

1st Public Finance Management Policy Dialogue

Venue: Hybrid, Delegation of the European Union

Sarajevo, May 21st 2024

Minutes of the meeting

Meeting Chairs:

- **Ms Vera Letica**, Assistant Minister in the Ministry of Finance and Treasury of BiH and member of the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 and

- **Mr Adebayo Babajide**, Deputy Head of the Delegation of the European Union to Bosnia and Herzegovina / **Mr Karel Lizerot**, Head of Section for justice and home affairs, migration and public administration reform at the Delegation of the European Union to Bosnia and Herzegovina

Meeting Agenda

- **Welcoming and introductory statements**
- **The context of PFM in BiH, Institutional arrangements, Legal and regulatory arrangements**
- **Presentations on diagnostics PEFA 2022 (Main conclusions) and PIMA 2022 (Main conclusions)**
- **Implementation of PFM strategies in BIH 2021-2025, Progress review in selected pillars: Pillar I Fiscal Framework, Pillar III Budget planning and preparation and Pillar IV Budget execution**
- **Current activities and plans for the next period in implementation of Comprehensive PFM strategy in BIH 2021-2025**
- **Conclusions and next steps**

Welcoming and introductory statements

Mr Adebayo Babajide, welcomed all colleagues from the Headquarters of the European Commission (from Brussels, present online), from the Delegation of European Union to Bosnia and Herzegovina, from development partners in Bosnia and Herzegovina and from the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 to the First Public Finance Management Policy Dialogue between Bosnia and Herzegovina and the European Union. Mr Babajide noted that strengthening Public Finance Management is a

key element for public administration reform process in Bosnia and Herzegovina, as part of the fundamental first approach in European enlargement policy and crucial for five reasons. First, such reforms stand at the core of functionality of the administration and adequate response to the crisis. They also contribute to good and efficient service delivery to citizens and build an accountable democratic state. Secondly, Mr Babajide stressed that sound countrywide PFM system in Bosnia and Herzegovina is crucial also for European integration's path of Bosnia and Herzegovina. In this regard, the PFM system in Bosnia and Herzegovina has an important role in establishing the link between the countrywide policy priorities and strategic planning and medium-term budgetary framework. Thirdly, a sound PFM system contributes to the socio-economic convergence and a business environment conducive to investments and the basis for upcoming activities with regard to the new financial instrument of the European Union – the Growth Plan for Western Balkans. Ministries of Finance at all levels of government in Bosnia and Herzegovina should use a dialogue as a regular platform for discussing and coordinating PFM reforms in Bosnia and Herzegovina.

The European Commission recognized the efforts undertaken in the continuous implementation of the PFM strategies and the creation of many PFM tools to plan, monitor and drive reforms, such as (1) the adoption of the new comprehensive PFM Action Plan 2023; (2) as well as the comprehensive PFM monitoring report 2023 together with the finalisation of the comprehensive; (3) Public Expenditure Framework Assessment (PEFA); (4) Public Investment Management Assessment analyses. Those are excellent steps of reform and diagnostic tools to provide the basis for your PFM dialogue with donors.

Looking forward, European Commission encourages Bosnia and Herzegovina to focus the PFM dialogues on certain priorities, such as (1) improve coordination, implementation and monitoring of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 in upcoming period and move towards a country-wide approach, (2) to improve fiscal transparency and fiscal risks of state-owned enterprises, and public investment management, (3) to adopt regularly the annual budget of the Institutions of Bosnia and Herzegovina and do so for 2024 and (5) improve the credibility of the medium-term budget frameworks by (a) improving the links between annual strategic planning and annual budget process and (b) strengthening capacities for forecasting and modelling and by enhancing coordination in this area and strengthen capacities at all levels of government in Bosnia and Herzegovina.

Ms Vera Letica, Assistant Minister in the Ministry of Finance and Treasury of BiH and a member of the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025, welcomed all colleagues present at the First Public Finance Management Policy Dialogue between Bosnia and Herzegovina and the European Union. Ms Letica noted that the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 is crucial for the strengthening of the PFM system in Bosnia and Herzegovina. The Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 is responsible for the monitoring and evaluation of the Comprehensive Strategy as well as for the organization of the Dialogue. Three priority pillars – Fiscal Framework, Budget planning and preparation and Budget execution were selected by the

Working Group in order to inform the European Commission on planned activities and challenges within those pillars.

