



Schweizerische Eidgenossenschaft  
Confédération suisse  
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Swiss Agency for Development  
and Cooperation SDC



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# SOCIAL INCLUSION IN BOSNIA AND HERZEGOVINA

## 2020 National Human Development Report

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### Extended Summary



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# **Social Inclusion in Bosnia and Herzegovina 2020 National Human Development Report Extended Summary**

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This National Human Development Report on Social Inclusion in Bosnia and Herzegovina is a continuation of the research undertaken through two previous human development reports. In 2007, UNDP produced a National Human Development Report on Social Inclusion in Bosnia and Herzegovina that provided unique insights into those **population groups that remained vulnerable to social exclusion** more than a decade after the end of the conflict. The National Human Development Report on Social Capital followed in 2009, exploring in detail how **individuals assessed their social relationships** in post-conflict Bosnia and Herzegovina. By recording citizen perceptions of social life and institutions, these two reports established a **baseline of social data** from which it was possible to measure the direction of social change in the country.

This 2020 National Human Development Report was commissioned to assess what has been achieved over the past decade. It does so by focusing on the **structural dynamics of inclusion** (instead of a static measurement to assess the characteristics of exclusion) when assessing the performance of the networks of social institutions whose proper function is to ensure the well-being and participation of all members of society.

The report approaches **social inclusion from the perspective of the dynamics of the interaction between an individual and his or her social, legal and economic environment**. Asking whether a person is able to participate equally in society leads to the identification of gaps and barriers to participation.

The assessment of social inclusion in this report is connected to the concept and measurement of human development and to the principle of ‘leaving no one behind’ that is enshrined in the 2030 Agenda for Sustainable Development. The United Nations Development Programme introduced the concept of Human Development and the Human Development Report in 1990. In the same year, the European Union introduced the concept of Social Inclusion, drawing on the same philosophical roots. While the concepts are complimentary in terms of policy, human development places stronger focus on what needs to be achieved whereas social inclusion focuses on how it can be achieved. Both institutions developed indicators to measure achievement and encouraged their member states to produce regular reports on progress.

The **overarching message of this report** is that a community that treats all of its members with equal respect and guarantees equitable access to social goods and services is stronger, healthier and more resilient. **The integrated networks of social sector institutions that deliver these goods and services are the foundation of a socially inclusive society.**

**Equitable access is the goal of social inclusion. It is not a privilege but the right of every member of a community** and is both a reflection of a stable successful society and a guarantee of its ability to sustain itself in the face of internal and external shocks. The COVID-19 pandemic tests the institutions and the effectiveness of the policies of each country in protecting and sustaining its population. Bosnia and Herzegovina reacted quickly after its first cases of the virus identification in spring 2020. The lessons learned in responding to the virus will help shape the future of the peoples of Bosnia and Herzegovina and the world.

The report looks at the **institutional structures** of education, health, the labour markets and social protection, using their measurable outcomes to compare Bosnia and Herzegovina to the neighbouring countries or across different parts of the country. While noting the areas that function well, the report identifies gaps that require attention and offers recommendations on the ways to address them. The purpose of the analysis is to understand **how each sector functions individually**, but more importantly **how well they interact** as parts of an integrated system to ensure social equity.

## CITIZENS PRIORITISE 6 ISSUES IN THEIR COMMUNITIES



**EMIGRATION**  
OF YOUNG  
FAMILIES



**LACK OF INVESTMENT**  
IN LOCAL INFRASTRUCTURE



**INADEQUATE**  
SUPPORT AND FACILITIES  
FOR PEOPLE WITH  
DISABILITIES



**LACK OF SUFFICIENT  
STAFF AND FUNDING**  
FOR CENTRES  
FOR SOCIAL  
WELFARE



**INEQUALITY**  
IN RELATION  
TO CHILD BENEFIT,  
PUBLIC TRANSPORTATION  
AND SCHOOL BUSES,  
EMERGENCY SERVICES  
AND SERVICE GRANTS  
IN THE COMMUNITY



**CLIENTELISM**  
THE NEGATIVE  
EFFECTS OF POLITICISED  
PUBLIC PROCUREMENT  
AND THE NON-COMPETITIVE  
APPOINTMENT OF  
PUBLIC EMPLOYEES

The institutional analysis is complemented by a **citizens' view on social inclusion and social cohesion**. The report includes the findings of a **case study of seven municipalities**<sup>1</sup> selected to reflect a range of characteristics, including size, ethnic composition, urban/rural and geographical location. Three complementary research methods that combined qualitative and quantitative approaches, were applied in order to collect the information. **First**, the **initial mapping** of local services together with public transportation routes helped identify issues related to access to these services.

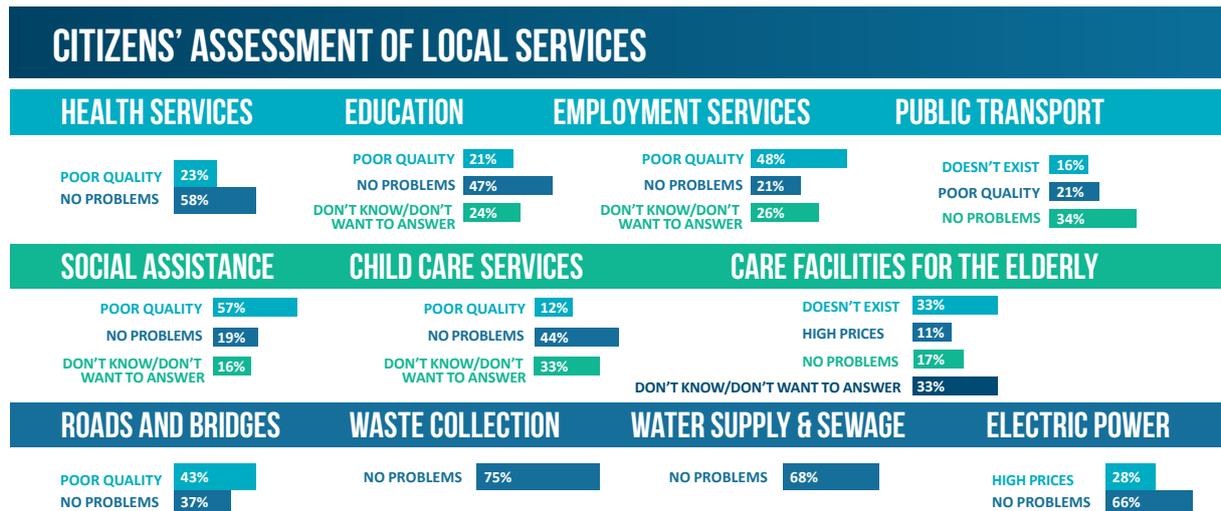
**Second**, **workshops** with municipal and local administrators, service providers and citizens were used to

correct and validate these maps. The workshops also recorded the participants' assessment of the six most pressing problems in their communities. These were emigration or internal migration to another part of the country, lack of investment in infrastructure (such as road maintenance) and affordable public bus services coordinated with the working hours of administrative offices and public service providers. Another key priority was accessibility and support for people with disabilities and the elderly, which the majority found to be inadequate. The issue of inequality was raised in relation to the level and/or availability of child benefit, public transportation and school buses, emergency services and community service grants in their communities. There was uniform praise for the services provided by the centres for social welfare and yet social workers stated that they spend the majority of their time finding ways around rigid eligibility requirements in order to secure benefits for those in need. The lack of sufficient staff and funding means that professional social workers are unable to dedicate enough time to their key functions, including active outreach to vulnerable individuals and families. A number of participants stressed the negative effects caused by political influence on public procurement and the non-competitive appointment of public employees.

