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**MONITORING AND EVALUATION SUPPORT ACTIVITY (MEASURE II)**

## **LOCAL GOVERNANCE ASSESSMENT**

November 2021

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# MONITORING AND EVALUATION SUPPORT ACTIVITY (MEASURE II)

## LOCAL GOVERNANCE ASSESSMENT

***Final Report***  
*November 2021*

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IMPAQ International, LLC

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The LGA team included Edis Brkić, Project Management and Assessment Expert/Team Co-Lead; Zlatan Musić, Subject Matter and Assessment Expert/Team Co-Lead; Snežana Mišić Mihajlović, Subject Matter Expert – Local Governance – Service Delivery; Merdža Handalić Plahonjić, Subject Matter Expert – Local Governance – Finance; Haris Mešinović, Research Assistant/Team Member; Mirza Kulenović, Research Assistant/Team Member and Amer Čekić, Research Assistant/Team Member.

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## LIST OF ABBREVIATIONS

ACFC	USAID/BiH's Assistance to Citizens in Fight against Corruption Activity
AQ	Assessment Question
BCS	Bosnian/Croatian/Serbian
BD	Brčko District
BFC	Business Friendly Certification
BiH	Bosnia and Herzegovina
CDCS	Country Development Cooperation Strategy
CSO	Civil Society Organization
DO	Development Objective
EU	European Union
FAR	USAID's Fiscal Sector Reform Activity
FBiH	Federation of Bosnia and Herzegovina
FGD	Focus Group Discussion
GAP	USAID's Governance Accountability Project
GiZ	Gesellschaft für Internationale Zusammenarbeit (German Organization for International Cooperation)
GOLD	USAID's Growth-Oriented Local Development
IMPAQ	IMPAQ International LLC
IP	Implementing Partner
ISO	International Organization for Standardization
IT	Information Technology
KI	Key Informant
KII	Key Informant Interview
LG	Local Government
LGU	Local Government Unit
MEASURE II	USAID/BiH Monitoring and Evaluation Support Activity II

MEG	Municipal Environmental and Economic Governance
MZ	Local communities (BCS “Mjesne zajednice”)
NGO	Non-Governmental Organization
NSCP	National Survey of Citizens Perceptions in BiH (MEASURE II)
PPP	Public-Private Partnership
PR	Public Relations
RAST	USAID’s Restoring Accountability and Supporting Transformation
RS	Republika Srpska
SDC	Swiss Development Corporation
SEE	South East Europe
SIDA	Swedish International Development Cooperation Agency
SON	System of Unified Collection (BCS “Sistem objedinjene naplate”)
SPPG	Supporting Political Pluralism and Good Governance in Bosnia and Herzegovina
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value-Added Tax

## EXECUTIVE SUMMARY

IMPAQ International LLC (IMPAQ) was commissioned by the United States Agency for International Development in Bosnia and Herzegovina (USAID/BiH) under the USAID/BiH Monitoring and Evaluation Support Activity (MEASURE II) to conduct a Local Governance Assessment (LGA). This Assessment is intended to inform the design of Activities in support of USAID/BiH's 2020-2025 Country Development Cooperation Strategy (CDCS) goal that "BiH citizens hold their government accountable, participate in a robust, legitimate economy, and value and promote an inclusive society."<sup>1</sup> In addition, the assessment will also inform Activities under both CDCS Development Objectives (DO): "Accountability of Government to Citizens Strengthened" (DOI) and "Socio-Economic Conditions Improved" (DO2).

### ASSESSMENT PURPOSE

This Assessment identifies current issues and needs in BiH's local governance sector, including the needs of local governments to successfully perform functions within their authority (supply side) and the needs of citizens and businesses using administrative and utility services provided by local governments (demand side). The Assessment also identified issues and needs in the BiH local governance sector that can most effectively be met by USAID assistance through potential future programming. The LGA addressed the following questions:

1. What are the services (administrative and utility) that citizens and businesses feel need to be improved most urgently? What mechanisms are in place to communicate these needs to local government units (LGUs)?
2. What are best practices in service delivery among LGUs in BiH? What are the conditions that enable LGUs to implement these practices? How scalable are these approaches?
3. How are municipalities generating revenues and how are they using financial resources to address citizens' needs? What are the related challenges and best practices? What effective approaches are scalable to other municipalities?

The MEASURE II Assessment Team used a rigorous, mixed-method approach to conduct the Assessment. Data sources included secondary document review; 12 semi-structured key informant interviews (KIs) with 25 key informants; ten focus group discussions (FGDs) with 61 participants; an online survey sent to 143 local government units (LGUs), for which 95 LGUs responded; and the National Survey of Citizens' Perceptions (NSCP). Data was collected during the period October 7-20, 2021.

### FINDINGS AND CONCLUSIONS

#### ASSESSMENT QUESTION I

The principal communication channels for LGUs to learn the needs of their citizens and businesses are conventional ones (i.e., meetings, phone calls, written correspondence), but there are also some advanced mechanisms in place which include online applications for reporting problems directly to the LGU, surveys of citizens and businesses, and creation of business councils. These mainly emerged during implementation of various donor projects and are present in only a limited number of LGUs.

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<sup>1</sup> USAID/BiH. 2020. Country Development Cooperation Strategy (CDCS), 2020-2025. Available at: <https://www.usaid.gov/bosnia/cdcs>

Often, the information about their availability is not disseminated effectively to citizens and businesses.

However, due to existing infrastructure, particularly in urban areas, and the lasting impact of past donor interventions, both citizens and businesses express at least some degree of satisfaction with some administrative and some utility services. Consequently, a comprehensive intervention involving the full range of services offered by LGUs is not needed. Any future interventions would need to target specific service subsectors.

Utility infrastructure poses major challenges for nearly all LGUs, but these challenges are insurmountable for underdeveloped LGUs due to their severe resource limitations. Citizens are most dissatisfied with the coverage and quality of utility services, primarily waste management, water supply, sewage and wastewater disposal, road maintenance, and street lighting. LGUs see donor support as the only way to address their most pressing issues in delivering essential utility services.

