



# Could non-contributory social transfers in Bosnia and Herzegovina reach those most in need?

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*Bosnia and Herzegovina's reform of social protection systems, initiated during 2009, aims to improve the targeting of non-contributory cash transfers and coverage of those most in need. It was based on control of war veteran expenditure and the establishment of a centralised database. However, the reform has not yet tipped the balance of public expenditure towards schemes assisting those most in need.*

## Description

Bosnia and Herzegovina (BiH) is made up of two entities: the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). Non-contributory social transfers in BiH are financed from three levels of government in the FBiH (entity, 10 cantons and municipalities) and two levels in the RS (entity and municipalities).

The reform was needed because of uncontrollable growth in non-contributory social expenditure: at the end of 2008, the entity governments, also faced with the effects of the global financial crisis, were finding it increasingly difficult to finance this. They therefore asked the international financial institutions for assistance.

The reform was informed by a World Bank study (2009) that pointed to a high share of non-contributory social transfer spending, approx. 4% of GDP, and the negligible effect of these transfers on poverty reduction (1.2 percentage points, from 19.2% to 18.0%). This was because more than three quarters of these benefits in both entities were targeted at various war-related beneficiaries, regardless of their employment status or income. The only means-tested benefits, such as social assistance, financed by local governments, and some child benefits, made up less than 1% of GDP. All this called for a reform that would ensure better social assistance targeting

towards those most in need. Hence, the July 2009 Letter of Intent, linked to the Stand-By Arrangement with the International Monetary Fund (IMF), and the subsequent BiH governments' Reform Agenda 2014–2018, agreed with the EU and international financial institutions, included a reform of the two entities' social protection systems. This reform was to be carried out in consultation with the World Bank and the IMF, with the aim of improving the targeting of non-contributory cash transfers on those most in need. It would include a review of the beneficiaries and the establishment of a new centralised database of all non-contributory social transfer beneficiaries in the FBiH.

Although there were ambitious plans for all non-contributory transfers, the main targeting instrument ("Proxy Means Testing" [PMT]) was developed only for means-tested social assistance and means-tested child benefits. But, according to the most recent official statistics (CBBH Statistics), aggregate social assistance spending in BiH remains stable at 4% of the country's GDP, and has not changed since the 2009 World Bank report.

The reform was never discussed in its entirety. But, as required by parliamentary procedures, there were public discussions on all proposed laws. In the FBiH, public debates about new social assistance legislation were organised during 2017 by local NGOs with the financial support of international donors. Debates focused

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on three aspects of the new legislation: better targeting towards those most in need, deadlines for receiving benefits, and activation (in the words of the FBiH Assistant Minister in charge of labour and social policy, "employment is the best social assistance" [Klix, 14.02.2017]). These events were followed by identical media coverage, without provoking any real public discussions or opposing views. On the other hand, dissatisfied war veteran groups, often portrayed as the most deserving, regularly occupy media space demanding new benefits.

## Outlook & commentary

The RS passed a new Law on Social Protection in 2012 introducing PMT only partially, while in the FBiH the new law has still not been adopted, although it is ready. Implementation of the new RS law gradually reduced the number of social assistance beneficiaries from 5,451 in 2011 to 4,751 in 2017 (RS Bilten Socialne zaštite 2017). In the FBiH the situation remains unchanged: the means-tested social assistance expenditure is still constrained by the financial resources of the municipalities or cantons.

Although the process of screening war beneficiaries which began in 2010 initially reduced expenditure on veterans in FBiH, a few years later this has bounced back because the courts reversed the audit procedure. In the RS, expenditure on veterans has increased in the meantime (Vlada RS 2018). Also, the adoption of the Law on the Single Registry of Non-contributory Social Transfer Beneficiaries in the FBiH (SN FBiH No. 25/17), that was enacted in April 2017 and was one of the entity government's obligations under the Reform Agenda, is still not implemented.

The reform has not done anything to tip the balance of public expenditure towards schemes assisting those most in need, i.e. means-tested social assistance and child benefits. Dissatisfied war veteran groups bring pressure every now and then to introduce new rights and increase existing payments. However, the country's current arrangement with the IMF requires BiH entities to implement a budget allocation ceiling for social expenditure, which seems to have stalled recent adoption of new veteran legislation in FBiH (Večernji list from 22.08.2018). However, IMF conditionality (which should prevent governments increasing the overall public expenditure on social transfers) did not prevent the RS adopting new legislation granting benefits to victims of war torture just before the October 2018 elections. This clearly shows that the RS is drifting away from the reform agenda. Similarly, in the FBiH, delays in establishing the single database, as well as in preparing a report and plan to improve the targeting of social transfers, indicate the government's half-hearted attitude towards the reform.

Both entities need a shift in financing priorities, from category-based towards means-tested universal benefits that will increase coverage of those most in need. Currently, the means-tested social assistance benefits in both entities, as well as child benefits in the FBiH, are insufficient to meet basic needs and cannot help the beneficiaries out of poverty. In order to meet IMF conditionality, more resources can only be allocated to means-tested schemes if war-related benefits are drastically reduced or abolished. However, this is an option that no political party in BiH is yet willing to consider and promote.

## Further reading

Bosnia and Herzegovina Letter of Intent from January 2018, accessed 15.10.2018.

CBBH Statistics web portal: [www.cbbh.ba](http://www.cbbh.ba).

Interview with Minister Miličević, Večernji List, 22.08.2018.

Klix.ba, "Reforma socijalne zaštite: najbolja socijalna politika je zapošljavanje" (14.02.2017), accessed 27.10.2018.

RS Ministry of Health and Social Protection: RS Social Protection Bulletin 2017.

Vlada RS, Ministarsvo rada i borčko invalidske zaštite, "Pregled ukupnih izdvajanja za BIZ" [2018].

World Bank (2009), "Social Transfers in Bosnia and Herzegovina: Moving towards a more sustainable and better targeted safety net".

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