



## NEW WORLD BANK STUDY:

Social protection programs do not reach the poor!

A new report of the World Bank entitled: Social Transfers in Bosnia and Herzegovina (BH): moving towards a more sustainable and better targeted safety net finds that cash transfers to finance social programs in BH fail to reach the majority of the poor and the most vulnerable. The study found that the current system is socially inequitable, has negative impact on the labor market, and is fiscally unsustainable. Resources need to be much better targeted to reach those in need versus those who meet different right-based criteria. The study also provides recommendations as to steps that could be taken to improve targeting and impact of social transfers.

Read more about this study on pages 2 and 3

## MACROECONOMIC UPDATE

The financial crisis is taking its toll on the BH economy. Although there are no national accounts statistics to confirm it, the available data indicate that the economy is in recession. Public sector revenues have been dropping rapidly. Indirect tax revenues (net) dropped 13 percent during the first 4 months of 2009 (yoy). Nominal exports have dropped 21 percent and imports as much as 24 percent during Q1 2009. While the nominal drop partly reflects a drop in the prices of traded products, it is in part also due to the drop of economic activity. Industrial production dropped around 10 percent in the Federation during Jan-May period, while it was up in Republika Srpska around 17 percent. The growth of industrial production in Republika Srpska is largely due to the launch of production in the Brod refinery, but in other important industries, production indexes are down up to 40 percent. Credit growth has stopped and, in fact, bank credit portfolio slightly shrank between March and April (0.3%). CPI inflation is also down to 0.7% during Q1 2009.

