to ensure hard-to-reach populations receive support.</td>
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<tr>
<td>• Review of social assistance exit strategy and its results, including the provision of employment services and social support.</td>
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<tr>
<td>• Consolidate data on state, entity and municipal benefits for a comprehensive and up-to-date social registry of available support.</td>
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<tr>
<td>• Review the current performance of the social assistance programs with comprehensive data on measures (including across ministries) and recent Household Budget Survey data.</td>
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<tr>
<th>Social services</th>
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<tr>
<td>• Assess the adequacy of services to elderly (e.g., minimum pension beneficiaries with no family members).</td>
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<tr>
<td>• Assess the availability and quality of childcare services to support women labor force participation.</td>
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<th>Pensions</th>
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<tr>
<td>• Analyze tax rates and pension parameters to ensure sustainability of pension system over the long term while improving incentives for formal work.</td>
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<th>Employment and ALMPs</th>
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<tr>
<td>• Understand how productivity can be increased in the PESs.</td>
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<tr>
<td>• Understand how benefits could be extended to workers in the informal sector.</td>
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<tr>
<td>• Understand the performances of the Technical and Vocational Education Training (TVET) system.</td>
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<tr>
<td>• Complement the menu of existing ALMPs where there is demand.</td>
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<th>Disaster preparedness and response</th>
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<tbody>
<tr>
<td>• Assess the flexibility of the legislation to allow the use of the social assistance system in case an emergency transfer is required.</td>
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Resources


