

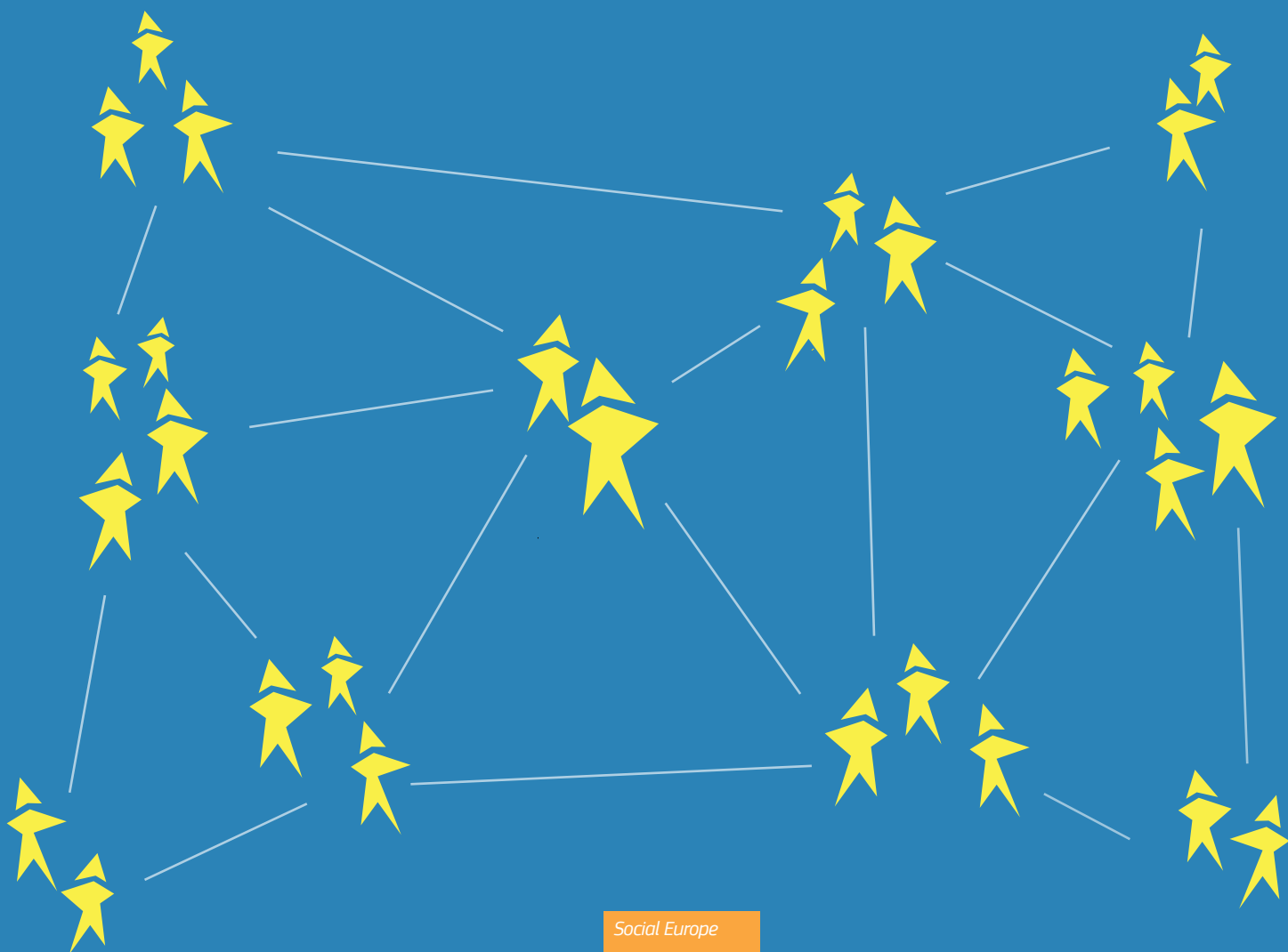


EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Financing social protection

Bosnia and Herzegovina

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European Social Policy Network (ESPN)

**ESPN Thematic Report on
Financing social protection**

Bosnia and Herzegovina

2019

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Summary

Both the fiscal system and the social protection system in Bosnia and Herzegovina (BiH) are multi-layered and asymmetrically organised, in accordance with the constitutional competencies of each level of government. Principles of fiscal federalism apply in financing both the government budgets and the social insurance funds. According to the Central Bank of BiH (CBBH), in 2016 consolidated government social expenditure accounted for 16% of the country's GDP; of this an average of 71% in the Federation of Bosnia and Herzegovina (FBiH) and 85% in Republika Srpska (RS) is financed through social insurance. The largest shares pertain to pensions and disability insurance (i.e. pension funds), with expenditure of approximately 10% of GDP in both entities. Total health expenditure consumes approximately 9% and 11% of GDP in FBiH and RS, respectively; of this some 2% in FBiH and 3% in RS is reported to be spent with private health providers. A relatively small proportion of BiH social protection expenditure relates to social assistance: most of that is spent on the status-based war-veteran category.

The system of social protection financing in BiH faces a number of challenges. Social insurance funds, organised at the entity and the cantonal level and financed in accordance with Bismarckian principles, have been struggling with insufficient revenues in the face of ever-increasing expenditure. Government financing has been inadequate to cover the deficit and prevent the accumulation of debt. The system's design and its reliance on payroll contributions for financing make it highly dependent on the performance of the labour market. Although the total number of persons registered as employed has seen an incremental upward shift in recent years, securing a steady increase in social insurance funds revenues, this has not been sufficient to offset the increase in expenditure. The total employment rate remains rather low, especially for women. Although the contribution rates (33% in RS and 41.5% in FBiH) are not high by European standards (compared to, for example, 59.2% in France, 40.21% in Germany and 38.20% in Slovenia), studies suggest that they are disincentivising low-wage earners from entering the formal labour market, confining many to informality and work without social protection. On the other hand, the prospect of a revenue decrease following a reduction in contribution rates makes the entity governments reluctant to take any such decision, and keeps the system locked in its current mode of functioning, leaving many outside the formal labour market and propelling inequality and labour market segmentation.

As the system is designed to function well in conditions of stable and full employment, its suitability and sustainability should be questioned in the face of a widespread problem of unregistered work, tax evasion, the prevalence of atypical work, as well as grim demographic prospects and a growing emigration trend. While the general recovery of its economy following the 2009 financial crisis has given BiH entity governments the leeway to make incremental reforms in the domain of social protection financing, given the challenges outlined it is uncertain how long BiH will be able to maintain its current 'fiscal space' and its social protection financing design. It is certain that there will be a greater dependence on the financing of social security funds from government budgets in the longer term. However, given the International Monetary Fund's (IMF) conditionality related to a budget allocation ceiling for social expenditure, this seems an unlikely scenario in the near future. All the more so, as status-based war-veteran expenditure is being prioritised in both entities. This leaves the social protection systems in a very vulnerable position. However, in order to make the system of social protection inclusive and responsive to the needs of the whole population, policy makers will need to look beyond the current model of organisation and financing of social protection, as reinforcing the current model of financing will not do much for those who are excluded.

As the European System of Integrated Social Protection Statistics (ESSPROS) indicators for BiH are still not available, the quest for data on the social protection financing for the purposes of this report took some considerable time. Most of the data on social protection financing is available only on demand from responsible institutions. Some institutions were

reluctant to share information or provided only limited data. It is important to note that the entities, as well as institutions within the entities, use different financial and statistical reporting standards. Therefore, the consolidated data presented should be viewed primarily as framework indicators and as a guide for further analysis.

1 Current levels and past changes in financing social protection

At the time of writing this report, the ESSPROS data for Bosnia and Herzegovina was still not available. According to the state-level Agency for Statistics of BiH, the first ESSPROS activities in 2015 were supported through an Instrument for Pre-Accession Assistance (IPA) project and included pilot research for the year 2013. Regular reporting started in 2017, reporting from the year 2015, and subsequently 2016 and 2017. At the time of writing, data for 2015 has still not been validated by Eurostat, and is not available for distribution. Therefore, for the purposes of this report, we had to consider data collected directly from relevant institutions.

The only available aggregate data on government finances is provided by the Central Bank of BiH (CBBiH) through its statistical database. When looking at the level of consolidated BiH government social benefit expenditure,¹ as presented in Table 1 below and the more detailed Table A1 in the Annex, we can observe that since 2005, overall social expenditure has more than doubled in nominal terms, whereas in relative terms, as a share of GDP, it has increased by only 3 percentage points. This growth is primarily related to the period between 2005 and 2008, prior to the economic crisis. The crisis (2008-2010) caused a relative decrease in social expenditure of 1% of GDP, which was later offset by a moderate increase of 1% of GDP during the period 2010-2016. In nominal terms, overall social expenditure has increased continuously throughout the observed period, except 2010, which witnessed a decrease compared to the previous year of some 181,000 convertible marks (KM) (or EUR 92,820). In relative terms, the social benefit expenditure for 2010 was 15% of GDP (down 1 percentage point on the previous year), and at the same level as 2008. In recent years, it was constant at 17% of GDP between 2011 and 2015, and 16% of GDP in 2016.

Table 1: Consolidated government's social expenditure as a share of country's GDP

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP nominal, KM in million (current prices)	25,519	24,799	25,365	26,231	26,222	26,779	27,359	28,586	29,900
Real growth of GDP in %	5.4	-3.0	0.9	1.0	-0.8	2.4	1.2	3.1	
BiH consolidated government social expenditure (in millions of KM)	3,945	3,951	3,770	4,330	4,394	4,424	4,658	4,729	4,755
Share of consolidated government's social expenditure in total GDP (%)	15%	16%	15%	17%	17%	17%	17%	17%	16%

Source: CBBiH data and authors' calculations.

¹ According to IMF (2014), Government finance statistics manual used by the Central Bank, social benefits include social security benefits (or social insurance), social assistance benefits (non-contributory transfers) and employer social benefits.

It is interesting that the pattern of social protection expenditure in EU countries has been completely the opposite during the period observed: according to ESSPROS data, during 2008-2010 social protection expenditure in all EU countries increased as a share of GDP (across the EU, on average by 2.7 percentage points), while in real terms during the crisis period, there was a reduction only in Hungary and Lithuania. However, in the pre-crisis and post-crisis period, the growth in social protection expenditure as a share of GDP was more moderate, and in many countries negative. This suggests that the systems of social protection in BiH do not have sufficient stabilising features for the economy.

The available CBBiH data on social benefits, when disaggregated into expenditure on social assistance and on social insurance (designated as social security in the tables) (as presented in Tables A1, A2 and Table 2), does not make much sense from 2006 to 2010, because for those years all social benefit expenditure is allocated under social assistance. This is a mistake, because the main components of the entity social protection system did not change during the period observed.

In Table 2 below, we can observe that social insurance expenditure makes up the largest share of total social benefit expenditure, averaging 76% for the whole country in 2016. Reliance on social insurance is higher in the RS, where it has constituted around 85% of all social benefit expenditure in recent years; meanwhile, in FBiH it is around 71%. From Table A2 in the Annex we can observe that at the aggregate BiH level from 2011 onwards, the share of social insurance spending has steadily increased, squeezing out the relative share of social assistance spending. By the relative share of social insurance, we can deduce that the size of social assistance spending is considerably smaller in the RS. It is worth noting that not a single country in the EU has such a high share of social contribution financing in total social protection expenditure as BiH. Furthermore, according to ESSPROS data, the relative share of social contributions financing in almost all EU countries has decreased – from an average level of 58.7% in 2005 to 54.5% in 2016.