## MACROECONOMIC INDICATORS

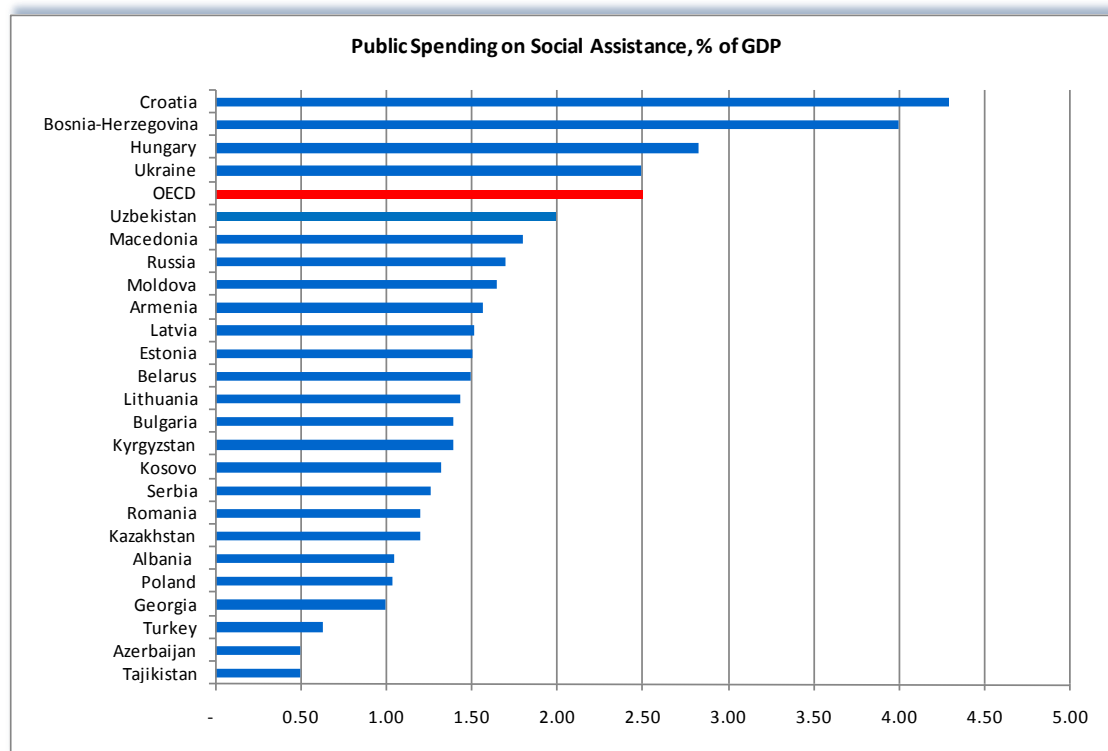
|                                                 | Annual |        | Quarterly |         |         |         | Monthly  |        |         |          |         |
|-------------------------------------------------|--------|--------|-----------|---------|---------|---------|----------|--------|---------|----------|---------|
|                                                 | 2007   | 2008   | 2008 Q2   | 2008 Q3 | 2008 Q4 | 2009 Q1 | 2008 XII | 2009 I | 2009 II | 2009 III | 2009 IV |
| <b>Industrial Production</b>                    |        |        |           |         |         |         |          |        |         |          |         |
| FBH (% change y-y)                              | 9.1    | 8.0    | 5.1       | 13.0    | 15.0    | -10.9   | 9.4      | -11.1  | -15.3   | -5.9     | -5.9    |
| RS (% change y-y)                               | 1.4    | 16.8   | 10.7      | 5.5     | 39.4    | 13.1    | 99.6     | -5.6   | 10.4    | 23.8     | 28.1    |
| <b>Gross Monthly Wage</b>                       |        |        |           |         |         |         | 39,467   | -9,267 | -6,733  | 4        | 5,4333  |
| FBH (% change y-y)                              | 9.7    | n/a    | 13.1      | 15.4    | 12.5    | 14.0    | 13.5     | 14.7   | 13.8    | 13.5     | 12.2    |
| RS (% change y-y)                               | 10.3   | 29.3   | 31.4      | 32.3    | 30.7    | 18.3    | 30.6     | 34.4   | 14.9    | 8.9      | 6.8     |
| <b>Cost of Living /CPI*</b>                     |        |        |           |         |         |         |          |        |         |          |         |
| FBH (% change y-y)                              | 1.5    | 7.7    | 8.5       | 9.5     | 5.8     | 2.0     | 4.0      | 2.6    | 2.2     | 1.2      | 0.4     |
| RS (% change y-y)                               | 1.8    | 7.2    | 8.2       | 9.3     | 5.1     | 1.2     | 3.6      | 2.0    | 1.4     | 0.3      | (0.4)   |
| <b>Current Account Balance (Millions of €)</b>  | -1,160 | n/a    |           |         |         |         |          |        |         |          |         |
| Trade Balance (Millions of €)                   | -4,071 | -4,303 | -1,290    | -1,157  | -780    | -792    | -186     | -220   | -269    | -302     | -335    |
| Exports of Goods (Millions of €)                | 3,035  | 3,432  | 911       | 919     | 801     | 633     | 227      | 197    | 213     | 223      | 218     |
| % change y-y                                    | 15.0   | 13.1   | 19.0      | 16.2    | 2.6     | -21.0   | -4.1     | -20.6  | -23.8   | -18.6    | -25.1   |
| Imports of Goods (Millions of €)                | 7,106  | 7,736  | 2,201     | 2,076   | 1,581   | 1,424   | 413      | 417    | 482     | 525      | 552.22  |
| % change y-y                                    | 22.0   | 8.9    | 20.9      | 11.3    | -18.8   | -24.2   | -33.7    | -18.5  | -27.8   | -24.9    | -25.6   |
| <b>Foreign Exchange Reserves (Mil. of €)</b>    | 3,425  | 3,219  | 3,339     | 3,494   | 3,219   | 3,095   | 3,219    | 3,144  | 3,101   | 3,095    | 3,029   |
| <b>Broad Money (Millions of €)</b>              | 6,263  | 6,532  | 6,541     | 6,865   | 6,532   | 6,383   | 6,532    | 6,416  | 6,424   | 6,383    | 6,372   |
| % change y-y                                    | 21.6   | 4.3    | 14.3      | 14.8    | 4.3     | 0.7     | 4.3      | 2.6    | 2.3     | 0.7      | -1.2    |
| <b>Credit to Non-govt Borrowers (Mil. of €)</b> | 6,052  | 7,317  | 6,911     | 7,231   | 7,317   | 7,407   | 7,317    | 7,432  | 7,438   | 7,407    | 7,386   |
| % change y-y                                    | 28.1   | 20.9   | 28.7      | 27.1    | 20.9    | 14.8    | 20.9     | 21.6   | 18.5    | 14.8     | 11.4    |

\* As of January 2008 both entities report CPI

## SOCIAL TRANSFERS IN BOSNIA AND HERZEGOVINA

### MOVING TOWARDS A MORE SUSTAINABLE AND BETTER TARGETED SAFETY NET

Spending on social protection schemes in Bosnia and Herzegovina (BH) is large by international standards. BH spends 4% of its gross domestic product (GDP) on non-insurance social protection cash transfers, and this makes the country one of the highest spenders in the Europe and Central Asia (ECA) region (Figure 1).



