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FISCAL AFFAIRS DEPARTMENT

Bosnia and Herzegovina

Public Investment Management Assessment

Taz Chaponda, Fazeer Rahim, Suzanne Flynn, Bobana Cegar, Nihad Nakas, and Adrien Tenne

Technical Assistance Report | May 2018

INTERNATIONAL MONETARY FUND

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[1] Assessment excludes Republika Srpska, and Brcko District.

This technical assistance (TA) was provided with financial support from the EC – Southeastern Europe.

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ACRONYMS

ACPs	Annual Cash Plans
BFD	Budget Framework Document
BiH	Bosnia and Herzegovina
BOT	Build Operate and Transfer
BPIMS	Budget Planning and Management Information System
CBA	Cost-Benefit Analysis
CoM	Council of Ministers
CRA	Communication Regulation Agency
DEP	Directorate for Economic Planning
EBFs	Extrabudgetary Funds
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDE	Emerging and Developing Europe
EIB	European Investment Bank
EMEs	Emergencies Market Economies
ESA	European System of Accounts
EU	European Union
FAD	Fiscal Affairs Department
FBiH	Federation of Bosnia and Herzegovina
GDP	Gross Domestic Product
GFF	Global Fiscal Framework
GFS	Government Financial Statistics
HIF	Health Insurance Fund
HZ HB	Hrvatske Zajednice Herceg Bosne (Croatian Community of Herceg Bosnia)
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IP	Information of the Project
IPA	Instrument of Pre-Accession
IPSAS	Internationa Public Sector Accounting Standards
IRF	Insurance and Reinsurance Fund
ITA	Indirect Tax Authority
KM	Konvertibilna marka (Convertible Marks, local currency)
LoB	Law on Budget
MoF	Ministry of Finance
MTWPs	Medium-Term Work Programme and Plans
NIC	National Investment Committee
PCs	Public Companies

PFM	Public Finance Management
PIC	Public Investment Commission
PIMA	Public Investment Management Assessment
PIMIS	Public Investment Management Information System
PIP	Public Investment Programme
PPA	Public Procurement Agency
PPL	Public Procurement Law
PRB	Procurement Review Body
PPP	Public-Private Partnership
RS	Republika Srpska
SAI	Supreme Audit Institution
SNG	Sub-National Government
SPP	Single Project Pipeline
TA	Technical Assistance
TSA	Treasury Single Account

PREFACE

At the request of the State Minister of Finance, and Federation of Bosnia and Herzegovina Minister of Finance, a mission from the IMF's Fiscal Affairs Department (FAD) visited Bosnia and Herzegovina (BiH) during the period February 13–27, 2018 to conduct a Public Investment Management Assessment (PIMA). This diagnostic assessment was conducted at two levels in BiH, namely at the State level and one entity level (Federation of BiH), focusing on the latter, due to large investment projects at FBiH level. The mission was led by Taz Chaponda of the FAD and included Fazeer Rahim (FAD), Suzanne Flynn (FAD, Regional Advisor), Bobana Cegar (IMF local economist), Nihad Nakas, and Adrien Tenne (both FAD experts). The document was produced with the financial assistance of the European Union.

At the State Ministry of Finance, the mission met Ms. Dusanka Basta (Assistant Minister for Sectoral Economic Development Planning and International Aid Coordination), Ms. Sehija Mujkanovic (Assistant Minister for Treasury), Mr. Vlatko Dugandzic (Assistant Minister for Budget) and staff in their departments.

At the FBiH Ministry of Finance, the mission met Mr. Alija Aljovic (Assistant Minister for Budget), Mr. Samir Bakic (Assistant Minister for Debt), Mr. Mario Glibic (Minister Advisor, Head of Treasury Department) and with staff in their respective departments.

During its stay, the mission also met the Central Bank, the State Ministry of Communications and Transport, the BiH Supreme Audit Institution, the Directorate for Economic Planning and Elektroprivreda BiH. Additionally, at the FBiH level, the mission met also the Ministries of Transport and Communication; Health, Energy, Mining and Industry; Agriculture; Water Industry and Forest; Spatial Planning, and the Concession Commission, Supreme Audit Institution, Regulatory Commission for Energy, Federal Institute for Development Planning, Sarajevo Clinic Center, Sarajevo Airport, Federation Roads, Elektroprivreda HZ HB and Highway company. The mission also met the Sarajevo Canton Ministry of Finance, the Sarajevo Canton Ministry of Transportation, the Sarajevo Canton Ministry of Health, the Municipality Novi Grad, the Hercegovina Neretva Canton Ministries of Finance and of Transportation, as well as the City of Mostar. Additional, the mission had helpful meetings with IFC, the EC Delegation and EBRD.

The mission would like to thank the BiH authorities for their cooperation and hospitality and for facilitating open and constructive discussions on all topics addressed in this report, especially to Ms. Dusanka Basta and Mr. Samir Bakic (State MoF and FBiH MoF, respectively). The mission owes special thanks to Mr. Francisco Parodi (the IMF Resident Representative for BiH) and his staff Ms. Sanela Teskeredzic and Mr. Nedzad Fazlagic for their excellent support in organizing the mission.

EXECUTIVE SUMMARY

Bosnia and Herzegovina (BiH) continues to lag behind regional comparators in terms of public capital stock and access to infrastructure services. International indicators of infrastructure quality and access show that despite recent improvements, BiH performance remains significantly lower than peers. In a recent IMF study on the Western Balkans, BiH fares poorly compared to a set of 20 countries in the region, coming in the lowest 20th percentile on five out of six indicators. In power generation, where the country is relatively strong, power generation per capita is still only 60 percent of the European Union (EU) average. The biggest gap is in road infrastructure, which can be attributed to insufficient investment over the years. This explains the current emphasis on expanding and improving the road infrastructure.

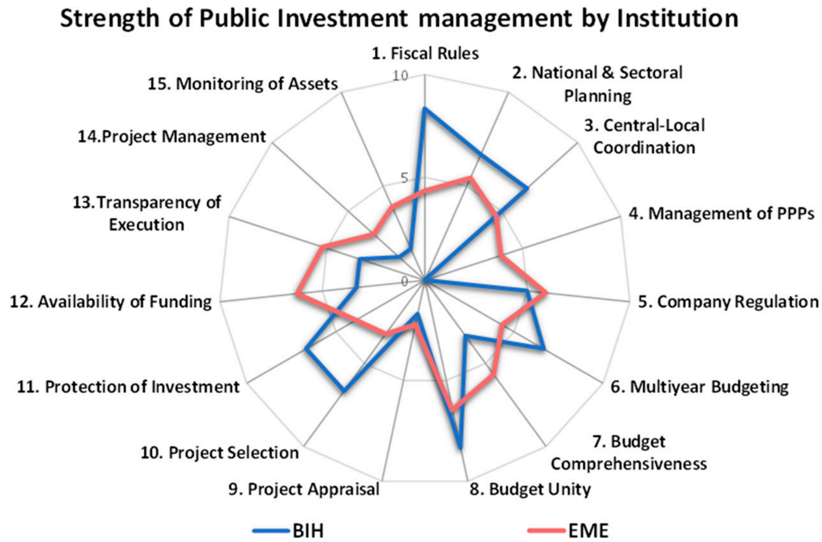
Unlocking BiH's growth potential will require a strong push to reverse the slowdown in public investment. The slowdown in public investment in recent years has accompanied the decline in overall public spending and capital spending has been highly volatile. Between 2011-15, public investment averaged 6.8 percent of GDP, a decline from an average 8.3 percent for 2001–11. Although slightly above the level in Emerging and Developing Europe and significantly above the EU average, these figures should be contrasted against the larger developmental needs of the country.

At the same time, the government should be mindful of fiscal risks associated with further capital spending, particularly as much of this is associated with borrowing by public corporations. Public investment in BiH has been largely financed by borrowing, with relatively small amounts funded directly from the budget. Public corporations are a big player particularly in electricity, public transport, telecommunications, and social infrastructure. Direct oversight for public corporations is weak raising the prospect of increased fiscal risk either through direct borrowing or guarantees provided to the public companies. Moreover, dominance of public companies in virtually all infrastructure provision restricts private competition.

This report evaluates the quality of BiH's public investment institutions in three broad categories: planning, allocation, and implementation. Its assessment is summarized in Figure 0.1 and Table 1 which show a marked difference in the strength of institutional design compared to the effectiveness of the institutions. There are areas of relatively good performance in terms of institutional design: fiscal rules, project selection, protection of investment and budget unity. However, inadequate project appraisal, fragmented budgets, weak project management and lack of transparency during execution contribute to significant delays during implementation. The framework for managing PPPs is highly fragmented and weak project appraisal and the lack of an independent review process makes it difficult to confirm the value-for-money of projects. There is significant variation in planning standards and practices across central government, public corporations, and cantons. Project implementation standards also vary, with major delays arising from the permitting process and the handling of procurement complaints.

Going forward, in a context of limited fiscal space and continued under-execution of the capital budget, competing policy objectives will require increasing the efficiency of public investment. BiH has made great strides in the energy sector, particularly in terms of access to electricity. However, other sectors are still lagging behind in terms of perceptions of infrastructure quality and service delivery. The estimated efficiency gap of 45 percent in public infrastructure is well above the average of emerging market economies. Consequently, targeted efforts are needed to fill this gap by improving efficiency in key PIM institutions assessed in this report.

Figure 0.1. Strength of Public Investment Management by Institution



Source: Staff estimates (Effectiveness is higher the further away from center.)
Planning institutions: 1-5, allocating institutions: 6-10, implementing institutions 11-15

Improving PIM will require introducing reforms to strengthen the role of the State MoF and FBiH MoF in their respective administrative areas. The technical recommendations presented in this report include introducing a set of standard guidelines for project appraisal across the public sector as well as strengthening arrangements at the center for the independent review of project proposals and improving the processes for project prioritization. The report makes further recommendations in the areas of multi-year budgeting (for capital and maintenance), procurement, and systems for monitoring and evaluation. It calls for establishing a mechanism to better estimate the medium-term budgetary implications of ongoing and approved projects, including maintenance costs. During budget execution, strengthening commitment controls for multi-annual projects is also important. Other recommendations are summarized below in Table 2, and in greater detail in Section III of the report. In the past, funding for the PIM program has been provided by the *Austrian Development Cooperation, the Dutch government, Sida, and DFID*. Similar donor support will be required for some of the recommendations in this report.

Sharing information across the levels of government and increasing transparency in planning may help to address the institutional rigidities created by the complex administrative arrangements. The administrative set up is characterized by a high level of fragmentation which is replicated in the legal system consisting of laws and decrees that reinforce the institutional rigidities. This makes planning and delivery of infrastructure difficult due to the lack of genuine cooperation across levels. Reforms that are able to increase the flow of information across levels, and encourage common planning standards are prioritized in this report. For example, PIMIS is a comprehensive information system for public investment management (see Box 2, p24). Expanding this information system will enhance the monitoring of implementation of investment projects and improve the management of assets after project completion. As shown in the table below, project management and accounting for public assets are rated poorly. The PIMIS also holds the potential of supporting the creation of a comprehensive single project pipeline which does not currently exist.

Table 1. BiH Institutions and Federation of BiH: Summary Assessment

Phase / Institution			Institutional strength	Effectiveness	Rec.
A. Planning	1	Fiscal rules	**Good**: Golden rule allows borrowing for capital spending. Debt accumulation is relatively well constrained, and new debt law will enhance oversight of Public Enterprises, and introduce overall debt rule and debt brakes.	**Medium**: In practice, golden rule circumvented by cantons which accumulate arrears, and enforcement mechanism is weak. Oversight of public corporations is similarly weak	
	2	National and sectoral planning	**Medium**: Allocation decisions are grounded in a process that links development and sectoral strategies, medium-term programs, investment plans and MTBFs, although with varying quality of costing and measurable targets.	**Low**: Effectiveness of the system is undermined by proliferation of planning documents that are vertically disconnected between government levels.	3
	3	Central-Local coordination	**Medium**: Functioning debt caps for the Federation and its SNGs are in place and larger capital spending is coordinated with the center.	**Medium**: Federation SNGs are within the prescribed debt limits with coordinated capital spending for larger projects but under-execution remains a concern.	4
	4	Public-private partnerships	**Low.** PPP laws are fragmented and no overall law at Federation level.	**Low:** Complex approval process and fragmented laws have discouraged private investors. Reporting requirements are weak.	
	5	Regulation of infrastructure companies	**Medium:** Regulatory bodies exist in key infrastructure sectors, but some sectors such as electricity are burdened by numerous laws. No set up exists for oversight of investment by public enterprises.	**Medium:** Competition has remained limited. Strong domination by public corporations in normally competitive sectors such as energy and telecom. Price structure in energy discourages competition.	
B. Allocation	6	Multi-year budgeting	**Medium**: Three-year medium-term budget framework defined within FBiH. However, its projections are indicative and information on projects are limited.	**Low**: Large revisions and poor execution of the capital spending undermine credibility of medium-term budgeting.	4, 5
	7	Budget comprehensiveness	**Medium**: Significant share of capital investment done through public corporations and extrabudgetary funds. But this is shown in the budget. However, information on PPPs is not shown.	**Medium**: A list of main externally funded capital projects are shown in the capital budget but not fully integrated. But capital spending by ministries and programs is not comprehensive.	5, 6
	8	Budget unity	**Good**: Capital and recurrent budgets are prepared and shown separately for each ministry but not by program. Budget classification has improved over the last years.	**Medium**: Budget classification is not uniformly applied across entities. Recurrent capital and maintenance costs can be misclassified.	6
	9	Project appraisal	**Low**: No government-issued requirements or methodology for CBA, but risks and mitigation measures are considered.	**Medium**: all major projects are externally-financed, and creditors impose CBA and risk assessment, but the results are not published.	1, 2, 3
	10	Project selection	**Medium**: Standard criteria inform a limited central review before projects are included in the PIP, with more stringent requirements for some projects in a parallel pipeline driven by the EU accession agenda.	**Low**: Political considerations inform final decisions and effectiveness and quality could be improved by integrating criteria for the pipelines.	2, 3
C. Implementation	11	Protection of investment	**Medium**: Capital projects are budgeted on a yearly basis. However, unspent appropriations can be carried over and in-year transfers are constrained.	**Medium**: Investment has been protected due to relative predictability of external funding. However, large overall under-execution may jeopardize funding, particularly in the case of "use-it-or-lose-it" donor support.	
	12	Availability of funding	**Medium**: Cash is predictable for externally funded projects. Cash rationing dominates and arrears at Cantonal level estimated to be around 3 percent of FBiH GDP.	**Medium**: Current system risks creation of arrears, lack of funding predictability could result in delayed project completion.	8
	13	Transparency of execution	**Medium**: A competitive and open tendering process is in place with limited monitoring and delays are frequent, monitoring undertaken mainly through line ministries and few audits of domestically financed projects.	**Low**: Project monitoring is generally weak, often resulting in implementation delays. Selective tendering is used frequently. External audits are effective, but weaknesses tend to re-occur.	7, 10
	14	Project management	**Low**: Assignment of qualified project managers or project management units is not yet consistent; no rules for project adjustments, ex-post evaluations are rarely conducted.	**Low**: Project supervision, other than for donor-financed projects, is not systematic. Large project adjustments due to delays are permitted without systematic review.	9,10
	15	Accounting for public assets	**Low**: Fixed assets recorded on balance sheets at cost, but data is unreliable; depreciation is not charged in the operating statement and asset surveys are not comprehensive.	**Low**: Incomplete and inaccurate data in balance sheets and lack of clarity on asset ownership impede proper recoding and monitoring of assets.	9

Table 2. BiH Institutions and Federation of BiH: Summary of Recommendations

Phase of PIMA	Recommendation	Timing	Page
Planning	1. Introduce standardized requirements and guidance for project appraisal.	March 2019	29
	2. Establish a dedicated technical team to ensure that public investment projects are properly appraised and selected prior to inclusion in the Public Investment Program.	Feb 2019	30
	3. Align the process for project selection through the NIC SPP and the consolidated PIP process (Institutions of BiH, Federation)	March 2019	31
Allocation	4. The Ministry of Finance should develop an approach to ensure that budget and non-budget users prepare more reliable forward estimates for capital expenditure	March 2019	40
	5. Establish a mechanism to better estimate the medium term budgetary implications of ongoing and approved projects	Budget 2020	41
	6. Improve the reliability of maintenance costs and their reporting in the capital budget	Budget 2019	41
Implementation	7. Review and rationalize the framework for licenses and permits and streamline the processes within the respective levels of government	2019	49
	8. MoF to strengthen commitment controls – particularly multi annual commitment controls for all public investment projects, regardless of size	2019	49
	9. Enhance the monitoring of implementation of investment projects and management of assets after project completion	2020	50
	10. Reduce the delays in the procurement process by amending the procurement law and systems to close loopholes in appeals criteria and increase efficiency	2019 ongoing	50

I. PUBLIC INVESTMENT IN BOSNIA AND HERZEGOVINA

A. Trends

1. **In recent years, capital spending has been declining in Bosnia and Herzegovina (BiH), but still remains close to the regional average.** Between 2011–15, public investment averaged 6.8 percent of GDP, a decline from an average 8.3 percent for period 2001–11. This is still slightly above the level in Emerging and Developing Europe (EDE) and largely above the European Union (EU) average (Figure 1). However, these figures should be contrasted against the significantly larger developmental needs of the country which has a per capita income of US$4,200 (compared to US$39,000 in the EU, and US$24,000 in EDE countries).