The context of PFM in BiH, Institutional arrangements, Legal and regulatory arrangements

Ms Maja Perić, Assistant Minister in the Ministry of Finance of the Republika Srpska and a member of the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 noted that fiscal governance in Bosnia and Herzegovina is decentralized, but all activities are harmonized at all levels of government. The PFM is a part of the Public Administration Reform System in Bosnia and Herzegovina, with a separate strategic document and excellent coordination between the ministries of finance. The Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 was prepared based on the four PFM reform strategies adopted by each level of government in Bosnia and Herzegovina. The strategies were prepared with technical assistance provided by the International Monetary Fund.

The Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 consists of the representatives of the Ministry of Finance and Treasury of BiH, Federal Ministry of Finance, Ministry of Finance of the Republika Srpska and Finance Directorate of the Brčko District. The Ministry of Finance and Treasury of Bosnia and Herzegovina is responsible for a technical assistance. Annual reports on the implementation of the individuals as well as the Comprehensive Strategy for 2023 are under preparation. The Working group has already requested support for the improvement of the reporting system in the coming period.

During the discussion with the representatives of the European Commission, the members of the Working Group informed that there is a strong cooperation with the Public Administration Reform Coordinator's Office in Bosnia and Herzegovina. Most of the members of the Working group are at the same time members of the Supervisory team of the Strategic Framework for Public Administration Reform in BiH 2018-2027 for the area of Public Finance. Ms Letica informed the participants that there is a strong commitment for the revision and extension of the strategic documents or for the preparation of the new strategic documents for the next period. Regarding the horizontal activities in the Comprehensive Strategy, Ms Letica noted that there are a lot of activities harmonized among all levels of government in Bosnia and Herzegovina, especially those financed through the IPA projects.

Mr Lizerot informed participants that European Union has been supporting Bosnia and Herzegovina in the PFM reforms for years and in the last four years the European Union has implemented in Bosnia and Herzegovina projects in total value of 12 million EUR.

When Ms Nisida Gjoksi asked on the intention to foster cooperation also with PAR coordinators on the IT monitoring tool and need to improve the countrywide approach on monitoring, with also potential support of OECD-SIGMA / IMF, BiH authorities and Ms Letica, expressed the openness to closely look at this area, but as well, asked for EUD to check on potential support on this.

Presentations on diagnostics PEFA 2022 (Main conclusions) and PIMA 2022 (Main conclusions)

Mr Faruk Hujčić, key expert, presented the main conclusions of the PEFA 2022 (Public Expenditure and Financial Accountability) assessment which was completed by a team of international and local PFM experts under the auspices of technical assistance project funded and managed by the EU Delegation to BiH together with participation of ministries of finance at all levels of government in Bosnia and Herzegovina. According to the composition of the system of public finance in Bosnia and Herzegovina, the project team prepared four PEFA assessments for four levels of government in Bosnia and Herzegovina (the Institutions of BiH, the Federation of BiH, the Republika Srpska and the Brčko District). The consolidated assessment was completed in 2023, and it is expected that the results of the PEFA assessment will be considered during the current PFM strategies revision. According to the PEFA 2022 assessment, the key strengths of the public finance management system in Bosnia and Herzegovina are: expenditure management, budget preparation processes, external audit and public debt management. The areas identified requiring continued reforms and further improvements in Bosnia and Herzegovina are: strategic targeting of public budgets, result-based (performance-driven) allocation of public funds, parliamentary scrutiny of the budget and fiscal strategy and management of fiscal risks and public investment management.

During the discussion, the members of the Working Group noted that there are two parallel processes of monitoring regarding the PFM in Bosnia and Herzegovina; one for the purpose of reporting for PAR Framework and another for the purpose of reporting for PFM Strategy. To avoid duplication and improve reporting, there is an interest in adapting a part of PAR monitoring platform for the purpose of PFM strategy reporting under the IPA 2020 project. Representatives of the Delegation of the European Union to Bosnia and Herzegovina will take it into consideration in the coming period. Mr Bojan Pogačar, IMF expert, noted that the new reporting tool would significantly improve the annual implementation reports of the PFM strategies in Bosnia and Herzegovina.

