

BOSNIA AND HERZEGOVINA (BIH)

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: CONVERTIBLE MARK (BAM) (KM)

POPULATION AND GEOGRAPHY

Area: 51 210 km²**Population:** 3.507 million inhabitants (2017), a decrease of 1.0% per year (2010-2015)**Density:** 68 inhabitants / km²**Urban population:** 47.9% of national population**Urban population growth:** 0.5% (2017 vs 2016)**Capital city:** Sarajevo (9.8% of national population)

ECONOMIC DATA

GDP: 46.0 billion (current PPP international dollars), i.e. 13 108 dollars per inhabitant (2017)**Real GDP growth:** 3.2% (2017 vs 2016)**Unemployment rate:** 25.1% (2017)**Foreign direct investment, net inflows (FDI):** 463 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 18.0% of GDP (2017)**HDI:** 0.768 (high), rank 77

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Bosnia and Herzegovina is a multi-ethnic country with an asymmetrical and complex governance structure. The Dayton Peace Agreement of 1995 that put an end to the armed conflict in Bosnia and Herzegovina (April 1992–December 1995) and the 1995 Constitution divided Bosnia and Herzegovina into two entities: The Federation of Bosnia and Herzegovina (FBiH) and the Republic of Srpska (RS), to which was added, in 1999, the autonomous District of Brčko.

According to the 1995 constitution, the collegial Presidency is composed of three members from the constituting nations: one Bosniak and one Croat from the Federation of Bosnia and Herzegovina (FBiH) and one Serb from the Republic of Srpska (RS), all three directly elected. The Head of State is the Chairman of the Presidency, and the Government is led by the Chairman of the Council of Ministers. Legislative power is vested in a bicameral parliament, composed of the House of Representatives, with 42 members, two-thirds of whom are elected from the FBiH, and one-third from the RS, and of the House of People, with 15 delegates, two-thirds from the FBiH and one-third from the RS. Moreover, the FBiH and the RS each have their own constitution, government and parliament (houses of representatives), with directly-elected members. While the constitution does not mention the autonomy of local governments, it sets the power of the constituent entities to organise their own territories.

The Federation of Bosnia and Herzegovina is a federation composed of 10 self-governing cantons, according to the 1994 Constitution, enacted prior to the Dayton Peace Agreement. The cantons were established by the 1996 Law on Federal Units, and have their own Constitution, Parliament (unicameral Assembly), Government (prime minister and cantonal ministries) and judicial powers. The constitution establishes the responsibilities of the cantons and municipalities but does not explicitly recognise the autonomy of local governments.

On the other hand, the Republic of Srpska was established by its 1992 Constitution as a unitary state, a territorially unified legal entity, with a single-tier of subnational government, composed of municipalities. The RS Constitution recognises local self-government as one of the fundamental principles of the Republic (art. 5) and assigns a set of responsibilities to the municipalities although it does not address their autonomy.

The District of Brčko is a former municipality, which was divided between the two entities (FBiH and RS). An international arbitration tribunal in 1999 prescribed the establishment of Brčko as a District. It is since then a condominium over which FBiH and RS formally agree to share equal dominium and exercise their rights jointly, without owning it. State legislation directly applies to the District and its fields of competences are nearly the same as the ones of the Entities.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	79 municipalities (<i>općina</i>) and cities in FBiH 62 municipalities and cities (<i>opština</i>) in the RS	10 cantons (<i>kantoni</i>)	2 entities (one federal state and one unitary state) District of Brčko	
	Average municipal size: 24 700 inhabitants			
	141	10	3	154

OVERALL DESCRIPTION. BiH has an asymmetric governance system, composed of three entities independently divided between cantons and cities/municipalities.