The key issue affecting delivery of administrative services is the lack of clarity in the division of competences between LGUs and higher levels of government, particularly in the FBiH, which often leaves LGUs encumbered with tasks without adequate funding (unfunded mandates). Complicated, unclear, and protracted procedures for issuing permits, and uneven pricing of services around the country are the other major challenges citizens and businesses face in interaction with LGUs. In addition, the existing system of hiring civil servants for positions in LGUs is conducive to favoritism and political meddling and LGUs are often overstaffed.

LGUs perceive digitalization of their processes as a highly desirable general direction of development that would address many of their administrative problems and lead to improved performance. The level of digitalization of LGUs in BiH varies greatly, and while some LGUs are implementing digitalization in various forms, few have complete understanding of the scope of this undertaking or of the obstacles to be overcome. At present there are no overviews of the level of implementation of information systems that support LGUs (e.g., case/document management systems, financial management systems, property registration systems). In addition, any new introduction of digitalization will require considerable efforts to upgrade IT skills of LGU employees. Finally, even LGUs that are advanced in the use of IT systems have a very limited grasp of IT security needs and considerations, which poses an increasing threat to sustainability of existing IT systems and data.

Corruption is recognized as a challenge in interactions with LGU bureaucracy, but businesses almost never file formal reports. Introduction of online tools (digitalization) that would minimize in-person interactions is perceived as a feasible approach to reducing opportunities for corruption. Also, increased transparency through digitalization and accessibility of data about processing citizens and businesses' requests in the LGUs might serve as an additional deterrent factor to corrupt behaviors.

## ASSESSMENT QUESTION 2

A large body of knowledge, good practices, and tools, mainly under donor interventions, emerged in the past twenty years in a limited number of LGUs. Unfortunately, this knowledge and practices are not shared or disseminated systematically among LGUs in BiH. Additionally, there are no attempts to upgrade skills and capacities of current LGU staff by providing them with hands-on learning experiences through interactions with employees of more advanced LGUs. This includes transfer of knowledge in procedural issues or proactive planning of managers in advanced LGUs. On a positive

note, all LGUs recognize the benefits of sharing best practices and willingly embrace such learning opportunities.

There is also no coordinated and targeted transfer of knowledge from the region or the European Union (EU) countries to the LGUs that are most likely to derive real benefits from such learning. If there was active knowledge transfer to LGUs that could adopt and implement new practices and standards from abroad, these advanced LGUs could serve as ‘models’ in a continuous process of in-country transfer of knowledge for less advanced LGUs.

Population decline and emigration are burning issues that all LGUs face. In the absence of guidance from the BiH/Entity governments, LGUs could work together in finding ways and best practices in developing measures to counter depopulation/emigration. A mechanism for transferring best practices in-county (to be established in further interventions) could serve as a platform for exchange of ideas and solutions that may apply locally.

### ASSESSMENT QUESTION 3

Sharing and adoption of good practices in increasing LGU revenues, in encouraging local economic development, and in developing LGU capacities for application and implementation of donor projects, with involvement of development agencies, offers promising prospects for mitigation of LGUs’ resource constraints. LGUs need to improve their identification, registration, and management of LGU-owned assets (in particular, land) and in this sector digitalization could bring considerable benefits. In addition, LGU stakeholders recognize the potential of the public-private partnership (PPP) model for addressing the many problems on this level, but all admit that the existing regulations are complicated and the number of successful PPP is minimal.

Entity associations of municipalities and cities have established themselves as lobbying and advocacy bodies that represent LGU interests with higher levels of government but do not have the capacity to implement broad training and reform programs for LGUs. With their institutional knowledge, experience and capacities, development agencies may act as an important channel in future efforts to disseminate good practices among LGUs.

### RECOMMENDATIONS

Taking all findings and conclusions into consideration, the Assessment Team provides the following recommendations for USAID/BiH. These recommendations are further expanded in the report.

#### USAID/BiH should:

- Allow flexible design/interventions for the new LG Activity to be able to match the needs of both advanced and less advanced LGUs.
- Engage in the transfer of best practices among LGUs, including the transfer of best practices from developed to underdeveloped LGUs; and target the developed ones for adoption and implementation of regional/international best practices and standards.
- Assist in streamlining administrative procedures in LGUs, including initial mapping of jurisdictions between different levels of governance, steps in administrative procedures, human resources, the collection of fees, and redesigning procedures to shorten service delivery times.

- Work with stakeholders on strategic approaches in use IT systems, develop new systems to meet existing needs, transfer available applications, and in particular, to address IT security issues related to introduction and use of IT systems in LGUs.
- Engage in the promotion and pilot implementation of PPP and improvements in LGUs property management as means for improving LGU revenues.
- Enable provision of grants for the most urgently service delivery needs.
- Assist LGUs in their public relations, by developing a strategic approach in communicating with citizens and businesses, and by providing assistance in expanding currently underdeveloped information exchange channels and mechanisms.
- Involve both the association of municipalities and cities and development agencies in interventions of the new LG Activity.
- Create a standing forum with USAID/BiH Activities that implement local-level interventions to leverage synergies across programming and maximize USAID investments at the local level.
- Apprise relevant stakeholders about the design of the new LG Activity early on.

# I INTRODUCTION

## I.1 ASSESSMENT PURPOSE

The goal of the United States Agency for International Development in Bosnia and Herzegovina's (USAID/BiH) 2020–2025 Country Development Cooperation Strategy (CDCS) is that “BiH citizens hold their government accountable, participate in a robust, legitimate economy, and value and promote an inclusive society.”<sup>2</sup> This CDCS goal will be implemented through two Development Objectives (DOs): Accountability of Government to Citizens Strengthened (DO1) and Socio-Economic Conditions Improved (DO2). To contribute to its understanding of the issues and needs facing the local governance sector in BiH, USAID/BiH commissioned IMPAQ International LLC (IMPAQ) under the USAID/BiH Monitoring and Evaluation Support Activity (MEASURE II) to conduct a Local Governance Assessment. This assessment provides insights into the needs of local governments to successfully perform functions within their authority (supply side) and the needs of citizens and businesses using administrative and utility services provided by local governments (demand side). The assessment also identifies other areas of interventions within the local governance sector that complement ongoing USAID/BiH interventions. The primary audience for this assessment is USAID/BiH; the findings, conclusions, and recommendations will inform future programming in BiH's local governance sector.

