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Creating Change Together

PUBLIC ADMINISTRATION REFORM ASSESSMENT OF BOSNIA AND HERZEGOVINA

APRIL 2014

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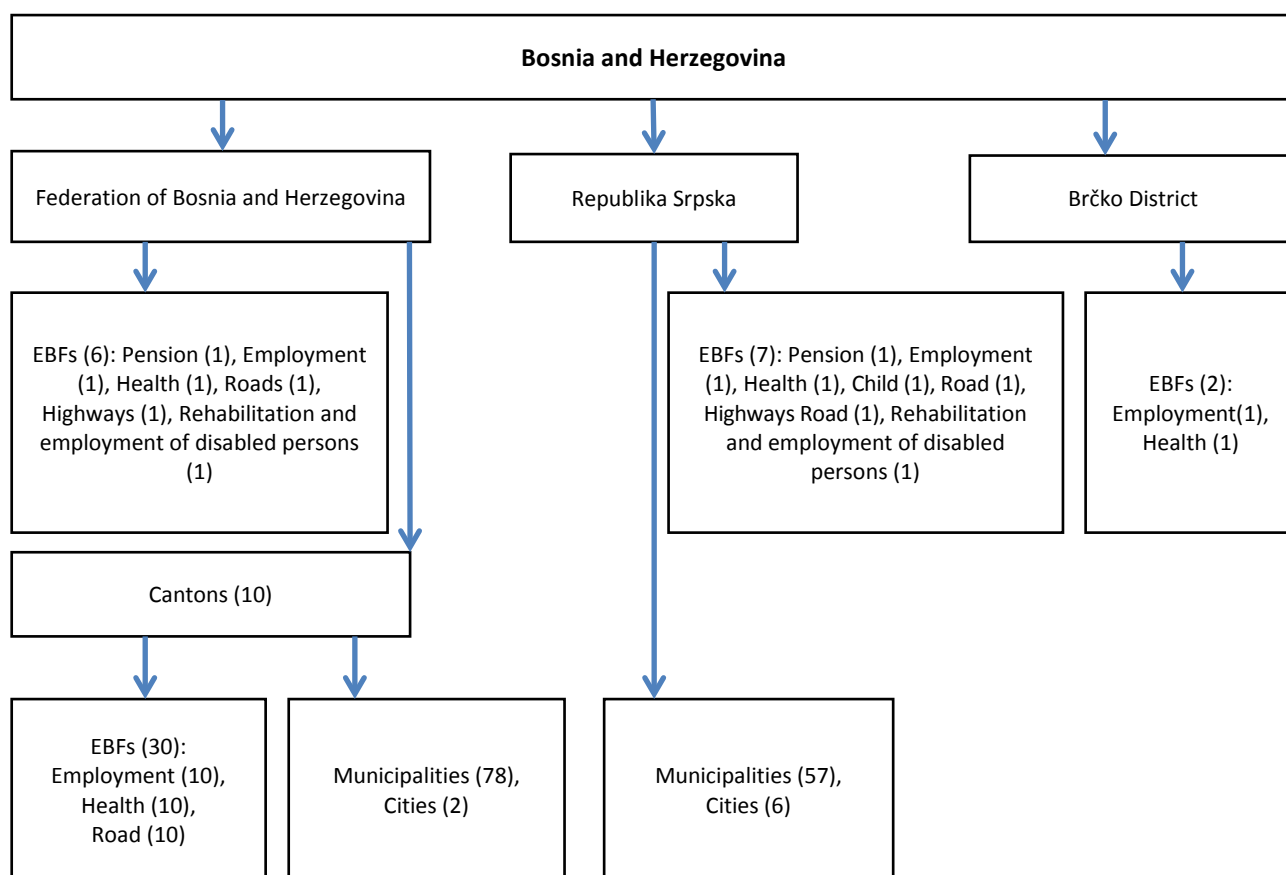
ASSESSMENT OVERVIEW AND RATIONALE

Bosnia and Herzegovina is a potential candidate for European Union (EU) membership. The Stabilisation and Association Agreement was ratified in 2008 but has not yet entered into force. The process of consultation between the main political parties, which began in December 2011 and resulted in a shift of focus towards EU integration, has not been maintained. Progress in meeting the EU agenda has stalled.

The Constitution of Bosnia and Herzegovina, which is reproduced as Annex 4 to the 1995 Dayton Agreement, established a complex institutional structure that is inefficient and subject to different interpretations (see Figure 1).

On 16 October 2013 the European Commission (EC) released its annual Progress Report, which concluded that further discussions on the Instrument for Pre-Accession Assistance (IPA) II would be postponed until the country is back on track in the EU integration process. The report underlines that little implementation has taken place and that adequate co-ordination is lacking both within and between the levels of government. Sector reform continues to be fragmented, and the complex division of competencies among administrative structures across the various levels of government continues to have a negative impact on the provision of efficient services.

Figure 1. General government structure in BiH



Source: SIGMA compilation of BiH government sources

Following discussions with the EC, SIGMA gave priority in its 2014 assessment of Bosnia and Herzegovina to areas of public administration reform (PAR) and in particular those areas where actual reform was being implemented or planned. This report covers the period from April 2013 to March 2014.

Each assessment area is presented in a separate thematic report, which includes a brief description of the state of play and recent developments. This overall assessment is followed by a more detailed analysis with conclusions.

SIGMA's 2014 assessment of Bosnia and Herzegovina has focused on:

- [STRATEGY AND REFORM](#) – This assessment concentrated on strategic framework development of PAR and the management co-ordination structures for implementing the Reform Strategy and Action Plan.
- [PUBLIC FINANCE MANAGEMENT](#) – This assessment focused on the main features of the [Public Expenditure Management System](#) at all levels of government.

SIGMA, working in co-ordination with the EC's Directorate-General for Enlargement (DG ELARG), has developed a draft set of principles of public administration, designed to define key requirements for good public governance and to serve as a basis for measuring progress over the years. Some country assessments in 2014 were used to pilot these draft principles. The assessment of Bosnia and Herzegovina (Public Finance Management) has not followed this approach in all aspects but it has used the framework as a basis for the analysis.

The principles of public administration are due to be released in November 2014.

STRATEGY AND REFORM

BOSNIA AND HERZEGOVINA

APRIL 2014

1. State of play and main developments since last assessment

1.1. State of play

The PAR management and co-ordination mechanism has been formally elaborated and defined. The Public Administration Reform (PAR) Strategy in Bosnia and Herzegovina, (BiH) adopted in 2006 by the Council of Ministers of BiH, the two Entities (Federation of BiH and Republika Srpska) as well as the Brčko District, shows a joint co-ordinated approach on PAR through a set of related planning documents. The PAR Coordinators Office (PARCO) is the key authority dedicated to co-ordinating the PAR process. This includes co-ordinating operations with the PAR Co-ordinators of the two Entities and Brčko District; organising and co-ordinating work under the identified reform areas; co-operating on, preparing and organising the PAR Fund and the work of its Management Board; other donors; and the operational and technical conditions to facilitate the work of the Economic Development and European Integration Co-ordination Board. The formal co-ordination reporting mechanism exists on horizontal areas but does not permit assessing overall progress in achieving the objectives set in the Strategy. No structure exists for either sectoral reform or performance measurement. Further, no fiscal assessment has been developed to link PAR co-ordination with medium-term and annual budget processes and only partial data on current investments exist.

While information is available on investments by international donor organisations targeting implementation of the public administration reform, none exists on the share of investments made by BiH State, the two Entities and Brčko District, with the exception of minor contributions to the PAR Fund.

While implementation of the PAR agenda is operational at the administrative level of civil servants, the body envisaged for co-ordinating and driving the reform at the political level has never held a joint meeting. Political involvement occurs at the level of the Council of Ministers of BiH, the Federal Government of BiH, the Government of the Republika Srpska and the Government of Brčko District when they review the bi-annual and annual progress reports on the PAR Strategy and Revised Action Plan 1 (RAP1).

These political levels do not hold discussions on the most challenging issues, such as the future of the PAR reform in the country after 2014 or the slow implementation of RAP1.

In spite of some formally established building blocks, overall progress on PAR in BiH has stalled. This is mainly due to the lack of political drive¹ behind the reform efforts and to the complex decision making in the country².

1.2. Main developments since last assessment

No previous assessments of this area have been conducted.

¹ EC Progress Report 2013 Bosnia and Herzegovina p.11.

² Ibid p.6.

2. Analysis

1: PAR is identified as one of the government's priorities.

The adoption of the PAR Strategy³, RAP1 and the management and co-ordination structure on the principles and implementation of the PAR Strategy in BiH Action Plan 1 (Common Platform), as well as support for establishment of the PAR Fund by the Council of Ministers of BiH, the Federal Government, the Government of the Republika Srpska and the Government of Brčko District can be viewed as an expression of political priority. The individuals interviewed referred to it as one of the best examples of policies on which all levels of the Governments (the State, the Federal, Republika Srpska and Brčko District) have agreed to work together.

PAR in general, and some of its objectives set out in the Strategy in particular (e.g. reducing public administration costs, establishing more effective and efficient administration, reducing administrative barriers and introducing programme budgeting), feature in the planning documents setting out medium-term and annual priorities within BiH State, the Federation of BiH, Republika Srpska and Brčko District.

For example, the Work Programme for 2014 of the Council of Ministers of BiH identifies PAR as one of its work areas and foresees a regular flow of related information. The Work Programme of the Federal Government for 2011-2014 also identifies the need to complete PAR to enable public administration at the Federation of BiH to operate professionally, transparently and in keeping with European standards. The Economic Policy for 2014 of the Republika Srpska identifies a number of activities designed to reduce costs and establish efficient and effective public administration. The Development Strategy of Brčko District for 2008-2017 also mentions the need to improve public administration.

The political leadership is kept informed of overall progress through monitoring reports prepared by the PAR Coordinators and PARCO according to their mandates. In addition, the politicians of the State, the two Entities and Brčko District take final decisions on supporting or rejecting joint project ideas financed by the PAR Fund. This, however, proves to be a more re-active than pro-active approach towards PAR and does not support enhanced implementation.

