



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 12-Jan-2023 | Report No: PIDA35349



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Bosnia and Herzegovina	P175191	BiH Health Sectors Development Policy Financing (P175191)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	17-Mar-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, Republika Srpska Ministry of Finance	FBiH Ministry of Health, Republika Srpska Ministry of Health and Social Welfare		

**Proposed Development Objective(s)**

To improve the financial sustainability and service delivery quality of health care systems, as well as strengthen regulatory frameworks on environmental management and tobacco control, in support of improved health outcomes in BiH.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	100.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	100.00
World Bank Lending	100.00

**Decision**

The review did authorize the team to appraise and negotiate



## B. Introduction and Context

### BiH Context

**This program document proposes a Health Sectors Development Policy Financing (DPF) operation for Bosnia and Herzegovina (BiH), which is an integral part of broader World Bank support to the health sectors in BiH.** The proposed operation is the first in a programmatic series of two operations with the objective of improving the financial sustainability of the health care systems and quality of health services, as well as health outcomes in BiH. The DPF operation is prepared in conjunction with the Health Systems Improvement Project (P171150), which has a similar development objective. These two operations are accompanied by World Bank technical assistance such as the functional review of the sectors' performance and strengthening the transparency and accountability of health systems in BiH.<sup>1</sup> The Bank has been engaging on these reforms since 2019 and the processes took some time to come to fruition in both the Federation (FBiH) and Republika Srpska (RS). The DPF is taking place against the background of multiple overlapping crises<sup>2</sup> – the ongoing COVID pandemic and the war in Ukraine, a global energy and food crisis, aggravated global inflation pressures,<sup>3</sup> and the remarkable post-COVID recovery in BiH in 2021 that has slowed since.

**The fragmented institutional structure and political impasse over the past year and a half hinder the economic transition needed to make progress on the road to European Union (EU) accession.** The highly fragmented institutional structure characterized by four authority levels<sup>4</sup> imposes large public costs and slows the necessary economic transformation of BiH. The same applies to the health sectors: in line with BiH's political constitution, health care insurance and health care services are highly fragmented. Most health facilities in FBiH are established and owned by the cantons, and the BiH Institutions (IBiH) at the BiH level have a limited, mainly coordinating role in policy setting and implementation. In RS, the sector is overseen by the Ministry of Health and Social Welfare (MoHSW), while local governments have established and operate primary health care facilities. The health insurance funds (HIFs) in RS, FBiH, and cantons are semi-autonomous institutions and act as the main purchaser of health services. Despite large spending on health care, these resources are not spent efficiently based on expectations.

**One of the main concerns with the BiH health sectors is their financial sustainability and related quality of health service delivery.** In FBiH, debt obligations, including arrears, in the health sector amount to roughly KM526.7 million at the end of 2021 (or 2.1 percent of 2021 Federation GDP)<sup>5</sup>, while in RS debt obligations, including arrears, incurred by the remaining primary health institutions outside the Treasury System total roughly KM123 million (or 0.9 percent of RS 2021 GDP), of which arrears are estimated at KM 81 million.<sup>6</sup> The large stock of arrears is a symptom of weaknesses in governance and accountability. A sizable amount of arrears is a combination of delays in social security contributions to the tax authority, which reduce the availability of public resources. In addition, payment delays to private sector suppliers stifle their disposable income and reduce private investment and business development. Furthermore, arrears are likely to have led to a slowdown in equipment deliveries and daily work of service providers, as well as higher prices as suppliers internalize the cost of payment delays. Arrears in the health sectors (and in other sectors) also contribute to increased fiscal risks and repayments of past arrears limit new public investment. The quality of health care is also a concern, including limited

<sup>1</sup> Bosnia and Herzegovina: Strengthening Transparency and Accountability of Health Systems in Bosnia and Herzegovina (BiH) (P175779), Bosnia and Herzegovina Functional Review of the Health Sector Performance (P167607), Bosnia and Herzegovina Emergency COVID-19 Project (P173809).

<sup>2</sup> WBG (2022) Navigating Multiple Crises, Staying the Course on Long-Term Development, Global Crisis Response Framework Paper

<sup>3</sup> World Bank (2022) Global Economic Prospects, June; Washington, DC; IMF (2022) World Economic Outlook, July; Washington DC; BIS (2022) Annual Economic Report, June; Basel; National Bank of Serbia (2022) Inflation report, August, Beograd.

<sup>4</sup> The general government sector consists of four authority levels: the BiH Council of Ministers (or "the State" level, IBiH), Government of the Federation of Bosnia and Herzegovina (FBiH), Government of the Republika Srpska (RS), and the Government of Brcko District (BD). The FBiH is further decentralized into 10 cantons, each with its own government. At the local level, both FBiH and RS have authority over 79 and 64 municipalities, respectively. This structure is superimposed on a country of 3.2 million people.

<sup>5</sup> Source: Prime Minister's office in FBiH; this includes university, general and cantonal hospitals, as well as primary health centers.

