

Cost Estimation of Municipal Services in Bosnia and Herzegovina

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Introduction

Reflecting the complex Dayton Peace Accords which ended the war in Bosnia and Herzegovina the government has several levels of political structuring. Under the state level the country is divided into two entities: Republika Srpska and the Federation of Bosnia and Herzegovina. The third level of Bosnia and Herzegovina's political subdivision is cantons. They are unique to the Federation of Bosnia and Herzegovina entity, which consists of ten of them. All have their own cantonal government, which is under the law of the Federation as a whole. Some cantons are ethnically mixed and have special laws to ensure the equality of all constituent peoples. The fourth level of political division in Bosnia and Herzegovina is the municipalities. The Federation of Bosnia and Herzegovina is divided in 80 municipalities and Republika Srpska in 62. Municipalities also have their own local government, and are typically based around the most significant city or place in their territory.

Local governance is generally more effective than other levels of government in Bosnia but is constrained in terms of competencies and finances by the cantons in the Federation of Bosnia and Herzegovina and the centralized structure of government in the Republika Srpska. New laws on local self-government are promising to improve the competencies and fiscal independence of municipalities. Local governments have responsibilities in both entities for communal and utility services and for the non-salary costs of some educational and social services. However, the distribution of these between entity, cantonal and municipal budgets is irregular. Under the new legislation municipalities in the Federation receive 8.42% of the entities share of VAT (Value Added Tax) distributed 68% by population, 5% by area, and 20% by the number of school pupils. In addition municipalities receive at least 28.5% of payroll tax by place of employment. Municipalities, also receive property taxes, fees and charges. Municipalities in Republika Srpska (RS) will receive 23% of the entities VAT shares distributed 75% by population, 5% by area and 20% by school population. The differences between this revenue and previous income from sales tax shares will be phased in over six years. Municipalities will also receive 25% of wage tax by residence, property taxes, fees and charges.

One of the pledges made by Bosnia and Herzegovina (BiH) to advance its Stabilization and Association Agreement (SAA) negotiations with the EU is to ensure quality-driven and citizen-friendly public services in accordance with EU Best Practices. The government has adopted several policies, strategies and action plans in order to meet the requirements for EU membership and reform its public administration sector. An Inter-Ministerial Working Group for Public Administration Reform (PAR) was established in order to monitor and coordinate PAR activities, with a special mission to work out a detailed strategy of PAR in all of BiH and to adopt an action plan for its implementation (PRSP 2005). The development of this strategy is one of the sixteen requests for BiH in the advancement of its SAA negotiations with the European Union (EU) (Office of the PAR Coordinator, 2005). The implementation of this strategy will be required of BiH for its EU accession and integration.

The overall vision of the PAR Strategy, published 2006, is to: *“create a public administration that is more effective, efficient, and accountable; that will serve the citizens better for less money; and that will operate with transparent and open procedures, while meeting all conditions set by European Integration, and thereby truly become a facilitator for continuous and sustainable social and economic development”*¹. The purpose of the short study is to

¹ BH PAR Strategy, 2006

identify and present measures that could be introduced in public administration institutions in municipalities in order to improve their delivery of public services to citizens and enable their functioning in accordance with EU Best Practices.

Local Service Delivery

Mandatory tasks listed in the laws on local self-government passed by canton parliaments essentially repeat those assigned by Federation law. However, the wording and definitions of these tasks are not exactly precise, allowing great differences in interpretation. In addition, a host of sectoral technical requirements impose operational and capital improvement obligations on local governments that they cannot meet. There are overlaps concerning operational responsibilities, ownership, capital improvement and maintenance.

According to Federation law², the competences of a local unit of self-government, municipalities and, in a few cases, cities, shall include specifically:

- ensuring and protecting human rights and basic freedoms in accordance with the Constitution;
- adoption of the budget of the local unit of self-government;
- adoption of programs and plans for the development of the local unit of self-government and providing conditions for its economic growth and job creation;
- establishing and implementation of spatial planning and environmental protection policies;
- adoption of regional, urban and implementation plans, including zoning;
- establishing and implementation of a housing policy and adoption of programs for housing development and other types of property development;
- establishing a policy and setting the level of reimbursement for the use of public goods;
- establishing and implementation of a policy for control, management and use of construction land;
- establishing a policy for control and management of property of the local unit of self-government;
- establishing a policy for managing natural resources of the local unit of self-government and distribution of revenue collected as compensation for the use of those resources;
- management, financing and improvement of the operations and facilities of the local public infrastructure (water supply, wastewater disposal and treatment; solid waste collection and disposal; public sanitation; city cemeteries; local roads and bridges; street lights; public car parks; parks);
- organization and improvement of local public transport;
- establishing a preschool education policy, improvement of the preschool institutional network, and management and funding of public institutions for preschool education;
- establishment, management, funding and improvement of institutions for primary education;
- establishment, management, funding and improvement of institutions and building facilities to satisfy the needs of citizens in the areas of culture and sport;
- assessing the work of institutions and quality of services in the areas of health care, social welfare, education, culture and sport, and ensuring funds required for the improvement of their work and quality of services in accordance with the needs of citizens and capabilities of the local unit of self-government;