No discussions have taken place yet on the future of PAR at the political level despite the fact that the PAR Strategy envisages implementation of the third stage of the reform by the end of 2014⁴.

Some of the major planning documents of the Council of Ministers of BiH, the Federal Government of BiH, the Government of Republika Srpska and the Government of Brčko District refer indirectly to PAR as one of the action orientations. They note that the very adoption of the PAR Strategy, RAP1 and Common Platform of implementation defines PAR as a political priority. There have been no discussions at the political level yet on the future of PAR beyond 2014.

PAR Strategic Framework

2: Public administration reform is depicted in one or more planning documents describing how broad political priorities are transformed into a set of specific objectives with actions that lead to achieving these objectives.

The PAR Strategy was adopted by the Council of Ministers of BiH, the Federal Government BiH, the Government of Republika Srpska and the Government of Brčko District in 2006⁵, together with Action Plan 1 for the implementation of the Strategy (AP1)⁶. These documents provide for a broad reform of

³ Public Administration Reform Coordinator's Office (2006), "Public Administration Reform Strategy in BiH", (2006), PARCO, Sarajevo.

⁴ Public Administration Reform Strategy in BiH, page 10.

⁵ Public Administration Reform Coordinator's Office (2006), "Public Administration Reform Strategy in BiH", (2006), PARCO, Sarajevo.

⁶ Annex No. 5.

vision and scope, key goals and activities. They feature a detailed implementation plan describing a set of actions, responsible institutions and deadlines. The PAR Strategy briefly describes future monitoring and evaluation mechanisms, as well as possible sources of financing.

In 2011, the Council of Ministers of BiH, the Federal Government BiH, the Government of Republika Srpska and the Government of Brčko District adopted RAP1⁷. This sets out actions under six horizontal categories defined by the PAR Strategy – policy-making and co-ordination capacities, public finance, human resources, administrative procedure, institutional communication and information technologies – with deadlines to the end of 2014. Like AP1, it provides information on responsible institutions for each objective and a deadline for implementation, but no information on costs associated with objectives or actions. Its major improvement over AP1 was the introduction of measurable indicators for all identified objectives, as well as a ranking system for selected objectives stressing their priority in the overall implementation hierarchy.

The PAR Strategy foresees that implementation of the reform in three stages until the end of 2014, which also happens to be the deadline for RAP1. There has been no formal discussion at the level of decision makers with regard to the future of the public administration reform. The first meeting on the future path of the PAR at the expert level was organised by PARCO with its counterparts from both Entities and Brčko District only on 18 February 2014.

Although the PAR Strategy refers to the development of a second Action Plan to focus on developing sectoral capacity in key policy areas, improving administrative coherence and reducing fragmentation within and among government levels⁸, this has not happened. PARCO is currently supported by a second technical assistance project financed by the European Union with the goal of preparing AP2.

It should be noted, however, that on 8 November 2013 the Government of the Republika Srpska adopted Conclusion No. 04/1-012-2-2440/13 proposing “to prolong all activities concerning the development of the Public Administration Reform Second Action Plan ... until competent administrative bodies of all levels agree on the co-ordination mechanism that shall fully adhere to the internal constitutional and legal structure of BiH”⁹. The decision also stresses that the PAR Strategy is “valid until the end of 2014... development and implementation of the Public Administration Reform Second Action Plan in this remaining period is not realistic”¹⁰.

BiH has a set of PAR planning documents that describe the vision, goals and scope of the reform, as well as medium-term priorities and key activities. The documents are not, however, complete as they do not mention the sectoral (vertical) component of the reform. The adopted planning documents also lack some information that would facilitate assessing both their realism and implementation, thus diminishing their quality.

3: Public administration reform has a set of performance indicators to measure progress in achieving objectives, as well as data collection system that is providing inputs for monitoring and evaluation processes of the reform.

While the PAR Strategy identifies the need for performance measurement and describes the monitoring and evaluation system to be established by PARCO, neither the PAR Strategy nor AP1 identify any concrete performance indicators. Instead, the PAR Strategy describes a two-tier system for output and outcome monitoring. The output monitoring was intended to follow the implementation of the Action

⁷ Public Administration Reform Co-ordinator's Office (2011), “Revised Action Plan 1”, PARCO, Sarajevo.

⁸ Public Administration Reform Co-ordinator's Office (2006), “Public Administration Reform Strategy in BiH”, (2006), PARCO, Sarajevo, p.9.

⁹ Articles 1 and 2 of the Conclusion of the Government of the Republic Srpska of 8 November 2013, No. 04/1-012-2-2440/13.

¹⁰ Article 2, Ibid.

Plan, while outcome monitoring was intended to provide information on whether, and to what degree, strategic goals are being achieved¹¹.

Measurable indicators were introduced in RAP1 only after the first four years of implementation. RAP1 now includes a column called “measurable indicators”, in which each objective has one or several indicators. A brief review suggests these basic output indicators study the immediate results of performed actions (e.g. the number of training courses, procedural rules amended and surveys conducted), but not the measurable impact on improving the efficiency and effectiveness of public administration, as suggested by the reform’s vision and goals.

The PAR Strategy also describes the intended reporting system, envisaging that PARCO would prepare quarterly output monitoring reports, as well as annual reports including data on both output and outcome monitoring. Quarterly reporting became bi-annual reporting in 2010. Since then, PARCO has prepared bi-annual and annual reports on RAP1 implementation. These reports are publicly available on the PARCO website¹² and are also submitted to all the decision-making bodies of the State, the two Entities and Brčko district.

Annual and bi-annual reports have the same structure and preparation methodology, and provide detailed data on implementation of reform area objectives and actions. They also provide an overview of RAP1 implementation, including areas (split by administrative levels) showing the most significant progress, key obstacles to progress and recommendations for improvement. The information used to compile the reports come from three main sources – progress reports provided by all administrative levels of BiH, reports on unrealised obligations and PARCO itself.

A methodology exists to prepare the reports, aggregate data on overall progress for implementing RAP1 at the level of objectives. Individual actions implemented are also reported in detail, without however providing aggregate data on the exact number of individual actions implemented out of the total number of foreseen actions.

The latest available monitoring reports prepared by PARCO are the “Annual Progress Report for the period January - December 2012” and “Bi-Annual Progress Report for the period January - June 2013”, as well as a detailed overview of objectives achieved during the implementation of RAP1. Both reports also provide data on significant delays in RAP1 implementation. Despite actions taken by PARCO¹³, the situation has not improved much¹⁴.

Below is the RAP1 Monitoring Table covering the implementation rate of objectives whose deadlines were set by PARCO:

¹¹ Public Administration Reform Coordinator’s Office (2006), “Public Administration Reform Strategy in B&H: Reporting and Model Implementation”, (2006), PARCO, Sarajevo, p.53.

¹² PARCO website: (www.parco.gov.ba).

¹³ PARCO elaborated the “Operational plan for the implementation of unrealised obligations of the Revised Action Plan 1 of the Strategy for Public Administration Reform in BiH for 2011”, adopted by the Council of Ministers of BiH during its 22nd session on 10 October 2012. The document contained 33 outstanding measures for 2011.

¹⁴ This is also supported by the assessment of the Ministry of Finance and the Treasury of Bosnia and Herzegovina (2013), “Donor Mapping Report 2011-2012”, Sarajevo, p.32. It states that “In the observed period, limited progress was made in the area of public administration, since the Public Administration Reform Strategy was implemented slower than expected”.

Figure 1. RAP1 Monitoring Table covering the implementation rate of objectives whose deadlines were set by PARCO

	Objectives with deadline 2011-13								
	2011-13				AVERAGE	2011-13 in %			
	BiH	FBiH	RS	BD		BiH	FBiH	RS	BD
Implementation rate:									
Not started	21	23	14	25	31%	32%	34%	21%	37%
In progress	16	16	11	15	22%	24%	24%	16%	22%
Partially implemented	21	21	21	15	29%	32%	31%	31%	22%
Completely implemented	8	8	21	12	18%	12%	12%	31%	18%
Total	66	68	67	67					

BiH - Bosnia and Herzegovina State

FBiH – Federation of Bosnia and Herzegovina

RS - Republika Srpska

BD – Brčko District

Source: Public Administration Reform Coordinator's Office (February 2013), "Annual Progress Report for the period January – December 2012", and "Bi-Annual Progress Report for the period January - June 2013", PARCO, Sarajevo

At the State level, only 79%¹⁵ of institutions provided the requested information.

The lack of performance indicators in the PAR Strategy and AP1, together with the focus on output level indicators for RAP1 objectives, provides for only basic monitoring information that does not allow informed conclusions at the level of achievement of PAR objectives set in the Strategy and the general progress in policy implementation. At the same time, PARCO has developed a rigorous reporting system that provides regular information to decision makers at all administrative levels of BiH. Reports are publicly available on the Internet and can be also used by external stakeholders to assess progress on different PAR objectives. The latest monitoring data, however, indicate a low RAP1 implementation rate and considerable delays in implementation.

4: Planning documents describing objectives and steps of public administration reform are linked to the medium-term and annual budget preparation process and provide information on actual costs of each action planned, as well as source of financing.

None of the planning documents – namely, the PAR Strategy, AP1 and RAP1– provides information on the actual financial budget of reform implementation¹⁶. The PAR Strategy only describes the PAR Fund¹⁷, which is a joint initiative of several donors, together with all administrative levels of BiH, to support implementation of the PAR Strategy.

¹⁵ Public Administration Reform Coordinator's Office (February 2013), "Annual Progress Report for the period January – December 2012", PARCO, Sarajevo, p.20.

¹⁶ See further information on SIGMA 2014 assessment on Public Expenditure Management. There is an absence of costed strategies and planning documents and there is little linkage between the Global Framework on Fiscal Balance and Policies, the Medium-Term Expenditure Frameworks and sectoral/organisational strategic plans.

¹⁷ Public Administration Reform Coordinator's Office (2006), "Public Administration Reform Strategy in B&H: Monitoring and Evaluation", (2006), PARCO, Sarajevo, p.53.