ENTITIES. The Federation of Bosnia and Herzegovina (FBiH) represents 51% of the BiH total surface area and around 63% of the total population, which has a Bosniak and Croat majority (estimates). It has a three-tier federal government organisation, composed of ten federal units, the cantons, three of which have a Croatian majority, two a mixed Croatian and Bosniak population, and five a Bosniak majority. Their size varies from 26 000 for the smallest canton (Bosnian-Podrinje Canton Goražde) to between 440 000 and 480 000 for the two most populated Cantons, Tuzla Canton and Sarajevo Canton (which thus accounts for around 40% of the FBiH population). In 2013, it was proposed to reform the cantons, but the reform was not approved. Cantons are further divided into 79 cities and municipalities as local self-government units. The Republic of Srpska accounts for 48% of the total territory and 35% of the total population, with a Serbian majority. It has a single level of local government constituted of 62 municipalities and cities (a decrease from 80 in 1996). For statistical purposes, the RS can also be divided into seven regions that have no local administration. Territorial Development Plans are developed for the RS according to regional and sub-regional divisions (the last plan dates back to 2008-2015). The Brčko District, with around 95 000 inhabitants, is a special unit of local self-government with its own institutions, laws and regulations, powers and status.

CANTONAL LEVEL. In FBiH, cantons are headed by a premier (*premier*), assisted by cantonal ministries and agencies. Cantons all have specific laws so as to ensure equality amongst citizens from various ethnicities.

MUNICIPAL LEVEL. Municipalities usually consist of an urban area and its surrounding villages and rural areas. Cities are defined as municipalities with more than 30 000 inhabitants, and an urban core with at least 10 000 inhabitants. They amalgamate and co-ordinate policies among urban municipalities (in RS, since 2016, cities are distinct entities which cannot be composed of municipalities). In 2013 (last census), there were 17 cities in total in all BiH, and four cities with more than 100 000 inhabitants. While the average municipal size can be estimated at around 25 000 inhabitants, municipalities range from small municipalities of around 1 000 inhabitants to larger ones of around 125 000 inhabitants. Sarajevo is both the FBiH and federal capital, while Banja Luka is the de facto capital of RS. Sarajevo is situated both in the FBiH and RS, distributed on both sides of the internal boundary called the Inter-Entity Boundary Line (IEBL), which led to the development of a new urban area in East Sarajevo specifically based in the RS. The urban area of Sarajevo counted around 343 000 inhabitants in 2017, but it encompasses more than 555 000 inhabitants if Sarajevo Canton, East Sarajevo and nearby municipalities are included. Municipalities and cities all have municipal assemblies, and local executive power is vested in the mayor. Municipal councillors and the mayor are both elected by direct universal suffrage for four years. In addition, local governments are governed according to each entity's constitution, which provide for different competences and local autonomy. In 2018, the government of FBiH submitted a draft law to the national parliament in order to establish seven new cities within the FBiH that currently hold the status of municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution of BiH provides that the Entities have powers in all areas not expressly attributed to the Federal Government, which is responsible in all matters regarding the sovereignty of the nation. According to the FBiH constitution, the cantons are competent in all areas that are not expressly attributed to the entity of FBiH, although they share some responsibilities. The constitution also lists several competencies that are specifically assigned to the cantons, and provides the legal grounds for the attribution of power to municipalities (further specified by each canton through laws on local self-governments), including the possibilities for the cantons to delegate specific responsibilities to the latter (e.g. education, culture, tourism, local business and charitable activities). This delegation of responsibilities is mandatory when most of the population in a municipality is from a different ethnicity from that of the canton. In the RS, local governments have both exclusive and shared competences. Municipalities have exclusive competences in all fields of local interest, and their shared competences encompass pre-elementary, primary and secondary education, health, public safety, civil affairs registry, culture, urban planning, trade, tourism and local media.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	CANTONAL LEVEL (FBiH)		MUNICIPAL LEVEL	
			FBiH	RS
1. General public services			Assessment of the implementation of policies in healthcare, social welfare, education, culture and sport	Civic affairs registry; Management of natural resources
2. Public order and safety		Police forces	Advisory role regarding public order and safety of people and property; Recovery from natural disasters	Firefighting; Municipal police
3. Economic affairs /transports		Cantonal tourism policy	Economic development and employment; Maintenance of local roads and bridges; Public car parks; Local public transport	Trade and tourism; Employment; Local roads and streets; Gas supply
4. Environmental protection		Environmental policy	Parks; Wastewater treatment; Solid waste disposal	Environmental protection; Sanitation
5. Housing and community amenities		Housing policy; Land-use; Building regulations for residential buildings	Spatial Planning; Urban and implementation plans; Zoning; Housing policies and construction; Cemeteries; Street lighting; Water supply	Spatial, urban and regulation plans; Land-use planning; Construction sites; Regulations on building and business premises
6. Health		Health policy	Public hygiene	Healthcare centres; Public health (geriatric centres)
7. Recreation, culture & religion		Development and implementation of cultural policy	Management of cultural institutions; Construction of cultural and sport facilities	Theatres and galleries; Sport and culture halls
8. Education		Development of educational policy	Pre-school educational policy; Public institutions for preschool education and elementary educational institutions	Preschool, primary and secondary schools
9. Social protection		Social welfare policy		Centres for social work

