



Economic Impact Assessment of COVID-19 in Bosnia and Herzegovina

Findings and Recommendations

May 28, 2020

This Report has been produced with the support of the United Nations Development Programme (UNDP) in Bosnia and Herzegovina. Its contents are the sole responsibility of the authors and do not necessarily reflect the views of the UNDP.

Our approach & methodology

Primary data analysis



METHODOLOGY

Descriptive statistics

- Analysis of weighted survey results
- Survey results weighted using raking method, which ensures the sample as a whole will match the structure of the Bosnian economy.
- Descriptive statistics include cross-sectional analysis, which covers all topics across different questions regarding vulnerable groups, sector differences, firm characteristics, and regional differences.

Cluster analysis

- Utilized to identify sectors that are similar in terms of employment of vulnerable groups and other labour market indicators

Analysis of Variance (ANOVA)

- Performed to test how firm size relates to future business expectations



SURVEY DATA ANALYSED

UNDP Economic Pulse Survey

- Focused on business aspects, including:
 - Expected impact on turnover
 - Adaptions plans, including layoffs and wage reductions

Project-specific survey

Henceforth: "Impact Assessment Survey"

- The Impact Assessment Survey complemented the Economic Pulse Survey by also covering:
 - Long-term business expectations
 - Employment outlooks of identified vulnerable groups

Overall COVID-19 Impact

Primary data analysis



IMMEDIATE IMPACT

March – April 2020

Significant direct impact

- Containment measures selected as most significant negative impact channel.

Far-reaching indirect impact

- The indirect immediate impact extended well into all of the economy through changes in customer and firm behaviour.
- About 50% of all firms declared at least some decrease in turnover.



SHORT-TERM IMPACT

3 to 6 months

Further economic downturn expected

- About half of firms expect turnover to continue to fall.

Temporary cost reduction measures planned

- Over 50% of firms plan wage reductions, firms in more impacted sectors also likely to indicate layoff plans.
- Approx. 41% of firms declared that they are ready to lay off at least part of their workforce.



MEDIUM-TERM IMPACT

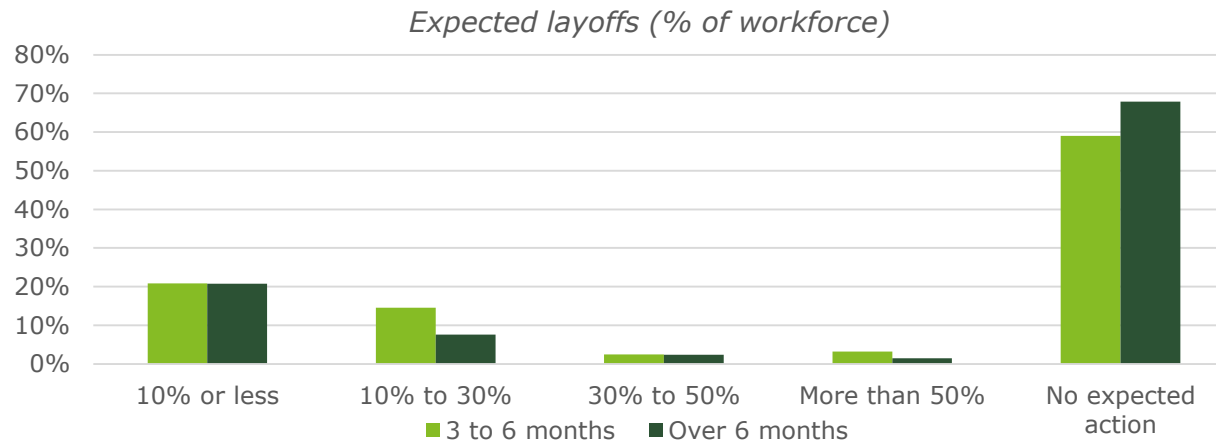
Beyond 6 months

More optimism regarding cost reductions

- Less firms reporting wage reduction and layoffs than in short-term horizon (38%; 32%)

Directly-impacted sectors at great risk of ceasing operations

- Firms in directly impacted sectors (Accommodation, Food Services, and Transport) and smaller firms at high risk of ceasing operations.



