



# Fiscal statistics in Bosnia and Herzegovina-who needs it?

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**Bosnia and Herzegovina does not have an institution in charge of fiscal data collection and consolidation on the state level and it does not have uniform fiscal reports harmonized with international standards. Current legislative does not predict the obligation of monthly fiscal data deliverance to fiscal authorities. Quarterly and annual fiscal reports are produced and delivered to entities' ministries of finances but with a time lag which is significant enough to fail to issue an alarm for early intervention. Monthly reports, as well as state level consolidation, on the other hand, are produced in ad hoc manner and currently are facing dead-end street. At the same time, reporting units are overloaded with the production of dozen of reports with similar content for the different beneficiaries. And what does this mean? It means that, while other countries are conducting austerity measures, we do not know how much money we are earning nor how much money we are spending and on what. Consequently, we do not know what generates our income or who our biggest spenders are. This leaves us rudderless in the rough sea. Question that arises from this is: Is there an actual demand for fiscal data in Bosnia and Herzegovina?**



Protests of demobilized soldiers in front of the Parliament of BiH (Source: Dnevni avaz)

The stakeholders who will gain the benefits from reform of fiscal reporting are numerous:

**1. Domestic policy makers.** The quality of government economic policy depends on whether the past, present and future information on government's performance is transparent, comprehensive and reliable. Application of international standards regarding the coverage of general government reporting and transparency of the collection and spending of public funds positively affect the fiscal discipline, preventing the autonomous action of lower level of government and strengthening of the fiscal coordination in the country.

**2. Investors and international financial institutions.** Application of international standards of fiscal statistics is becoming prerequisite for establishment of favourable environment for investing, starting and running businesses. Fiscal transparency reduces negative effects of asymmetric information to investors in government bonds and facilitates countries to appear in domestic and international financial markets. Foreign investors are often guided by credit rating of government and fiscal indicators arising from the reports of consolidated general government.

**3. Euro-Atlantic integrations.** The need for fiscal transparency was also emphasized because of the increased exposure of governments to the international financial markets. Once BiH becomes a candidate country, her obligations concerning fiscal surveillance will increase in arithmetic progression. The pre-accession fiscal surveillance procedure aims to prepare candidate countries for participation in the multilateral surveillance and economic policy coordination procedures currently in place

in the EU as part of Economic and Monetary Union. The pre-accession countries prepare Pre-Accession Economic Programmes (so-called. PEP) that outline the appropriate medium term policy framework, including public finance objectives and structural reform priorities, needed for the EU accession. This offers an opportunity to develop an institutional and analytical capacity which is necessary for participation in EMU, particularly in the areas of multilateral surveillance and coordination of economic policies.

And although the responsibilities within these integration processes are very close ahead of us, the situation is as follows:

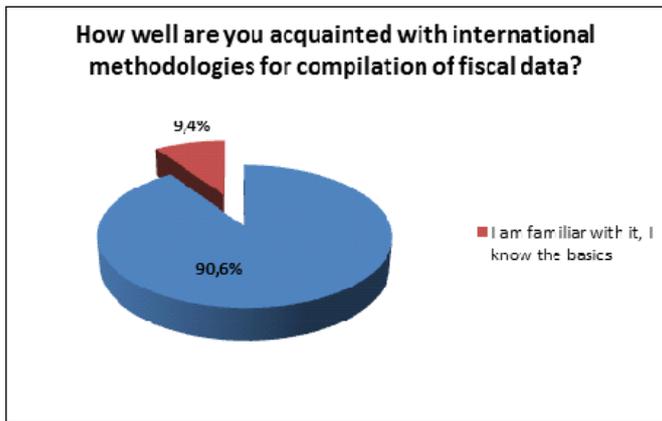


Chart 1

When they were asked how well are they acquainted with international methodologies for compilation of fiscal data, only 9,4% of citizens answered that they are familiar with them and that they know the basics.

**4. Reporting units.** Establishment of one institution which would be in charge of fiscal data collection means taking off the burden put on the lower levels of government and reducing the number of budget execution reports they produce.

**5. CSO and citizens.** Citizens can control government operations, which in turn, through democratic electoral mechanisms and electoral change of government can affect strengthening of government accountability and increase efficiency of public resource allocation in terms of harmonizing government activities with the needs of citizens.

<sup>1</sup> Author has conducted a short survey among the municipalities in RS and FBiH with the support of OSF Sarajevo

**Understanding the problem...**

'BiH is a small open economy and therefore is vulnerable to a possible economic downturn. All levels of government are facing financing pressures. In addition, the policy drift since the October 2010 elections has weakened the national policy coordination needed to design an effective response to the emerging challenges.'