Bobana Čegar, IMF economist, presented the main conclusions of the PIMA 2022 assessments for four levels of government in Bosnia and Herzegovina (the Institutions of BiH, the Federation of BiH, the Republika Srpska and the Brčko District). The Public Investment Management Assessment (PIMA) assesses the quality of the public investment management with the main aim to identify the strengths and weaknesses of institutions and to provide recommendations for strengthening the efficiency of public investment. The tool evaluates 15 institutions involved in the three major stages of the public investment cycle (planning of investment levels for all public sector entities to ensure sustainable levels of public investment, allocation of investments to appropriate sectors and projects and delivering productive and durable public assets). The level of public investment in Bosnia and Herzegovina in last few years was around 3,1% of GDP, with a low execution of public investment compared with the previously planned. PIMA reports for the Republika Srpska and the Brčko District are finalized and the report for the Republika Srpska is publicly available while the reports for the Institutions of BiH and the Federation of BiH are still in the draft form.

According to the PIMA 2022 assessments, the area of Portfolio management and oversight is identified as the area where continued reforms and further improvements are

required at all levels of government in Bosnia and Herzegovina, while the area of Fiscal rules is identified as an area with the best performances. The PIMA assessments provide the recommendations for all levels of government in Bosnia and Herzegovina, and some of high priority recommendations are: create a regulatory requirement for systematic and rigorous appraisal at international standard and build capacity to ensure its effective implementation; improve medium term budget planning by explaining in the successive BFDs changes in medium term ceilings, providing more detailed information on multi-year commitments and reducing/limiting carried-over appropriations; publish total costs for multi-year projects in an appendix to the BFD and/or in the Annual Budget Law; consolidate procurement and streamline procurement complaints process; establish portfolio management framework for all major projects to analyze project performance and act with immediate effect if projects are in need of attention, to minimize time and cost overruns; and improve vertical and horizontal coordination.

During the discussion, Ms Taru Kernisalo from the Delegation of the European Union to Bosnia and Herzegovina asked are there some major discrepancies between the PEFA and PIMA assessments and the monitoring report of the Comprehensive Strategy having in mind that the PEFA and PIMA assessments were prepared according to the international standards, while the Monitoring report was prepared by the ministries of finance as self-assessment. Ms Bobana Čegar explained that they had a good cooperation with the institutions in Bosnia and Herzegovina during the preparation of the PIMA assessment and that there is a high degree of agreement regarding the findings of the PIMA assessment. Mr Alija Aljović, Assistant Minister in the Federal Ministry of Finance, noted that the process of the preparation of the Program of Public Investments is a very complex process having in mind the fiscal decentralization of Bosnia and Herzegovina. He also pointed out that all levels of government have increased the standards for nominated investment projects, which will significantly improve the Program of Public Investments in Bosnia and Herzegovina in upcoming years. Ms Nisida Gjoksi from the DG NEAR noted that the PEFA and the PIMA recommendations should be taken into consideration during the revision of the PFM strategies in the new PFM cycle. Also, she pointed out that the European Union will provide technical assistance to Bosnia and Herzegovina for the preparation of costing of the PFM strategies. Mr Alastair Swarbrick, OECD-SIGMA, mentioned that OECD-SIGMA team is preparing the assessment across the Western Balkans which involves the area of PFM and that the final report will be published in October/November 2024.

Implementation of PFM strategies in BIH 2021-2025, Progress review in selected pillars: Pillar I Fiscal Framework, Pillar III Budget planning and preparation and Pillar IV Budget execution

Current activities and plans for the next period

Ms Letica informed all participants that the members of the Working Group had decided to present at the meeting a progress review in three selected pillars of the Comprehensive PFM Strategy in Bosnia and Herzegovina: Fiscal Framework, Budget Planning and Preparation and Budget Execution.