Source: Impact Assessment Survey

Findings for **target industries & SMEs**

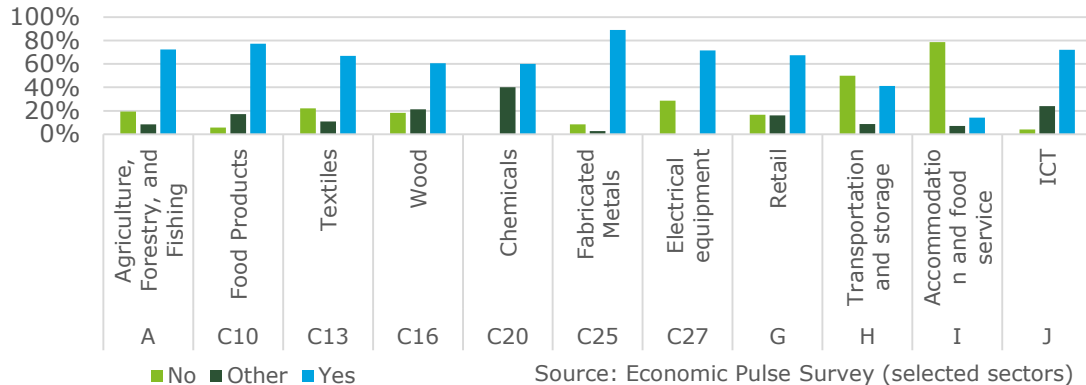
Primary data analysis

TARGET INDUSTRIES

Directly impacted sectors – containment measures

- Accommodation & food services
- Transport

Does your company continue to perform regular business activities?



Indirectly impacted sectors – supply chain disruptions

- Textiles & fabricated metals as two sectors experiencing most significant issues with their supply chains.

Indirectly impacted sectors – time horizons

- Within 3 months, indirect impact is expected to significantly affect the whole of the economy.
- 43% of all firms in Accommodation and food services believe they will have to cease operations.

FIRM SIZE

Direct Impact

- Smaller firms already due to lower accounting liquidity and less future secure orders.
- Sectors with large percentage of SMEs more prone to downturn. Such industries include:
 - Accommodation & food services
 - Retail
 - Construction
 - Textiles
 - Wood
 - Fabricated metals

Indirect Impact

- Smaller firms more prone to going out of business in both short and medium time horizons, characterized with less secure future orders and lower turnover expectations.
- Larger firms more prone to partial disruptions due to extensive supply chains.
- Two-sided vulnerabilities
 - Demand side – more dependent on a specific segment of the industry, thus more prone to complete shutdowns
 - Supply side – smaller number of workers means that health risks are more detrimental to operations.

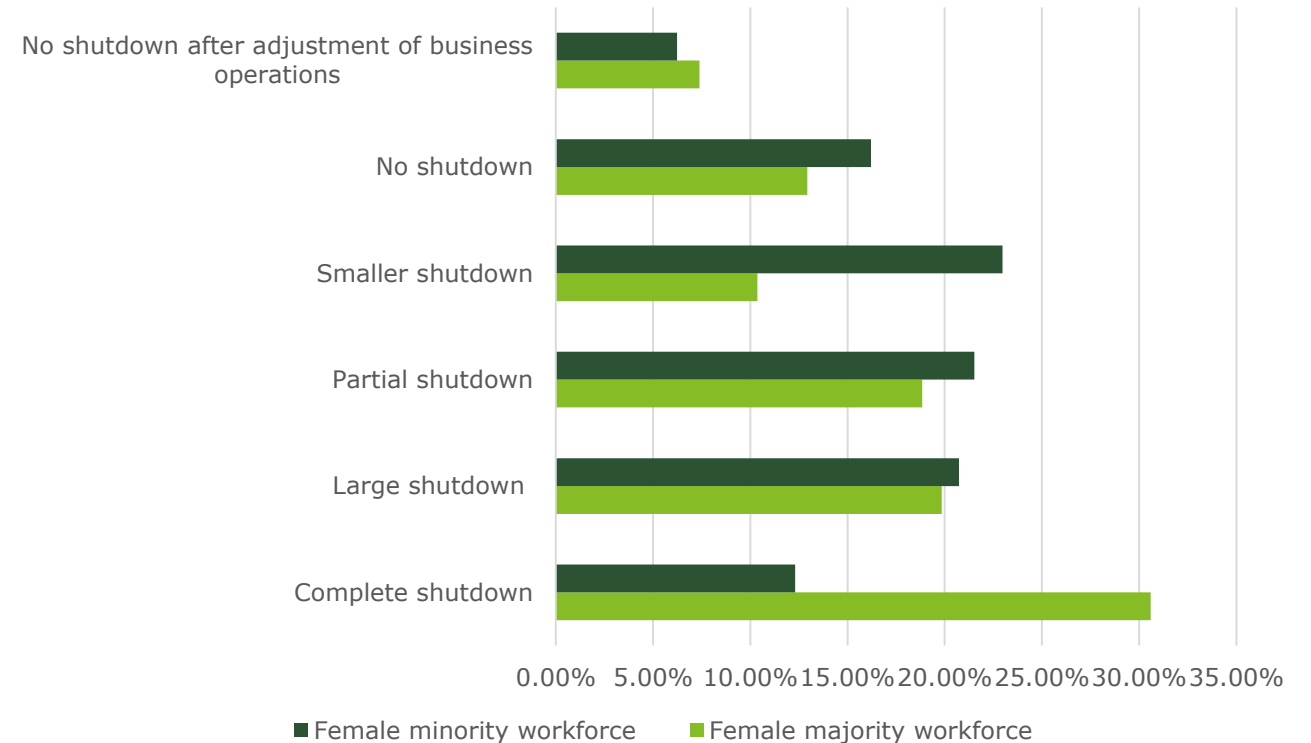
Findings for **selected vulnerable groups – females**