**Lastly**, a **representative sample survey** was carried out in order to collect perceptions on the availability and quality of services, personal social connections and community life in the surveyed municipalities. The survey drew questions from the 2009 National Human Development Report related to household composition, social interaction and perceptions and the assessment of community services. The size of the survey sample was designed to ensure the same level of statistical validity as the earlier survey conducted in the same geographical locations in order to allow for a comparison of the responses over time.<sup>2</sup> The citizens' assessment of local services showed that large numbers of respondents were dissatisfied with social services. Thus, 57 per cent of the respondents assessed social assistance as being of poor quality and 48 per cent reported that employment services in their locality were of poor quality.

1 City of Bijeljina and the municipalities of Gradačac, Ilijaš, Laktaši, Ljubuški, Nevesinje and Tešanj.

2 Although only representative of the sampled municipalities, the survey results could be interpreted as a reflection of the wider community. The responses provided a more detailed insight into the availability of facilities and services in the communities and added the dimension of personal connections.



In terms of care facilities for the elderly, 33 per cent said that they do not exist, 11 per cent reported high prices and 33 per cent did not know. Satisfaction with childcare services was higher whereby 44 per cent of respondents did not report problems and only 12 per cent reported poor quality. When assessing health services, education and public transport, 23 per cent, 21 per cent and 21 per cent of respondents respectively marked these services as being of poor quality. Considering other local public services, 43 per cent of respondents were of the opinion that the roads and bridges in their locality are of poor quality. Higher satisfaction was reported when it came to water supply and sewage, waste collection and electricity supply with 68 per cent, 75 per cent and 66 per cent respectively responding that they do not have any problems. However, 28 per cent complained of high prices for electricity.

The survey showed that social cohesion and connections, including ethnicity<sup>3</sup>, have weakened over the past decade. Social ties with people within their own ethnic group, with other ethnic groups and with people leading a different lifestyle had all declined over the past decade. The survey showed that people today are less likely to interact with members of a different ethnic group at work, in education or through social or cultural activities or even to drive through one another's territory compared to a decade ago and are far less likely to have such contacts now than they were prior to the conflict.

**The key findings of the case study resonate with key issues revealed by the institutional analysis, providing validation but also a people's voice on social inclusion issues in Bosnia and Herzegovina.**

The report's review of social inclusion support mechanisms in Bosnia and Herzegovina reveals a set of fragmented political, administrative and economic institutions and a social sector that based on its current funding arrangements is incapable of ensuring the equitable provision of essential social goods and services for all. While the majority of those who were denied access to these rights are indistinguishable from their fellow citizens, persons with disabilities, members of disfavoured minorities and those without social or economic resources were most at risk.

3 Around 96 per cent of the population of Bosnia and Herzegovina belongs to one of the three constituent peoples: Bosniak, Serb and Croat. The term 'constituent' refers to the fact that these three groups are mentioned explicitly in the Constitution and that none of them can be considered a minority or as immigrants. The term 'ethnic group' is widely embraced and is therefore used in this report interchangeably with the term 'constituent people'. In addition to its constituent peoples, Bosnia and Herzegovina is also home to many national minorities including Jewish, Roma, Albanian and Macedonian people.

Over the past 25 years, Bosnia and Herzegovina has changed from a country with relatively low inequality and high social mobility, based on equitable access to social goods, into a country with a relatively high level of inequality and low social mobility.

## An enabling environment for human development

**Bosnia and Herzegovina is classified as an upper middle-income country.** As a former republic of the Socialist Federal Republic of Yugoslavia, Bosnia and Herzegovina inherited a fully articulated modern system of education, healthcare, social insurance and social assistance. Although the basic structures of the system remain in place today, the consecutive impact of the conflict of the 1990s, economic transition, external economic shock, austerity policies, low growth and rising inequality have left many parts of the system unable to provide the quality of care and equality of access required by citizens.

**The legislation and institutions meant to ensure fundamental rights, non-discrimination and gender equality in Bosnia and Herzegovina are largely in place but enforcement remains insufficient.** The effective enforcement of fundamental rights requires the strengthening of the administrative capacities and the provision of adequate resources. The European Commission assesses that equality is not ensured for all citizens. Protection and inclusion of vulnerable groups remains inadequate, in particular for persons with disabilities, children, LGBTI persons, the Roma community, detainees, migrants and asylum seekers.<sup>4</sup>

**Economic and human development challenges existed in Bosnia and Herzegovina prior to the COVID-19 crisis but the pandemic has underlined the seriousness of these challenges.** The World Bank warned in its latest Regular Economic Report (RER) that in 2020 Bosnia and Herzegovina was expected to slip into its worst recession in 25 years. Real GDP growth was projected to contract by 3.2 per cent in 2020, because of the slowdown in the most productive sectors, the weaker external environment and the political uncertainty.<sup>5</sup>

Generally speaking, improvements in welfare in Bosnia and Herzegovina were interrupted as the COVID-19 crisis pushed the economy into recession. Safety nets have proven to be essential in providing direct support to poor and vulnerable households to help ensure their basic consumption and protect them from sudden loss of income and the rising cost of essential goods and services.

The COVID-19 crisis has highlighted the inefficiencies within the social protection system in Bosnia and Herzegovina. Its mechanisms have been shown to be unsuccessful in supporting groups vulnerable in the event of adverse economic shocks, while expenditure on social assistance has failed to target the poorest. The current crisis underlines the need for the authorities to accelerate structural reforms in order to compensate for the loss in output.

<sup>4</sup> Communication from the Commission to the European Parliament and the Council. Commission Opinion on Bosnia and Herzegovina's application for membership of the European Union. Brussels, 29.5.2019 COM(2019) 261 final.

<sup>5</sup> World Bank, *Western Balkans Regular Economic Report No.18*, Autumn 2020.

## The demographic challenge

The review of the social sector systems was set against the backdrop of the **demographic trends** in Bosnia and Herzegovina and the correlation is clear. The report shows that access to and the quality of social/public services influence population movement and that the drop in population numbers will have an effect on the cost and functioning of the social sector systems in the long term.

**Bosnia and Herzegovina is ageing and shrinking demographically.** The final results of the 2013 Bosnia and Herzegovina Census<sup>6</sup> found a total population of 3.53 million. With a life expectancy at birth of 77.2 years, the country compares well with its neighbours and the more developed EU countries. Yet like the majority of the countries in the region and the EU Bosnia and Herzegovina experiences negative natural increase rates. Another issue of concern is the internal movement of the population with some regions steadily losing residents due to internal migration. The current demographic dynamics will gradually result in a population that is both smaller and older over the coming years, especially in certain regions of the country.

**The main driver of population decline in Bosnia and Herzegovina is sustained and increasing emigration.** While the country experienced post-conflict education and labour migration, the pattern changed in 2014 when emigration increased and more recently it has shifted from single young adults to whole families. Emigration of young families was the highest priority concern raised by its citizens during the household survey.<sup>7</sup> The predominant destination for emigrants from Bosnia and Herzegovina was the United States of America (especially prior to the 2012 global financial crisis) and more recently Germany, Slovenia and Austria. The three topmost reasons why respondents were considering leaving the country were economic reasons (71 per cent), the unstable political situation (66 per cent) and the future of their children (61 per cent).