## I.2 BACKGROUND AND CONTEXT

BiH is a federal state organized into two entities, the Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH),<sup>3</sup> plus one district, the Brčko District (BD), which enjoys a special status.<sup>4</sup> The RS is a single and indivisible entity composed of 64 local government units.<sup>5</sup> The FBiH is more decentralized, with 10 highly autonomous cantons, each with its own constitution, parliament, and government, and 79 local governments.<sup>6</sup> In the FBiH, most powers related to local government are vested in the cantons and regulated by their constitutions and cantonal laws on local government. Cantons vary in size, population, and economic power—from three to 13 local governments (municipalities/cities) and from 22,778 (Bosnian Podrinje Canton) to 437,607 inhabitants (Tuzla Canton).<sup>7</sup>

The European Charter of Local Self-Government was ratified by BiH on July 12, 2002<sup>8</sup> without reservations or declarations; this instrument came into force on November 1, 2002. The country thereby committed itself to embedding the principle of local self-government in its domestic law, to guaranteeing its effective implementation, to transferring competencies to local communities with concomitant financial resources, and to ensuring full implementation of the principle of subsidiarity

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<sup>2</sup> USAID/BiH. 2020. Country Development Cooperation Strategy (CDCS), 2020-2025. Available at: <https://www.usaid.gov/bosnia/cdcs>

<sup>3</sup> <https://www.ccre.org/pays/view/11>

<sup>4</sup> The Brčko District was created from a war-divided municipality following international arbitration in 2000. The District had been constituted as a special administrative unit. It has its own statute and an administration led by a mayor.

<sup>5</sup> This number includes 55 municipalities (BCS. “opština”) and nine cities, eight of which encompass its own municipality. The ninth city, the City of East Sarajevo, includes six municipalities (Istočna Ilidža, Istočni Stari Grad, Istočno Novo Sarajevo, Pale, Sokolac, and Trnovo). Please see the Law on Territorial Organization of the RS (“Official Gazette of RS,” no. 69/09, 70/12, 83/14, 106/15, 26/19, and 15/21).

<sup>6</sup> This figure includes 63 municipalities, and 16 cities; but only the City of Sarajevo encompasses multiple municipalities (Stari Grad, Centar, Novo Sarajevo, and Novi Grad). FBiH Statistics Institute, Demografska statistika 2020 (2020 Demographic Statistics), p. 16, available at: <http://fzs.ba/index.php/publikacije/godisnji-bilteni/stanovnistvo-i-registar/>.

<sup>7</sup> FBiH Statistics Institute, Demografska statistika 2020 (2020 Demographic Statistics), p. 18, available at: <http://fzs.ba/index.php/publikacije/godisnji-bilteni/stanovnistvo-i-registar/>

<sup>8</sup> Council of Europe. 2020. European Charter of Local Self-Government, <https://rm.coe.int/european-charter-of-local-self-government-bih-a6/16808d7b2b>

to guarantee the establishment of local self-government as provided by that charter. BiH has not signed the Additional Protocol to the European Charter of Local Self-Government on the right to participate in the affairs of a local authority, however, and thus is not required to adhere to the Recommendations on the Situation of Local and Regional Democracy periodically issued by the Committee on the Honoring of Obligations and Commitments by Member States of the European Charter of Local Self-Government (Monitoring Committee). As a consequence, progress in implementing the Congress's recommendations related to local governance has been limited.<sup>9</sup> Additionally, BiH's complex and fragmented institutional structure, as described below, and lack of a clear legislative definition of local government units' (LGUs') jurisdiction, creates obstacles to local development and local autonomy. All these issues also impede co-operation, particularly between neighboring LGUs belonging to different cantons or other entities.

### 1.2.1 JURISDICTION OF LOCAL GOVERNMENT IN FBiH

In the FBiH, the Law on Principles of Local Self-Government<sup>10</sup> grants LGUs jurisdiction over 29 areas of local governance. Despite the law, some jurisdictions have not been fully respected or implemented as outlined in the legislation.<sup>11</sup> Article 8 of this Law, provided in Exhibit I, summarizes the jurisdictions of LGUs in FBiH.

#### Exhibit I: Areas of Jurisdiction of LGUs in FBiH

- Protection of human rights and basic freedoms in accordance with the Constitution.
- Adoption of the local government's budget, programs and plans for local development, creation of conditions for economic growth and job creation, regulation of local taxes, fees, contributions, charges, management of borrowing, and natural resource management policy and allocation of revenues from the use of these resources.
- Spatial planning and zoning, environmental protection policies, housing policy, and management of construction land and properties of LGUs.
- Public services and communal infrastructure, local public transport, preschool and elementary education, culture, and sports.
- All other matters of local importance, unless specifically excluded from its competencies by law or delegated to another government unit.

Additionally, cantons in the FBiH can transfer competencies to municipalities without allocating funding for discharging such delegated competencies, despite the contrary stipulation in the FBiH Law on Principles of Local Self-Government. This practice creates considerable frustration, which only compounds the confusion caused by numerous instances of joint and overlapping competencies between the two levels of government.<sup>12</sup>

9 Congress of Local and Regional Authorities, Committee on the Honoring of Obligations and Commitments by Member States of the European Charter of Local Self-Government (Monitoring Committee), Local and regional democracy in Bosnia and Herzegovina, <https://rm.coe.int/local-and-regional-democracy-in-bosnia-and-herzegovina-monitoring-comm/168098072a>, page 1.

10 Official Gazette of FBiH, no. 49/06 and 51/09.

11 Committee on the Honoring of Obligations and Commitments by Member States of the European Charter of Local Self-Government. 2019. Local and regional democracy in Bosnia and Herzegovina, <https://rm.coe.int/CoERMPublicCommonSearchServices/DisplayDCTMContent?documentId=090000168098072a>

12 Local Government Initiative. 2018. Local Government in Bosnia and Herzegovina, Report on Consultations of a Joint Commission on Local Government, <http://europa.ba/wp-content/uploads/2018/06/Master-LGI-report-04062018-web-eng.pdf>



## I.2.2 JURISDICTION OF LOCAL GOVERNMENT IN RS

In the RS, according to the Law on Local Self-Government,<sup>13</sup> local governments have jurisdiction over all areas of local interest that are not explicitly excluded from their jurisdiction or expressly assigned to other levels of government. Exhibit 2 outlines the areas in which LGUs in the RS have jurisdiction.