Primary data analysis

FEMALE WORKERS

- **Larger initial shock** experienced by firms employing majority of females.
- Larger initial shock also experienced by women-owned firms.
- Both trends partially result from larger proportion of females being employed in directly impacted sectors, particularly:
 - Accommodation and food services
- Male-owned firms slightly more likely to contact public authorities for support.
 - Troublesome, considering larger initial negative shock on women-owned firms.
- Cluster analysis reveals that women working in these two industries are **more at risk of being laid off** than males in the same industries:
 - Agriculture, forestry, and fishing (very high value for female employment reduction)
 - Accommodation and food services

Initial direct impact from lockdown measures



Source: Impact Assessment Survey

Findings for **selected vulnerable groups – precarious workers**

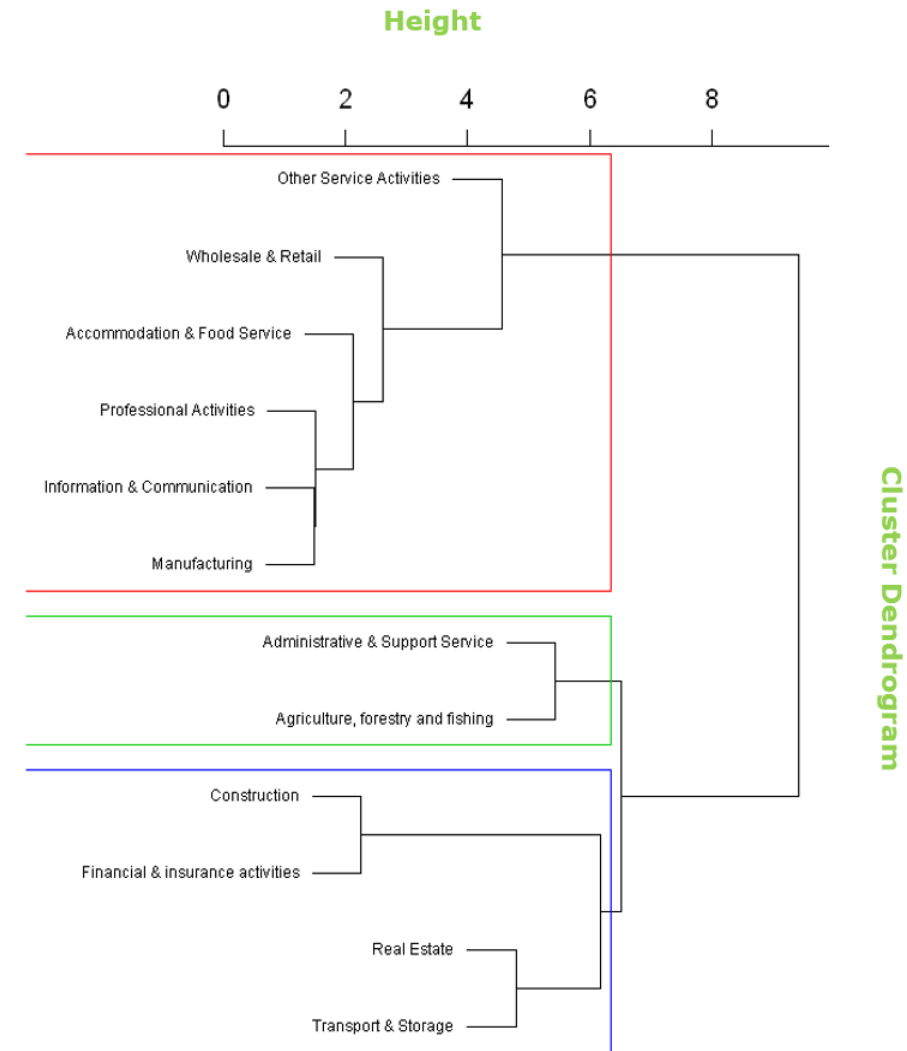
Primary data analysis

UNSKILLED WORKERS

- Unskilled workers **already adversely affected**, and will continue to be adversely affected.
- Firms employing a significant percentage of unskilled workers were **more likely to already shutdown down completely** or to reduce operations to a significant extent.
- Sectors employing a significant number of employees working routine-task jobs that require little formal education and experience are **more likely to consider layoffs and wage reductions**.