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: municipal level only in RS and FBiH. Fiscal data for the Entities and the cantons are not included.	SNA 2008	Availability of fiscal data: Low	Quality/reliability of fiscal data : Medium
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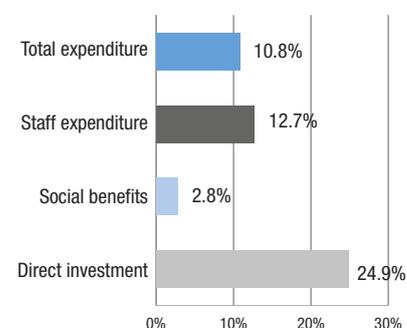
GENERAL INTRODUCTION. The central government in BiH is relatively weak regarding its fiscal powers compared to the two entities of FBiH and RS. In FBiH, the bulk of fiscal power lies in the cantons, while it lies in the entity in RS. Each entity has its own Ministry of Finance and laws concerning financial and fiscal rules. SNG finance is regulated by the Law on Public Revenue allocation in FBiH, and the Law on the Budget System in RS. Local governments in each entity are therefore evolving in two different subsystems and is treated differently. A series a laws were adopted in the RS in 2015-2016 regarding the local government system, including the Law on Amendments to the Law on property rights (2015), the Law on Amendments to the Law on Income Tax (2015), the Law on Pre-school Education (2015), the Law on Fiscal Responsibility (2015), the Law on Territorial Organisation (amended several times between 2012 and 2016), and the new Law on Property Tax (2015). The new Law on self-government passed in 2016 organised the tasks of legal representation of local governments before courts regarding property and legal disputes on the collection of tax revenue, fees and charges.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	547	4.5%	100%	
Incl. current expenditure	435	3.6%	79.5%	
Staff expenditure	170	1.4%	31.1%	
Intermediate consumption	115	0.9%	20.9%	
Social expenditure	55	0.5%	10.0%	
Subsidies and current transfers	87	0.7%	15.9%	
Financial charges	9	0.1%	1.7%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	112	0.9%	20.5%	
Capital transfers	39	0.3%	7.0%	
Direct investment (or GFCF)	74	0.6%	13.4%	

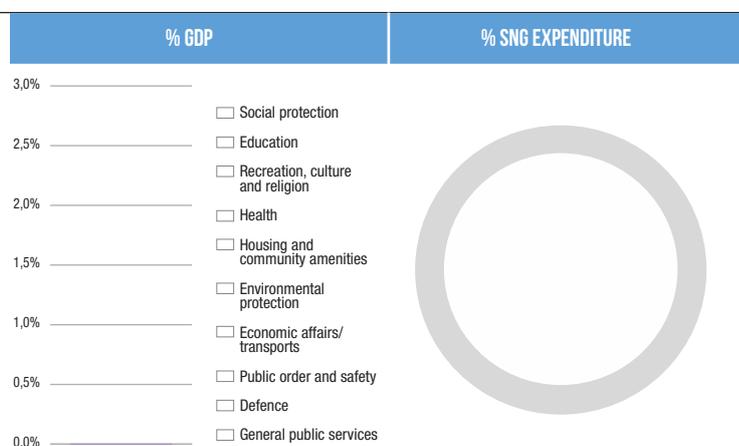


EXPENDITURE. TSNG expenditure levels as a share of total expenditure and GDP in BiH are relatively low compared to the EU28 average (respectively 33.4% and 15.5% in 2016). Current expenditure represents 79.5% of SNG total expenditure, among which staff expenditure accounts for 31% of SNG expenditure, and SNG investment 13%.