<sup>6</sup> Republika Srpska registered an objection to the methodology used in the 2013 census and the entity continues to dispute the results of the census. Included among the measures set out in the key short-term priorities for the Council of Ministers of Bosnia and Herzegovina, the entities and the EU is the adoption of a road map for the preparation of the next population census in 2020/2021. Annex to the Retreat Conclusions of the High Level Retreat on Medium Term Socio Economic Reforms, held in Bijeljina on 13 February 2020.

<sup>7</sup> Social Impacts of COVID-19 in Bosnia and Herzegovina: Household Survey. Available from [www.ba.undp.org/content/bosnia\\_and\\_herzegovina/en/home/library/publications/SocialImpactAssessment.html](http://www.ba.undp.org/content/bosnia_and_herzegovina/en/home/library/publications/SocialImpactAssessment.html).

## Education

The purpose of mandatory public education is to ensure that all members of society have the necessary skills to function as informed members of society and to support themselves as workers in the labour market.

**While administrative units in Bosnia and Herzegovina have similar responsibilities within the education sector the implementation of education policies has resulted in very different levels of social inclusion.** Territorial division has resulted in somewhat different policies within education and considerable variance throughout the country in terms of spending per pupil on primary and secondary education. This has resulted in different levels of social inclusion of children from vulnerable backgrounds in the education system. In general, the main factors that have contributed to the weak outcomes are fragmentation, substantial fiscal variation and a lack of coordination and common teaching standards.<sup>8</sup>

**Bosnia and Herzegovina spends 4.3 per cent of GDP on public education, which is in line with the average in the countries of the region and the EU.**<sup>9</sup> The budget and responsibility for education in Bosnia and Herzegovina is devolved to the entities and within the Federation of Bosnia and Herzegovina to the cantons and subsequently to the municipalities. There are 14 different ministries or departments responsible for education in Bosnia and Herzegovina. State level competence primarily takes the form of internal coordination, representing the country at the international level and overseeing the implementation of framework legislation. Demographic changes have resulted in a gradual decrease in the number of pupils enrolled at all levels of education in Bosnia and Herzegovina.

According to the World Bank's Human Capital Index,<sup>10</sup> the expected future productivity (as a future worker) of a child born today in Bosnia and Herzegovina is 62 per cent of what it would be if he or she was in full health and had completed a high quality education. This reflects a serious human capital crisis, with strong implications for economic growth and the ability to end extreme poverty by 2030. The European Commission assesses that the enrolment policies are inefficient in terms of channelling pupils into fields of study that are in demand in the labour market.<sup>11</sup>



Source: The World Bank Human Capital Index, 2018.

Source: National Human Development Report on Social Inclusion in Bosnia and Herzegovina, 2021.

8 United Nations, *Socio-economic Impact Assessment of the COVID-19 crisis in Bosnia and Herzegovina*.

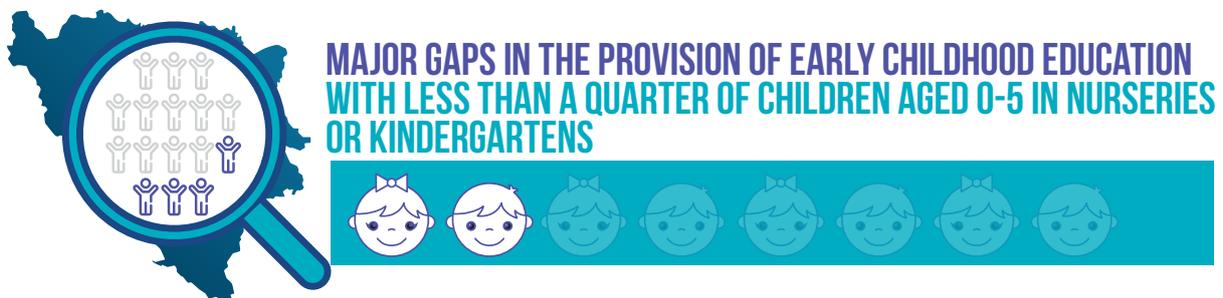
9 Agency for Statistics of Bosnia and Herzegovina, *Gross Domestic Product by Production, Income and Expenditure Approach 2016*, Sarajevo, 2018. Available from [http://bhas.gov.ba/data/Publikacije/Bilteni/2019/NAC\\_00\\_2017\\_Y1\\_0\\_BS.pdf](http://bhas.gov.ba/data/Publikacije/Bilteni/2019/NAC_00_2017_Y1_0_BS.pdf).

10 The Human Capital Index measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where he or she lives. It is designed to highlight how improvements in current health and education outcomes shape the productivity of the next generation of workers, assuming that children born today experience the educational opportunities and health risks that children in this age range currently face over the next 18 years.

11 Commission Staff Working Document. Analytical Report. Accompanying the document *Communication from the Commission to the European Parliament and the Council*. Commission Opinion on Bosnia and Herzegovina's application for membership of the EU. Brussels, 29.5.2019 SWD(2019) 222 final.

**In Bosnia and Herzegovina 15-year-olds score lower than the OECD average for reading, mathematics and science but are within the range of the countries of the region.** In the Programme for International Student Assessment (PISA) a smaller number of pupils from Bosnia and Herzegovina scored at the highest level of proficiency in at least one subject in comparison to the OECD average, while a smaller proportion of pupils from Bosnia and Herzegovina scored the minimum level of proficiency in at least one core subject compared to the OECD average. On the positive side, it should be stressed that equity in education was higher in Bosnia and Herzegovina than the OECD average with girls and boys performing equally well in mathematics and science. The gap between the scores of socioeconomically advantaged and disadvantaged pupils was significantly lower than the OECD average with just 13 per cent of disadvantaged pupils scoring in the top quarter on reading performance.

**Less than a quarter of children in Bosnia and Herzegovina attend early childhood education and there is pronounced social exclusion among Roma people and rural children.** Less than a quarter of children aged 2-5 attend some form of early childhood education (Federation of Bosnia and Herzegovina 22 per cent, Republika Srpska 22.5 per cent), while only 1.5 per cent of Roma children attend these programmes.<sup>12</sup> Improvements were visible in the proportion of children attending the one-year pre-primary programmes, with approximately half of all children entering first grade having participated in a preparatory programme (Federation of Bosnia and Herzegovina 57 per cent, Republika Srpska 35-45 per cent). The low number of children attending nurseries and kindergartens can be attributable to a lack of sufficient space in public nurseries and kindergartens, especially in rural areas. Another factor is household income and the high cost of both public and private facilities.



**Compulsory primary education is effective in reaching almost all children, irrespective of their location or family situation.** During the 2011/2012 school year, a MICS survey found that the proportion of children of primary school age attending school was high for all groups across the country as a whole at 98 per cent for both boys and girls. However, the primary school attendance rate for families in the poorest income quintile was lower at 95.4 per cent and the social inclusion of Roma children in education was lower compared to other pupils. Roma children enter primary school later (only 47 per cent of Roma six-year-olds were enrolled in the first grade), although their number increases in the second and higher grades (67 per cent of Roma seven-year-olds and 80 per cent of Roma eight-year-olds). Dropout rates for Roma children remained considerably higher, especially in higher grades, while secondary school attendance for Roma children was significantly lower compared to the majority population.

**Children with disabilities are included in mainstream education in Bosnia and Herzegovina, although most schools are not ready to accept them because they lack the required**

**infrastructure and transportation.** Teachers are not trained sufficiently in the use of adequate learning methods for work with children with disabilities and in general are unable to provide them with the necessary individual support they need. There is a lack of school assistants to support both children and teachers.<sup>13</sup> In terms of gender balance, girls make up a third of all pupils in schools for children with special needs at each stage of education.

