



UNITED NATIONS
BOSNIA AND HERZEGOVINA



UN Socio-economic Impact Assessment of COVID-19 crisis in Bosnia and Herzegovina

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Motivation

- *Policy design in response and recovery to COVID-19 over the period of 12 to 18 months*
- *Provide medium- and longer-term policy recommendations*
- *Use this crisis as a catalyst for a forward-looking recovery agenda.*

Contents

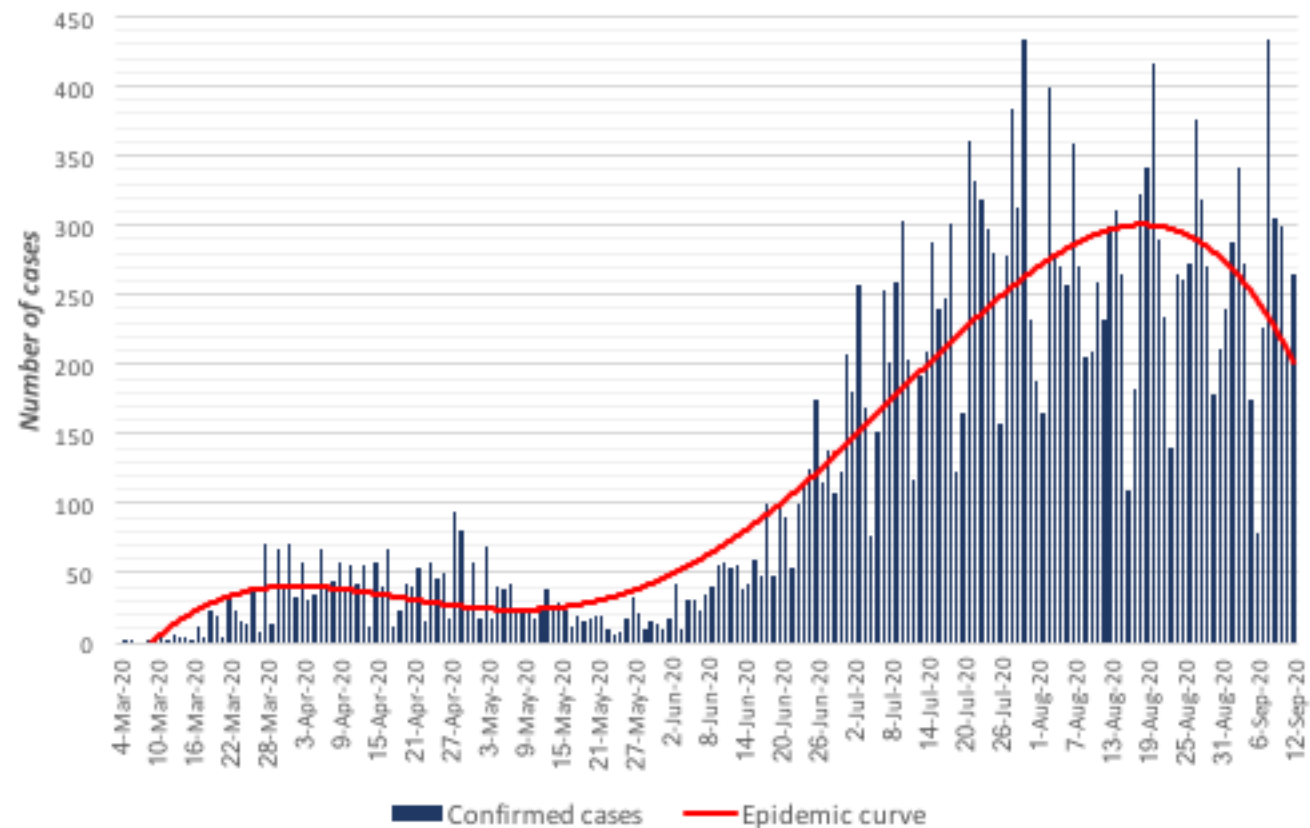
(UN's five pillars)

- Pillar I: Health First (COVID-19)
- Pillar II: Macroeconomic Response and Multilateral Collaboration
- Pillar III: Economic Response and Recovery – Jobs, SMEs and Informal Sector Workers
- Pillar IV: Protecting People and Basic Services: No one Left Behind
Education, Non-Covid-19 Health and Poverty Incidence and Social Protection
- Pillar V: Social Cohesion and Community Resilience

Pillar I: Health First - findings

Figure 1. Distribution of COVID-19 positive and trendline in Bosnia and Herzegovina, September 13th

(Sources: IPH FBiH, IPH RS, FMH, MoCA)



