

ESPN Thematic Report on Financing Social Protection in Bosnia and Herzegovina

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BiH systems of social protection and financing

- BiH is a decentralised country, made up of two asymmetrically organised entities (Federation of Bosnia and Herzegovina and Republika Srpska) and District Brčko.
- The system of social protection, which was developed before the war on Bismarckian principles, is now organised in accordance with constitutional competencies of each level of government. Hence, each entity has its own system of social protection, while FBiH also has sub-systems at cantonal level.
- Principles of fiscal federalism apply in financing government budgets and social insurance funds.
- According to CBBiH data for 2016, consolidated government social expenditure makes up 16% of country's GDP.

Dominance of Social Insurance

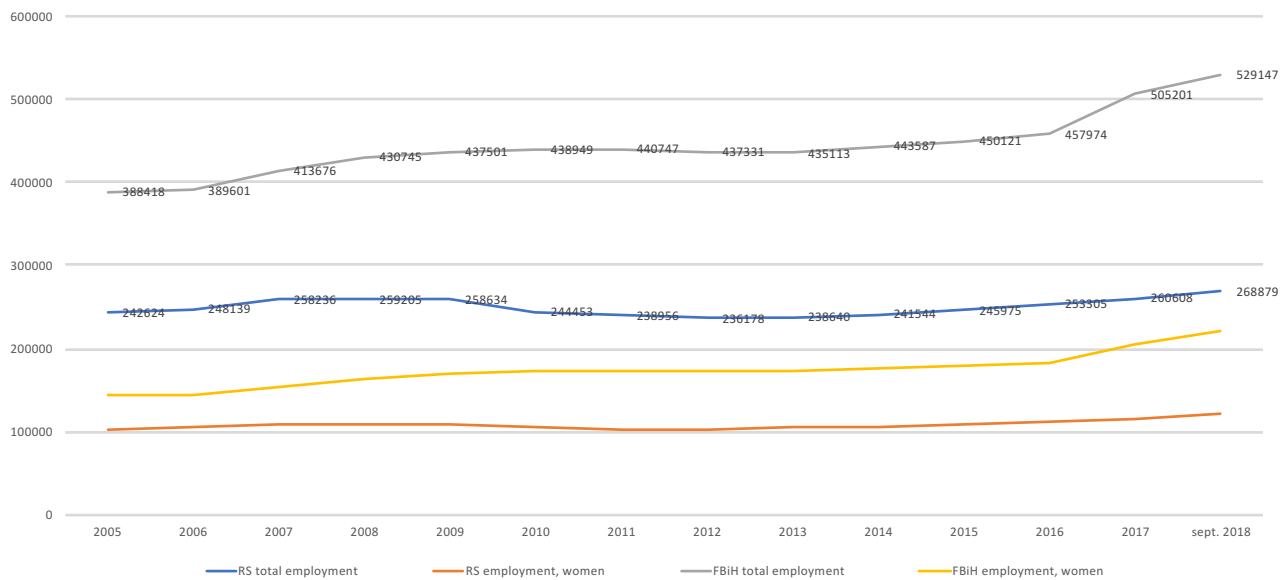
| | 2005 | 2008 | 2010 | 2015 | 2016 |
|---|------|------|------|------|------|
| % of social security (insurance) financing in consolidated BiH social benefit expenditure | 77% | 0% | 0% | 75% | 76% |
| % of social security (insurance) financing in FBiH consolidated social benefit expenditure | 69% | 0% | 0% | 70% | 71% |
| % of social security (insurance) financing in RS consolidated social benefit expenditure | 95% | 0% | 0% | 84% | 85% |

The relative share of social insurance from 2011 has increased continuously, squeezing out the relative share of social insurance spending.