**Social inclusion of children from vulnerable groups in secondary education represents a challenge for Bosnia and Herzegovina.** The 2010–2011 UNICEF MICS surveys found that 92 per cent of children of secondary school age were in secondary education, in both the Federation of Bosnia and Herzegovina and Republika Srpska. On the positive side, UNICEF found that attendance by girls had increased and that attendance of children living in rural areas had also increased slightly in comparison to previous surveys. Yet there was a sharp decline in the transition rate from primary to secondary school for vulnerable children. Place of residence and the family situation play a greater role when education becomes optional at the secondary level.

**A lack of motivation, lack of parental support, the need to work, moving to another country and a lack of transportation are among the most important causes of school dropout.** The children most at risk are those from socially vulnerable families whose parents are unemployed and lack the basic financial resources. Children with disabilities, Roma children and children living in dysfunctional families who experience domestic violence are frequently excluded socially. Children in agricultural households are also often under pressure to join in seasonal work. The cost of transportation or rented lodgings represent a significant barrier to continuing their education at either a vocational or an academic institution for children from smaller towns and rural villages and lower income groups.<sup>14</sup>

**Globally, the COVID-19 pandemic has disrupted the education of children and youth and threatens to exacerbate social inclusion and the existing learning inequalities.** In light of the countrywide school closures in March 2020, the education authorities in Bosnia and Herzegovina initiated e-learning. Available data shows that 99 per cent of children and youth enrolled in primary, secondary and tertiary education had basic access to e-learning. However, children and youth out-of-school and without adequate access to information and communication technologies and the internet were deprived of e-learning. Roma children were disproportionately affected, representing at least 6 per cent of children without access to ICT and the internet. Preschool children were the largest group required to learn from home during the lockdown: 82 per cent of preschool children had their attendance interrupted during the preschool closure between mid-March and mid-May 2020. When schools fully reopen, special measures will be needed to ensure that vulnerable children are reintegrated into supportive educational institutions.

## Recommendations

MEASURE	PRIORITY	RESPONSIBILITY
To improve the social inclusion of children from vulnerable groups ensure that free transportation is available for all primary school pupils along with a midday school meal and textbooks.	Immediate	Municipalities and the education authorities

<sup>13</sup> Commission Staff Working Document. Analytical Report. Accompanying the document *Communication from the Commission to the European Parliament and the Council*. Commission Opinion on Bosnia and Herzegovina's application for membership of the EU. Brussels, 29.5.2019 SWD (2019) 222 final.

<sup>14</sup> Zevčević, I., 2018.

Establish an inter-sectorial commission for the National Qualifications Framework. <sup>15</sup>	Immediate	Education authorities
Ensure a fully functional system for the re-accreditation of higher education institutions throughout the country.	Immediate	Education authorities and academia
Invest in ensuring digital connectivity for every child and increase the quality of e-learning. Continue to improve access to e-learning and ensure that there are no out-of-school children and youth.	Immediate	Education authorities and municipalities
Identify and support teachers who lack digital skills and provide them with the resources to improve their digital skills and the quality of their e-teaching.	Immediate	Education authorities
Ensure equitable funding for education. Review current per pupil funding levels for primary and secondary education. Establish a needs-based coefficient for pupils with disabilities.	Medium-term	Education authorities and municipalities
End ethnically segregated education. Create a set of guidelines for inclusive education. Ensure social inclusion at all stages of education.	Medium-term	Education authorities and municipalities
Create an affordable early childhood education system through universal affordable high quality day care. Establish a nationwide system of licensed day care centres.	Medium-term	Education authorities and municipalities
Ensure mandatory pre-primary education. Ensure investment in accessible preschool education.	Medium-term	Education authorities and municipalities
Ensure equitable access to secondary education. Ensure free public transportation for all secondary school pupils.	Medium-term	Education authorities and municipalities
Develop a Vocational Education and Training Strategy that addresses the needs of the labour market.	Medium-term	Education authorities, municipalities, labour unions and employers groups
Develop and implement youth strategies throughout the country.	Medium to long-term	Education authorities and municipalities
Create access to alternate means of completing school and expand access to equivalent general education and apprenticeship programmes.	Medium to long-term	Education authorities and municipalities

<sup>15</sup> According to the UNESCO-UNEVOC definition, the National Qualifications Framework (NQF) is a formalised structure in which learning level descriptors and qualifications are used in order to understand learning outcomes. It is a system that records the credits assigned to each level of learning achievement in a formal way to ensure that the skills and knowledge are recognised throughout the country. NQF also includes a set of principles and guidelines by which records of learner achievement are registered in order to enable national recognition of acquired skills and knowledge, thereby ensuring an integrated system that encourages life-long learning. It also allows for the ability to develop, assess and improve quality education in a number of contexts. A total of 47 countries participating in the Bologna Process are committed to producing a National Qualifications Framework.

Develop curricula and teacher training reforms. Reform initial teacher education needs in line with developed qualification and occupational standards.	Medium to long-term	APOSO and the education authorities, national education specialists and NGOs and teachers and parents' organisations
Align legislation at all levels with the EU Framework laws on education, particularly in terms of the mandatory application of the Common Core Curriculum.	Medium to long-term	Education authorities and academia

## Healthcare

As the basic purpose of any healthcare system is to keep people active and healthy for as long as possible, an adequate healthcare system is central to the concepts of human development and social inclusion.

**The Constitution of Bosnia and Herzegovina delegates the responsibility for the provision of healthcare to the two entities and Brčko District.** There is no state level ministry of health, although the Ministry of Civil Affairs is responsible for national coordination and international strategies related to health.<sup>16</sup> Bosnia and Herzegovina has a total of 13 health insurance funds and 13 ministries or departments responsible for the provision of healthcare services. There is limited capacity for statistical governance, which is a prerequisite for evidence-based policy, because of the lack of harmonisation and cooperation between the different levels of government.<sup>17</sup> The healthcare sector in Bosnia and Herzegovina suffers from chronic and mounting arrears, an ageing and shrinking population and an exodus of healthcare workers.<sup>18</sup>

**Compared to its neighbours, Bosnia and Herzegovina has a pattern of relatively higher costs and lower health outcomes.** The country has the highest level of healthcare expenditure in the region as well as the highest levels of health insurance contributions and a high proportion of private and out-of-pocket payments. Total health spending (including out-of-pocket private expenses) was 8.9 per cent of GDP in 2018 and 9.2 per cent in 2019. It is expected that the ratio of health funding would increase in 2020 as a consequence of COVID-19 related health expenditure and the contraction of GDP. This is far above the other countries in the region and higher than in more developed countries in South East Europe, which have substantially better health outcomes.

**High healthcare expenditure is in part a result of the highly fragmented nature of the health system in Bosnia and Herzegovina.** The system entails substantial duplication, hinders coordination across administrative boundaries and creates inefficiency.<sup>19</sup> The system in itself negatively affects service provision and increases administrative and coordination costs.<sup>20</sup> The fragmented financing and management of the health system in Bosnia and Herzegovina is producing chronic debt and

16 Article 15 of the Law on Ministries and Other Administrative Bodies of Bosnia and Herzegovina of 2003.

17 Commission Staff Working Document. Analytical Report. Accompanying the document *Communication from the Commission to the European Parliament and the Council*. Commission Opinion on Bosnia and Herzegovina's application for membership of the EU. Brussels, 29.5.2019 SWD(2019) 222 final.