Figure 1. Public Investment – General Government
(in percent of GDP)

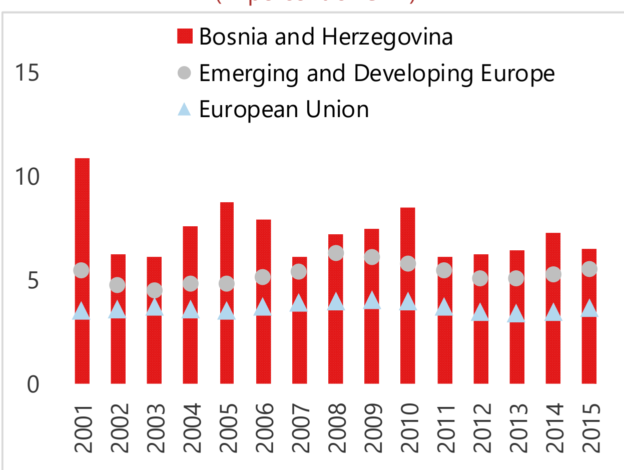
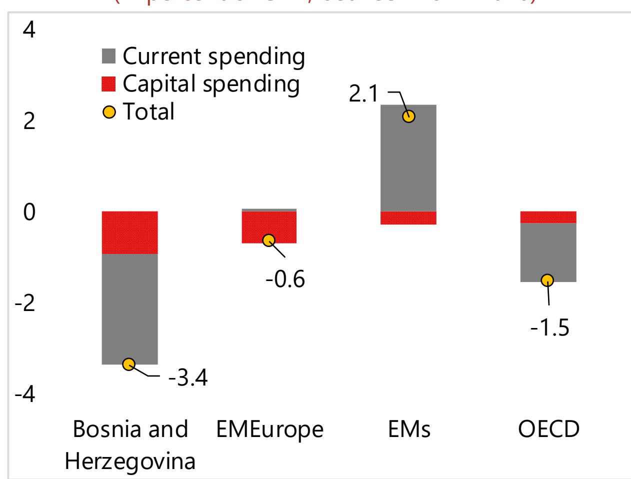


Figure 2. Changes in Public Expenditure
(in percent of GDP, between 2011-2016)



Source: FAD database; Emerging and Developing Europe comprises Albania; FYR Macedonia; Bosnia and Herzegovina; Montenegro; Bulgaria; Poland; Croatia; Romania; Hungary; Serbia; Kosovo and Turkey;

2. **This slowdown in public investment has followed the decline in overall public spending, and has, consequently reversed the trend in debt accumulation.** Expenditure fell 3.4 percentage points from 2011 to 2016, bringing the size of the general government sector from 47 to 42.5 percent of GDP, which remains high relative to peers. More than two thirds of the decline is attributable to the containment of current spending (Figure 2). As a result, the fiscal position of the government has significantly improved (Figure 3) and the debt-to-GDP ratio has stabilized (Figure 4).

Figure 3. Changes in Public Expenditure
(in percent of GDP, between 2011-2016)

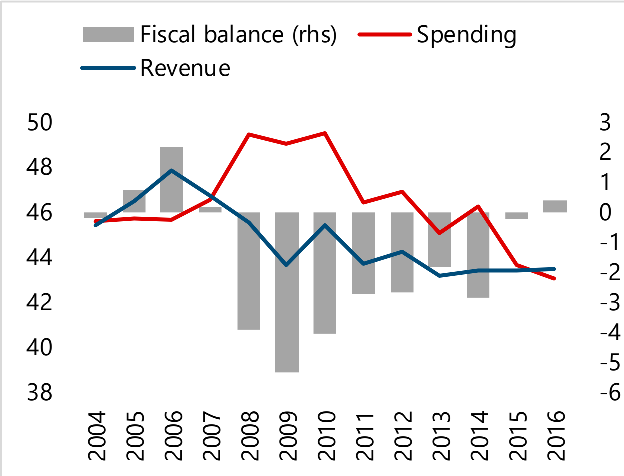
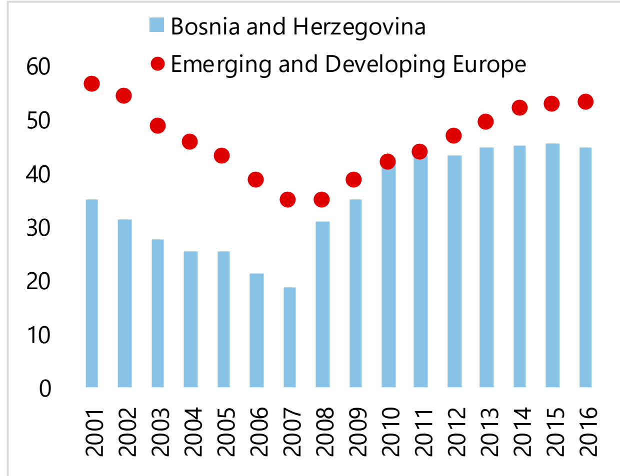


Figure 4. General Government Debt
(in percent of GDP)



Source: FAD Database

3. At the same time, capital spending has been highly volatile and mildly procyclical. Despite experiencing similar macroeconomic shocks—volatility of GDP is low and comparable to peers -the volatility of public investment in Bosnia and Herzegovina has been substantial (Figure 5). Furthermore, the large swings in public investment correlated positively with swings in economic activity (Figure 6). This suggests that capital spending has not played any countercyclical role.[2]

Figure 5. Volatility of Capital Spending by General Government and GDP
(standard deviation)

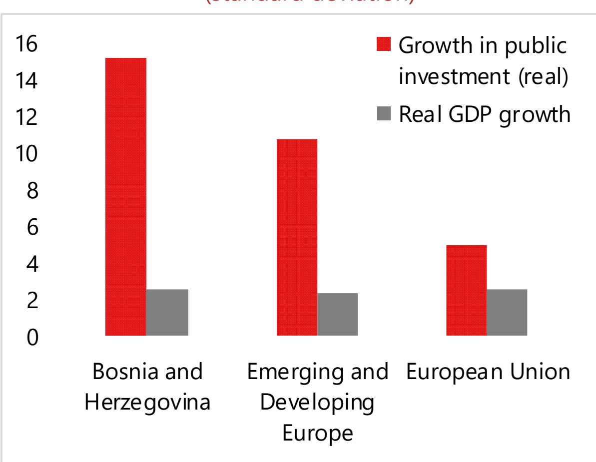
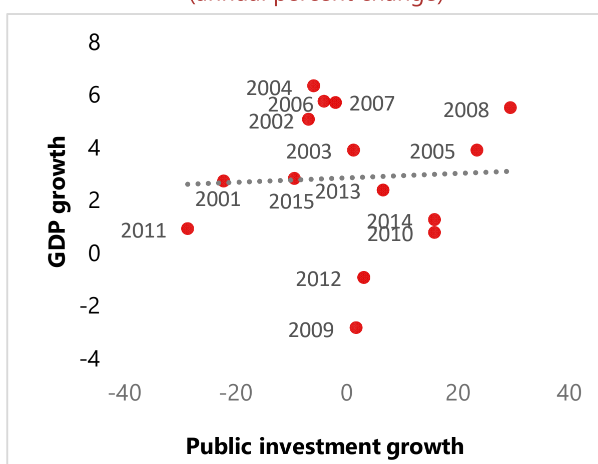


Figure 6. General Government Capital Spending and GDP
(annual percent change)

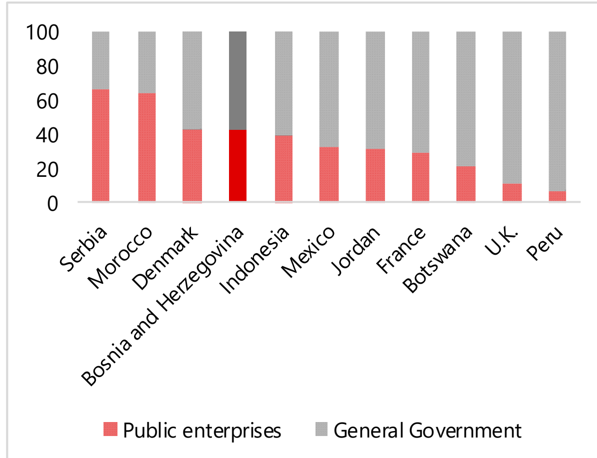


Source: IMF staff calculations

[2] Added to this, the operational balanced budget rule (current spending and capital transfers cannot exceed revenue) that prevails in the three entities, has caused further procyclicality in fiscal policy.

4. **In addition to the general government sector, a large number of commercial public enterprises are responsible for the delivery and management of economic infrastructure in the country.** There are about 600 publicly-owned commercial enterprises in the country. The largest investors in public infrastructure are in the energy and telecommunication sectors. This puts Bosnia and Herzegovina in the group of countries where the public enterprises play a major role in capital spending in the economy with a share of 42 percent of total public investment (Figure 7).

Figure 7. General Government vs. Public Enterprises
(share of public sector investment)



Source: IMF estimates. For BiH: Estimates for capital spending of public enterprises are from the balance sheets for 2016 of 351 publicly owned enterprises in FBiH and 235 in Republika Srpska.

5. **The stock of public capital is high in relation to GDP but remains low in per capita terms because of the low GDP base.** Bosnia and Herzegovina's relatively high public-investment-to-GDP ratio has allowed the country to accumulate a sufficiently high public capital stock, representing over 90 percent of GDP (Figure 8). However, the relatively poor growth performance of the country in the last 10 years—growth being 0.5 percentage point lower than in the rest of EDE—together with a low starting point for GDP per capita means that public capital stock per capita remains low at about US$ 7,200 in purchasing power parity terms (Figure 9).

Figure 8. Public Stock of Capital
(in percent of GDP)

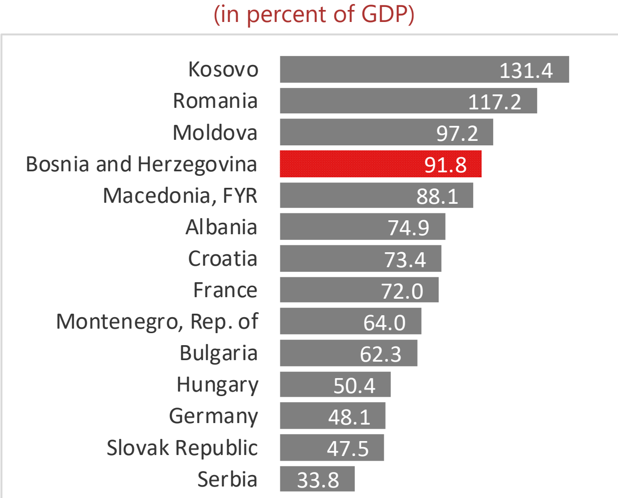
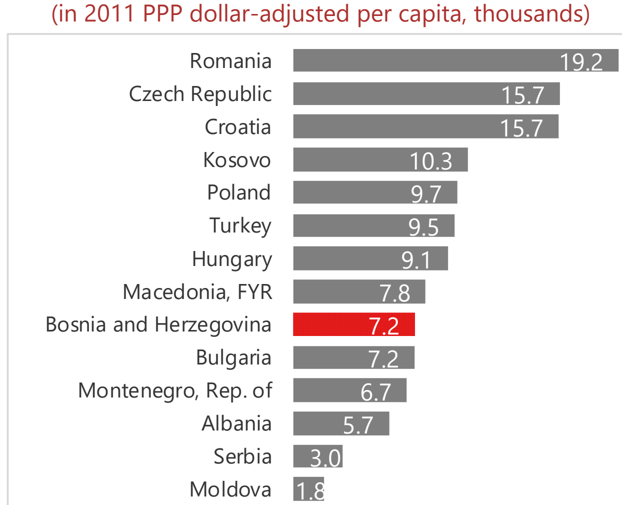


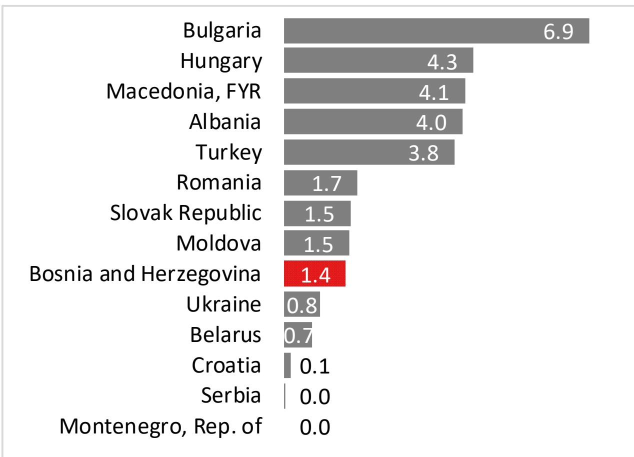
Figure 9. Public Stock of Capital
(in 2011 PPP dollar-adjusted per capita, thousands)



Source: IMF staff calculations

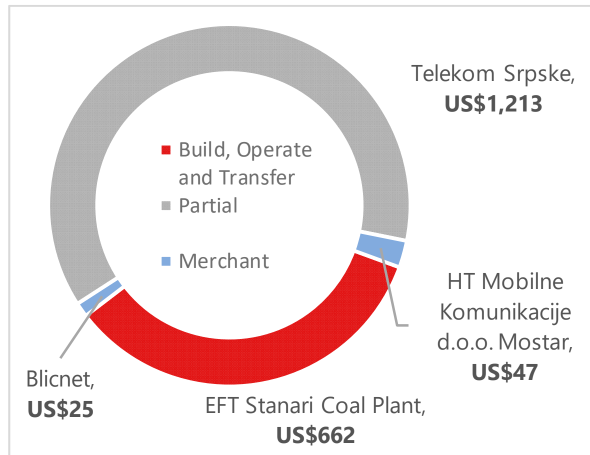
6. **Recourse to alternative sources of funding, such as PPPs, has been limited.** The public stock of capital financed through PPP represents about 1.5 percent of GDP (Figure 10), or only about 2 percent of the total public capital stock. While in recent years, many Central, Eastern, and Southeastern European countries have used PPPs to accelerate infrastructure development in recent years, this has not been the case in Bosnia and Herzegovina., where there exists only a handful such projects in the area of electricity and telecommunications (Figure 11). There are also some concessions in mining and hydropower production.