Pillar I: Health First - recommendations

- Factors which led to summer rise in number of infections
- Strengthen management, and improve coordination for crisis management
- Support entity and cantonal Institutes of Public Health in FBiH in enhancing their dual-track surveillance system and establishing Rapid Response Teams
- Capacities for COVID-19-related case identification and testing
- Full implementation of infection prevention and control measures in all healthcare facilities,
- Develop, apply, and regularly update institutional protocols.
- Shift medical experts and materials among health institutions to optimize capacities vis-à-vis demand for health care. Improve supply chain management.
- Address particular needs of vulnerable. Communicate continuous provision of services through community information platforms.
- COVID-19 vaccine preparations

Pillar II: Macroeconomic Response - findings

Figure 3. Real GDP level (left) and growth (right) pre and post COVID-19

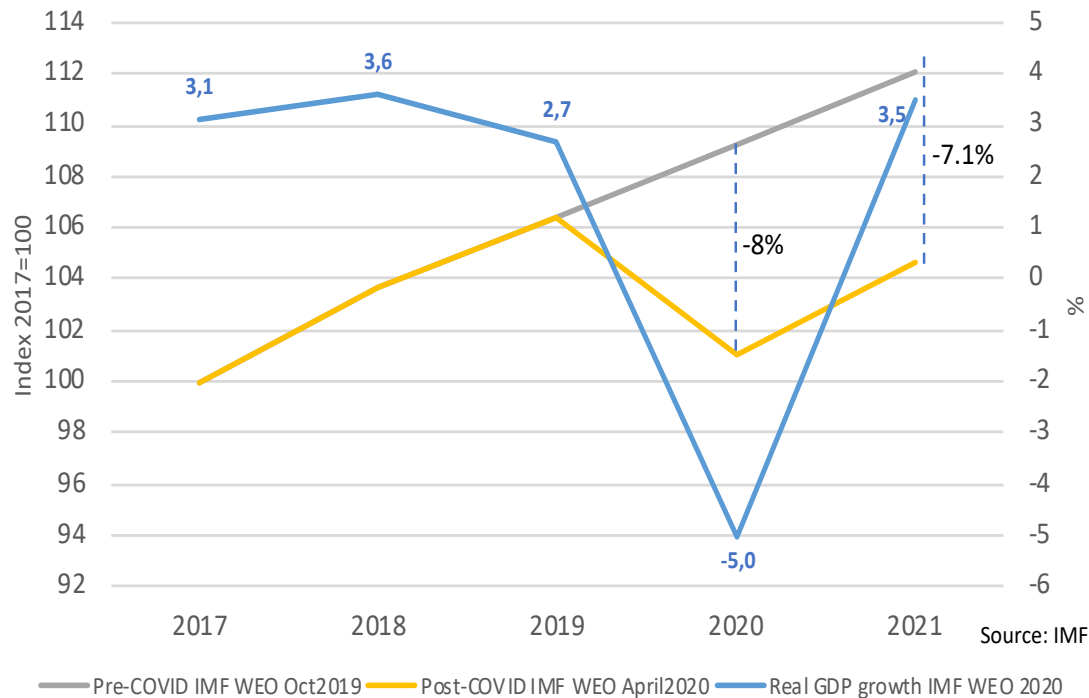
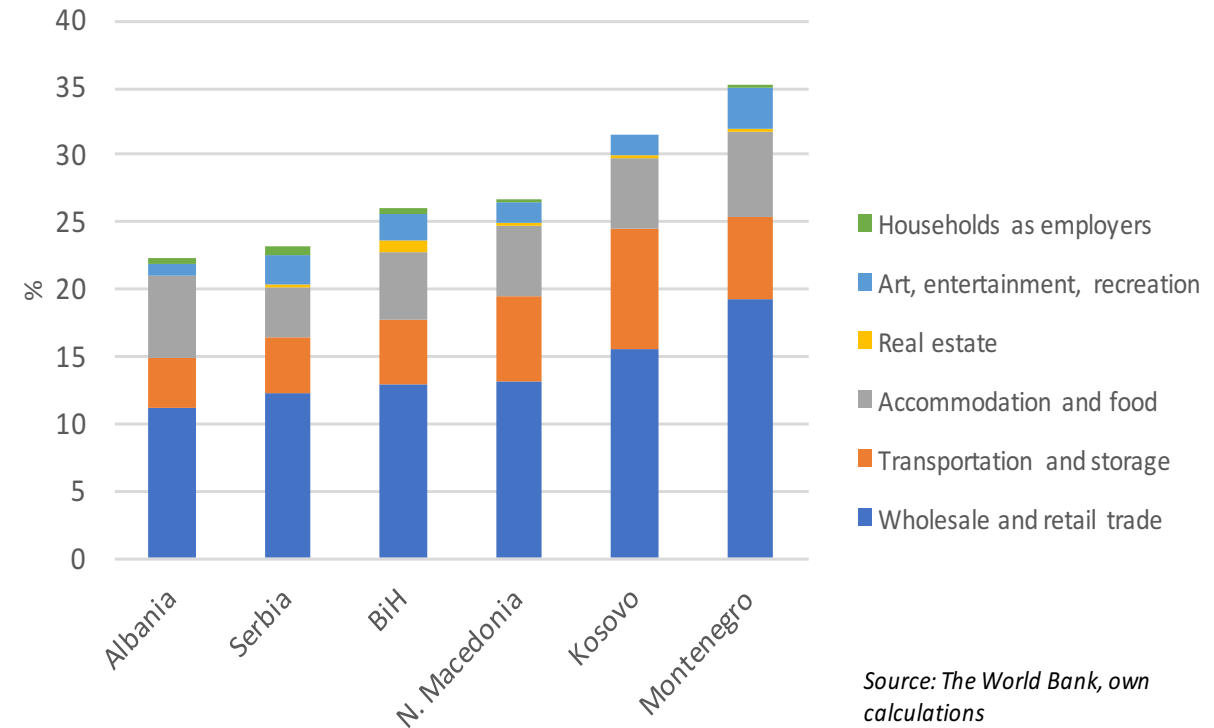