18 Martić, M and O. Đukić, 2018 and Obradović, N., 2019b.

19 Llaudes, R., et al., 2015 and Martić, M. and O. Đukić, 2017.

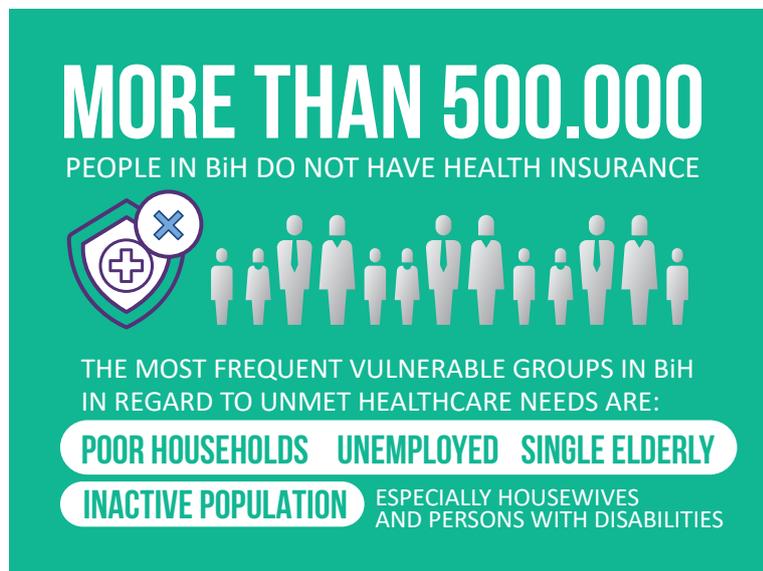
20 UNICEF, UNDP, *Social Impacts of COVID-19 in Bosnia and Herzegovina: Household Survey*, 2020.

fiscal instability in the health sector. Furthermore, it creates very different levels of average per capita expenditure across the country with per capita expenditure in Sarajevo Canton, for example, at nearly double that of the Central Bosnia Canton.

**Prior to the pandemic, the entity governments committed to comprehensive health reforms in the updated Joint Socio-Economic Reforms for the Period 2019–2022.**<sup>21</sup> In this document, the entity governments pledged to improve accessibility to and the quality, efficiency and sustainability of healthcare for all citizens. They also pledged to ensure well-managed, good quality and accessible public healthcare for all citizens, including marginalised groups, by strengthening preventive care and expanding the scope and depth of primary care. A part of the proposed reforms was a pledge to shift the financing of health insurance from the current arrangement of multiple health insurance funds to the budget authority of each entity and to reduce the level of beneficiary monthly contributions.

**Life expectancy in Bosnia and Herzegovina is similar to that of the countries of the region and continues to improve.** With a life expectancy at birth value of 77.2 years and a steady rise in life expectancy and a gradual reduction in the gender gap Bosnia and Herzegovina compares well with the other Western Balkans countries. In terms of healthy life expectancy (65.7 years), the country lags behind the more developed countries but is similar to Bulgaria, Romania, Serbia, Montenegro and North Macedonia.

**By ratifying the European Social Charter<sup>22</sup> in 2008, Bosnia and Herzegovina accepted the obligation to provide everyone, including the uninsured, with access to healthcare. Yet in practice many people still lack adequate health coverage.** Current estimates suggest that only 78 per cent of the population of Republika Srpska and 86 per cent of the population of the Federation of Bosnia and Herzegovina are covered by health insurance.



From the social inclusion perspective, the most vulnerable groups in Bosnia and Herzegovina with regard to unmet healthcare needs are poor households, population groups without insurance, the unemployed and the single elderly (especially women) and the inactive populations (especially housewives and persons with disabilities). The data shows that more than half a million people in Bosnia and Herzegovina do not have health insurance. It also shows that about 20 per cent of the poor

and vulnerable population is without insurance coverage and lack effective access to necessary care. Those households headed by a male in full-time employment are least likely to report unmet healthcare needs (2 per cent), while those headed by an unemployed person were twice as likely to

21 Bosnia and Herzegovina Economic Reform Programme for 2019–2021, January 2019, Sarajevo.

22 Article 13.1 of the European Social Charter.

report unmet healthcare needs (4 per cent). The highest rates were those reported by households headed by a single elderly person (9 per cent) or a single female and those unattached to the labour market (8 per cent).

**The highly fragmented system of health provision in Bosnia and Herzegovina was inadequately prepared for the COVID-19 pandemic.** Medical supplies, technical aid and funding to support the country’s response to COVID-19 was provided by the EU, IMF, World Bank and numerous bilateral donors. In regard to the response of the health sector to the COVID-19 crisis in Bosnia and Herzegovina, the World Health Organization’s Gap Analysis and Recommendations<sup>23</sup> point to a general lack of strategic planning and coordination among the health/crisis management authorities, inadequate crisis management skills and imperfect coordination between public and private healthcare. It further points to challenges related to case management and a general lack of staff (epidemiologists, infectious disease specialists and microbiologists) and a lack of adequate expertise, including having common databases and issuing clear coordinated guidelines to critical services such as primary healthcare and border controls.

## Recommendations

MEASURE	PRIORITY	RESPONSIBILITY
Ensure that health insurance funding is shifted to the entity budgets. Initiate a consolidation of the registrations of all those currently insured into one comprehensive database in each entity. Initiate outreach to and registration of all those who are not currently covered by health insurance.	Immediate	Health authorities and finance authorities
Undertake a comprehensive review of the existing healthcare institutions and providers as well as regulatory bodies responsible for licensing, oversight and monitoring of professional standards.	Immediate	Health authorities
Establish national and entity standards for doctors and for the patient-hospital bed <sup>24</sup> and time-and-distance to emergency care services ratios. <sup>25</sup>	Immediate	Relevant ministries with input from national experts
Perform in-depth research into out-of-pocket health expenses and use the results to adjust social assistance in order to reduce inequity in access to health protection and broaden insurance coverage.	Immediate to medium-term	Relevant ministries with input from national experts and specialised NGOs

23 WHO, *Bosnia and Herzegovina Gap Analysis and Recommendations*, 24 July 2020.

24 The World Health Organization promulgates the desired doctor–population ratio as 1:1,000.

25 There appears to be an association between increased journey time distance to a hospital and increased risk of mortality.

<p>Prioritise programmes in primary healthcare, including options for the development of telemedicine.<sup>26</sup></p>	<p>Immediate to medium-term</p>	<p>Relevant ministries with input from national experts</p>
<p>Implement health sector reform based on best international practice in order to ensure short and long-term financial sustainability whilst keeping the universal open access system. Create a task force to oversee the development of a medium-term plan for providing high quality public healthcare to all throughout the territory of Bosnia and Herzegovina.</p>	<p>Medium-term</p>	<p>Health authorities with input from the schools of medicine, professional medical bodies and representatives of patients' rights organisations</p>