### Exhibit 2: Areas of Jurisdiction of LGUs in the RS

- Management of the local self-government unit; provision of services; spatial planning and construction; housing and communal services.
- Culture; primary, secondary and higher education; health and social protection of the population; care for children and youth.
- Sports and physical culture; tourism, catering, crafts, and trade.
- Protection of natural resources and the environment; protection against natural and other major disasters.
- Human rights and freedoms of citizens and individuals and collective rights of persons belonging to national minorities.

Over the last 15 years, USAID/BIH has implemented several initiatives to provide technical assistance to local governments, some of which are ongoing. In 2004–2007, USAID/BIH implemented the Governance Accountability Project (GAP), a \$20.4 million activity co-financed by USAID/BiH and the Swedish International Development Cooperation Agency (SIDA). In 2007–2012, USAID/BIH implemented the Governance Accountability Project Phase II (GAP2), co-financed by SIDA and the Embassy of the Kingdom of the Netherlands in BiH. In the follow-up to GAP2, USAID/BIH implemented the Restoring Accountability and Supporting Transformation (RAST) Activity and USAID's Growth-Oriented Local Development (GOLD) Activity. Finally, in 2014–2020, USAID/BIH implemented the Fiscal Sector Reform (FAR) Activity (2014–2020).

GAP sought to build the capacity of about 30 percent of BiH local governments to better serve their citizens within a policy and fiscal framework of good governance—including an \$8 million grant fund to facilitate the purchase of equipment and/or supplies for local governments, support implementation of approved recommendations, and enable rapid completion of community development projects selected jointly by citizen groups and local governments. GAP2 worked directly with 72 local governments to strengthen their capacity to deliver services to citizens in planning, financial management, urban planning, utility services, and support to youth and gender activities. In addition, GAP2 contributed to multiple other areas—electronic document exchange, legislative and policy reforms to support decentralized local government, strengthening inter-governmental communication, improving local government capacity for collective advocacy, comprehensive policy recommendations to improve urban planning and management of utility services, improved financial management, and a workable system for efficient property utilization and management of local government assets.

RAST was intended to enable BiH citizens to benefit from increased economic opportunities in their communities. RAST worked with six local governments across the country to upgrade infrastructure in their industrial zones. In addition, RAST supported 13 local governments in obtaining the

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<sup>13</sup> Official Gazette of RS, no. 97/16, 36/19, and 61/21.

Business-Friendly Certification (BFC)<sup>14</sup>. The BFC<sup>15</sup> is an internationally recognized endorsement of improved efficiency and transparency of local government administration. In addition, the BFC process helps improve the quality of services and information local governments offer to the business community and enhances promotion of their resources and capacities. FAR supported 42 FBiH local governments by either implementing substantial upgrades to their treasury systems or introducing completely new information technology (IT) treasury systems, which are crucial for tracking and ensuring transparency in the use of public revenues and allocation of budget funds.

### 1.3 ASSESSMENT QUESTIONS

This Local Governance Assessment answers three questions:

1. What are the services (administrative and utility) that citizens and businesses feel need to be improved most urgently? What mechanisms are in place to communicate these needs to local governments (LGs)?
2. What are best practices in service delivery among LGs in BiH? What are the conditions that enable LGs to implement these practices? How scalable are these approaches?
3. How are municipalities generating revenues and how are they using financial resources to address citizens' needs? What are the related challenges and best practices? What effective approaches are scalable to other municipalities?

### 1.4 ASSESSMENT DESIGN AND METHODS

The Assessment Team used a mixed-methods approach, incorporating quantitative and qualitative data from the following sources: desk review, semi-structured key informant interviews (KIs), focus group discussions (FGDs), an online survey of local governments in BiH, and data from the National Survey of Citizens' Perceptions (NSCP). The detailed assessment design and methodology are provided in Annex I.

**Desk Review:** The Assessment Team conducted a comprehensive desk review of secondary documentation relevant for the Local Government Assessment—including entity and cantonal laws on local self-governance and budget systems; local decrees and ordinances that regulate the provision of administrative and utility services; public policies and strategies adopted by various levels of government in BiH, such as the BiH Public Administration Reform Action Plan, the Framework for Sustainable Development Goals in BiH, the BiH Gender Action Plan 2018–2022, the RS Strategy for Development of Local Governance, the Federal Development Strategy 2021–2027, cantonal and local government strategies, and anti-corruption strategies. The Assessment Team also studied relevant policy analyses, research papers, and academic journal articles on specific local governance issues, including the role of the local community (BCS MZ), citizen participation mechanisms, gender, social inclusion, and any other pertinent topics. In addition, available sectoral assessments and relevant evaluations published by BiH and international institutions and organizations—such as the European Union (EU) country progress reports, the Council of Europe assessments on the status of democracy and recommendations for BiH, and reports from current and completed USAID/BiH Activities—were reviewed as well. The full list of documents reviewed is provided in Annex II.

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<sup>14</sup> Previously, USAID's Growth-Oriented Local Development (GOLD) Activity supported LGUs in qualifying for the BFC.

<sup>15</sup> Business Friendly Certification South East Europe (BFC SEE) is a unique program for improving the quality of services and information that municipalities in the SEE region offer to companies. BFC SEE provides municipalities with a clear roadmap for creating a favorable business environment and introducing internationally recognized standards of efficient and transparent local administration. For more information, please visit <http://bfc-see.org/about-bfc-see>

**Key Information Interviews (KIIs):** KIIs were conducted with USAID/BiH officials, representatives of two entity associations of cities/municipalities, six local government units<sup>16</sup>, entity ministries in charge of local governance, and the FBiH Civil Service Agency, to collect in-depth insights into Local Governance Assessment questions. A total of 12 KIIs with 25 participants (18 men and 7 women) were conducted between October 7 and October 20, 2021. Interviews were structured according to defined interview protocols to ensure response objectivity, focus, consistency, and comparability. All KIIs were conducted with a minimum of two Assessment Team members present.

