

2nd Public Finance Management Policy Dialogue between the EU and BiH

Venue: Hybrid, Delegation of the European Union

Sarajevo, March 11, 2025

Minutes of the meeting

Meeting Co-chairs:

- **Ms Vera Letica**, Assistant Minister in the Ministry of Finance and Treasury of BiH and member of the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 and
- **Mr Karel Lizerot**, Head of Operation section Good Governance and Human Services in the European Union Delegation to Bosnia and Herzegovina

Meeting Agenda

- **Welcoming and introductory statements**
- **Updates on the recommendations / conclusions from the 1st PFM Dialogue**
 - 1. PFM Strategy and monitoring: implementation rate and areas that are lagging behind
 - 1.1 Steps in preparation of the new Comprehensive PFM Strategy 2026-2030); coordination arrangement and list of PFM priorities in light of challenges identified in PEFA 2023, PIMA and OECD- SIGMA assessment 2024; key steps
 - 1.2 Support through IMF and OECD/ SIGMA
 - 2. State of play on PFM reform areas as per PFM monitoring report and PFM dialogue recommendations (Annex 1: recommendations 2.3.1- 2.3.6) (BiH)
 - 2.1. Alignment of strategic policy and budgeting: Progress in Programme budget introduction and medium-term budgetary framework, reforms undertaken and outstanding issues
 - 2.2. Reforming public investment management
 - a) Planned activities in the coming 12 months
 - b) WB and IMF support
 - 2.3. Steps taken in fiscal risks oversight and preparation of registers of state-owned enterprises
 - a) BiH
 - b) IMF
 - 2.4 Financial management and control and IA priorities: reporting on the implementation of PIFC strategies 2020-2025 and planned activities beyond 2025
- **Financial assistance and gaps in these reform areas and donor coordination**

Three priority support needs to implement the PFM agenda in the coming 12 months

- **Discussion and conclusions**

Welcoming and introductory statements

Mr Karel Lizerot, welcomed all colleagues from the Headquarters of the European Commission (from Brussels, present online), from the Delegation of European Union to Bosnia and Herzegovina, from development partners in Bosnia and Herzegovina and from the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 to the Second Public Finance Management Policy Dialogue between Bosnia and Herzegovina and the European Union. Mr Lizerot stressed that the Second dialogue is taking place the day before the 8th Public Administration Reform Special Group between the EU and Bosnia and Herzegovina and that today's EU recommendations will be taken into account on the 8th PAR Special Group Meeting. Public Finance Management is very important for Bosnia and Herzegovina, as well as for the European Union for the purpose of providing financial support, mainly through budget support. Bosnia and Herzegovina has used budget support so far only once (Energy Support Package under IPA 2023) and Mr Lizerot hopes that more IPA funds will be provided to Bosnia and Herzegovina through budget support in the near future. Mr Lizerot thanked to the EU's partners (IMF, World Bank and OECD-SIGMA) for implementing projects in the PFM area in Bosnia and Herzegovina. In addition, Mr Lizerot emphasized that Bosnia and Herzegovina has not yet adopted the Reform Agenda, and that the Growth Plan is an instrument for future budget support to Bosnia and Herzegovina.

Ms Vera Letica, Assistant Minister in the Ministry of Finance and Treasury of BiH and a member of the Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025, welcomed all colleagues present at the Second Public Finance Management Policy Dialogue between Bosnia and Herzegovina and the European Union. Ms Letica noted that colleagues from the Ministries of Finance at all levels of government in BiH will present today the main progress and achievements in implementation of the Comprehensive PFM Strategy. Ms Letica stressed that the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025, as well as individual strategies, has been implemented and monitored in previous year. Monitoring process should be improved in the near future, primarily through digitization of the reporting tool, which will allow that annual reports will be prepared earlier. The implementation of crucial PFM reforms in Bosnia and Herzegovina depends on technical assistance, as well as on the excellent coordination among different levels of government in Bosnia and Herzegovina. The Working Group for the monitoring of the implementation of the Comprehensive Public Financial Management Strategy in Bosnia and Herzegovina 2021-2025 is responsible for the monitoring and evaluation of the Comprehensive Strategy as well as for the organization of the Dialogue.