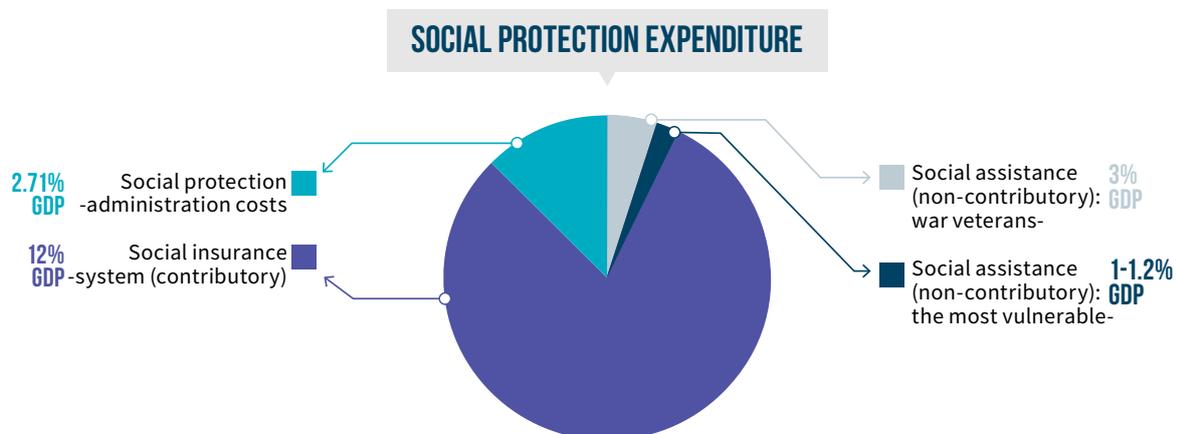
<sup>26</sup> This recommendation is in reference to the NHDR section that elaborates on the impact of COVID-19 and its negative effect on the health system. Furthermore, the rise in demand for telemedicine among citizens in Bosnia and Herzegovina is confirmed by the UNDP and UNICEF Social Impact of COVID-19: Household Survey wherein 33 per cent of people in Bosnia and Herzegovina chose telemedicine as their preferred digital service because of reduced access to services and healthcare. This research confirmed that 13 per cent of people had unmet health needs that did not arise from COVID-19, 24 per cent could not access primary health services, 18 per cent could not access hospitals and 10 per cent mental health services. Telemedicine could breach these gaps.

## Social Protection

The purpose of social insurance and social assistance is to ensure that members of society who are not or no longer capable of supporting themselves for reasons of age, disability, unemployment, care responsibilities or other reasons are able to continue to live with dignity in their community.

**Social assistance in Bosnia and Herzegovina varies between the entities, cantons and municipalities.** The highly fragmented governance structure in Bosnia and Herzegovina has resulted in differences not only in eligibility criteria but in coverage, targeting, efficiency, availability and the level of benefits based on place of residence rather than level of need. According to the most recent World Bank calculations, 16.8 per cent of the population receives some form of social transfer but coverage of the poorest quintile remains low compared to countries of similar per capita income levels.

**Bosnia and Herzegovina falls within the mid-range level of expenditure on social protection and has the highest proportion of funding spent on administrative costs and status based benefits among the countries of the region.** Bosnia and Herzegovina spends slightly less than 19 per cent of GDP on social protection, while approximately 4 per cent of GDP is spent on social assistance.<sup>27</sup> Bosnia and Herzegovina has by far the highest proportion of expenditure on war survivors and disability benefits and by far the very lowest proportion spent on family and child benefits in comparison to other countries in the region.<sup>28</sup>



Bosnia and Herzegovina spends 18.8% of its GDP on social protection. 2.7% of GDP is spent on social protection administration, while the remaining 16% of GDP is distributed as benefits. Of this amount, 12% of GDP is earmarked for the social insurance system, while 4% of GDP is spent on the social assistance system. Further analysis of the social assistance system reveals that 3% of GDP is spent on the status-based benefits of war veterans, while approximately 1.2% of GDP reaches the most vulnerable people.

**Social assistance funding in Bosnia and Herzegovina is chronically under-resourced and sometimes inaccessible, with wide inequality in terms of access across the cantons and municipalities.** The inadequate amount of benefits is almost completely ineffective in reducing the risk of poverty for those who do receive such benefits. Only 1.9 per cent of the total population and 6.2 per cent of the poorest benefit from means tested permanent and/or one-off social assistance, which is a very low level of coverage compared to other countries in Europe.<sup>29</sup> The existing social assistance system creates inequality among its citizens based on both their place of residence

27 World Bank (2009, OECD 2012), IMF Laudes, et al. (2015), Numanović, A., (2016a), Obradović, N. (2019b).

28 United Nations Socio-economic Impact Assessment of the COVID-19 crisis in Bosnia and Herzegovina.

29 World Bank, Report No: PAD3856, 2 April 2020, p. 15.

(territorial inequality, especially in the Federation of Bosnia and Herzegovina) and the social category to which they belong (status-based inequality).<sup>30</sup>

**Social services remain underdeveloped and hugely underfunded.** The financing of social services consumes only a fragment of the overall social protection funds and most funding for social services is channelled into the financing of institutionalised care. The situation in smaller towns and rural areas is even worse than in bigger towns and cities both in terms of the existence and access to community based social services.<sup>31</sup> The performance of social service providers at the local level is affected by significant challenges in terms of human, financial and technical capacities.

**Pensions are the most significant factor in the economic stability of families in Bosnia and Herzegovina.** Pensions were the main source of income for nearly 30 per cent of households in 2019, while earned income was the main source for less than 30 per cent of households. The pension replacement rate was 44.3 per cent of the average net wage in the Federation of Bosnia and Herzegovina and 41.9 per cent in Republika Srpska.<sup>32</sup> The average replacement rates in Bosnia and Herzegovina are more or less in line with comparable countries in the region but are more than 10 percentage points below the EU average.<sup>33</sup>

**Child allowance varies between the entities and among the cantons and municipalities of the Federation of Bosnia and Herzegovina.** Child benefit is generally means tested against an income threshold that also varies between the entities and across the cantons and municipalities and increases incrementally depending on the number of children, cases of child disability and other factors.

**Only a minority of the unemployed have access to unemployment benefit and the income replacement rate is too low to maintain these recipients out of poverty.** Only 2.8 per cent of the registered unemployed received unemployment benefit in 2017.<sup>34</sup> Unemployment benefit is set at a replacement rate of 40 per cent of the average net salary in the Federation of Bosnia and Herzegovina and from 40 per cent to 45 per cent in Republika Srpska. In comparison, the unemployment benefit replacement rate in the countries of the EU ranges between 60 per cent and 80 per cent.

**Almost a third (31.6 per cent) of children aged 5 to 15 are at a risk of poverty in Bosnia and Herzegovina.** Children in female-headed households and families with two or more children are substantially more likely to be poor. The 2015-2018 Action Plan for Children has not been implemented adequately due to insufficient funding and a lack of coordination. According to an analysis conducted in 2016 by UNICEF, there are around 1,640 children without parental care in the country of which 49 per cent live in residential institutions. Only a small number of cases of violence against children is reported and this results in few cases being brought before the courts.

**Persons with disabilities are among the most vulnerable groups in Bosnia and Herzegovina.** The country has ratified the Convention on the Rights of Persons with Disabilities and its Optional Protocol. However, multi-sector and comprehensive implementation mechanisms are not in place.

30 Numanović, A., 2016a.

31 UNICEF, UNDP, Social Impacts of COVID-19 in Bosnia and Herzegovina: Household Survey, 2020.

32 The 2019 Bulletin of the Pension and Disability Fund of the Federation of Bosnia and Herzegovina and the 2019 Bulletin of the Pension and Disability Fund of Republika Srpska.

33 Eurostat database, aggregate pension replacement rates. Available from <https://ec.europa.eu/eurostat/databrowser/view/tespn070/default/table?lang=en>.

34 Numanović, A., 2016b.

The legislation allows persons with disabilities to be deprived of legal capacity through a judicial process, which is a violation of the Convention. Support provided to persons with disabilities is limited and varies depending on the origin of the disability, because persons with war related disabilities enjoy priority over other persons with non-war related disabilities. Very few public buildings are accessible to persons with physical disabilities.