Figure 10. Public-Private Partnerships Capital Stock
(in percent of GDP)



Source: IMF staff calculations

Figure 11. Ongoing PPPs in BiH
(total investment, in US$ million)

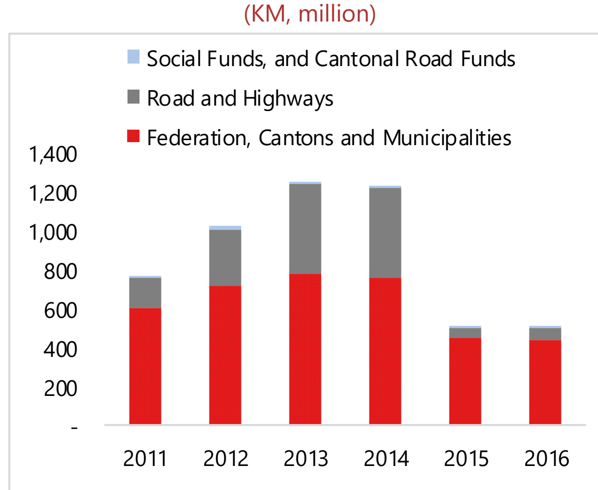


Source: World Bank PPI database

B. Public Investment in the Federation

7. **Capital spending slowed down in recent years due to the sharp decline in roads spending, but this is expected to recover.** The large projected spending on extending and upgrading the road infrastructure did not materialize in 2015 and 2016, due to financial constraints. As a result, capital spending fell significantly in those years (Figure 12). The recent increase in the excise tax on fuel is projected to provide additional resources to enable the unlocking of external funds and step up the construction of roads, particularly highways.

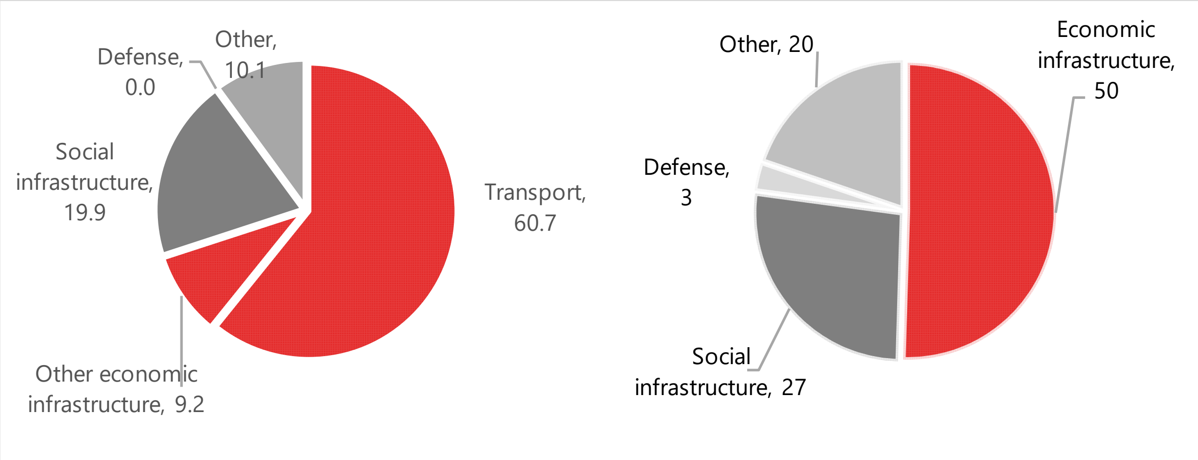
Figure 12. Capital Spending within General Government
(KM, million)



Source: IMF staff estimates

8. **In the Federation, spending on economic infrastructure is high relative to spending on social infrastructure.** Planned spending on roads for 2018 accounts for about 60 percent of consolidated general government investment in 2018, dominated by the Corridor 5c and the Modernization of Roads projects. Total spending on economic infrastructure will account for about 70 percent of capital spending, compared to 50 percent in countries in the region (Figure 13). Social infrastructure spending covers mainly the housing, environment protection, and health sectors. In public enterprises, other than roads, the bulk on capital spending will be on energy, with equal emphasis on thermal and renewal sources. This testifies the strong push to build up roads and energy infrastructure in order to raise the country's growth potential.

Figure 13. Functional Classification of Capital Spending – FBiH vs. Emerging and Developing Europe
(for consolidated general government, in percentage of capital spending)



Source: Data for FBiH are planned investment for 2018 from the 2018 Annex to the Budget – this includes current projects or which will start in the budget year, from all funding sources; Emerging and Developing Europe data are from IMF staff calculations
Economic infrastructure is proxied by economic affairs and includes public investment for transportation infrastructure, among other components. Social infrastructure comprises public investment in education, health, housing, social protection, and recreation and culture. Other includes public investment for general public services, safety and public order, and environment.

II. EFFICIENCY AND IMPACT OF PUBLIC INVESTMENT

A. The Impact of Public Investment

9. **The quality of infrastructure and access to services is variable across different sectors (Figure 14).** Reflecting the investment in the sector, as well as the country's hydropower potential and coal reserves that allow the country to be one of the few net exporters of electricity in the region, access to electricity is comparable and even slightly higher than richer peers in Emerging and Developing Europe. Access to water also ranks high, although this figure masks the important differences that exist between urban and rural areas. In social infrastructure, such as education and health, gaps remain. The biggest gap is in roads infrastructure, which can be

attributed to the difficult geography and insufficient investment over the years. This explains the current emphasis on expanding and improving the road infrastructure.

10. Perception of infrastructure quality has improved in recent years, but it remains far below peers. This indicator based on a scale of 1 to 7 is drawn from the World Economic Forum's infrastructure quality surveys. A few years ago, the score was at the lower end of the spectrum—even lower than low income countries. It has improved since but remains significantly lower than peers (Figure 15). Beyond indicating the perception of infrastructure in the country, this survey, conducted with potential international and local investors, also gives an insight on its attractiveness to private investors.

Figure 14. Access to Public Infrastructure

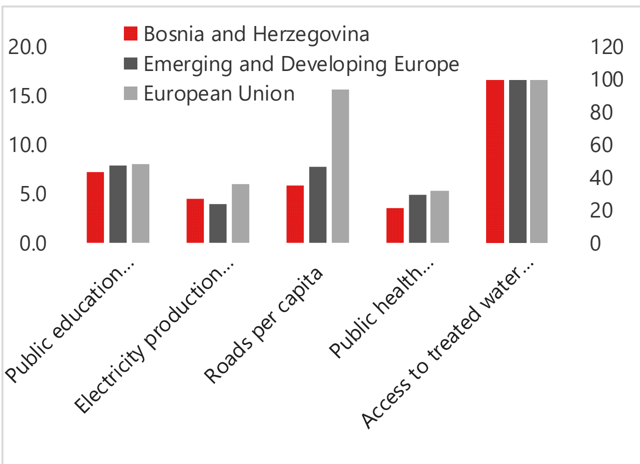
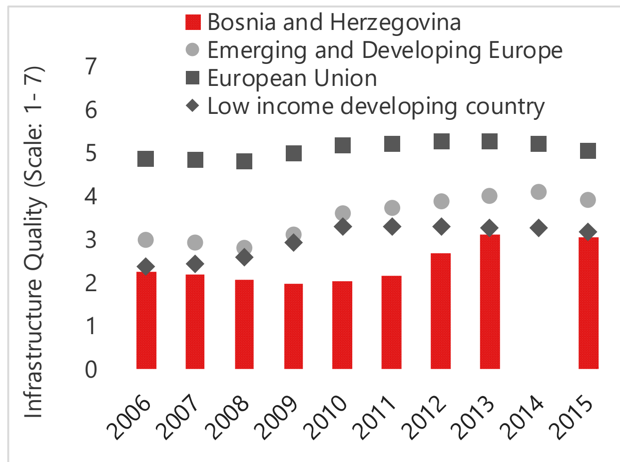


Figure 15. Perception of Infrastructure Quality



Sources: Figure 14 – World Development Indicators (2015). **Education**: secondary school teachers per 1000 persons; **Electricity** : kWh per person ; **Roads** : km per 1000 persons; **Health** : hospital beds per 1000 persons ; Right axis : **Water** : percentage of the population having access to clean water.
Figure 15 – World Economic Forum (2006-15)

B. Public Investment Efficiency

11. The results of a standard methodology[3] for estimating the efficiency of public investment show a large efficiency gap, substantially larger than for peers. A hybrid indicator approach to efficiency is used. This y combines the set of access indicators shown in Figure 14 with the perception surveys shown in Figure 15 into one single indicator for each country. This indicator is compared against the measured per capita stock of capital of the country, and countries that perform best on the index for a given level of stock of capital make

[3] A country's performance in terms of infrastructure quality/access (output) is compared to its public capital stock per capita (input). A "frontier" is drawn, consisting of those countries achieving the highest output per unit of input. Using this consistent set of data, the performance of a total of 128 countries is compared relatively to the frontier. This methodology is outlined in the IMF Board Paper entitled "*Making Public Investment More Efficient.*" (2015)

the "efficiency frontier." Figure 16 shows that there are countries that score better than Bosnia and Herzegovina for similar capital stocks- when measured against the frontier of best performers, the country has an efficiency gap of 45 percent (Figure 17). This signifies that, for the same resources deployed, large efficiency gains are possible, allowing better access to infrastructure and improving significantly the perception of its quality.[4]

Figure 16. Hybrid Indicator of Efficiency

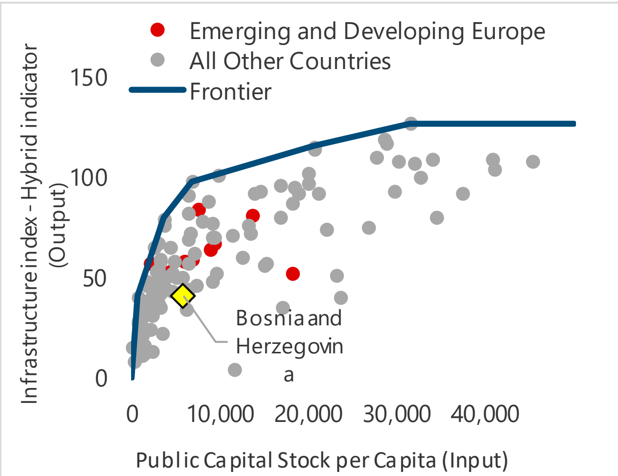
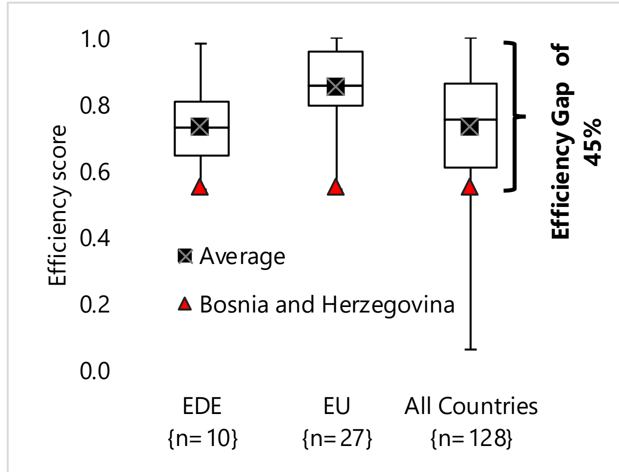


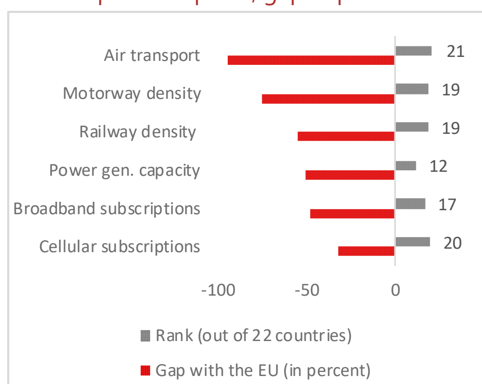
Figure 17. Efficiency Gap – Hybrid Measure



Source: FAD database

12. A 2018 regional study on different infrastructure indicators came to similar conclusions on infrastructure quality in BiH. A recent IMF study focuses on economic infrastructure, and adds additional indicators such as the quality of air transportation, and access to mobile phones and internet.[5] Bosnia and Herzegovina fares badly compared to a set of 20 countries in the region, coming in the lowest 20th percentile on five out of six indicators (see Figure 20). In power generation, where the country is relatively strong, power generation per capita is still only 60 percent of the EU average.

Figure 18. Public Infrastructure gaps in Bosnia and Herzegovina
(rank compared to peers; gap in percent with EU)



Source: IMF staff estimates.
Comparators are: Estonia; Latvia; Lithuania; Czech Republic; Hungary; Poland; Slovak Republic; Slovenia; Belarus; Moldova; Russian Federation; Ukraine; Bulgaria; Croatia; Romania; Albania; Kosovo; FYR Macedonia; Montenegro; Serbia.

[4] It is worth noting that the poor performance is largely driven by the "perception" side of the hybrid indicator, perception of the quality of infrastructure is particularly low in Bosnia and Herzegovina.

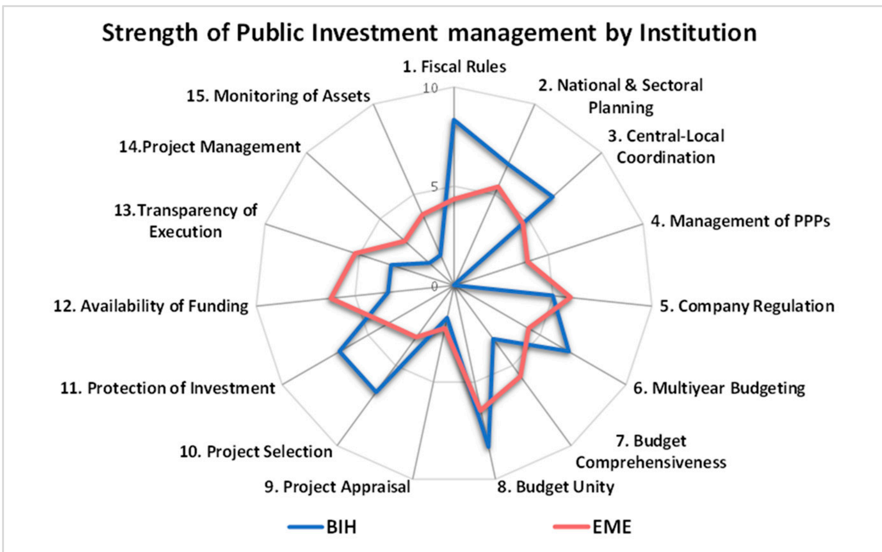
[5] "Public Infrastructure in the Western Balkans - Opportunities and Challenges," IMF European Department Discussion paper, 2018.

III. PUBLIC INVESTMENT MANAGEMENT ASSESSMENT

A. Overall Assessment

13. **Fifteen key Public Investment Management (PIM) institutions are evaluated in this section of the report, and the results are summarized in Figure 19 below.** Some key PIM institutions at the State level and in the Federation are well designed and effective, but there are some areas where improvements can be made. Areas of relatively good performance include: fiscal rules, protection of investment and budget unity. However, inadequate project appraisal and selection, weak project management and lack of transparency during execution contribute to significant delays during implementation. The framework for managing PPPs is also fragmented and public corporations continue to crowd out private competition.

Figure 19. Strength of Public Investment Management by Institution



Source: Staff estimates (Effectiveness is higher the further away from center.)
Planning institutions: 1-5, allocating institutions: 6-10, implementing institutions 11-15

14. **Some public investment institutions are of good or medium strength on paper, but are much weaker in their practical implementation.** Four areas stand out in weak design of policy and regulations. These are project appraisal, project management, the regulatory framework for PPPs/concessions, and accounting for assets. Weak project appraisal and the lack of an independent review process makes it difficult to confirm the value-for-money of projects on an objective basis. There is significant variation in planning standards and practices across central government, public corporations, and cantons. For instance, the quality of sectoral strategies varies across sectors within the Federation, with different approaches and methodologies. Project implementation standards also vary, with major delays arising from the permitting process and the handling of procurement complaints.

B. Planning Sustainable Levels of Public Investment

1. Fiscal principles or rules (Institutional strength – *Good*; Effectiveness – *Medium*)

15. A "golden rule" limits current spending, and ensures that borrowing serves to finance capital spending. Articles 43 and 45 of the Law on Budgets (LoB) 2013 require that the Federation, its cantons, cities, municipalities, and extrabudgetary funds (Federation Health, Pension, Employment Funds, and cantonal Health and Unemployment Funds) prepare their annual budgets such that their planned expenses (current spending plus capital transfers) do not exceed their projected revenues.[6] The law allows for the suspension of this rule in the event of catastrophes or natural disasters. It also requires entities to generate the fiscal surpluses in the following five years when the rule is breached during budget execution. De facto, this rule is equivalent to a "golden rule" that restricts borrowing to financing capital spending.