Updates on the recommendations / conclusions from the 1st PFM Dialogue

1. PFM Strategy and monitoring: implementation rate and areas that are lagging behind

1.1 Steps in preparation of the new Comprehensive PFM Strategy 2026-2030); coordination arrangement and list of PFM priorities in light of challenges identified in PEFA 2023, PIMA and OECD- SIGMA assessment 2024; key steps

1.2 Support through IMF and OECD/ SIGMA

Regarding the preparation of the new strategic PFM Framework for 2026-2030, Ms Letica informed that the Working Group has been starting the activities at the end of 2024 with the IMF experts, using the same methodology as in previous period. The Working group has already analyzed the newly adopted regulations for the preparation of the strategic documents at the entities' levels, which must be taken into consideration during the preparation of the new strategic framework. Ms Letica informed all participants that the Working group has also discussed the logical framework and the indicators, which will determine the success of the future strategies' implementation. The situational analysis would be prepared for all levels of government and that would be the basis for the preparation of the new strategic framework for the PFM. The Working group, on the session held on February 6th, 2025, decided to prepare the new PFM framework with the same methodology – 4 individual strategies and the Comprehensive, having in mind the fiscal decentralization in Bosnia and Herzegovina. Ms Letica underlined the need for harmonization of the four strategic documents, to enable proper monitoring. The deadline for the preparation and adoption of individuals as well as Comprehensive Strategy has been set for the end of June 2025. Ms Letica noted that the Working group is expecting technical assistance for the preparation of the strategies, emphasizing great experience with the IMF experts during the preparation of the strategic framework 2021-2025.

During the discussion, Ms Aida Soko from the European Union Special Representative in Bosnia and Herzegovina, asked what is a reason for late adoption of the Annual implementation report and the Action plan of the Comprehensive PFM Strategy. Ms Letica explained that the Excel monitoring tool is not user friendly and that the Ministry of Finance and Treasury of Bosnia and Herzegovina consolidates four individual reports after they have been adopted at respective levels. Depending on the dynamics of the adoption of individual reports, the consolidated report has been prepared and submitted to the Council of Ministers of Bosnia and Herzegovina for adoption. Ms Letica stressed that deadlines for the preparation of the reports should be defined earlier for the new strategic framework 2026-2030. Lack of administrative capacities in terms of human resources and related training on various PFM areas, and particularly on fiscal risks needs to be improved, but also on monitoring capacities. Also, Ms Letica noted that digitalization would improve the monitoring process, and stressed once again that digitalization is one of the requests for EU technical assistance in the upcoming period.

Mr Lizerot stressed the importance of the harmonized activities in the new Comprehensive PFM Strategy 2026-2030. Ms Maja Perić, Assistant Minister in the Ministry of Finance of the Republika Srpska and a member of the Working Group,

explained that almost 100% activities within the Comprehensive Strategy are harmonized activities and that 7% are horizontally dependent activities whose implementation depends on two or more levels of government in Bosnia and Herzegovina. Ms Perić stressed once again that the digitalization will improve the monitoring process and informed that the Government of the Republika Srpska adopted the Decision for the preparation of the new PFM Strategy in accordance with the new Decision for the preparation of strategic documents.

Mr Jamie Carter, IMF, explained that the IMF has been supporting the preparation of the new PFM strategic framework 2026-2030 and that they will continue to provide technical assistance till the end of IMF's this financial year (ie end of April 2025). IMF is exploring possibilities to extend this support beyond that date. However, due to tight budget constraints and the importance that IMF gives to the PIM and Fiscal Risk work it may not be possible. He also noted that the IMF has been providing technical assistance in the areas of Public Investment Management and fiscal risks.

Ms Ana Savić, Head of Department in the Ministry of Finance and Treasury of Bosnia and Herzegovina and a member of the Working Group, presented the main achievements regarding the implementation of the Comprehensive PFM strategy in the period 2021-2023, emphasizing that 11,8% of all activities have already been implemented, while in total implemented or ongoing of all activities are at the level of 70%. Postponed activities in this period were related to programme budgeting, adoption of legislation and establishment of the structures and capacities for managing the EU funds.

Mr Bojan Pogacar, IMF, explained once again that 271 activities in the Comprehensive Strategy are harmonized and that 7% of all activities are horizontally dependent activities. Regarding the preparation of the new strategic framework 2026-2030, Mr Pogacar stressed that common goals and indicators should be identified in individuals as well as in Comprehensive Strategy.