**Roma people are the most vulnerable and disadvantaged minority in Bosnia and Herzegovina.**

Roma women in particular face multiple forms of discrimination. Despite recent improvements, housing conditions for the Roma population in Bosnia and Herzegovina remain inadequate with many Roma people living in informal settlements. The legalisation of settlements is ongoing but uneven. Roma people face the highest level of discrimination in terms of employment opportunities and are almost completely absent from the workforce, working instead in the informal sector.

**The legislation on equality between women and men is largely in place, but the implementation of both policy and legislation is ineffective.**

The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) is one of the human rights agreements to be applied in Bosnia and Herzegovina and yet women remain underrepresented in politics and in public life.

**The COVID-19 crisis has had a significant negative impact on the already weak social protection system in Bosnia and Herzegovina and across the Western Balkans region.**

The World Bank predicted that because of the COVID-19 crisis poverty in Bosnia and Herzegovina would rise from an estimated 11.8 per cent in 2019 to 12.9 to 14.6 per cent in 2020. The social impact in terms of increased poverty, exclusion, precarity and vulnerability are likely to be both severe and long lasting.<sup>35</sup>

**Recommendations**

MEASURE	PRIORITY	RESPONSIBILITY
Ensure adequate funding and staffing of the centres for social welfare and improve coordination with other relevant agencies.	Immediate to mid-term	Relevant ministries and authorities, municipalities and social service providers
Reform the social assistance targeting system so that benefits are based on needs and not on the status of the beneficiary. Define minimum monetary social security.	Immediate to mid-term	Relevant ministries and authorities, municipalities and social service providers
Develop and adopt new action plans on child protection at the entity level.	Immediate to mid-term	Relevant ministries and institutions as well as CSWs and NGOs
Ensure uniform child benefit. Review the current unequal access to child benefit prevailing in the Federation of Bosnia and Herzegovina and replace it with a uniform benefit based on a set proportion of the locally prevailing cost of living.	Immediate to mid-term	Relevant ministries, institutions and CSWs

<sup>35</sup> Friedrich-Ebert-Stiftung and the Centre for Social Policy, *Social Protection in the Western Balkans: Responding to the COVID-19 Crisis*, 2020.

Promote foster care and alternative solutions for children without parental care. Provide support measures for children leaving care institutions at the age of 18.	Immediate to mid-term	Relevant ministries, institutions, CSWs and specialised NGOs
Develop social policy and employment policy, under the SAA.	Immediate to mid-term	Relevant state, entity ministries, the Government of Brčko District and NGOs
Implement the recommendations of the United Nations Committee on the Rights of Persons with Disabilities from 2017.	Immediate to mid-term	Relevant state and entity ministries, the Department in Brčko District and NGOs
Improve the protection and inclusion of vulnerable groups. Create mechanisms for collecting exact and consistent data on child poverty rates and violence against all children, including children with disabilities, Roma children, and girls.	Immediate to mid-term	Relevant state and entity ministries, the Department in Brčko District, the statistical offices, the Roma Committee and NGOs
Eliminate the excess administrative burden in the social protection system by improving the Management Information System and the development of digitalised social services.	Medium-term	Relevant ministries and authorities and municipalities
Ensure uniform maternity entitlements. Introduce a uniform minimum level of maternity leave benefits and protection throughout the country. Start by harmonising the definitions of maternity, paternity and parental leave.	Medium-term	Relevant ministries and institutions, the labour unions and employers' groups
Reform the unemployment benefit system in a way that will make it more inclusive (non-contributory).	Medium-term	Relevant ministries and institutions, the labour unions and employers' groups
Create a network of adult day care and respite care facilities for people with disabilities and elderly persons in need of care.	Medium-term	Entity ministries and the Department in Brčko District, municipal and city administrations, CSWs and NGOs
Where feasible, consider instituting legislative changes related to implementation of the fiscal equalisation mechanisms.	Medium to long-term	Relevant state and entity ministries, the Government of Brčko District and NGOs

## Labour Market

After family, community and school, the labour market is a major focus of social contact and integration. Participation in the work force is not only a source of income and social insurance but of social interaction, peer respect and a sense of self-worth.

**Both entities have constitutional mandates over labour and social policy legislation and this effectively creates two labour markets, each with a relatively small labour force.** The greater part of the formal labour force remains in public employment or state owned enterprises, while private sector employment is poorly regulated, insecure and subject to a range of non-standard practices due to a lack of legal oversight and enforcement. The majority of employees in the private sector are registered as working for the minimum salary.

**Despite the high level of structural unemployment, public expenditure on active labour market policies (ALMP) in Bosnia and Herzegovina is less than half the EU average.** The financing of ALMP in Bosnia and Herzegovina is low in comparison with other countries: 0.21 per cent of GDP compared to the EU28 average of 0.40 per cent of GDP. In addition, the bulk of ALMP funds go to wage subsidies and the financing of administrative expenditure. Just 2.45 per cent of the unemployed are included in active employment measures and less than one-fifth of the total number of participants involved in programmes of continued education and training, which appear to be most successful in placing their clients.<sup>36</sup> The Public Employment Service is seriously underfunded.

**Unemployment was high even before the crisis and continues to increase.** The unemployment rate in 2019 was 15.7 per cent<sup>37</sup> and has since been pushed up by the COVID-19 crisis. Retail, manufacturing, transportation and accommodation are the sectors most affected. Deeper labour market effects have been prevented by wage subsidy programmes in both entities and other policy measures targeting the affected economic sectors and aimed at improving the liquidity of companies and safeguarding against potential job losses.

**Bosnia and Herzegovina has low rates of activity and official employment and a high share of informal employment.** The Bosnia and Herzegovina labour market participation rate in 2018 was 54.2 per cent and has been in gradual decline for the past decade. It is now albeit by a small margin the lowest in the region. More than half of the inactive population was either retired (35.6 per cent), in education or training (13.4 per cent) or had some form of disability (20 per cent) that prevented them from working. The proportion of people aged between 15 and 24 in the labour market but not in employment in Bosnia and Herzegovina is the highest in the region. It is estimated that around 25 per cent of the labour force is in informal employment and therefore outside the social insurance system.

**The low average participation rate can be attributed primarily to the low number of women participating in the labour force.** The most significant factors affecting low female labour force participation are a lack of adequate childcare, care for the elderly and care for people with disabilities; the structure of family leave policies and a lack of flexible or part-time employment as well as internal migration and emigration among male workers.<sup>38</sup>

<sup>36</sup> Centre for Policy and Governance, *Active labour market measures in Bosnia and Herzegovina: Solving instead of amortising the unemployment issue*, 2020.

<sup>37</sup> Labour Force Survey.

<sup>38</sup> Atoyán, R and J. Rahman, 2017.



**People without primary school education and those with only primary education face the most difficulty in finding employment.** While secondary school graduates are nearly as successful in the labour market as those with tertiary education, people who are not in education, employment or training (NEET) and those with only a primary school education face most difficulty in finding employment.

**The formal labour market in Bosnia and Herzegovina has been unable to integrate large numbers of women, young, old, people with disabilities and disfavoured minorities.** Despite measures to improve access to employment for people with disabilities their integration into the formal labour force remains low as is the case with members of other vulnerable groups and in particular Roma people, those with incomplete or only primary school education, older workers and the lower income quintile of women with care responsibilities.