16. The Law on Debt, Borrowing, and Guarantees (2010) restricts debt accumulation by the Federation and lower levels of government to their capacity to repay. While a golden rule can protect capital investment, it does not impose a limit on borrowing for capital spending, and does not therefore guarantee fiscal sustainability. The Law on Debt, Borrowing, and Guarantees (2010) restricts borrowing by the Federation, cantons, municipalities according to their debt service to revenue ratio. A canton, for instance, cannot take on additional long-term debt if debt service is expected to exceed ten percent of its revenue in the previous year.

17. A new law is under discussion at the Federation Parliament to strengthen control over borrowing by

- **introducing a ceiling on the total debt of the Federation to 60 percent of its GDP, and two debt brakes at 50 and 55 percent of GDP.** While this limit is currently far from being binding (debt to GDP ratio in 2016 is below 40 percent in the Federation[7]), the planned acceleration of capital spending on infrastructure can lead to an increase in the medium-term. The debt brakes which require fiscal adjustment measures when debt exceeds 50, and stronger measures when it exceeds 55 percent of GDP can also help to keep debt accumulation on track.
- **requiring the Federation Ministry of Finance's consent before loss-making public enterprises can borrow.** Currently, the latter are not subject to any such requirements. The proposed legislation requires public enterprises who were loss-making in the previous two

[6] Extrabudgetary funds are not considered budget users. They differ from extrabudgetary users who are agencies financed entirely from the budget or from earmarked revenues. In three out of the ten cantons, road directorates are classified as extrabudgetary funds, and in the remaining seven, they are extrabudgetary users.

[7] Data calculated from the Report on the Outstanding Public Debt of Bosnia and Herzegovina of the Federation Ministry of Finance and the Report on Gross Domestic Product by Production, Income and Expenditure Approach of the BiH Statistics Agency. FBiH consolidated debt was KM 6,562mn at 31st December 2016, and FBIH GDP was KM 19,540mn in 2016.

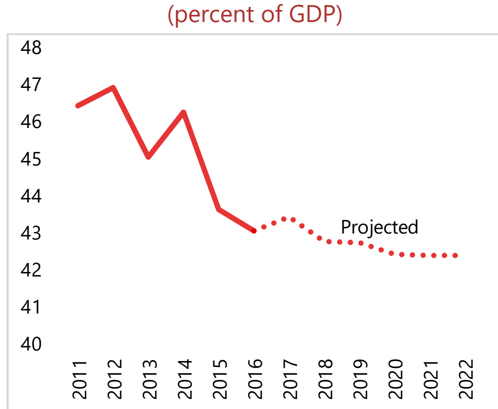
years to request MoF permission before borrowing. This introduces new fiscal rules in the Federation and strengthen the control on debt, particularly of public enterprises.

18. **While the golden rule guides the Federation's medium-term and annual budget, it is not followed by all cantons and no measures are imposed for non-compliance.** Several cantons have, in the past, prepared budgets where planned current spending exceeded projected revenues, and these budgets have been approved by their respective Parliaments. While these instances have declined recently, particularly since the adoption of the LoB in 2013, measures are still not taken in case of non-compliance at the level of the Federation to enforce the rule.

19. **The golden rule may have contributed to the accumulation of arrears on current spending particularly by local governments.** The lack of commitment controls, coupled with insufficient budgetary allocations on spending, such as court claims, have led cantons to circumvent the rule on current spending by accumulating arrears. Public enterprises—which are not subject to the same fiscal rules—have also accumulated substantial arrears in recent years, mainly in the form of unpaid pension and health contributions.

20. **In addition to legislated fiscal rules, the BiH Fiscal Council has an explicit objective of reducing expenditure below 40 percent of GDP.** Since 2011, the Global Fiscal Framework (GFF), which sets the country's fiscal policy objectives over a three-year period (see Box 2), aims at bringing expenditure below 40 percent of GDP. While this ratio has been brought down significantly since 2011 through reductions in both current and capital spending (see Figure 20), the goal is not expected to be fully achieved in the medium term (see Figure 20), particularly given the prospects of public investment scaling up.

Figure 20. General Government Expenditure in BiH
(percent of GDP)



Source: World Economic Outlook, October 2017

2. National and Sectoral Planning (Institutional strength – *Medium;* Effectiveness – *Low*)

21. **Duplication of competencies and complex legislative frameworks across government levels pose challenges to integrated planning.** Responsibility for long-term planning in key sectors rests with individual government levels in accordance with their constitutional competencies. Institutions of BiH have adopted a strategic framework document and three strategies in key economic infrastructure sectors. The Federation does not have an overarching development strategy framework, while shared responsibilities for planning between the different administrative levels in key infrastructure sectors resulted in proliferation of mutually disconnected development and strategic plans of uneven quality which are

systematically published. There are as many as 30 laws and by-laws, not including sectoral legislation, that bear directly on investment planning across the levels (Annex 2 and 3 show the multiplicity of strategies and laws at different levels which underpin the fragmented planning system).

22. The quality of sector strategies varies at different levels of government, reflecting the gaps in the legislative and methodological frameworks used in their preparation. A legal framework for strategic planning is established through the by-laws of MoF of the Institutions of BiH. There are two methodologies for strategic planning, one overseen by MoF and the other by the Directorate of Economic Planning (DEP). Before the Federation Government introduced the framework legislation on strategic planning in 2017, the institutions across levels within the Federation applied different approaches and methodologies to prepare their sector and development strategies. As a result, the existing sector strategies of the Federation are of uneven quality in terms of costing and definition of outputs and outcomes.[8] Meanwhile, cantons and municipalities produced development strategies following the same, donor-sponsored, methodology with more consistent use of costing, outputs and outcomes.[9]

23. Medium-term planning frameworks for BiH Institutions and the Federation follow a more uniform structure but fail to ensure vertical coherence of planning. By 2014, both the Institutions of BiH and the Federation central government had developed legal frameworks for medium-term planning, supported by implementing regulations and methodological guidance. The main planning documents are the governments' and individual institutions' medium-term work programs and plans (MTWPs). Medium-term planning frameworks on both levels, covering the same three-year period and updated annually on a rolling basis, are internally consistent. MTWP requirements include clear costing, definition of outputs and outcomes which are met in practice. Under the 2017 legislation, cantons and municipalities are required to follow the same approach but currently each level plans largely in isolation from the others due to inadequate coordination as elaborated below.[10]

24. Investment planning follows the medium-term planning framework but the links between public investment programs and the strategic objectives are weak. Institutions at each level are required to translate strategic objectives from the relevant development and sectoral strategies into programs and projects through the MTWPs. In a parallel process,

[8] e.g., the Strategic Health Care Development Plan for the Federation of BiH, 2008 – 2018 defines outputs but not the outcomes, while the Medium-term Strategy for Agriculture Sector Development in the Federation of BiH, 2014-18, contains goals but neither the outputs nor the outcomes.

[9] In line with integrated strategic planning for cantons, earlier sectoral strategies in the infrastructure sectors are being phased out and replaced with medium term sectoral action plans.

[10] Alignment of planning by approximately 350 public companies (PCs) on different levels in the Federation with government plans and priorities (including the largest PCs in road and energy sectors) is the responsibility of the institutions charged with oversight.

institutions at all levels identify and sponsor investment projects for inclusion in the public investment programs (PIPs). This process is supported through the Public Investment Management Investment System (PIMIS), a common IT platform for the Institutions of BiH and the Federation of BiH with the cantons.[11] Box 2 provides an overview of this system. Currently, PIMIS is used as a way of entering and collating project information. Preconditions should be created for the PIMIS to be used more strategically to ensure better integration of planning and budgeting.

Box 2. Public Investment Management Information System - PIMIS

The Ministry of Finance and Treasury (State level) plays a coordination role in the investment process. It plays an important regulatory role for the development and harmonization of the methodologies for public investment management, including development and extension of PIMIS. Moreover, the State level also implements a number of capital and development investment projects. Linking of the PIP with the medium-term planning and budgeting process supports the rationalization and realization of sector policies. The Ministry of Finance and Treasury prepares the PIP/ DIP (Development Investment Program) for the Institutions of BiH. Projects included in the DIP are linked with development goals from the Strategic Framework for BiH.

PIMIS is a comprehensive information system for public investment management. Established with donor-support in 2013, it is currently installed in three MoFs (the Institutions of BiH, the Federation and Republika Srpska). Project-level data for the cantons, cities and municipalities are entered on the cantonal level with the aim of including them in the cantonal PIPs.

PIMIS registers projects in implementation, projects for which funding is certain or has been secured, and proposed projects (not funded) based on inputs of implementing bodies. Currently, PIMIS contains 168 projects at FBiH level, with estimated value of KM 23.8 billion. In addition to public projects, PIMIS includes a module (on the level of the Institutions of BiH) for monitoring of donors' activities.

The system enables tracking of public investment projects and increases transparency. It includes three-year forward financial estimates, but non-financial and performance information is not entered. The system also provides information on the gap in available and required funding. As a unique point of reference for all investment projects, across levels and sources of funds, the system has potential to improve planning, monitoring and reporting of capital investments. Data about the projects included in the PIPs, entered into PIMIS on the level of the Institutions of BiH, are publicly available on the BiH MoF website and using certain filters, interested parties can review these projects.

The existing PIMIS functionalities do not allow the institutions charged with coordinating the PIP preparation to efficiently compare medium-term work plans and independently ascertain whether investment plans align with strategic objectives. In addition, PIMIS is not integrated with the Budget Planning and Management Information System (BPIMS) data on capital expenditure plans which are currently entered manually.

[11] PIMIS likewise extends to Republika Srpska and Brčko District, which are outside of the scope of this Report.

3. Central-Local Coordination (Institutional strength – *Medium*; Effectiveness – *Medium*)

25. Coordination of investment is complex due to the large number of bodies involved in investment planning and implementation across levels of government. The roles and responsibilities of different levels of government are set out in the Constitution and an intricate framework of laws and by-laws. Federal-level legislation establishes a complex system for coordination of investment planning that includes 11 governments (10 cantonal and the Federal) with over 100 line ministries, 79 municipalities, and close to 350 PCs across levels. Each of these bodies may nominate investment projects for review by one of the 11 public investment commissions (PICs) foreseen in the legislation. The Federal MoF and 10 cantonal public investment coordinating institutions[12] are charged with preparation of individual Public Investment Programs.

26. Clear rules on debt and borrowing for the institutions of BiH and the Federation are in place and observed. The budget of the institutions of BiH is always balanced and there are no borrowing requirements. The ability of the Federation, cantons and municipalities to borrow is regulated in the Federal law on Debt, Borrowing, and Guarantees (2010) which provides full authority to the Federal MoF to undertake borrowing operations. Article 7 limits long-term borrowing of the Federation to financing investment and debt service which may not exceed 18 percent of the last year's consolidated revenues of the Federation and the cantons, while the cantons and municipalities are capped at 10 percent of the last year's actual own revenue collections. The rules are observed in practice.

27. Limited coordination of investment priorities is achieved through exchange of information on the PIPs but without formal discussions between the different levels of government. Information on the individual PIPs is shared using a bottom-up approach. In the Federation, this process includes consultations between the Federal MoF, line ministries and PCs and between their counterparts on the cantonal level. PICs at different levels, however, do not formally exchange information on investment priorities. The Fiscal Coordination Body,[13] as the highest-level body of the Federation for coordination on fiscal and public financial management issues, has not deliberated investment priorities. Despite the close cooperation between MoFs at the level of the Institutions of BiH and the Federation on consolidation of the country-wide PIP, there is no venue for formal discussion of priorities between the two levels in the majority of infrastructure sectors.

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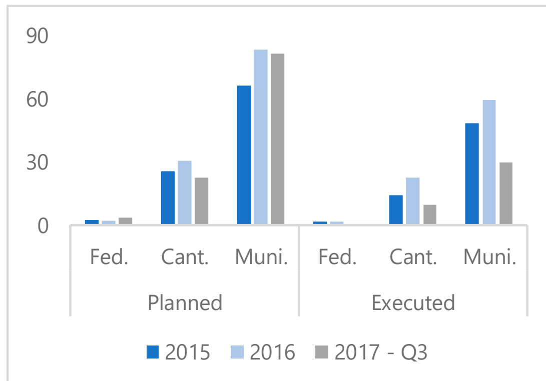
[12] Cantonal MoFs, except in Canton Tuzla, Canton Zapadna Hercegovina, and Canton 10 (in the Ministry of Industry), Canton Una-Sana (in the Cantonal Development Agency) and Canton Sarajevo (in the Cantonal Institute for Development Planning).

[13] Comprised of the Federal MoF, ten cantonal MoFs and the representative of the Association of Municipalities.

28. The National Investment Committee (NIC) was established to coordinate public investment priorities across levels, but it is not entirely effective due to limited participation. The NIC Framework[14] consists of the high-level committee and four sectoral working groups that cover transport, energy, environment, and social infrastructure. The NIC, which tries to bring together representatives of the Institutions of BiH, the Federation and Republika Srpska,[15] was set up to coordinate and approve Single Project Pipelines (SPPs) of projects that support fulfilment of priorities from the Western Balkans Connectivity Agenda. Only the transport sector SPP (2015) has been developed, but the recent approval of country-wide strategies for environment and energy is expected to unlock the development of SPPs and improve coordination in those sectors as well.

29. Capital transfers decided upon in the annual budgets are characterized by significant under-execution at the cantonal and municipal levels. In the period 2015 to 2017, the Federal budget provided limited funding to the other levels through capital transfer. Cantons and municipalities account for the bulk of the transfers, made predominantly for investments in road infrastructure.[16] The timeliness and predictability of transfers has improved in the past two years but delays in project implementation remain a concern (Figure 21).

Figure 21. Implementation Delays
(planned vs. executed capital spending, KM mn)



Source: Ministry of Finance.

4. Public-Private Partnerships (Institutional strength – *Low*; Effectiveness – *Low*)

30. The country has no comprehensive PPP strategy, nor a unified regulatory framework for PPPs, as each level of government has its own set of laws. The two entities have separate PPP legislation. At the state level, the BiH institutions still have no PPP law, but within the Federation, there are 8 laws on PPPs for the cantons, and 14 laws on concessions. There is a draft PPP Law to be applied at the Federation level, but this is awaiting public hearings before being finalized. The law on Public Procurement is at the state level, and applies to all PPPs.

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[14] Established under the regional support program called Western Balkans Investment Framework (WBIF) launched by the European Union (EU) exclusively for the implementation of infrastructure projects in the Western Balkans region. NIC Framework is one of the enabling structures that ensure internal coordination on sector-wide approach which is required for the Western Balkans Investment Framework and for support under the EU's Instrument of Pre-Accession II (IPA II).

[15] RS does not participate in the NIC which limits is ability to generate a comprehensive national project pipeline.

[16] the Institutions of BiH budgeted less than BAM 2 million on average for capital transfers to other government levels in the same period.

The PPP laws at cantonal level seek to comply with EU regulations but the main problem is the failure to recognize that concessions and PPPs are treated in unified legislation in most countries, that is, a concession is a form of PPP.[17]

31. Although the government is keen to promote PPPs, relatively few projects have materialized in the Federation. Not many large infrastructure projects have attracted private participation in the country compared to Republic of Srpska which has given concessions to Chinese investors to construct thermal power plants.[18] In the Federation, policy makers have expressed support for PPPs to be pursued under the proposed law. There are currently 12 concessions operating in the water sector and power sectors including the Blue Water regional water supply line[19] and several hydro power plants. There are more but smaller concessions at cantonal level. A larger project is currently in planning on Corridor 5c. The project will encompass 80km of existing motorway sections between Tarcin and Drivusa. The concession agreement is planned for conclusion in 2018 although this depends on the federal PPP law being enacted.

32. Approvals for PPPs are given by several bodies, starting with the line ministry, a high-level Commission, the local government and the Ministry of Finance. The approval process for PPPs appears to be quite complex as it involves several different bodies. Internationally, it is common to have a central PPP unit or agency that deals with the assessment of PPP proposals at a technical level and recommends projects to a higher decision-making body. Under the entity and cantonal laws, a commission for concessions functions as an inter-departmental committee sometimes including a representative from academia. The commission evaluates proposals in line with a decree for assessing and approving PPPs. However, the absence of a technical team to challenge and validate the business case means approvals are not based on thorough value for money analysis. In terms of capacity, the Commission for Concession is the only team with significant relevant experience for such projects but this is quite limited as the Commission has only three members.