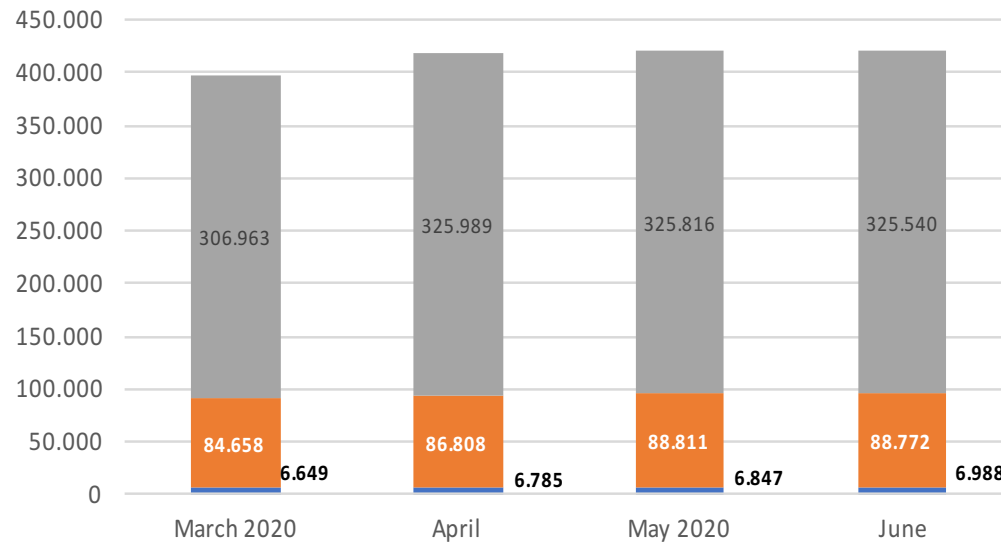
Figure 13. Share of highly impacted sectors in employment



- Mitigation 1: large public sector (blessing and a curse; short vs long run)
- Mitigation 2: economic structure
- Mitigation 3: sustainable fiscal position with public debt likely below 40% of GDP

Pillar II: Macroeconomic Response - findings

Figure 10. Number of registered unemployed persons between March and June 2020



Source: Agencija za rad i zapošljavanje BiH, Tabelarni pregled

■ Brčko DC ■ RS ■ FBiH

Main policy actions:

- Budget restructurings
- Tax deferrals
- Stabilization funds
- Wage subsidies (job retention measures)
- Commitment to tax reforms (FBiH) and reduction of para-fiscal charges
- Debt relief measures and ban on dividend pay-out for banks

