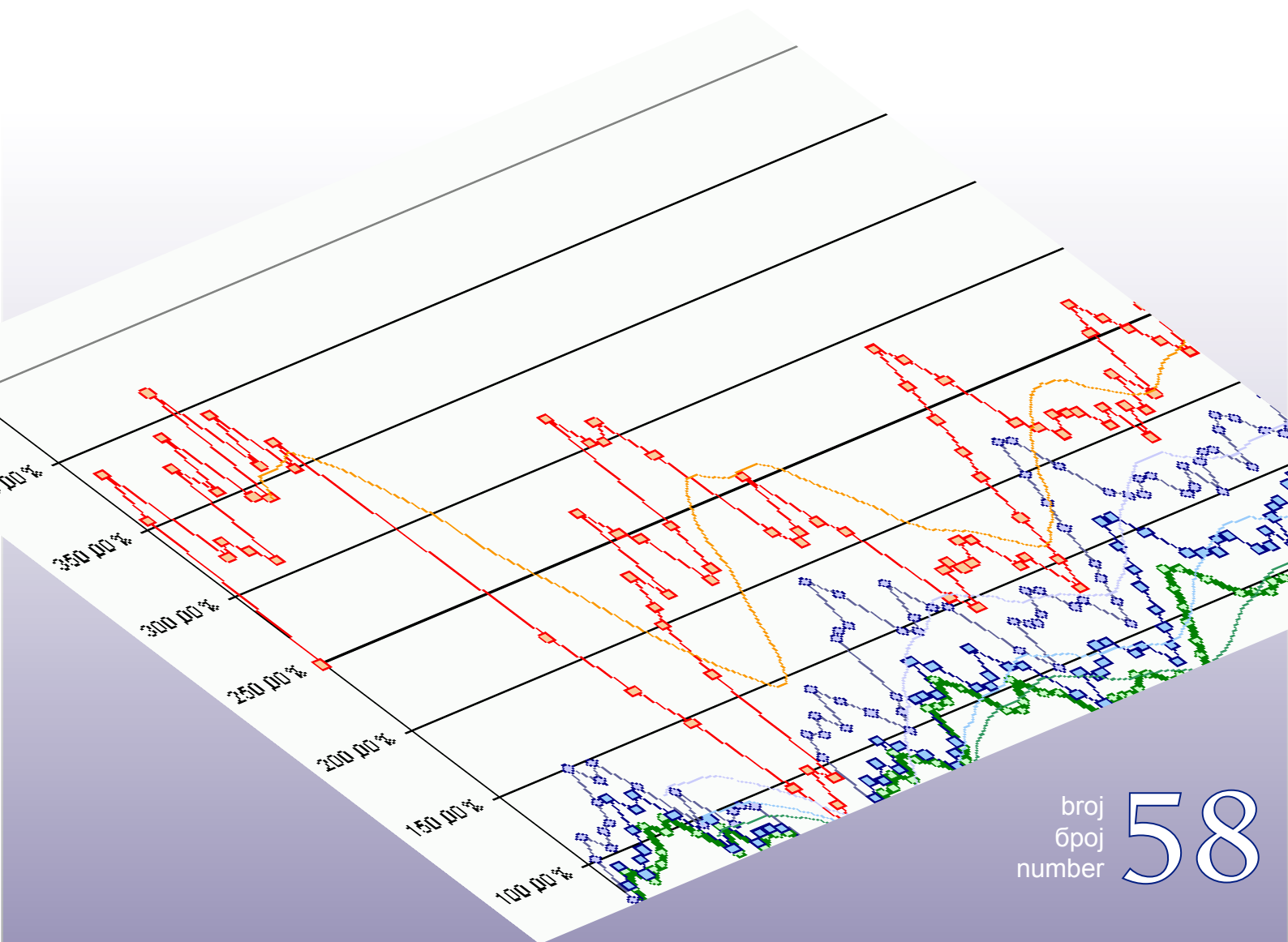




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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According to the preliminary report of the ITA, revenue collection from indirect taxes in the first four months of 2010 is higher for 6,03% compared to the same period of 2009. The growth of revenue collected from indirect taxes in April 2010 compared to April 2009 was 12,58%. Additional income from road tolls is included in total indirect taxes in 2010. In the last issue of Bulletin we pointed out that great caution is necessary when evaluating whether the BiH is on its recovery path. It isn't enough to compare collection in the current period with the same period of 2009, but with years of normal economic activity and fiscal surpluses as well. Since there was no change in VAT policy, comparison of VAT net collection in the period January-April from 2007 to 2009 are the most reliable for the assessment of the recovery pace of the BiH economy. It can be concluded that current VAT net collection is higher than collection in the first four months of 2007, but still significantly lower than collection in 2008. The growth of total revenue collection in comparison with 2007 is not much higher than net VAT growth, because the effects of new Law on Excise Duties (i.e. revenues from excises on tobacco and additional road tolls) are partly neutralized by the postponement of the implementation of Agreement with EU until July 1, 2008., which brought higher revenues in 2007 and in first half of 2008, and thus increased the base for comparison with the year 2010.

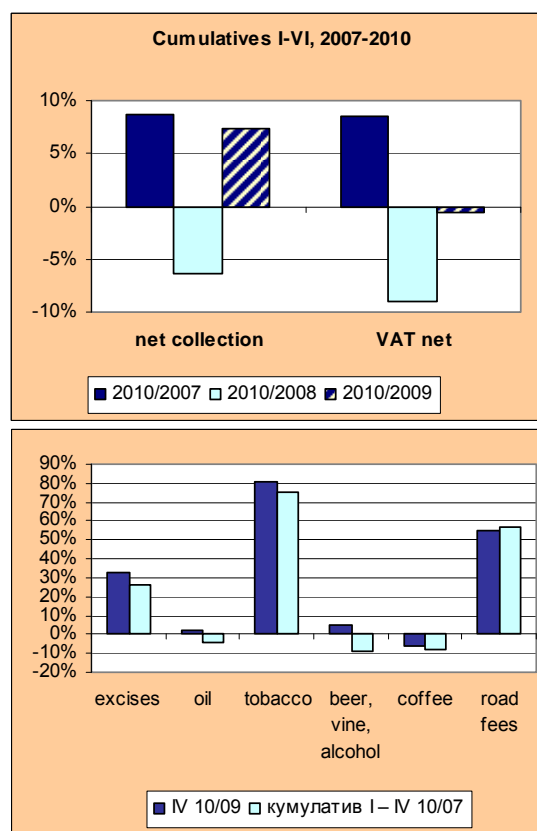
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Sadržaj:

Tax Administration Management: The role of the Governing Boards - part II	2
Foreign trade exchange, overview, January-March 2010	7
Public Administration Reform in BiH, overview, effects, Part I	11
Preliminary consolidated report: BiH, entities, SA, I-IV 2010	15
Preliminary consolidated report for BiH, I-III 2010	16
Consolidated reports: Cantons	17