Table 2: Share of social insurance financing in state and entity social benefit expenditure

	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%

Source: CBBiH data and authors' calculations.

Social assistance spending, despite being relatively low in both entities, is dominated by war-veteran expenditure. Bartlett (2013:19) estimates that a mere 1.2% or thereabouts of GDP is allocated to the traditional function of social assistance for the poor and socially excluded.

Because of the reliance on social insurance, the increase in social expenditure and its revenues is linked primarily to the labour market, i.e. an increase in salaries and the level of employment. This was the case before the crisis, from 2005 to 2008, when growth in employment and salaries positively impacted the level of social insurance contributions. However, that same period was also marked by a significant increase in social assistance expenditure that was caused by an increase in government revenue from indirect taxation, after the introduction of Value Added Tax (VAT) on 1 January 2006. The first proceeds from VAT were used by entity and cantonal governments to increase spending, which took the form of higher spending on status-based benefits (e.g. for war veterans, civilian victims of war, or persons with disabilities not related to the war) and public-sector wages, contributing to an increase in revenue from social security contributions.

The effects of the world economic crisis in BiH became evident during 2009, when the GDP growth rate turned negative, falling more than 8 percentage points – from 5.4% in 2008

to -3.0% in 2009. The governments' decline in revenue in 2009 led to a fiscal deficit that was financed by revenues from the privatisation of enterprises in RS and new borrowings in both entities. As part of the Stand-by Arrangement with the IMF,² both entities took measures to reduce public expenditure in order to achieve savings, which included a reduction in salaries and social transfers at all levels of government. During 2010, despite a moderate recovery of the GDP growth rate to 0.9%, overall social protection expenditure was reduced by 1% due to a fall in employment, as well as the austerity measures. The increase in entity revenue during 2011 was related to the BiH state-level government failing to adopt a budget for that year; the share of expenditure of BiH institutions was kept at the 2010 level, which allowed for an overflow of revenue from indirect taxes to the entities (Antić, 2013: 296). During 2011, both entity governments significantly cut expenditures, which – together with the increased revenues – reduced their fiscal deficit. The reduction in expenditure was also evident in the cantons, but to a smaller degree. However, these measures had only a short-term effect, as salaries and war-veteran expenditure bounced back after a few years (see Obradović, 2016, 2018). As pointed out by the World Bank (2012: 40), the most important savings in the period 2008-2010 were achieved by reducing social assistance expenditure, financed in some cases by local governments or cantons. Ultimately, wages in the FBiH and its cantons regained their previous level (Obradović, 2016), while in the RS, the government wage bill increased (Antić, 2013). At the local government level in FBiH, wage expenditure increased at the expense of social benefits; in the RS, local governments reduced wage and social transfer expenditure in order to reduce the government deficit (Antić, 2013). Still, despite austerity measures, BiH's spending on non-contributory social assistance has, over the years, remained stable, at an average of 4% of GDP, of which more than two-thirds are allocated to different categories of war veterans (Obradović, 2018).

In Tables 3 and 4 below, we can see that pensions and health expenditure make up a large share of the entities' GDPs. Table 3 presents the value of entities' nominal GDP in euros and the respective entities' shares of pension expenditure, i.e. total expenditure of public pension funds in the entities (data received from pension funds). We can observe a slow and steady increase in both pension and health expenditure in both entities during the period observed. Please note that in Table 4, the presented amount of health expenditure in the entities includes public and private health expenditure. As will be explained later, according to the latest reports (for 2017), expenditure in the private health sector was reported to consume 2% of GDP in FBiH, while in the RS it constituted about 3% of that entity's GDP.

² Pertains to the Stand-By Arrangement between BiH and the IMF, agreed in 2008.

Table 3: Total entity pension expenditure as a share of entity GDP, 2005-2017

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
FBiH GDP, millions EUR	5,613	6,288	7,118	8,024	7,811	8,416	8,655	8,699	8,886	9,115	9,555	9,991	10,502
FBiH pension expenditure (% of FBiH GDP)	7.9	8.0	8.5	9.6	10.3	9.8	10.0	10.2	9.9	10.3	10.0	9.9	9.9
RS GDP, millions, EUR	2,912	3,349	3,766	4,350	4,222	4,262	4,450	4,405	4,496	4,54	4,706	4,924	5,152
Total RS pension expenditure (% of RS entity GDP)	8.3	8.4	8.3	9.6	11.1	11.0	10.5	10.5	10.5	10.9	11.0	10.5	10.1

Source: FBiH and RS institutes for statistics, FBiH and RS pension and disability insurance funds and authors' calculations.

Table 4: Total health expenditure as a share of entity GDP, 2005-2017

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
FBiH GDP, millions, EUR	5,613	6,288	7,118	8,024	7,811	8,416	8,655	8,699	8,886	9,115	9,555	9,991	10,502
Total FBiH health expenditure (% of FBiH GDP)	8.4	8.2	8.4	8.6	9.3	9.0	9.0	9.2	9.1	9.6	9.7	9.3	9.0
RS GDP, millions, EUR	2,912	3,349	3,766	4,350	4,222	4,262	4,450	4,405	4,496	4,544	4,707	4,924	5,152
Total RS health expenditure (% of RS entity GDP)	n/a	n/a	n/a	n/a	10.1	10.6	10.7	11.0	10.8	11.3	11.3	11.7	n/a

Source: FBiH and RS institutes for statistics, FBiH and RS health funds and authors' calculations.

The following sub-sections explain in more detail the financing of pensions and health insurance in the two entities.

1.1 Financing of pensions and disability insurance

Both BiH entity pension and disability funds (hereafter: pension funds) function on the pay-as-you-go (PAYG) principle. Despite the entity governments' somewhat divergent pension policies over the past 20 years, the funds still share many common features. Pension and disability insurance contributions collected by entity tax authorities represent the most important source of financing for both pension funds. As presented in Table A4 of the Annex, during the years under consideration, the revenue from contributions constituted more than 84% of the pension fund's revenue in FBiH and 73% of the pension fund's revenue in the RS. Due to lower contribution rates (covered in more detail in Section 2), as well as a lower number of employed persons (as presented in Table A3), the RS pension fund's revenue is substantially smaller than the revenue of its FBiH counterpart.

Nevertheless, revenue from contributions has not been sufficient and both pension systems rely substantially on budget financing. In both entities, budget financing was introduced primarily to finance special legislation related to privileged pensions, which were at the time considered to be of limited duration. This legislation was enacted during waves of demobilisation and the establishment of the BiH state army and the state Ministry of Defence, which began to operate on 1 January 2006. In general, privileged early retirement was granted to former employees of entity ministries of defence, former entity soldiers, as well as war veterans and veterans with disabilities. The financing of such provisions was envisaged from entity budgets, until a beneficiary fulfils the conditions that are required under the general pension and disability insurance legislation and therefore his /hers pension continues to be financed from general contributions³.

From the very beginning of the privileged pension arrangement, this was not respected by the FBiH entity government. Funds provided from the FBiH entity budget were not sufficient to meet the expenses of generous veteran pensions. Instead, with the FBiH government's unwritten approval, the FBiH Pension Fund engaged in the practice of 'borrowing' from the general contribution revenue. By the end of 2008, the total FBiH entity government debt towards the pension fund for privileged war-veteran pensions had increased to KM 81,376,381.61 (or EUR 41,731,477.75) (Obradović, 2017: 99). Due to a sharp rise in the number of privileged pensioners, as well as pensioners who had acquired rights under general pension legislation, the FBiH pension fund found it increasingly difficult to finance pensions at the acquired level. The situation and revenue prospects were additionally aggravated by changes to the Law on Contributions, which envisaged a 1 percentage point reduction in the payroll contribution rate for pensions and disability insurance, with effect from January 2009. The fund's management urged the government to provide the requisite funding, and even took the matter of debt to court. This was subsequently resolved through an out-of-court settlement, according to which the government agreed to pay pension fund arrears in instalments.

However, at the end of 2008, the FBiH Parliament passed changes to the Pensions and Disability Insurance Act that stipulated even greater budget financing, including provisions for minimum pensions and provisions that granted rights to members of the armies during the 1992-1995 conflicts (years of service during the war were, according to these provisions, counted as double years in insurance, although contributions for those years were never paid) (Obradović, 2017: 99). The application of this provision meant earlier retirement for (mostly) men. The changes to the law at the end of 2008 recognised this provision as a government liability (earlier, it had been financed from contributions). By the end of 2009, some 78,000 veterans had invoked this provision, which created a liability for the FBiH entity government of KM 71 million (IMF, 2010). Moreover, there has been an increasing trend in the number of people claiming this provision, making it the FBiH

³ However, financing of some privileged pensions will remain government's liability for ever, because some privileged pension beneficiaries do not have sufficient number of years in insurance, nor insurance at all.

government's largest liability for a considerable time to come. For instance, in 2017, the entity government's bill for this purpose was KM 122 million (EUR 65.5 million) (Audit Office for the Institutions of the Federation BiH, 2018: 14).

As a result of the new liabilities and accumulated debt, by the end of 2009 the entity government's debt to the pension fund had more than doubled, compared to a year earlier: it reached KM 180,979,871 (EUR 92,810,190) or 1.2% of FBiH GDP in 2009 (Obradović, 2017: 100). In order to reduce its obligations, in November 2009 the FBiH government changed Decree nos. II and III on privileged pension rights (*FBiH Official Gazette*, No. 77/09), specifically articles pertaining to financing, by halving its obligation and stipulating that the remaining 50% would be financed from the pension fund's notional account for military pension contributions (which were not even sufficient to cover the cost of military pensions). This practically meant that privileged pensions continued to be financed from contribution revenue, despite the fact that a larger amount of budget financing was secured through changes to the general legislation. Greater budget financing became inevitable, in order to ensure the financing of this level of pension rights, which the government never dared to reduce (despite legal provisions that specified the balancing of pension expenditure with the level of revenue collected on a monthly basis).