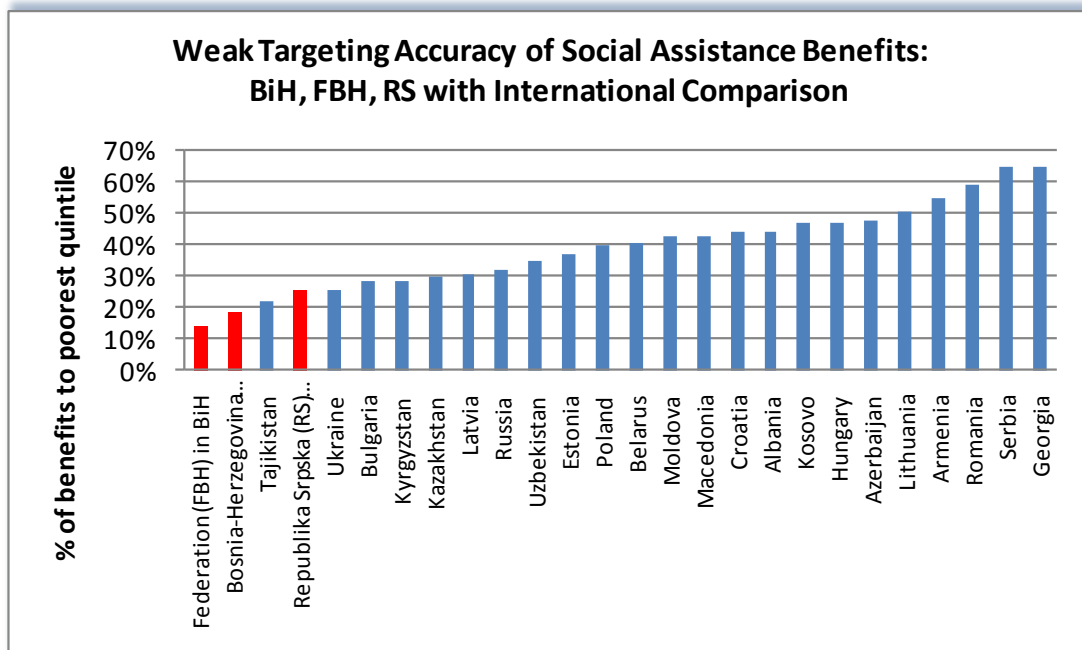
For historical reasons, social benefits in BH have been heavily dominated by “rights-based” programs designed to protect war veterans or their surviving dependents (“veteran-related benefits”). Veteran-related benefits absorb about 3/4 of total spending on non-insurance social protection cash transfers. Both Entities also operate a number of civilian benefits that account for about 1/4 of total spending on non-insurance social protection cash transfers such as: social assistance benefits, child protection allowance, civilian victims of war benefits, and non-war invalid benefits.

**The poverty-reduction impact of non-insurance social protection cash transfers is limited.** Only a small proportion of the poor receive social benefits. Indeed, if these transfers were to be eliminated the poverty headcount would increase by only 1.2 %. By way of contrast, the poverty impact of social insurance benefits (pensions) is much higher—without these transfers poverty would increase to 25.8% of the population.

**27% of veteran-related benefits go to people in the richest fifth of the population.** At the same time, those in the poorest fifth receive less than 15% of veteran-related benefits. Civilian benefits are somewhat better targeted towards the poor. Thus, 26% of the expenditure on the child protection allowance (which is means-tested) and 30% of the expenditure on the social assistance benefit (also means-tested) reach the poorest fifth of the population. Nevertheless, these outcomes are not very good when compared with other countries (Figure 2).

<sup>1</sup> Health, pension, and unemployment insurance programs are examples of insurance-based schemes. A significant proportion of the ostensibly insurance-based benefits (for example, special pensions) are also financed through the general government budget.

Figure 2: Targeting Accuracy of Benefits - International Comparison



**The opportunity costs of public spending on generally regressive transfers are also high.** Public expenditures on non-insurance social protection cash transfers absorb a huge share of the Entities' respective budgets (ca. 40% in the FBH and 14% in the RS). This level of spending has the effect of crowding out resources that could be devoted to public investments. This means that the future generations will face lower wealth and welfare than would have been the case if the society invested in the capital-generating assets today. Even if one disregards the future, these investments will be increasingly needed today to stimulate growth as the economy begins to sag under the impact of the world economic crisis.

**The current system is socially inequitable, fiscally unsustainable, and economically inefficient.** There are many ways in which BH could reform these programs and put in place measures aimed at developing a social safety net that is: (a) better targeted to the poor; (b) less of a burden on public resources, and (c) more efficient. Reforming safety nets is usually an iterative and ongoing process that takes place over a period of time. Initial measures could involve the development of technical tools (for example, targeting mechanisms) and legislative reforms to pave the way for implementing improved benefit targeting and benefit administration and management. Specifically, it is recommended that the governments in BH consider a three-pronged approach with measures to: i) improve and introduce targeting mechanisms to better channel resources to the poor; ii) strengthen benefits administration and beneficiary registry systems; and, iii) rationalize disability-related benefit schemes.

