

**PUBLIC ADMINISTRATION REFORM MONITORING IN BiH
PUBLIC FINANCE
2016**

- EXECUTIVE SUMMARY -

This document has been prepared under the Public Administration Reform Monitoring (PARM) project, implemented by TI BiH and CIN, with financial support from the Swedish International Development Agency (SIDA) and the Government of Denmark. The views and opinions expressed herein are solely those of TI BiH and can in no way be taken to reflect the views of SIDA or the Government of Denmark.

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DATA COLLECTION METHODOLOGY

Transparency International in BiH, with financial support from the Swedish International Development Agency and the Government of Denmark and as part of the project Public Administration Reform Monitoring in BiH (PARM), prepares annual reports on public administration reform. This monitoring report looks at the results achieved by public administration in the field of Public Finance (PF) in 2016.

The report was prepared on the basis of a desktop review of existing primary sources of information, including relevant laws, administrative procedures, financial and other data on the performance of all governments in BiH; as well as collection of additional information by means of a questionnaire that was distributed to a total of 76¹ institutions at the state, entity and Brčko District levels.

Of the 76 institutions included in the sample, 41 did not provide the requested information of public importance and thus refused to contribute to effective monitoring. These institutions are not sensitised to the need for providing the general public with comprehensive presentation of the results of their work.

KEY FINDINGS:

- ❖ On 24 May 2016 the Fiscal Council adopted the **Global Framework of the Fiscal Balance and Policies in BiH (GOF)** for the 2017-2019 period, thus discontinuing the practice of delayed adoption of GOF in previous years. However, despite the timely adoption, the quality of this document has not improved.

¹ **BiH level:** Ministry of Justice, Civil Service Agency, Public Administration Reform Coordinator's Office, Ministry of Foreign Affairs, Directorate for European Integration, Ministry of Defence, Ministry of Civil Affairs, Ministry of Finance, Ministry for Refugees and Displaced Persons, Communications Regulatory Agency, Central Harmonisation Unit (BiH Ministry of Finance and Treasury), Directorate for Coordination of Police Bodies of BiH (BiH Ministry of Security), Market Surveillance Agency, Agency for Development of Higher Education and Quality Assurance, Agency for Prevention of Corruption and Coordination of the Fight against Corruption, Ministry of Security, Ministry of Communications and Transport, State Investigation and Protection Agency, Personal Data Protection Agency, Indirect Taxation Authority, Central Election Commission, Directorate for Economic Planning, Ministry of Foreign Trade and Economic Relations, Agency for Identification Documents, Registers and Data Exchange of BiH, Agency for Statistics

FBiH level: FBiH Ministry of Justice, FBiH Ministry of Finance, FBiH Ministry of Education, Civil Service Agency of FBiH, FBiH Tax Administration, FBiH Ministry of Agriculture, Water Management and Forestry, FBiH Ministry of Displaced Persons and Refugees, FBiH Ministry of Health, FBiH Ministry of Physical Planning, FBiH Banking Agency, Agency for Privatisation in FBiH, FBiH Directorate for Commodity Reserves, FBiH Administration for Geodetic and Real Property Affairs, FBiH Securities Commission, FBiH Institute of Public Health, FBiH Parliament, FBiH Employment Service, FBiH Ministry of Trade, FBiH Ministry of Transport and Communications, FBiH Bureau of Statistics, FBiH Directorate for Military Industry, FBiH Archive, FBiH Ministry of the Interior, FBiH Ministry of Energy, Mining and Industry, FBiH Institute for Development Programming

RS level: Civil Service Agency, RS Ministry of Public Administration and Local Self-government, RS Ministry of Finance, RS Ministry of Labour, War Veterans and Disabled Persons' Protection, RS Helicopter Service, RS Ministry of Health and Social Welfare, RS Ministry for Refugees and Displaced Persons, RS Ministry of Justice, RS Ministry of Spatial Planning, Civil Engineering and Ecology, RS Banking Agency, RS Administration for Geodetic and Real Property Affairs, RS Administration for Inspection Affairs, RS Agency for Development of Small and Medium Enterprises, RS Institute of Statistics, National Assembly of RS, Tax administration, RS Pedagogical Institute, RS Ministry of Industry, Energy and Mining, RS Ministry of Economic Relations and Regional Cooperation, RS Civil Protection Administration, RS Directorate for Commodity Reserves, RS Ministry of Family, Youth and Sports, RS Administration for Games of Chance, RS Ministry of Science and Technology

Brčko District: BD Finance Directorate, Department for Human Resources of the BD Government