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Tax Administration Management: the role of the Governing Boards - part II

(author: Dinka Antić, PhD)

1. Governing Board of the Indirect Taxation Administration

1.1. Establishment

Reform in the area of indirect taxes, finalized introducing the VAT, due to its massiveness, complexity and political sensitivity, developed gradually in few phases in the period 2003-2006. Reform had a few key aspects. Before the introduction of the VAT, a complete reform of fiscal system was required to be done, including:

- *Political aspect*: transfer of the constitutional authorities for indirect tax policy from Entities to the State,
- *Management-operating aspect*: joining customs administrations and establishing indirect taxation system at the State level, which is composed of the Indirect Taxation Administration – ITA (operating level) and the ITA Governing Board (management level),
- *Fiscal aspect*: establishment of the new fiscal architecture, system of indirect tax collection (ITA Single Account) and making decision on formula for the allocation of indirect taxes to central Governments (BiH, Entities and Brcko District).

Reform in the area of indirect taxes has been started by the establishment of the Indirect Tax Policy Commission at the beginning of 2003. VAT introduction at the State level required prior fulfilment of significant prerequisites. According to Dayton agreement, fiscal competences were not assigned to the central level, which automatically meant that the Entities had exclusive fiscal competences. First prerequisite for the indirect tax system reform implied the transfer of competences for indirect taxes from the Entities to the state level. In principle there was a political approval of the Entities for the centralization of indirect tax policy. BiH Indirect Tax Policy Commission¹ was established by the decision of the High Representative. According to this decision two main goals of the fiscal reform were set:

- Joining customs system in order to stop duplicating work and frauds,
- Introduction of state-level VAT in order to make the taxation system more efficient and to make preconditions for tax liberation for taxpayers.

The Commission was responsible for proposing draft laws and supplement of the existing ones, necessary for the introduction of a single customs administration and VAT, working out the formula for revenue allocation and establishment of the Indirect Taxation Administration (ITA). Single ITA, governed by the principles of efficiency, professionalism and transparency, should operate in order to improve the macroeconomic stability and towards the integration of BiH in the European Union and World Trade Organisation (WTO)². The Commission was consisted of Ministers of Finance of BiH and Entities, three experts from the area of indirect taxation, while the seventh member was appointed by the High Representative. From the structure of the Commission it is obvious that it was a predecessor to the Governing Board of the ITA. In the middle of 2003 the transitional Law on a single customs administration and establishment of the ITA³ was adopted. The ITA resulted from joining Customs Administrations of the Entities and Customs Service of Brcko District. In the first phase of establishment, the ITA represented a single customs administration. The ITA is an independent administrative organization, governed by the Director who was accountable to the transitional Governing Board and Council of Ministers for his work. The transitional Law had the advantage from the scope covered by the ITA in relation to the Entity regulations.

¹ Decision establishing the Indirect Tax Policy Commission („Official Gazette of BiH“, No. 4/03).

² Ibid. Annex A

³ „ Official Gazette of BiH“ No.18, from 1st of July 2003

Formal transfer of the competences in the field of indirect taxation happened at the end of 2003. The National Assembly of the Republic of Srpska concluded on 30th of October 2003⁴ To give its consent for transferring the competences in the area of indirect taxation policy to the Parliamentary Assembly in order to adopt the Law on indirect taxation system and to authorize the RS Government to sign the Agreement on competence transfer with the Federation of BiH. FBiH Parliament, on 3rd of December, made a decision by which it was given its consent to the Agreement on competence transfer in the area of indirect taxation between FBiH and RS and authorized the Government of Federation of BiH to sign the agreement⁵. At the end of December 2003 the Law on indirect taxation system was adopted which *establishes the institutional and organisational basis for a single indirect taxation system in BiH*⁶, in order to contribute to the macroeconomic stability and fiscal sustainability. The Law ensures a single indirect tax policy, the uniform implementation of policy and uniform collection of indirect taxes in BiH, and establishes a single institutional structure: operational part – the Indirect Taxation Administration and management part – the Governing Board of the ITA. Specificity of this newly formed institution is in the fact that the ITA, although formed at the state-level and financed from the budget of BiH institutions, represents the agent of levels of power in BiH, which in their name, collects indirect taxes in BiH.

1.2. Structure and competences

Since 1st of July 2008 the Board consists of six members: Ministers of Finance BiH, FBiH and RS, who hold their posts *ex officio* and three experts on indirect taxation⁷. Besides, the ITA Director, a representative of the Central bank of BiH and a representative of the District Brcko are observers in the Board.

Main responsibilities of the ITA Governing Board can be sorted in few categories:

- (i) Creating the policy of indirect taxes
- (ii) Implementing the policy of indirect tax distribution
- (iii) Operational responsibilities

The ITA Governing Board is competent for determining proposals for indirect taxation policy to be implemented throughout Bosnia and Herzegovina as well as preparing and initiating the legal regulations concerning indirect taxes related to tax rates and structure. The Board issues the implementing regulations for indirect taxation laws. The Board is competent for issuing of decisions on indirect tax revenue allocation.

Ministers of Finance have the right of veto, depending on a category of the indirect tax on which the amendment to the Law is related to. The procedure of adopting the decisions in the ITA GB is as follows:

- In the case of decisions introducing or amending import and export duties, a simple majority of votes by the Governing Board members is required, including the vote by the BiH Minister of Finance and Treasury;
- In the case of decisions on other indirect taxes, including rates and structure of such taxes, a simple majority of votes by the Governing Board members is required, including the votes by the Ministers of Finance of Republic of Srpska and Federation;
- In the case of decisions concerning allocation of revenues from indirect taxes, a simple majority of votes by the Governing Board members is required including the votes by all three Ministers of Finance.

⁴ „Official Gazette of RS“ No. 95, 20th of November 2003.

⁵ „Official Gazette of FBiH“ No. 64, 19th of December 2003.

⁶ „ Official Gazette BiH“ No. 44, 31st of December 2003.

⁷ In the first four years the Board had seven members. The Chairman was a foreigner in this transitional period (additional Board member).

In the operational domain, the Governing Board is responsible for defining the strategic objectives and assessing the success of the ITA in meeting such objectives. The Governing Board approves the ITA's budget proposal, annual work plan and the Book of Rules on Internal Systematization and Organization, proposed by the Director.