Mr Lizerot noted that the European Union will take into consideration providing technical assistance for the digitalization of the monitoring tool in September 2025.

Ms Nisida Gjoksi, DG ENEST, noted once again that the European Union would like to see a functional PFM system in place, overcoming the current fragmented approach and defining more than 7% horizontally co-dependent activities in the Comprehensive PFM Strategy 2026-2030. In this regard, in the upcoming period, she encouraged BiH authorities to use best practices from EU Member states through support of OECD-SIGMA, in getting guidance on how to comprehensively define common coordinated objectives (from 7 to 100%) in the new PFM strategy and also identify a list of key PFM priorities for the future. She highlighted that this is key then for the monitoring systems. Ms Gjoksi stressed that the current fragmented approach also does not allow to provide a coherent story on PFM reform through the consolidated monitoring report as activities and objectives remain fragmented. Such needs to be improved and that the European Union is ready to support Bosnia and Herzegovina to create more comprehensive overview of the PFM system, based on PEFA and SIGMA assessments.

To conclude, Mr Lizerot explained that the European Union will provide recommendations which will be confirmed at the 8th Public Administration Reform Special Group between the EU and Bosnia and Herzegovina.

Recommendation:

Adopt a new comprehensive PFM strategic framework 2026-2030 with coordinated strategic objectives, measures activities, common indicators and ensure a functioning institutional set up for the coordinated planning, implementation and monitoring of PFM reforms (deadline Q4 2025). Improve the PFM annual monitoring methodology to provide a clear overview on countrywide results and not only implemented activities, reflecting on countrywide challenges and risks per PFM pillar.

Presentations - State of play on PFM reform areas as per PFM monitoring report and PFM dialogue recommendations

2.1. Alignment of strategic policy and budgeting: Progress in Programme budget introduction and medium-term budgetary framework, reforms undertaken and outstanding issues

Ms Letica informed all the participants that the programme budget introduction is one of the horizontal PFM reforms whose implementation has started within the IPA 2017 project. The preconditions for the preparation of the budget in programme format has been created, through the training of the capacities and improvement of the legislation. At the end of March 2025, the test phase of the budget software will be finished and the budget of the Institutions of Bosnia and Herzegovina for 2026 should be prepared in programme format. One of the most challenging areas in the upcoming period is setting the indicators and we all need technical assistance for that purpose. Regarding the mid-term planning, the Council of Ministers of Bosnia and Herzegovina adopted the Decision on mid-term planning in the Institutions of BiH, with the main aim to integrate mid-term planning with programme budgeting. The new Decision for annual planning in the Institutions of BiH is in the process of preparation. Improvement of the Medium-term Budgetary Framework of the Institutions depends on the adoption of the Global Fiscal Framework on time.

Ms Svetlana Radovanovic, Assistant Minister in the Ministry of Finance of the Republika Srpska and a member of the Working Group, noted once again that well-defined indicators will be crucial for the budget execution monitoring in the future. Ms Radovanovic stressed that the budget of the Republika Srpska for 2027 will be prepared in programme format. It is planned that the strategic planning IT solution will be integrated in the programme budgeting software in the future.

Ms Medina Dudo, Assistant Minister in the Federal Ministry of Finance and a member of the Working Group, noted that the budget of the Federation of Bosnia and Herzegovina for 2026 will be prepared in programme format, while the budgets of the cantons for 2028 will be prepared in programme format.

During the discussion, Mr Lizerot mentioned that the PFM system in Bosnia and Herzegovina may be further supported by actions that would be financed with the EU Integration Facility Action Document for the period 2025-2027. Ms Taru Kernisalo, from the Delegation of the European Union to Bosnia and Herzegovina, informed that preparation of the programme budget software (IPA 2020) that also strengthens the link

between economic policy priorities and strategic/medium-term planning and budgeting is progressing well.

Mr Duško Glodić from the European Union Special Representative in Bosnia and Herzegovina asked the Working group members about the alignment of the systems and methodologies of mid-term and annual planning in the future, as well as on the plans for better linking strategic policy planning and budgets processes, a reform area that EU is providing also ongoing IPA assistance for improving a country-wide approach to policy planning. According to the new Decision on mid-term planning in the Institutions of BiH, Ms Letica explained that the Decision for the annual planning is in the process of preparation and that the Decision should be prepared by the Ministry of Finance and Treasury of Bosnia and Herzegovina.