² Law on Principles of Local Self-Government in the Federation of Bosnia and Herzegovina, 2006

- analyses of public order and peace and level of safety of people and property, and making recommendations to relevant authorities;
- organizing, implementation and responsibilities for measures of protection and rescue of people and material goods from elements and natural disasters;
- establishment and conduct of compliance inspections with regard to the regulations from within the competencies of the local unit of self-governance;
- rendering regulations on taxes, reimbursements, contributions and fees within the competencies of the local unit of self-governance;
- holding referendums in the territory of a local unit of self-governance;
- floatation of bonds and decisions on debt incurrence by local units of self-governance;
- conduct of activities for ensuring proper sanitation and health conditions;
- ensuring proper work conditions for local radio and TV stations in accordance with the law;
- ensuring and maintaining records of personal status of citizens and electoral rolls;
- activities from the domain of land survey and land cadastre, and property records;
- organization of efficient local government in accordance with local needs;
- establishment of the organization of local self-government;
- animal protection.

Canton local-self government laws assign additional or more specific tasks. The ambiguous nature of these responsibilities allows cantons to impose capital improvement requirements, and these provisions do not define who hires staff in health clinics, schools or social agencies. In practice these institutions mostly are financed and run by the cantons. In Hercegovina-Neretva Canton, for example, municipalities are expected to conduct local business development and to establish social welfare institutions. In addition, they are required to construct and maintain roads, water systems and other units of infrastructure of local importance. The Canton expects municipalities to establish taxes and other revenue sources as authorized by law to fill any funding gap. In other words, the canton openly imposes mandates on its municipalities for which funding does not exist.

The distinction between mandatory and facultative tasks is not as relevant as the variation among cantons concerning what is expected of the municipalities and the unclear nature of the performance standards for each task. The imposition of capital expense burdens upon municipalities by cantons regarding canton-owned and operated educational, social and health facilities adds another level of uncertainty as to which level does what in the Federation. The pattern is repeated to a smaller extent in the Republika Srpska, in that there are no regional differences given the lack of a middle level of self-government. Instead, due to the geographic distribution of municipalities, their small size and often divided nature (parts of settlements are in the Federation), local governments suffer from an economy of scale that makes it difficult to apply the universal list of tasks to municipalities of any size.

These tasks, according to the local-self government law³, are as follows:

- a) In the field of regulatory actions and municipality administration:
 - adopting the municipality development program,
 - adopting development plans, landscape plans, city plans and implementation plans,
 - adopting a budget and annual budget account,
 - regulating and providing for use of construction land and business premises,
 - establishing the community police,
 - inspection and supervision, as defined by law,
 - managing and disposing of the municipal property

³ Law on local-self government of Republic of Srpska, 2004

- establishing municipal bodies, organizations and services and define their organization,
 - performing the cadastre, land survey and property affairs related jobs, as defined by law,
 - collection, control of collection and forced collection of original revenues of municipalities,
 - jobs of legal representation of the municipality and ensuring implementation of laws, regulations and other general acts.
- b) In the field of service provision:
- performing specific functions in the area of culture, education, sports, health care and social security, civil defense, information, handicrafts, tourism and hotel industry, and environment protection,
 - organizing and providing for smooth performance of utility services: production and supply with water, gas, heat energy, public passenger transport, cleaning, purification and drainage of the waste waters, cemetery maintenance and provision of burial services, maintenance of roads, parks, green, leisure and other public surfaces, drainage of rains and other precipitation, and cleaning public surfaces;
 - establishing companies, institutions and other organizations for the purpose of providing services under their responsibility, defining their organization and managing and
 - determining and ensuring construction, maintenance and utilization of public buildings and utility infrastructure necessary for carrying out the functions of the municipality,
 - to perform other activities as established by the Constitution, laws and the municipal statutes.

These provisions are strikingly similar to those in the Federation local-self government law and in various canton local-self government laws. Mayors and citizens often are hindered by the distance they have to travel to take care of business in the entity capital Banja Luka, and smaller municipalities hope to delegate certain functions back to the entity level. This is more justified in the Republika Srpska than in the Federation but more difficult, given the geographic realities of the entity. In many cases ownership, operating responsibility and capital improvement tasks are shared by the municipal, canton and entity levels in the Federation, making a clear distinction difficult. In the RS smaller municipalities do delegate functions to the entities or neighboring municipalities, and in the Federation some cantons implicitly require municipalities to contribute to capital costs in the case of canton-owned facilities, while in others, municipalities have begun to charge user fees even in canton-owned health institutions, given the demands of the population for better service.