2. Comparison with the models of the Governing Boards in the world

Comparing the model of the BiH Governing Board with models in other countries⁸, significant differences can be noted:

- The ITA GB has the most competences related to all other existing Governing Boards, being included in creating indirect tax policy and distribution policy;
- Operational competences over the work of Tax Administrations of other Boards in the world are wider than with the ITA GB, giving that the Boards have management or advisory role on defining strategic objectives, mission and vision, human resources strategy, appointment of key managers, strategy towards taxpayers or regarding the ITA internal audit. Operational competences of the Governing Boards related to, for example, operational and strategic planning, budget are more precisely defined;
- Tasks of organisational units (Committees, Boards) which are acting as technical support to the work of the Governing Boards in other countries are more focused on monitoring the implementation of modern principles of the Tax Administrations functioning (for example, work efficiency, responsibility for using resources, attitudes towards employees and taxpayers) and assurance of valuing fundamental social aims (ethics, objectivity, fight against corruption, fight for environmental protection, etc). Focus of the ITA GB organisational units' activities is significantly different which is understandable having on mind the ITA GB's main duty – creating indirect tax policy in BiH in order to maintain the macroeconomic stability.
- BiH Governing Board model is also specific for its exclusive role in allocation revenues from indirect taxes. In other complex countries formula for revenue allocation is determined by Federal law or it is agreed between levels of Governments within fiscal coordination mechanisms (formal or informal). On the other hand, in BiH major powers are assigned to the State Minister of Finance and Ministers of Finance of the Entities, who *de facto* decide on indirect tax policy in BiH in the name of Governments they represent within the ITA GB.

It was obvious that the authors of indirect tax reform while defining the competences and structure were more focused on indirect tax policy in complex fiscal system of BiH and less on operational aspects. Prevalence of political focus in relation to operational one is the result of present complex constitutional-political organization of BiH, which reflected in fiscal system as well. Starting position of highly decentralized BiH necessarily determined that essential economic and fiscal reforms, with the aim to create a single economic space and achieve the macroeconomic stability, lead to greater centralization. Overcoming complex fiscal relations in BiH was carried out by prescribing complex procedure of adopting indirect tax regulations, which included statements by the Budget and Finance Committee of Entity Parliaments and where appropriate by the Parliaments themselves. Unlike BiH, other complex countries do not have such problems being mostly centralized in the segment of tax policy and tax collection and allocation, which is demonstrated by the structure of tax revenues in favour of central (federal) Government. Finally, following can be concluded: **the ITA GB model is specific political-management model, unlike other two models present in the world (management and advisory). This fundamental difference is implied by the Law on assigned competences.**

⁸ More on Tax Administration Governing Board models was given in the first part of article in Bulletin No.57
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3. The ITA GB model in the light of theory and practice of fiscal federalism

Considering a complex constitutional-political structure of BiH, complex countries of unsymmetrical constitutional structure with many levels of authorities, it is not surprising that the authors of indirect tax reform decided for unusual model of the Tax Administration Governing Board, which basic characteristics correspond to basic postulates of executive federalism. In theory of fiscal federalism, the form of fiscal federalism, characterized by domination of executives in intergovernmental fiscal relations regarding legislative power, is called executive federalism. Executive federalism represents the process in which the intergovernmental relations are defined and carried out by the Executive Agencies of Federal Government and Regional Governments, at political and administrative level.

The example of executive federalism can be found in Canada. Since the provinces have not been represented in the State Parliament (as, for example, German provinces – *Länder* are in German *Bundesrat*), negotiations between the levels of administration are led at the level of the President of the Government and regional Prime-Ministers or Ministers of Finance. In spite of certain disadvantages, the usage of the executive federalism model in Canada showed great advantages of this pragmatic model of fiscal coordination in a complex country. Executive federalism in Canada is characterized by low level of transparency and the fact that the public is included in the negotiations. Because of the lack of trust between the levels of Government, the negotiations are long and exhausting, which the process of negotiations between levels of administrations makes complex and slow. In spite of many disadvantages the concept of executive federalism in Canada produced certain positive effects. Great and complex country, ethnically deeply divided, managed to achieve the agreements on relevant reforms in that way. Barriers of population mobility inside the country are lowered which created equal opportunities for life and work. Executive federalism in Canada, although rigid, was flexible enough to reconcile two at first sight contrary positions, to strengthen province autonomy with strengthening central government (federal state) at the same time. Carried over the experiences of Canada, the executive federalism enabled greater fiscal autonomy to the province Quebec and assignation of fiscal competences to central government for realization of national aims as well. Thereby the contribution to the development of federation on the whole was given. The executive federalism left enough space and flexibility to the federation to act towards achievement of national aims, while provinces participated in creating programs and policies which are in the function of realization of national policies and interests of Canada as a country.

Board of Management of Canada Revenue Agency structure, which consists of all territorial units of agency middle level, is a result of a long-time federalism evolution in Canada. Comparing with Canada, reforms in fiscal area in BiH started relatively recently, seven years ago, with the aim of implementing structural economic reforms and VAT introducing. VAT implementation required the establishment of centralized political and operative structure but also defining new revenue allocation system. Given that fiscal competences were assigned to the Entities by the Constitution, the transfer of competences in the scope of indirect taxes required introducing a mechanism which would be, on one hand, enough centralized to enable a single implementation of indirect tax policy, indirect tax distribution and VAT implementation, and which would, on the other hand, enable the Entities to keep their key role in that area. Furthermore, considering that the indirect taxes are, due to the low BiH economy development, main source of revenues of the budgets of all levels of the Governments in BiH, it was necessary to ensure the mechanisms for Entities' interventions while adopting the policy and measures for influencing the level of collected indirect tax revenues. Entities in BiH achieve this influence, like provinces in Canada, within the ITA GB through Entity Ministers of Finance and veto rights which they have in the key areas of indirect tax policy and allocation.

Variation of executive fiscal federalism model in BiH can be seen in the organization of BiH Fiscal Council as well. There are a number of similarities between the ITA GB and Fiscal Council. The structure of BiH Fiscal Council consists of the highest government officials of State and Entity level, Prime Ministers and Ministers of Finance of BiH and Entities. Likewise the ITA GB, the focus of Fiscal Council is also connected to defining the objectives of macroeconomic and fiscal policy in BiH. Fiscal Council determines the global fiscal objectives for BiH and budgetary framework of Entities and Brcko District. However, unlike the ITA GB, without whose approval the laws in the field of indirect tax policy cannot be considered in BiH Parliament, there is no such legal obligation for respecting agreed fiscal objectives and budgetary aims by BiH Parliaments and Entities with the Fiscal Council decisions, but the Governments are obliged to ensure respecting agreed fiscal objectives in their Parliaments. Therefore, the model of BiH Fiscal Council represents more unstable model of executive fiscal federalism related to the ITA GB.