The PAR Fund¹⁸ is a national fund to support implementation of projects throughout BiH falling within the scope of the PAR Strategy.

The PAR Fund's operations are supported and managed by PARCO. The PAR Fund regularly reports to the PAR Fund Management Board on project implementation and ideas for new joint projects that could be financed from the PAR Fund. PARCO itself is not financed by the PAR Fund. It receives funding from the Council of Ministers of BiH as their contribution to PAR implementation.

According to the "Bi-Annual Report on Work of the Public Administration Reform Coordinator's Office for January - June 2013", since its inception the PAR Fund has approved 16 projects. Of these, 11 have been fully implemented, 1 is being implemented and 4 are in the public procurement stage. Of the approved 16 projects, 14 concern all 4 administrative levels of BiH. Of the total BAM 13.33 million (approximately EUR 6.84 million¹⁹) that donors transferred to the PAR Fund under the Memorandum of Understanding and its three annexes, BAM 6.80 (approximately EUR 3.49 million) have been spent so far. The relatively slow absorption rate of available funds is explained by a complex decision-making process (requiring support of the project idea by all administrative levels and donors) and lengthy public procurement procedures²⁰.

The PAR Fund donors and other donor organisations also provide bilateral support to implementation of the PAR Strategy and RAP1-related activities. The "Donor Mapping Report 2011-2012" prepared by the Ministry of Finance and Treasury of BiH identifies a number of donors active in the PAR sub-sector of Good Governance and Institution Building²¹. Total contributions to the PAR sub-sector from these donors totalled EUR 5.21 million in 2011 and EUR 4.05 million in 2012²². While a number of PAR technical assistance projects are underway, no aggregate information on their total amount is currently available for 2013 and 2014.

The only information available regarding financing of PAR-related activities at the level of the State, the two Entities and Brčko District level concerns contributions paid into the PAR Fund. The Council of Ministers has contributed a total of BAM 300 000, the Government of Brčko District BAM 60 000 and the Federal Government of BiH BAM 170 000²³ and the Government of Republika Srpska of BAM 75 000²⁴.

Neither the medium-term expenditure frameworks nor the annual budgets of the State, the two Entities and Brčko District provide any specific information on the amounts of financial investments targeting implementation of the PAR Strategy or RAP1.

The PAR Strategy, AP1 and RAP1 were adopted without assessing the financial and other resources needed for implementation. The current planning documents lack a fiscal assessment that would make it possible to link the reform efforts needed with the medium-term and annual budget processes. There is a lack of information on the amounts invested to implement the PAR Action Plan from the annual

¹⁸ The PAR Fund was formally established in July 2007 with the signing of a multilateral Memorandum of Understanding between the UK Department for International Development (DFID), the Swedish International Development Cooperation Agency (Sida), the Netherlands Minister for Development Cooperation, the Delegation of the European Commission and the Council of Ministers of BiH, the Government of the FBiH, the Government of Republika Srpska, the Government of Brčko District and the BiH Ministry of Finance and Treasury. Four amendments have been made to the initial Memorandum of Understanding, mainly concerning donor changes and introducing contributions to the PAR Fund at all BiH administrative levels.

¹⁹ Exchange rate of EUR 1.0 = BAM 1.96 is used for calculations.

²⁰ Interviews with members of supervisory teams and members of the PAR Fund management board pointed to the lengthy procurement procedure as an impediment to the system. They also identified the ease with which tender results can be contested as a key problem of the process.

²¹ The EU/EC, Sweden/Sida, Switzerland/SDC/SECO, Germany, Norway, the Netherlands and the United Nations Development Programme.

²² Ministry of Finance and Treasury of Bosnia and Herzegovina (2013), "Donor Mapping Report 2011 – 2012", Sarajevo, p.38.

²³ Public Administration Reform Coordinator's Office (July 2013), "Bi-Annual Report on Work of the Public Administration Reform Coordinator's Office for January - June 2013", PARCO, Sarajevo, p.34.

²⁴ Decision of the Government of the Republika Srpska on Payment of Funds for Co-financing of the Projects in the Field of Public Administration Reform on 23rd January 2014, No. No. 04/1-012-2-81/14.

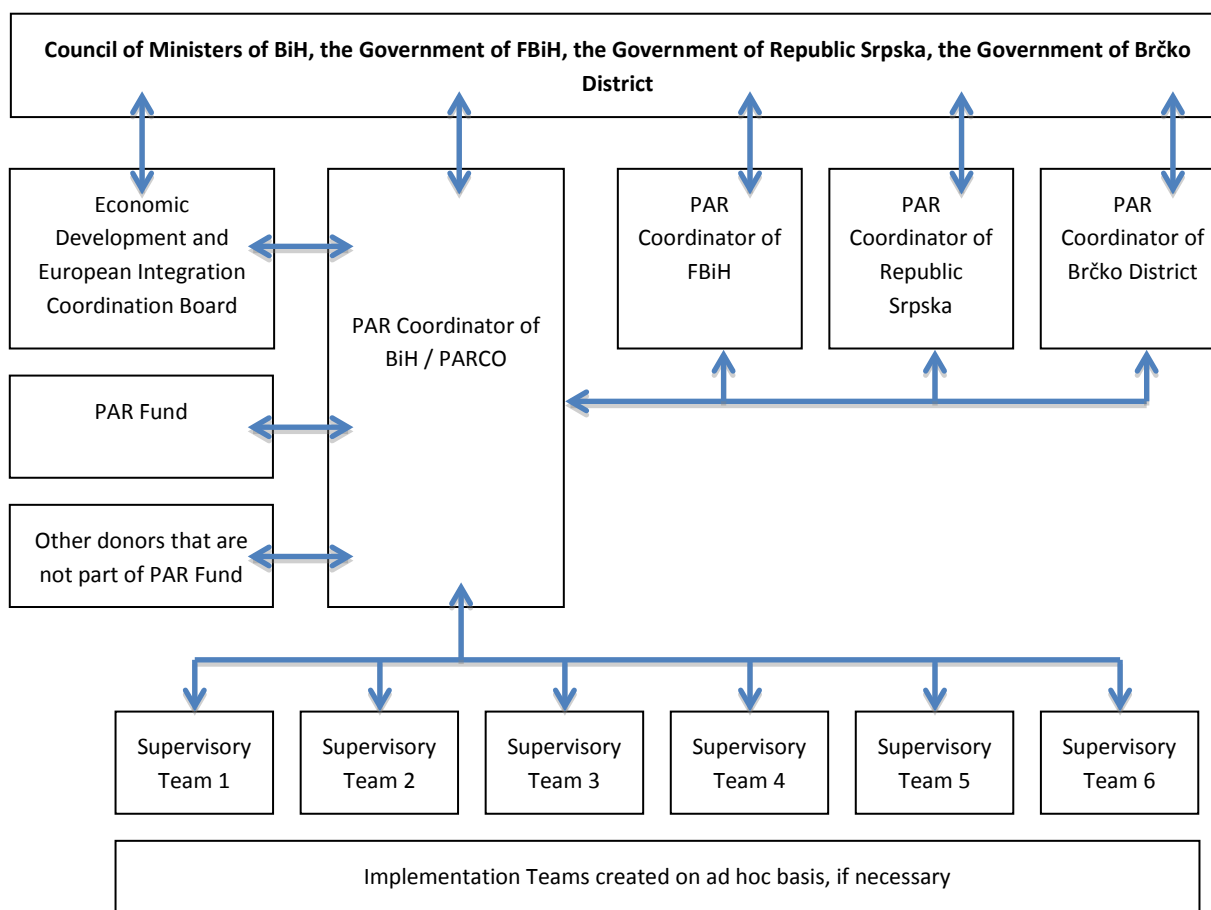
budgets of the state level, the two entities and the Brčko District. However, information is available on investment made through the PAR Fund and donor organisations.

PAR Management and Co-ordination Structures

5: Public administration reform has clear management and co-ordination structures at ministerial and official levels with regular meetings to supervise reform implementation process and decide on next steps or changes needed.

A clear formal management and co-ordination structure for PAR exists in BiH. It is well defined and described in a document adopted in 2007 by the Council of Ministers of BiH, the Federal Government of BiH, the Government of Republika Srpska and the Government of Brčko District, entitled “Common Platform on the principles and implementation of the Strategy on PAR in BiH Action Plan 1” (Common Platform). The PAR Strategy defines the underlying principles of the Common Platform, whose management and co-ordination structure is summarised below:

Figure 2. Management and co-ordination structure of the Common Platform



Source: SIGMA

The Economic Development and European Integration Co-ordination Board was set-up in 2007 to be the political level co-ordinative and supervisory body consisting of heads of governments of the State, the two Entities and Brčko District, as well as other major stakeholders. However, it has never met on any PAR-related issue, despite a formal request by PARCO in 2012²⁵. The PARCO Annual Report on Work for

²⁵ PARCO official request to the Chairman of the Council of Ministers, BiH State on 6 June 2012.

2012 highlights the existence of this problem, stating that the reform “is still without a clear support of the body in charge of political co-ordination of the process”²⁶.

The Council of Ministers of BiH, the Federal Government of BiH, the Government of Republika Srpska and the Government of Brčko District monitor PAR implementation by reviewing bi-annual and annual progress reports. This provides respective PAR Co-ordinators with their mandate and direction for PAR (e.g. the decision of the Government of the Republika Srpska concerning the preparation of Action Plan 2 or the decision of the Council of Ministers of BiH regarding the implementation of unmet one-time objectives in 2011). However, no political dialogue exists among decision makers of the State, the two Entities and Brčko District at the political level that could provide guidance on the future of PAR in BiH after 2014.

PAR Coordinators have been appointed in the State, the two Entities and Brčko District. They are responsible for co-ordinating reform efforts within and among specific administrative levels, with PARCO taking the lead. The PAR Coordinators hold at least quarterly plenary meetings during which they discuss overall progress and outstanding issues. According to PARCO, four such meetings took place in 2013.

