

**PUBLIC ADMINISTRATION REFORM MONITORING IN BOSNIA AND HERZEGOVINA:
ANALYSIS OF RESULTS IN THE FIELD OF PUBLIC FINANCE
2016**

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Acronyms and abbreviations

BiH	Bosnia and Herzegovina
BD	Brčko District
FBiH	Federation of Bosnia and Herzegovina
RS	Republika Srpska
GOF	Global Framework of the Fiscal Balance and Policy
IMF	International Monetary Fund
BFP	Budget Framework Paper
DEP	Directorate for Economic Planning
IAS	International Accounting Standards
MAU	Macroeconomic Analysis Unit of the ITA Governing Board
ERP	Economic Reform Programme
IPSAS	International Public Sector Accounting Standards
GFS	Government Finance Statistics
PARCO	Public Administration Reform Coordinator's Office
ESA 2010	European System of National and Regional Accounts 2010
BPMIS	Budget Planning and Management Information System

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INTRODUCTION

Transparency International BiH prepares annual reports on public administration reform as part of the project of Public Administration Reform Monitoring in BiH (PARM), with the financial support of the Swedish International Development Agency and the Government of Denmark. The report at hand concerns the monitoring of progress in the reform area of Public Finance in 2016.

This report is based on the desk review of existing primary sources of information, including relevant laws, administrative procedures, financial and other data on the performance of all governments in BiH; collection of additional information by way of questionnaires that were submitted to 76¹ institutions of the state and entity level governments, as well as those of the Brčko District.

Of the 76 institutions included in the sample, 41² failed to disclose the requested information of public importance and thus refused to contribute to the monitoring. This shows a lack of awareness in these institutions regarding the need to provide the general public with a comprehensive presentation of the results of their work.

Data were collected from 35 surveyed institutions, and monitoring was carried out based on this information. All the positive developments regarding reform implementation in the institutions which responded to the questionnaire are presented in this report.

FINDINGS OF THE PUBLIC FINANCE REFORM MONITORING IN BIH

Improving public finance management is one of the priorities of the structural reforms in BiH, with special emphasis on improving fiscal discipline and streamlining the internal financial control system.

¹ Annex 1 and Annex 2

² Annex 2

1. Policy dimension of the public finance system

This section looks at the activities aimed at improving the quality of the macro-fiscal framework design for the whole of BiH, activities undertaken for the purpose of regular preparation of the consolidated public sector account, and achieving a more efficient approach to indirect tax revenue allocation.

Law on the Fiscal Council in Bosnia and Herzegovina (“Official Gazette of BiH”, No. 63/08) defines the Global Framework of the Fiscal Balance and Policy in BH as a document comprising: the proposed fiscal objectives of the budgets of the institutions of BiH, FBiH, RS and BD; the proposed macro-economic projections and the projections of the total indirect taxes and their allocation for the next fiscal year; and the proposed borrowing ceiling of the budgets of the institutions of BiH, FBiH, RS and BD. Pursuant to the provisions of this Law, GOF is adopted in the form of an agreement between the Governments of the entities and the Council of Ministers of BiH, and it is adopted for the following three years, with the proviso that it be reviewed every year. The Fiscal Council Advisory Group prepares a draft of the basic or the revised Global Framework of the Fiscal Balance and Policy in BiH, and submits it to the Fiscal Council no later than 15 May, with the adoption deadline being 31 May (as determined by the Rules of Procedure of the Fiscal Council).

At its fourth session on 24 May 2016, the Fiscal Council adopted the Global Framework of the Fiscal Balance and Policy in BiH (GOF)³, abandoning the previous years’ practice of delaying GOF adoption.

However, although progress was made in observing the 2017-2019 GOF adoption deadline, the quality level of this document has remained the same.

The first and second chapters of GOF, *Analysis of Trends in Macro-economic Developments in BiH* and *Analysis of the Level and Structure of Indirect Taxes and Their Projections*, were prepared and elaborated in detail for the observed period. Unlike the first two chapters, the part which deals with the level and structure of public spending titled *Defining Fiscal Targets and the Fiscal Policy of BiH*, is presented in the form of

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http://mft.gov.ba/bos/images/stories/budzet/gfo/GO%20BiH%202017-2019_korigovano_230516%20bos%20tb.pdf

several tables from the framework budgets submitted by each government level. The level and structure of public spending in BiH determined for the period 2017-2019 presents the sum total of the data contained in the framework budgets submitted by the institutions of BiH, BD, FBiH and RS. It should be noted that framework budgets for different government levels in the 2017-2019 GOF were prepared based on incompatible data, and it is indicated that the differences in the scope of data should be taken into account when comparing reports at different levels.