Almost without exception traditional municipal-, canton- and entity-operated institutions and utility corporations deliver these services. Alternative forms of service delivery in BiH are incipient 2006 after Federation law on principals of local-self government was adopted, given problems with patrimony and the untested nature of most canton local government laws. Joint service delivery, made possible by progressive provisions in Federation and canton statutes, is still far from emerging as a true alternative to traditional institutions and public corporations. While Bosnia and Herzegovina is recovering from its civil war, foreign donations provide the bulk of financing to rebuild local infrastructure. Neither potential borrowers nor potential lenders have given much thought to future private sector lending for municipal infrastructure. However, as grants and subsidized credits dry up, it would be useful to have in place a facilitative policy framework for municipal borrowing. In 2007 laws for municipal borrowing were adopted in both entities. These laws have determined amount of credit which can be received by municipalities. Given such a framework, together with a stable and adequate municipal revenue structure, a viable private financial sector and good municipal management

skills, we can expect municipal capital markets to develop and to take on an increasing share of the infrastructure financing burden.

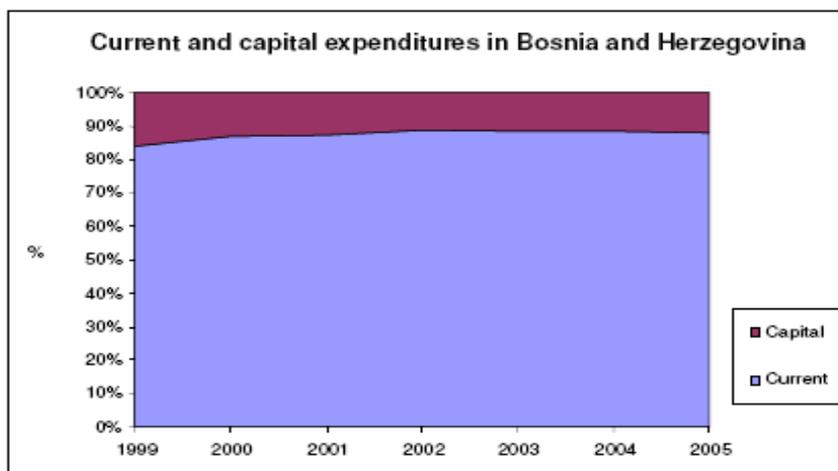
Municipalities and communal service enterprises in Bosnia and Herzegovina are responsible for providing most local infrastructure. Although there is discussion of utility concessions to attract equity capital and widespread interest in the idea of municipal borrowing to attract debt capital, there are no clear state or entity policies as to if or how private investment should be identified to help fund local infrastructure. There also is no clear, common understanding of how or where municipalities will get funds for infrastructure investment. Movement towards a market economy is a basic tenet of the Dayton Framework, and financial institutions are slated to be privatized (or to have a clear strategy for privatization) by 2001, but there is not yet a private financial sector to which municipalities can turn for capital. Maybe a new law on borrowing will be changing this situation in future.

Problems with Determination of the Municipal Expenditures

Although the consolidated budget of governments of Bosnia and Herzegovina seems to be at a satisfactory level, cannot look that our country is fully fiscally sustainable. The World Bank report⁴ states that the fiscal position of Bosnia and Herzegovina has improved significantly, but that the fiscal sustainability might still be in question. Main reasons include large of government authorities, poor quality of public service and inefficient public expenditures. These findings can be a result of a very complex institutional environment. Bosnia and Herzegovina is a country with less than 4 million population, but 14 levels of government, the same number of parliaments, and more than 100 ministries. An institutional framework this complicated must be generating high public expenditures, or primarily current expenditures for its public administration.

Capital government expenditures that may have positive long-term effects on growth in Bosnia and Herzegovina have had a decreasing tendency in the past several years and are reduced to “a minimum”. The following chart shows the ratio of the current and capital expenditures, and clearly suggests disproportion in favor of current expenditures, and a relative decrease of capital expenditures each year.

Graph: Current and capital expenditures in BiH 1999-2005



Sources: World Bank, 2006

⁴ World Bank, “Bosnia and Herzegovina: Dealing with fiscal challenges and strengthening growth perspectives, Overview of public expenditures and institutions”, Report No. 36156-BiH, 2006

As has been noted earlier, Bosnia and Herzegovina municipalities, in both entities, accrues only around 8% of VAT. In the Federation, the cantons and the entity keep 92% of public revenues, while as analogous in the RS, the entity keeps 92% of public revenues.