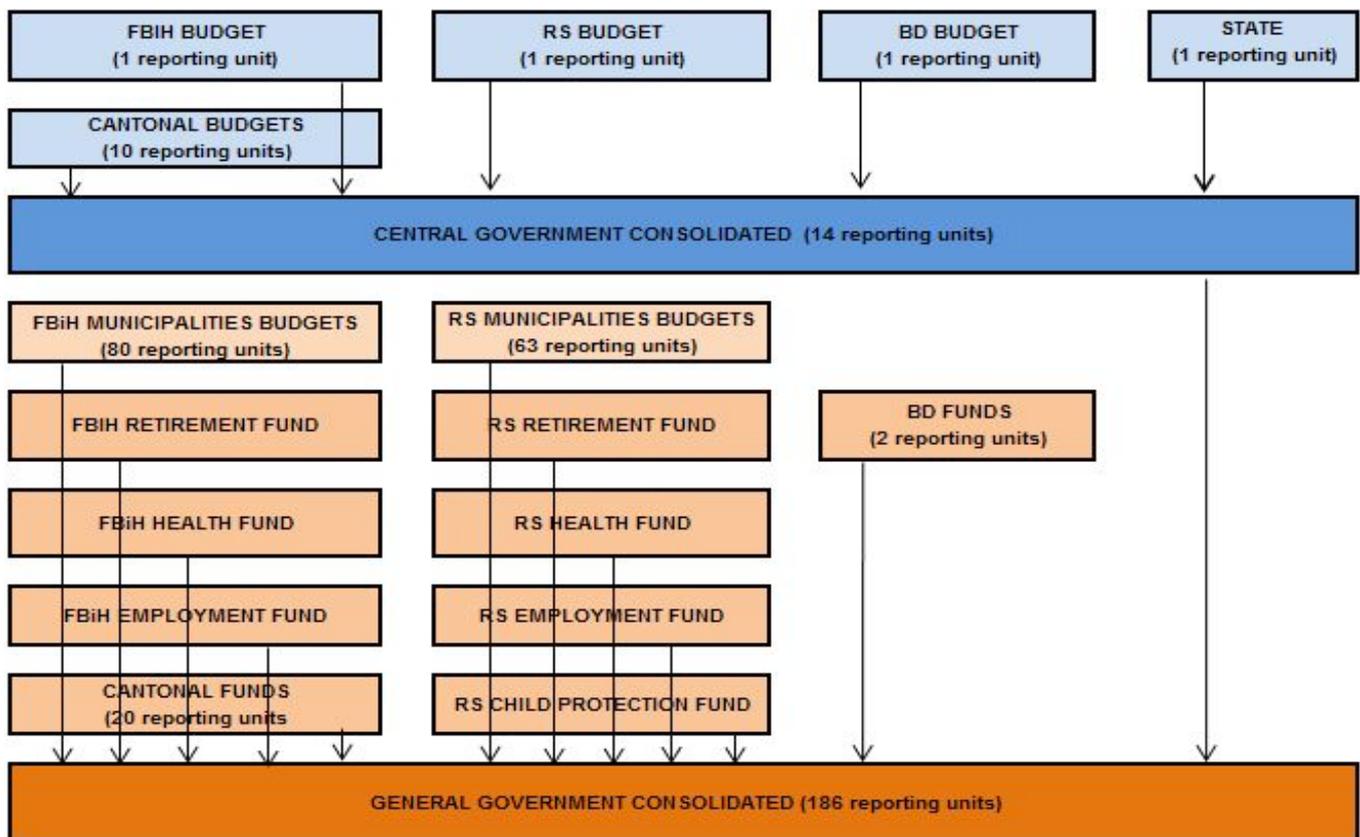
Statement by the IMF Staff Mission to Bosnia and Herzegovina, Press Release No.11/426, November 22, 2011

Whilst the reform of fiscal reporting system in Bosnia and Herzegovina is moving very slowly, global economic crisis is stressing the need for strong anchoring of fiscal decisions and reliable and accurate insight in fiscal developments.

That seems like 'mission impossible' bearing in mind the following:

- A vast number of governmental operations: State, Brcko District, Republic of Srpska, Federation BiH and 10 cantons, 80 municipalities in Federation BiH and 63 municipalities in RS, 3 federal, 20 cantonal, 4 funds in RS and 2 funds in Brcko District (chart 1)
- Decentralized fiscal structure in Bosnia and Herzegovina and poor fiscal authorities on state level
- Governments are reluctant to release information that appears to demonstrate inability to achieve fiscal targets
- Governments are not keen on delegation of part of their fiscal responsibilities to the state level

So the question that remains unanswered is what is the best, or second best way to institutionalize fiscal statistics in Bosnia and Herzegovina.