**Focus Group Discussions (FGDs):** FGDs were conducted with representatives of local governments (cities/municipalities),<sup>17</sup> local communities (BCS “MZs”), civil society organizations/non-governmental organizations (CSOs/NGOs), business associations, cantonal ministries with jurisdiction over local governance, and development agencies operating on both local and cantonal levels. FGD participants were selected by the individual stakeholder organizations who received an invitation from MEASURE II to participate in the assessment. The FGDs were conducted to collect views of different stakeholder groups on the topics relevant for the Assessment questions. A total of 10 FGDs with 61 participants (34 men and 27 women) were conducted between October 7 and October 20, 2021. FGDs were conducted using defined focus group guides to ensure response objectivity, focus, consistency, and comparability. All FGDs were conducted with a minimum of two Assessment Team members present.

**Online Survey:** An online survey was sent to all 143 LGUs in BiH to obtain information from as many LGUs as possible on topics relevant to the Assessment. The survey was open from October 11 to October 20, 2021. In total, 95 LGUs (excluding the BD) responded to the survey, resulting in a very good response rate of 66 percent (95 LGUs of a total of 143 LGUs in BiH, 56 LGUs from the RS and 39 LGUs from the FBiH). Of the total respondents, 57 percent were women and 43 percent men. Online survey questions were designed to follow on from questions in the KII protocols and FGD guides, to ensure comparability of survey response data with the data from the other data sources.

**National Survey of Citizens’ Perceptions (NSCP):** The NSCP is an annual survey that explores citizens’ perceptions and experiences related to governance, international community, judiciary, elections, corruption, civil society, media, education, inter-ethnic relationships, violence, social inclusion, and emigration. Since 2015, MEASURE II has conducted the survey with a nationally representative sample of BiH citizens. The Assessment Team drew on NSCP data collected from 2015 to 2020 covering topics and issues relevant to this Assessment. The survey data were triangulated with KII, FGD, and online survey data, to provide a more complete picture of local governance in BiH and additional information to help answer the Assessment questions.

## 1.5 LIMITATIONS AND MITIGATION STRATEGIES

Interview data is prone to response bias. Stakeholders may have overstated or understated certain claims and information relevant to the assessment. To mitigate response bias, the Assessment Team compared information obtained from key informants, focus group participants, respondents to the online survey, and document review, to triangulate and verify the credibility of findings. Before the

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<sup>16</sup> The following LGUs were selected for KIIs because they stand out in their implementation of best practices: Tešanj, Banovići, Tuzla, Bijeljina, Gradiška, and Derventa.

<sup>17</sup> LGUs were selected to reflect the distribution of LGUs in BiH according to the following criteria: population size (*small, up to 5,000; medium, 5–20,000; large, over 20,000*); level of development (*developed, medium, underdeveloped, and extremely underdeveloped*); and geographical representation of LGUs (*FBiH/RS, various cantons and entity*).

start of each KII, FGD, and the online survey, the Assessment Team ensured respondents understood that candid opinions were welcome and appreciated. The Assessment Team also made sure respondents were aware of the confidentiality of information they provided.

During development of the Assessment methodology, consideration was given to potential data limitations in addition to response bias—including interviewer and focus group moderator bias, low online survey response rate, and inability to conduct in-person KIIs and FGDs due to the COVID-19 pandemic. The Assessment Team successfully mitigated these limitations during the data collection process by training interviewers and moderators on maintaining objectivity during data collection, coordinating with the associations of cities and municipalities to conduct the online survey, and using the Zoom platform to conduct KIIs and FGDs.

## 2 FINDINGS AND CONCLUSIONS

### 2.1 ASSESSMENT QUESTION ONE

**What are the services (administrative and utility) that citizens and businesses feel need to be improved most urgently? What mechanisms are in place to communicate these needs to local government units (LGUs)?**

#### 2.1.1 MECHANISMS IN PLACE TO COMMUNICATE SERVICE NEEDS TO LGUS

**Finding 1 – LGUs typically use conventional communication channels when communicating with citizens and businesses regarding their needs.**

According to representatives from six FGDs (LGUs, MZs and CSOs in both entities) and six key informants with LGUs, the most common channels of communication between LGUs and citizens and businesses are in-person meetings, written communication between the LGU and relevant party in the course of service deliveries; citizen forums and assemblies; public hearings; and in some cases, meetings during trade fairs.

*“We find it most useful to collect information and have direct contacts with citizens when they come to an MZ<sup>18</sup> [i.e., local community] and when these working meetings take place. Then we truly perceive the needs of these people. Then it is easiest to talk to people and to explain to them the situation with the budget and how much the municipality can realistically do that year for local communities.... So far, that has been the best form of communication.”*

- KI

*“When it comes to citizens, I think that the most practical and fairest communication is through the so-called call center we have.... There we end up with some written communication—a note. The question is clearly formulated. These, let's call them Facebook communications, are of a rather lesser value.”*