A significant aspect of this situation is that the distribution of functions, and the administrative autonomy necessary, is not adjusted to the capabilities of the municipalities, and does not reflect true demand for services imposed by the population. Municipalities cannot adequately fund mandatory services from shared and own-source revenues, cannot reject delegated tasks from the entity or the canton, nor can they decide upon the most efficient and accountable form of delivering their services. Entity local government laws, as well as cantonal local government laws, were not designed taking into account which services could be optimally performed at each level of public administration, and the funding necessary for an optimal, or even for the current construct, is clearly inadequate, and outside of control of the municipal level.

The untaxed economy imposes demand-driven costs on municipal services that cannot be recovered through better tax compliance and collections at the local level. Capital spending varied between 1-10% of cantonal budgets in last several years (direct investment by cantons amounted to no more than 5% of budgets according to World Bank estimates), and at the municipal level, capital spending took up to 30% of their budgets.

Certain public functions are unnecessarily split between municipalities and the next higher unit of government. In many respects, municipalities lack autonomy in organizing and delivering core services. Aspects of permitting and urban land use are shared between cantons and municipalities, preventing municipalities from influencing their own development, while making permit applicants hostage to the whims of a distant cantonal official. (Canton officials usually issues construction permits for projects in municipality without even consultancies). In entities, social service and education functions are divided among the municipalities and the higher level in that teacher' salaries are paid by the higher unit, while maintenance and material costs are assumed by the municipality.

For instance, split responsibilities in the educational sector means that parents complain to municipal governments about cold, dark and dilapidated schools, and are hence forced to fund improvements and operating expenses out of their own budgets, budgets which for many reasons are inadequate to cover even mandatory functions. Also, municipalities are responsible for transporting students to schools, yet there is no separate funding for the full costs of this task. In the case of veterans' housing, in both entities municipalities were made responsible without any additional funds. In the case of social safety next questions, additional unemployment caused by privatization and/or restructuring of state-owned firms increases the municipalities' burdens to care for the newly unemployed, yet no line item exists for this new task. The legislation from the canton or RS level defines municipal responsibilities without proper financing.

Municipalities in both entities complained about large numbers of staff from the previous regime or during the war period. These staff members often do not have the skills, professionalism and willingness to work in a modern public administration system. Yet municipal officials fear firing such staff for political and economic reasons, i.e., it is difficult to fire a public servant, and expensive in terms of severance costs. Furthermore, the cost of bloated and unqualified staff includes the inability to hire appropriate people, especially in the IT and finance areas, both of which are critical to any reform process.

Capital expenses of certain types are also involuntarily assumed by municipal offices facing public pressure. In this system, those officials at the RS or cantonal levels who are legally responsible for certain public services are not held accountable by citizens at the local level,

while municipal officials, who lack the authority and finances to address the problem, are held directly accountable to the public. This paradox illustrates that the inherent basic accountability that exists at the municipal level is fundamentally more vibrant today than at higher levels of government. As a generic guiding principal of modern public administration, service provision should occur at that level which provides the optimum balance between efficiency and democratic accountability.

A common problem is that the revenue sharing formulae used in both entities are arbitrary, do not reflect the cost of service, and are not fair to municipalities with weak tax bases which could perhaps never produce sufficient revenues to be shared and returned to cover the costs of mandated services.

As mentioned strengthening the quality of public administration remains a key challenge as BiH advances European integration. Effective administration is also an important enabling condition to many other policy reforms. While new functions and activities are added to the public administration to help meet EU standards, the authorities must find ways to lower the overall cost and improve effectiveness.

Cost Estimation of Municipal Services

The main elements of local finance are the system of revenues, the system of expenditures, local budgets and local financial administration. The overview of revenues to local budgets shows that the existing means of generating resources for the municipal budget are as follows: self generated revenues (local taxes, fees and others); revenues from national/sub-national taxes (part of the shared taxes); budget transfers, including general transfers and special (targeted) subsidies and grants; and other means (some attempts recently have been made to raise funds through financial markets). On the other side of local budget are expenditures. The expenditure side of municipal budget includes wages, current expenses (material costs and services), social transfers (individual and NGOs), capital expenses and budget reserve.

The Federal Ministry of Finance (MoF) prepares the Medium-Term Expenditure Framework (MTEF) for next three years includes three the federal, cantonal and municipal budgets, aims to introduce fiscal sustainability and reduce the overall very high levels of public expenditure. The same situation exist in RS where the Ministry of Finance prepares the MTEF includes municipal budgets.