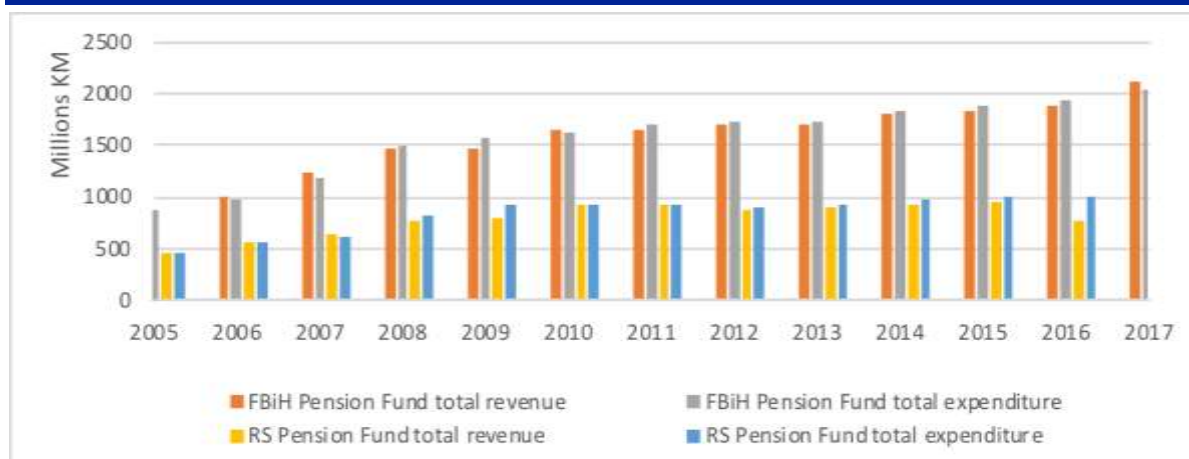
In the RS, budget financing has in general been provided for all rights granted beyond the rights acquired on the basis of contribution payments (Article 157 of Pensions and Disability Insurance Act 2011). Under the old and the current general pension legislation, when it comes to privileged pensions, special pension insurance for war years for members of the army, and minimum, disability and survivor pensions, the RS entity government is responsible for financing anything in excess of the earned part of the pension. Compared to the FBiH, in the RS the rise in the number of privileged beneficiaries was to some extent kept under control, as, consequently, was the corresponding expenditure. It should be noted that the RS Pensions and Disability Act, implemented from January 2012, introduced new minimum eligibility requirements of 15 years of insurance (instead of the earlier 20 years), while also stipulating additional conditions for those with 40 years of insurance; a points system for calculating the pension base for all pensioners; a war supplement for pensioners with war-veteran status, etc. The law also imposed an obligation to recalculate the pension base for a number of beneficiaries with partial war-veteran status. We can observe from Tables A4 and A5 in the Annex (presented in Figure 1) that during 2012 (the first year of implementation of the new law), total RS pension fund revenue and expenditure fell compared to a year earlier. Some savings were achieved with stricter controls and audits of beneficiaries by implementing Article 140 (RS Law on Pensions and Disability Insurance, no. 134/11), which resulted in the uncovering of many irregularities (for instance, deceased beneficiaries receiving pensions). Still the achieved savings were not sufficient to compensate for the decrease in revenue over the previous year. The reason was that employment during 2012 reached a record low in that entity, with only 236,178 persons registered as employed; this led to a decrease in revenue compared to the previous year. Furthermore, the RS entity government planned lower budget financing for that year, based on the expectations of the effects of the new legislation. According to the RS Pension Fund Audit Report for 2012, there was a misunderstanding between the fund and the government regarding the government's financing obligations under the new legislation; but in the end, the fund was instructed to adjust its expenditure in accordance with the available funding. Still, the Audit Report pointed to insufficient budget financing of pension rights that fall within the responsibility of the government. It is important to note that government expenditure on financing the (now) five levels of the minimum pension (instead of one level under the earlier law) increased. In February 2012, the entity budget provided KM 2.4 million (EUR 1.23 million) monthly to finance only the minimum pensions, while under the old legislation the monthly bill for minimum pensions was KM 900,000 (EUR 461,538) (Capital.ba, 2012). According to the RS Pension Fund Audit Report for that year, the total outstanding deficit of the fund for 2012 was KM 64 million (EUR 32.8 million).

From 2012 onwards, both the contribution revenue and budget financing gradually increased; however, it has not been sufficient to meet the ever-increasing RS pension fund

expenditure (Figure 1 and corresponding Table A5 in Annex). In order to meet pension expenses, the fund has had to resort to credit financing. Changes to general pension legislation at the end of 2015 envisaged that the RS Pension Fund would become an integral part of the entity treasury system, and the RS government would become a guarantor of pensions. As given in the explanation of the legislative proposal, one of the main reasons for this was to secure the necessary pension financing, since the fund had to resort to borrowing from commercial banks in recent years, due to an ever-increasing number of beneficiaries. By operating within the entity treasury system, this was supposed to be prevented. As of the end of 2015, all accounts at commercial banks belonging to the RS Pension Fund were closed, and since then the fund has conducted all of its financial operations through the entity treasury system.

As can be observed from Table A4, for the year 2016 and onwards, the RS Pension Fund has not provided data about budget financing, but the difference between the fund's revenues and expenditure as presented in Table A5 was covered by the entity budget (RS Government, 2017: 13).

Figure 1: Revenues and expenditures of entity pensions and disability insurance funds



Source: FBiH Pension and Disability Insurance Fund and RS Pension and Disability Insurance Fund.

A similar solution was also envisaged for the FBiH Pension Fund, which has faced a constant struggle to meet the ever-increasing pension expenses, due to a steady rise in the number of pensioners. In 2016, the FBiH Pension Fund received permission from the entity Ministry of Finance to take out a commercial bank loan of KM 80 million (EUR 41.02 million), which was repaid at the end of 2017 (Audit Office for the Institutions of the Federation BiH, 2018: 11). However, the end of 2017 for the FBiH Pension Fund was financially positive. It had accumulated a surplus of KM 115,429,594 (EUR 59,018,214), due to an increase in employment (on average 23,946 more persons registered as employed than in the previous year) and because of government payments to the repayment of debt incurred in earlier years, when the fund had borrowed from contribution revenue in order to pay for privileged pensions (Audit Office for the Institutions of the Federation BiH, 2018: 18). In addition, a recent IMF document (IMF, 2018: 62) shows that the FBiH government intends to address unpaid pension contributions covering state-owned enterprises and public companies, which total about KM 500 million (about EUR 256.4 million), by finding a systematic solution to limit the negative impact on the budget.

In February 2018, FBiH passed a new Law on Pensions and Disability Insurance. The most important changes pertain to the introduction of the points system for calculating the pension base, a special adjustment of pensions acquired during certain years, reducing the minimum number of years of insurance requirements to 15, incentives for later retirement and the transfer of pension financing to the entity treasury system, where the FBiH government would guarantee pension payments. The time limit for implementation of the FBiH Pension Fund transfer to the treasury system is two years, during which all the technical requirements and preconditions for such a move should be met.

1.2 Financing of health protection

The BiH entities have independent systems of health protection that have evolved on the basis of the remnants of the Bismarckian health protection system developed during the socialist period. In FBiH, the laws on health protection and health insurance from 1997 devolved substantial responsibility for healthcare financing and management to the cantonal level of government. As a result, each canton in FBiH has its own health insurance fund and a corresponding cantonal ministry of health. In addition, the entity's Health Insurance and Reinsurance Fund of FBiH is mandated to control and supervise cantonal insurance funds, while the Solidarity Fund is supposed to benefit patients requiring more expensive treatment in other cantons or abroad. The FBiH Ministry of Health is responsible for coordination, but with no implementing capacity or authority over the 10 cantonal systems. Although the FBiH has 10 independent systems of health protection, for the reasons of simplification and presentation of aggregate indicators, we refer to FBiH as a single-entity system of health protection, while explaining relevant particularities of the cantonal systems where necessary. Unlike FBiH, the health system in the RS is centralised, with one public Health Fund and an entity Ministry of Health.

Health services in both entities are mainly provided by public health institutions. At the level of primary healthcare, the service is delivered through local medical centres and pharmacies (whose founders are municipalities), while specialist/consultant and hospital care is provided by polyclinics, hospitals, rehabilitation centres and institutes (in FBiH founded by cantons, while in the RS founded by the entity). There is also a substantial number of private healthcare providers (dentists, specialist clinics, pharmacies, etc.) in all parts of the country. In most cantons, they are not a part of the public health system – except in some circumstances, when contracts with private health service providers are signed for services that are lacking in the public sector. Another exception is the Sarajevo Canton Health Fund, which in 2014 signed contracts with two health providers to deliver primary healthcare to a limited number of patients (Aljazeera.Balkans.net, 2014).

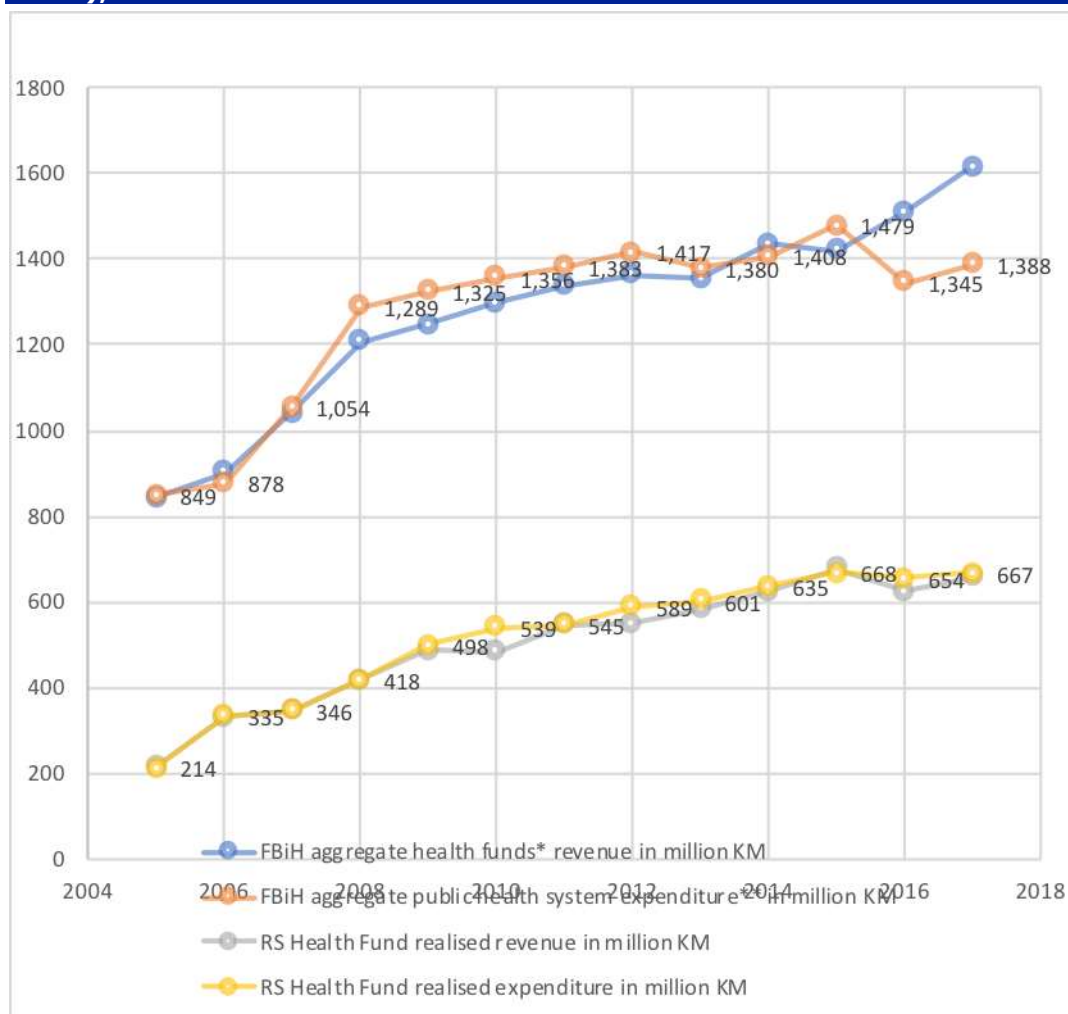
In general, both entity systems are financed from a comprehensive system of contributions (see Section 2 for further detail), from the participation fees charged directly to patients and from government transfers. Each public health insurance, i.e. the cantonal or entity system of health protection, provides a package of public health services (primary, secondary and tertiary healthcare) that are available free of charge to those who are covered by health insurance or by paying a participation fee. However, some services are not covered by health insurance and need to be paid in full (although services covered by the health insurance differ between entities and cantons, in general some essential and prescribed medicines, Pap tests, etc., need to be paid in full). Persons who are not covered by health insurance, or those whose health contributions have not recently been paid by their employers, are considered to be uninsured and need to pay the full cost of the health service provided.