33. As far as reporting is concerned, the relevant commission prepares a report on proposals received which is submitted to the Ministry of Finance and the National Assembly. At cantonal level, some PPP law requires the commission to report annually on its work.[20] However, there are few details on what the report should cover and no mention of implicit and explicit liabilities that would arise from PPP contracts. Even more problematic is that some of the laws make no mention of reporting requirements due to the unevenness that arises

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[17] The World Bank lists the concession model as a form of PPP. This includes operation and maintenance concession as well as Build Operate and Transfer concession (BOTs). Concessions are a sub-set of PPPs. https://ppiaf.org/sites/ppiaf.org/files/documents/toolkits/highwaystoolkit/6/pdf-version/1-13.pdf

[18] Republic of Srpska has also implemented PPPs in the health sector – dialysis and radiotherapy projects.

[19] The project, was valued at EUR 16.5 million in 2010 and was financed by the EBRD and the Council of Europe Development Bank.

[20] Methodology of reporting, Article 27, PPP Law of Sarajevo Canton no. 27/11.

with so many laws. Given the poor understanding of PPPs in the Federation, it is difficult to see how the Ministries of Finance or relevant assemblies would provide effective oversight. Moreover, cantons do not readily publish or share the information on their concessions which creates lack of transparency and limits entry of private investors as they have insufficient information on ongoing concessions.

5. Regulation of Infrastructure Companies (Institutional strength – *Medium*; Effectiveness – *Medium*)

34. Over the past fifteen years, regulatory bodies have been established in some key infrastructure sectors. The regulation of economic infrastructure is a relatively new development in BiH. Independent regulators have not been established in all sectors although two fast growing sectors (energy and telecommunications) do have regulators. In the telecommunications sector, a single Communications Regulation Agency (CRA) was created as an independent state-level agency in 2001, followed by liberalization of the market in 2006. In the energy sector, regulators for electricity at both the state level and the entity level, were established around 2003. Although they are both independent under legislation, the political environment and social concerns have restricted their ability to set cost-reflective tariffs, particularly for household users who are effectively subsidized by electricity export revenues.

Table 3. Number and Size of State-Owned Enterprises

	Number of SOEs in FBiH	Total assets (in KM mn)
Natural resources and agriculture	27	2671
Manufacturing and construction	51	2417
Energy (Production and distribution)	9	4924
Water, sanitation and sewage	91	1425
Transport	11	2280
Media and telecom	31	1664
Other services	131	1024
Total	**351**	**16,405**

Source: Balance Sheet of state-owned enterprises (except road and highway companies)

35. As liberalization has taken effect, limited private competition has emerged in telecommunications and energy. Notwithstanding the introduction of legislation to open up the market, incumbent operators have maintained a de factor monopoly in their respective sectors. There are three incumbent operators for fixed line telecommunication services with some competition within the mobile sector. In the electricity market, there are vertically integrated companies for generation, distribution and supply at the entity level. These public corporations are predominantly owned by the state. In the Federation, electricity distribution and the majority of generation and supply, is performed by two vertically integrated enterprises - Elektroprivreda Bosne i Hercegovine (EPBiH) and Elektroprivreda Hrvatske Zajednice Herceg-Bosne (EPHZHB).

Introduction of feed in tariffs encouraged entry of private operators in the renewables market. All public corporations engage in open trading of electricity in the domestic market.

36. The energy sector is governed by numerous laws but changes are being contemplated to align with EU directives. The political and administrative divisions in BiH created a heterogeneity of laws and regulations in the sector. There are three laws at the state level for transmission and the system operator, and two separate laws on electricity at the entity level. Currently, BiH has not adopted a state law on electricity although a draft has been developed to align with the EU directive. If this new state law is enacted, it may reduce some of the independence of the regulators for instance by having their budgets approved by parliament, in line with the EU practice.

37. However, public corporations continue to dominate infrastructure service provision in FBiH (see Table 3), in a manner that restricts competition and limits operational and financial performance. As noted above, the electricity market is dominated by public corporations, notably EBiH and EP HZHB. The telecommunications market is also dominated by public corporations, notably BH Telecom. In other sectors, the Highway company was created in 2011 while water supply is also under public utilities. This heavy state presence in the economy creates inefficiencies through high labor costs. Privatization of public corporations is seen as a potential catalyst for reforms but has largely stalled in the Federation.[21] Corporate governance is weak due to deficient functioning boards. Financial performance of public corporations would be significantly improved if unbundling were to proceed in electricity sector. In the interim, setting clear performance targets would help to separate social obligations from economic objectives.

Recommendations

Issue: The Government has not prescribed standard requirements for project appraisal, specific for key infrastructure projects. Current project appraisal practices are not supported by formal guidance. Unless required by external creditors, project proposals are not appraised in a structured and consistent manner that accounts for project viability and value for money.

Recommendation 1: Introduce standardized requirements and guidance for project appraisal:

- Prepare standard requirements for project appraisal in all major infrastructure sectors, covering technical analysis, financial and economic analysis (cost-benefit analysis), project viability, and risk assessment.[22] (**September 2018**)

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[21] EBRD Country Strategy for BiH (2017–22).

[22] See Annex 1 for a template for a manual for project appraisal along international good practice.

- Identify sector-specific criteria and project value thresholds to differentiate appraisal requirements for size and complexity of proposed projects. (**September 2018**)
- Introduce legal requirement and assign responsibilities for standardized project appraisal in the Decree on the Manner, Criteria for Preparation, Development and Monitoring of the Public Investment Program. (**March 2019**)
- Publish and disseminate appraisal methodology (manual) for projects regardless of the source of financing. (**March 2019**)

Issue: There is no prioritized pipeline of well-prepared projects. This is partly due to the lack of an effective review of proposed projects at the central level. The pipeline of projects that make up the PIP do not undergo a comprehensive, centralized review and as a result, the final list of projects does not inform allocation of scarce resources as any project on the list can be financed.

Recommendation 2: Establish a dedicated technical team to ensure that public investment projects are properly appraised and selected prior to inclusion in the Public Investment Program:

- Assign the function of analyzing and assessing projects to the Federal Institute for Development Programming.[23] **(February 2019)**
- Prepare Terms of Reference for the Federal Institute to screen and review proposed projects in line with the appraisal manual. (**January 2019**)
- Expand the capacity of PIMIS to accept and store project documents including feasibility studies and supporting documents. (**February 2019**)
- Enforce the existing requirement that only projects with prescribed supporting documents will proceed for formal assessment. (**June 2018**)
- Review the Terms of Reference of the Commissions on Public Investment to explicitly take into account technical analysis. (**June 2018**)
- Institutionalize new approach to project analysis and ranking through the Public Investment Program by-law[24] under the new law on development planning. (**November 2018**)

Issue: The PIPs and the NIC SPP both attempt to prioritize capital projects for funding. While similar, the two pipelines have different features and the two approaches overlap. As the NIC Framework expands to cover additional sectors, there are efficiency and quality gains to be obtained from aligning the two frameworks.

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[23] Establishing a dedicated capacity for project appraisal will likely require donor support due to funding constraints.

[24] Law on Development Planning in the Federation of BiH, Article 32, paragraph 2 "Rulebook on Methodology for Connecting Development, Financial and Investment Planning in the Federation of BiH."

Recommendation 3: Align the process for project selection through the NIC SPP and the PIP process (Institutions of BiH, Federation March 2019).

- Reinforce the connections between NIC SPP and PIP by harmonizing their timelines and requirements. (**January 2019**)
- Upgrade PIMIS to incorporate NIC appraisal requirements on strategic relevance and project maturity and extend them to all projects regardless of the financing source. (**January 2019**)
- Designate the upgraded PIMIS data base as the default option for project appraisal and selection conducted by NIC working groups. (**March 2019**)
- Align the rules of procedure and evaluation criteria of the public investment commissions with NIC appraisal requirements. (**March 2019**)

C. Allocating Investment

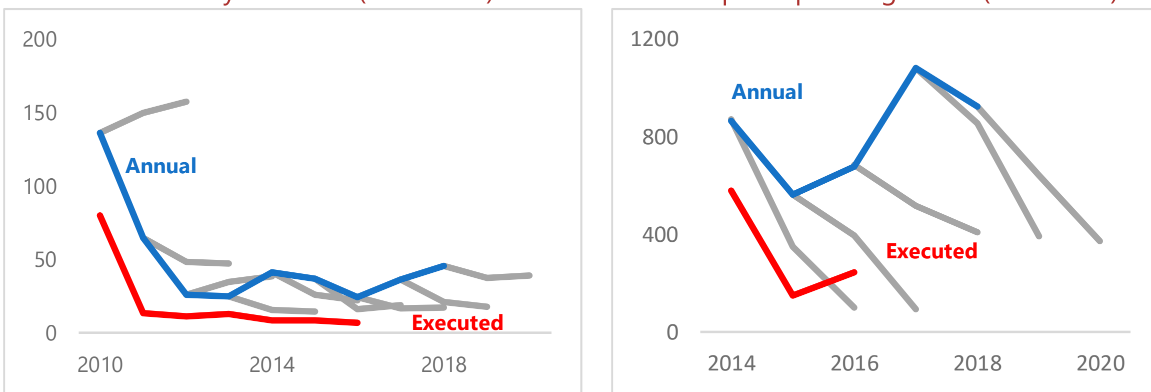
6. Multi-Year Budgeting (Institutional strength – *Medium*; Effectiveness – *Low*)

37. There is a legal requirement to prepare a medium-term budget by the institutions of BiH and the Federation. The FBiH LoB (2013, amended in 2014 and 2015) requires Federation and cantons to prepare a medium-term budget for capital and current spending. The respective Federation and cantonal governments are required to submit a rolling three-year budget framework document (BFD) to their respective parliaments for information.[25] The BFD is expected to contain expenditure ceilings for each budget beneficiary. The annual budget should contain current spending and capital transfers, as well as a separate annex to the budget which details the total cost and three-year spending projections for individual capital projects, funded externally. All these requirements are complied with in practice.

38. The expenditure ceilings for the two outer years are merely indicative, which affect the credibility of the medium-term budget. While the ceilings for the budget year in the BFD provide a hard constraint for the annual budget, the outer year ceilings are simply spending projections that are not binding in future years. In addition, there is no indication that these ceilings serve as the starting point for preparing the next year's BFD or annual budget, neither of which refer to the previous set of ceilings nor provide any explanation for deviations. The revisions between the medium-term projections in the BFD, and the following year's capital budget are large (Figure 22). In addition, under-execution of the capital budget itself is large, averaging 65 percent over the period 2010–16. This is generalized across sectors (Figure 23).

[25] As per the Law on Fiscal Council (2008), a three-year budget framework, the Global Fiscal Framework (GFF) covering the State, FBiH, Republic of Srpska and Brcko District budgets is approved by the Fiscal Council. At each level, a medium-term budget framework document (BFD) is subsequently produced, within the ceiling set by the GFF, and approved by the respective Parliament. It actually is a medium-term expenditure framework. The ceilings in the BFD for the budget year then becomes the basis for the spending in the annual budget. Alongside the GFF and the BFD, a three-year public investment plan (PIP) is also adopted. The law on Financing of BiH institutions (2012) imposes a similar requirement at the state level.

Figure 22. Capital Spending

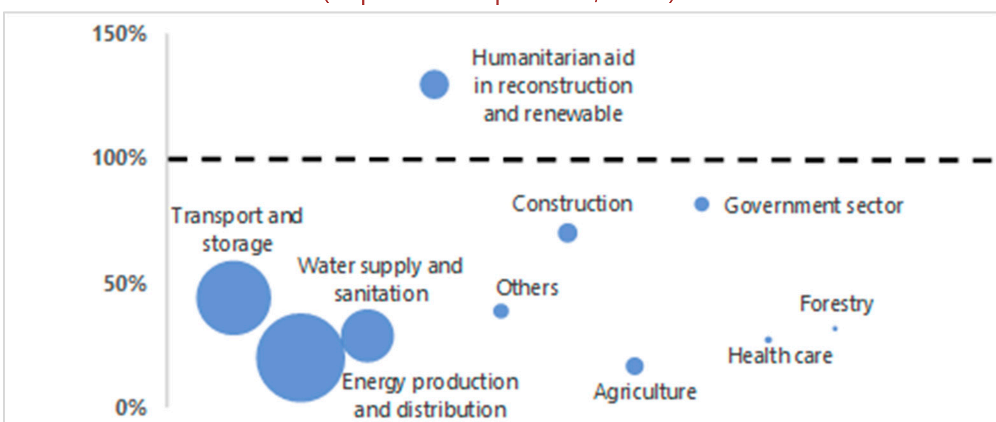


Source: Federation Ministry of Finance and Budget Framework Documents

Source: PIP of the Federation and execution reports

Figure 23. Execution of Capital Projects by Sector

(in percent of planned, 2016)



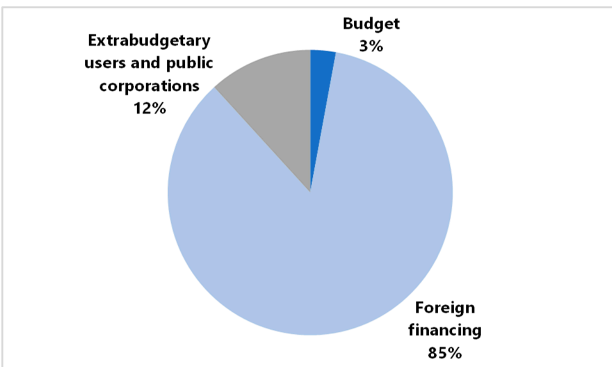
Source: Federation Ministry of Finance. Note the size of each dot represents the relative weight of each sector in the 2016 investment plan.

39. The cost of major capital projects is published at their inception but information provided on ongoing, committed, or prioritized capital expenditure over the medium term is scattered. By cross-referencing the PIP and the capital budget, the total project costs of major projects and their annual breakdown over a three-year horizon can be ascertained. Additional project information is contained in PIMIS, including the breakdown on costs and the progress on implementation, but this information is not sufficiently used to present a single exhaustive list attached to the budget documentation. An annual report on the implementation of the PIP during the past year is published but without analyzing the subsequent impacts of this execution.

7. Budget Comprehensiveness (Institutional strength – Medium; Effectiveness – Medium)

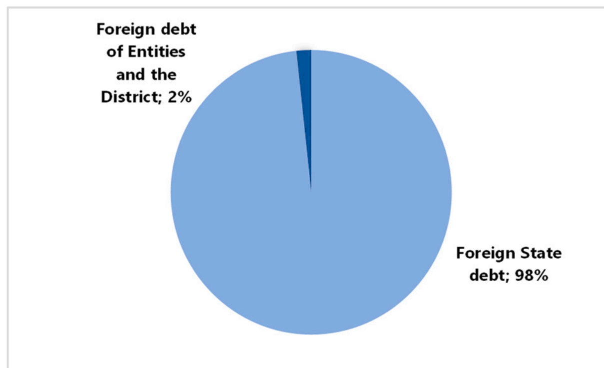
40. **Externally financed capital spending, is well-captured within the budget documentation but some projects managed directly by donors are not included.** Within the Federation of BiH, externally financed capital spending represented KM 509 Mn in 2013, or 57 percent of total capital spending, and is expected to reach KM 822 Mn in 2018, or 85 percent of total capital spending (Figure 24). Almost all of it is undertaken by the State (Figure 25). The State further credits the proceeds to the Federation, which on lends to cantons, health insurance funds and health institutions, or public corporations, which are ultimately responsible for servicing the loan. Despite the complex system of on-lending and guarantees, the budget documents cover capital projects which are financed through external loans. This does not apply to projects funded through grants, which are often directly managed by the external donors, and often escape budget oversight.