The PAR Coordinators and PARCO are responsible for co-ordinating RAP1 measures as a whole. This includes operational co-operation with designated PAR Coordinators from the two Entities and Brčko District. It also involves organising and co-ordinating the work of Supervisory Teams, establishing and maintaining the monitoring and reporting system, supporting and co-operating with the PAR Fund and other donors and providing other support activities needed to implement reform in BiH.

Supervisory Teams in each of the six policy areas defined in the PAR Strategy supervise the implementation of the activities foreseen by RAP1 and the objectives set by the PAR Strategy. The Supervisory Teams consist of representatives of relevant public administration bodies from the State, the two Entities and Brčko District. For example, the Public Finance Supervisory Team consists of the Deputy Minister of Finance and Treasury of BiH, the Head of Department for Budget Planning and Execution of Republika Srpska, as well as the Assistant Minister in sector for Debt Management of the Federation of BiH and the Director of Treasury of Brčko District. The Strategic Planning, Policy Making and Co-ordination Supervisory Teams consists of the Assistant General Secretary of the BiH Council of Ministers, the Secretary of the Federal Government of BiH, the Secretary of the Republika Srpska and the Head of Legislative Office of Brčko District Mayor’s Office and they mostly deal with capacity development. There is also a team devoted to improving the quality and procedures of drafting legislation that consists mainly of managers of legislative offices and representatives from the Department of European Integration, who meet regularly.

In some cases (e.g. Human Resource Management and e-Government), there is a significant turnover of appointed permanent representatives within the Supervisory Teams. On the other hand there is a relatively high overall participation (87% on average) in all Supervisory Team meetings.

²⁶ Public Administration Reform Coordinator’s Office (January 2013), “Annual Report on Work of the Public Administration Reform Coordinator’s Office for January - December 2012”, PARCO, Sarajevo, p.3.

Figure 3. Number of supervisory teams

Supervisory Team ²³	2012			2013		
	Total number of team members	Number of team members changed	% changed	Total number of team members	Number of team members changed	% changed
Supervisory Teams in reform area of Strategic Planning, Co-ordination and Policy Making	10	1	10%	10	1	10%
Supervisory Team in reform area of Public Finance	4	0	0%	4	1	25%
Supervisory Team in reform area of Human Resource Management	7	1	14%	7	2	29%
Supervisory Team in reform area of Administrative Proceedings and Administrative Services	4	1	25%	4	1	25%
Supervisory Team in reform area of Institutional Communication	4	0	0%	5	1	20%
Supervisory Team in reform area of e-Government	10	3	30%	11	3	27%

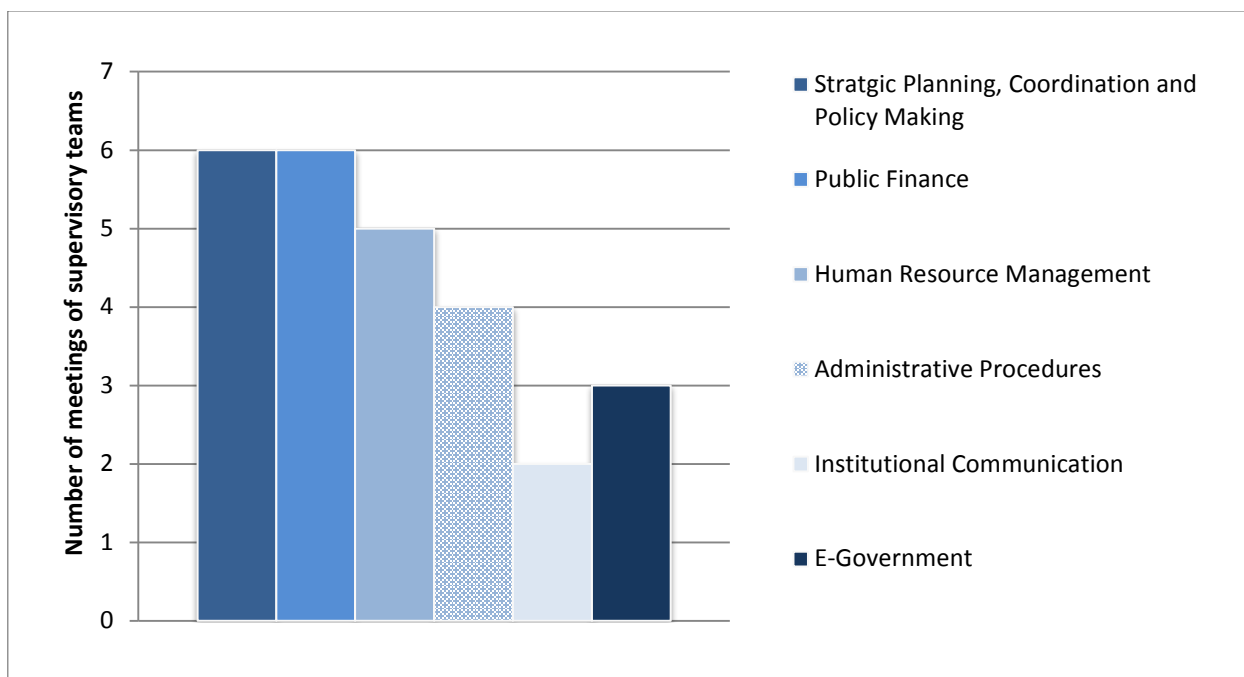
Source: Data provided by PARCO in reply to data collection questionnaire.

Clear Rules of Procedure describe the operations of all Supervisory Teams. These teams meet regularly²⁷ and their meetings are prepared and documented by PARCO staff²⁸.

²³ Data provided by PARCO in reply to data collection questionnaire.

²⁷ See chart on regularity of Supervisory Team meetings prepared on the basis of data obtained from the Public Administration Reform Coordinator's Office (January 2013), "Annual Report on Work of the Public Administration Reform Coordinator's Office for January – December 2012", PARCO, Sarajevo, p.9.

²⁸ Interviews with members of different Supervisory Teams and PARCO staff, as well as Rules of Procedure and minutes of meetings from the Supervisory Team for Human Resource Management.

Figure 4. Number of meetings of supervisory teams in 2012

Source: "Annual Report on Work of the Public Administration Reform Coordinator's Office for January – December 2012", PARCO, Sarajevo

The practical and operational implementation of specific RAP1 activities falls within the purview of the appointed Implementation Teams. These ad hoc bodies are created by adopting specific terms of reference for each individual case as appropriate to the expertise and background needed.

The PAR management and co-ordination mechanism in BiH is elaborated and defined on a formal basis. It takes into account the country's complex decision-making structures and the need to harmonise all decisions among the State, the two Entities and Brčko District.

6: There is one clearly dedicated institution with overall responsibility for management and co-ordination of the public administration reform and other involved institutions are aware of their functions in regard to reform implementation process.

PARCO – which was established by a decision of the Council of Ministers of BiH on 28 October 2004, together with the PAR Coordinator position as its head – is defined as the key co-ordinator of the PAR process²⁹. The PAR Strategy states that PARCO will be the "driving force" behind the reform³⁰. The Common Platform provides a clearer description of PARCO functions, described as follows: overall co-ordination of AP1 and RAP1 activities, operational co-operation with PAR Coordinators, work organisation and co-ordination under six reform areas, co-operation with other bodies in BiH important to PAR implementation and co-operation in supporting the PAR Fund and other donors. Further, PARCO is responsible for preparing and organising the work of the PAR Fund Management Board, regularly informing all government levels about PAR implementation and providing operational/technical support for the work of the Economic Development and European Integration Co-ordination Board.

On the other hand, the Council of Ministers' decision defines management of, and responsibility for, reform implementation rather vaguely. It states that "[those] responsible for the delivery of the reform are the heads of governments and institutions at all levels, as well as elected parliamentarians at all

²⁹ Council of Ministers of BiH Decision No. 302/04 "On the Establishment of the Coordinator of Public Administration Reform in the Office of the Chairman of the Council of Ministers".

³⁰ Public Administration Reform Co-ordinator's Office (2006), "Public Administration Reform Strategy in B&H: Management of the Reform Process", (2006), PARCO, Sarajevo, p.51.

levels³¹. The Common Platform also clearly defines the roles of other institutions at different administrative levels involved in the BiH PAR process. In addition, decisions at the State, Entity and Brčko District levels on the appointments of PAR Coordinators³², as well as members of the Supervisory Teams and PAR Fund Management Board, also lay down these roles' key responsibilities.

This management and co-ordination mechanism respects the very specific and complex constitutional setup of BiH. In the administrative landscape, PARCO is the institution in charge of co-ordinating PAR at the State level. It is also at the same hierarchical level as both Entities and Brčko District.

This well-defined institutional and functional structure has, however, some built-in weaknesses that undermine its overall effectiveness and the authority of PARCO. While these issues were raised and discussed in detail in reviews in 2010³³, no changes to the legal framework have been made so far.

First, it is important to note that the initial decision on establishing the PAR Coordinator position and PARCO provides that when the Council of Ministers of BiH concludes that the objectives and activities of the PAR Coordinator's Office are met, it will propose to abolish or transform the Office³⁴. This notion that it is a temporary body undermines the authority of PARCO³⁵.

Second, unlike other structures at the Council of Ministers, PARCO is an "office", not a directorate. Further, since it was established through a decision of the Council of Ministers of BiH, it is not regulated by the 2002 Law on the Council of Ministers³⁶. Not only does this further stress its temporary status, it also positions it at a different hierarchical level.

Finally, the PAR Coordinator does not have a seat at the Council of Ministers meeting, thus sending another signal of its purely expert/consultative/co-ordinative function, without any real power to influence issues and drive PAR at the political level³⁷.

These three observations, derived from the SIGMA interviews and from previous analyses and government documents, indicate that even though one institution is formally charged with co-ordinating the PAR process, it currently lacks leverage to fulfil this function to the fullest extent.

As in the case of the overall PAR management and co-ordination mechanism, a formal analysis clearly defines the division of functions among different institutions and administrative levels of BiH. However, a deeper analysis within the particular BiH environment identifies several shortcomings. The challenges are closely connected to the current hierarchical status and authority of PAR Coordinators and PARCO, hindering their ability to drive the PAR agenda forward and influence implementation of RAP1 activities in particular, and PAR Strategy objectives in general.