From Table A6 in the Annex, we can observe that health contributions make up the largest part of the health systems' revenue in both entities. Since the largest share of health contribution revenue comes largely from those registered as employed, the system is highly dependent on the labour market, i.e. the level of employment, as well as the level of registered salaries. Since FBiH has a higher number of employees and higher contribution rates, the aggregate health revenue in this entity is larger than the revenue of the RS health system (as Table A3 in the Annex shows, during 2017 the average number of persons employed in FBiH was 505,201, and 260,608 in the RS).

Figure 2 below shows the total revenue and total expenditure for both entity health systems from 2005 to 2017. We can observe that in most years health expenditure in both entities exceeded revenue. However, the FBiH figures should be treated with caution, as these represent aggregates that encompass 10 cantonal systems and entity health institutions financed from compulsory health insurance and additional sources of financing (see Table A10 in the Annex for disaggregated sources of financing). Although there is a difference between institutions in each entity system in terms of their financial position, the aggregate

figures as presented in Figure 2 indicate a substantial mismatch between the revenue and expenditure of the health systems in both entities.

Figure 2: BiH public entity health systems' revenue and expenditure (2005-2017), in KM millions



*includes revenue from compulsory health insurance, direct payments, budget, donations and other funds as presented in Table A10

**Aggregate FBiH health expenditure reduced by private health-sector expenditure.

Source: FBiH Health Insurance and Reinsurance Fund and RS Health Insurance Fund.

As the main source of revenue for both entity health systems is payroll contributions, the level of registered employment is the single most important factor impacting health system revenues. We can observe from Table A3 in the Annex that employment in the RS declined from 2010 to 2012, whereas it showed an incremental increase from 2013. During the same period, the RS changed its contribution rates on multiple occasions – including the contribution rates for health insurance (see Section 2). Nevertheless, the total RS Health Fund revenues have increased over time, albeit not enough to meet the entity’s growing expenditure.

As of January 2009, the contribution rate for health in FBiH was reduced by 0.5 percentage points, which negatively affected the revenue from contributions for that year (see Table A6 in the Annex). However, the steady increase in the revenue of the health system in FBiH is primarily caused by a constant rise in the number of persons registered as employed. According to the Health Insurance and Reinsurance Fund of FBiH report (2018), during 2016 and 2017, health funds in FBiH had a positive financial balance, while 2017 was also positive for all health institutions. However, the positive balance for 2017

disguises the real financial situation of institutions, because of their accumulated debt, which at the end of 2017 amounted to KM 136.5 million (EUR 70 million) (ibid.: 40).

The second most important source of financing of the health systems is out-of-pocket payments. These are direct payments (which in FBiH constitute approximately 7% of the public health system's revenue) and the payment of the partial cost of certain services (approximately 2%). In the RS, the revenue generated from patients' participation was KM 15.2 million (EUR 7.8 million) in 2017, which is approximately 2.3% of the total RS Health Fund revenue for that year (we do not have information about the revenue from direct payments). We can observe from Table A10, which presents the sources of health system revenue in FBiH, that only a small share (between 2.7% and 5.3% in recent years) of aggregate health revenue comes from government budgets (local, cantonal and entity government). Some cantons receive more funds from the government than others, and this money is usually used for capital investment (e.g. reconstruction of buildings, maintenance costs or similar).

In addition to public health service providers financed primarily by contributions, both entities have a number of private health service providers that are financed primarily by direct out-of-pocket payments. Private service providers continuously report increasing positive financial results. Table A9 in the Annex presents indicators of total health expenditure in the RS, where we can observe that private health expenditure makes up on average 3% of GDP in this entity. In Table A10 in the Annex, we can see that the realised health revenue of the private sector in FBiH has been increasing both in nominal and in relative terms, reaching 16.7% of total health revenue in 2017. For the same year, FBiH health expenditure in the private sector is reported to have been KM 414,548,229 (EUR 212,580,835) (Health Insurance and Reinsurance Fund of FBiH, 2018), which constitutes 2% of GDP in FBiH.

Despite the high level of health expenditure as a percentage of GDP in the country, many people in both entities remain without health protection. According to the RS Health Fund, the total number of patients (those with and without insurance) registered with family doctor teams was 1,182,832 in January 2018. In relation to that number, it is estimated that approximately 80% of inhabitants are insured, and 20% are without insurance, mainly because they are not registered for health insurance (14%) or because their health insurance contributions have not been paid (6%).⁴ In FBiH, the Health Insurance and Reinsurance Fund of FBiH (2018: 9) estimates that 89.74% of the population was registered as insured in 2017. However, coverage across cantons in FBiH varies, ranging from 64% in the Posavina Canton to more than 100% in Sarajevo and Bosnia - Podrinje Canton (these cantons have more persons insured than there are inhabitants). However, official figures about insurance coverage must be treated with caution, because of the problem of unpaid contributions. A person must have a stamped health insurance booklet for each month, which proves that health contributions have been paid on time. Otherwise, even if registered with the insurance authority, that person will be treated as uninsured. In addition, for many of those who are insured, access to services in most cantons is hampered by participation fees and out-of-pocket payments.

⁴ Information received from the RS Health Insurance Fund (18 January 2019).

2 Current mix and past changes in the sources of financing social protection

2.1 General taxation

In line with the multi-level and asymmetric architecture of government, the country's public finance systems are also characterised by a high degree of decentralisation and asymmetry. The governments control only fiscal policy mechanisms, since the possibilities of monetary policy are very limited, due to the existence of a Currency Board mechanism that ensures the stability of the local currency (the convertible mark), which is pegged to the euro. The Dayton Constitution did not assign the state level any competencies for social policy, and in terms of fiscal responsibilities, only customs policy and the determination of tariffs were made the exclusive responsibility of the state. Social policy and full fiscal competency were assigned to the entities, i.e. FBiH and RS.⁵

Prior to January 2006, the subordinate levels of government – in FBiH, the cantons, cities and municipalities; in the RS, the cities and municipalities – were funded from tax revenue collected by the entities, causing inefficiencies in terms of double internal taxation, as well as tax evasion and loss of revenue (Antić, 2013). However, the reform of indirect taxation that started at the beginning of 2003, under the auspices and supervision of the international community, resulted in the centralisation of a major part of the revenues of BiH and induced a high degree of fiscal interdependence of the governments (Antić, 2013), while contributing to the internal market integration and adjustment of the fiscal architecture in the direction of European integration requirements (Antić, 2014). Administration and the collection of the sales tax, excise and customs duties were shifted away from the entities to the state level, under the jurisdiction of the newly established state Agency for Indirect Taxation (ITA). The final stage of this reform was the introduction on 1 January 2006 of a consumption-type value added tax (VAT) at a flat rate of 17%, which replaced the poorly implemented sales tax that had been in use up until then. This also implied the establishment of a new system of vertical and horizontal distribution of revenue from indirect taxation. In general, the distribution of revenue to the entities is determined by their share of final consumption, revealed by the VAT returns, and is adjusted by the ITA Governing Board annually. In accordance with entity legislation, these funds are distributed further to the lower levels of government. In FBiH, the system of allocation of indirect tax proceeds has often been disputed by certain cantons, which argue that they do not receive their fair share of revenue. Legislation and the collection of direct taxes (income tax, social and other contributions) have remained the responsibility of the entities and the entity tax authorities. In addition to this, all levels of government can introduce a variety of administrative taxes and non-tax revenues.

The introduction of VAT led to a hitherto unprecedented inflow of revenue to all levels of government in the first two years. But, as pointed out by Antić (2014), VAT revenue soon showed strong oscillations. The first sign of crisis occurred in the fourth quarter of 2008, when most tax payers opted for VAT refunds, instead of tax credit, in order to maintain liquidity. As a result of the fall in consumption and economic activity, VAT collection recorded a negative trend in 2009. But from 2010 onwards, the economy showed signs of recovery, which at first led to a slow and subsequently steady increase in VAT revenue. The most important factors contributing to increased VAT revenue in the past five years have been a decline in VAT refund payments, an increase in consumption and increased collection efficiency (OMA, 2019).

As we can see from Table A11 in the Annex, revenue from VAT constituted 12.1% of GDP or 28.2% of consolidated government revenue in 2011. Hence, it is the single most lucrative source of revenue, lower only than social contributions (which make up 15.6% of

⁵ Because of its small population and territory, the District of Brčko is not included in our analysis. This is a separate administrative unit established in 2001, which has a special status and a certain level of political and fiscal autonomy.

GDP and 36.2% of consolidated government revenue). After VAT, the most lucrative are excise duties, with 4.9% of GDP and 11.3% of government revenue, while proceeds from income tax represent only 2.0% of GDP and 4.7% of government revenue. When added up, the overall tax and social security contribution revenues make up 38.4% of GDP. As pointed out by the IMF (2015: 10), BiH has one of the highest shares of social security contributions and tax revenues in terms of GDP in the South Eastern Europe (SEE) region.

An important aspect that should also be noted is that while health services are exempt from VAT, the entity health systems pay significant amounts of VAT on the materials, medicine and equipment they procure. Such expenses constituted around 11% of overall health expenditure in FBiH in 2017, for instance (Health Insurance and Reinsurance Fund of FBiH, 2018: 45). In other words, government budgets currently profit substantially from VAT applied to the goods bought by the health sector, and only a small fraction of these funds is transferred back into the system.

2.2 Social security contributions

As elaborated earlier, the single most important source of revenue for social insurance funds in both entities are social security contributions on salaries. As we can see from Table 5, the entities have a different structure and level of payroll social contribution rates, with a seemingly lower burden in the RS than in FBiH. However, the tax base in the RS is wider – it includes salary and all fringe benefits, which is not the case in FBiH.

Table 5: Current levels of entity payroll contribution rates, with an overview of changes since 2005

Item/date	Changes in Federation BiH contribution rates since 2005		Changes in Republika Srpska contribution rates since 2005				
	2005-2008	Current level since 01.01.2009	2005-2008	01.01.2009	01.02.2011	01.01.2013	Current level since 01.01.2018
Pension and disability insurance	24.0%	23.0%	24%	17.00%	18.00%	18.50%	18.50%
Health insurance	17.0%	16.5%	15%	11.50%	12.50%	12.00%	12.00%
Unemployment insurance	2.5%	2.0%	2%	0.70%	1.00%	1.00%	0.80%
Child Protection Fund	-	-	1%	1.40%	1.50%	1.50%	1.70%
Sum of all contributions	43.5%	41.5%	42%	30.60%	33.0%	33.0%	33.0 %

Note: FBiH does not have a Child Protection Fund.

During our observed period, FBiH changed the payroll contribution rates only once. In January 2009, FBiH reduced social contribution rates by 2 percentage points, cutting the contribution rate for pensions and disability insurance by 1 percentage point and the health insurance and unemployment insurance contribution rate by 0.5 percentage points each. In order to compensate for the decrease in revenue of pension and health insurance funds, a special contribution of 10% was introduced (of which 6% is earmarked for the Pension and Disability Insurance Fund and 4% for a Health Insurance Fund), payable on income earned on all types of atypical employment contracts and on income earned from one-off jobs, temporary work or similar. This contribution was introduced only as a source of financial support for social funds, while employees on such contracts are not entitled to any social benefits or rights on the basis of these contribution payments. At the same time, FBiH introduced an income tax of 10%, replacing the earlier salary tax of 5%.