Figure 24. Source of Financing for the Main Projects in FBiH Planned for 2018



Source: Staff Estimates and FBiH 2018 Budget

Figure 25. Outstanding Foreign Debt of BiH as of end-2016



Source: Staff Estimates and debt management report (April 2017)

41. **Capital spending is also financed by extrabudgetary funds and public corporations, and this is reported in budget documents.** Defined by the LOB in the Federation, extrabudgetary funds are mainly pension and disability insurance funds, health insurance funds, employment funds and some road directorates.[26] The health insurance funds, which are mandated by law[27] to focus on current spending, are sometimes used to finance significant capital investments[28](Box 3 discusses funding in health). Road directorates and public corporations manage major road projects[29] (Box 4 discusses funding in roads). As a result,

[26] In 7 cantons, the road directorate is an extra-budgetary fund and in the three remaining, it is an extra-budgetary user. At the Federation level, roads are managed by public corporations.

[27] Law on Health Insurance ("Official Gazette of the Federation BiH" No. 30/97, 07/02, 70/08 and 48/11) and the provisions of the Rulebook on the Calculation of Funds in Health ("Official Gazette of the Federation BiH" No. 26/03 and 43/04)

[28] See Box 3.

[29] For instance, the part financing and implementation of the Corridor 5c.

around 10 percent of the amount of the major capital projects is financed through the own funds of extrabudgetary users or public corporations (Figure 24). The main projects appear in budget documents, notably within the annex to the budget (capital budget), and in the PIP.

42. Although still relatively new, PPPs and concessions are not included in the budget. As explained above (institution 4, p27) concessions or PPPs are few and none are reported, as the existing legislation does not require information on PPP transactions to be included in the capital investment budget of line ministries. With the recent adoption of legislations in cantons and a draft PPP law for the Federation under consideration, these forms of financing for public infrastructure are expected to become more prevalent and could increase fiscal risks, if not properly monitored.

Box 3. Health Funding in the Federation

The system

Health is a shared responsibility between the Federation and the Cantons. In the Federation, the main institutions in the public health sector are university clinical centers, general hospitals, cantonal hospitals. The main institution is the Sarajevo university clinical center.

There is a compulsory health insurance within the Federation (regulated by the *Law on Health Insurance of the Federation*), supported by the following main entities:

- **Health insurance funds (HIF)**, established at the cantonal level. Their role is to implement the development policy and promote health care provided under the compulsory health insurance and to plan and raise funds for the compulsory health insurance.
- A **Federation Insurance and Reinsurance Fund (IRF),** established at the Federation level to settle the difference in the financial operations between the cantonal insurance funds, and to provide the patients affiliated with the financially weaker cantonal health insurance institutes with the opportunity to use most complex and expensive forms of health care.
- A **Solidarity Fund**, established at the level of FBiH, under the IRF. It guarantees equal access to health insurance. It is funded with 9 % of the cantonal compulsory contributions and with the same amount from the Federation budget, which has been sometimes under-executed in the past years.

Funding

HIFs and IRF are funded in line with the Law on Health Insurance and the Law on determining resources in health care ("Official gazette of the FBiH", no.26/03 and 43/04). Resources for health care funding stems from:

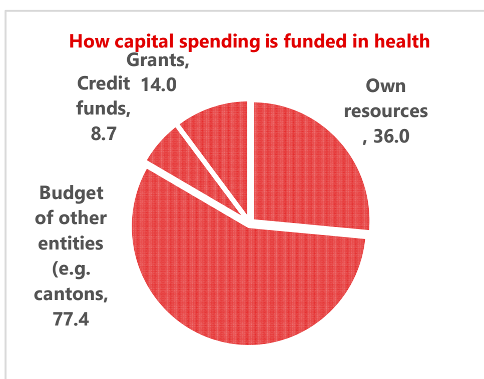
- **health insurance contributions** of employees' salaries, payroll contributions, farmer contributions, unemployment contributions and contributions for other categories;
- **Other sources** such as cantonal budgets, Federation budget, donations, health institution revenues, co-payments.

HIFs and IRF collect the compulsory health insurance resources. The greatest share in the income structure (around 75 percent) is that of the income from compulsory health insurance. Budgetary resources represent around 3 percent of the total.

Funding of capital projects

Although it is not their responsibility, some HIFs have been used to finance capital investment projects. The following external loans taken at the State level and on-lent to health institutions (such as hospitals), HIFs are sometimes mobilized to service the repayment of the debt, while the assets are accounted for at the level of the health institutions. This practice has however been reduced in some cantons.

In 2015, total revenues represented KM 1.7 bn (KM 1.2 bn from contributions and KM 39 mn from the budget). Total expenditures amounted to KM 1.8 bn out of which KM 1.7 bn relates to current expenditures and KM 136 mn relates to capital expenditures (up from KM 53 mn in 2013 and KM 58 mn in 2014). The figure on the right shows how capital spending was financed.



Box 4. The Financing of Roads in the Federation

The existing road network in the Federation comprises of 92 km highways, 2,137 km main ("magistral") roads, 2,547 km of regional roads, and roughly 7,000 km of local roads. Highways and main roads are managed by the Federation Highway Company, and the Federation Road Company respectively, both public companies. Regional roads are managed by cantons through their respective road directorates, while local roads fall under municipalities.

Several taxes, fees and charges are earmarked for roads:

- **Tax on oil and oil derivatives earmarked for roads (other than highways).** Until 2006, this tax, collected by the ITA, was forwarded directly to the various road management agencies – in the Federation, these are the FBiH Road Company, cantonal road directories, and municipalities. Since 2006, direct earmarking stopped. The tax collected is bundled with all other indirect taxes transferred to the three entities. In the Federation, 3.9 percent of all indirect taxes is earmarked and distributed according to the following formula: 40 percent for main roads; 35 percent for regional roads; 25 percent for local roads;
- **Registration fees earmarked for main roads:** These fees are transferred directly to the Federation Road Company (KM 25mn in 2017). This, together with the share of taxes oil and oil derivatives above, represents the bulk of the revenue of the Roads Company (KM 69mn in 2017);
- **Highway tolls:** Toll charges on highways collected and managed by the Federation Highway Company (KM 32mn in 2016);
- **Excise tax on petrol earmarked for highways:** This was increased from KM 0.1 to KM 0.2 per liter in February 2018. It is collected by the Indirect Tax Authority (ITA) and transferred directly to the highway companies in the different entities. For the Federation Highway Company, this represented KM 76mn in 2016 (70 percent of its revenue) and is expected to rise significantly with the new rate;
- **Excise tax on petrol expected to be earmarked for main and regional roads:** this tax (KM 0.05 per liter) introduced in February 2018. The precise arrangements are yet to be defined.

In the case of the Federation Highway and Road companies, the above revenues have been essentially used to cover operating expenses, maintenance activities and debt servicing. The same is true for many cantons, where the revenues often barely cover the cost of road maintenance and other minor upgrades. An example in case is the canton of Herzegovina-Neretva where only KM 3mn is available every year to improve 400 km of regional roads.

So far, the expansion of the highways and the major upgrade of main roads have been financed essentially through foreign loans. This is expected to continue in the foreseeable future. Ongoing and upcoming projects include:

- **Highways.** the upgrade of 100 km of "express roads", managed by Highway Company, to highways (estimated total cost: KM 944 mn – about 5 percent of the Federation GDP).
- **Main roads.** An ongoing four-year "Modernization Program" worth KM 350mn and a subsequent investment program worth KM 250mn. A mix of EBRD, World Bank and EIB financing is envisaged. Debt servicing by the Federation Road Company is expected to double from KM 18mn in 2017 (26 percent of annual revenue) to KM 38bn in 2027. Future road reclassification is expected to add an additional 400 km to its road network, adding further burden on the company's finances. The newly-introduced excise tax (KM 0.05 per liter) is expected to alleviate some of these pressures.

8. Budget Unity (Institutional strength – *High*; Effectiveness – *Medium*)

43. The Ministries of Finance of the Federation, and the cantons prepare capital and recurrent budgets and submitted them to their respective Parliaments in a single document. Article 10 in the Law on Budgets in Federation of BiH requires (i) a general budget section, retracing revenues and expenditures account, capital receipts and outlays account, and financing; (ii) a detailed budget which shows expenditure and outlay plans of budget users, presented by type, divided into current outlays and capital investment; and (iii) an annex to the budget on externally funded capital spending by year and by source of financing.

44. In principle, the recent improvements in budget classification and chart of accounts should enable the distinction between recurrent and capital expenditure and financing. Following recent capacity building assistance, all levels of government in BiH use a harmonized chart which is aligned with GFS 2001 for the purposes of quarterly and annual reporting.[30] There are no bridge tables from the chart of accounts of the Federation of BiH to GFS 2014 and from GFS 2014 to ESA 2010.[31] In 2013 and 2014, a capacity building project for the compilation of accounting data within the scope of general government and public finance statistics was carried out, financed by IPA.

45. Not all budget departments in BiH, however, apply the defined budget classification and chart of account consistently. This is the case in relation to spending on the maintenance of infrastructure,[32] for instance at some cantons and municipalities level. This is the consequence of the high level of fiscal decentralization, and the application of different accounting standards at various levels of government, which make consolidation of fiscal data difficult.

46. The budget does not provide information on the recurrent and maintenance costs associated with capital projects, which are not prepared using a standard methodology. The unit responsible for the design and implementation of the main projects takes the associated recurrent costs into account when costing a project, but each follow their own internal guidelines. Similarly, the relevant spending unit separates the capital costs from the associated recurrent costs (for example, the staff and equipment required to run a clinic), and the expenses for routine and capital maintenance when recording transactions. None of these information is not shown in the capital budget.

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[30] See Rules on Accounting with the Accounting Policies and Procedures for Budget Beneficiaries of the Institutions of Bosnia and Herzegovina (http://www.mft.gov.ba/hrv/images/stories/pravilnici/Pravilnik_o_racunovodstvuBiH_hrv.pdf) and Rules on Financial Reporting and Annual Budget Account in FBiH ("Official Gazette of FBiH", Nos. 69/14, 14/15).

[31] The Federation of BiH is implementing ESA 95.

[32] Including important maintenance projects or partial reconstruction.

9. Project Appraisal (Institutional strength – Low; Effectiveness – Medium)

47. Project appraisal requirements and practices are not standardized and depend upon project financing arrangements. Under the NIC, an appraisal methodology has been developed[33] but only applies to externally-financed transport sector investment projects. Major externally-financed infrastructure projects in other sectors, such as energy, are appraised as per requirements of creditors' loan agreements. For such projects, appraisals are financed primarily through grants and carried out by third-party consultants. Appraisal of domestically-financed projects is not supported with specific regulations, guidance and dedicated budgets. Project appraisal practices are informed mainly by sector-specific legislation (e.g., permitting and licensing requirements). There are no dedicated project appraisal regulations or standardized guidance applicable to domestically-financed projects, including guidance on cost-benefit analysis (CBA). Institutions do not budget separately for costs of appraisal. Against this background, appraisal practices for domestically-financed projects are not likely to be consistent.

48. Responsibility for appraisal rests with nominating institutions and the responsibility for its review with center of government institutions at each level. Implementing institutions are required to provide evidence of the analyses performed (including CBA, if any) at the time the project is nominated for inclusion in Public Investment Program (PIP). Public investment commissions (PICs) and MoFs are both required to review the project appraisals.

49. Local capacity for project appraisal and review is generally inadequate and reports from the review process are not made available to the public. Lack of technical staff qualified for project appraisal and review is a pronounced problem both at the Federal and lower government levels. Federal MoF reviews appraisals carried out for large projects in transport and energy, but the focus is mainly on financial analysis from the perspective of debt sustainability. There appears to be no consistent review of CBAs and outputs from such review are not regularly published.

50. Risks assessments are required and carried out as a part of project appraisal but there is no evidence that these assessments are being used to mitigate the risks of delays and cost over-runs inherent in capital spending. Risk management measures are the responsibility of the implementing institution and are articulated in the IP Form when the project is nominated. PICs review the risk assessment within the project selection process. Risks to budget implementation are further assessed and managed by the MoF but this is limited to large projects (notable examples include projects in energy and transportation). No contingencies for risks identified during appraisal are made at the point of project selection to cater for possible cost and time over-runs.

[33] Methodology for selection and prioritization of infrastructure projects in BiH, with Accompanying Guidelines for the Sector Working Groups (2015), issued by the Directorate of European Integration of the Institutions of BiH in the capacity of the NIC Technical Secretariat.

51. **Introduction of more stringent appraisal requirements to better inform project selection will need to be matched with adequate capacity.** With low government capacity for appraisal, indiscriminate introduction of higher requirements could slow down already sluggish investment implementation. While stronger appraisal requirements are needed, it is important to distinguish between nominated projects in terms of their size, complexity and possible fiscal impact. Large and major projects that are associated with greater fiscal risks should have a higher standard for project preparation and central review compared to smaller projects, particularly at municipal levels.

10. Project Selection (Institutional strength – *Medium*; Effectiveness – *Low*)

52. **Public Investment Programs (PIPs) serve as the governments' single project pipelines (SPPs) from which projects are selected for inclusion in their budgets.** The legislation prescribes that no project outside of the PIP can be selected for domestic or external financing.[34] To be considered for inclusion in PIP, investment projects must be above a certain minimum threshold[35] and be nominated through the PIMIS using the "Information on the Project" (IP) form. Six mandatory sections in this form cover basic information, relevance, description and effectiveness, sustainability and ranking, project documentation,[36] and financial information. Initial screening of the projects is carried out by the MoFs which reject all projects without a complete IP form but this is merely a formal documentation compliance check rather than substantive analysis.

53. **Nominated projects from PIMIS are reviewed, scored and ranked by PICs, but the ranking does not inform prioritization.** PICs at all levels are required to review project nominations from PIMIS and accompanying documentation, score and rank them against the criteria of relevance (40 percent), project maturity (15 percent), feasibility (15 percent), sustainability (20 percent) and urgency (20 percent).[37] At this stage, the MoFs provide administrative and technical support to the work of the PICs and consolidate the PICs' outputs into a draft PIP for the governments' consideration. In practice, there is at least one instance where a canton has not established a PIC due to limited human resources and the MoF consolidated all project nominations without a proper review.

54. **Prioritization and final selection of projects nominated for the PIPs remain the prerogative of the respective governments.** Once the PICs' project rankings are consolidated by the MoFs, draft PIPs are forwarded to the governments but the PICs' rankings are not binding.

[34] The only exception being those projects which serve to mitigate consequences of force majeure events.

[35] KM 1 million for projects nominated into the Federal PIP, KM 0.5 million for cantonal projects and KM 0.1 million for municipal projects nominated into cantonal PIPs.

[36] Including a) project idea, b) feasibility study, c) cost-benefit analysis, d) environmental impact analysis, e) gender equality analysis, and f) one optional field for free entry.

[37] The evaluation criteria used by PICs are the same for Federal and cantonal PIPs.

Governments maintain full discretion in final selection and project prioritization, implying that the final project selection may not be guided by feasibility and value for money considerations as political considerations frequently dominate decision making. Once approved by the Government for inclusion in the PIP, major projects are further reviewed by MoF staff prior to inclusion in the budget although capacity constraints remain.[38]

55. For externally financed projects, a parallel SPP is currently prepared for major infrastructure projects potentially creating two different priority lists. As described in Section 2, the Institutions of BiH and the governments of the Federation and Republika Srpska jointly prioritize major projects which require external financing. There is little evidence showing that decisions to select projects into the SPP are checked against the approved PIPs. The implication is that the same projects in at least one infrastructure sector[39] are prioritized and selected for financing using two pipelines. The resources of the Federal PIC dedicated for the review of the projects approved in the NIC SPP could be reallocated to other projects, provided the links between the NIC SPP and PIP are formally coordinated.

Recommendations

Issue: Outer-year projections of capital spending (as reported in the capital budget and the PIP) differ significantly from one budget to the next. Also, budget execution is poor with generally large under-execution. This suggests weaknesses in medium-term budgeting.

Recommendation 4: The Ministry of Finance should develop an approach to ensure that budget and non-budget users prepare more reliable forward estimates for capital expenditure:

- Budget Department in FBiH MoF to develop methodology for preparing forward estimates on capital spending (see Box 5 for a summary of the major steps in preparing forward estimates), in coordination with relevant departments within FBiH MoF. **(2018)**
- Methodology tested over key line ministries, and final version of methodology to be included in relevant instructions for budget preparation. **(2018)**
- Establish a process for the central validation of forward estimates within the MoF, which includes reviewing consistency and analyzing major variations between vintages of forward estimates. **(2019)**
- Establish a central process to review deviations in capital execution: this review process will provide explanations for deviations, prepare a reconciliation table in the capital budget. **(2020)**
- Extend the process above across cantons. **(2021)**

[38] For example, the Federal MoF has three staff working as administive support to the work of the Public Investment Commission on the review of the projects nominated for the Federal PIP.