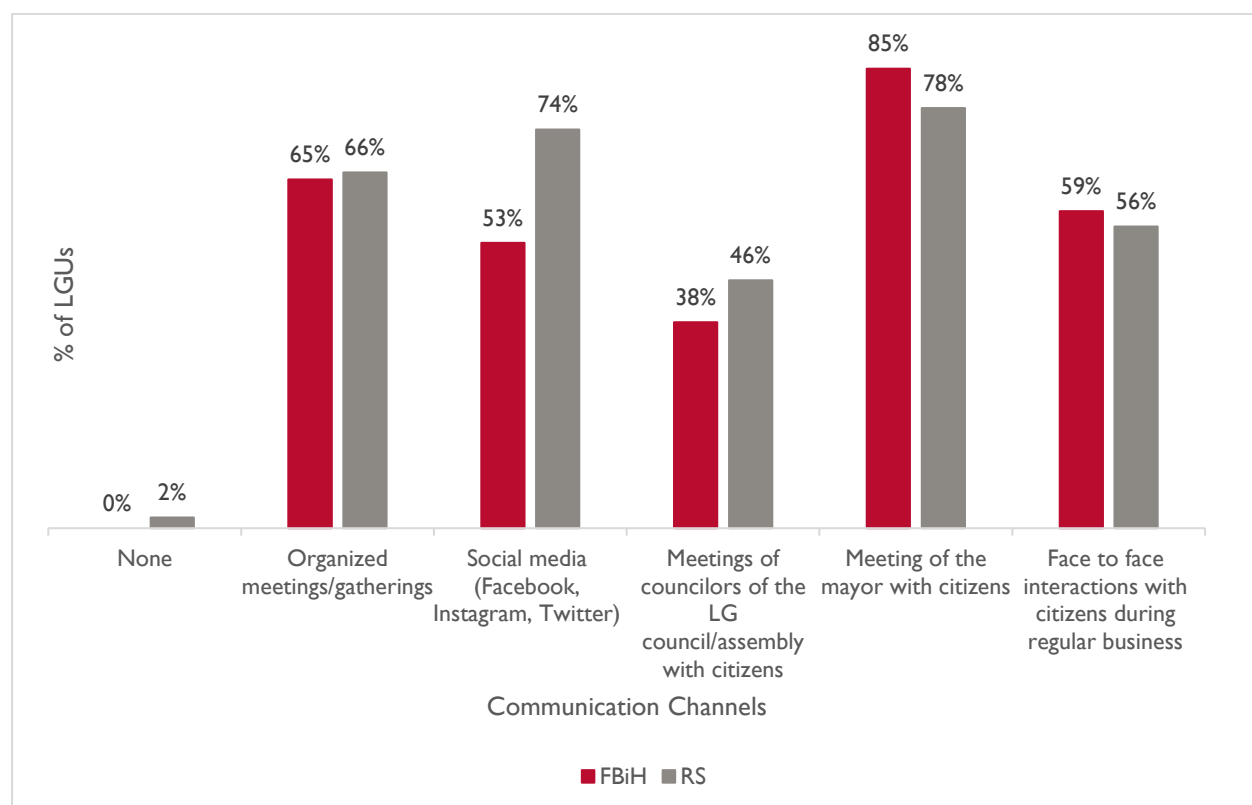
- KI

According to the online survey of LGU data, 85 percent of LGUs in the FBiH and 78 percent in the RS state that citizens most frequently use in-person meetings with the mayor, 65 percent of LGUs in the FBiH and 66 percent in the RS state that citizens use organized meetings/gatherings with LGUs, 59 percent of LGUs in the FBiH and 56 percent in the RS state that they use face-to-face interactions with citizens during regular business, and 38 percent of LGUs in the FBiH and 46

<sup>18</sup> Local communities (BCS: “mjesne zajednice”, typically abbreviated as “MZ”) represent the sub-municipal governance level that mostly interacts with the LGUs. Currently, there are 2,587 formally established local communities in BiH. The legal status of MZ is regulated by the following laws: the FBiH Law on Principles of Local Self-Government (FBiH Official Gazette, no. 49/06 and 51/09), the RS Law on Local Self-Government (RS Official Gazette, no. 97/16, 36/19 and 61/21), and the Law on Local Communities in the Brčko District of BiH (BD Official Gazette, no. 3/03, 19/07 and 2/10).

percent in the RS state that they use meetings between councilors of the LGU council/assembly and citizens (refer to Exhibit 3).

### Exhibit 3 – Communication channels used by LGUs to learn about the needs of citizens and businesses



In general, communication occurs sporadically and is mainly when one or the other side initiates the communication—when one citizen, business, or LGU wants to communicate a view or need to the another. Participants in FGDs with LGUs in both entities agreed that less developed<sup>19</sup> LGUs use relatively few modes of communication with citizens. In less developed LGUs, citizens expect from the leaders of their LGU a chance to meet; discuss problems; participate in public hearings, or in direct “face-to-face” debates in MZs, or on the occasion of particular events. More developed LGUs use a much wider range—including “Citizens’ Day,” the LGU website, “an hour talking to the Mayor,” public hearings (budget), assemblies, notice boards, surveys, social media, Viber, WhatsApp—as channels of communication with citizens.

Above all else, participants in the FGDs with MZs stated that reaching the leaders and managers is simpler through conventional methods. Also, participants in FGDs with local communities and one LGU key informant believe that the older generations of citizens are more likely to stick to conventional modes of communication than are the younger citizens.

*“The young people, those who understand the technology, they use it, and these others and the elderly population resort to the classic and traditional, which means meetings and conversations.”*

- Participant in the FGD with MZs

<sup>19</sup> There are four levels of development: (a) developed (cities); (b) medium developed; (c) underdeveloped; and (d) extremely underdeveloped municipalities. Criteria for assessing the level of development of local self-government units can be found here: <https://www.narodnaskupstinars.net/?q=la/akti/odluke/odluka-o-kriterijumima-za-ocjenu-stepena-razvijenosti-jedinica-lokalne-samouprave-u-republici-srpskoj>

## **Finding 2 – Certain online tools, including websites, Facebook, Viber/WhatsApp groups, as well as stand-alone applications, are used for communication with citizens and/or businesses.**

In addition to traditional communication methods, participants in three FGDs (with LGUs, local communities and NGOs) and two KIs stated that LGUs use digital tools such as Facebook, websites, and Viber groups to communicate with citizens and businesses. According to the LGA survey results, on average 66 percent of LGUs in BiH use social media (Facebook, Instagram, Twitter, etc.) to communicate with citizens and the public sector. Use of these modes of communication is more widespread in RS municipalities (74 percent) than in the FBiH (53 percent).

Some LGUs also use creative approaches for communication, such as web-based applications developed by the LGU, introduced during the implementation of donor projects, or procured commercially. For example, the Citizen Patrol app<sup>20</sup> developed by the City of Banja Luka allows citizens to use their mobile phones to report and upload photos of problems they notice around the city. The Citizen Patrol app is a joint effort developed with the help of local students who were responsible for programming the platform. The E-citizen app<sup>21</sup> was developed by the Municipal Environmental and Economic Governance (MEG) project funded by the Swiss Government. Using the app, citizens are able to report problems to their LGU following the sessions of the municipal council, participate in public hearings, and submit questions to their LGU leaders. The E-citizen app has been rolled out in 17 LGUs, although the level of citizen use and engagement on the app varies considerably.<sup>22</sup> For instance, in the Municipality of Kalesija there are no registered interactions through the app from citizens, while in the Sanski Most Municipality a considerable level of interaction is present. The System 48 and Centar 72 apps are commercial products LGUs can purchase directly. These apps serve as a citizens complaint mechanism, where citizens can report issues, including geo-coordinates and photos; and LGUs will communicate their responses to the citizen who filed the complaint within 48–72 hours.