At the same time, the RS opted for a major reduction in payroll contributions, while widening the payroll tax base to cover the gross salary. The overall rate was reduced from

42% to 30.6%. However, at the end of 2010, in order to preserve fiscal and social stability, the RS government increased the overall contribution rates from 30.6% to 33%. A year later, payroll contribution rates for health insurance and pension and disability insurance changed, whereby the health contribution rate was reduced by 0.5 percentage points and the pension and disability insurance rate increased by 0.5 percentage points. The intention was to reallocate the contribution revenue in favour of the pension fund. Similar changes not affecting the overall payroll contribution rates were implemented as of January 2018. Namely, the payroll contribution rate for unemployment insurance was reduced by 0.20 percentage points, while the contribution rate for the Child Protection Fund was increased by 0.20 percentage points. Furthermore, as of January 2018, the RS introduced a solidarity contribution of 0.25%, which is calculated on the basis of the net salary and is earmarked for the newly established RS Solidarity Fund.⁶ This contribution is voluntary, but subscription is automatic, so that those who do not wish to pay it need to opt out in writing.

Although payroll contributions constitute the most important source of financing for all social insurance funds in the two entities, the financing of the health insurance funds envisages additional contribution payments. Both entity systems envisage that everyone should be covered by health insurance in some way (although there are many people who remain uninsured). Table 6 below (and, in more detail, Tables A7 and A8 in the Annex) presents an overview of persons with health insurance according to the basis of their insurance in FBiH and RS. Here, we can observe that employees in both entities make up the largest share of all insurance holders (40.4% in FBiH and 36.42% in the RS in 2017). Pensioners, whose health insurance is paid by entity pension funds in FBiH constitute 33% of health insurance holders, and in the RS – 35.53%. The unemployed, whose health insurance is paid by the Public Employment Services (PES), make up 18.6% of health insurance holders in FBiH, and 22.2% in the RS. Furthermore, municipal Centres for Social Work (CSWs) and responsible entity ministries pay health insurance contributions for their beneficiaries – in FBiH those categories make up 3.70% and in the RS 1.33% of all health insurance holders. Both entity systems also draw a distinction between the insurance holder and the insured dependent family member (i.e. the spouse or children or other dependent family members who cannot be insured in another way). Health funds do not receive any additional funding for those beneficiaries. Table A7 disaggregates dependent members by status of the insurance holder. Hence, in FBiH, 50.4% of all insured dependent members are dependent family members of employees. For the RS, the Health Fund did not make that information available.

Table 6: Health insured according to basis of insurance in FBiH and RS in 2017, %

	Insured according to basis of insurance	FBiH	RS
1	Employees	40.40	36.42
2	Farmers	0.40	1.19
3	Pensioners	33.00	35.53
4	Unemployed	18.60	24.04
5	Insured by CSW or other administrative body	3.70	1.33

Source: FBiH Health Insurance and Reinsurance Fund and RS Health Insurance Fund.

The RS Law on Contributions defines all social insurance contribution rates and the contribution base for every insurance category; meanwhile, in the FBiH only payroll contributions are defined by the entity-level FBiH Law on Contributions. In FBiH, each canton decides on the contribution rates (and contribution base) that should be paid by institutions within their jurisdiction, i.e. the PES, CSW, ministries in the case of some types of beneficiaries, etc. Contribution rates paid by various institutions for categories of beneficiaries such as the unemployed or retirees are generally lower than those paid on payroll. While the contribution rates for various categories differ across cantons in FBiH,

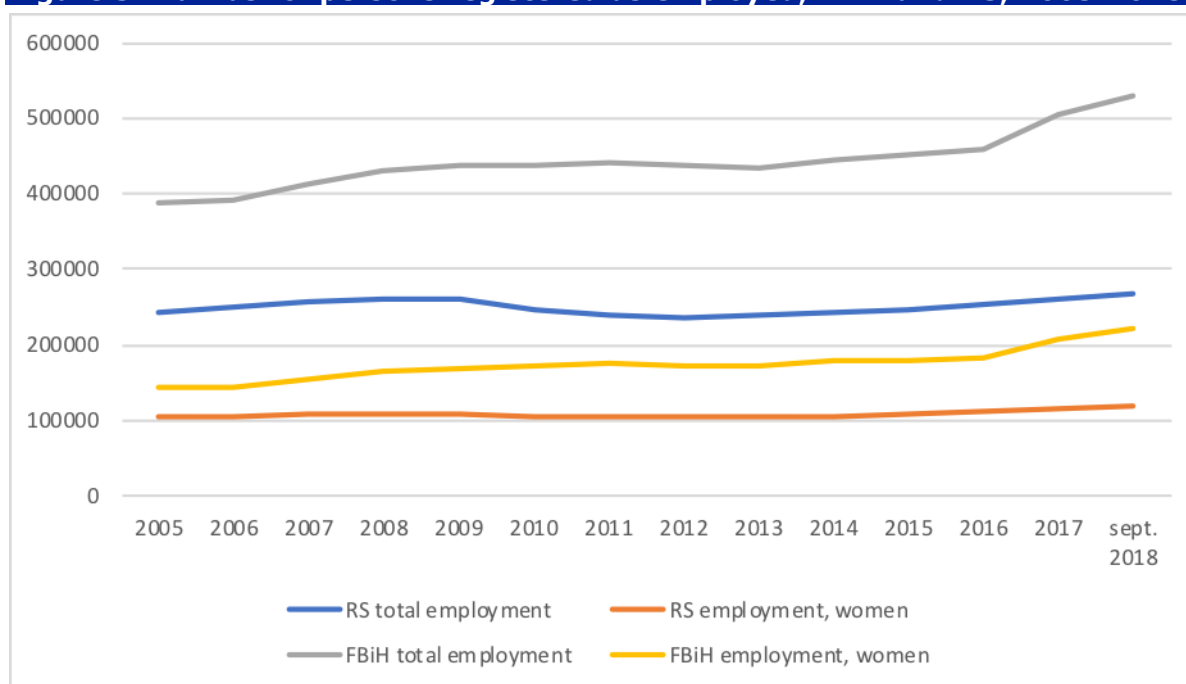
⁶ Established to cover the cost of the medical treatment of children abroad.

they are generally very low. For instance, health contributions for the unemployed in FBiH are paid by cantonal PES in accordance with rates defined by the canton. The health contribution rate and contribution base for the unemployed in the Posavina Canton is EUR 3.0, in Canton 10 it is 0.7% of the average salary, in the Zenica–Doboj Canton it is 1.25% of the base (which is 40% of the average salary in FBiH), etc. (Health Insurance and Reinsurance Fund of FBiH, 2018: Annex T3). When it comes to retirees, in accordance with an FBiH entity government decision from 2004, the health contribution rate for pensioners is paid at a rate of 1.2% of net pension. In the RS, the health insurance for pensioners was reduced from 3.75% to 2% of net pension in 2011, and subsequently to 1% of net pension as of 2013, due to changes to the Law on Contributions. Furthermore, changes to the same law in 2015 stipulated that the entity government should cover the cost of health insurance for persons registered as unemployed who are not entitled to unemployment benefits (for those receiving unemployment benefits, the health insurance is paid by PES). All the above shows that the contribution revenue from employees is the most important source of the system's revenue in both entities, not only because of the number of insured, but more importantly because of the high payroll contributions rates (as shown in Table 5 above).

3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing - national debate on the topic

The system of social protection financing in BiH faces a number of challenges, and a very significant one is inevitably tied to the performance of the labour market of the country. While the rate of unemployment has continuously declined in the last few years, following economic recovery after the 2008 crisis, the country still faces high levels of unemployment, with a rate of 18.4% in 2018, according to Labour Force Survey (LFS) data (Agency for Statistics BiH, 2018: 27). In the past few years, the total number of persons employed has seen an incremental upward shift, although the total employment rate remains fairly low in comparative terms, at 34.3% in 2018 (Agency for Statistics BiH, 2018: 27).⁷ The activity rate in the country is also relatively low, at 42.1% in 2018 (ibid.).

Figure 3: Number of persons registered as employed, FBiH and RS, 2005-2018



Note: Data for 2018 from September of that year.

Source: Annual statistical bulletins, Institute for Statistics of FBiH and Institute for Statistics of RS.

Women in BiH are significantly underrepresented in the labour market, as Figure 3 shows, with an activity rate for women aged 15 and older of only 31.4% (as compared to 53.2% for men), and an employment rate of only 25% (as compared to 44.1% for men) in 2018 (Agency for Statistics BiH, 2018: 27). This may be attributed to myriad factors, including women's care responsibilities, lack of access to affordable, quality childcare or long-term care arrangements, discrimination in the workplace, traditional family relations, and other factors. Unlike many EU countries, women in BiH are not commonly engaged in part-time work either: only 8.7% of women in BiH worked part time in 2018, according to LFS data (ibid.: 51). The underrepresentation of women in the labour market within a system of social protection that relies primarily on social insurance reinforces the male breadwinner model and women's dependent status within the family. This is related not only to pension rights, but also to health insurance, which women can claim on the basis of their dependent status. This also inevitably translates into increased financial pressure on the social security system of the country (women contributing to social insurance systems at lower rates, while claiming pension survivor benefits in high numbers). Despite such bleak indicators

⁷ LFS estimate, pertains to persons aged 15 years and older.

and prospects, strategic commitments to increase the role of women in the labour market or any significant policy measures to that end are currently missing.

Despite the country's very slow pace of convergence with EU living standards and an outdated model of social protection, the country's labour markets display all of the main features of post-industrialism. Non-standard forms of work, coupled with a widespread problem of unregistered work and tax evasion, negatively affect social insurance funds that are designed to function well in conditions of stable and full employment. For instance, BiH has a fairly significant share of own-account (15.4%) and contributing family workers (3.9%) in total employment (ILO, 2018). At the same time, a 2015 survey implemented by the Sarajevo-based Center for Intradisciplinary Social Applied Research (CISAR) suggests that 34% of respondents earned an income from undeclared jobs or activities (with some 8% of such respondents also simultaneously working in formal jobs) (see Pašović and Efendić, 2018: 121). The size of the informal economy is also large, being estimated at 30% of GDP (ibid.: 112). The high incidence of informal work negatively impacts levels of the revenues collected for social protection, and simultaneously leaves many workers unprotected.

One of the culprits for the relatively significant size of the informal economy of BiH, according to a statistical analysis by Pašović and Efendić (2018), is the tax burden on labour. Most of the tax wedge on labour in BiH is made up of social security contributions (SSCs), as outlined in Section 2, while personal income tax (PIT) is set at a flat rate of 10% in both entities. Although the tax wedge – estimated for BiH at 39% for a single person earning 67% of the average wage in 2016 (Atoyan and Rahman, 2017: 13) – cannot be considered too high, especially in comparison to the EU-28 average of 38% in 2015 (Eurostat, 2017), labour costs are nevertheless seen to represent significant disincentives for low-wage earners to enter formal employment or for employers to formalise employment (e.g. see Atoyan and Rahman, 2017; Jusić and Numanović, 2015).