<sup>6</sup> Based on data provided by MoHSW



technical knowledge of staff and a limited resource envelop. Finally, BiH is also very vulnerable to climate change, with temperature increases expected throughout the territory, with the most pronounced in inland lowland areas, primarily during the summer months (May to September). Rising heat and extreme heat conditions will pose significant risks for human health.

**The macroeconomic framework is considered adequate for the proposed operation.** Growth is projected to improve in the medium term, with low inflation, fiscal surpluses, and the external deficit placed on a downward path. These outcomes are underpinned by prudent macroeconomic management and the expected implementation of structural reforms. Nonetheless, the outlook is vulnerable to downside risks. External risks, given the CAD and external financing needs, are related to adverse economic shocks in Europe—BiH’s largest trading partner—which would affect exports, remittances, and capital flows. Improving the competitiveness of export-oriented businesses through product market reforms can play a role in mitigating this risk and in boosting potential support to the economy from external demand. Internally, BiH’s challenging political environment, with the ongoing pandemic and war in Ukraine, complicate structural reform implementation. Moreover, while BiH’s overall public debt level is relatively low, the realization of contingent liabilities, including accumulated arrears in the health sectors and SOEs, raises somewhat fiscal risks. Finally, risks from natural disasters such as floods and droughts are pronounced, potentially undermining economic growth going forward. BiH has valuable natural resources, from some of the most pristine forests in Europe to fertile land. Better leveraging of natural resources will require upgrading production processes, and moving up value chains, and developing enabling infrastructure. Poor environmental management can have serious health and economic effects, which are most visible in very high levels of air pollution and their damage to health.

#### Relationship to CPF

**Health sectors’ reforms are an important part of building resilient human capital in the new Country Partnership Framework (CPF) FY23-27.** The CPF will, under the second high level objective (HLO 2), support improved public services outcomes that help enhance labor productivity and build resilient human capital and institutional infrastructure. Under HLO2, CPF Objective 3, the focus is on activities addressing service delivery gaps through improved quality of health services, among others. Specifically, the emphasis in the CPF is on improving the efficiency and financial stability of the health sector, which in turn will help close service delivery gaps. This CPF objective builds on previous and ongoing engagements of strategic areas, where there is clear convening power and high government commitment. In other words, this CPF objective is a continuation of the previous CPF objective, but is more concentrated on improving quality and efficiency of services in health.

#### **C. Proposed Development Objective(s)**

The program development objective of the proposed operation is to improve the financial sustainability and service delivery quality of health care systems, as well as strengthen regulatory frameworks on environmental management and tobacco control, in support of improved health outcomes in BiH.



## Key Results

**The proposed DPF operation supports policy and institutional reforms grouped in two pillars: i. improving the financial sustainability of the health systems, and ii. enhancing the quality of health service delivery.** Thus, in FBiH the first pillar supports the necessary reforms to start clearing the stock of arrears in clinical hospitals by 35 percent by end-2024 to an estimated amount of KM 106 million, and 45 percent in cantonal and general hospitals to an estimated KM 34 million. In RS, the inclusion of primary health centers into the treasury will result in a 20 percent reduction in the stock of arrears by end-2024 to an estimated KM 65 million. The second pillar supports legislative and regulatory changes to create appropriate incentives to improve the quality of care. As part of PA#4, the Law on Health Protection, it is estimated that 20,000 children between the age of 15 and 18 will receive free health care. As part of PA#5, the Law on Mandatory Health Insurance will allow for the implementation of the electronic medical prescription system in 80 percent of the primary care facilities by end-2024, whereas the Law on Health Care Records and Documentation, as part of PA#7, will allow for the implementation of the electronic referral system in 80 percent of the health institutions by end-2024. As part of the Amendments to the Law on Protection of the Population from Infectious Diseases, which represents PA#6, it is estimated that for the first time 1,500 girls will receive HPV vaccine in RS by December 2024 (or 7.5 percent of the relevant population) and, thus, will not have to go abroad. Finally, in FBiH health outcomes will be enhanced with the implementation of the legislation on tobacco control (PA#8), which will prohibit smoking in cafes, building and other closed spaces. In addition, the more efficient processing of environmental permits, and more broadly, improvements in the efficiency and coverage of overall environmental management, based on PA#9, should over the longer run have a beneficial effect on reduced emissions.