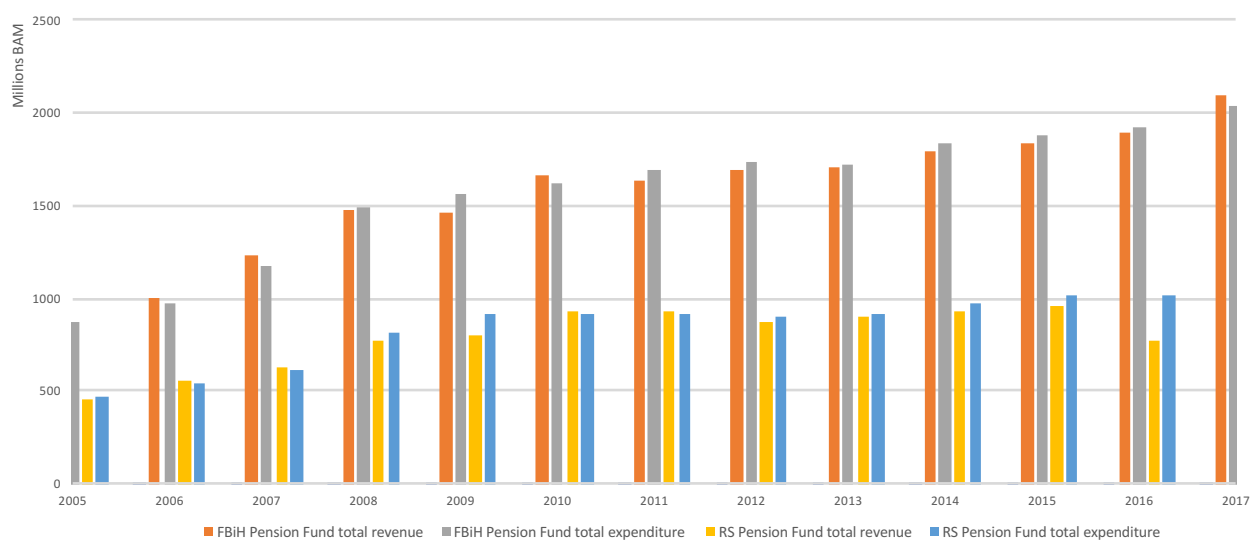
Social assistance expenditure

- Over the years, despite austerity measures BiH consolidated social assistance expenditure remains stable at approximately 4% of GDP.
- 15% vs. 25% of all government social expenditure in RS and FBiH respectively pertains to social assistance.
- Despite of being relatively low, social assistance spending in both entities is dominated by war veteran and other status-based expenditure (more than $\frac{3}{4}$).
- Bartlett (2013, p. 19) estimates that a mere 1.2% of GDP or thereabouts is allocated to the traditional function of social assistance for the poor or socially excluded.

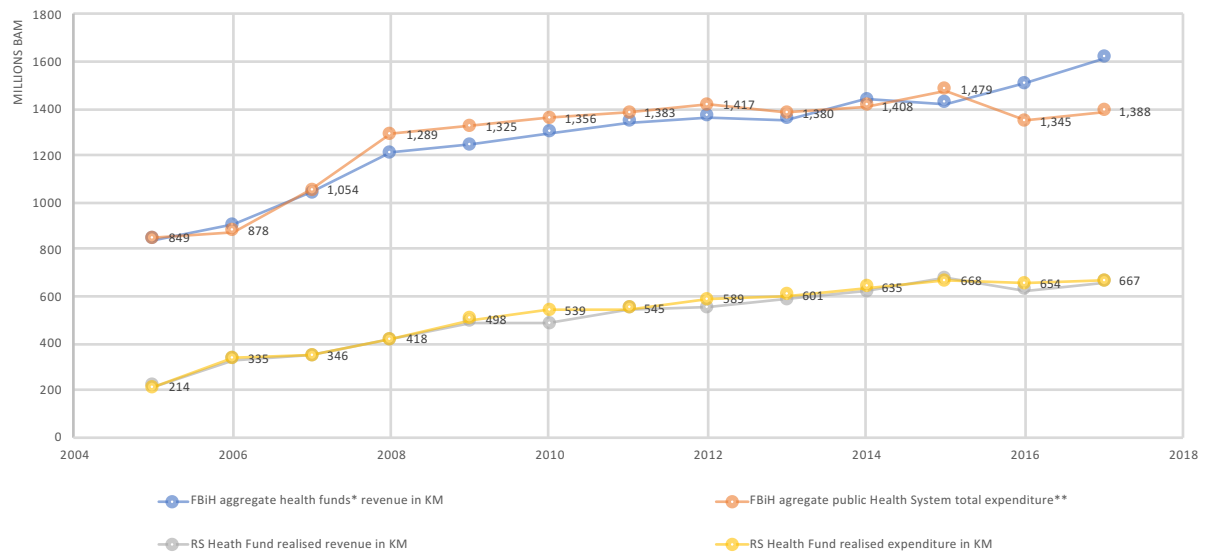
Number of persons registered as employed, FBiH and RS (2005 – 2018)



Revenue and expenditure of entity pensions and disability insurance funds (2005 - 2017)



BiH public entity health systems' revenue and expenditure (2005 – 2017) in KM



Key challenges:

- Social insurance funds have mainly relied on revenue from contributions which has been insufficient to cover ever increasing expenses.
- Pension system in FBiH burdened with legislation guaranteeing privileged rights without sufficient government funding.
- Health systems are plagued with inefficiencies and accumulated debt. Other issues are non-portability of insurance, unequal access and unequal provision of services.
- The heaviest burden of social insurance financing is placed on salaries.
- Social contribution rates of 41.5% in FBiH and 33% in RS, together with personal income tax of 10% in both entities make the majority of tax wedge on labour in both entities.

- Tax wedge for 2016 was estimated to be 39% of a single person earning 67% of the average salary (Atoyan and Rahman, 2017, p. 13). Although not too high, labour costs are seen to disincentivise low-wage earners and their employers to formalise employment.
- Entity governments are reluctant to reduce social insurance rates because of fear of social insurance funds losing revenue.
- The current arrangement of social protection financing keeps the system locked in its current functioning leaving many outside the formal labour market and propelling inequality and labour market segmentation.
- The systems' sustainability and suitability should be questioned in the face of widespread problem of unregistered work, tax evasion, prevalence of atypical work and grim demographic prospects.

Thank you for your attention