Since as early as 2011, this section of the document has stated that the level of public expenditure as a share of GDP should be below 40% of GDP. One gets the impression that the only thing that changes in the GOF documents adopted so far is the years “X” and “Y” in the following sentence: “The level of public expenditure as a share of GDP in the X-Y period should be continuously reduced with the aim of ensuring that the level of public expenditure starting as of year X, consolidated at the countrywide level, is below 40% of GDP”. This objective of reducing the level of public expenditure is not supported by any analysis and there is no explanation of the measures with which to achieve it. In the 2017-2019 GOF, only one new general qualification was added, without any mention of concrete measures, and it reads: “In the period 2017-2019 it is necessary to make further efforts to change the structure of public spending such to strengthen capital investment at the expense of reducing current expenditures.”

Debt projections have not been prepared for the given three-year period, and GOF does not provide a complete picture of the borrowing ceiling on the BiH level. This chapter of GOF contains a list of legislation that regulates borrowing, debt and guarantees on the level of BiH, FBiH and RS. Borrowing ceilings for entities⁴ (there are separate, more detailed explanations for FBiH, cantons and municipalities) are set for 2016 (but should actually be for year 2017).

In practice, the Fiscal Council of BiH adopts only the projections of indirect tax revenues which are used as a basis for the planning and preparation of the Budget Framework Paper (BFP) on all government levels in BiH, and it makes decisions regarding the budget of BiH institutions.

⁴http://mft.gov.ba/bos/images/stories/budzet/gfo/GO%20BiH%202017-2019_korigovano_230516%20bos%20tb.pdf

2. Increasing efficiency and effectiveness of budget management

Transparent expenditure of public funds

Given the fact that the Fiscal Council adopted the 2017-2019 GOF within the statutory deadline, the governments were allowed sufficient time to complete their budget Framework Papers (BFPs). The institutions of BiH, FBiH and RS adopted their Budget Framework Papers by 30 June 2016.

The Government of the Brčko District of BiH adopted the 2017-2019 BFP of the Brčko District with considerable delay, as late as January 2017, with the Draft Budget consideration being scheduled for March 2017.

Budget-related legislation for the level of Institutions of BiH and both entities is harmonised in the part that relates to the process of adopting annual budgets according to the “ten-step” principle. The Brčko District is in the process of preparing a new budget law which should be harmonised with the laws on other government levels. In 2015 it was considered while still in its draft form, but as at the end of 2016 it was still not adopted.

Technical preconditions for the introduction of programme-based budgeting in the budget planning phase for the institutions of BiH and the entities have been provided through the implementation of BPMIS.

Budgets are still planned and recorded using diverse types of software, ranging from the simple ones to the latest budget management software (BPMIS⁵). Budgets for 2017 for the institutions of BiH, entities and cantons are planned in the same BPMIS format, but since this software is incompatible with the Treasury software, budget execution is managed by the Treasury system. By the end of 2016, Brčko District had not implemented BPMIS.

In the preparation of the 2017-2019 BFP, budget beneficiaries submitted requests according to the Instruction for Budget Beneficiaries No. 1 through BPMIS. Additionally, Instruction No. 2 and the requests for amendments to the budget for 2017 were submitted through BPMIS as well. Entity budgets are planned in accordance with programme-based budgeting methodology, but are not adopted as such, nor are they published on the websites of the entity-level ministries of finance. Although entity-level

⁵ The Public Administration Reform Fund of BiH funded the procurement of the BPMIS software “Budget Planning and Management Information System”

budgets are planned in the BPMIS programme format, they are still adopted and published only by economic and organisational classification in RS and FBiH⁶.

Since BFP is essentially an estimate of the resources necessary to achieve strategic and operational objectives of the budget beneficiaries, active participation of all managers within the institution is necessary. Communication between the management of institutions and ministries of finance (sectors, departments, services) takes place on an ongoing basis throughout the budget preparation process. As the budget beneficiaries in 2016 had to cope with a continuing trend of limited financial resources, and due to the statutory fiscal accountability of the management of budget beneficiaries, the managers' involvement has evidently become more meaningful than before. However, the level of involvement of citizens and the civil society in the budgetary process remains less than satisfactory.

When planning the budget for a given fiscal year, 62% of the surveyed institutions include the donations which are certain and foreseeable in the draft budget, whereas the subsequently received donations are incorporated in the amended budget; which is to say that all the donations are recorded in accounting and are subject to financial reporting in accordance with legal regulations. Unlike those above, 38% of the surveyed institutions gave a negative response to this question.

Furthermore, the adopted budgets for 2017 do not include information on the estimated revenue and expenditure execution for the year 2016, which is in line with European practices. The RS Budget for 2017 contains only data/figures for the year 2017. The FBiH budget contains execution data for the period from 1 January to 30 June 2016, while the budget of BiH institutions contains information on the funds envisaged in the budget for the year 2016.