*“Both with businesses and with citizens... I believe that communication is direct, by email, as well as phone, then through the website and the Facebook page.... We also have a platform called „e-citizen“ which is integrated into our web portal and provides extensive possibilities for the public to get involved with the council's decisions, even negotiations and citizen questions.”*

- KI

## **Finding 3 – Some LGUs conduct surveys of citizen satisfaction with administrative and utility service delivery.**

Of the 15 LGUs that participated in FGDs and key informants, six stated that they regularly conduct citizen satisfaction surveys through annual surveys with citizens when they access services in the one-stop-shop. Annual surveys are typically conducted over 10–15 days, and include a predefined number of respondents. Annual survey questions are grouped into five to six segments, from culture and sports to the performance of the municipal council and the work of public institutions and enterprises. Surveys are conducted during the last quarter of the calendar year; the analysis is completed by December or January the following year.

*“We also conduct a citizen survey once a year, i.e., the questionnaire we are using we developed in cooperation with an international project – it has 25 questions – and we ask them literally about their satisfaction with every sector and service provided by the City.”*

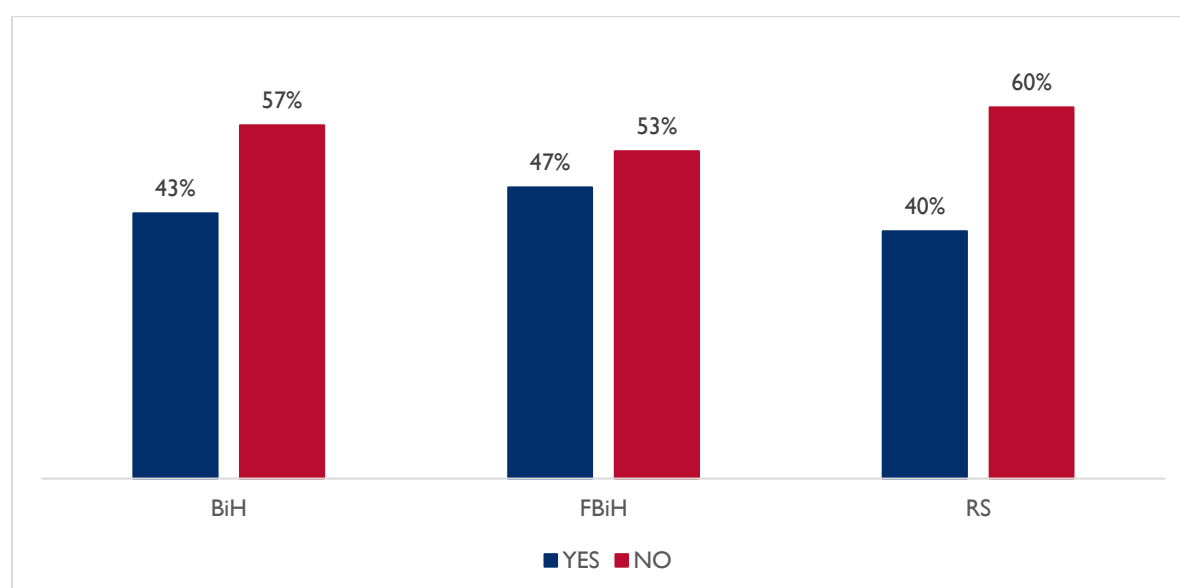
<sup>20</sup> An example from the City of Banja Luka: <https://www.banjaluka.rs.ba/gradjanska-patrola/>

<sup>21</sup> <https://www.ecitizen.ba/>

<sup>22</sup> <https://www.ecitizen.ba/>

According to the LGA Survey results, on average 43 percent of LGUs in BiH conduct user satisfaction surveys. The surveys are conducted slightly more often in the FBiH (47 percent) than in the RS (40 percent) (refer to Exhibit 4). Among the LGUs that implement surveys, 67 percent implement surveys annually, with a considerable difference between LGUs in the FBiH and RS, at 50 percent and 80 percent, respectively (data not shown). Additionally, 22 percent of LGUs in BiH (including 31 percent of LGUs in the FBiH and 15 percent in the RS) noted that surveys are conducted only on stakeholder request (data not shown).

#### Exhibit 4 - Percentage of LGUs conducting Citizens Satisfaction Survey



#### Finding 4 – When conducted, survey results are communicated to stakeholders at the local level.

According to information from FGDs and key informants with LGUs, of the six LGUs that indicated they regularly conduct citizen satisfaction surveys, all noted that the survey results and recommendations are presented and shared with the leadership of the LGU, public enterprises, and the LGU parliament. Adopted recommendations are forwarded to all concerned departments, institutions, and public enterprises for their action. However, only two LGUs publish survey results on their websites<sup>23</sup> for citizens to view.