In their 2015-2018 Reform Agenda, the entity governments committed to reducing the burden on labour through a reduction in social security contributions and changes to personal income tax. To date, despite various proposals of legislation to that end and some incremental changes in earlier years, FBiH has not made significant progress.⁸ In the RS, a more significant reduction in contribution rates was implemented as of 2009 (see Table 5 in Section 2), which has also negatively affected the level of revenues collected in this entity, as mentioned in Section 1. Unrelated to SSCs, a recent reform in the RS is an increase in the annual personal tax deduction, through changes to the RS Law on Income Tax (*RS Official Gazette*, no. 66/18). Nevertheless, it should be emphasised that a reduction in labour costs only may not provide sufficient impetus for the formalisation of work; for instance, Koettl and Weber (2012) suggest that formal employment should also be incentivised through the introduction of make-work-pay schemes for low-wage earners. In BiH, in-work benefits and other make-work-pay schemes are currently not applied, although they could incentivise (formal) employment.

Given the rising popularity of 'new' forms of work (e.g. freelance work), governments also face the conundrum of how to set SSCs correctly, so as to avoid disincentivising formal work, while collecting a fair share of contributions from everyone. As explained in Section 2, in addition to the 10% flat rate personal income tax in both entities, for persons on non-standard contracts, SSCs are paid at a rate of 10% (6% towards pensions/disability and 4% towards health) in FBiH and 18.5% in the RS (towards the pension fund), albeit the taxable base is different in the two entities. However, as mentioned above, workers in FBiH on such contracts are not entitled to social insurance rights, despite paying SSCs. As outlined in a 2018 proposal for new legislation on contributions in FBiH, SSC rates would increase to 32% of gross salary for such contracts (18.5% for pensions/disability and

⁸ During 2018, the FBiH government tabled new legislation on contributions which would reduce contribution rates from 41.5% to 33.5% and broaden the base by taxing fringe benefits. A proposal for a new law on personal income tax, which includes provisions to exempt low-wage earners from tax and envisages a 20% rate for persons earning above a certain level, was also agreed by the government (Government of FBiH, 2018). At the time of writing, these laws have not been adopted by the FBiH Parliament.

13.5% for health) if the person is not already insured, or 18.5% if he/she is already insured.⁹ At the same time, according to a newly proposed law on PIT in FBiH, the PIT rate for those earning above around EUR 767 a month would increase from 10% to 20% (while persons earning around EUR 358 a month would be exempt from paying PIT), significantly increasing the tax burden on contracts for those who earn more than the average net salary of around EUR 460 (2018) in this entity. In addition to widening the tax base, the government justified such an increase as a way to disincentivise employers from abusing temporary contracts to reduce their tax burden.

Curbing tax avoidance and evasion and collecting tax debt are also necessary prerequisites to ensure that social security contributions and other taxes are paid. While BiH has stepped up its efforts to that end and has taken 'measures to improve tax collection' that have contributed to revenue growth in 2017 (European Commission, 2018: 32), the weak capacities and powers of the relevant tax authorities and the insufficient coordination among them are factors that may hamper more effective collection and administration efforts.

It should be added that while employees and employers contribute their fair share to the system of social insurance in the event of unemployment, the effectiveness of employment policy in terms of ensuring income security and strengthening employability, and thus ensuring greater levels of employment, is questionable. The benefits feature a rather low replacement rate, at 40% of the average net salary in FBiH, and 40%-45% of the average salary earned by a person in the RS, depending on their insurance record (but not greater than the average net salary). According to the Centers for Civic Initiatives, the benefits in FBiH thus assume the character of social assistance, as they do not adequately reflect one's contributions towards the system of insurance (Centers for Civic Initiatives, 2013: 45). At the same time, because of the temporary nature of unemployment benefits, very few of those registered as unemployed actually receive unemployment benefits – only 2.8% in November 2017, according to Labour and Employment Agency of BiH (2017) data. BiH also invests rather little in active labour market policies – an estimated 0.15% of GDP in 2015 (Numanović, 2016b: 36), despite its high levels of structural unemployment. Active labour market policies (ALMPs) predominantly rely on contribution-based financing, which is problematic: 'Considering ... that such revenues depend directly on labour market trends, the relationship between the amount of available funding and unemployment trends is inverse (i.e. higher unemployment in the labour market leads to lower levels of funding for ALMPs)' (Numanović, 2016b: 39).

An issue that is inextricably tied to the socio-economic situation of the country and its poor labour market performance and that will also place a strain on the country's system of social protection financing in the long run is the continuous and significant trend of emigration from the country in recent years, particularly of younger and educated workers (e.g. see Vidovic et al., 2018: 42-45). While such a trend may potentially translate into a lower level of social expenditure in the short run, and an increase in remittances as a significant source of income support for relatives or dependants, a loss in the productive workforce could challenge the sustainability of the entire social security system. According to Vidovic et al. (2018: 45), emigration in the Western Balkans region, including BiH, 'will likely impede demographic developments if the youngest and most productive continue to leave the region'. Nevertheless, in terms of policy measures, very little has been done to date to reduce emigration from the country or to appeal to persons who have emigrated abroad to return to their country of origin.

⁹ Similar provisions were introduced in the RS earlier: in addition to a 10% PIT, for authors' contracts, there was an obligation to pay 18.5% towards pension/disability insurance and 12% towards health insurance for persons who were not insured (for those who were, no SSCs had to be paid) up until 2018. For standard temporary service contracts, however, a rate of 18.5% had to be paid towards pension/disability insurance, irrespective of whether or not one was already insured. So as to prevent the use of authors' contracts for other types of services (due to the lower levels of SSCs for persons already insured), the SSC rates for the two types of contracts were made equivalent in 2018, amounting to a mandatory SSC of 18.5% for both (Miljić, 2018).

The country's demographic picture poses yet another challenge. According to a United Nations report (UN DESA, 2015: 124), the percentage of the population aged 60 or over was 22.4% in 2015, and is projected to increase to 40.5% by 2050. The trend of population ageing is coupled with an increase in life expectancy: according to the UNDP, life expectancy at birth was 70.9 years in 1990, but has increased to 77.1 years by 2017 (UNDP, 2018: 2). However, according to the World Health Organization (2018), BiH's healthy life expectancy at birth was lower, estimated to be 67.2 years in 2016; this signals pressure on the systems of healthcare and long-term care in the country. The country's old-age dependency ratio is also increasing, and was put at 23.91 in 2017 (World Bank, 2019b).¹⁰ While entity governments have prepared draft strategies on ageing, with the aim of ameliorating the living conditions of older persons through social protection and better social services, *inter alia*, there is doubt about the extent to which such support will be feasible, given the country's labour market performance, levels of emigration and its low fertility rate.¹¹

The pension system, currently a pay-as-you-go scheme, is likely to be negatively affected by such demographic developments, as the number of pensioners increases. The system is already under strain from the substantial privileges introduced for war-veteran categories, which are reflected in very favourable retirement conditions, especially in FBiH (Obradović, 2012: 205-206). As mentioned in earlier sections, the latter has mostly been financed from the entity budgets. But, as happened earlier, the danger remains that governments might 'borrow' from contribution revenue, in order to finance privileged rights. Since higher budget financing remains the only feasible option to keep pensions at least at the acquired level, and in order to guarantee the stability of pension payments, as of 2016 the RS transferred the RS Pension Fund to the entity government's treasury system; such a solution is expected to be implemented for the FBiH Pension Fund as well.

While paradigmatic pension reforms were considered prior to the 2008 financial crisis – most notably the World Bank-proposed semi-privatisation and capitalisation through the introduction of a three-pillar scheme (for more, see Obradović, 2010: 168) – they have not been adopted. The rationale against such reform is summed up in the FBiH government's 2013 Pension System Reform Strategy: 'Radical pension system reforms, such as the introduction of a second capitalised pension pillar based on personal account, are objectively not feasible in this moment because of the significant fiscal resources they require' (Government of FBiH, 2013: 20).¹² Indeed, it is uncertain how far the partial privatisation and marketisation of pensions could contribute to an amelioration of pension financing in BiH, given the high costs of administration, transition costs, and the lower generosity usually associated with such schemes (e.g. see Orszag and Stiglitz, 1999; Barr, 2000). In the RS, legislation for a voluntary pension pillar was enacted in 2009, allowing the private sector to step in and offer social protection; similarly, FBiH adopted a law on voluntary pension funds in 2016. However, the first private pension fund started to operate in the RS only in 2017. In any case, given the increasing number of pensioners and the large war-veteran population that has been granted pension rights (as well as the uncertain prospects for relying on social security contributions in the long term because of the outlined challenges with the labour market and emigration), a greater dependence on the financing of pensions from the entity budgets is all but certain.

As outlined in earlier sections, available indicators show that the public health systems in the country are predominantly financed from health contributions. Despite the very significant percentage of GDP spent on public health, as noted in Section 1, the system is plagued with inefficiencies, as reflected in significant debt in both entities and especially the decentralised FBiH. Furthermore, a high level of inequality in access and in the quality of healthcare remains, especially on FBiH territory, where cantons (as the administrative units in charge of healthcare) vary significantly in the levels of revenue they have accrued

¹⁰ Defined as the ratio of older dependants (age 65+) to the working-age population (15-64), shown as a proportion of dependants per 100 persons of working age (World Bank, 2019b).

¹¹ Bosnia and Herzegovina records a low fertility rate, estimated at 1.36 in 2016 (World Bank, 2019a).

¹² Authors' translation.

towards healthcare (e.g. see Health Insurance and Reinsurance Fund of FBiH, 2018; Martić and Đukić, 2017); also, they have not all adopted policies that would grant equivalent rights to patients. At the same time, it is important to note that the out-of-pocket health expenditures or direct payments of households as a percentage of current health expenditure was estimated by the WHO to be as high as 29% in 2016 (WHO), suggesting not only that the current public health insurance is not affordable for everyone, but also that the services it provides access to do not sufficiently meet the needs of the population.

The current financing model of the healthcare system appears to be in dire need of reform. According to Martić and Đukić (2017), a 'high dependence of this system on the contributions of the employed is not an optimal solution for BiH taking into account a low employment rate and population aging process', and also represents a regressive manner of financing because of its inherent inequality, as other sources of revenue – such as property income, dividends or profits, which usually accrue to the richer parts of the population – are not taxed for this purpose (ibid.: 1). The authors recommend various options for the improvement of the current financing scheme, such as: providing alternative revenue sources – either through the budget or through the introduction of earmarked revenues (e.g. excise duties on products such as alcohol, tobacco or soft drinks); tax relief on salaries through a decrease in health insurance contributions, coupled with an increase in other sources of revenue for the health sector, e.g. excise duties, VAT or property tax; or completely transitioning to tax-based financing and universal provision, through an increase in one or more sources of direct or indirect taxation (Martić and Đukić, 2017: 28-29). The authors emphasise that the feasibility of all three options depends, *inter alia*, on values that are deemed important to embrace in relation to healthcare provision: for instance, the last option would certainly suit the values of 'universality, equality and solidarity', as financing would rely on sources such as taxes on consumption, property or profit. Nevertheless, the authors warn that to assess the viability of such alternative models in terms of the health sector's financial sustainability, other important aspects of these financial schemes, not limited to the modalities of fund collection or service contracting and the role of the private sector, would need to be taken into account (ibid.: 29).