Staff capacities of the Ministries of Finance have improved significantly over recent years; employees continually receive training and upgrade their knowledge and skills. A considerable number of training courses is provided through projects financed by donors.

⁶ <http://www.fmf.gov.ba/v2/userfiles/userfiles/file/budzet2016/Prihodi%20-%20bos.pdf>

Introduction of programme-based budgeting in the public administration in BiH

The implementation of BPMIS provided the institutions of BiH and entities with technical preconditions for the introduction of programme-based budgeting in the budget planning phase. The introduction of programme-based budgeting contributes to budget planning by establishing a link between strategic planning and the planning of budgetary resources. Through the implementation of BPMIS, budgets are prepared in the programme format; however, they are as yet not adopted, nor is their enactment or financial reporting monitored in the programme format.

The budget of the BiH institutions is adopted and published by the economic, fund-related (sources of funding) and organisational classification, as well as according to the review of a multi-annual projects. A system of mid-term and annual planning has been established, and the Budget Department of MFT has been involved in the implementation of programme-based budgeting using its own capacities .

The process of programme-based budgeting in BiH institutions has been significantly improved by introducing the Guidelines on the Methodology in the Process of Mid-term Planning, Monitoring and Reporting in the Institutions of BiH, which were prepared based on the Decision on the Procedure for Mid-term Planning, Monitoring and Reporting in the Institutions of BiH (“Official Gazette of BiH”, No. 62/14). Furthermore, the Financial Management Information System (FMIS) has been upgraded, thus creating the preconditions for monitoring execution by individual programmes. The said system is to be implemented once the normative and legal requirements, i.e. amendments to the Law on Financing of Institutions in BiH, are in place.

Although entity-level budgets are planned in the BPMIS programme format, they are still adopted and published only by the economic and organisational classification in RS⁷ and FBiH⁸. The entities are yet to undertake the activities which are already being carried out by the BiH institutions in order to improve the programme-based budgeting process.

⁷http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/Documents/%D0%91%D1%83%D1%9F%D0%B5%D1%82%20%D0%A0%20%D0%B5%D0%D1%83%D0%B1%D0%D0%B8%D0%BA%D0%B5%20%D0%A1%D1%80%D0%D1%81%D0%D0%BA%20%202017%D0%B3%D0%B4%D0%B8%D0%B0_517300938.pdf

⁸ <http://www.fmf.gov.ba/v2/stranica.php?idstranica=147&idmeni=15>

The planning and monitoring of capital investments at all government levels in BiH is managed through the Public Investment Management Improvement System (PIMIS), which is not connected with the BPMIS system. These two systems should be networked as soon as possible, as this would raise the level of efficiency in the budgetary process.

Current BiH legislation pertaining to the annual budgetary time frame, starting with the budget drafting period up until budget adoption by the parliament, leaves less time for the parliamentary consideration of the draft budget compared to the three-month time frame recommended by the OECD.⁹

Financial reporting

The Rules on Financial Reporting in BiH Institutions, which came into effect on 1 January 2015, specify the form and the content of financial reports along with the guidelines for the preparation of periodic and annual financial reports; define the periods for which the reports are prepared, as well as the method and the deadlines for producing periodic and annual financial reports of BiH institutions. The Ministry of Finance (MF) of BiH and the budget beneficiaries submit periodic (quarterly) and annual financial reports within the deadlines specified in the said Rules.

The Rules on Financial Reporting and Annual Budget Account in FBiH, which came into force on 1 January 2015, cut down on the number of reporting forms in order to reduce delays in the submission of reports by the budgetary and extra-budgetary users. The provisions of these Rules apply to the budget of the Federation of Bosnia and Herzegovina, budgets of cantons, municipalities, financial plans of extra-budgetary funds and the business plans of public enterprises. The Rules regulate reporting comprehensively, so that the budget beneficiaries and extra-budgetary funds prepare and submit quarterly and annual financial reports, while public enterprises produce and submit only quarterly business reports.

The Rules on Financial Reporting for the Beneficiaries of the Budget of the Republic, Municipalities, Cities and Funds of RS, which have been in effect since 2011, define the format and content, as well as methods for preparing and presenting financial

⁹ OECD (2002), [*OECD Best Practices for Budget Transparency*](#), Article 1.1, OECD Publishing, Paris.

reports for the budget beneficiaries of the Republic, municipalities, cities and funds. Included therewith are monthly, quarterly and annual financial reports of the individual budget beneficiaries and annual financial reports for certain levels of government. The Rules introduced a reporting form for budget expenditures and expenses following the Functions of Government (COFOG) methodology.