4. Implications of EU Association process

By choosing „the European Path“ and beginning of implementation of Stabilisation and Association Agreement with EU, the political focus of functioning the ITA GB is more emphasised. It is logical that the ITA GB, as the main creator of indirect tax policy in BiH, takes over the obligations of harmonizing the legal framework in the field of indirect taxes (customs duties, VAT, excise duties, official cooperation) with the EU legislation (*Acquis*). EU Association process is a good opportunity to converge the activities of the ITA GB with the modern processes in the world. Liabilities from the Chapters „Customs Union“ and „Taxation“ do not imply only harmonization of tax legislation but also takeover operating standards of functioning the Tax Administrations in EU.

Article 98 of Stabilisation and Association Agreement (SAA) regulates that BiH and EU will establish the cooperation in the field of taxation. While establishing the cooperation with EU it is necessary to implement the *Acquis* priorities in the field of taxation and repression of a bad competition in taxation. Cooperation between BiH and EU includes implementing the measures which will: ensure the continuation of BiH fiscal system reform, accomplish restructuring of Tax Administrations, enable the exchange of information with EU members, start up activities leading towards the increase of transparency in the work of Tax Administrations.

Following objectives were meant to be fulfilled by mentioned measures and activities: More efficient tax collection, combating tax frauds, increase of efficiency in the fight against corruption. Given that the usage of modern principles of Tax Administration functioning and assurance of respecting the essential social objectives are in the focus of activities of the Tax Administration Governing Boards in the world, it can be concluded that the implementation of liabilities from SAA in the segment of taxation would facilitate and accelerate the inner transformation and modernization of the ITA and GB. At the same time that process will contribute to the ITA GB model convergence to existing GB models in the world in operating sphere.

5. Conclusion

Comparative analysis of competences of the ITA GB and other models in the world showed that it is time to make a new turn in functioning in the GB and ITA after first years of establishment of new system and VAT introduction. Besides carrying out the obligations from the EU Association process, the focus of activities of the GB and ITA in the following years should be transferred from the political sphere to the modernization of the administration and management mechanisms, takeover technical, operational, professional and managerial standards that are today in the focus of activities of Tax Administrations of developed countries and their Boards. It is necessary in order to enlarge the work efficiency, financial discipline, public revenue collection and management, transparency assurance and strengthening the responsibility of Tax Administrations towards the public and taxpayers.

Foreign trade exchange, overview, January-March 2010

(author: Mirela Kadić, research assistant)

Overview of the foreign trade exchange in period January-March 2010 is a continuation of the analysis issued in the previous Unit's bulletins. For the purpose of import and export dynamics overview and also for the purpose of trends within certain groups of products, first quarter 2010 has been taken, as well as first quarters in previous years.

Chart 1 shows trend in export, import and foreign trade deficit in period January 2003 till March 2010, whereas January 2003 was introduced as basis.

We note that a red curve i.e. export curve grows more significantly over the years than import. Growth of export has been shortly interrupted in the last two quarters in 2008 due to economic crisis. The beginning of 2010 brings the recovery of BiH export sector and it is to be seen whether it will be temporary or permanent.

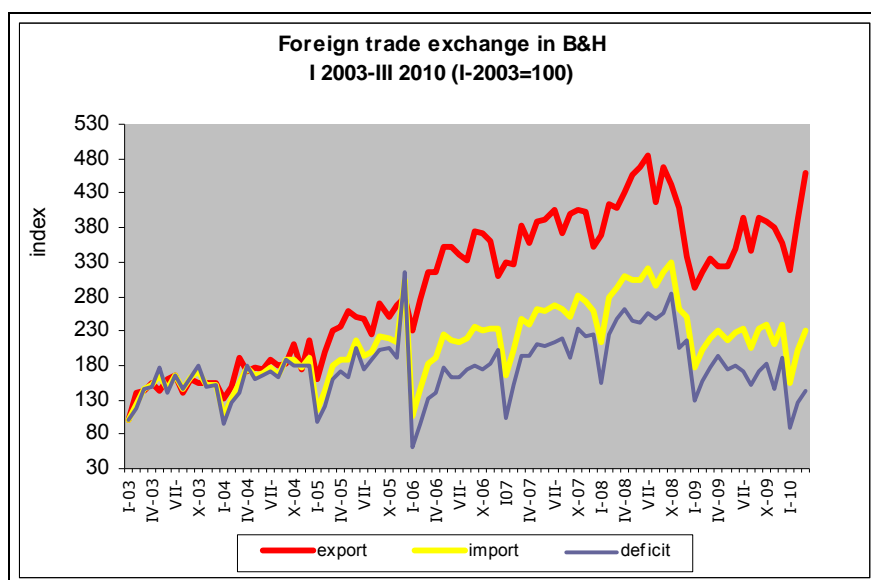


Chart 1

Chart 2 shows trends of the same indicators and in the same period, but this time in the absolute amounts. We note the reverse situation i.e. that the export curve is far away below the import value for the same period. Reason for this is a bad initial export basis in 2003 compared to import. In Chart 2 it can be also noted that export and import curves were approaching each other at most in the first quarter of 2006 and first quarter of 2010 which also caused the highest coverage of import by export.

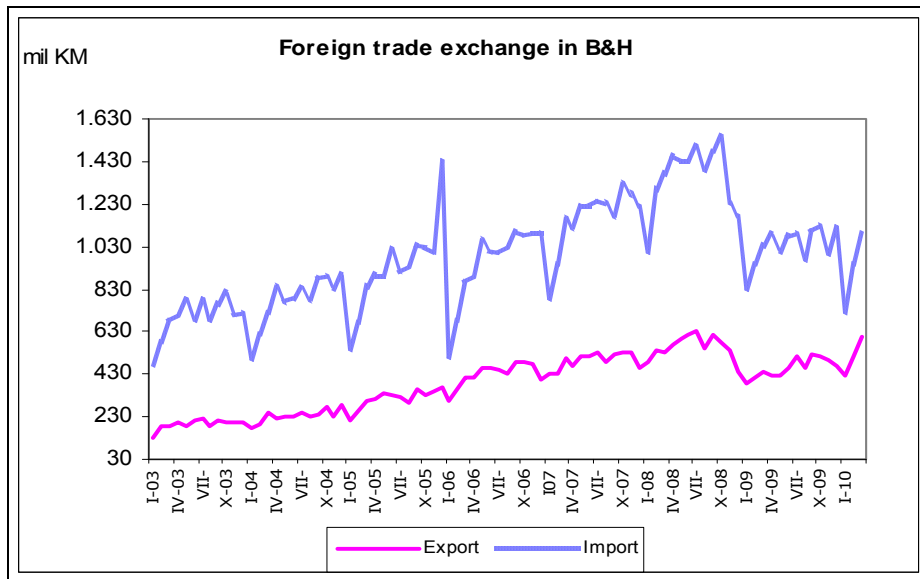


Chart 2

Chart 3 represents the level of import, export and the percentage of import coverage in the first three months of current year and previous five years. We note that the percentage of export import coverage in mentioned intervals depends on almost solely import level because changes within exports are less significant for the overall foreign trade exchange volume.