Regarding the **first pillar Fiscal Framework**, the Working Group decided to present progress made under the measure I.5. Improvement of fiscal coordination, consolidation and reporting, bearing in mind that this measure is not horizontal, but it is implemented at all levels of government in Bosnia and Herzegovina. Ms Letica noted that improvement of fiscal reporting at all levels of government is crucial for the preparation of the Fiscal Framework of the Economic Reform Program of Bosnia and Herzegovina. In order to improve the consolidation of fiscal data in Bosnia and Herzegovina, the Ministry of Finance and Treasury of Bosnia and Herzegovina, as a coordinator for the preparation of the ERP Fiscal Framework, strengthened the capacities for that purpose during 2023. Ms Letica noted that the Working Group will review recent diagnostic assessment findings (PEFA, PIMA) concerning the credibility of the fiscal frameworks before forthcoming strategy framework revision. Ongoing IPA 2018 project Support to ERP BiH has been organizing a wide range of workshops and on the job trainings at all levels of government in Bosnia and Herzegovina, with the main aim to raise the level of knowledge in a field of fiscal reporting in accordance with the ESA 2010, as well as to harmonize methodologies and procedures for the preparation of the Fiscal Framework.

During the discussion, Ms Aida Soko from the European Union Special Representative in Bosnia and Herzegovina, asked whether progress has been made regarding the implementation of the measures I.3. Defining fiscal risks and I.4. Management and monitoring of the public sector entities. Ms Peric explained that progress has been achieved related to the establishment of capacities for monitoring, analysis and reporting with regards to fiscal risk in the Ministry of Finance of the Republika Srpska. One position was systematized and filled in the Sector for Macroeconomic Policy and Analysis and capacities building plan will be continued during 2024. In 2023, the Ministry of Finance of the Republika Srpska prepared a report on fiscal risks related to public enterprises in the Republika Srpska in 2022. Regarding the activity of establishing the Register of Public Sector Business Entities of the Republika Srpska, in November 2023 the List of Business Entities of Republika Srpska in 2022 was published on the website of the RS Institute of Statistics. The list will be updated every year and that is a continuous process. The Department for Coordination of Supervision of Public Enterprises in the Republika Srpska has been established, partially filled and activities on the categorization of public enterprises in line with the EU standards have been started. Mr Aljović informed that the Unit for Monitoring Public Enterprises in the Federation of Bosnia and Herzegovina has been established and partially filled. The activities on strengthening capacities of the Federal Ministry of Finance related to fiscal risks are ongoing. Mr Vasil Zubaka, DG NEAR, pointed out that good fiscal coordination is crucial for the implementation of country-wide priorities in the PFM area. He invited the ministries of finance to be involved in the ongoing World Bank's regional project dedicated to fiscal governance. Mr Zubaka asked the ministries of finance about the role of the Fiscal Council of BiH in the process of the consolidation of fiscal data and Ms Letica informed him that the preparation of the ERP Fiscal Framework and the Global Fiscal Framework are two separate processes.

Regarding the **third pillar Budget Planning and Preparation**, Ms Letica presented all planned activities within this pillar with initial timeframe, highlighting that the preparation of budget in program format at all levels of government in Bosnia and Herzegovina is one of the most important reforms in the PFM area in last years. Within the IPA 2017 project,

methodological preconditions were defined, and capacities were built for the preparation of the budgets in program format. The procedure for the procurement of software for all levels of government in Bosnia and Herzegovina has been initiated by the Delegation of the EU to Bosnia and Herzegovina and appropriate IT system will ensure the preparation of the budget in program format (IPA 2020 project). Regarding the upcoming activities at the level of the Institutions of BiH, the Law on the Financing of the Institutions of BiH must be adopted prior to the implementation of budget in program format. Mr Aljović noted once again that the preparation of the budget in program format is a historical reform in the PFM area, but he pointed out that there are certain problems with the implementation of this project. He explained that the Federation of Bosnia and Herzegovina ensured all legal, technical and infrastructure preconditions for the implementation of this reform measure, but the procedure for the procurement of software postponed the continuation of the implementation of this reform.