The creation of the basic framework, or parameters/limits, within the municipal executive is subsequently able to exercise systematic and rational expense of municipal departments as they are implementing the programs laid out in the annual budget. Operational instruction for the preparation of municipal budget and budget projections for the next three years⁵ includes recommendations:

- ✓ harmonization of total expenditure framework to the given expenditure limits. In relation to the amount exceeding the limits, state separately tasks, activities and necessary funds (presented by analytical accounts – economic codes),
- ✓ maximization of the level of efficiency, transparency and responsibility in planning and use of budget funds,
- ✓ location of responsibility for irrational spending and divergences from planned proportions between budget revenue and expenditure in all execution phases.

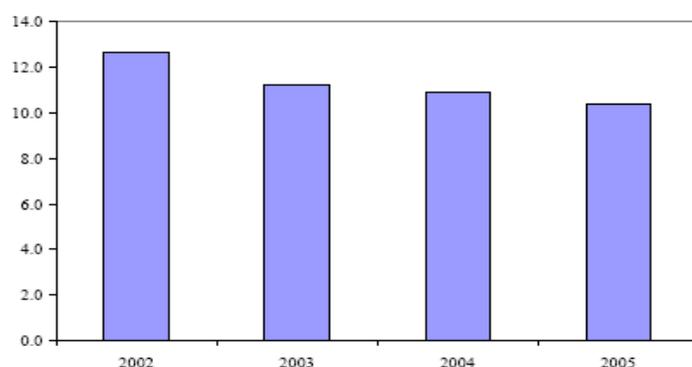
⁵ This is request prescribed by federal budget law to all budget users include municipalities.

The Cost of Public Sector Employment

The share of public wages in GDP and in total expenditures is substantially larger than among comparator countries. Reducing the cost of the public administration over the medium term will necessitate tight control of salary levels, even to the extent of reducing average wages in real terms. Difficult trade-offs need to be made to reduce the levels of employment at some levels of government. Incentives for performance must also be strengthened if there is to be any real improvement in the quality of public management.

The wage statement remains high despite substantial progress in reducing wage outlays over the past few years. The general government wage statement fell from 11.7 percent of adjusted GDP in 2000 to 10 percent in 2004 (Figure 4.1). Relative to official GDP, the decline was from 19.6 percent to 15.2 percent. Including outlays by the extra budgetary funds and wages for medical professionals, an adjustment that makes possible a more reliable comparison with other countries, the wage bill amounted to 12.7 percent of adjusted GDP in 2005.

Figure 4.1. BH: General Government Wage Bill 1/
(In percent of adjusted GDP)



Sources: Ministries of finance and World Bank staff estimates.
1/ Excludes wages for health workers.

The wage statement is high even when measured relative to total government expenditures. Including health wages, wage expenses amount to 35 percent of government spending in BiH compared with 24 percent on average in the EU and 19 percent in the Baltic States. High wage expenses crowd out other spending, including operations and maintenance (O&M). In the judiciary, for example, salaries increase significantly from 2001 through 2004, while resources for basic equipment and operations virtually dried up and many courts accumulated debts to pay utilities and other ongoing costs.

Both entities contribute to the high wage statement, but the situation is worse in the more decentralized FBiH structure.⁶ Among the FBiH cantons, the scope of activities tends to be dominated by education and policing functions, which are heavily labor-intensive. The actual amount available for operations is actually much lower because transfer payments make up about another one-fifth of cantonal budgets. Cantons spend on average only about 14 percent of their budgets on goods and services to carry out their functions. Civil servants appear to make up only a small proportion of the total public employment. The FBiH Civil Service Agency (CSA) has impressive statistics available in its registry but for only a small portion of the total number because the data is dispersed across the different levels of the entity, the cantonal and the municipal governments. According with that registry, in total approximately

⁶ In this case, it means the entity level government and any sub-entity governments (i.e., cantons and/or municipalities).

105,000 people are employed in the public administration, excluding those working for municipalities, and of that amount about 12 percent are probably civil servants.⁷ No data is available from the municipalities in total measure, but based on their expenditure data one may estimate that they might account for an additional 16,000 employees, bringing the total public employment at all levels of government to over 121,000. The responsibility for management of wages and related costs is distributed across multiple governments. The FBH, the cantons and the municipalities account for 61 percent of all BH wage outlays, and the RS for about 23 percent, based on consolidated budgets for 2005.