**The World Bank is ready to assist the BH authorities to develop a well targeted, efficient and sustainable system of social protection.** BH government has requested World Bank assistance in developing updated tools that could be used to improve the targeting of non-insurance social benefits. Using proxies to estimate the welfare of a household, such as the Proxy Means Testing (PMT) and Hybrid Means Testing (HMT) methods, is one way to improve the targeting mechanism. These methods have been proven to work particularly well in countries with a high level of informality and where personal and household income is difficult to verify.

## ACTIVE WORLD BANK PROJECTS IN BOSNIA AND HERZEGOVINA

| Project                                   | Status       | Commitment<br>(US\$ million) | Available for<br>disbursement<br>(US\$ million) |
|-------------------------------------------|--------------|------------------------------|-------------------------------------------------|
| Agriculture and Rural Development         | effective    | 21.0                         | 18.4                                            |
| Avian Influenza Preparedness              | effective    | 5.0                          | 4.3                                             |
| Community Development                     | effective    | 20.0                         | 2.1                                             |
| ECSEE APL 3 (Power IV)                    | effective    | 36.0                         | 35.3                                            |
| Forest Development and Conservation       | effective    | 7.1                          | 2.2                                             |
| GEF - Forest and Mountain Protected Areas | effective    | 3.4                          | 2.8                                             |
| GEF - Neretva and Trebisnjica Management  | effective    | 6.0                          | 6.0                                             |
| GEF - Water Quality Protection            | effective    | 8.9                          | 8.2                                             |
| Health Sector Enhancement                 | effective    | 17.0                         | 4.1                                             |
| Land Registration                         | effective    | 15.0                         | 11.6                                            |
| Road Infrastructure and Safety            | effective    | 25.0                         | 25.0                                            |
| Small Scale Commercial Agriculture        | effective    | 12.0                         | 0.7                                             |
| Solid Waste Management                    | effective    | 26.0                         | 10.3                                            |
| Solid Waste Management II                 | approved     | 40.0                         | 40.0                                            |
| Urban Infrastructure and Service Delivery | effective    | 25.0                         | 14.7                                            |
|                                           | <b>TOTAL</b> | <b>267.4</b>                 | <b>185.6</b>                                    |

## OVER 10,000 PEOPLE EMPLOYED UNDER THE EMPLOYMENT SUPPORT PROJECT

The Employment Support Project was closed on March 31, 2009 after fully achieving its development objectives.

The project resulted in employment of 10,692 individuals (7,145 in the Federation BH, and 3,547 in the RS) from the hard-to-employ category of people who were 40-45 years old and long-term unemployed. In addition to these, the Federation BH provided support for employment of 169 disabled persons using the methodology developed under the project.

A range of active labor market programs that offered to this target group were: on-the-job training and employment; vocational training; support for self-employment; public works; and job counseling.

The project also strengthened the capacity of the public employment services to provide well targeted, effective, and efficient job-brokerage services.

These results and improvements could not be achieved without dedicated staff and management of the public employment services in both entities, whom we thank for years of successful partnership.

## 2009 PROJECTS PIPELINE

**Development Policy Loan (DPL)** - in response to the request by BH authorities, the World Bank is preparing a budget support program in the amount of up to EUR 185 million. Over the period 2009 -2011, the program will support government reforms in three areas: i) social and unemployment benefits legislation and administration; ii) public sector pay and wage bill management; and iii) contribution and indirect tax measures in support of competitiveness.

**Social Safety Net and Employment Project** - is an investment operation worth (US\$ 10 - 20 million) that will strengthen capacity of institutions at the entity and local level to carry out planned reforms in the social sector. The objective of this project will be to improve equitability, targeting, efficiency and sustainability of the social protection in BH

**SME Competitiveness Enhancement Project** is a direct response to the economic crisis and its impact in BH. Up to US\$ 90 million credit line will be allocated to eligible commercial banks to provide credit services to small and medium enterprises (SMEs). Efforts will also be made under this project to improve business environment for SMEs.

**Municipal Development Project** - the objective is to improve service delivery outcomes at the local level by supporting increased performance in the delivery of public services provided under the responsibility of participating municipalities and their utilities. In particular, the project would support (i) investments in local infrastructure and services; (ii) developing a unified approach to municipal financing; (iii) introducing performance criteria for municipalities; (iv) developing feedback and information channels for citizens; and (v) capacity building in municipal administration. The proposed project will be financed with the World Bank IDA credit and IBRD loan in the total amount of about US\$ 33 million.

Information about The World Bank in Bosnia and Herzegovina is available on our website: [www.worldbank.org.ba](http://www.worldbank.org.ba)

Contact: Goran Tinjic, [gtinjic@worldbank.org](mailto:gtinjic@worldbank.org)

The World Bank Country Office in Bosnia and Herzegovina

Fra Anđela Zvizdovića 1 (B17), 71000 Sarajevo; Phone: (+387 33) 251-518 and/or 251-500, Fax: (+387 33) 440-108