DIRECT INVESTMENT. Direct investment by SNGs accounted for 0.6% of GDP and 24.9% of public investment in BiH in 2016. Local investment in FBiH was substantially affected by the 2008 financial crisis (prior to the crisis, it represented about one-third of all public investment in the federation, dropping to 11% in 2013). The situation has reversed since 2015, and local investment increased to 42% of public investment in the federation. Similarly, local investment in RS accounted for 78% of total public investment in 2008 and decreased significantly until 2015, to account for less than 20% of total public investment. Municipal investment aims to extend basic services, especially to rural areas.

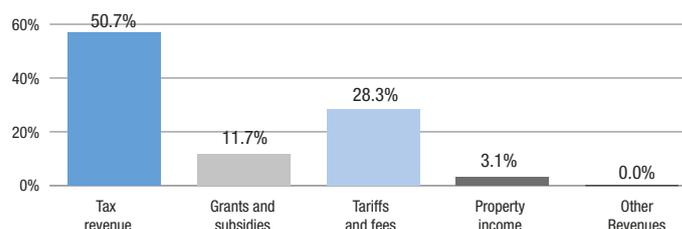
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

SNG spending allocation varies according to each entity, but overall BiH municipalities and cities tend to spend a large share of their budget on general public services, much more than their EU counterparts, as well as on subsidies to municipal utilities. Local financing of basic services relies primarily on funds from local tariffs and fees determined locally, and therefore service delivery is very uneven across cities and municipalities in particular regarding waste, water, roads and sanitation.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	568	4.7%	10.9%	
Tax revenue	323	2.7%	11.7%	50.7%
Grants and subsidies	66	0.5%		11.7%
Tariffs and fees	161	1.3%		28.3%
Property income	17	0.1%		3.1%
Other revenues	0	0.0%		0.0%



OVERALL DESCRIPTION. Shared tax revenue represent the most important source of SNG revenue in BiH. They are collected by the central level and then divided between the State, the entities and the Brčko District according to a formula stated in the Law on Indirect Taxation in BiH. Then, the allocation of indirect taxes within each entity, as well as the regulation of local taxes, are regulated by each entity's legislation. Communal fees and charges account for another significant part of local revenue. In 2016, tax revenues accounted for 57% of SNG total revenue followed by tariffs and fees with 28.3% while property income (revenue from assets) accounted for 3.1% of SNG total revenue.

TAX REVENUE. SNG revenues in BiH are regulated by each entity's laws, while the central government has authority on VAT and most indirect taxes. The most important source of SNG revenue comes from the sharing of the VAT (68.8% of SNG tax revenue and 39.2% of SNG total revenue in 2016), as part of the intergovernmental transfer scheme. It is followed by the sharing of the personal income tax (PIT), and the local collection of property taxes (respectively 16.2% and 14.1% of SNG tax revenues in both FBiH and RS). In RS, local tax revenues are regulated by the 2004 Law on the Budget System and collected by the RS tax administration. Besides the share of the VAT that is redistributed across SNGs depending on their size, cities and municipalities also receive 25% of the shared taxes on PIT generated within their jurisdictions. Other local taxes include the property tax (under 0.5% of GDP), tax on citizens' income from agriculture and forestry, and local business registration tax. In 2015, following amendments to a new law on the property tax, the tax base was defined as the estimated market value of the property as of 31 December of the preceding year. In FBiH, revenues of local government are regulated by the 2006 Law on Principles of cantonal and local governments and the 2009 Law on Public Revenue Allocation. SNG tax revenues are composed of both own-tax revenue, for which local units can set the rate in accordance with the law, and shared tax revenue. Municipalities in the FBiH are entitled to at least 34.46% of the PIT revenues that are collected within its territory (the other 65.54% remains with cantonal governments). In the Sarajevo canton, this share corresponds to 1.79% for municipalities and 98.12% for the canton. Municipalities are also entitled to tax revenues from the property tax, whose regulation varies across the 10 cantonal governments. It is administered by cantonal governments, which set its base and rate, and it is then redistributed to local governments, each entitled to receive the funds collected within its jurisdiction.