The entity health systems pay significant amounts of VAT on the materials, medicine and equipment they procure. According to the Health Insurance and Reinsurance Fund of FBiH (2018: 47), VAT returns may be one of the ways to ensure additional sources of health financing. Some civil society organisations have gone a step further by suggesting a reduction in the VAT rate, or even VAT exemption for medical goods, such as medication, procured by the health sector (Vijesti.ba, 2011).

As outlined in earlier sections, a small portion of BiH's social protection expenditure relates to social assistance, mostly for the status-based, war-veteran category. Myriad problems have been identified with the delivery of social assistance in BiH, including the inadequacy and territorially uneven provision of social benefits, as well as the general lack of investment in social services (e.g. see Obradović, 2018; Obradović and Đukić, 2016; Numanović, 2016a; Malkić and Numanović, 2016). Considering demographic trends, as well as the fact that a substantial (and growing) portion of the population is without social insurance (e.g. because of non-standard work or work in the informal sector), it is all but certain that the need for income support and services such as long-term care will grow, and that the financing of social assistance will need to be revisited.

In that regard, measures may be taken to increase the fiscal autonomy of local governments, which are in charge of a significant portion of social transfers and social services. Currently, their fiscal autonomy is considered to be low, bearing in mind that the share of revenue which they decide on entirely (e.g. non-tax revenue) or partially (e.g. tax on property) is low (Antić, 2013: 291). Another measure may be to reduce the levels of spending on war-veteran categories, but this has not been feasible to date. In line with the commitment to reduce non-contributory social assistance, as agreed within the Stand-by Arrangement with the IMF, the governments in BiH have focused their efforts on the further targeting of non-contributory social assistance to cater only to those who are most in need, albeit without much success in reducing expenditure on benefits for war-veteran

categories. For instance, the FBiH government performed eligibility audits of war veterans entitled to social benefits; this resulted in an initial reduction in expenditure on veteran categories in FBiH as of 2010, but the trend towards growth resumed when the courts reversed the audit procedure (Obradović, 2018). In the RS, the expenditure on transfers to veteran categories has been increasing (ibid.).

While the above-mentioned complex and interconnected challenges call for a serious review of the current mix of social protection financing, including the consideration of a possible increase in social protection financing from general taxation, there appears to be very little discussion in the public and policy realm concerning this matter. In the past few years, discussions on social protection financing have predominantly been tied to the fiscal consolidation goals espoused by the governments as a result of obligations undertaken in line with the Stand-by Arrangement with the IMF. In the discussion of social protection reforms, financing structures have not taken centre stage, with the exception of discussions surrounding the incremental reduction in contribution rates.

Suggestions for the use of earmarked taxes, such as excise duties on tobacco, to finance healthcare expenditure have come from the civic sector (e.g. associations of cancer patients) or from expert reports (such as the above-mentioned report by Martić and Đukić, 2017). Moreover, an initiative by one political party in the BiH Parliament, the Independent Bloc, to change the BiH Law on Excise Duties also includes a suggestion to redirect some 5% of the revenue collected from excise duties on tobacco and tobacco products towards the FBiH and RS Solidarity Funds (and the equivalent institution in Brčko District); this has entered the procedure of the Parliamentary Assembly of BiH, but has not yet been adopted.

Policy makers have also largely avoided explicit discussions regarding the greater use of general taxation to finance social protection. This would be a departure from the currently predominantly insurance-based, Bismarckian social protection model and a move towards a general-taxation-based, and more universal, Beveridgean model. However, a model based on taxation inevitably also implies a restructuring of the broader fiscal system in BiH, including VAT reform and the model for allocating indirect taxes to different levels of government, so as to allow for better budget planning (Antić, 2013).

To date, discussions on whether or not it would make sense to increase the VAT rate or introduce additional rates have been inconclusive, and there appears to be a lack of consensus among policy makers to that end. According to an IMF report (2015), in response to a preference for a VAT increase to counterbalance the reduction in SSC rates, as proposed by some policy makers, IMF staff were of the opinion that 'a VAT rate increase — albeit a more modest one — could be considered but stressed that this hike should only be a last resort measure if other measures proved insufficient' (IMF, 2015: 15). In their 2016 Letter of Intent to the IMF, as part of the Extended Fund Facility that followed the Stand-by Arrangement, the BiH authorities envisaged measures such as an expansion of the tax base for labour income and an improvement in tax administration to increase compliance, but stated that 'if sustained implementation of these measures does not prove to be sufficient to ensure the sustainability of the social insurance funds, we will take additional fiscal measures, in consultation with IMF staff, to raise additional revenues and/or implement spending cuts if needed' (IMF, 2016: 51). While VAT reform is very uncertain at this point, a potential VAT hike would need to take account of the impact on the level of poverty and income inequality in the country, as 'raising indirect taxes, for instance, is often regressive where these taxes fall on the consumption of goods and services that make up a larger share of the budgets of poorer than richer households' (Carter and Matthews, 2012). Introducing additional tax rates, where some goods (e.g. foodstuffs, medicaments, children's clothing, etc.) may be taxed at reduced or zero rates, on the other hand, may be conducive to a reduction in poverty or inequality.

Beyond VAT, policy makers will need to place greater emphasis on raising or redirecting other tax or non-tax revenues for social protection financing, including taxes on property income, dividends or profits, or excise duties on tobacco or alcohol, as suggested by Martić and Đukić (2017).

The general absence of policy debate on, or explicit commitment to, other types of financing models may be, *inter alia*, because the stable gradual increase in social spending over the years has more or less been followed by a stable increase in revenue (albeit with some differences across areas/functions). Nevertheless, the above sections have also outlined the increasing pressure on the pension and health systems, as expenditure has risen faster than revenue in both entities. Thus, while the general recovery of its economy following the 2008 financial crisis has given BiH the leeway for incremental reform in the domain of social protection financing, given the challenges outlined above, it is uncertain how long BiH will be able to maintain its current 'fiscal space' (Heller, 2005) and its social protection financing design.

The question of social protection financing is closely tied to the design of the social protection system, the functions and objectives of benefits schemes, access to rights, the system's effectiveness and so on. The current, predominantly status-based system, i.e. a system of social insurance that favours the employed and a system of social assistance that favours war veterans, leaves many behind. At the same time, while the aggregate social financing and expenditure in BiH is considerable, its outcomes are not satisfactory. Policy makers will need to look beyond the current model of financing of social protection in order to make the system inclusive for all. Reinforcing the model of financing of the system in its current form would not do much for those who are excluded.

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Annex

Table A1: Consolidated BiH government expenditure on social benefits and its share of total GDP from 2005 to 2016

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated	BH Consolidated
GDP nominal, KM in million (current prices)		17,650.0	20,057.0	22,548.0	25,519.0	24,799.0	25,365.0	26,231.0	26,222.7	26,778.8	27,358.7	28,585.8	29,900.0
Real growth rate of GDP in %			5.4	5.9	5.4	-3.0	0.9	1.0	-0.8	2.4	1.2	3.1	
1 BiH consolidated revenue		7,122.1	8,586.4	9,832.7	10,903.1	10,342.5	10,862.6	11,357.1	11,459.5	11,406.5	11,961.7	12,333.5	12,767.3
2 BiH consolidated expenses		6,359.5	7,546.0	8,828.8	10,599.6	10,664.5	10,840.3	10,908.7	11,170.8	10,938.8	11,350.1	11,587.0	11,672.3
2 EXPENSE	27 Social benefits	2,212.2	2,426.5	3,030.6	3,945.1	3,951.0	3,770.3	4,330.3	4,394.4	4,423.7	4,658.0	4,729.5	4,755.0
2 EXPENSE	271 Social security benefits	1,705.0	0.0	0.0	0.0	0.0	7.2	3,138.6	3,264.9	3,309.0	3,475.0	3,567.8	3,627.8
2 EXPENSE	272 Social assistance benefits	497.9	2,421.5	3,022.4	3,935.7	3,943.2	3,760.9	1,168.3	1,103.6	1,090.9	1,158.7	1,129.0	1,093.7
2 EXPENSE	273 Employer social benefits	9.3	5.0	8.1	9.4	7.8	2.2	23.4	26.0	23.8	24.3	32.7	33.5
Share of consolidated government's social expenditure in total GDP		13%	12%	13%	15%	16%	15%	17%	17%	17%	17%	17%	16%

Source: <http://statistics.cbbh.ba> (01.02.2019) and authors' calculations

Table A2: Shares of social insurance and social assistance in BiH consolidated social benefits expenditure

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
% of social security in BiH consolidated social benefits expenditure	77%	0%	0%	0%	0%	0%	72%	74%	75%	75%	75%	76%
% of social assistance in BiH consolidated total social benefits expenditure	23%	100%	100%	100%	100%	100%	27%	25%	25%	25%	24%	23%
% of employer social benefits in BiH consolidated social benefits expenditure	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%

Source: <http://statistics.cbbh.ba> (01.02.2019) and authors' calculation.

Table A3: Employment and unemployment in FBiH and RS, 2005-2018

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Sept. 2018
RS unemployed	142,331	144,106	134,207	133,074	145,396	145,620	153,535	153,458	149,284	142,675	135,585	125,906	114,364	n/a
RS employed	242,624	248,139	258,236	259,205	258,634	244,453	238,956	236,178	238,640	241,544	245,975	253,305	260,608	268,879
no. women	102,942	104,625	109,035	108,636	109,921	104,899	103,011	103,153	104,636	106,056	108,521	111,851	115,640	120,355
FBiH unemployed	347,478	362,368	367,570	345,381	347,146	360,512	367,515	377,957	388,704	391,427	390,204	377,854	357,971	328,663
FBiH employed	388,418	389,601	413,676	430,745	437,501	438,949	440,747	437,331	435,113	443,587	450,121	457,974	505,201	529,147
no. women	144,270	144,681	153,776	163,045	169,223	172,218	173,764	173,449	173,105	177,622	180,035	182,247	206,572	220,150
BiH employed*	631,042	637,740	671,912	689,950	696,135	683,402	679,703	673,509	673,753	685,131	696,096	711,279	765,809	798,026
no. women	247,212	249,306	262,811	271,681	279,144	277,117	276,775	276,602	277,741	283,678	288,556	294,098	322,212	340,505

* Without Brčko District.

Source: RS and FBiH Statistical Institutes.

Table A4: Entities' pensions and disability insurance funds total revenue and sources of financing

Year	Federation BiH Pension and Disability Insurance Fund revenue				Republika Srpska Pensions and Disability Insurance Fund revenue			
	Total revenue in KM	% share from pensions and disability contribution	% share from FBiH entity government	% other revenue	Total revenue in KM	% share from pensions and disability contribution	% share from RS entity government	% other revenue
2005	918,149,715	92.7%	7.0%	0.3%	459,853,840	73.4%	25.7%	0.9%
2006	1,002,986,143	97.7%	2.0%	0.3%	560,626,630	75.9%	22.6%	1.5%
2007	1,225,402,066	93.8%	5.9%	0.3%	629,150,499	76.1%	22.1%	1.8%
2008	1,472,111,351	94.9%	4.7%	0.4%	777,429,872	78.6%	20.6%	0.9%
2009	1,460,844,072	93.9%	5.7%	0.4%	803,326,451	79.7%	19.9%	0.3%
2010	1,658,345,439	88.9%	10.8%	0.3%	924,335,774	73.3%	24.9%	1.8%
2011	1,640,304,870	89.3%	10.4%	0.3%	926,814,273	79.0%	20.8%	0.2%
2012	1,686,674,474	87.3%	12.5%	0.3%	875,759,944	81.3%	17.8%	0.9%
2013	1,710,627,266	86.9%	12.9%	0.2%	895,643,924	81.8%	17.4%	0.8%
2014	1,791,511,334	86.4%	13.3%	0.3%	936,619,204	79.4%	19.8%	0.9%
2015	1,840,356,811	86.3%	13.5%	0.2%	955,047,224	79.2%	19.9%	1.0%
2016	1,890,741,026	87.1%	12.6%	0.3%	774,059,529	98.7%	n/a	1.3%
2017	2,027,343,292	87.0%	12.1%	0.9%	808,489,479	99.3%	n/a	0.7%
2018	2,334,043,164	84.0%	11.9%	4.1%	n/a	n/a	n/a	n/a

Source: Federation BiH Pensions and Disability Insurance Fund and Republika Srpska Pensions and Disability Insurance Fund.