[39] Currently transportation only. NIC SPP will soon encompass agriculture and environment, using the same approach.

Issue: Medium-term budgetary implications of the capital budget (both ongoing and newly approved projects) are not well understood and the risk of over commitment exists.

Recommendation 5: Establish a mechanism to better estimate the medium-term budgetary implications of ongoing and approved projects:

- Consolidate information on existing and approved projects, including costs, disbursement schedules, impact on debt and debt service. This should be reviewed semi-annually by the relevant departments of the Federation MoF - Budget, Debt and Treasury. **(2018)**
- Capital budget and Framework Budget Document to contain this information, including the impact on the fiscal position, and debt in the medium term. **(Budget 2020)**

Issue: There is no medium-term budgeting of maintenance costs, and no information on these costs over the life of the asset in the capital budget. A standard definition of maintenance is also not uniformly applied.

Recommendation 6: Improve the reliability of maintenance costs and their reporting in the capital budget:

- Establish clear guidelines on how to estimate yearly maintenance costs in IP form submission and PIP updates, including what is maintenance costs and the definition of maintenance costs, and which broad benchmarks to use. (**2018)**
- Include the maintenance costs for each project in the capital budget. **(2019)**

Box 5. Major Steps in Preparing Forward Estimates

A. Understand the existing budget

a. *Understand the current spending base.* This requires knowing where and what the agency spends on.
b. *Choose the level on which to forecast spending.* This does not need to be based on the lowest level of budgetary appropriation. Sections or paragraphs can be grouped so long as they have common cost drivers.
c. *Identify past one-off expenditures.* These are to be removed from the spending base if they will not be incurred in coming years (e.g., the cost of elections held in the base year).

B. Understand and apply medium term cost drivers

d. *Identify price and volume cost drivers.* This should be done for each level of forward estimates.
e. *Link these cost drivers to macroeconomic and demographic variables* (e.g., Consumer Price Index (CPI) or population growth).
f. *Adjust base spending by the price and volume parameters*

C. Include the effect of past policy decisions that are not fully reflected in the base

The additional costs or savings resulting from past policy decisions that are yet to fully mature are to be included to the adjusted projected spending (e.g., a policy of increasing transfers to a given group which was only implemented half way through the base year, or an IT modernization program that has not been fully implemented). Note that these costs/savings are expected to be already adjusted for price and volume parameters.

D. Aggregate to get the overall forward estimate for each Ministry

The set of forward estimates should be aggregated for each Ministry.

E. Implementing Investment

11. Protection of Investment (Institutional strength – *Medium*; Effectiveness – *Medium*)

56. Appropriations for capital expenditure are on an annual basis only. While the annual budget presents multi-annual capital indicative allocations on a three-year period, these are not binding, as there is no legal basis for appropriating total project outlays over the medium term. Continuity of funding is ensured through the rule of law, and notably contract law, so that the government is required to meet its contractual commitments like any other legal entity.

57. The law allows the carryover of capital investment from one year to the next but this is not followed. According to Article 58 of the Law on Budgets in the Federation, appropriations for multiannual capital projects can be carried over to the following year, based on the amounts and the timeframe specified in the BFD. This is not followed in practice for the Federation and in cantons.[40]

58. The law limits virements from capital to current spending, and in practice such virements seldom occur. Article 59 of the Law on Budgets and the annual Budget Execution Law limits virements to a maximum of 10 percent of the total approved expenditures and outlays within its budget. The authorization of the Ministry of Finance is needed and there could be at most four virements per year and one per quarter for each budget user. For a virement between two different ministries, the approval of the government is necessary.

59. The fact that projects are mainly externally funded is the main reason why capital investment has been protected so far. This, rather than the budgeting framework itself, has been the main reason why the continuity of funding has been guaranteed until now. Nevertheless, large delays in implementation could still lead to a loss of previously secured funding. This is particularly true for projects that are fully or partially grant funded—donors often operate on a "use-it-or-lose-it" basis.

60. Going forward, as public investment scales up, and debt increases, the absence of mechanisms to fully protect investment projects could be sources of fiscal risks. In an environment of low debt, as is the case in the Federation, the addition of new, externally funded projects, even large ones, are not likely to require forgoing existing projects. New projects can simply be added based on their cost-benefit analysis. There is however a point—reached by many countries —where debt and debt servicing reach levels where a stronger prioritization of projects is required. In this case, launching new projects, without fully protecting existing ones, poses some risks. Either existing projects will have to be scaled down or the fiscal position will worsen (see Figure 23, p32).

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[40] Some municipalities report following Article 58 in their budgeting practices.

12. Availability of Funding (Institutional strength – *Medium*; Effectiveness – *Medium*)

61. The cash management framework in BiH has some positive elements. The cash management framework at the level of the state institutions and the Federation and Cantons is governed by the 2016 Law on Treasury and the 2014 LoB.[41] Both laws require budget beneficiaries to prepare and submit cash plans on an annual, quarterly and monthly basis to the Treasury.

62. The cash management framework is still, however, founded on cash rationing. Cash plans are consolidated in Excel spreadsheets and considered at the level of the Federation by a liquidity board comprising the respective departments responsible for budget, debt, treasury and tax revenues. Based on these cash plans, the liquidity board makes decisions related to short term borrowing needs of FBiH and guides the Budget Department issuance of the monthly spending limits based on cash requirements, priorities specified in the annual budget implementation law and cash availability. In cases of cash constraints, non-priority payments are delayed.

63. Cash rationing has not significantly impacted public investment since there is very little own source financed public investment – projects are predominantly externally financed. In recent years, availability of cash has not been a problem due to the limited domestically financed capital investment projects. Payment orders within the monthly ceilings are made in a timely manner, and budget users report no significant payment delays at either the level of BiH institutions, the Federation or Cantons for investment projects.

64. There is however, no effective expenditure control at the commitment stage of the process. The State level, FBiH and the Cantons use Oracle financials as the main treasury ledger, but there is no control within the system at the purchase order stage, or the contractual commitment stage - the control is at the payment stage against the monthly budget release. This poses a risk of arrears and delayed payments, with evidence of significant arrears at the Cantonal level.[42] This is a significant weakness in the Treasury systems, particularly at the Cantonal level. For capital projects. there is also no systematic means of tracking multiannual commitments to ensure that funds remain available for the life of the project and are properly integrated into the outer year estimates of the medium-term budget (See also institution 6).

65. The Treasury single account maintains all of the respective governments' cash balances, except those related to external loan financed projects. The law requires all

[41] Law on Treasury in the Federation of Bosnia And Herzegovina (2016), and Law on Budgets in the Federation of Bosnia and Herzegovina (2014) covering FBiH, the cantons, EBFs, and the 80 local self-governments in the Federation, and the Law on financing of the institutions regulates the state institutions (Official Gazette of BiH," No. 61/04, 49/09, 42/12, 87/12 and 32/13).

[42] A survey suggests that arrears at Cantonal level represent 3 percent of FBiH nominal GDP at the end of 2016 – up 23.6 percent from 2015. Total arrears for the 10 cantons amounted to KM 431,970,131 in 2016, equal to 21.0 percent of total revenues for the year.

revenues to be paid into the respective Treasury single account (TSA). Where donor funds are kept in the TSA (37 donor sub-accounts at the FBiH Treasury), for example for the World Bank Health sector project, they are ring-fenced in sub-accounts of the TSA. All loan financed large infrastructure projects supported by loans require either separate bank accounts or direct payments to suppliers.

13. Transparency of Budget Execution (Institutional strength – *Medium*; Effectiveness – *Low*)

66. Most major projects are subject to a transparent procurement procedure. The procurement process is regulated by the law on public procurement (PPL) that applies to all levels of the public sector in Bosnia and Herzegovina.[43] In 2017, 84 percent of tenders were advertised on the public procurement portal of the PPA. Contracting authorities also publish procurement plans and tender documents on their own websites. From January 2018, the facility to publish procurement plans in the PPC portal has been introduced, although this is optional.[44] Some of the smaller contracting authorities however, do not have websites. Foreign financed projects are not subject to the PPL, but are subject to the procurement rules of the international creditor, which many implementers said they preferred. The published procurement plans and tender documents therefore only show procurements planned from the budget. Box 6 describes the key features of the public procurement framework in BiH.

67. The monitoring of projects during implementation is fragmented and weak, and performance monitoring is generally left to the sector ministries at Federation, Canton or local government levels. Physical and financial reports are produced by project implementers on a quarterly basis to the respective line or sector ministry. These reports provide financial information and a narrative description of physical progress. In addition, project implementers are also required to enter financial data on the PIMIS system to enable monitoring by the MoFs (see Box 3). An annual report on the implementation of the PIP is published on the website of the FMOF, showing total project value, annual budget and spending on all major projects and all sources of financing, by sector and project. This report, however provides no information on the physical project implementation or total spending to date. At the level of the Federation, the PIC is legally required to report to the government on its activities biannually and make recommendations for the improvement of planning and implementation of projects.[45] The Debt management department of the FBiH MoF also monitors disbursements on loan financed projects, but not on the physical implementation of projects, nor does it receive narrative reports on execution.

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[43] Public procurement in Bosnia and Herzegovina is regulated by the 2014 Public Procurement Law. The PPA covers the whole of BiH, a total of 2,430 contracting authorities.

[44] Website of the Public Procurement Authority www.javnenabavke.gov.ba.

[45] Decree on the Manner and Criteria for the Preparation, Development and Monitoring of the implementation of the Public Investment Program

Box 6. Public Procurement in BiH

Transparency of Procurement

The PPA manages a procurement portal on which procurement notices, reports on procurement procedures, tender documents and the publication of clarification requests and answers about tender documents, as well as the annual reports of the PPA are published. The annual report summarizes the procurement activity by tender process and value.

Complaints procedures result in significant delays

There are a large number of appeals despite a fee requirement to make an appeal (2,052 in 2013, 1,132 in 2014, 2,011 in 2015 and over 2,500 appeals in 2016). The law requires that appeals are resolved within 30 days, but discussions with procuring entities suggests that delays can be over two months, and more if a fresh procurement has to be initiated as a result of the appeal. With support from GiZ, software has been developed to enable publication of the decisions of the Review Body, but this has not yet been fully implemented.

Effects of the complaints procedure on public investments

The high number of appeals tends to delay the procurement process and project implementation and are reportedly due to: the poor quality of tender documentation - opening opportunities for frivolous complaints; a focus on procedural detail, leading to cancellation of tenders for insubstantial reasons; the competitive nature of the relatively small private sector, making public contracts the main revenue source of many companies, leading to a tendency to use any means for securing a contract or at least preventing others; failure to publish the PRB's decisions, so that the basis is not publicly accessible, contracting authorities therefore risk repeating errors that lead to complaints that could have been avoided; and the inconsistency of decisions by the PRB, which is difficult to prevent in the absence of a good dataset of past decisions. A 2017 BiH institutions audit observed delays of up to 200 days. Individual audits of contracting entities at FBiH level also highlights delays and failures to comply with the PPL.

Source: Website of the PPA, Audit reports.

68. The degree of physical monitoring varies and reports are not published. Practices differ between sectors as key infrastructure ministries such as Transport and Infrastructure, monitor the execution of public entity implemented projects within their sector on a quarterly basis, but while the Ministry of Energy, Mining and Industry receives the quarterly reports, it does not actively influence the implementation of capital projects in that sector, partly due to lack of capacity.

69. The PIMIS system provides a platform for monitoring public investment spending at all levels of the public sector, but data is not centrally reconciled, nor physical progress reported. The system is not connected to the treasury, or budget systems, so reconciliation and verification of the accuracy of the data reported is almost impossible. It is the explicit responsibility of the respective agencies implementing the projects to enter the data into PIMIS in a timely and accurate manner. The system also does not currently provide facilities for entering data on physical progress. Enhancing the system to enable integration with treasury and budget systems, and enabling reporting of accurate financial data and physical progress would greatly enhance comprehensive monitoring of public investments, and provide an opportunity for reducing the reporting burden and duplication of project reports.

70. The State Supreme audit institution at the respective level of government has the authority to audit all public spending, including that financed through grants and loans. In practice, however, major capital projects implemented with donor financing are not audited by the FBIH SAI as part of the routine financial audit, nor in the form of an ex-post audit, since these projects are subject to the procedures of the creditor and outside the Treasury system (see also institution 12). While the SAI has authority to audit these projects, there is only one published audit of a major capital project produced by either SAI, - the prisons project PIU at the BiH Institutions level, which has the status of a budget user, although this project is not yet fully complete.

14. Management of Project Implementation (Institutional strength – *Low*; Effectiveness – *Low*)

71. For major capital projects, the law requires that project implementation units be set up in the respective implementing agency, but there are no standardized rules for project adjustments. The decree on public investment defines the value of projects to be included in the PIP and specifies that project management units are set up within each federal or cantonal ministry or administration, local government, agency or public corporation responsible for implementing the project. For large investment projects financed through loans, within the Transport, Energy and Health sectors, such units have been established. However, the 2016 FBiH annual report on implementation of the budget suggests that this is not the case for all ministries or agencies implementing projects financed through the budget,[46] a factor contributing to poor project implementation plans and low project execution rates.

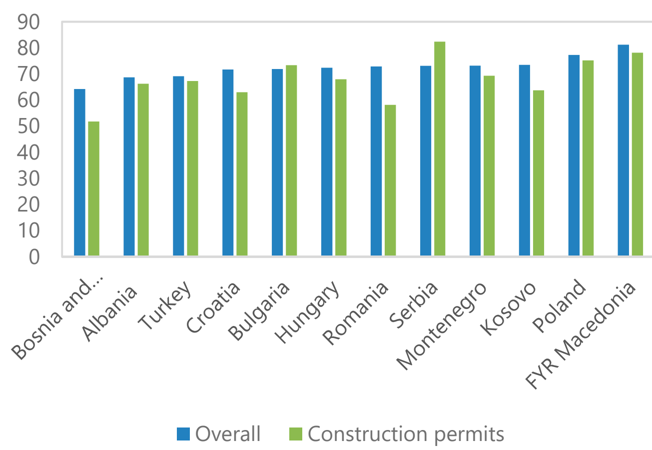
72. Capacity in the project implementation units that have been set up is limited, and staff turnover is high, particularly at the Cantonal and Ministry levels. A particular concern is the loss of staff from the Ministry levels to the local self- government units. The public investment decree does enable the hiring of experts to strengthen the units with the necessary skills, often on a different pay scale from the civil service, and this facility has reportedly been used by some ministries, often on an ad-hoc basis and is noted in the annual audit report. Lack of capacity, coupled with the frequent implementation delays mentioned above (lack of risk assessment at the planning stage, weak appraisals and medium-term budgeting and lengthy procurement delays) may explain the under execution of the capital budget in recent years (46 percent execution rate at FBiH level in 2016).[47]

[46] FBiH report on the implementation of the 2016 Budget, available at: www.vrifbih.ba

[47] FBiH report on Execution of the Budget, 2016.

73. In practice, project implementation is subject to frequent delays before the project starts, due to requirements for permits, property expropriations and procurement delays. Once loan financing is approved, itself a lengthy process due to the unique governance arrangements in BiH, further protracted procedures for attaining licenses, permits and resolution of property expropriations begin. For larger projects, such as the Mesihovina wind power plant financed through a combination of loans and donations and implemented by the electricity company Elektroprivreda Hrvatske Zajednice Herceg-Bosne (EPHZHB), the number of permits required may reach close to 100, a time-consuming process managed by the PIU that inevitably delays project commencement. As discussed in Box 6, frequent delays in procurement, largely due to frivolous appeals are a further source of delays in delivering capital investment projects. Figure 26 shows that BiH ranks relatively poorly against comparator countries in the region overall and for issuing construction permits in the World Bank Doing Business indicators, again leading to delays in the implementation of investment projects.[48]

Figure 26. Ease of Doing Business in BiH and Selected Countries



Source: World Bank Doing Business Report, 2018

74. There are currently no rules, guidelines or procedures issued by the government for project adjustments. Management of project adjustments is currently left to the implementing agency. Since all major projects are predominantly donor financed, variations on major contracts would attract the attention of the financier and the debt management department that monitors disbursements on projects financed by debt. However, there are currently no procedures issued by the government.