The 2007 Rules on Financial Reporting and Annual Budget Account of BD define the content, financial reporting methods and instructions for the preparation of periodic, annual and additional financial reports on budget execution. The Rules do not specify the form for reporting expenditure and budget expenses according to the Functions of Government (COFOG) methodology.

All levels of government in BiH use a harmonised chart which is aligned with the GFS (prepared by the IMF) for the purposes of quarterly and annual reporting under the Stand-by Arrangement.

As stated above, the reporting formats are continually being improved and enhanced, but until programme-based budgeting is fully implemented, monitoring of the impact measures and cost-effectiveness of individual programmes is not going to be possible.

Only RS has regulated the obligation of budget beneficiaries regarding monthly financial reporting in compliance with the existing legislation. When asked whether they prepare monthly reports on budget execution for the purpose of internal consultation and discussion, 86% of the institutions (i.e. 30 of them) answered affirmatively.

Inclusion of extra-budgetary funds in the medium-term expenditure framework and budget process

The Law on the Budget System of the RS, which was adopted in December 2012, stipulates that the budget system of RS consists of the budget of the Republic, the budgets of local governments and the budgets of extra-budgetary funds. As at 1 January 2016, all extra-budgetary funds were outside the Treasury and they prepared their own financial plans. Following the amendments to the Law on the Budget System of RS in December 2015, the Pension and Disability Insurance Fund of RS was granted status of a RS budget beneficiary for 2017.

The Government of the RS prepares the BFP and includes projections for local governments and extra-budgetary funds. The local governments in RS, unlike those of

FBiH, do not prepare their own BFPs; instead, they consult with the Ministry of Finance of RS during the preparation of their annual budgets about the projected revenue ceilings and the structure of budgetary spending.

The 2017-2019 BFP of FBiH includes revenue projections for: the budget of FBiH, the budgets of cantons and local governments, the budgets of extra-budgetary funds (primarily the Pension and Disability Insurance Fund, the Health Insurance Fund and the Employment Office) and the funds of public enterprises that are collected as public revenues from special fees prescribed by law. Certain extra-budgetary funds and beneficiaries at the cantonal level of government are included in the treasury system: for example, the cantonal employment offices and road directorates in seven cantons are incorporated in the treasury system operations, and remain out of the system only in the Una-Sana, Central Bosnia and Tuzla cantons.

3. Improving the accounting framework and the treasury system operations

Public administration reform Strategy envisaged the creation of a coordinating body composed of the representatives from all the ministries of finance at different government levels in order to conduct a systematic feasibility analysis of each individual International Public Sector Accounting Standard (IPSAS). This coordinating body has not been established.

RS started applying accrual-based accounting as of 1 January 2013; however reports on budget execution and the form that is prepared for the purposes of reporting to the IMF are produced on a modified accrual basis.

The Law on Accounting and Auditing of the Brčko District of BiH was adopted in June 2016, thus creating preconditions for the introduction of International Accounting Standards in the BD public sector.

All other levels of government in BiH record transactions following a modified principle, whereby revenues are recorded in the period in which they become available and measurable (on the cash basis), while the expenses are recognised the moment a liability arises, regardless of when the payment is made (on the accrual basis). Accordingly, all financial reports are prepared on a modified basis.

All of the RS budget beneficiaries are included in the Single Treasury Account.

By law, local governments in FBiH were obliged to introduce the Treasury system of operations by 2011; however, the system has not been fully implemented yet. Federal and cantonal levels of government have introduced the treasury system of operations.

Some extra-budgetary beneficiaries at the cantonal level are included in the treasury system (road directorates). In Sarajevo Canton, all nine local governments have introduced the treasury system operations. Some cantons do not have information on how many of their local governments have or have not introduced the treasury system operations to date. None of the cantons and their local governments have established a link between the two treasury systems.

The Treasury Software for BiH, FBiH, RS and cantonal levels of government was procured from grants. For local governments in FBiH, the treasury software was provided by various donor projects or its purchase was financed from local governments' own budgetary resources. The introduction of the Treasury system in the remaining municipalities will be funded through the USAID FAR project, while the rest will be financed from the PAR Fund. The Treasury information system has not been introduced in the Brčko District.

4. Introduction of PIFC in full compliance with EU requirements

As noted in the first monitoring report for 2014, with the aim of harmonising their PIFC¹⁰ legislation and practices with those in the EU, all government levels in the country implemented relevant activities ranging from the adoption of legislation, to the establishment of new organisational units within the finance ministries, to the adoption of implementing regulations and the training of staff.