³¹ Ibid. p. 51.

³² Note that at the time of assessment, the decision of the Government of Brčko District on the appointment of the new PAR Coordinator was not made available to OECD/SIGMA.

³³ For example, see Roll, H-A and G. Virant (2010), "The Structures of the Public Administration Reform in BiH with Special Regard to Public Administration Reform Coordinator's Office", EUPAR, Sarajevo, or Puhalo, S. (2010), "Analysis of Coordinating and Communication Capacities of the Public Administration Reform Implementation Structure", PARCO, Sarajevo.

³⁴ Council of Ministers of BiH Decision No. 302/04 "On the Establishment of the Coordinator of Public Administration Reform in the Office of the Chairman of the Council of Ministers".

³⁵ Skribot, M. (2012), "Organisational Analysis PARCO. Appraisal of Organisational Aspects, Findings and Recommendations for further Development", Lumique, Vienna, p.15.

³⁶ Roll, H-A and G. Virant (2010), "The Structures of the Public Administration Reform in BiH with Special Regard to Public Administration Reform Coordinator's Office", EUPAR, Sarajevo, p. 2.

³⁷ Ibid. p. 2.

7: Officials handling all aspects of PAR are experienced, regularly trained and capable of carrying out functions and responsibilities assigned to them.

The situation regarding the human resource capacity for managing and co-ordinating PAR in BiH is twofold. While PARCO is relatively well resourced and staffed, the situation is different at the Entity and Brčko District levels.

The “Rulebook on Internal Organization and Job Classification in the Office of the Chairman of the Council of Ministers of BiH” defines 40 systematised positions in PARCO. During the first half of 2013, 34 of these 40 positions were filled (27 by civil servants and the rest by individuals with employee status), while 6 were vacant³⁸. At the time of writing (April 2014) information about the second half of 2013 was not yet developed.

PARCO states that it has continued to strengthen its employees’ capacities by sending them to trainings, workshops and conferences, both within BiH, mainly organised by the Civil Service Agency, and outside BiH, thanks to projects financed by international donor organisations³⁹. The topics covered by the various trainings include strategic planning, monitoring and evaluation capacity development, performance measurement, decision making, teamwork, conflict management, planning and chairing meetings, e-public procurement, financing, legislative techniques, administrative procedures and anti-corruption.

Nevertheless, the latest available organisational analysis⁴⁰ of PARCO indicates several shortcomings that could be improved. The main problems are related to the paucity of recognised experts in the field of PAR, resulting in delays in solving outstanding problems or coming up with new reform ideas. However, it was stressed during SIGMA interviews that PARCO experts had managed to build a rather solid co-ordination mechanism that works within the complex BiH decision making system.

A different situation can be observed at the levels of the two Entities and Brčko district, where the Government-appointed PAR Co-ordinators and representatives in the Supervisory Teams (and ad hoc Implementation Teams) are the key people responsible for co-ordinating implementation of PAR-related activities. Most of the PAR Coordinators and Supervisory Team members interviewed stressed that these positions had been added to their existing workload. Hence, they struggle to devote their full attention to their PAR functions. There is no “change management champion” with full-time responsibility for managing the implementation of various projects related to PAR reform. The situation is slightly different in Republic of Srpska, where staff members of the Ministry of Administration and Self-Governance stated they actively support the PAR Coordinator and thus manage to achieve a better rate of completely implemented planned RAP1 activities.

PARCO has managed to build a good capacity in regard to managing and co-ordinating PAR. The civil servants working at PARCO constantly improve their knowledge and capacities, mainly through the opportunities provided by technical assistance projects and Civil Service Agency training courses. As a result, their outputs are generally qualitative and provide the necessary information. The situation at the Entity and Brčko District levels varies. The main difference is that PAR is only one of the duties of PAR Coordinators and Supervisory Team members, preventing them from focusing fully on this major task.

³⁸ According to Public Administration Reform Coordinator’s Office (July 2013), “Bi-Annual Report on Work of the Public Administration Reform Coordinator’s Office for January – June 2013”, PARCO, Sarajevo, p. 36.

³⁹ According to the Public Administration Reform Coordinator’s Office (July 2013), “Bi-Annual Report on Work of the Public Administration Reform Coordinator’s Office for January – June 2013”, PARCO, Sarajevo, p. 36.

⁴⁰ Skribot, M. (June 2012), “Organisational Analysis PARCO. Appraisal of Organisational Aspects, Findings and Recommendations for Further Development”, GIZ, Vienna.

PUBLIC FINANCE MANAGEMENT

BOSNIA AND HERZEGOVINA
APRIL 2014

1. State of play and main developments since last assessment

1.1. State of play

In Bosnia and Herzegovina (BiH), the State, the two Entities (Federation of BiH and Republika Srpska), as well as Brčko District, approved their budgets for the second consecutive year on time and thereby met the IMF stand-by agreement conditions. The reliance on temporary financing that occurred in 2011 and 2012 did not occur.

There is no overarching national development plan and the medium-term framework within which the annual budgets are formed is not a robust medium-term budgetary framework. It does not set out a path to achieving medium-term targets. There is an absence of costed strategies and planning documents and there is little linkage between the Global Framework on Fiscal Balance and Policies, the Medium-Term Expenditure Frameworks and sectoral/organisational strategic plans. There is no long term planning for capital investment.

The Fiscal Council⁴¹ is not an independent body, which would allow for review of the fiscal and economic projections for BiH as a whole.

There is no clear and comprehensive picture of the current budgetary position at the time when the annual budget is before Parliament. There is no state public consolidation of the budgets of BiH State, Entities and other public sector bodies that provide information on a general government basis as defined by EU requirements⁴², and progress to achieve EU standards is slow. The non-inclusion of extra budgetary funds in particular leads to a position where a complete picture of the fiscal position is missing.

Monthly reports on spending and revenue are not produced. The quarterly reports on budget execution do not provide a flow of clear information during the year and these reports do not inform about the budgetary position in a comprehensive manner. Annual budget execution reports are published and audited.

Debt has been actively managed to avoid defaults on loans and to ensure that principal and interest payments are made on time, but there is no published debt management strategy to guide policy.

1.2. Main developments since last assessment⁴³

The major development since the last SIGMA assessment is the adoption of the new Budget Law in the Federation of Bosnia and Herzegovina⁴⁴. It has been in force as of 1 January 2014 and will guide the 2014 budgetary process and fiscal co-ordination with the levels below the Federal level, i.e. the cantons and municipalities⁴⁵

⁴¹ In BiH the Fiscal Council comprises the three Prime Ministers and the three Finance Ministers, together with the Governor of the Central Bank and the Governor of Brčko District as observers. A Fiscal Council in line with EU requirements is a non-partisan public body and its role is to monitor compliance with fiscal rules and the Medium-Term Budgetary Framework.

⁴² EU Council Directive 2011/85/EU, 23/11/2011, L306/41.

⁴³ March 2012.

⁴⁴ Law on the Budgets in the Federation of Bosnia and Herzegovina (Official Gazette no 102/13).

⁴⁵ Article 41 Law on the Budgets in the Federation of Bosnia and Herzegovina no. 102/13.

PUBLIC EXPENDITURE MANAGEMENT SYSTEM

2. Analysis

Multi-Annual Financial Framework

1: The Government approves and publishes a Medium-Term Budgetary Framework (MTBF) on a general government basis which covers a minimum time horizon of three years.

The public expenditure management system in Bosnia and Herzegovina (BiH) reflects the provisions of the country's constitution that was drawn up as part of the internationally agreed 1995 Dayton Peace Agreement. The institutions at the central government level are governed by the BiH Council of Ministers; each of the two Entities has its own governments and extra-budgetary funds (EBFs).

There is no MTBF in BiH. The publications nearest in purpose to the MTBF are the Global Framework on Fiscal Balance and Policies (GFFBP) and the Medium-Term Expenditure Frameworks (MTEF). The GFFBP sets out briefly the events in the economy which have influenced the growth, inflation and labour market developments in the previous year. It does not provide explanation of how the targets for the coming three years are to be met nor does it outline a broad fiscal strategy within the context of a macroeconomic framework. Furthermore, it lacks explanations of the fiscal strategy in terms of the figures presented, and it does not contain a sensitivity analysis.

The GFFBP only covers the scope of State budget institutions. Consequently, it does not provide a comprehensive medium-term budgetary document on a general government basis at the country level as required under EU law⁴⁶. It also means that gauging progress in achieving fiscal targets is difficult to measure as the origin of the targets and the underlying projections are not fully explained.

The GFFBP is produced by the Fiscal Council as part of the requirement of the budgetary Law⁴⁷. It is not published at the time of its adoption by the Fiscal Council. The GFFBP is required to be prepared early in the budget cycle, although it often is not for example the 2012-14 Framework was only adopted in March 2012, a year later than intended. The 2013-15 Framework was adopted by the Fiscal Council on 15 June 2012⁴⁸, and the 2014-16 Framework was adopted on 17 September 2013⁴⁹. It is also not updated during the year, for example, at the time of submission of the annual budget to the Parliament or during parliamentary consideration of the budget.

On the basis of the GFFBP, the Medium-Term Expenditure Frameworks (MTEF) are developed by the Governments of BiH State, the two Entities, as well as Brčko District. A delay in the adoption of the GFFBP, as happened in 2012, impacts on the preparation of MTEFs.

There is no independent Fiscal Council body in BiH of the type that has become common in many EU countries⁵⁰, with a remit to act as an independent reviewer and commentator on Governments' budget proposals and macroeconomic projections. The Fiscal Council is not an independent body. In BiH the Fiscal Council comprises the three Prime Ministers and the three Finance Ministers, together with the Governor of the Central Bank and the Governor of Brčko District as observers. There is also an advisory group that is appointed by the three Prime Ministers along with officials from the Ministries of Finance. In relation to capital investment, there is no indication of long-term investment costs that will be incurred during the period being taken into account in the GFFBP, even though in SIGMA interviews with civil servants and parliamentarians there was agreement that the State, the Entities and Brčko District have a need for a wide range of capital investment to bring the infrastructure up to more modern

⁴⁶ Article 9, EU Directive 2011/85.