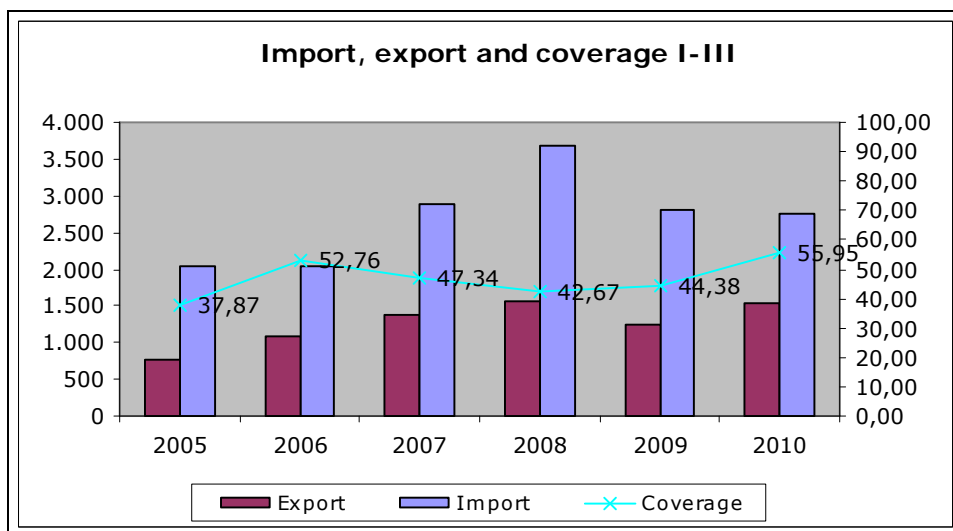


Chart 3

I-III	2006/2005	2007/2006	2008/2007	2009/2008	2010/2009
Export	38,74%	26,62%	14,80%	-20,74%	23,91%
Import	-0,34%	41,05%	27,40%	-23,80%	-1,73%
Volume	10,44%	36,07%	23,35%	-22,88%	6,14%
Deficit	-24,18%	57,14%	38,74%	-26,07%	-22,16%
Coverage	39,32%	-10,27%	-9,86%	4,01%	26,07%

Table 1.

Export

The most significant export growth in the first three months of 2010 compared to the same period of the previous year was recorded within the group of 'chemical industry products' more precisely with inorganic chemical products (106,43%), and then within the group of 'base metals' and mostly with the group of 'aluminium' 42,27% and 'iron and iron products' 40,62%. These three groups of products together with the group 'mineral fuels, oils, electrical energy' make 41,06% of total BiH export. As we can see in Chart 4, three mentioned groups in the first three months of the previous year achieved the highest export decrease, i.e. those were the groups of products which were most subject to world market trends and therefore global crisis.

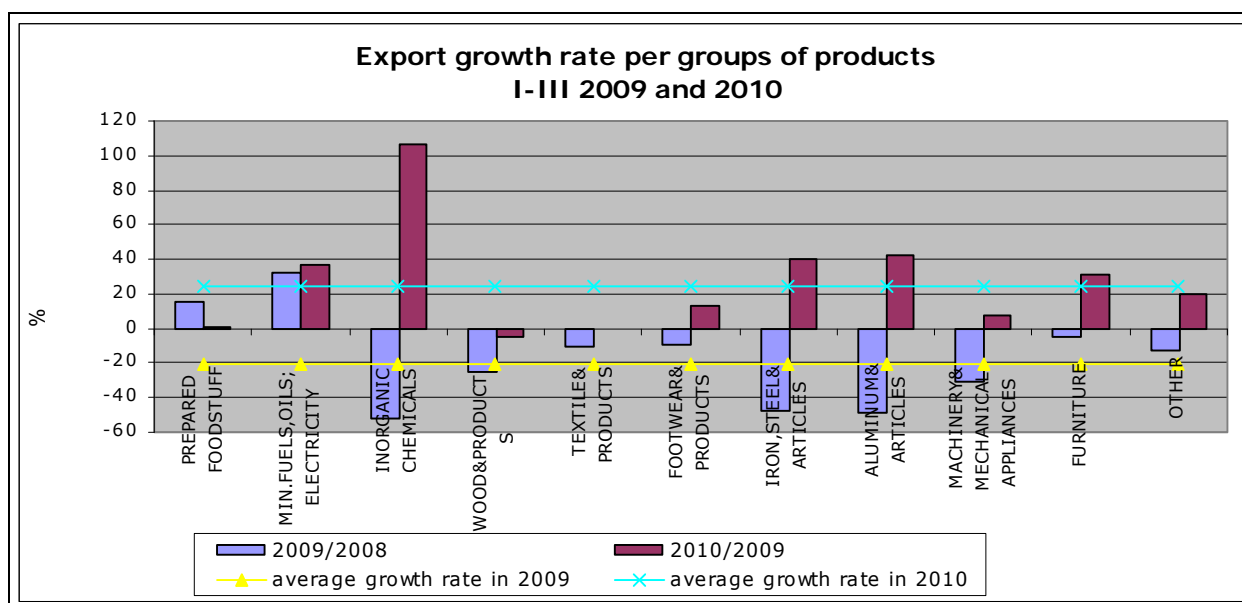
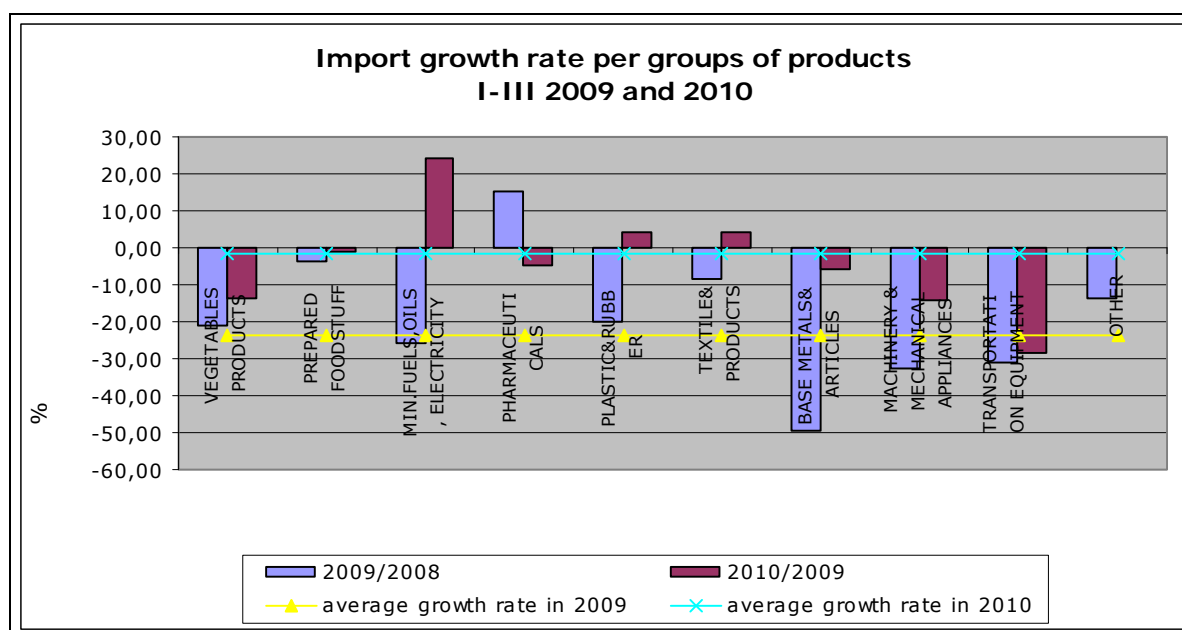