Development of the PIFC system at the level of BiH is the responsibility of the Central Harmonisation Unit (CHU), in accordance with the Law on Internal Audit of the Institutions of BiH and the Law on Financing the Institutions of BiH. The CHU was established within MFT BiH, and it published the annual consolidated internal audit reports for 2011, 2012, 2013, 2014 and 2015¹¹ on the MFT BiH website.

Pursuant to the Law on Financing of Institutions of BiH and the Rules on Annual Reporting on the FMC System in the institutions of BiH, the CHU MFT BiH prepared its first Annual Consolidated Report on the Financial Management and Control System in the Institutions of BiH 2015.¹² Reports were submitted by 63 out of 74 institutions, and on analysing these reports the CHU MFT BiH found that not all BiH institutions have fully

¹⁰ Public Internal Financial Control

¹¹ http://www.mft.gov.ba/bos/index.php?option=com_content&view=article&id=706&Itemid=100034

¹² <http://mft.gov.ba/bos/images/stories/chj/izvjestaji/ostali/Konsolidovani%20izvjest.%20godinu.pdf>

implemented a systematic business approach, and that most of the institutions have not yet appointed a person in charge of financial management and control.

In 2016 the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH held a six-day training course on the subject of financial management and control for about a hundred civil servants from 65 institutions of Bosnia and Herzegovina.

Training sessions were organised by the Central Harmonisation Unit of the Ministry of Finance and Treasury of BiH (CHU MFT BiH) in Sarajevo on 1 and 2 November 2016, on the subject of improving the public internal financial control system in the institutions of Bosnia and Herzegovina.

The Ministry of Finance of FBiH set up the CHU as a body which coordinates the development of methodology and standards for financial management and control activities. It is also in charge of internal audit, organising training and monitoring the internal financial control system quality. In accordance with the Law on Internal Audit, the CHU prepared the fifth annual consolidated report on the state of internal audit for 2015, which was adopted in October 2016. In practice, there are still instances of institutions which do not have internal audit units in place, or even if they do, the location of those units within the organisation and the description of their activities are not aligned with the relevant regulations.

RS formed the CHU which proposes legislation in the field of financial management and control as well as the field of internal audit, and which oversees the implementation of adopted legislation. The CHU of RS prepared a consolidated annual report on the establishment and development of internal financial control in the public sector of RS as at 31 December 2015, which was adopted in 2016.

The Audit Office for Public Administration and Institutions in the Brčko District of BiH was established in 2007 and operates in accordance with the Law on Audit of Public Administration and Institutions in the Brčko District of BiH ("Official Gazette of the Brčko District of BiH", No. 40/08). BD Government adopted the 2014-2017 Strategy for Development of Public Internal Financial Control (PIFC) with the aim of establishing the internal control function. The Office prepares an annual audit plan adopted by the Assembly of the Brčko District of BiH. The web site of the Office publishes only the reports on financial operations audits of the Brčko District budget beneficiaries.

Based on a sample of 35 institutions in BiH, 37% of the institutions have no internal staffing plan in place for the stipulated positions in the field of internal financial control and internal audit.

The institutions which have developed a staffing plan for the said positions, namely 22 institutions, plan to fill 50 vacancies, with 31 (i.e. 62%) of those positions being occupied as at 31 December 2016.

All of the above goes to show that greater efforts wait ahead in the process of implementing the PIFC system.

5. Improvement of public debt management efficiency

According to the data in the 2015-2019 Economic Reforms Programme in BiH, the estimated total state debt in 2016 amounted to KM 12,260.8 million, which exceeds the debt balance in 2015 by 2.9 index points. In the total structure of debt, foreign debt represents 71.3%, or KM 8,740.7 million, while domestic debt represents 28.7% or KM 3520.1 million.

In 2016 the repayment of external debt in BiH increased by 26% compared to 2015, while the projections estimate a 35% increase in this year's repayment compared to 2016.

Public debt repayment and projections (in millions of KM)

	2015	2016	2017	2018	2019
External debt	381.6	479.7	648.0	670.2	587.5
Internal debt	515.7	514.4	582.1	577.0	489.0
Total FBiH	897.3	994.1	1230.1	1247.2	1,076.5
External debt	204.3	256.2	336.6	347.8	297.6
Internal debt	418.3	488.0	469.3	563.3	447.2
Total RS	622.6	744.2	805.9	911.1	744.8
External debt	2.9	4.5	7.1	8.3	7.9
Internal debt	10.5	5.7	0.7	0.7	0.7
Total BD	13.4	10.2	7.8	9.0	8.6
External debt of BiH institutions	4.1	4.6	5.0	5.5	7.5
TOTAL BiH	1,537.4	1753.1	2048.8	2172.8	1837.4

Source: BiH Economic Reform Programme 2017-2019

The constant growth of debt at all levels of government is a problem which calls

for a specific approach through the adoption of strategic planning documents on borrowing and debt management.