75. Ex-post reviews are conducted for PIP projects only where these form part of the requirements of donors (such as the EIB and EBRD). A final report is usually provided to the respective MoF for all PIP projects on project completion, but it focuses on financial data rather

[48]www.doingbusiness.org/reports/~/media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2018/ECA.pdf

than physical progress or project outcomes. Where ex post reviews are conducted, there is no systematic process for collecting and learning from the findings. Such reviews are an important management tool aimed at assessing whether the project outputs and outcomes were successfully and efficiently achieved. Successful outcomes depend in part on how quickly the created assets become operational in delivering anticipated facilities or services.

15. Monitoring of Public Assets (Institutional strength – *Low*; Effectiveness – *Low*)

76. Non-financial assets are reported in the government financial statements at initial cost, as required by legislation. The public-sector accounting legislation requires each budget user (at all levels of government) to record and keep a register of non-financial assets.[49] Non-financial assets are valued at cost with an adjustment for depreciation and are shown in balance sheet. The modified accrual basis used does not require depreciation costs to be shown in the income statement, but it is on the balance sheet together with stocks of non-financial assets.[50] Neither BiH institutions, nor FBiH have implemented IPSAS, but it is an objective in their respective PFM reform strategies.

77. Public corporations follow the accounting rules for private companies. At all levels of the government, public corporations apply full accrual accounting principles, in accordance with International Accounting Standards, as required for private companies. Their balance sheets include data on non-financial assets, and depreciation is provided for in income statements. Each corporation keeps a register of non-financial assets, as a separate module within its accounting software, but those data are not used for to produce a consolidated report of PCs.

78. A fixed-assets register does not exist at the FBiH level, while at the BiH institutions level the register is not comprehensive. Despite each budget user keeping separate registers of non-financial assets, there is no single registry at the FBiH level. At the BiH institutions level, a Long-Term Assets Module of the Treasury system was implemented in 2011. Inter alia, the module enables creating reports, such as assets by category, depreciation, purchased or donated assets. and is regularly updated with any changes related to non-financial assets. An assets register was compiled in 2006, this however has never been approved by the Council of Ministers (CoM) and has not subsequently been updated, nor does if contain data on asset values.

79. The quality of non-financial assets data is questionable and not supported by a comprehensive survey and revaluations. In line with the Accounting and Auditing law, budget users conduct an inventory of assets and liabilities, including non-financial assets, at least once per year. Every year, for several years however, the SAI has drawn attention to the lack of accurate asset information and the absence of supporting documents in the inventory. Additionally, the FBiH reports still contain some assets that were transferred to the BiH

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[49] In BiH accounting policy is the responsibility of the respective entities.

[50] The modified accrual basis, required by the laws of FBiH and BiH institutions record revenue receipts when cash is collected (cash basis), while expenditures are recorded when economic value is exchanged (accrual basis).

institutions on its establishment. Further, the land and buildings, used by several institutions, are not properly recorded in their financial statements.

Recommendations

Issue: There is no commitment control and the cash management framework remains largely based on cash rationing, leading to potential for arrears, particularly on domestically financed spending, risking delays in project commencement and implementation.

Recommendation 7: MoF to strengthen commitment controls – particularly multi annual commitment controls for all public investment projects, regardless of size:

- Upgrade the Treasury systems at FBiH and Cantonal levels to enable the recording of commitments, and contractual obligations and control at the commitment stage for all types of spending. **(2019)**
- Ensure that multi annual commitments, for the period of the Medium-term budget and beyond can be recorded in the treasury systems. **(2019)**

Issue: Project commencement for major investment projects is frequently delayed by a complex set of requirements for licenses and permits.

Recommendation 8: The Ministry for Spatial Planning should lead a review of the framework for licenses and permits and streamline the processes within the respective levels of government.[51]

- Document all the required licenses and permits, and the respective laws, in conjunction with budget users and public corporations responsible for implementing large public investment projects. **(2018)**
- Conduct a comprehensive review of the purpose and effectiveness of each required license and permit and the efficiency of the processes for application and award of each license/ permit. **(2019)**
- Propose amendments to the respective legal frameworks to rationalize and streamline the process and remove any unnecessary processes. **(2019)**
- Review the license and permit applications systems and required data sources for assessment e.g. property cadasters, and upgrade or automate where possible. **(2019)**

Issue: Monitoring of projects is fragmented between Line Ministries, PCs and the respective Ministry of Finance. Ex-post reviews and audits are not systematically conducted, asset ownership is unclear and asset registers are incomplete, impeding the monitoring of project implementation, lesson learning and effective monitoring of assets.

[51] The review should include a working group comprising all Ministries and Agencies tasked with issuing licenses and permits.

Recommendation 9: The MoFs should enhance the monitoring of investment projects during their implementation to better control and avoid implementation delays and improve management and monitoring of assets after project completion:

- Increase the functionality of the PIMIS system to enable reporting of physical progress of implementation of public investment projects. **(2018**)
- Publish a more comprehensive annual report on the PIP, including financial and physical progress for major investments, including reasons for delays and recommendations for improvements. **(2018)**
- Develop standard guidelines for project adjustments during implementation, including a full of the project's rationale, costs and expected outputs where there are significant delays. **(2019)**
- Publish ex post review of project implementation prepared for externally financed projects on the respective ministry websites and include key findings in annual report on Public Investments. **(2019)**
- MoF to identify one major project due to be completed in 2018 for an ex post audit. **(2019)**
- The two SAIs should require that all audit findings by external audits conducted on behalf of lenders, such as World Bank and EBRD are reflected in audits of institutions. (**from 2019**)
- Prepare a comprehensive consolidated asset register for FBiH, separately identifying assets that may be subject to ownership disputes. **(2020)**

Issue: The BiH procurement system has a legal and regulatory framework with loose criteria for complaints. In practice, procurements are subject to delays due to appeals and limited capacity within contracting authorities, exacerbated by inadequate monitoring of procurement delays,

Recommendation 10: The PPA and PRA should reduce the delays in the procurement process by reviewing the regulatory framework for procurement to close loopholes in appeals criteria and increase efficiency:

- Review the PPL and operating procedures for the PRB and amend the appeals criteria to reduce opportunities for frivolous claims. **(2018)**
- Review the efficiency of existing complaints procedures system. **(2018)**
- Require contracting authorities to report on the timeliness of the procurement process in brief quarterly reports and centrally monitor the compliance with the deadlines in the PPL. (**2019 onwards)**
- Provide training and feedback on procurement plans and tender documents by contracting authorities to avoid stalled procurements and complaints. **(2019 ongoing)**

Annex I. General Framework for a Feasibility Study

This annex outlines several broad features that form part of a feasibility study. It serves as a guide, but will require further detailed elaboration and tailoring on a sector specific basis.[52]

1. Executive Summary

- Summarize the key findings of the feasibility study and recommendations aimed at high-level decision-makers.

2. Analysis of the Existing Context for the Project

- Review the context for the project, including the current institutional framework.
- Summarize government policy in the sector/sub-sector in which the project belongs and the respective roles of the State and the private sector.
- Describe the role of the Economic Entity in the sector/sub-sector and how it became involved in the project. If there have been any previous attempts to initiate the project, explain why these failed.
- Summarize the findings and conclusions of any preliminary or previous studies, including the pre-feasibility study where relevant.

3. Examination of Project Alternatives

- Assess the level and quality of existing public services to be improved by the project and identify any shortcoming or deficiencies, for example, poor quality services or bottlenecks or interruptions in service delivery.
- Consider the levels of service mandated in government policy compared to existing services.
- Identify who uses and needs the services, so that target users can be identified, for example, target users can be defined geographic location or socio-economic category.
- Examine the different alternatives for meeting the identified needs for the relevant service. Alternative might include: regulatory changes or improved sector management practices, and no investment; rehabilitating existing facilities; or building completely new facilities.

4. Market Assessment and Demand Analysis

- Provide a forecast of the potential demand for the defined outputs (services) among the target users of the project and of the expected growth in this demand over the lifetime of the project. Include an estimate of any suppressed demand that is currently not being met because of insufficient coverage or service quality.
- Present estimates of the willingness and ability to pay for the services by potential users, where relevant.

- Present forecasts as scenarios representing different possible outcomes, including the most likely outcome and the worst-case scenario.

5. Summary of Technical Studies and Project Costs

- Provide a technical description of the engineering and non-engineering aspects of the project. This should summarize the technical and technological studies undertaken to assess the technical feasibility of the project and alternatives. Detailed studies should be appended to the Feasibility Study.
- Identify the input parameters for the project and their prices, including labor costs for construction and operation of the project.
- Provide detailed estimates of capital and operating and maintenance costs. Capital cost estimates will be based on the preliminary technical design.

6. Spatial Planning

- Review spatial planning issues in relation to the project and its location. Summarize the implications for the project of local and national spatial plans.
- Describe the steps proposed to ensure conformity with the plans. Identify the official approvals required to proceed with the project.
- Set out the land acquisition requirements of the project and the procedures and timetable for meeting these requirements. Land acquisition and obtaining approvals must be factored into the project implementation plan.

7. Economic Analysis

- Present the economic analysis approach - economic cost-benefit analysis or, where appropriate, cost-effectiveness analysis
- Identify and value relevant and material costs and benefits
- Describe the data inputs, estimation techniques and assumptions used
- Present results of economic analysis for the proposed project compared to realistic project alternatives and the do nothing alternative,
- Append detailed workings and any economic modelling undertaken for the Feasibility Study to the main report.

8. Financial and Fiscal analysis

- Present the financial analysis of the proposed project and the results of the assessment of financial sustainability of the operating entity, describing the data inputs and assumptions used to arrive at these results.
- Present an assessment of the net impact on the public finances, including changes in tax revenues, of the proposed project during construction and during operation.

- Append detailed workings and any financial modelling undertaken for the Feasibility Study to the main report.

9. Risk analysis and management

- Identify the main sources of risk for the project and assess their impact on the economic feasibility and financial performance of the project and their likelihood.
- Present a plan for managing the key risks, including mitigation measures and reactive measures for if the risks should occur.

10. Environmental and Social Impacts

- Summarize the environmental and social impacts, both positive and negative, of the project.
- Append full environmental and social impact assessments, where undertaken, to the Feasibility Study report.

11. Implementation and Operational Arrangements

- Present an assessment of the capabilities of the organization(s) responsible for implementing and/or operating the project.
- Set out the outline plan and timetable for implementing the project, indicating key milestones in detailed planning, approval and construction.
- Describe the project management arrangements, including the organizational arrangements and the allocation of responsibilities between the different parties involved.
- Outline the organizational arrangements and allocation of responsibilities for operating and maintaining the project once completed.

12. Conclusions on Project Feasibility

- Summarize and interpret the findings of the preceding analyses to arrive at a conclusion concerning the technical and economic feasibility of the project, its sustainability and the associated risks.
- Make recommendations to decision-makers.

Annex II. Overview of Development and Sector Strategies in Selected Infrastructure Sectors in BiH

This table shows some of the sector strategies across the levels of government. Altogether, there are about 150 laws across the different levels and no overall national development strategy to inform public investment. The absence of approved national strategies makes it difficult for the country to access certain infrastructure funds from the EU. The energy sector is a case in point where the draft sector strategy is yet to be approved.

	Development Strategy	**Sectoral strategies in the selected infrastructure sectors**
BiH	1 strategic framework for BiH	1 transport strategy 1 strategy in environment 1 strategy in rural development (agriculture)*
Federation	None	6 Federal strategies in health care covering different thematic areas 1 Federal strategy in transport 5 Federal strategies in agriculture covering different thematic areas 1 Federal strategy in environment 1 Federal strategy energy
Cantons	10 cantonal development strategies	n/a**
Municipalities	44 municipal development strategies***	n/a

Source: data reported by the Federal Institute for Development Programming (FIDP)

** Country-wide strategies for transport, rural development, and environment have been adopted to date, driven primarily as the means to access external financing. Country-wide energy sector strategy is pending. There are no plans in place for development of strategies that address social infrastructure on the level of the Institutions of BiH (such as health or education).*
*** The list is non-exhaustive and other sources refer to cantonal sectoral strategies (in e.g. health).*
**** not including those developed from 2015 onwards*

Annex III. Overview of Planning Legislation for Public Investment Planning and Corresponding Calendar

This table shows the current legal and regulatory framework for planning in BiH. The framework is quite fragmented due to the country's administrative arrangements. In an effort to harmonize the various planning documents, a new Law on Strategic Planning is expected to come into effect with the 2020 budget. This new law would unify the planning requirements as well as the budget calendar, effectively linking the strategic planning phase with annual budget. The three-year plans shown in the calendar would become the link between the strategic priorities and the medium-term expenditure framework (MTEF). Currently, the link between planning and budgeting is weak.

<table>
<tr><th></th><th>Strategic planning</th><th>Medium-term planning</th><th>Investment planning</th><th></th><th>Spatial planning</th><th>Concessions and PPP</th></tr>
<tr><td>BiH</td><td colspan="2">Decision on the Procedure of Medium-term Planning, Monitoring and Reporting in the Institutions of BiH (2014)</td><td>Draft by-law Methodology for Public Investment Management of BiH (2018)</td><td></td><td>n/a</td><td>Law on Concessions of BiH (2002)

Law on PPPs (under preparation)</td></tr>
<tr><td>Federation</td><td rowspan="3">Law on Development Planning and Management in the Federation of BiH (2017)</td><td>Decree on Three-year and Annual Planning and Annual Reporting in the Federal Ministries and Institutions (2014)</td><td rowspan="3">Decree on the Manner, Criteria for Preparation, Development and Monitoring of the Public Investment Program (2014)</td><td></td><td>Law on Spatial Planning and Land Use on the Level of the Federation of BiH (2010)</td><td>Law on Concessions of the Federation of BiH (2006)

Law on PPPs (under preparation)</td></tr>
<tr><td>Cantons</td><td rowspan="2"></td><td></td><td>10 cantonal laws on spatial planning</td><td>10 cantonal laws on concessions
8 cantonal laws on PPP</td></tr>
<tr><td>Municipalities</td><td></td><td>n/a</td><td>n/a</td></tr>
</table>

Source: staff, based on Government-reported and publicly available data

Planning and budgeting calendars (current schedule)

	Documents	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Strategy	Medium-term plan Federation			31 – draft three-year plan submitted to the MoF					15 – revised draft three-year plan submitted to the MoF		31 – adoption of the three-year plan submitted to the MoF		
Strategy	Medium-term plan Institutions BiH	31 – DEP issues instruction for MTWP COM		15 – institutions send elements for MTWP COM 15 – MoF informs DEP about the BFD	30 – draft MTWP COM	30 – draft MTWP COM submitted for adoption	30 – MTWP COM adopted			30 – institutions adopt and publish MTWP			
Planning	PIP Federation		15 – MoF submits to the relevant/line ministries requirements to fill the IP forms		15 – the line ministries submit to the MoF IP whose value exceeds KM 1 million		15 – MoF prepares the draft PIP and submits to the Government 30 – The Government adopts the draft PIP			15 – Consultations about final PIP 25 – The line ministries submit to MoF revised IP form	20 – MoF submits a proposal of PIP to the government	25 – Government adopts the PIP	
Planning	PIP Institutions BiH	31 – MoF submits to the line ministries requirements to fill the IP forms			15 – MoF approves IP forms		15 – MoF prepares the draft PIP and submits to the Government 30 – The Government adopts the PIP proposal	1 – MoF requests updates to PIP	1 – Institutions send updated information	1 – MoF prepares updated PIP	1 - MoF prepares the updated PIP and submits to the Government		
Budgeting	BFD and annual budget		15 – MoF issues Budgetary Instruction 1		15 – Budget users submit to MoF proposal of priorities for BFD		30 - Government adopts BFD	15 - BFD published 15 – MoF issues Budgetary Instruction 2	15 - Budget User Request (prepared by budget users) submitted to MoF		15- Submission of draft annual budget to government by the MoF	5 - Approval by Government and submission to Parliament – annual Budget proposal	31 - Approval by Parliament or local assemblies

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