YOUNG WORKERS (15 – 30 years of age)

- No noticeable differences in initial impact
- However, firms employing significant number of young employees **more prone to short and medium-term cost reductions (layoffs and wage reductions)**, than firms not employing a significant percentage of such employees.
- Sectors employing a significant proportion of young workers may be subjected to indirect effects later on due to decreases in demand and complications in trade. Such sectors include:
 - ICT
 - Fabricated metals



Cluster dendrogram – results for vulnerable groups (unskilled, disabled, female, minorities, not including young workers) on the labour market

Urban-Rural and entity differences

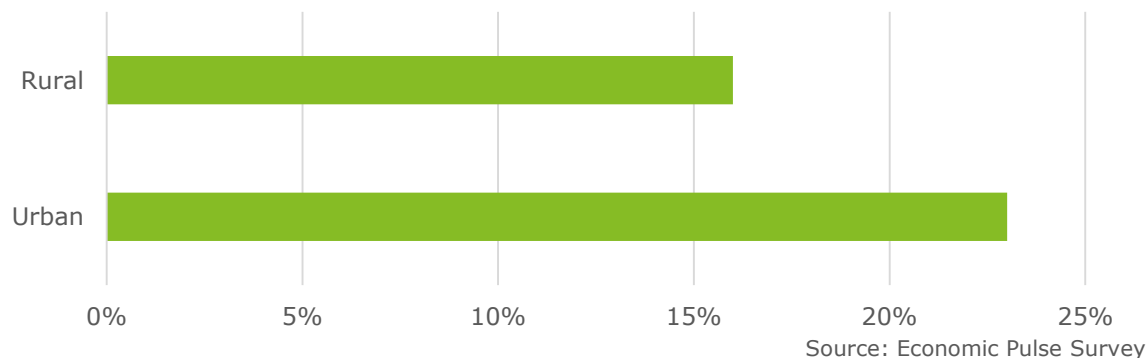
Primary data analysis



URBAN – RURAL DIFFERENCES

- Rural-based firms more likely to have already seen significant (10%+) decrease in turnover (77%, as compared to 68%)
- Urban firms more likely to be able to adjust their operations or implement partial shutdowns.
- Short-term and medium-term perspectives show that rural-based firms more likely to cease operations.
- Rural-based firms have less secure orders for their products or services.
 - This identifies a key issue rural firms must act upon in order to ensure continuity of the business.