The linkage between job responsibility and pay is not as strong as it should be to support internal equity. Jobs with very different levels of responsibility have virtually the same pay; conversely, jobs with similar responsibility sometimes have wide variance in pay. Good human resource management practice is to set pay levels based on the relative job content. However, in BiH, job titles define the pay grades and those are based on educational qualifications and years of experience – a system fairly common in the former Yugoslavia. While there is some correlation between job titles and the level of responsibility, the correlation is weak. A “head of function” for example, is not necessarily the same across all ministries or departments. Some pay systems in other countries might be able to address the differences in responsibility through broad salary bands, but these are not used in BH. Large unexplained variations exist among positions with the same title working within the same level of government. This stands out both for the state and the RS. A review of the state’s payroll data for April 2005⁸ shows several posts where the differences in salaries across individuals are wider than would normally be explained by the salary and allowance structure.⁹ The biggest differences, however, are within the newly created Indirect Tax Administration (ITA), where the highest salary is four times higher than the lowest salary for the same position title. A variety of explanations are possible. For example, wage arrears may have been included in the data, or managers could have used their perceived flexibility to attract, retain or reward better performers. It is also conceivable that the wide differences reflect some degree of favoritism or poor controls. Al told, the magnitude of differences is quite large and suggests that a more transparent structure is needed, with a clear set of rules and procedures for salary decisions. Further, the authorities would benefit from stronger payroll accounting procedures that clearly delineate the components of total pay.

Differences in pay can also be quite significant across functions or sectors. For example, because of influence from the international community, salaries for judges and prosecutors rose steadily over the last several years and now tend to be about double those of senior public officials. While the justification for this policy may appear sound, it has generated significant imbalances.

Allowances/compensation plays a large part in the BiH pay system and contributes to the low compression ratio. The most common allowances are for meals, transport, and holiday pay. For a “non-qualified worker” employed by the FBiH, the allowances can amount to as much as or more than the base pay. As the allowances are expressed as an absolute amount rather than as a percent of the base pay, more skilled public servants receive a proportionately lower benefit. There are other allowances, such as those for temporary duties and for work on commissions that are awarded selectively to a few individuals and are open to possible abuse. In general, the allowances have too large a role in determining total net pay and most should be eliminated with the proceeds used to enhance base salaries. The differential tax treatment

⁷ It is employees with high level of education.

⁸ Council of Ministers of Bosnia and Herzegovina, 2005, Report

⁹ For example, there is a 100 percent spread in net salaries for people holding the title of “expert advisor,” and all with the same level of educational qualification. There is about a 70 percent difference in salaries for “head of department” or “head of function”.

that now exists within the FBiH between base salaries and allowances would need to be addressed in order to implement this policy.

To meet the challenges of state building over the medium-term, the authorities will need to control costs at the state level and reduce costs at the sub-national level. Where given functions are transferred from the entity to the state, for example, the transfer should be cost-neutral. Besides, implementation a hiring freeze and to rely on attrition to reduce staffing, high level of government tried to freeze most salaries in nominal terms by MTEF. In accordance with MTEF for 2008-2010 total federal consolidated salaries expenditures for 2008 is planned in amount of 22.4% of total budget expenditures, with tendency of increase 1% in next two years. This projection should be applied to the municipal budget projection.

The next set of expenditures is operational/material expenditures include costs for telephone and postal services, energy and public utilities, office supply, rental of property and equipment, insurance, banking services and payment. This expenditure is to be planned on the basis of historical data on expenditure, with rationalization which is to be regulated in normative acts and internal procedures.

Most local authorities are unprepared or unable to take on increased responsibilities for fund raising, economic development and establishing true self-government. One major problem is a lack of investment capital. The structure of expenses in local budgets everywhere shows that expenses for social and cultural needs tend to prevail. The transition has imposed dramatic social costs for societies in these countries—economic decline, inflation, unemployment and poverty. The number of citizens requiring social assistance is on the rise, while financial resources are obviously inadequate to cover all demands.

“Mark for mark” is the policy applied by local authorities in financing of infrastructure works. In terms of public finances, respondents mostly spoke about this policy. If a certain community or settlement needs to finance infrastructure construction (building or repair of water supply network, maintenance of a local road, street lighting, repair of bridges, building or repair of the sewage system) it can secure the funding from municipal budget. Local authorities are ready to provide from the budget an amount equal to that gathered by the citizens. These are mainly projects to resolve some urgent problems, which the total value can be determined by Councils decision. Also, Municipal Council (MC) appoints a few persons to be charged with Project Management Team (PMT). Local community representatives or citizens directly submit requests to the local administration. After collecting a number of such requests, municipal PMT ranking the proposals based on criteria, which is approved by MC. Only selected projects on this way can be listed into capital budget.

Governments in Bosnia and Herzegovina allot much attention to public investment projects as an engine for enhanced economic growth and the development of the country. The RS has significantly augmented its public investment purse by the means of telecom privatization and the Federation’s intention to do the same is appropriate. RS municipalities can delegate some urgent projects to the financing from sources of privatization.

For economies in transition to a higher reliance on market provision of goods and services it is of great importance to be able to identify which aspects of government services are the most suitable for market provision and which ones are not. In BiH public sector is still a predominant form of delivery of services. However, in recent years, one new experiences have been introduced. That is the public-private partnership. Public-private partnership is a relatively new experience in our country. It is influenced by new policies on public services, and it is a result of a new approach and mutual established trust among governmental and nongovernmental sector in the implementation of public duties. Its main elements are as

follows: (a) privatization of some service provision; (b) establishing private companies for provision of public services; (c) widespread use of contract management; (d) cooperation and initiated market elements in social services. Private companies were established for the provision of water supply, collection of solid waste, public cleansing, etc, on the basis of formerly state-owned assets.