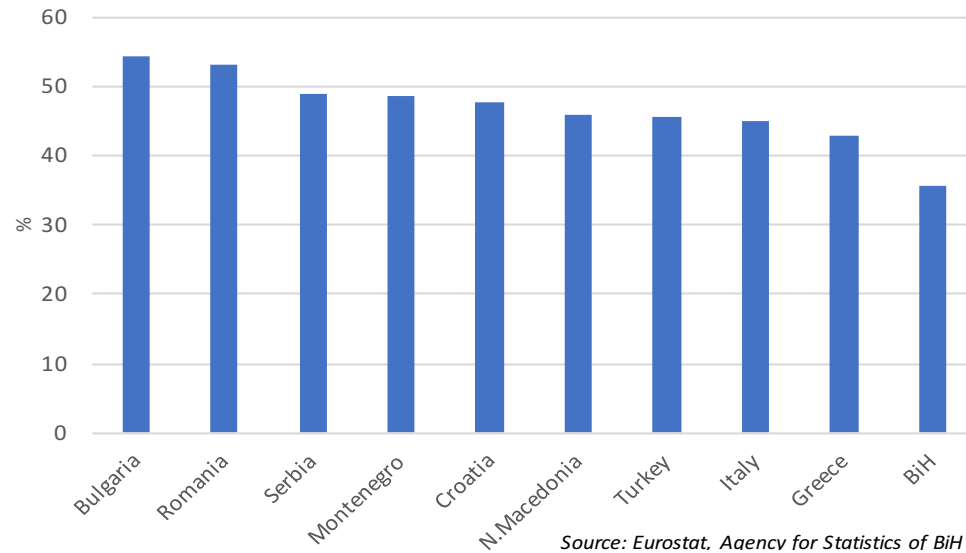
- Authorities have to plan for a less favourable macroeconomic scenario
- IFIs assistance

Pillar II: Macroeconomic Response - recommendations

- Extend employment protection schemes and establish more systemic income support measures
- Keep social transfers elevated
- Develop and implement a mid-term economic recovery program at state and entity government levels
- Increase public investment in sustainable infrastructure, green energy and similar projects
- Make restructuring of the public sector, including SOEs, core component of the program
- Use external financing envelope to plan for more adverse scenario
- Strengthen public finance management and procurement

Pillar III: Economic Response and Recovery - findings

Figure 14. Employment rate 15+ in South East Europe



+ highest youth unemployment rate in SEE, close to 40%

- Highest vulnerability of women owned small businesses
- Measures for job retention did not address informal sector workers (estimates range between 15 and 30% of official employment)
- Deepening structural divide among sectors
- Very low investment rate (<20% of GDP) before crisis
- Underdeveloped capital markets
- Huge lag behind the peers in terms of digitalization
- Lack of structural reforms

Pillar III: Economic Response and Recovery - measures

- Wage subsidies – job retention measures phased out after lockdown relaxation
 - Coverage of labour taxes and contributions for workers in enterprises most affected by fall in revenues (20%)
 - Below radar: young workers, women owned small businesses, informal sector workers
- Active labour market policy still in the nascent stage, development helped by the World Bank
- Tax measures: postponement of corporate tax advances, commitment to labour taxation reform and reduction of para-fiscal charges
- Credit guarantee schemes (for SMEs only)
 - RS € 25 million (EBRD)
 - FBiH € 50 million (IFIs)
 - Lack of power for loss coverage, lack of scope, lagging far behind impact of similar schemes in more developed countries
- Measures were very short term under assumption of recovery coming early in 2021 which may not be the case
- Missing:
 - Link between short term response and mid-term recovery plan in the context of structural reform
 - Equity investment promotion schemes
 - SOEs reform
 - Public administration reform
 - Industrial policy (digitalization and Industry 4.0)

Pillar III: Economic Response and Recovery - recommendations

Employment:

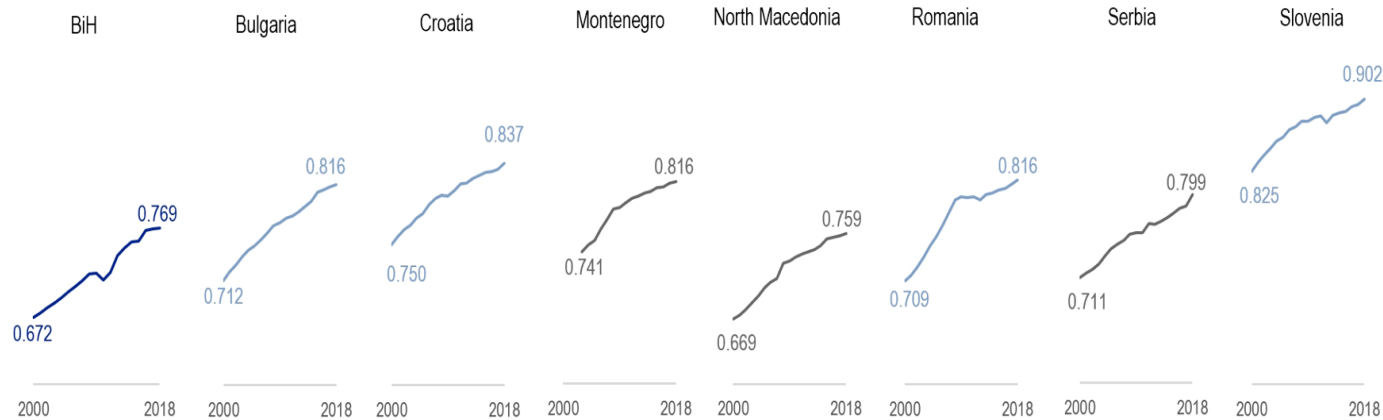
- Develop a comprehensive employment policy, in line with EU orientations and ILO standards.
- Complete thorough labour market analysis pre and during COVID-19 shock,
- Strengthen active labour market measures
- Specific measures for vulnerable workers
- *Create incentive for turning informal into formal employment in line with international labour standards*