Chart 4

Import

Growth of import in the first quarter of 2010 related to the same period of the previous year was achieved only with following groups of products: products of mineral origin (24,47%), chemical and related industry products (2,46%), plastic mass, rubber and India rubber (4,18%), textile and textile products (4,21%). Pharmaceutical products which in first quarter of previous year achieved the growth of 15,04%, in the same period of current year achieved the import value decrease of almost 5%.

The picture of import of capital goods i.e. import value decrease of the group 'machine, appliances and devices' in 2010 (14,08%), but also in 2009. (32,4%), as well as the import of the group 'transport means' (in 2009 - 30,99%, and in 2010 - 28,2%) is very disturbing.



While export of the group food products is still recording mild increase, import value of the same groups is dropping. But, if we compare values of export and import of these groups of products (Table 2) we can notice that the coverage is far away from the average for the first quarter (55,95%), and not to mention trade surplus.

COMMODITY GROUP	COVERAGE	SHARE IN EXCHANGE VOLUME
ANIMALS & ANIMAL PRODUCTS	28,74%	2,53%
VEGETABLE PRODUCTS	17,79%	3,64%
ANIMAL OR VEGETABLE FATS	47,13%	0,73%
PREPARED FOODSTUFF	17,81%	7,81%
TOTAL EXCHANGE VOLUME I-III 2010	55,95%	100,00%

Table 2

Instead of a conclusion

In period January-March 2010 related to the same period of the previous year, the following trends in trade were recorded:

- **Export was increased by 23,91%** in relation to the same period of the last year
- **Import was decreased by 1,73%**
- **Deficit was reduced by 22,16%**
- **Coverage was increased and for the first quarter amounted 55,95%**

First quarter of 2010 does not bring major changes or surprises. Growth of export is elemental and just a reflection of a partly recovery of the world market of base metals. Deficit reduction was primarily caused by the import decrease due to weakening of purchasing power of population. Steady and sharp export strategy in the crisis conditions and 'nervous' market of primary raw material manifested as a necessity in foreign trade policy.

Public Administration Reform in BiH, overview, effects – Part I

(Author: Aleksandar Eskić, Macroeconomist in the Unit)

INTRODUCTION

Within the Program "Forum for European integration - FEI" ACIPS's research team developed a study entitled "Quo vadis, government?" on the implementation progress assessment of public administration reform in BiH. The study was conducted during the last quarter of 2009 and early 2010 and eventually was presented on 02/25/2010 in ACIPS's premises⁹. We hereby present you the main findings of the study, while a complete study can be viewed at ACIPS's website.

The starting point of the research was the last published quarterly progress reports on implementation the Action Plan 1 of the Strategy for Public Administration Reform in BiH at that time, prepared by the PARCO – Public Administration Reform Coordinator Office. What was the theme for "thinking" is the fact that the report showed the level of implementation of the Action Plan 1 of only 37.69% even though it was envisaged that it was supposed to be fully implemented until then and to gain access to the development of the Action Plan 2. For the utter objectification of research and presentation of opinions and suggestions based on the facts (evidence-based), it was necessary to analyze all the previously published progress implementation reports of the Action Plan 1, the document itself PAR Strategy and Action Plan 1, the contractual relations of BiH with the European Union, reports from all relevant national and international organizations that have in focus public administration reform in BiH, and that are in any way connected with this topic, as do interviews with all available referent individuals for people involved in this activity. In addition, the focus of this study was on activities related to the Fund for Public Administration Reform; Fund established by donors with the aim of financial support for implementation of the agreed reform measures. The research sought to determine the availability of three key factors needed for successful implementation of public administration reform strategy, political will, knowledge and money, and how they are used. Ofcourse, at the end we presented the set of recommendations – activities in order to improve the existing situation and accelerate the reform process. In this article we will particularly focus on two factors, namely knowledge, and money.

PRESENT CONTEXT OF PUBLIC ADMINISTRATION

Some international and domestic reports are mentioned in the introduction part and they do not speak in favor that social and public affairs are well managed in Bosnia and Herzegovina. Yet, there is the inevitable conclusion: the development of Bosnia and Herzegovina and its progress within the modern democratic states, requires rational and responsible management, and therefore the public administration reform as a key factor of public governance.

For example, public administration is the subject of all annual reports by the European Commission, which assesses the progress of Bosnia and Herzegovina. The report on the progress of Bosnia and Herzegovina for 2008, aside the list of positive developments, it is stated that stated that "the administrative structures are still cumbersome and in some cases, fragmented and prone to duplication and unclear division of powers between the institutions to the same level and vertically between different levels of government." The same report further states that "the civil service needs professionalization, transparent and efficient recruitment procedures and modern ways of improving services. It is necessary to undertake sustained efforts to prevent political interference and the limited role played by the ethnic identity and party affiliation in public administration. Management would benefit from modernization of procedures and processes, as well as cooperation with other parts of the country. "It is worrying that the assesment given for 2008 in almost identical formulations appear in the Progress Report for 2009. The report states the following:

⁹ Author of this article participated in the research of public administration reform in the filed of analysis of its financial aspect.

"However, the administrative structure of Bosnia and Herzegovina are still cumbersome and in some cases, fragmented and prone to duplication, and ambiguous division of responsibilities between the institutions to the same level and vertically between different levels of government... Overall, there was some progress in the field of public administration in terms of coordination and capacity. However, it is necessary to intensify reform efforts. Complex and overweighted institutional structure of the country further complicates efficiency. Considerable further efforts are needed towards creating an efficient, professional, stable, accountable and transparent civil service at all levels of government. "

Comparing the observations in 2008 and 2009 year can be assumed that suggesting some progress is probably an attempt to encourage the authorities to persevere in reforms, which really is not moving forward and nothing more.