Contract management is another form of service delivery also based on public-private partnership (local governments and private firms). Services are delivered directly by the contracted providers. At the same time, funding for service provisions comes from the municipalities and/or the customers. The most difficult task is establish with precision the avoidable cost — and the total cost — of a service delivered in-house. Traditionally, local and state governments have focused their budgeting and accounting on expenditures (reductions in *financial* assets) rather than expenses (reductions in *total* assets). It is important in the costing of a service to know when assets are consumed, since consumption reflects the economic cost of performing a service. Clearly, a system for calculating the expense (true economic cost) of service delivery will have a major focus on inventories and depreciation (reduction in the value of physical assets). Procedures for maintaining the required records and accounting systems are referred to as cost analysis (or management accounting, or cost accounting, or cost finding) and are widely practiced in the private sector. In the public sector the value of cost analysis has only recently received the attention which it merits.

Table 1., Report on Execution of Budget Plan for 2006, Expenditures Part of Budget Execution, Economic Classification.

Econ. Class.	Expenditures	Budget plan for 2006	Execution of budget plan 2006	% of total expenditures
1	2	3	5	8
681 100	Salaries /compensations of employees and councils	3.464.226,00	3.326.453,00	38,04
681 110	Salaries of employees	2.525.152,00	2.381.406,00	27,23
681 120	Compensations of employees (meals, transport, and holiday pay); Compensations of municipal councils (councilors work and commisions work)	939.074,00	945.047,00	10,81
681 300	Operational/material expenditures	1.941.904,00	1.680.802,00	19,23
681 400	Current grants (individuals, NGOs, budget reserve)	1.829.457,00	1.840.738,00	21,05
688 000	Capital budget	1.853.455,00	1.894.576,00	21,68
	Total for 2006	9.089.042,00	8.742.569,00	100,00

Sources: Municipality of Zivinice

Table 2., Report on Execution of Budget Plan for 2006, Expenditures Part of Budget Execution, Functional Classification.

Funcion class.	Function	Budget Plan for 2006	Execution of budget plan 2006	% of execution
100	Activities of Public Affairs	6.965.004,00	6.804.745,00	97,70
200	Activities of Defence	270.992,00	172.183,00	63,54
300	Activities of Public Protection and Rescue	229.561,00	172.889,00	75,32
600	Activities of Social Insurance	288.496,00	261.003,00	90,48
700	Activities of Communal and household services	1.334.989,00	1.331.749,00	99,76
	Total Expenditures	9.089.042,00	8.742.569,00	96,19

Sources: Municipality of Zivinice

The existing budget processes in BiH municipalities still need to be strengthened: expenditure forecasting and cash management are currently very weak; budgetary analysis is almost non-existent and in need of being systematized; and budgetary procedures need to be reinforced. The Finance departments are understaffed, particularly in the area of budget planning and preparation, which prevents it from evaluating expenditure proposals effectively. This situation also contributes to the institutional weakness of the municipal executive/Mayor and to its lack of authority in the budgetary process. Political determination, currently lacking, will be necessary to enforce the role of the Finance department. The public investment programme, as is the case at the other level of government, is managed outside the Finance department. This leads to a situation where the planning of capital expenditures is disconnected from the main budget preparation process and results in particular in missing or unsatisfactory estimates of the recurrent cost implications of capital expenditures.

The introduction of treasury systems¹⁰ will have a positive impact on municipalities, to able a better control their expenditures and their deficits. Also, municipal finance staff will be able to analyze budget proposals and expenditure trends and are, consequently, able to provide the municipal mayor/council with appropriate advice. On the other side, municipal government should have a strong connection with outside institutions (government and non-government) with requests to modify budget legal and practice environment.

The BiH PAR Strategy is basically focused on institutional changes inside public administration in the management of public tasks and the capacities of staff and facilities. By contrast, the Local Self-Governance Development Strategy in BiH (LSGS) includes the demands of municipal and non-governmental stakeholders in the necessary reform of legal framework conditions, management reforms and capacity-building needs.

One of the main problems mentioned by both the PAR and the LSGS¹¹ is the fact that public administration fails to address the needs and expectations of citizens. Administration works too slowly and is non-transparent. Poor service quality and low cost-effectiveness are widespread. Municipal staff often lacks the skills to provide better services to citizens and to work effectively and efficiently. These problems they tried address by Center for Services to Citizens (CSC). In recent years, CSC is a favored tool for achieving better quality in service delivery and, in the end, higher citizens' satisfaction. It has been established by different international organizations such as DAI, CHF, or PADCO, which have been sponzored by US AID, SIDA and other donors. Services provide by CSC are basic municipal services to the citizens include birth certificates, changing of civil status register, verification of documents, land and property registration etc.