Competitiveness:

- Build, and timely implement a comprehensive *mid-term development plan*
- Anticipate the skills needs of key industries and assess the needs for workforce training, re-skilling and up-skilling.
- Adopt fundamental long-term industrial policy documents covering critical areas of energy, industry 4.0 and digitalization.
- Reform state-owned enterprises (depoliticization, professionalization and privatization).
- Enhance guarantee schemes
- Implement equity and quasi-equity investment schemes
- Secure country-wide response.

Pillar IV: Protecting People and Basic Services - findings

Regional trends in Human Development Index 2000-2018



Source: UNDP. <http://www.hdr.undp.org/en/data>

Human development index reflects:

- Life expectancy
- Years of schooling
- GNI per capita at purchasing power parity
- GINI index (inequality adjusted)

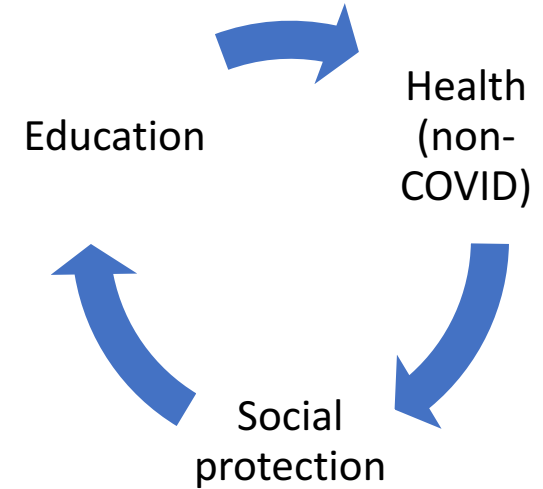
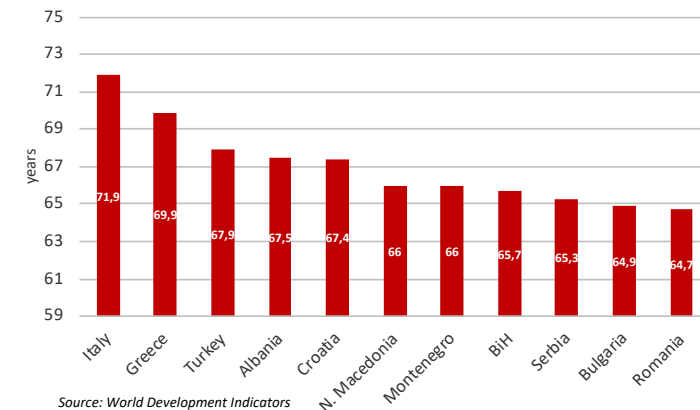


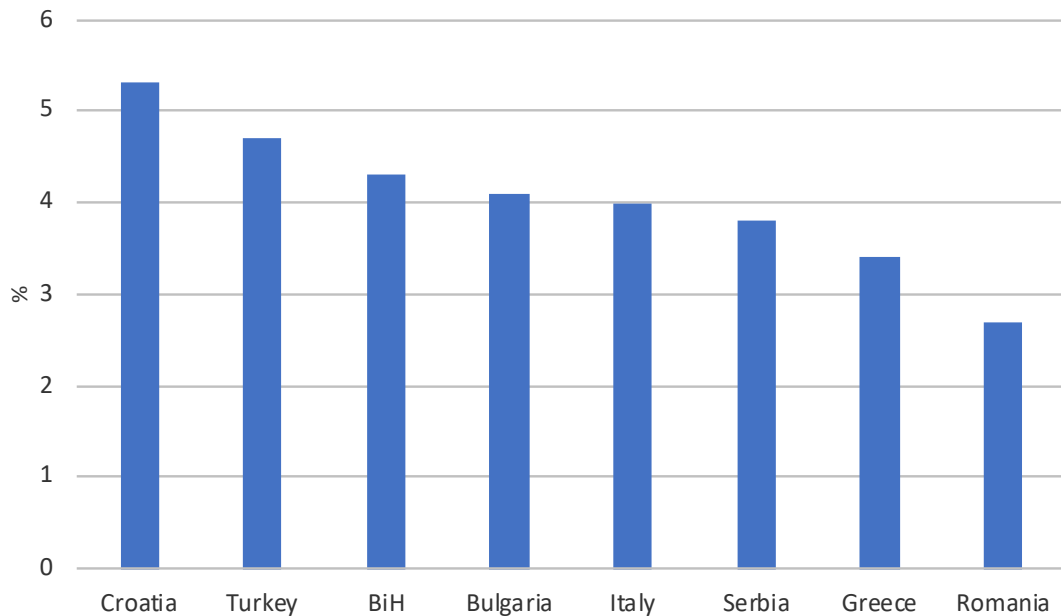
Figure 22. Healthy life expectancy in 2019 in selected countries of SEE