In addition to this general, there is a whole range of specific factors, which require continuous reform activities in the field of public administration. Of course, it is inevitable to mention globalization. The most widely understood, globalization processes, primarily due to technological innovation, accelerate time and reduce space, expand range of possibilities, but also bring many new challenges and dangers. None of the public administration, especially management of small and poor countries can not afford the luxury of ignoring a lack of understanding of globalization and technological progress. Civil servants who do not possess foreign languages skills and do not use modern information and communication applications are most striking example of those public authorities who are losing the battle with the progress. Unfortunately, it seems that the Bosnian public administration falls right into that group. For instance, according to reports of the agency for civil service at different administrative levels basic computer trainings are still in demand the most. This happens despite the fact that for getting a job in our public administration is conditioned with knowledge of foreign, mostly English, and information literacy. Of course, the question arises to what extent are courses of teaching foreign languages able to train civil servants for their effective use.

All political forces in Bosnia and Herzegovina uncountable times are underlined its readiness to lead the country towards the full membership in the European Union. This is a key social priority and will be determined by undisputed fact that Bosnia and Herzegovina needs the European Union more than the European Union needs Bosnia and Herzegovina. Therefore, Bosnia and Herzegovina will, no doubt, will require administrative apparatus capable of actually implementing the *acquis communautaire* - and fulfill the Copenhagen criteria. This requirement is further enhanced with the signing of the Stabilization and Association Agreement (SAA), with which Bosnia and Herzegovina has entered into its first contractual relationship with the European Union. Article 8 of SAA clearly associates the process of association and administrative, or public administration reforms in Bosnia and Herzegovina.

ARTICLE 8.

Mapping will be carried out gradually and will be fully realized in a transitional period not exceeding six years. Stabilisation and Association Council, which was established in accordance with Article 115, shall regularly check in once a year, how Bosnia and Herzegovina is implementing this agreement, and it adopts and implements the legislative, administrative, institutional and economic reforms. This check shall be made in the spirit of the preamble and in accordance with general principles of this agreement. It will appropriately take into account the priorities set up European partnerships relevant to this agreement and be consistent with the mechanisms established by the Stabilisation and Association process, especially with reports on progress in the Stabilisation and Association Process.

The Stabilisation and Association Council shall, on the basis of these checks, make recommendations and can make decisions. If our review reveals some difficulties, they can make a dispute-settlement mechanisms established by this agreement.

Process of accession will be realized gradually. The Stabilisation and Association Council shall, not later than three years after the entry into force of this Agreement, conduct a thorough verification of its implementation. The Stabilisation and Association Council shall, on the basis of these checks, review the progress achieved Bosnia and Herzegovina, and can make decisions that will govern in the coming stages of accession.

The above checks will not apply to the free movement of goods, for which he designed a special layout in Chapter IV¹⁰.

And regional context imposes public administration reform in Bosnia and Herzegovina as one of the key social priorities. The process of liberalization of visa regime for Western Balkan countries can serve as an excellent illustration. Namely, when the European Commission adopted a decision to liberalize visa regime for Serbia, Montenegro and Macedonia in the mid of last year, it was just another in a series of signals that Bosnia and Herzegovina is lagging behind the countries of the region. This conclusion receives further confirmation by examining the number of indices involved in the estimates of states and their capacity in some areas. For example, Bosnia and Herzegovina was at 75th place of human development index and the lowest ranked country of the Western Balkans. On the other hand, the list index on which it is best to be last, and it is a "Failed States Index", Bosnia and Herzegovina is located in front of all the other Western Balkan countries, on 63rd position, the company states that make up the category "at risk" (In danger). In the Corruption Perception Index for 2009 Bosnia and Herzegovina is still the worst (99th positions) in relation to neighboring countries. Also, all countries in the region, Bosnia and Herzegovina has gone through the worst in the index "Doing Business 2009" which assesses the ease of doing business in 183 countries around the world.

DO WE HAVE EXPERTISE?

The survey that was focused on assessing the capacity for education and training in public administration states that "Bosnia and Herzegovina does not have a fully operational system of education and training in the field of public administration. As key issues are identified followings:

- Inadequate and poorly implemented legal framework
- Weak institutional framework
- Lack of human resources
- Lack of budget funds
- Lack of academic programs in Public Administration
- Dependence on international aid

Being burdened with these substantive issues, it can not be assumed that the system of education and training in the field of public administration is in a position to identify and provide administrative knowledge and skills that are particularly needed in the context of public administration reform. On the other hand, even the system of higher education, being overloaded with the reform procedures and lack of capacity itself, nor the international donor aid, still insufficiently coordinated and specialized, they can not eliminate these weaknesses. There are two basic ways to overcome the existing knowledge and developing local capacity and `import` knowledge.

One of the tasks set before the Agency for Civil Service is to partially fill this gap and deliver usable knowledge to employees in the civil service. Analysing the practices of these agencies as well as based on interviews with referent individuals from the arena of public administration at all administrative levels in the country, we come to the conclusion that the primary focus of training was the adoption of IT skills, English language, as well as numerous training programs that were so concerned of soft skills. What is missing so far are just trainings with the aim of acquiring specialist knowledge and skills to influence the management of the technology itself and the change of current practice, which we apparently are determined to change.

¹⁰ Stabilization and Association Agreement. Can be seen at

http://www.dei.gov.ba/bih_i_eu/ssp/doc/Default.aspx?id=743&template_id=14&pageIndex=1.

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However, even when it comes to the educational priorities in the administration, such as English language, it is evident that the absence of strategic approach in planning the need for specific skills and their proper positioning.

Similarly, we can not but wonder how many is actually needed to invest in human resources that are within the public administration system. The task of all Agencies for the Civil Service is to provide a certain level of knowledge and skills, especially for public officials who enter the public administration, with a specific upgrade, to be able to perform tasks within their scope of work. If this first filter fails, we come to that much needed investment in order to compensate for shortcomings that should not even occur. This leads to the absence of a satisfactory quality of output results in a longer time period than required (or permitted if we take into account the current state of our country and the expectations of the international community and citizens). If we add the fact large fluctuations of civil servants, particularly in managerial positions, we have a situation of chronic lack of necessary knowledge and skills to systematically and continuously contributed to the improvement of systems of public administration, increased the degree of integration of our country as well as the ability to adopt and implement the basic provisions of the EU (Acquis Communautaire), which is the main condition for membership in the EU.

In addition to the factors of expertise and adequate education, research includes and financial aspects in terms of sufficiency and how available financial resources are spent which is needed to implement reform of public administration. About this factor, as well as the recommendations of the research with the aim of improving the existing condition of public administration, we will write in the next bulletin issue.