Recommendation:

Improving the quality of the budget process by adhering to state budget law, timely adoption of the global fiscal framework as a precondition for the next budget cycle (Q3 2025). Ensure that all reforms/processes having fiscal impact are properly reflected in the fiscal frameworks/budgets.

Enhancing the credibility of the medium-term budget frameworks by (1) improving the links between annual strategic planning and annual budget process and (2) strengthening capacities for forecasting and modelling and by enhancing coordination in this area.

All levels of governance should work towards ensuring legal conditions to implement the application of the IT system to align budget presentation with programme budgeting and medium-term budget planning principles, and adopt the relevant legislation at state level and in the Republika Srpska entity by (Q3 2025).

2.2. Reforming public investment management

- a) Planned activities in the coming 12 months**
- b) WB and IMF support**

Regarding the public investment management, Ms Letica informed that the new software solution (PIMIS) is in the process of preparation at all levels of government in Bosnia and Herzegovina. The new IT solution will be integrated with the IT solution for budget preparation, mid-term planning and budget execution. In the upcoming period, the new IP project form will be agreed at all levels of government in Bosnia and Herzegovina.

During the discussion, Mr Duško Glodić asked if the Decision on public investment management for the Institutions of BiH has been adopted, while Ms Letica informed that the Decision is in the process of the preparation. Ms Peric informed that the Decision on the rules for the selection, evaluation and prioritization of public investment projects in the Republika Srpska has been adopted, but the Decision is planned to be changed in the upcoming period. The Working group members informed participants that the capacities for the public investment management at all levels of government have been strengthened during the previous period. When inquired about the measures undertaken for strengthening capacities of PIM units, the working group members informed on the

organization of train-the-trainers workshops and other seminars with a view of spreading skills and knowledge within the public administration bodies.

Regarding the prioritization of the projects of public investment, Ms Letica informed that it is planned to establish a working group and to develop a methodology for the project prioritization in the Institutions of Bosnia and Herzegovina.

Zuhra Osmanović Pašić, World Bank, informed the participants that the World Bank has been implementing EU funded regional project for improving public investment management in Bosnia and Herzegovina. Within the regional project, the World Bank provides technical assistance for improvement of legislative framework, strengthening capacities and improvement of the PIMIS system. The Commission for the evaluation of the projects in the Institutions of Bosnia and Herzegovina is planning to be established in the upcoming period, composed of the members from the Ministry of Finance and Treasury of BiH. Ms Peric informed that the Commission for the prioritization of public investment projects in the Republika Srpska has been appointed in 2023.

Mr Jamie Carter informed that the IMF has been preparing the consolidated PIMA report for Bosnia and Herzegovina in the framework of EU-SECO funded regional project. The IMF will organize the workshop in April 2025 to present the main findings of the Consolidated PIMA. Mr Pogacar presented to all participants the summaries of the individual PIMA reports, with 8 recommendations for further improvement of the public investment area in Bosnia and Herzegovina.

Recommendation:

Adopt a legally mandated mechanism and methodology for systematic appraisal of major capital projects (Q3 2025) and establish a public investment department at the Brcko District level with adequate staff (Q4 2025).

2.3. Steps taken in fiscal risks oversight and preparation of registers of state-owned enterprises

Ms Peric informed that the Ministry of Finance of the Republika Srpska established the Unit for fiscal risks in the Sector for macroeconomic analysis and policy in January 2023. In the previous period, technical assistance has been provided by the IMF - State-owned enterprise's health check tool. In October 2024, the Report on fiscal risks related to state-owned enterprises for 2023 was prepared, with the main purpose to provide insight into the fiscal position of public enterprises in the Republika Srpska. The Unit for public enterprise supervision was established in previous period.

Ms Dudo explained that the Federal Ministry of Finance has started the activities on establishing the unit for fiscal risks. The plan for upcoming period is to collect the financial reports of the public enterprises and to start preparing the first annual report.

During the discussion, Ms Soko asked about the transparency of the Report on the fiscal risks in the Republika Srpska and Ms Peric explained that those reports are not publicly available so far.