According to the conducted research and taking into account two aspects of fiscal reports (quality and timeliness) policy options are as follows:

- **Status Quo**
- **Decentralizing the reporting system**
- **Centralizing the reporting system**

- harmonization of chart of accounts with the requirements of the international accounting standards and the standards of GFS2001 and ESA95
- sectorization of the government and create new coverage of the reporting units accordingly

‘Consolidation requires communication.’ Amela Hasanbegović, Head of Department for Budget Execution, Ministry of Finances and Treasury of Bosnia and Herzegovina and a member of the Group for the Consolidation of Fiscal Data

### What can be done to improve the existing situation?

**1. Interventions of the Fiscal Council** with drafting, adopting and firm implementation of the legislation is necessary to support the reform of reporting process. IMFs Technical Memorandum has already put a framework to reporting deadlines, accepted by all reporting units. Imposing new discipline requires legislative support in the following areas:

- nomination of institution(s) that will be responsible for production of fiscal data, and in accordance with that establish an institution of data ownership

### 2. It is needed to strengthen the technological and human resources capacities of reporting units

Options:		Status Quo	Decentralized system	Centralized system
Quality		Various chart of account, non-comparable	Bridged chart of accounts	Unified chart of accounts on all levels
Time	Monthly reports	N/A	To the respective MoF, than to state level institution	Reporting to the state level institution directly
	Quarterly reports	To the respective MoF, NGOs, MAU, CB (overload)	To the respective MoF, than state level institution	Reporting to the state level institution directly
	Annual reports	To the respective MoF, NGOs, MAU, CB (overload)	To the respective MoF, than to state level institution	Reporting to the state level institution directly



**Mirela Kadic** was born in Bihac, on October 15, 1980, where she finished elementary and high school. She graduated from the Faculty of Economics, course "Accounting and Finances", and is currently working on her master's thesis at the Economics Faculty in Banja Luka on 'The impact of the tax system on the competitiveness of Bosnia and Herzegovina'. She was employed at the company Riz Krajina " in Bihac, Macroeconomic Analysis Unit of the Governing Board of Indirect Taxation Authority, and is currently employed in the Department of Industry Statistics in the Agency for Statistics of Bosnia and Herzegovina, where she works on creation and analysis of the index of industrial production in BiH. As a member of the Group for Coordination of Fiscal Data of the Council of Ministers BiH, she participated in a series of seminars, conferences, round table discussions on the reform of budgetary reporting in Bosnia.

Research has shown the following:

- **Only 9,4% of municipalities surveyed stated they are familiar with the GFS2001**
- **Only 11% of the surveyees answered they are familiar with ESA95**

This means that the reporting units should learn the international standards and overall reporting process as soon as possible. This would also require strengthening of the network of people involved in reporting process, because 'consolidation means communication'. Strong role in this process should be given to the Group for Consolidation of Fiscal Data of Council of Ministers. For the purposes of capacity strengthening one should consider the possibility of using different EU pre-accession funds for support to the reform of fiscal statistics.

**3. GCFD should include the Agency for Statistics of BiH, which in the nearest future will become our country's agent in communication with the EUROSTAT.**

**4. Reporting on a single form for all levels of government is mission impossible.** Therefore, one should not insist on a perfect solution, but rather to overcome the situational variables and to the so called 'bridging reports', at least for the near future. Progress which RS has achieved in the previous year should now force the Federal Ministry of Finance to 'pace-up' in this year.

Setting up a reliable reporting system of Bosnia and Herzegovina could improve management, enable timely insight in fiscal developments and support decision making process. Obligations stemming out of the European partnership, the Stabilization and Association Agreement and SBA commits the authorities in BiH to full implementation of the international fiscal and financial standards in the near future, which includes the standards of fiscal transparency. Given the importance of transparency in public finances for democratization of civil society reform in BiH, public finances should not be viewed solely

through the prism of the closing of the budget deficits and a tool to overcome fiscal downturn, but also as an opportunity to accelerate the development of democracy and to improve the accountability of the government at all levels. This should ultimately, in addition to public finances reforms, relax the political relations and ease the process of the constitutional changes.

### Sources related:

- Kadic, M. (2012), Quality and timely fiscal statistics as a crucial instrument for achievement of fiscal accountability of the governments in Bosnia and Herzegovina  
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A "Policy Development Fellowship Program" has been launched by the Open Society Fund BiH in early 2004 with the aim to improve BiH policy research and dialogue and to contribute to the development of a sound policy-making culture based on informative and empirically grounded policy options. The program provides an opportunity for selected fellows to collaborate with the Open Society Fund in conducting policy research and writing a policy study with the support of mentors and trainers during the whole process. Eighty one fellowships have been granted since the starting of the Program. All policy studies are available at [www.soros.org.ba](http://www.soros.org.ba)