Table A5: Revenues and expenditures of entity pensions and disability insurance funds in KM (KM 1 = EUR 1.95)

Year	Federation BiH Pension and Disability Insurance Fund			Republika Srpska Pension and Disability Insurance Fund		
	Total revenue	Total expenditure	Balance	Total revenue	Total expenditure	Balance
2005	918,149,715	868,783,000	49,366,715	459,853,840	470,979,578	-11,125,738
2006	1,002,986,143	977,116,117	25,870,026	560,626,630	549,141,767	11,484,863
2007	1,225,402,067	1,177,707,888	47,694,179	629,150,499	613,175,465	15,975,034
2008	1,472,111,351	1,496,216,140	-24,104,789	777,429,872	820,745,980	-43,316,108
2009	1,460,844,071	1,569,656,527	-108,812,456	803,326,451	917,397,129	114,070,678
2010	1,658,345,439	1,616,225,319	42,120,120	924,335,774	916,971,130	7,364,644
2011	1,640,304,870	1,692,110,339	-51,805,469	926,814,273	916,054,864	10,759,409
2012	1,686,674,474	1,734,049,772	-47,375,298	875,759,944	902,809,848	-27,049,904
2013	1,710,712,266	1,725,154,873	-14,442,607	895,643,924	920,424,662	-24,780,738
2014	1,791,596,334	1,834,464,346	-42,868,012	936,619,204	970,775,041	-34,155,837
2015	1,841,016,611	1,874,873,518	-33,856,907	955,047,224	1,009,920,340	-54,873,116
2016	1,890,741,026	1,927,726,447	-36,985,421	774,059,529	1,010,952,935	-236,893,406
2017	2,101,445,292	2,036,988,210	64,457,082	808,489,479	1,021,758,113	-213,268,634

Source: FBiH Pension and Disability Insurance Fund and RS Pension and Disability Insurance Fund.

Table A6: Entities' public health systems revenue from contributions and share in total revenue

Year	FBiH aggregate revenue from contributions*	% of contributions in total health system revenue	FBiH aggregate public health system revenue in KM	RS revenue from health contributions*	% of contributions in total RS Health Fund revenue	RS Health Fund total revenue in KM
2005	614,952,740	91.8%	669,697,989	n/a	-	215,886,734
2006	692,316,742	91.0%	760,491,486	n/a	-	331,203,153
2007	789,715,470	89.6%	880,937,585	n/a	-	345,711,148
2008	952,711,724	91.0%	1,047,172,836	n/a	-	418,359,686
2009	942,289,419	88.9%	1,059,387,691	474,320,000	97.34%	487,292,932
2010	1,008,486,091	90.1%	1,119,869,704	476,340,000	98.45%	483,841,315
2011	1,065,351,494	90.9%	1,171,501,810	524,976,397	95.85%	547,728,887
2012	1,057,687,801	88.5%	1,195,242,487	520,460,245	94.65%	549,857,376
2013	1,072,799,807	91.1%	1,177,121,934	501,233,118	85.92%	583,405,564
2014	1,123,512,653	89.2%	1,259,327,458	512,243,714	82.23%	622,918,772
2015	1,143,214,757	92.2%	1,239,862,690	539,042,865	79.55%	677,631,011
2016	1,208,589,792	91.3%	1,323,896,346	518,776,871	82.91%	625,726,036
2017	1,282,174,485	91.2%	1,405,588,268	572,000,000	86.92%	658,066,893
2018	1,377,720,364	n/a	n/a	491,200,000	85.13%	576,990,355

*Contributions paid through entity tax system.

Source: FBiH Tax Authority, FBiH Ministry of Health, RS Health Fund, RS Tax Authority and authors' calculations.

Table A7: Overview of average number of health-insured persons in FBiH during 2017

Insured and dependent members of family by basis of insurance	Average number of insured persons in cantonal insurance funds											Average total in FBiH	
	Una – Sana Canton	Posavina Canton	Tuzla Canton	Zenica-Doboj Canton	Bosnia – Podrinje Canton	Central Bosnia Canton	Herzegovina – Neretva Canton	Western-Herzegovina Canton	Sarajevo Canton	Canton 10		(%)	
1 Insured on compulsory health insurance													
Employees	39,853	6,413	103,341	88,494	7,903	54,787	52,796	19,302	138,748	11,395	523,032	40.4%	
Farmers	4	2,207	0	25	8	1,464	3	1,869		199	5,779	0.4%	
Pensioners	33,397	4,396	89,796	69,035	6,704	52,035	42,516	11,713	108,331	10,082	428,005	33.0%	
Unemployed	23,281	3,455	53,529	49,760	1,525	16,198	25,352	10,911	51,165	6,067	241,243	18.6%	
People with disability, civilian victims of war and similar	13,349	614	12,749	518	678	6,751	4,826	1,249	6,579	517	47,830	3.7%	
Insured abroad	7,434	489	9,338	3,922	70	268	3,323	1,801	2,121	1,734	30,500	2.4%	
Other	105	325	0	6,574	96	2,817	1	2,945	334	1,326	14,523	1.1%	
Insured voluntarily	763	216	1,809	123	18	100	124	161	1,266	365	4,945	0.4%	
Total number of insured	118,186	18,115	270,562	218,451	17,002	134,420	128,941	49,951	308,544	31,685	1,295,857	100.0%	

2 Family members of insurance holders													
	Family members of employees	32,758	3,867	73,852	54,350	5,003	40,563	33,223	16,694	73,883	8,374	342,567	50.4%
	Family member of farmers	1	981	0	21	6	492	2	715		167	2,385	0.4%
	Family members of pensioners	9,912	1,270	27,949	25,945	2,422	18,070	11,561	3,743	20,055	2,601	123,528	18.2%
	Family members of unemployed	20,314	2,114	38,605	31,305	766	12,110	13,309	6,134	24,095	3,379	152,131	22.4%
	Family members of persons with disability, civilian victims of war, etc.	6,139	293	5,230	601	162	4,935	1,927	1,234	1,189	465	22,175	3.3%
	Family members of insured abroad	11,023	179	10,172	4,488	30	6	1,331	495	432	796	28,952	4.3%
	Family members of Other categories	0	51	0	1,146	11	3,047	0	1,630	63	121	6,069	0.9%
	Family members of voluntarily insured	472	56	823		2	35	42	54	209	90	1,783	0.3%
	Total number of insured as dependent family members	80,619	8,811	156,631	117,856	8,402	79,258	61,395	30,699	119,926	15,993	679,590	100.0%
3	Total number of insured	198,805	26,926	427,193	336,307	25,404	213,678	190,336	80,650	428,470	47,678	1,975,447	

Source: FBiH Insurance and Reinsurance Health Fund.

Table A8: RS health insured persons by basis of insurance

No.	Basis of insurance	Number of insured persons and their dependants			
		01.01-30.11.2017	%	01.01-30.11.2018	%
1	Employees	233,449	36.42	243,180	37.79
2	Agricultural workers	7,630	1.19	7,688	1.19
3	Pensioners	214,929	33.53	217,263	33.77
4	Insured abroad	22,343	3.49	22,371	3.48
5	War veterans and their families	4,334	0.68	4,273	0.66
6	Refugees and internally displaced persons	375	0.06	333	0.05
7	Unemployed	152,227	23.75	142,765	22.19
8	Unemployed receiving unemployment benefit	1,879	0.29	1,959	0.30
9	Centre for Social Work	3,806	0.59	3,619	0.56
Total insured:		640,972	100.00	643,451	100.00
10	Dependent members of family	298,054		285,189	
Total number of insured:		939,026		928,640	

Source: Republika Srpska Ministry of Health and Social Protection.

Table A9: Indicators of Health Expenditure in Republika Srpska

Indicators	2009	2010	2011	2012	2013	2014	2015	2016
Gross domestic product, in thousand KM	8,236,270	8,318,217	8,682,397	8,584,972	8,761,456	8,847,121	9,205,038	9,630,569
Total health expenditure (% of GDP)	10.1	10.6	10.7	11.0	10.8	11.3	11.3	11.7
Public expenditure (% of GDP)	7.1	7.6	7.8	7.9	7.8	8.2	8.2	8.6
Private expenditure (% of GDP)	3.0	3.0	2.9	3.1	3.0	3.1	3.1	3.0
Population estimate	1,435,179	1,433,038	1,429,668	1,429,290	1,425,549	1,421,310	1,162,164	1,157,516
Current health expenditure per capita, KM^[1]	540	564	602	632	645	677	866	910

[1] Excluding investment.

Source: Republika Srpska Institute for Statistics, Health Expenditure.

Table A10: Realised aggregate revenue in FBiH public health system

No.	Source of financing	2015		2016		2017	
		KM	%	Amount in KM	%	Amount in KM	%
I	Realised public health system revenue						
1	Health insurance contribution	1,168,308,414	82.3%	1,239,876,879	82.2%	1,315,498,089	81.4%
2	Budgets	38,649,569	2.7%	62,833,235	4.2%	85,871,714	5.3%
3	Patient participation	32,320,088	2.3%	32,107,331	2.1%	30,396,120	1.9%
4	Donations	17,687,645	1.2%	17,912,682	1.2%	21,385,195	1.3%
5	Direct payments	103,872,116	7.3%	104,591,904	6.9%	108,610,432	6.7%
6	Other funds	58,134,742	4.1%	51,684,106	3.4%	55,161,522	3.4%
	Total realised public health system revenue	1,418,972,574	100.0%	1,509,006,137	100.0%	1,616,923,072	100.0%
II	Revenue realised in private sector	241,997,437	14.6%	300,155,471	16.6%	324,755,042	16.7%
	TOTAL I + II	1,660,970,011	100%	1,809,161,608	100%	1,941,678,114	100%

Source: FBiH Health Insurance and Reinsurance Fund.

Table A11: Structure of revenues in Bosnia and Herzegovina, 2011

	% GDP	% B&H revenues
Indirect taxes	19.3	43.2
VAT	12.1	28.2
Excises duties	4.9	11.3
Road fees	1.1	2.6
Customs	1.1	2.5
Other	0.1	0.2
Direct taxes	3.5	8.1
Profit tax	1.1	2.5
Income tax	2.0	4.7
Other direct taxes	0.4	0.9
Social contributions	15.6	36.2
Non-tax revenue	5.1	11.8
Other (other revenue; transfers, grants)	0.2	0.7

Source: Database of Macroeconomic Analysis Unit (MAU) of the ITA Governing Board, taken from Antić (2013: 290).

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