⁴⁷ Article 5, Law on Financing of the Institutions of Bosnia and Herzegovina. BiH Official Gazette, 61/04, 49/09 and 42/12. Also BiH Fiscal Council Law (OG 63/08) – Article 1.

⁴⁸ http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=13152&langTag=en-US

⁴⁹ http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=15658&langTag=en-US

⁵⁰ Article 3, EU Directive 2011/85 and Article 5, EU Regulation 473/2013 May 2013.

standards. There is, however, no overall strategic investment plan that would enable agreed common priorities to be followed by the Governments at State, Entity and District levels on a multi-annual basis into the future. Therefore, there is little to underpin the medium-term forecast in the capital investment area.

Overall, the medium-term fiscal strategy remains fragmented and reflects the division of competencies between different institutions at State, Entity and District levels. The fiscal framework lacks a comprehensive description of medium-term measures beyond the budget year.

There is no comprehensive Medium-Term Budgetary Framework to include revenue and current expenditure as well as capital expenditure for the country as a whole. The publications nearest in purpose to the MTBF are the Global Framework on Fiscal Balance and Policies and the Medium-Term Expenditure Frameworks. There is no long-term planning for capital investment. The Fiscal Council is not an independent body, which would allow for review of the fiscal and economic projections for the BiH as a whole.

2: The forecasts that each public sector organisation submits to the Ministry of Finance for compiling the overall MTBF are linked to a strategic plan for the same medium-term timeframe.

There is no National Development Plan which could act as a comprehensive framework within which sectors and government levels could plan their own strategies and spending, and prioritisation of spending could be integrated into the budget planning process. In Republika Srpska there was a National Development Plan for 2007-12, but this has not been replaced by a new framework.

While some bodies have medium-term plans or sectoral plans (e.g. the plan for resettlement of displaced persons and returnees), these are not fully costed strategies that take account of the budgetary needs to fulfil the plan and contain a multi-annual timetable to realise the goals.

Another example of a strategy that is not fully costed is the Public Administration Reform (PAR) Strategy and its related Action Plan. There is no fiscal assessment developed to link PAR co-ordination with medium-term and annual budget processes. There is only partial data on current investments made. For example, the information on investments made to implement PAR is scattered among different sources (bi-lateral and multi-lateral donors, budgets of BiH State, Entities and Brčko District), and in most cases it is not accounted for as a PAR-related investment⁵¹.

Social contributions are administered by extra budgetary funds (EBFs). The EBFs are neither integrated into the budget process nor into the budget documentation. The non-inclusion of the EBFs in the medium-term or annual budgetary outlook means that a large element of spending and revenue is not integrated into the multi-annual strategic planning framework. This creates consequences for multi-annual fiscal planning and the realisation of long-term development goals at the sectoral and organisation levels such as the line ministries. There is no one composite picture presented to parliament when considering the budget proposals or in the medium-term forecasts that guide the annual process.

A cost /benefit or other relevant analysis by the Ministry for Finance is not carried out.

There is an absence of costed strategies and planning documents for Governments at State, Entity and Brčko District, and there is little linkage between the Global Framework, the MTEFs and sectoral/organisational strategic plans. No reliable and comprehensive medium-term macrofiscal strategies for any of the government levels exists.

⁵¹ For further information please refer to the SIGMA 2014 Bosnia and Herzegovina Public Administration Reform and Co-ordination Assessment Report.

Annual Budget Process

3: The Budget process is based on transparent legal provisions established in the Constitution, an organic budget law and/or related laws.

Each of the Governments - BiH State, the Federation, Republika Srpska and Brčko District have in place basic budgetary legislation regulating financial management issues:

- In BiH State the budget process and timetable is set out in the Law on Financing the Institutions of Bosnia and Herzegovina⁵². It regulates the preparation, enactment, execution, accounting, reporting and supervision of the budget, the Treasury Single Account, and the investment of public monies.
- In the Law on Budgets in the Federation of BiH⁵³ the following are regulated: the planning, preparation, approval and execution of the budget of the Federation; the budgets of cantons; cities and municipalities; and the financial plans of extra budgetary funds; budget principles; borrowing, guarantees and debt management; the public investment programme; fiscal responsibility rules; and accounting, reporting, supervision and audit of the budget and other budget beneficiaries.
- In Republika Srpska, the Law on the Budget System⁵⁴ regulates the budget of Republika Srpska and the budgets of the local governments. It includes the preparation, planning, development, adoption and execution of the budget, as well as budget accounting, control and audit.
- In the Law on Budget of Brčko District⁵⁵ the following are regulated: the planning, drafting, adoption and execution of the budget of Brčko District; the financial plans of non-budgetary funds; borrowing; guarantees and debt management; and the accounting, reporting, supervision and revision of the budget and of non-budgetary funds.

These laws provide most of the main definitions needed for sound fiscal management, although ministries and other state agencies are not explicitly defined as budget-users in the Law on Financing the Institutions of BiH. The laws are, however, frequently amended and no common practice exists to include the amendments of legal acts in full versions of the legislation. The latest comprehensive versions of legal acts are not readily available, for example the Law on Financing of the Institutions of Bosnia and Herzegovina. This practice complicates the application of effective legal regulation.

The legal framework differs substantially between the Governments. Among other issues, each of the Governments uses different budget preparation, accounting and reporting methodologies, with different charts of accounts. These differences have resulted in unreliable financial statistics.

Many of the provisions in legal acts are also inconsistent and differ from international practice. For example, public money is not defined comprehensively for BiH State, Republika Srpska and Brčko District. The laws stipulate that the budget has to be balanced, but as loans are included as revenue, any deficit would be a financing gap rather than a budget deficit as has become common in many EU member states. Other examples are found in the EBFs including: funds for pensions, health care and employment, as well as a roads' fund expenditure, all of which are not incorporated into the budgetary procedures.

Figure 1 below shows the timetable and the actual dates for the BiH State budget process in 2013 in which the various steps were actually met. In Republika Srpska and Brčko District the timetables are broadly similar to that at State level.

⁵² Law on Financing of the Institutions of Bosnia and Herzegovina Official Gazette 61/04, 49/09, and 42/12.

⁵³ Law on the Budgets in the Federation of Bosnia and Herzegovina (Official Gazette no 102/13).

⁵⁴ Law on the Budget System of Republika Srpska, Number 121, 25 December 2012, in force as of 2 Jan 2013.

⁵⁵ Number: 01-02-150/08, Brčko, 29 July 2008, in force as of 1 Jan 2009.

Figure 1. Budget timetable for BiH State in 2013

Task	Responsibility	Date in Budget Law/calendar	Actual Date for 2014 Budget
Budget Instruction 1	Ministry of Finance	31/1/ 13	21/2/13
Submissions of Budget users	Budget users	15/4/13	27/4/13
Global Framework on Fiscal Balances and Policies	Fiscal Council	30/6/13	17/9/13
MTEF Submission to Council	Ministry of Finance	15/6/13	26/9/13
Adoption by Council	Council	30 /6/13	23/10/13
Budget Instruction No. 2	Ministry of Finance	1/7/13	25/7/13
Budget discussions	MoF/Budget-users	1/08/13 – 30/09/13	
Budget submission to Council	Ministry of Finance	1/10/13	14/11/13
Adoption by Council and submission to Presidency	Council of Ministers	15/10/13	19/11/13
Budget submission to Parliament	Presidency	1/11/13	5/12/13
Parliamentary approval	Parliament	31/12/13	30/12/13

Source: Law on Financing of the Institutions of Bosnia and Herzegovina, BiH Official Gazette 61/04, 49/09, and 42/12 and SIGMA interviews.

Figure 1 highlights that the Parliament has only one month to analyse and discuss the budget. This is specified by the Law on Financing of the Institutions of Bosnia and Herzegovina. However, there is a possibility for this time to be shortened further, thereby reducing parliamentary time for its consideration. The OECD⁵⁶ recommendation is that there should be a three-month period within which Parliament could consider the budget. However, this is not the case in BiH thereby reducing the Parliament's oversight role.

In the previous years of 2011 and 2012, the budget timetable was not met and the final approval of the budget did not take place within the December 30 deadline. In 2013 the BiH State did not meet the timetable deadlines set down in law. However, the 2013 and 2014 budgets, while missing some deadlines in the preparatory stages, were passed by the Parliament within the end year deadline. The observance of meeting this deadline was the exception rather than the norm. Timely adoption of the 2014 government budgets by the respective parliaments constituted conditionality for the continuation of international funding⁵⁷. The inability to meet other deadlines indicates that the system is not working any better than in the past.

In Republika Srpska and Brčko District the 2014 Budgets were enacted on time in line with the budget calendar.

⁵⁶ (2002), OECD Best Practices for Budget Transparency, OECD <http://www.oecd.org/qov/budgeting/best-practices-budget-transparency.htm>

⁵⁷ <http://www.imf.org/external/np/sec/pr/2013/pr13459.htm> and The IMF approved Bosnia and Herzegovina's new request for a two-year Stand-By Arrangement with access to Special Drawing Rights (SDR), 338.2 million, on 26 September 2012. The Fourth Review was completed on 28 October 2013, and the Fifth Review was published on 11 February 2014. <http://www.imf.org/external/pubs/ft/scr/2014/cr1439.pdf>

The Federation's new Budget Law envisages a setting up of new harmonised arrangements based on a fiscal co-ordination body⁵⁸. The new Law provides that the Government shall, at the proposal of the Ministry of Finance, adopt the guidelines for the economic and fiscal policy for a three-year period⁵⁹. Those guidelines are to cover:

1. Strategic goals of the Federation's economic and fiscal policy;
2. The main macroeconomic indicators of the Federation;
3. The main indicators of the Federation's economic and fiscal policy,
4. The assumptions of social and economic development for the budget year and the following two years;
5. Estimation of budget revenue;
6. Anticipated changes in public debt and public debt management strategy.