In 2016 the IMF and the World Bank organised seminars and training on the subject of debt management for the employees of BiH, FBiH, RS and the BD.

FBiH prepared a revised debt management reform plan in late 2016. At state level, software was purchased to monitor debt. In December 2016, RS adopted a long-term strategy for RS in the period 2016-2019.

Both Strategies are available on the government website – the publication of these documents and their availability to the general public are conducive to promoting transparency in public debt management.

In order to ensure consistency with government policies, the Strategies need to be reviewed and updated annually in the budgetary process, and more often if necessary, should there be significant changes in the market.

Finally, in April 2016, following the proposal of the Ministry of Finance and the Treasury, the Council of Ministers adopted the Medium-Term Debt Management Strategy of BiH, for the first time at the state level, whereby BiH fulfilled one of its obligations from the Action Plan for the BiH Reform Agenda.

In addition to the presentation of debt structure, the Strategy includes an assessment of the state of debt and defines medium-term debt management objectives as well as guidelines for achieving these goals. This Strategy includes medium-term debt management strategies of RS, FBiH and BD, including the external debt of BiH institutions. MFT BiH is going to apply the new guidelines under the Strategy on any future external borrowing.

RECOMMENDATIONS FOR ACHIEVING THE OBJECTIVES OF PUBLIC ADMINISTRATION REFORM IN PUBLIC FINANCE

Since public finance management reform is mandated by the process of European integrations, it has been agreed that each level of government (BiH, FBiH, RS and BD) should draw up their own strategies of public finance management, with a view to subsequently defining a Strategic framework for public finance management reform in BiH 2016-2020.

The development of the Strategy of Public Administration Reform in BiH 2016-2020 entailed active involvement of the Public Administration Reform Coordinator's Office, IMF, SIGMA (OECD), and institutions at the levels of BiH, entities and the Brčko District of BiH.

Based on the findings of public finance reform monitoring in the previous year, the strategic approach to public finance management reforms in the following period should focus on: sustainable medium-term macro-fiscal and budgetary framework, mobilising revenue, budget planning and preparation, efficient and effective budget execution, introduction of effective internal control, setting-up of the legislative base, methodologies and procedures for public-private partnerships and concessions, sound public procurement management, and strengthening of the external audit capacities. It is recommended that a results-oriented monitoring system be established, with a focus on the quality of improvement, and not only on recording the fact of whether the changes occurred.

- ✧ In the process of public finance reform the credibility of the medium-term fiscal framework should be improved through: formulation, adoption and implementation of fiscal policies, improvement in the preparation and scope of the revenue and expenditure projections, strengthening of the capacity to act in relation to fiscal performance and fiscal risk, and strengthening of the finances at lower government levels.
- ✧ Improved revenue mobilisation should be achieved through: expansion of the taxpayer base; re-organisation and strengthening of the tax administration; tax burden restructuring; improving administrative processes and procedures with the aim of influencing the grey economy and boosting public revenue collection; promoting the transparency of tax policy by providing better services to taxpayers; and finally, improving governance and creating a favourable business climate.
- ✧ The aim of future reforms in the area of planning and budgeting is the implementation of an integrated system of BFP planning and preparation. Central to the implementation of an integrated system of planning are sectoral strategies, which underpin the preparation of the BFP and the annual budget. Relying on these strategies, expenditure ceilings for the BFP must be set, and they are to be used as the basis when applying for programme budget. Budget planning should rest on well-defined projections; it is necessary to expand the scope of the budget and the BFPs by including all transfers and donations, as well as extra-budgetary funds and road directorates in the budgets.

- ✧ An efficient and effective budget execution is to be achieved by networking the information systems for budget planning and execution, and through a harmonised reporting methodology compliant with the international accounting standards for reporting and European System of National and Regional Accounts 2010 (ESA 2010 standards). Great attention should be paid to improving cash-flow management.
- ✧ In order to create a comprehensive and transparent method of monitoring and disclosing the state of arrears for all levels of government and extra-budgetary funds, a unified methodology should be introduced and a method of settling the existing liabilities as well as avoiding the accumulation of new arrears should be defined. Efforts need to be made to improve debt management by strengthening the internal procedures, IT, and transparent debt reporting as set out in ESA 2010. Annual budgets should include information on the estimated execution of the revenues and expenditures for the entire previous year.
- ✧ Public internal financial control should be enhanced by improving regulations on the development of financial management and control, capacity building for the development of financial management and control, strengthening of controls in order to ensure fiscal responsibility, creating the preconditions for the development of goal- and result-oriented management, improving legislation and methodology of internal audit operation, and increasing the performance and quality of internal audit activities.
- ✧ Public-private partnership, as an economic model which combines the potentials of these two sectors over the long term, is becoming imperative in the contemporary economic reality. It is vital to establish a legal framework for public-private partnerships in BiH, ensure alignment with the best practices, and make improvements in the area of concessions.
- ✧ It is necessary to ensure the most efficient use of public funds so that public procurement regulations (including public-private partnerships and concessions) align with the *acquis*, include additional areas which are not defined in the *acquis* and align them with the relevant regulations in other areas. The system of remedies should be brought in line with those standards of the *acquis* which are related to independence, fairness and transparency, and which allow for a quick and competent resolution of complaints.
- ✧ External audit should continue to apply standards of neutrality and objectivity in order to ensure high-quality audits that have positive impact on the functioning of the public sector. In practice, it is necessary to make certain that the independence,