Consolidated reports

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Table 1. (Consolidated report: BiH, entities, SA)

1. The consolidated report includes:
 - revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
 - transfers from the ITA Single Account for external debt servicing,
 - transfers from the ITA Single Account for financing Brčko District, cantons, municipalities and Road Directorates,
 - revenues and expenditures of the budget of Bosnia and Herzegovina,
 - revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
 - revenues and expenditures of the budget of the Republika Srpska.

Table 2. (Preliminary consolidated report for B&H)

1. The consolidated report includes:
 - revenues and expenditures of the budget of Bosnia and Herzegovina
 - revenues and expenditures of the budget of FBiH, cantons, municipalities and funds in FBiH
 - revenues and expenditures of the budget of the RS, municipalities and funds in RS
 - revenues and expenditures of the budget of BD and funds in BD.

Unavailable data are estimated.

Table 3. (Consolidated report: Cantons)

1. The consolidated report includes:
 - revenues and expenditures of the cantonal budgets,
 - revenues and expenditures of the budgets of related municipalities.
2. Net financing = loans received – repayment of debt

Preliminary report: BiH, entities and SA, I-IV 2010

	I	II	III	IV	Total
Current revenues	397,27	376,69	432,13	529,49	1735,57
Taxes	366,66	344,70	391,22	439,49	1542,07
Indirect taxes	349,58	325,06	351,17	371,14	1396,95
VAT	203,17	206,85	223,46	224,63	858,11
VAT on imports	104,71	150,93	175,26	182,13	613,02
VAT from VAT returns	145,92	114,51	97,28	102,32	460,02
VAT from automatic assessment done by ITA	0,02	0,00	0,00	0,00	0,03
One-off VAT payments	0,24	0,20	0,04	0,04	0,52
Other	2,11	2,38	1,88	2,45	8,83
VAT refunds	-49,83	-61,17	-51,00	-62,31	-224,31
Custom duties	16,60	22,16	26,57	24,83	90,16
Sales tax	0,00	0,00	0,00	0,00	0,01
Excises	106,54	76,03	77,99	94,55	355,11
on imports	65,23	52,46	54,87	61,64	234,20
on domestic production	41,31	23,57	23,13	32,90	120,91
Railroad tax	22,98	19,17	22,29	25,64	90,07
Other	1,06	1,19	1,75	1,43	5,43
Other refunds	-0,77	-0,35	-0,88	0,06	-1,94
Direct taxes	17,08	19,64	40,05	68,35	145,12
Income taxes	9,35	10,81	29,17	57,57	106,91
Other tax revenues	7,10	8,10	9,89	9,80	34,89
Other direct taxes	0,63	0,73	0,99	0,98	3,32
Contributions	0,00	0,00	0,00	0,00	0,00
Non-tax revenues	28,47	30,06	39,89	89,84	188,26
Grants	2,14	1,93	1,01	0,16	5,24
Expenditures on accrual basis	443,85	360,87	522,55	472,11	1799,37
Wages and compensations	106,66	109,02	120,73	118,22	454,64
Purchases of goods and services	11,03	15,25	29,02	21,78	77,09
Subsidies and transfers	102,08	93,61	178,51	147,15	521,35
Interests (domestic and foreign)	2,47	3,67	11,73	5,16	23,03
Other current expenditure	4,60	10,71	9,75	9,62	34,68
Capital expenditures	12,15	12,27	17,32	5,14	46,88
Other expenditures	58,29	7,40	-27,16	9,99	48,52
SA transfers	146,77	109,33	185,74	155,60	597,44
o/w: FBiH/cantons, municipalities, Road Fund	104,84	77,11	150,31	120,50	452,77
o/w: RS/cities, municipalities, Road Fund	31,11	22,93	25,42	23,77	103,23
o/w: Brčko	10,81	9,30	10,00	11,34	41,45
Net lending and capital gains	-0,20	-0,40	-3,10	-0,56	-4,26
Overall balance	-46,58	15,82	-90,42	57,38	-63,80
Financing	46,58	-15,82	90,42	-57,38	63,80

Table 1.

Preliminary consolidated report for BiH, I-III 2010

	Q1
Revenues	2.318,6
Tax revenues	1.185,3
Indirect taxes	985,3
Direct taxes	200,0
Profit tax revenues	73,0
Income tax revenues	90,2
Other direct taxes	36,8
Contributions	842,9
Non-tax revenues	243,0
Grants	39,1
Other revenues	8,3
Expenditures	2.544,6
Wages and compensations	729,6
Purchases of goods and services	520,5
Subsidies and transfers	1.103,6
Interests (domestic and foreign)	23,0
Other current expenditures	37,4
Capital expenditures	76,0
Other expenditures	58,3
Net lending and capital gains	-4,0
Overall balance	-226,0
Financing	226,0

Table 2.

West Herzegovina Canton, I-III 2010

		I	II	III	Q1	I-III 2010	I-III 2009
1	Revenues (11+12+13+14)	6.131.904	5.736.966	7.932.717	19.801.587	19.801.587	21.430.945
11	Tax revenues	5.219.291	4.654.636	6.430.852	16.304.779	16.304.779	16.895.780
	Income and profit tax	928.665	871.005	2.166.438	3.966.108	3.966.108	4.757.902
	Property tax	176.681	225.885	191.383	593.950	593.950	891.652
	Indirect taxes	4.002.605	3.432.952	3.611.984	11.047.542	11.047.542	10.853.424
	Other taxes	111.340	124.793	461.046	697.180	697.180	392.802
12	Nontax revenues	882.840	1.064.335	1.445.802	3.392.977	3.392.977	4.285.854
13	Grants	29.773	17.995	30.152	77.919	77.919	230.019
14	Other revenues	0	0	25.912	25.912	25.912	19.292
2	Expenditures (21+22)	6.238.830	8.672.309	8.475.701	23.386.840	23.386.840	25.082.708
21	Current expenditures	6.238.830	8.672.309	8.475.701	23.386.840	23.386.840	25.002.708
	Gross wages and compensations	4.084.986	3.962.237	4.139.395	12.186.618	12.186.618	12.242.067
	Purchases of goods and services	921.914	858.308	967.591	2.747.812	2.747.812	3.280.765
	Grants	974.394	3.576.546	3.036.123	7.587.063	7.587.063	8.617.001
	Interests payments	55.094	56.811	58.058	169.962	169.962	112.915
	Other expenditures	202.443	218.407	274.534	695.384	695.384	749.960
22	Net lending*	0	0	0	0	0	80.000
3	Net acquisition of nonfinancial assets	31.008	192.662	400.947	624.617	624.617	951.099
4	Gov. surplus/deficit (1-2-3)	-137.935	-3.128.004	-943.931	-4.209.870	-4.209.870	-4.602.862
5	Net financing**	-97.136	-151.738	3.526.078	3.277.203	3.277.203	-1.157.213

Table 3.