To improve the definition of a comprehensive budget, the new Law on Budgets in the Federation of Bosnia and Herzegovina requires EBFs (which are significant in the Federation) and the local government sector to prepare financial plans proposals on the same lines as the Federation's own budget guidelines⁶⁰. Also, information from levels below the Federal Government will be published around the time of the annual budget⁶¹.

None of the Governments in BiH have adopted any fiscal rules limiting the debt and deficit levels as has become common in many EU Member States⁶².

The budget is based on a legal foundation that is endorsed by the Council of Ministers. However, not all budget preparation deadlines were met at the BiH State level. Non-inclusion of EBFs in the budget means that the budget documentation is not transparent for the two Entities or for Brčko District.

4: The Budget is based on accurate economic and revenue forecasts and includes comprehensive estimates of spending for the coming year that are consistent with the MTBF.

Direct taxes are the responsibility of the two Entities and Brčko District. BiH State is responsible for the administration of indirect taxes, which are forecast by the Indirect Tax Authority (ITA). The governing board or ITA is comprised of state and entities ministers of finance with observers from Brčko District and the Central Bank.

Expenditure forecasts are compiled by the budget-users at BiH State, Entity level and Brčko District on the basis of instruction from the respective Ministries of Finance. On an overall government basis, no consolidated forecast for revenues and expenditures is produced for the annual budget process for the entire country.

In BiH State the budget circular⁶³ issued in July required budget-users to complete their projections within the overall budget expenditure limit set by the Council of Ministers. However, the Ministry of Finance had to instruct users to use the Global Framework for 2013-15⁶⁴ as a base because the Council of Ministers did not agree to the Global Framework on Fiscal Balance and Policies 2014-16 on time. The absence of current multi-annual projections reduces the accuracy of forecasting by budget-users as they are not using the latest forecasts.

⁵⁸ Article 39, Law on Budgets in the Federation of Bosnia and Herzegovina (Official Gazette no 102/13) in force as of 1 Jan 2014.

⁵⁹ Article 17, Law on Budgets in the Federation of Bosnia and Herzegovina No. 102/13.

⁶⁰ Article 27, Law on Budgets in the Federation of Bosnia and Herzegovina No. 102/13.

⁶¹ Article 28, Law on Budgets in the Federation of Bosnia and Herzegovina No. 102/13.

⁶² Article 5, EU Council Directive 2011/85/EU.

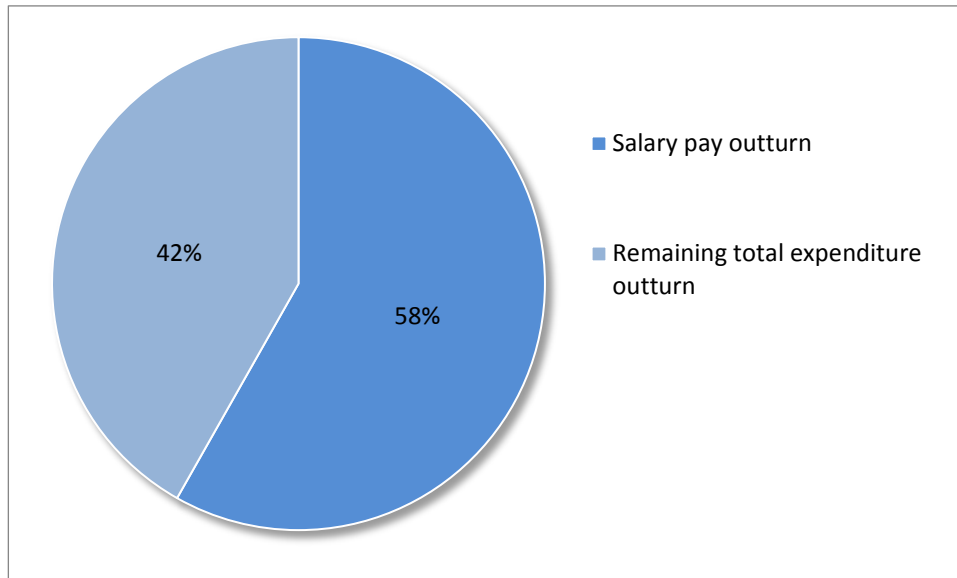
⁶³ Budget Instruction No. 2 July 2013.

⁶⁴ Budget Instruction No. 2 July 2013.

The new Budget Law of the Federation⁶⁵ states that budget-users must submit information based upon their own resources, including planned expenditures for the coming three years, planned employment levels and employee structures, and planned capital investment outlays. This is an improved legal obligation for more accurate estimation.

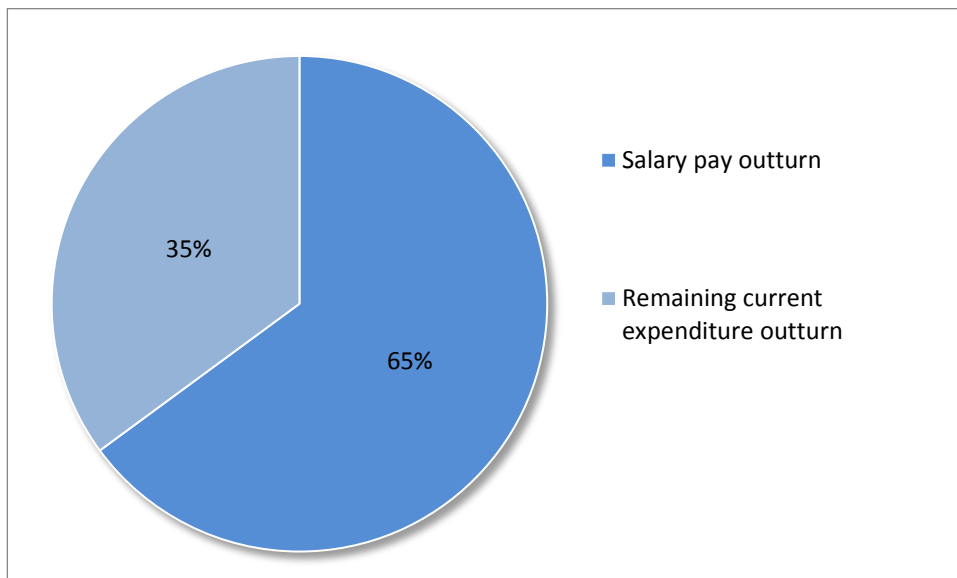
The amount of salaries out to the total expenditure is important. For example, at BiH State level, 2012 salary costs accounted for 58%⁶⁶ of the total budget and 65%⁶⁷ of the current spending.

Figure 2. Amount of salaries out of total expenditure in 2012



Source: BiH State 2012 Annual Financial Report and SIGMA calculations.

Figure 3. Amount of salaries out of current expenditure in 2012



Source: BiH State 2012 Annual Financial Report and SIGMA calculations.

While figures for the costs of salaries within the public sector can be calculated, it is difficult to determine the exact number of employees. This is especially true if it is desired to include the entire public sector including EBFs, as this consolidated information is not published.

⁶⁵ Article 21, Law on Budgets in the Federation of Bosnia and Herzegovina No. 102/13.

⁶⁶ Salary pay outturn KM 518 million / Expenditure outturn KM 890 million.

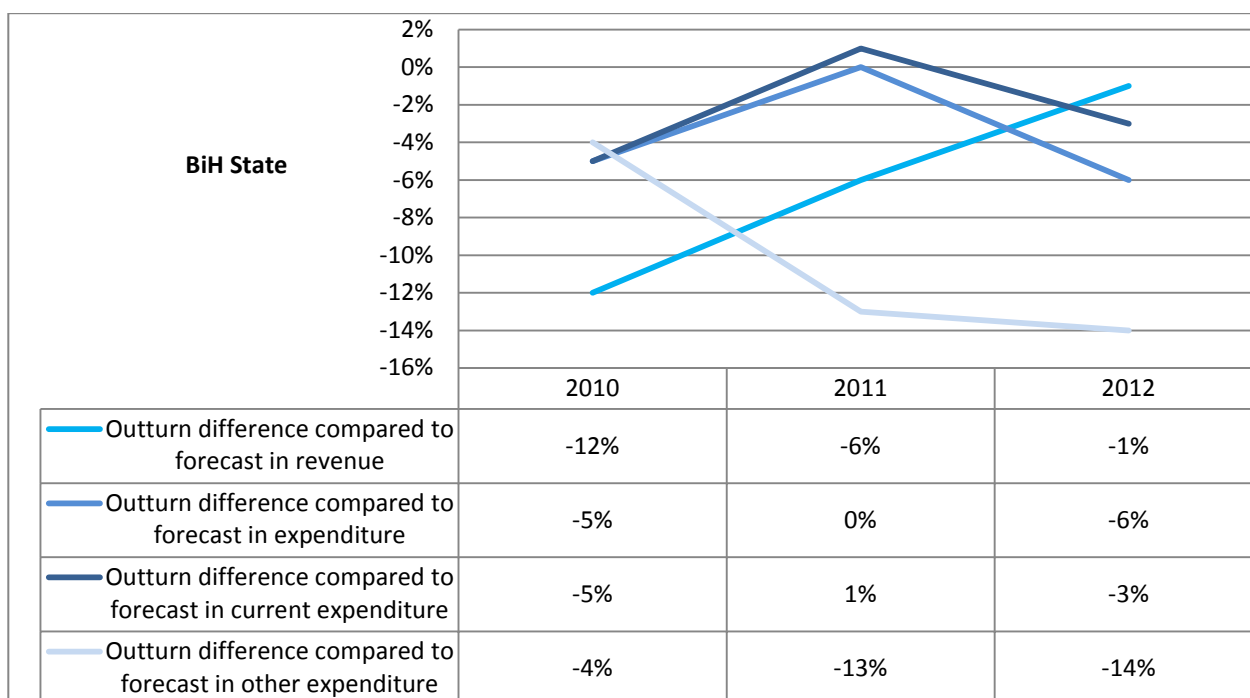
⁶⁷ Salary pay outturn KM 518 million / Current expenditure outturn KM 789 million.

Funding of projects from IPA sources require notification to the Ministry of Finance (BiH State), while consultation takes place with the IPA co-ordinator in the Directorate for EU Integration of the Council of Ministers.