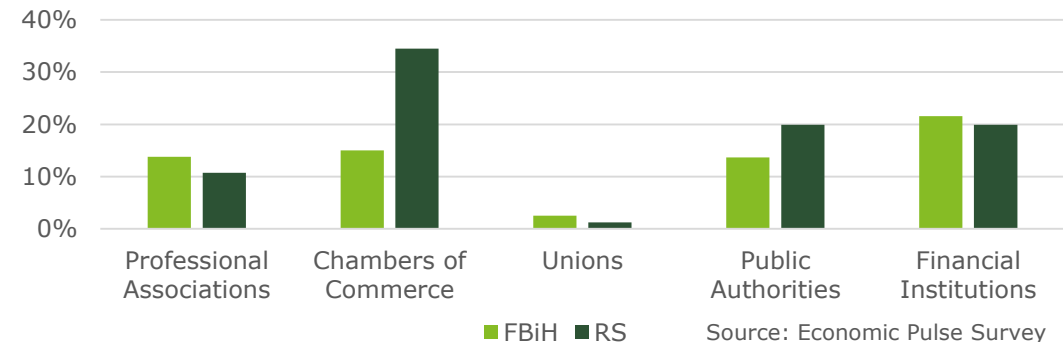
Secure orders for over 3 months



ENTITY DIFFERENCES (FBiH & RS)

- Firms from Republika Srpska slightly more directly affected than those in Federation of Bosnia and Herzegovina. (32%; 26% - direct shutdowns).
- No noticeable difference in future business expectations and impact channels.
- More firms in FBiH considering cost cutting measures in short and medium-term perspectives
- Firms in Republika Srpska significantly more likely to seek support from Chamber of Commerce than from other public authorities

During the crisis, did you establish or maintain contact with any of the following institutions?



Recommendations based on survey results

Primary data analysis

GENERAL SUPPORT

- Detailed framework and assumed timeline for financial support measures for employers and employees.
- Temporary basic income for self-employed.
- Trade margin regulations based on reliable sectoral and product market assessment.
- Branding and promotion of domestic products.
- Appropriate protective measures that decrease discriminatory practices
 - Specifically those related to disproportionate wage reduction or employment termination.

Recommendations based on survey results

Primary data analysis

SUPPORT FOR TARGET INDUSTRIES

Directly impacted sectors

- Immediate public support needed for following sectors:
 - Accommodation & food services
 - Retail
 - Transport
- Mechanisms of support include:
 - Payment deferments and tax delays
 - Vocation retraining and job search support for individuals working in these industries
 - Public authorities should enforce proper hygiene guidelines in the workplace, both to keep employees safe but also boost consumer confidence
 - Evaluation of working hours

Indirectly impacted sectors

- Impact channels include: supply chain disruptions, decrease in demand, and vulnerability due to firm size.
- Mechanisms of support include:
 - Payment deferments and tax delays,
 - Subsidies for small firms
 - Supporting SMEs in transition to e-commerce
 - Enabling work-from-home environment
 - Wage subsidies



Guiding Principles for **Sustainable Recovery**

Legacy ways of doing business have to be reconsidered and adapted.



Measures undertaken so far

Selection of key measures

Area

Economic and fiscal measures

Federation of BiH

- Law on mitigating negative economic consequences
- Deadlines for filing tax returns and salary specifications have been extended
- Trade margins (calculative prices) are determined for certain products
- Series of labour-related measures in force
- Guarantee fund in cooperation with the Development bank of FBiH currently in process of establishing
- Various entity laws focused on salary subsidies and freeze of parafiscal taxes

Republika Srpska

- Measures aimed to mitigate harmful consequences of coronavirus to economy of RS adopted
- Decree Law on Tax Measures for Mitigation of Economic consequences of COVID-19
- Decree-Law on Solidarity Fund of Republika Srpska

District Brčko

Law on mitigating negative economic consequences caused by the state of natural disaster due to COVID-19 in Brčko District
Deadline for filing tax returns have been extended

Cities / municipalities

Abolition of rent payments for business premises owned by cities / municipalities, free parking, support for spring sowing etc.

Liquidity measures

Entities' banking agencies have issued temporary measures related to supporting companies and private individuals overcome challenges in servicing their loans. Financial institutions can approve to clients special measures such as a moratorium, a grace period of up to 6 months, granting of an additional amount of exposure to overcome liquidity difficulties etc., under special conditions