- ❖ When planning annual budgets, 62% of the surveyed institutions include known and certain grants in the draft budget or, in the case of grants received after the adoption of the budget, these are included in the revised budget, i.e. all grants are recorded in accounting and are thus subject to financial reporting. The remaining 38% of surveyed institutions follow different practices.
- ❖ The adopted budgets for 2017 do not contain information about the estimated execution of the revenue and expenditure for the year 2016, which is at odds with European practice. The RS budget for 2017 contains data/figures for 2017, the FBiH budget contains data on execution for the period 1 January to 30 June 2016, and the budget of BiH institutions contains data on the funds planned under the 2016 budget.
- ❖ Financial reporting by budget beneficiaries is regulated at the levels of BiH, FBiH, RS and BD. According to the applicable regulations, only RS introduced mandatory monthly financial reporting by budget beneficiaries. When asked whether they prepare monthly budget execution reports for the purpose of internal consultation and discussion, 86% of the surveyed institutions answered affirmatively, which means that there are capacities at all government levels to prepare monthly reports. However, no institution at any level of government in BiH discloses its **monthly reports** on its website.
- ❖ Introduction of programme-based budgeting in the public administration in BiH has not been achieved, but technical conditions for it have been created following installation of the Budget Planning and Management Information System (BPMIS) for the levels of BiH, FBiH, RS and cantons. The 2017-2019 Budget Framework Paper (BFP) and 2017 budgets have been prepared in BPMIS, but **are still not adopted by programme classification** but rather by economic and organisational classification.
- ❖ **Introduction of the international public sector accounting standards and accrual accounting has not been achieved at all levels of government in BiH.**
- ❖ The work of the Coordination Committee, which is responsible for coordination and harmonisation of activities in the preparation of framework legislation on financial management and control and internal audit at all levels of government in BiH, remains at a standstill. **Thirty-seven percent of the surveyed institutions do not have a position for internal financial control and internal audit envisaged in their official staffing plans.** The remaining 73% of institutions that have a total of 50 positions envisaged under their staffing plans, as at 31 December 2016 had 31 employees (62%).
- ❖ Year after year BiH is faced with **a consolidated budget deficit and mounting public debt.** Repayment of foreign debt in BiH rose by 26% in 2016 compared to 2015, and estimates for 2017 compared to 2016 show an increase of 35% (source: Economic Reforms Programme of BiH 2017-2019). In April 2016 the Council of Ministers of BiH adopted the first state-level Mid-term Debt Management Strategy of BiH, whereby the country has fulfilled one of the obligations under the Action Plan of the Reform Agenda for BiH. The entities have adopted their debt management strategies; however, there has been no progress in reducing the debt. On the contrary, **the foreign debt of BiH is estimated to grow by 9% in 2017 compared to 2016.**

RECOMMENDATIONS:

Based on the findings of the public finance reform monitoring in previous year and the goals that have been set by the governments in BiH², **strategic approach to future reform efforts in public finance management should focus on:** sustainable medium-term macro-fiscal and budgetary framework; revenue mobilisation; budget planning and drafting; efficient and effective budget execution; introduction of an effective public internal financial control (PIFC) system; establishment of a legislative base, methodology and procedures for public private partnerships and concessions; sound public procurement management; and external audit capacity building.

It is recommended that a results-oriented monitoring system be established, which would focus on the quality of improvements, rather than merely record whether the changes occurred.

Other recommendations:

- ❖ As part of the public finance reform process, it is necessary to **enhance the credibility of the medium-term fiscal framework.**
- ❖ **Improved revenue mobilisation is to be achieved in cooperation with tax authorities.**
- ❖ **Implementation of an integrated BFP planning and adoption system.** A key element in the implementation of an integrated planning system are the sectoral strategies that should be the basis for the preparation of BFPs and annual budgets. These strategies are to serve as a basis for setting the expenditure ceiling for BFPs as well as submitting requests for the programme-based budget.
- ❖ Budget planning should be based on well-defined projections. Also, it is necessary to expand the scope of BFPs and budgets by including all transfers and grants, as well as extra-budgetary funds and the roads directorates.
- ❖ **Improve budget execution efficiency and effectiveness** by linking budget planning and execution information systems and harmonising reporting formats. Particular attention is to be devoted to enhancing **cash flow management.**
- ❖ Develop a common methodology for the **monitoring of arrears** and determine the manner of settling the existing obligations, i.e. **avoiding the accumulation of new arrears.**
- ❖ Public internal **financial control is to be enhanced** through the improvement of regulations and capacity building for the development of financial management, control and internal audit
- ❖ In BiH it is necessary to **establish a legal framework for public-private partnerships** and align it with the Acquis Communautaire, as well as **improve the area of concessions.**
- ❖ **Ensure the most efficient use of public funds** by bringing the public procurement regulations into line with the Acquis. Ensure independence, fairness and transparency, as well as quick and competent handling of complaints.
- ❖ The external audit should continue **to apply the standards of neutrality and objectivity.**

² Letter of Intent to the IMF and Reform Agenda 2015-2018.