The BiH State Ministry of Finance does not publish a list of fiscal risks.

The budget as submitted to Parliament (BiH State, two Entities and Brčko District) does not include a forecast outturn for the likelihood of the current year's spending, which could be used as a basis for comparing the forthcoming year's estimates. Figure 5 below shows the difference in percentage outturn and forecast figures for revenue, expenditure, current expenditure as well as other expenditure for the BiH State budget for 2010-13. Other expenditures include grants, interest, expenses on foreign loans, current reserve and special purpose programmes.

Figure 4. Difference in percentage outturn and forecast figures for the BiH State budget for 2010-13



Source: BiH State Budgets compared with BiH State Annual Financial Reports together with calculations by SIGMA.

Outturn for the current year is not part of next year's budget as submitted to the Parliament. Realising outturns in line with forecasts continues to pose a problem especially in the "other expenditure" area.

5: All public sector organisations which form part of the general government balance calculations provide the Ministry of Finance with comprehensive and accurate estimates for the forthcoming year.

To understand the total budgetary picture it would be necessary for budget figures to be compiled on a government-wide basis in line with EU requirements⁶⁸. However, this is not done and, therefore, the budget is not published based on general Government input. Progress on developing information, for example on European System of Accounts (ESA) 95 standards, is slow. There is no realistic plan for the introduction of ESA95 based data that will be required for membership in the EU.

In the Entities and in Brčko District, the existence of extra budgetary funds and their non-inclusion in the budgets reduces the comprehensiveness of the information. The existence of a number of significant EBFs is an issue for budget co-ordination especially where the funds cover very important countrywide operations such as the health service. Without the inclusion of EBFs the spending plans cannot give a comprehensive picture of the fiscal position and an accurate estimate of the spending on various functions for the coming year. While EBFs' spending proposals are presented around the time of the

⁶⁸ EU Directive 2011/85/EU.

budget in the Entities, they are not integrated into the budget, and for example, in Brčko District, they are submitted to the Assembly only as information. In Republika Srpska the Government approves the EBF plans in December, however, they are not required to present the plans to the Assembly nor receive the Assembly's approval for the financial plans⁶⁹.

There are no medium-term strategic plans and spending requests are not linked to long-term goals.

Spending estimates do not include all of the bodies that would comprise the General Government's Balance calculations. Budgetary information is not published on a general Government basis which calls into question the reliability of the budget deficit figures as a reliable indicator of the health of the public finances. This is especially the case for the Entities where extra budgetary funds are a significant part of the public sector.

Cash and Debt Management

6: The Ministry of Finance, or authorised central treasury authority, has timely and accurate information on cash flows during the year so that distribution of funds from the Treasury Single Account is centrally controlled and cash liquidity is ensured.

In terms of budget execution, each Government within BiH has a law governing the operation of the Treasury⁷⁰. These systems have underlying similarities, but in operational terms they are moving apart. For example, the State, the Entities and Brčko District each have their own Treasury system and single account, and each is pursuing its own independent technical development strategy.

Cash flow projections are made at the beginning of each year. Cash flow projections tend to be planned on allocating 1/12 of the budget to the user each month with provision allowing a user in some cases to request extra funds. In other words, the cash flow projections act as an expenditure control rather than an accurate projection of what is likely to happen in the course of the year and on which liquidity requirements can be forecast. This can lead to a build-up of arrears. Arrears in the past have been significant and there have been cases of non-payment of wages and suppliers.

One of the conditions of the IMF Stand-by arrangement was that the Entities would agree on a definition of what constituted arrears (90 days). According to the IMF's Fifth Review⁷¹ this has now been agreed upon.

In Republika Srpska amendments have been made to the software of the Treasury system in order to capture arrears of 30/60/90 days, which is a positive step.

Arrears in the cantons and extra budgetary funds are not captured in the centralised system, and therefore monitoring of the overall arrears position is not comprehensive.

A cash flow projection exists and funds within the budget pass through a Treasury account which is controlled centrally at each government level. However, simply projecting cash flow on the basis of an equal 1/12 allocation per month is not reflective of the reality of the vagaries of public expenditure during the course of a year.

7: There is a clear debt management policy and a monitoring mechanism to ensure that the country's overall debt target, as set out in the annual budget, is not exceeded.

Debt management is a function of the Ministries of Finance at State and, Entity level and in Brčko District. Regular reports are compiled outlining the maturity profiles and other data. Most of the debt obligations are in respect of multi-lateral organisations and are at concessional rates. In the Federation

⁶⁹ Article 34, Law on the Budget System Official Gazette of Republika Srpska 54/08.

⁷⁰ Article 25, Law on Financing of BiH Institutions, Article 2, new Law on Budgets Federation of BiH, Article 2, Law on the Budget System – Republika Srpska, Article 23, Law on the Budget – Brčko District.

⁷¹ IMF Article IV, Consultation January 2014 <http://www.imf.org/external/pubs/ft/scr/2014/cr1439.pdf> page 8.

and Republika Srpska, Treasury bills are also issued as part of the on-going financing and cash flow management. There is no use of financial instruments such as interest rate or currency swaps. Debt management benefits from the current BiH fiscal system whereby, before each of the Entities receives its allotted share of indirect tax revenue, its share of the debt servicing costs are deducted. Therefore, at an early stage in the process, the Ministry of Finance has a clear source of funds to carry out its operations for the year. Only the Minister of Finance⁷² with the approval of the Government, can authorise borrowing.

There is no debt management strategy nor is there an analysis of debt sustainability. The debt is managed with the objective of not defaulting, but there is no published debt management strategy that guides the process.

Financial Reporting

8: The Ministry of Finance receives regular and timely financial reports in a common reporting format for each public sector organisation, and total government financial reports are published at least monthly.

There is no monthly reporting of data that gives an up-to-date picture of the evolving fiscal position through the year to the Parliament and citizens. However, quarterly reporting data are produced. In BiH in-year reports are required to be produced within twenty days after the end of each quarter⁷³. These are produced in practice and presented to the Council of Ministers for their consideration by the Ministry of Finance.

The reliance on quarterly data collection can mean that there is a delay in giving visibility to emerging trends especially in a time of economic stress. EU rules⁷⁴ also require monthly publication of data for central government and quarterly reporting for local authorities. Local authorities are significant in the Federation. In Republika Srpska⁷⁵ the Government is only obliged to give the Assembly an update on the half-year figures by the following September.

Monthly monitoring reports are not published. The gap between the quarter covered by the report and the reporting to the Parliament can be sixty days. This method of reporting is not sufficiently regular enough for a parliament to exercise its oversight role.

9: The Ministry of Finance publishes an annual financial report, the presentation format of which mirrors the presentation format of the Budget.

The Ministries of Finance of BiH State, the two Entities and Brčko District publish the annual budget execution accounts not less than six months after the end of the financial year⁷⁶. They are audited by the respective State Audit Offices by the relevant parliamentary committees before the next budget discussions. The exact date varies among the Governments but in practice this means the annual audit reports should be submitted no later than 90 days⁷⁷ after the submission of the annual budget execution report to the respective governments.

⁷² Article 4, BiH Law on Debt, Article 6, Federation of BiH Law on Debt and Borrowing, Arts. 53-56, Law on the Budget System Republika Srpska, Article 33, Law on the Budget, Brčko District.

⁷³ Article 22, Law on Financing of the BiH Institutions.

⁷⁴ Article 3, EU Directive 2011/85/EU.

⁷⁵ Article 46, Law on the Budget System Official Gazette of Republika Srpska 54/08.

⁷⁶ Article 22, Law on Financing of the BiH Institutions; Article 73 Law on the Budget in Federation of BiH Official Gazette 19/06, 76/08, 5/09, 32/09, 51/09, 9/10, 36/10, 45/10 and 25/12; Article 58 Law on the Budget System of Republic Srpska, 121/12, Art 41 & Article 46 Law on Budget of Brcko District.

⁷⁷ Art 16 Law on auditing institutions of BiH, 264/06; Art 16 Law on auditing the institutions of Federation of BiH, Article 16 Law on Audit of the Public Sector of Republica Srpska; Art 18 Law on Audit of Public Administration and Institutions in the Brčko District, 01-02-170/08.

There are no consolidated final budget accounts for the country as a whole and there is no legal obligation to produce a consolidated final budget accounts. The BiH public expenditure management system does not lend itself to an easy way of producing reports and analysis that enables identification of financial trends.

For BiH State the Budget Law, of the 2012 annual budget execution report was discussed and adopted by the Council of Ministers on 21 May 2013, and the Presidency on 17 June 2013, which is in line with the Law⁷⁸. The report was audited by the Audit Office of the Institutions of Bosnia and Herzegovina, which issued its report on 30 Sept 2013.

The annual budget execution report matches the same format as the budget documentation submitted to and approved by the Parliament. Among other things, it covers revenues and expenditures for the year as well as any approved re-balances in addition to the beginning and ending balances. Information on the fixed assets as well as explanations of significant variances is listed. Information on the debt and the status of guarantees, as well as information on any corrective actions taken to implement the previous year's audit recommendations, are also included.

The Federal Government adopted the annual budget execution report on 15 May 2013. The 2012 budget execution report was audited by the Federal Office for Audit of Institutions in BiH in August 2013 and published on its website on 5 September 2013. The 2012 annual budget execution report covers the adopted budget revenues and expenditures for the budget year, including any rebalances adopted during the year. Information on the fixed assets as well as explanations of significant variances is included.

The Republika Srpska National Assembly discussed the 2012 consolidated budget execution report at its session held on 28 May 2013. The report was audited by the Republika Srpska Main Service for Public Sector Audit, which issued its report on 23 August 2013. The annual budget execution report includes information about expenditures and revenues within the budget year, including any budget rebalance. Information on fixed assets and explanations of significant variances is listed. Information on the debt is also included.

The legal provisions are in place at State and Entity level to require publication of annual reports within six months of the end of the fiscal year, and for them to be audited and published. These rules are adhered to.

⁷⁸ Article 22, Law on the Financing of Institutions of Bosnia Herzegovina.