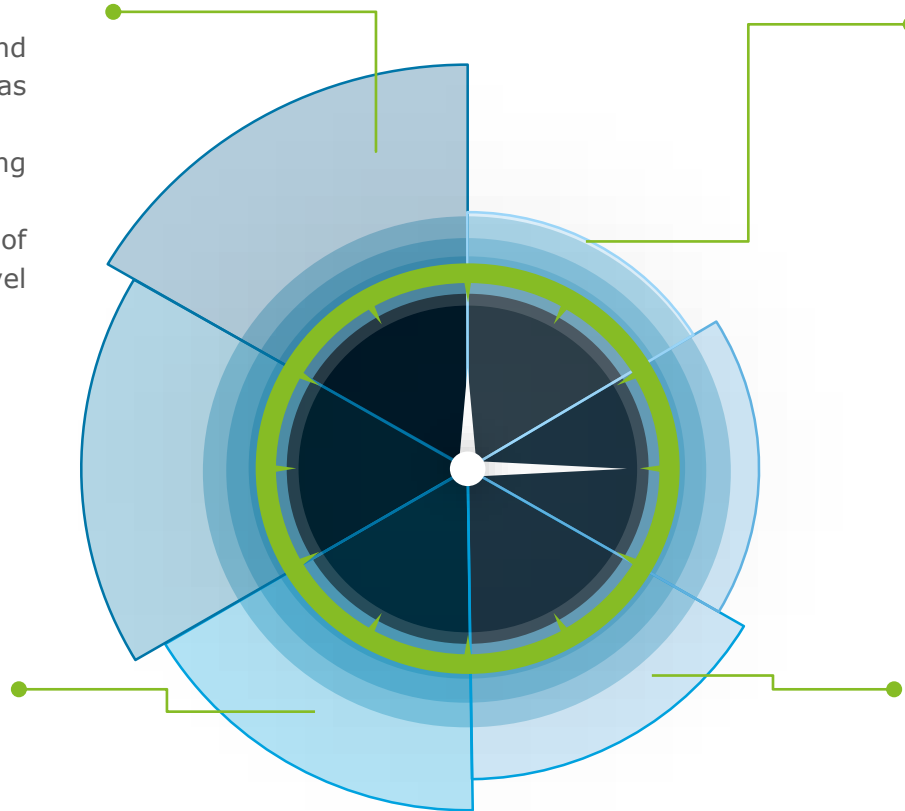
Options for interventions (1/2)

COORDINATION AND TRANSPARENCY

- **Limited readiness of authorities** to coordinate crisis response efforts.
- Lack of **confidence** in government response and absence of dialogue with business community was frequently reported in focus groups.
- **Different interpretations of measures** among the business community.
- Coordination and transparent communication of fiscal and economic measures by below state level government is required.

PROVIDING LIQUIDITY

- All key sectors, will experience loss of turnover in the 3-month period. 43% of SMEs will be forced to **cease operations completely**.
- Key vulnerability factor is inadequate level of **financial liquidity (34.23%)**.
- Mayor items for company liquidity are – **VAT and social security contributions**.



FINANCIAL SUPPORT

- **Mid-term and long-term access to credit** remains a **challenge** for the business sector.
- **Decreased creditworthiness** due to COVID-19 will pose a challenge for firms in terms of accessing finance.
- The market would warmly welcome additional liquidity offered via **relief programmes and packages** introduced by international financial institutions on various levels.
- Option of **entity loan** guarantees funds would facilitate firms' access to finance in the near future.

FLEXIBLE WORK OPTIONS

- Large portion of firms whose business doesn't require direct contact succeeded in employing **flexible work and work from home options** during the pandemic.
- Hence, employment practices related to flexible work options can be further stipulated in **employment regulation** in order to **boost in-country employment** in sectors which traditionally have not used these options due to myriad of reasons, incl. lack of adequate regulations.