During the discussion, Ms Kernisalo informed the participants that the Delegation of the European Union to Bosnia and Herzegovina has signed the contract for the development of software for program budgeting in April 2024 and that kick-off meeting with all beneficiaries will be organized in May 2024. Ms Perić mentioned once again that the area of PFM in Bosnia and Herzegovina has received a significant support from the European Union and other development partners, and that we believe that the partners will continue to support the PFM area in upcoming period. Mr Lizerot asked if the legislation regarding the program budgeting had been adopted at all levels of government in Bosnia and Herzegovina and the members of the Working Group explained that the legislation at the levels of the Federation of BiH and Brčko District was adopted, while the legislation at the level of the Institutions of BiH and the Republika Srpska should be adopted in upcoming period. Finally, Ms Gjoksi, also highlighted some of the shortcomings on budget planning process based on the PEFA assessment in 2022. She highlighted the need of reforming this area – which stands between PAR and PFM reforms, particularly by improving the strategic planning documents, the improved integration of the strategic planning process with the budget formulation process, recognizing the early stage of development of the programme budget framework. Also as strategies are not costed is not possible to establish a materiality threshold. In this regard, Ms Gjoksi, had several questions, that would need to be followed up also in future technical meetings on PFM and PFM, and highlighted that this area remains a priority for EU in future dialogues.

Regarding the **fourth pillar Budget Execution**, the Working Group decided to present progress made under the measure IV.4. Strengthening debt management, having in mind that those activities will be implemented at all levels of government in Bosnia and Herzegovina. Ms Letica noted that the activities on harmonization of debt reporting in line with ESA 2010 are ongoing and will directly contribute to the achievement of the results in Pillar I (Improvement of fiscal coordination, consolidation and reporting). The implementation of this measure is highly dependent on the availability of technical assistance and Ms Letica explained that the IPA 2020 project Support for preparation of public debt reporting has started at the end of 2023.

During the discussion, Ms Soko asked were there some improvements in the area of the state aid related to the harmonization of legislation with the EU acquis. Also, she was wondering about the main challenges in the implementation of the Public Procurement

Strategy of Bosnia and Herzegovina 2023-2027. Members of the Working Group explained that the area of the state aid requires further harmonization with the EU standards. Ms Anela Ilić, the Directorate for Finance of Brčko District, stressed that ongoing project EU support to state aid legislation in Bosnia and Herzegovina will significantly improve this area at all levels of government in Bosnia and Herzegovina. Regarding the area of public procurement, it is expected that the newly adopted Strategy will be considered during the upcoming PFM strategies revision.

Conclusions and next steps

Ms Letica, on behalf of the Working Group, informed the participants that 2024 is the ideal time to start the adaptation and extension of the PFM BIH strategic framework, considering the results achieved so far and according to findings from diagnostic assessments (PEFA, PIMA). By updating, it is necessary to ensure more credible reporting as well as precisely defined implementation costs, both for individual strategies and for the Comprehensive PFM Strategy. The availability of TA remains an essential precondition that enables the adoption of EU standards and practices in BIH and additionally, harmonized progress at all levels.

Mr Bojan Pogačar, IMF expert, explained that the IMF have received requests from all four levels of government in Bosnia and Herzegovina with expressed interest for the technical assistance in adaptation of the PFM strategies. He informed the participants that the IMF decided to start a new mission dedicated to the revision of the PFM strategies in Bosnia and Herzegovina. In the upcoming period, the IMF mission and beneficiaries will decide whether it will be an extension of the existing strategies or a new strategic documents.

Mr Lizerot invited the ministries of finance at all levels of government in Bosnia and Herzegovina to take part in four regional programs related to the area of public finance. He noted that the PFM system is a very important basis for obtaining EU budget support, bearing in mind that Bosnia and Herzegovina is the only country in the Western Balkans that has not received budget support until very recently in the form of Energy Support Package (State and Resilience Building Contract).

Ms Kernisalo proposed that the Delegation of the EU to BiH requests the Working Group for a mid-year review of progress on the topics that were on today's agenda, which the Working Group members accepted.

It was a joint decision to hold a dialogue on the Public Finance Management Policy every year from now on. The next dialogue is planned for May 2025. All development partners engaged in the field of public finance will be invited to the next dialogue.

Annex I : Participant list

Annex II: Agenda of the PFM dialogue