GRANTS AND SUBSIDIES. Grants to local governments stood for 11% of SNG revenue in 2016, among which 82% were current grants. All VAT revenue, custom fees, excise fees and road fees flow into a single account at the central level, before being transferred to each entity, which then share them among the municipalities as unconditional transfers. In the FBiH, the total amount is split according to fixed percentages: 51.23% to cantons, 8.42% to cities and municipalities, 0.25% to the city of Sarajevo, and the remaining 36.2% to the budget of the FBiH. The share allocated to the municipalities is further distributed according to a formula that takes into account the population size (68%), and other coefficients. In addition, municipalities also receive conditional grants, either from the FBiH entity or from the cantons. The grants tend to be used for investment projects. In the RS, grants and transfers represent more than 60% of municipalities' total revenues. They include an unconditional transfer accounting for 24% of the entity's share of indirect taxes, allocated according to the following formula: 75% on a per capita basis, 15% based on the territory and 10% based on the number of secondary school students. In addition, underdeveloped and extremely underdeveloped municipalities receive an equalisation transfer, calculated based on a series of criteria. Municipalities are also entitled to conditional grants (between 3 and 5% of local governments' budgets in the RS between 2013 and 2017). The grants are primarily used for investment expenditure.

OTHER REVENUES. Tariffs and fees are the second biggest source of revenue for local governments in BiH after tax revenue. Their share in SNG revenue is well above the EU average (11.6% in 2016). In the RS, local fees and charges include fines, municipal administrative fees, communal fees, municipal fees for the use of natural and other resources of general interest and land development fees. They are collected by the entity, and either redistributed entirely to the local administration, or shared between the RS government and municipalities (for instance, 15% of road fees go to local governments). In the FBiH, local public are entitled to fees and charges, whose levels are set by the council in accordance with the law, as well as revenue from property use and sales, and from local public companies and other legal entities owned by local governments. There is no unique system or precise rules for the setting of fees and charges, nor the collection process, which often leads to disparities across jurisdictions. According to the Register of Fees and Charges released in 2017 with USAID, there exist approximately 350 different fees in FBiH, with an average of 20 fees per municipality.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	478	3.9%	7.1%	100%
Financial debt*	191	1.6%	3.9%	40.1%

* Currency and deposits, loans and bonds

FISCAL RULES. The fiscal council of BiH, established in 2008, oversees all fiscal activities of the various entities and ensures their compliance with the budgetary calendar. It is comprised of representatives from all entities in BiH and is chaired by the Council of Ministers. Its main attributions include the co-ordination of fiscal policies and the setting of fiscal targets and debt ceilings for territorial institutions (RS, FBiH, District of Brčko). The Global Framework for Fiscal Balance and Policies in BiH is issued every three years as an agreement on fiscal policies by BiH, FBiH and RS. In RS, a law on fiscal responsibility was adopted in 2015, which led to the creation of a fiscal council with the authority to request local government authorities to release their fiscal information. Article 6 of the Budget Law also stipulates that the budget of the RS government units shall be balanced. In FBiH, article 42 and 43 of the Law on the Budgets set the rules for fiscal responsibility across government units, and requires that a budget for any given fiscal year must be either in surplus or balanced, except in the case of a natural disaster.

DEBT. In FBiH, the breakdown of domestic public debt is as follows: 79.83% for the entity government, 15.7% for the cantonal government and 4.48% for city and municipal administration. In RS, municipal and city debt accounted for 12.44% of the total public domestic debt. Overall in BiH, the FBiH accounted for 54.28% of total public debt in 2016, against 45.04% for the RS, 0.24% for the Brčko district and 0.44% for the central government. Regarding cities and municipalities only, their debt reached 3.9% of GDP in 2016. Financial debt accounted for 40.1% of total local debt, i.e., 1.6% of GDP and 3.7% of the total public debt, in addition to other accounts payable. Local financial debt was mostly composed of loans (92.1%). In FBiH, according to the 2010 Law on Debt, Borrowing and Guarantees, municipalities and cities can contract long-term debt if their debt service payment in a given year does not exceed 10% of the previous year's revenues. In specific cases, municipalities and cities need permission from the Federal Ministry of Finance to borrow.

In RS, municipalities and towns can borrow to finance capital investment expenditures by up to 10% of the actual revenues generated in the previous fiscal year. They can also borrow from the RS to cover for a short-term deficit due to unpredicted current expenditures or because of a fluctuation in revenues, with the agreement of the Ministry for investment expenditures. A municipality's total borrowing obligations, cannot exceed 20% of the actual revenue generated by the municipality in the previous fiscal year.