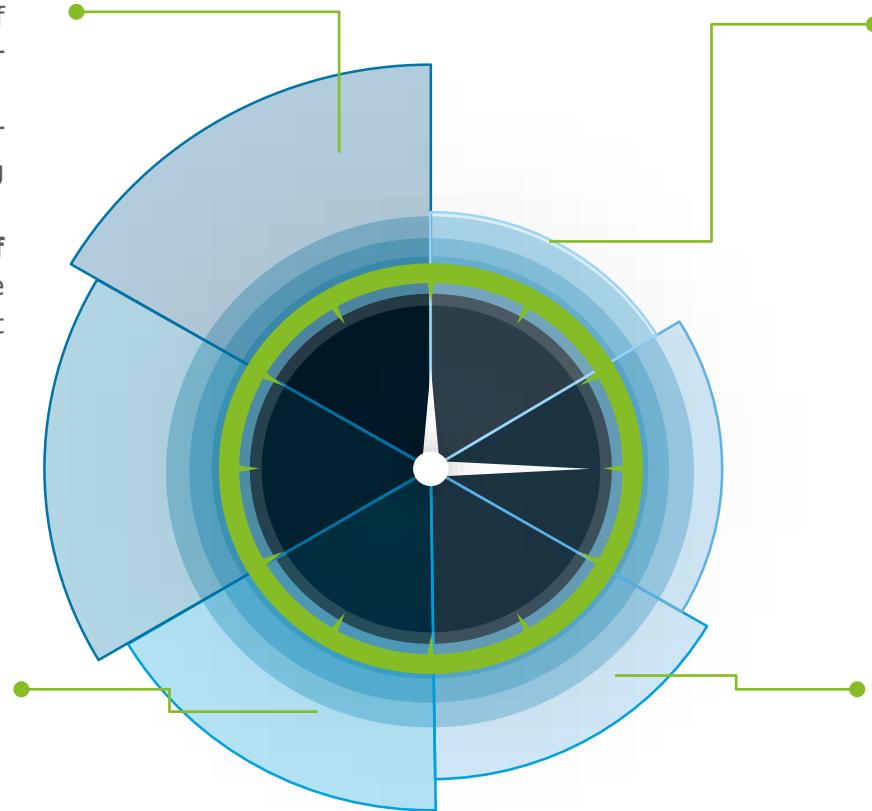
Options for interventions (2/2)

LOCAL PRODUCTION

- Majority of firms in key sectors are having some issues with their **supply chain** and by far the worst hit are **textiles and fabricated metals** (less than 30% of them have a sufficient supply of raw materials or intermediate products for their production/services)
- Local and global shift in supply chains towards closer supply sources indicated the need for **strengthening local production**.
- Coupled with country **branding and promotion of domestic products and services**, this initiative could contribute to making the market more resilient to future crises.

LEGISLATION IMPROVEMENT

- 40% of respondents from FBiH and 23% of them from RS stated that **inadequate legal framework** is the most important factor limiting their business.
- Legislation frameworks for certain industries (e.g. **hotel industry**) have to be improved in order to **fill the gaps exacerbated during the crisis**.
- In some instances the **relief measures cannot be utilized** by the businesses that should have benefited from it due to specifics how the measures have targeted the industries.



DIGITAL TRANSFORMATION

- 42% of survey respondents rated **SDG 9 - Industry, Innovation, and Infrastructure** as a key goal for sustainable recovery.
- **Digital / electronic / cyber initiatives**, especially related to legislative and regulatory frameworks, have to be accelerated.
- Lack of functioning **digital signature** as one of the key problems in doing business in BiH.

SUSTAINABILITY

- 38.6% of respondents stated that the COVID-19 will have negative **impact on the achievement of SDGs by 2030**, 20.93% stated that the impact will be mixed, while 12% had a positive perspective.
- As recognized by some of the focus group representatives, the crisis represents a unique opportunity to pursue an **environmentally friendly approach with recovery options**.
- Development of a **green public procurement**, changes to environmental taxes as a part of larger reforms of the tax system are examples to be considered.

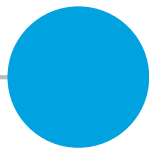
Things to consider for **future interventions**



It is assumed that Bosnia and Herzegovina is in the **transition from the Respond towards the Recover phase**, but economic crisis triggered is still being considered as a **developing situation, where ultimate effects are still uncertain**.

When further planning financial scale of options, following issues need to be considered:

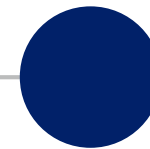
- Expectations for possible **next waves of coronavirus spread**, having in mind that the current packages have been influenced by focusing on the current COVID-19 pandemic, **while risks from the second or third wave of pandemic are still rather present**.
- Most recent GDP, employment and other macroeconomic forecast for **short and mid-term period**,
- Public health measures that were undertaken and the economic situation in trade partner countries,
- **Lessons learned** from implemented shutdown measures and recovery experiences from easing of measures.



Respond



Recover



Thrive

Thank you.

“The greatest danger in times of turbulence is not the turbulence itself, but to act with yesterday’s logic.”