mandate and organisation of audit institutions established by the constitutional and legal framework are maintained.

Annexes IV

Annex 1 - List of institutions that returned PARM questionnaires

BiH institutions:

1. Civil Service Agency,
2. Public Administration Reform Coordinator's Office,
3. Ministry of Civil Affairs,
4. Ministry of Finance,
5. Directorate for European Integration,
6. Communication Regulatory Agency,
7. Agency for Development of Higher Education and Quality Assurance,
8. Agency for the Prevention of Corruption and the Coordination of the Fight Against Corruption,
9. Ministry of Security
10. State Investigation and Protection Agency,
11. Personal Data Protection Agency,
12. Indirect Taxation Authority,
13. Central Election Commission,
14. Agency for Identification Documents, Registers and Data Exchange.

FBiH institutions:

1. Ministry of Finance of FBiH,
2. Ministry of Education of FBiH,
3. Civil Service Agency of FBiH,
4. Tax Administration of FBiH,
5. Ministry of Agriculture, Water-management and Forestry of FBiH,
6. Federal Ministry of Physical Planning of FBiH,
7. Banking Agency of FBiH,
8. Agency for Privatisation in the FBiH,
9. Ministry of Trade of FBiH,
10. Bureau of Statistics of FBiH,
11. Archives of the Federation of BiH,
12. Institute for Development Programming of FBiH.

RS institutions:

1. Civil Service Agency,
2. Ministry of Public Administration and Local Self Government,
3. Ministry of Agriculture, Forestry and Water Management of RS
4. Ministry for Refugees and Displaced Persons,
5. Administration for Inspection Affairs
6. Agency for Development of Small and Medium Enterprises,
7. Institute for Statistics of RS,
8. National Assembly of RS,
9. Pedagogical Institute of RS
10. Administration of Civil Protection.

Annex 2 - List of institutions that failed to return PARM questionnaires

BiH institutions:

1. Ministry of Justice,
2. Ministry of Foreign Affairs,
3. Ministry of Defence,
4. Ministry for Refugees and Displaced Persons,
5. Central Harmonisation Unit (Ministry of Finance and Treasury of BiH),
6. Directorate for Coordination of Police Bodies of BiH (Ministry of Security of BiH),
7. Market Surveillance Agency,
8. Ministry of Communications and Transport,
9. Directorate for Economic Planning,
10. Ministry of Foreign Trade and Economic Relations,
11. Agency for Statistics of BiH.

FBiH institutions:

1. Ministry of Justice of FBiH,
2. Ministry of Displaced Persons and Refugees of FBiH,
3. Ministry of Health of FBiH,
4. Directorate for Commodity Reserves of FBiH,
5. Administration for Geodetic and Real-Property Affairs of FBiH,
6. Securities Commission of FBiH,
7. Public Health Institute of FBiH,
8. Parliament of FBiH,
9. Employment Service of FBiH,
10. Ministry of Transport and Communications of FBiH,

11. Directorate for Military Industry of FBiH,
12. Ministry of the Interior of FBiH,
13. Ministry of Energy, Mining and Industry of FBiH.

RS institutions:

1. Ministry of Finance,
2. Ministry of Labour and Veterans' Protection,
3. Helicopter Service of RS,
4. Ministry of Health and Social Welfare,
5. Ministry of Justice,
6. Ministry of Spatial Planning, Civil Engineering and Ecology,
7. Banking Agency of RS,
8. Administration for Geodetic and Real-Property Affairs,
9. Tax Administration,
10. Ministry of Industry, Energy and Mining,
11. Ministry of Economic Relations and Regional Cooperation,
12. Directorate for Commodity Reserves,
13. Ministry of Family, Youth and Sports,
14. Administration for Games of Chance,
15. Ministry of Science and Technology.

Brčko district

Department of Human Resources of the Government of the Brčko District.