On this way it is possible reduces the time and costs, and leads to faster, cheaper and less corrupt service provision. Because of the improvement of case management and the reduction of bureaucracy, the municipal administration can substantially reduce its workload. On the other side, the municipality can therefore invest its energy and time in the further development of the municipality, which will benefit the citizens of the municipality. More effective service provision is achieved if higher-quality services are provided. Any suggestions that the quality of service provision has improved indicate that more cases have been solved and the CSC has improved the effectiveness of service provision. The transparency of service delivery first increased with the publishing of the procedures and costs of services. On information desk exist a number of leaflets that provide information regarding the services offered at different CSC counters (notarization, reception/protocol office), as well as leaflets on registering businesses such as shops, agricultural businesses, services,

¹⁰ The municipalities are in process of introduction of treasury system in both entities

¹¹ Local Self-Governance Development Strategy in BiH, 2006

restaurants and cafés, and handicraft shops. The leaflets explain what kind of documents are needed, how much they cost and how to proceed.

The concept of a CSC is no longer new in BiH, but even though both above-mentioned strategic documents on reforming local governance in BiH recognize the need to improve administrative services, CSCs are not mentioned explicitly as a possible instrument to do so, which means that implementing these strategies does not necessarily mean that CSCs will become common practices. In the future municipalities should provide linking with other inside institutions in order to increase efficiency and make savings.

Conclusion and Recommendations

Comprehensive, reliable and consistent macroeconomic and fiscal projections as a component of a realistic and achievable medium-term fiscal framework (MTFF) provided by higher level of government can be guide for planning and budgeting processes in municipalities.

The traditional one-year time perspective of the typical budget process does not present decision makers within government with a complete picture of the medium term fiscal consequences of the budget. This problem can be addressed in more advanced local governments by introducing a medium-term budget projection. Process of budget planning is a set of projections of government expenditures and revenues over a medium-term period, usually three years¹², in which the projections are rolled forward by one year annually. Such a framework can help bring into line the budget with the local government's strategy planning goals and progress in the direction of the BIH Strategy as well.

Insufficiency of data and consequent lack of analyses make the work on improving local government financial performance and thoughts of financial viability of local governments very difficult. Regular records of budget execution based on unified budget classification (operating and capital budgets/ economic; functional; and organization classification) are very important. It requires a radical improvement of budgetary data collection. Analytical activities should be strengthened and supported by obligatory control/audit based on well defined control/audit procedures.

Outcome-focused budgeting links resource allocation to outcomes. It is closely linked to the planning processes and works well in organizations that are mission-driven. Budget users (municipality) that are using this method tend to become more effective and more efficient. This method provides relevant information for legislative consideration and the basis for evaluation by administrators - the outcomes and indicators help budget users and decision-makers understand the rationale of each programme and relate them directly to overall priorities of the government. However, gathering outcome indicators and making comparisons with programmes in similar municipality (or any other comparison means similar municipalities form neighbors) requires considerable staff time and to be fully effective, requires also objective and independent evaluation (e.g. internal audits). In that case, municipalities should use standard classifications prescribed by budget laws: economic, organizational, and functional.

The first involves improving the quality and operational efficiency of local government and administration at the lowest cost while exercising democratic control. This implies raising local administration productivity, reducing public costs, rendering transparency in local government activities, and actively involving the community and citizens in local government

¹² This is obligatory only for federal municipalities prescribed by new law on budget, 2006.

and developing effective control and redress mechanisms. On the other hand, trend concentrates on restructuring the relationship between local governments and citizens and acknowledgement of the fact that citizens are the customers of the local administration. Two principal exist in the public sector focused on citizens as clients. First, citizens are users of public services provided by local authorities for whom they pay either directly or indirectly through the collection of fees and taxes. Second, any particular public service has a value, price and quality that have to correspond to the needs and requirements of citizens in their capacity as taxpayers and users of these services.

The evaluation of municipal services is very important because of its impact on the people's standard of living. However, in most cases the value of public output is hardly significant, and therefore measurement is necessarily limited to estimating efficiency, which is calculated using physical inputs and outputs. This paper and cases mentioned shows that cost estimation as a basic requirement for planning municipal activity is very complex task in BiH. The objective of this short paper has been to point out: (1) the problems taking place in getting cost estimates from mandatory municipal tasks/functions; (2) to suggest a introduce procedure for generating cost functions applicable to the decision-makers; and (3) to present such cost functions for different types of municipal expenditures.

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