## D. Project Description

**The program is articulated around two mutually reinforcing pillars.** The first pillar, improving the financial sustainability aims to help address the resolution of the stock of arrears in the health sectors and help introduce measures that would prevent the generation of new arrears (prior actions #1, #2, and #3). The second pillar aims to introduce incentives for improved service delivery and stronger primary health care as well as improve health outcomes. To enhance the quality of health services delivery and health outcomes, this pillar supports policies described in prior actions #4, #5 and #6 aimed at strengthening primary care, the creation of service networks, providing a more prominent role for clinical guidelines, a strengthened role and more secure funding for the Agency for Certification, Accreditation and Health Care Quality Improvement (ASKVA), and telemedicine amongst other things. The Law also expands free health care for children up to the age of 18. The Law also prescribes what type of data should be used to analyze the institutions' financials, makes the submission of business reports and annual accounts to supervisory bodies mandatory, the exemptions to expand the revenue base, which by extension has an impact on financial sustainability and access to universal health care., with policies described in PA#5 aimed at protecting human capital from viruses and other infectious diseases will likely benefit the vulnerable in BiH. Policies associated with prior action #6 are aimed at improving health outcomes in FBiH by enacting laws aimed at reducing smoking, the total economic costs of which, including health expenditure and productivity losses, is calculated at around 3.4 percent of GDP in BiH (Goodschild et al., 2018). Finally, prior action #8 aims at protecting the environment, data collection, strategic developments, management of resources, ecological marking, prevention of environmental accidents, and defining standards of environment quality and financing of environment protection. This policy action should help improve health outcomes as air pollution is a major issue in BiH, especially in urban areas, with strong negative health and economic impacts.



## E. Implementation

### Institutional and Implementation Arrangements

**The World Bank continues to work in close cooperation with authorities in BiH to monitor and assess the implementation of the health reform agenda supported by this DPF series.** The RS Ministry of Health and Social Welfare (MoHSF) and FBiH Ministries of Health (MoH) will be responsible for implementation of the proposed operation and for coordinating actions among other concerned ministries and agencies in their jurisdictions. The RS MoHSF and FBiH MoH will together perform the overall monitoring and evaluation of the implementation of the suggested operation. The RS MoHSF and FBiH MoH will track the baseline and result indicators provided in the policy and results matrix based on the economic and legislative data provided by the authorities and disclosed in the official sources. In light of technical issues concerning the data availability of arrears flows on a continuous basis at the facility level, the monitoring effort that can be sustained over time will rely on estimating the stock of arrears at quarterly intervals.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The policy actions supported by this DPF are likely to have overall positive poverty and social impacts.** Although the direct impact of the PAs on poverty and inequality is difficult to quantify, many of the operation's reforms will potentially be beneficial for the less well-off.

### Environmental, Forests, and Other Natural Resource Aspects

**The policies supported by the proposed DPF are not expected to have any significant negative effect on BiH's environment, forest, and water resources, more-so the outcomes are expected to be positive in the long run.** The environment, albeit with the jurisdiction lying at the level of the Entities, has had a number of reiterations of the five environmental laws that were passed in 2002 (RS) and 2003 (FBiH), the most recent being the Law on Environmental Protection, and the Law on Air Quality. Although operating with limited capacity and staff, the Ministry of Physical Planning, Construction and Ecology in RS and the FBiH Ministry of Environment and Tourism conduct all relevant due diligence, including the Environmental Impact Assessment as a pre-condition for an environmental permit, whilst also working together with other ministries in developing common approaches to common problems, medical waste being one of those. The issue of medical waste, for example, was also further challenged during the Covid-19 Pandemic and the Emergency Support Project has helped the relevant institutions conduct a thorough analysis of the management of such wastes in both entities where medical facilities have stepped up to ensure collection and management of such wastes in line with the sound practices.

## G. Risks and Mitigation

**The overall risk rating for this operation is substantial.** Risks in three of the nine categories are rated as substantial, and largely reflect political and governance, macroeconomic, and sectoral policies' risks to the success of this operation. These risks are aligned with those described in the IPF Health Systems Improvement Project (P171150) approved by the Board earlier this year and are elaborated below.

**The political and governance risks remain high.** The fragmented political structure and weak mechanisms present in BiH for intra- and inter-government cooperation in the case of FBiH pose a threat to effective reform implementation. Furthermore, the decision-making of the BiH Council of Ministers has been paralyzed since August 2021 following the



legislation introduced by the previous High Representative. At the same time, the FBiH parliament met only sporadically due to frictions between Bosniak and Croatian political parties, while vertical collaboration between cantonal, entity and BiH level institutions remains somewhat problematic. General elections have taken place on October 2, 2022, and the new authorities are in the process of being formed at the IBiH level, entities' level, cantons, and Brčko District. If the political processes take longer than anticipated, the technical governments will continue with the reform agenda although the willingness to proceed with certain reforms as previously envisaged may weaken, such as the speed of resolving the arrears problem in health institutions. In addition, despite the BiH's fragmented institutional landscape, a clearly defined reform agenda has been adopted across the board, underpinned by a broad national consensus on critical challenges and priorities, and adopted by the Council of Ministers of BiH, and Governments of FBiH and RS. Ultimately, progress regarding EU accession remains the reform anchor and mitigating factor. In late 2022, was accepted as an EU candidate country, and this should provide additional impetus to the reform program. In addition, the WB mitigates the posed governance risks by defining a programmatic DPF approach to health reform coupled with an IPF and technical assistance, which ties financial support not only to legal but also the implementation steps as well as capacity building.

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**APPROVAL**

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**Approved By**

Country Director:	Xiaoqing Yu	05-Dec-2022
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