Annex 3 - List of legislation BiH

- Law on Indirect Taxation System in Bosnia and Herzegovina (BiH) (“Official Gazette of BiH”, Nos. 44/03, 52/04, 34/07, 4/08, 49/09 and 32/13)
- Law on Payments into the Single Account and Distribution of Revenues (“Official Gazette of BiH”, Nos. 55/04, 34/07 and 49/09)
- Law on Financing the Institutions of Bosnia and Herzegovina (“Official Gazette of BiH”, Nos. 61/04, 49/09)
- Law on the Council of Ministers of Bosnia and Herzegovina (“Official Gazette of BiH”, Nos. 30/03, 42/03, 81/06, 76/07, 81/07, 94/07 and 24/08)
- Rules on Accounting with the Accounting Policies and Procedures for Budget Beneficiaries of the Institutions of Bosnia and Herzegovina http://www.MFT.gov.ba/cro/images/stories/Regulations/Pravilnik_o_racunovodstvuBiH_hrv.pdf
- Budget Law of the Brčko District of BiH (“Official Gazette of the Brčko District of BiH”, No. 34/08);
- Treasury Law of the Brčko District of BiH (“Official Gazette of the Brčko District of BiH”, Nos. 03/07, 19/07, 02/08);
- Law on Accounting and Auditing of the Brčko District of BiH (“Official Gazette of the Brčko District of BiH”, Nos. 06/06, 19/07);
- Decree on Budget Accounting of the Brčko District of BiH (“Official Gazette of the Brčko District of BiH”, No. 25/07);
- Rules on Budget Reporting and Annual Budget Account of the Brčko District of BiH (“Official Gazette of the Brčko District of BiH”)
- Decision on Accounting Policy for the Budget Beneficiaries and the Treasury of the Brčko District of BiH (“Official Gazette of the Brčko District of BiH”)
- Law on Budgets in the Federation of BiH (“Official Gazette of FBiH”, Nos. 102/13, 9/14, 13/14 and 8/15)
- Law on Allocation of Public Revenues of FBiH (“Official Gazette of FBiH”, Nos. 22/06, 43/08, 22/09, 35/14 and 98/15)
- Law on Accounting and Auditing in FBiH (“Official Gazette of BiH”, No. 83/09)
- Rules on Financial Reporting and Annual Budget Account in FBiH (“Official Gazette of FBiH”, No. 69/14)
- Law on Treasury in FBiH (“Official Gazette of FBiH”, Nos. 58/02, 19/03, 79/07)
- Accounting Policies for the Budget Beneficiaries and the Treasury of the Federation of BiH (“Official Gazette of FBiH”, No. 9/11)
- Rules on Budget Accounting in FBiH
- Rules on Financial Reporting and Annual Budget Account in FBiH (“Official Gazette of FBiH”, Nos. 69/14, 14/15)

- Rules on the Payment of Public Revenues of the Budget and Extra-budgetary Funds in the Territory of FBiH (“Official Gazette of FBiH”, Nos. 3/11, 6/11, 9/11,18/11,39/11, 64/11i 87/11 , 5/12, 41/12, 69/12, 93/12, 101/12 and 105/12)
- Fiscal Accountability Law of RS (“Official Gazette of RS”, No. 94/15)
- Law on the Budget System of RS (“Official Gazette of RS”, Nos. 121/12, 52/14 and 103/15);
- Law on Budget Execution for Fiscal Year of RS (“Official Gazette of RS”, Nos. 128/06, 116/12);
- Law on Accounting and Auditing of RS (“Official Gazette of RS”, No. 36/09) – consolidated version (“Official Gazette of RS”, No. 52/11);
- Order on Budget Classification, Account Contents and Use of the Chart of Accounts for Users of Public Revenues, Municipalities, Cities and Funds (“Official Gazette of RS”, No. 90/10);
- Rules on Budget Classification, Account Contents and Use of the Chart of Accounts for Beneficiaries of the Budget of the Republic, Municipalities, Cities and Funds (“Official Gazette of RS” No. 90/10)
- Rules on Accounting, Accounting Policies and Accounting Estimates for the Budget Beneficiaries in RS (“Official Gazette of RS”, No. 127/11);
- Law on Fiscal Council in Bosnia and Herzegovina (“Official Gazette of BiH”, No. 63/08)
- Rules of Procedure of the Fiscal Council
- Global Framework of Fiscal Balance and Policy in BiH
2016-2018.<http://www.mft.gov.ba/bos/images/stories/budzet/2015/Globalni%20okvir%20fiskalnog%20bilansa%20i%20politika%20u%20BiH%202016-2018-BOS.pdf>
- <https://www.imf.org/external/pubs/ft/gfs/manual/gfsfs.pdf>