Recommendation:

Ensure effective fiscal risk oversight function (also covering fiscal risks from state-owned enterprises (SOEs) by ensuring that this function is clearly assigned to units in both entities, that tasks are clearly defined and corresponding staff and resources are allocated; (Q4 2025)

Create and update in both entities a publicly available SOE register with a complete, searchable list of all SOEs including comprehensive financial statements, audits and organisational information based on a defined methodology (Q4 2025)

2.4 Financial management and control and IA priorities: reporting on the implementation of PIFC strategies 2020-2025 and planned activities beyond 2025

Ms Abida Ćatić, Assistant Director in the Central Harmonization Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina, presented the priorities in financial management and control and internal audit, as well as planned activities in the upcoming period. Regarding the implementation of the PIFC strategies 2020-2025, Ms Ćatić noted that the largest number of measures have been implemented so far while some measures will be implemented after 2025. The area of financial management and control and internal audit will be one of the pillars in the new PFM strategic framework for the period 2026-2030. Ms Ćatić emphasized that the Central Harmonization Unit of the Ministry of Finance and Treasury of Bosnia and Herzegovina will need technical assistance for defining priorities in the period 2026-2030, improvement of legislation, strengthening capacities and improvement of the IT solution. In the area of internal audit, there are needs for technical assistance for the development of a methodological framework for internal auditors, digitalization and strengthening capacities.

Mr Lizerot noted once again that it is important to include the PIFC in the future PFM Strategic framework 2026-2030 and that the European Union may provide technical assistance through the EUIF Action Document and TAIEX.

Ms Peric explained that the area of financial management and control and internal audit is mostly harmonized at all levels of government in Bosnia and Herzegovina and noted that this area will be of utmost importance for the implementation of the Growth Plan in the upcoming period. Also, one of the upcoming activities would be setting up of an anti-fraud coordination service (AFCOS) to protect the EU's financial interests in Bosnia and Herzegovina. Ms Soko informed that the OLAF will organize the online meeting on March 20, with the main aim to present to the relevant authorities in Bosnia and Herzegovina the main aspects related to the EU accession criteria regarding the protection of the EU's financial interests and setting up and functioning of the AFCOS.

Ms Gjoksi noted once again that defining priorities in this area is of the utmost importance for the implementation of the Reform Agenda. There is a lot of room for improvement related to irregularity management, which is important for internal budget systems, as well as for EU funds. In addition, Ms Gjoksi noted that Bosnia and Herzegovina is the only candidate country that doesn't have the AFCOS network so far (a requirement under Chapter 32) and mentioned that OLAF would offer a training on AFCOS to BiH authorities. She encouraged BiH to clarify institutional ownership on AFCOS, also ahead of the sub-

committee on economic and financial issues on 22nd May, which provides another opportunity to clarify BiH' plans on who will be in the lead of AFCOS, Ms Letica explained that there are no obstacles for the establishment of the AFCOS network in the near future.

Recommendation:

Improve the capacities on internal audit, risk management effectiveness and anti-fraud and establish relevant institutional and legal framework for irregularity management of budgetary and EU funds while establishing AFCOS and prioritizing these areas under the new PFM strategy 2026-2030. (Q4 2025)

Financial assistance and gaps in these reform areas and donor coordination

Ms Letica presented priority support needs in the coming 12 months defined by the Working group members: programme budget (indicators and reporting), additional modules in the program budget software (linking budget to strategic planning and linking budget to revenue planning) and FMC and IA priorities.

Regarding the Growth Plan for Western Balkans, Ms Perić noted that Bosnia and Herzegovina is the only country in the region that has not adopted the Reform agenda although efforts have been made by all levels of government in Bosnia and Herzegovina for the finalization of the document. Once the Reform agenda would be adopted, the monitoring, reporting and evaluation system should be established in Bosnia and Herzegovina.

Conclusions

Mr Lizerot informed the Working group members that the European Union could provide technical assistance through the EUIF Action Document, as well as through the new project for the comprehensive support for the European integration process. Ms Kernisalo also confirmed that the European Union will continue to provide technical assistance to the PFM in Bosnia and Herzegovina.

Ms Letica noted that the extension of the IPA 2018 project Support to ERP in BiH is of the utmost importance for further improvement of the fiscal data consolidation process in the Ministries of Finance in Bosnia and Herzegovina. Consolidated fiscal data is one of the EU requests and the quality of this data has increased thanks to this project.

Recommendations received from the European Union at the second dialogue will be confirmed at the 8th Public Administration Reform Special Group between the EU and Bosnia and Herzegovina.