Source: World Development Indicators

Pillar IV: Protecting People and Basic Services – education findings

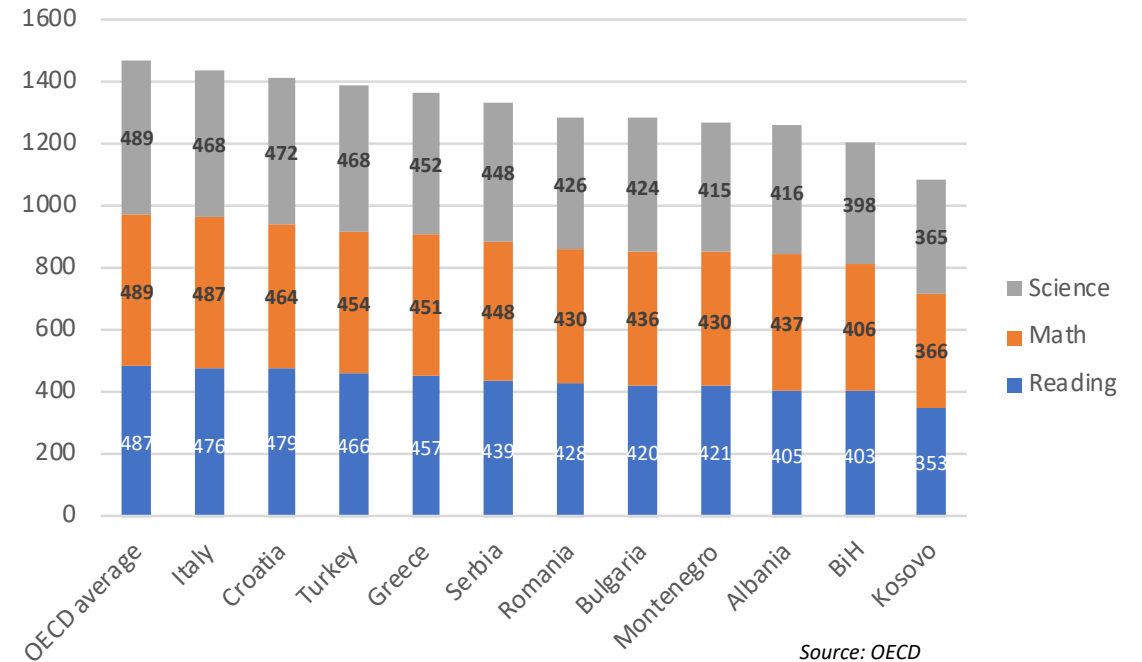
Figure 19. Public spending on education in % of GDP*



*All countries 2017 except Serbia 2015 and Croatia 2018

Source: Eurostat and UNDP

Figure 20. PISA 2018 scores



Source: OECD

- Generally low educational outcomes vs inputs and skills' gap
- Only quarter of children in pre-schooling programs
- Estimates that 35% of students have inadequate equipment, internet access and/or learning space at home
- Lack of standards and experience regarding digital teaching content – relying on bottom up initiative
- Risk of inequitable access

Pillar IV: Protecting People and Basic Services – education recommendations

- Invest in digital connectivity for every child and increase quality of e-learning.
- Emphasise needs of most vulnerable children
- Align long-term plan for educational reform with COVID-19 reality.
- Modernize and adapt VET curricula and lifelong learning provision to the needs of the labour market
- Invest in pre-school education keeping in mind its indirect effect on gender equality as it helps participation of young women in the labour market.
- Protect and increase education sector financing

Pillar IV: Protecting People and Basic Services – nonCOVID related health findings

Figure 23. Health expenditures by financing scheme in % of GDP 2018 in selected countries of SEE