## Recommendations

MEASURE	PRIORITY	RESPONSIBILITY
Conduct a review of the public employment services. Revise the responsibilities and work methods of the public employment services and provide adequate funding to shift their primary tasks from administrative work to work with unemployed beneficiaries.	Immediate	Relevant ministries and authorities and the Government of Brčko District
Introduce flexible and part-time employment into the labour legislations, but without loss of entitlement to social benefit.	Immediate	Relevant ministries and authorities and the Government of Brčko District

<p>Develop, update, adopt and implement in a timely manner a credible mid-term recovery plan with greater emphasis on public investment, based on the mid-term arrangements with the IMF and other IFIs. Revive strategic documents such as the Bosnia and Herzegovina Economic Reform Programme (ERP 2020–2022) and the Joint Socio-Economic Reforms 2019–2022 within the context of COVID-19.</p>	<p>Immediate to mid-term</p>	<p>Relevant ministries and authorities with input from think tanks and national experts</p>
<p>Develop and adopt a comprehensive countrywide employment strategy in line with the EU orientation and ILO standards.</p>	<p>Immediate to mid-term</p>	<p>Relevant ministries and authorities and municipalities</p>
<p>Create measures and mechanisms to ensure better coordination of the active labour market policies with the social assistance programmes in order to ensure the smooth inclusion of beneficiaries into the labour market.</p>	<p>Immediate to mid-term</p>	<p>Relevant ministries and authorities and municipalities</p>
<p>Promote social dialogue at all levels and the conclusion of general collective agreements.</p>	<p>Immediate to mid-term</p>	<p>Relevant ministries and authorities and the Government of Brčko District, ILO, the labour unions and employers' groups</p>
<p>Develop an integrated initiative to improve access to employment in the formal economy, increase social insurance coverage and add revenue to the local tax base in order to fund services. Design specific measures for vulnerable workers (youth, women and informal workers) and devise a long-term plan for tackling informality in line with international labour standards and particularly ILO Recommendation 204 concerning the Transition from the Informal to the Formal Economy.</p>	<p>Medium to long-term</p>	<p>Relevant ministries and authorities and the Government of Brčko District</p>

## Inequality

**The inequality rate in Bosnia and Herzegovina falls in the mid-range among its Western Balkan neighbours and is somewhat higher than the EU average.** A common measure of inequality is the Gini coefficient, which measures the proportional distribution of income. The most recently (2015) calculated Gini for Bosnia and Herzegovina was 0.33, which fell in the mid-range among its Western Balkan neighbours and was somewhat higher in comparison with the EU inequality level average of 0.31 in 2015.

**Inequality has increased while social mobility has been reduced over the last decades in Bosnia and Herzegovina.** Over the past 25 years, Bosnia and Herzegovina has changed from a country with relatively low inequality and high social mobility, based on equitable access to social goods, to a country with increased inequality and low social mobility. Between 1985 and 2005, Bosnia and Herzegovina moved from relatively egalitarian income distribution to a more unequal society.

**There is a rising trend in the redistribution of income to the wealthiest 10 per cent of the population in Bosnia and Herzegovina.** In 1980, the lower half of the population received just over 29 per cent of national income whereas the upper 10 per cent received a just over 23 per cent. By 2004, the share of the bottom half had fallen to 23 per cent whereas the share of the upper 10 per cent had risen to 32 per cent. After 2004, the trend shifted and the curve was flattened by the 2008/2009 financial crisis; however, this divergent trend began to rise again with the beginning of the recovery in 2011. The rising trend in the redistribution of income to the upper 10 per cent was flattened by the introduction of VAT in 2006, but the massive transfer of income to the top income decile remained unaffected.

**The system of taxation in Bosnia and Herzegovina lacks a redistributive mechanism, as indirect taxation revenue is distributed based on the relative amounts collected.** The system of taxation in Bosnia and Herzegovina is deeply regressive with 17 per cent VAT on all goods and services, a flat rate of 10 per cent income tax with a low personal deduction and social insurance contributions on which there is no lower limit. In Republika Srpska nearly three quarters of its share is retained by the central government. In the Federation of Bosnia and Herzegovina close to two thirds is distributed to the cantons and the municipalities, which is done largely according to the size of the population and therefore reinforces the dynamic of the concentration of both population and wealth. A regressive taxation system with virtually no redistributive functions across income quintiles or territorial units reinforces the low level of social and economic mobility. This together with the high level of inequality in terms of access to employment and public and social services appear to be the main drivers of emigration.

**The individual taxation burden in Bosnia and Herzegovina is comparatively high and distributed disproportionately.** Social insurance contributions in the Federation of Bosnia and Herzegovina absorb 41.5 per cent, while in Republika Srpska it accounts for 32.8 per cent of gross wages with no minimum exemption or maximum contribution ceiling. Individual taxpayers also pay a flat rate of 10 per cent income tax on net wages after a personal deduction of BAM 300 per month in the Federation of Bosnia and Herzegovina, while in Republika Srpska the personal deduction amounts to BAM 500 per month. Although a revision of the tax system is currently under discussion no replacement revenue has been identified to date.

**The high cost of social insurance and the absence of either a minimum or maximum income limit on contributions discourage low wage earners from entering the formal labour market.** The immediate advantage of retaining their full gross wage makes informality preferable, despite the long-term disadvantages of lack of pension and unemployment/disability and health coverage.

At this time, reductions in the social insurance contribution rate and increases in the personal deduction are under discussion in the Federation of Bosnia and Herzegovina along with an increase in VAT from 17 per cent to 19 per cent, with the introduction of certain exclusions.

**The administrative costs of the system of government in Bosnia and Herzegovina are considerably higher than elsewhere in the region or in the EU.** While the cost of the highly fragmented governance system places an additional burden on the budget an even greater cost is the effect that this fragmentation has as a driver of increasing spatial inequality, the duplication of costs and functions and the highly complex administrative procedures that depress the growth potential of the country. Bosnia and Herzegovina devotes the smallest proportion of GDP of any of the countries of the region by a wide margin to social assistance and at the highest proportion of administrative expense.

## Recommendations

MEASURE	PRIORITY	RESPONSIBILITY
Discuss the proposal to create VAT exclusion categories. Conduct a review of VAT exclusion categories prevalent in a representative sample of EU and Western Balkan countries as the basis for proposing a list of categories for exclusion from VAT as part of the current fiscal discussion. Instigate a public discussion process involving national experts and relevant NGOs and parent and citizen interest groups.	Immediate to medium term	Relevant ministries and authorities, including the ministries of finance, municipalities, national NGOs and think tanks, the IMF and the World Bank
Create a local Cost-of-Living Index. A local cost-of-living adjusted minimum income should be established in both the Republika Srpska and the Federation of Bosnia and Herzegovina and social assistance payments should be brought up to at least that level. Establish a research team of national experts to explore options for establishing standards and identifying funding mechanisms.	Immediate to medium term	Relevant ministries and authorities, municipalities, the World Bank, national NGOs and think tanks
Prepare a study on earned income tax credits. Evaluate the cost and poverty reduction effectiveness of instituting an earned income tax credit in order to bring individuals in full or part-time formal employment up to the annual local cost-of-living adjusted minimum income.	Immediate to medium term	Relevant ministries and authorities, municipalities, the World Bank, national NGOs and think tanks
Revise the indirect taxation distribution formula. Initiate a collaborative study involving national experts at universities and research institutes with technical support from international and bilateral development actors to study the feasibility and effectiveness of options for an equitable needs-based distribution of indirect taxation revenue.	Medium-term	Relevant ministries and authorities, including ministries of finance; Municipalities; National NGOs and think tanks, IMF; World Bank



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United Nations Development Programme in Bosnia and Herzegovina,  
Zmaja od Bosne bb, 71000, Sarajevo.