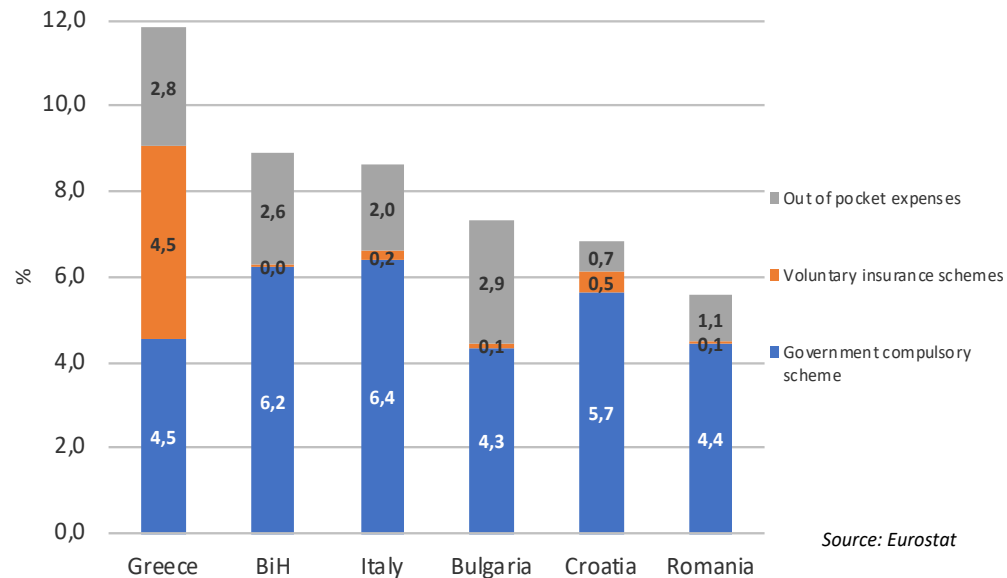
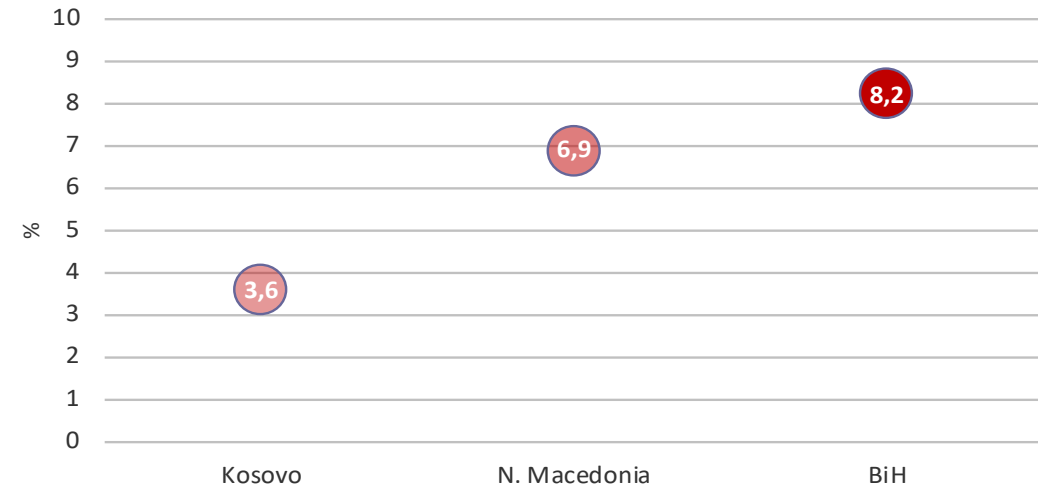


Figure 24. Economic cost of atmospheric air pollution in % of GDP 2016



- Huge health costs relative to GDP, including out of pocket expenses
- Decentralized financing and management (13 health funds)
- HDR found great danger of lack of insurance coverage for up to 20% of people and catastrophic health expenses of certain vulnerable groups of seriously ill patients (which is a social problem)
- Both entities committed to work with the World Bank on the health system reform

Pillar IV: Protecting People and Basic Services – nonCOVID related health recommendations

- Prioritize programmes in the primary health care including options for development of telemedicine.
- Research secondary pandemic mortality due to lockdown and ensure continuity of health services.
- Perform in-depth research of out of pocket health expenses and use the results to adjust social assistance
- Implement health sector reform based on best international practice in order to ensure short-term and long-term financial sustainability while keeping universal open access system.
- Coordinate and inform industrial policy measures with assessment of external social benefits of reduction of air pollution. Internalise expected health benefits in investment plans.

Pillar IV: Protecting People and Basic Services – poverty incidence and social protection findings

Structural weaknesses in the social protection system + COVID-19 impact:

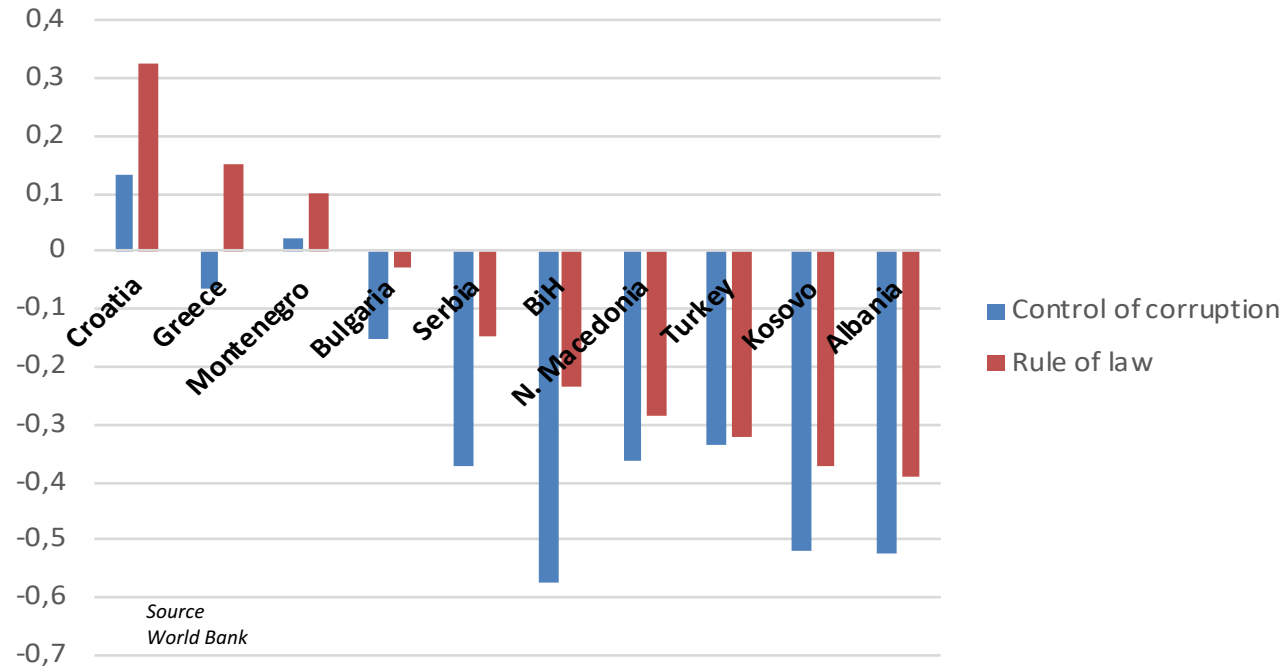
- WB estimate: expected range of the number of persons likely falling into poverty is between 35,000 and 85,000, with 50-60% currently not covered by social protection programs
- 16.8% of the population receives some form of social transfer besides pension: social assistance, unemployment and disability benefits. About 30% of households in BiH declare pension to be the main source of family income
- BiH has the highest proportion of expenditure on veterans, survivors and disability benefits in the Western Balkans region. This weighs over resources for spending on family and child benefits.
- Cost of administration of the social protection system in relative terms is by far the highest in the region
- Coverage is low compared to other countries in Europe and Central Asia region. The current system is uneven and inadequate to keep vulnerable out of poverty.

Pillar IV: Protecting People and Basic Services – poverty incidence and social protection recommendations

- Eliminate excess administrative burden
- Improve shock-responsiveness of the social assistance system (cash contingency, institutional preparedness, etc)
- Reform social assistance targeting system so that the benefits are based on needs and not on the status of beneficiaries.
- Reform unemployment benefits system
- Prevent cuts in public spending in areas such as education, health and social protection.
- Ensure fiscal sustainability and preserves preconditions for economic growth.

Pillar V: Social Cohesion and Community Resilience - findings

Figure 25. Rule of law and control of corruption in selected EU member states and Southeast Europe



- Weak social assistance on top of complaints revealed by the survey of local communities
- Fear of emigration of youth: feeling that it leads to permanent development gaps (local communities “left on its own”).
- Serious challenges related to corruption and clientelism: nepotism in employment in the public sector.
- 78% respondents distrust or tend not to trust governments.
- 88% view government handling of anti-corruption as unsatisfactory (recent procurement case).
- Decline of cross-ethnic friendships in the last decade (reflects political divisions in the post-conflict situation).
- Anti-corruption Action Plan during pandemic was adopted, implementation is key.

Pillar V: Social Cohesion and Community Resilience - recommendations

Government transparency and Public Administration Reform (PAR):

- Improve transparency and implement anti-corruption programs.
- Accelerate digitalization and e-governance,
- Implement merit as criteria for employment in open and professional public administration.
- Implement territorial fiscal equalization mechanisms in order to make local development more equitable.

Social dialogue and equity:

- Strengthen data-driven policy formulation and continuous monitoring of policy effects.
- Implement recovery programs via the broad participation of citizens,
- Provide support to marginalized groups including through appropriate, transparent and well targeted funding to civil society organizations.

Transparent elections and media space:

- Prevent hate speech, stigmatization, discrimination and the rhetoric of division and fear, enhance media literacy

Thank you!