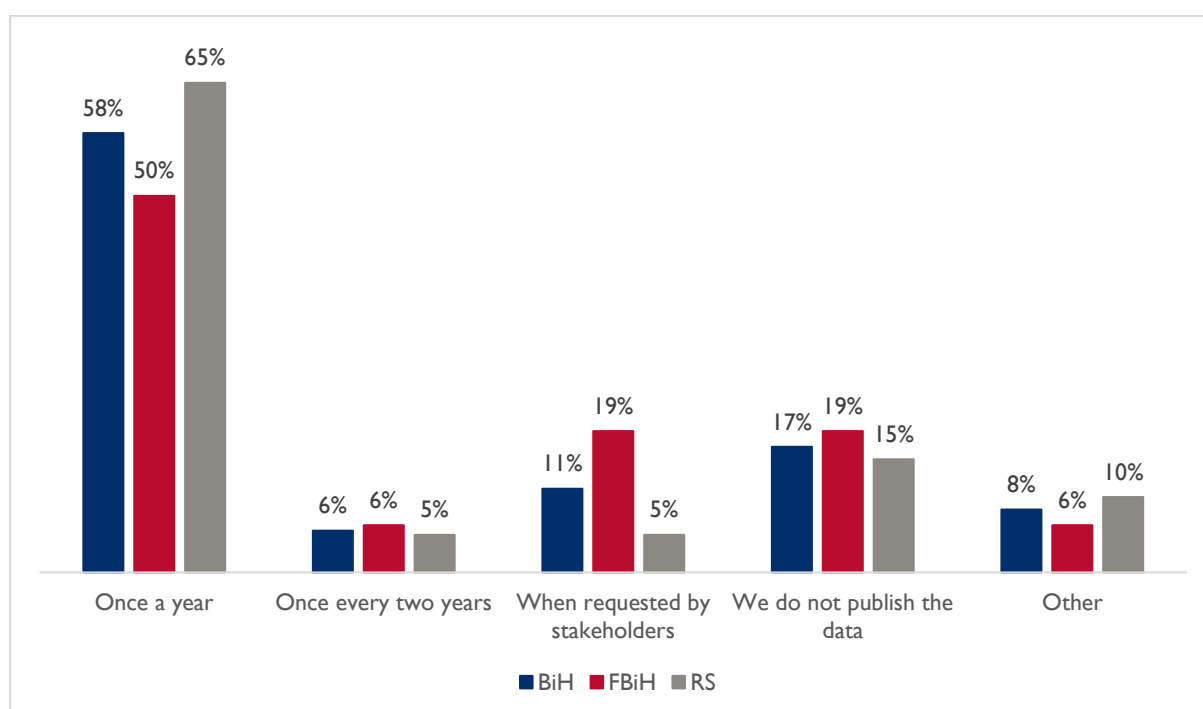
*“We process the results and then share these results with the departments to make use of the recommendations that the survey generates, because there is one segment in which the performance of the administration is rated; there we are rated and there the recommendations for improvements are provided, and these are used to plan activities in the next year to make necessary improvements.”*

According to the LGA survey results, 58 percent of LGUs publish survey results on an annual basis (50 percent in the FBiH and 65 percent in the RS). In contrast, 17 percent of LGUs at the BiH level do not distribute findings at all, and 11 percent distribute them only when so requested by a stakeholder (refer to Exhibit 5).

<sup>23</sup> <https://dobo.gov.ba/wp-content/uploads/2020/02/Anketa-o-mjerenju-zadovoljstva-gra%C4%91ana-javnim-uslugama.pdf>



## Exhibit 5: Frequency of publication of LGU Citizen Satisfaction Survey results



### Finding 5 – More advanced methods of conventional communication between businesses and LGUs are also in use.

According to FGDs and key informants with LGUs, five LGUs have introduced more advanced modalities of business sector participation in a formal sense—for example, business councils and business sector surveys. These mechanisms were introduced through international donor-funded projects, as part of preparations for obtaining international certificates, or in some cases based on knowledge sharing of best practices from other LGUs.

*"As regards communication with the business community, we have a business council, which meets on a regular basis, every quarter, or more often if needed, depending on the document to be adopted, so we want to consult them as well."*

- KI

According to the information from the key informants with LGUs, business councils are bodies that consider matters pertinent to the business community and municipal/city administrations. One key informant from the FBiH noted that they consult the business council about all infrastructure projects—considering the LGU budget and capital investment, as well as all types of services that might be of interest to businesses in the LGU.

According to the FGDs with the LGUs, surveys are mainly used to meet the criteria for qualifying for the BFC or International Organization for Standardization (ISO)<sup>24</sup> certification, or in some cases upon the request of an international donor-funded project. According to information from the its

<sup>24</sup> The International Standards Organization (ISO) is a global network of national standards organizations established to ensure quality of products and services. ISO models are particularly popular in the private sector but are also embraced by the public sector. Standards apply to products, services, materials, processes, and systems, and the ISO 9001 standard (2015 version) has been applied in over a million organizations in 180 countries and is universally applicable to all types of organizations (<http://www.iso.org/iso/home.html>). Application of ISO standards guarantees that an organization in which they are applied has a system of quality assurance which is regularly audited by internal and external auditors and that this system is continuously being enhanced.



website, 29 LGUs in BiH currently possess the BFC.<sup>25</sup> LGUs holding a BFC are required to conduct an annual Service Satisfaction Survey with businesses. The Service Satisfaction Survey includes questions about businesses' current and future labor needs—including educational profiles, capital investment and production expansion plans, and general issues related to the business operating environment. In those LGUs where the Service Satisfaction Survey is conducted, an LGU may obtain relevant data and information from the survey to inform strategies to improve their relationships with, and the environment for, businesses.

*"This survey must be conducted every year, although, trust me, more agile municipalities, those that want to investigate a specific topic sometimes survey businesses about a concrete issue even beyond this one general survey."*

- FGD with LGUs from the RS

## **Finding 6 – Survey success as a communication mechanism with businesses varies among LGUs.**

According to inputs from the FGDs with representatives of the business community in the RS, surveys of businesses are not always an effective means of communicating business needs to LGUs. Businesses tend to approach these surveys in one of two ways. In some situations, businesses are more critical of LGU's performance and the need to make improvement than general citizens are. Conversely, due to concerns about retribution for criticizing the LGU, some businesses are reluctant to provide honest feedback on the current business environment in the LGU.

*"Business people are critical in their assessments [on these surveys] and I don't think that they are being kind to administrations in these surveys; on the contrary, they are very critically minded and a few propose concrete initiatives, so these materials constitute important supporting information for directing future efforts."*

- Participant in the FGD with businesses in the RS

*"Let me make a point here, even where LGUs made efforts to create communication mechanisms, don't think that this works so well that we can be generally satisfied. Sometimes the problem is that businesses do not make enough use of these channels. I mean, it may happen that an LGU puts all this in place, but they are silent, not candid, they harbor concerns that, if they bring up a problem the next day an inspection will turn up at their gate, that the mayor will take offense..."*

- Participant in the FGD with businesses in the RS

While in some LGUs there are no business surveys, business representatives from one FGD noted problems with multiple surveys on the same topic. In such situations, businesses feel their time is being wasted and suggest there should be better coordination among the bodies conducting the surveys.

*"As regards these surveys, one thing we are trying to do, the Labor Demand Survey, both for the needs of education and other efforts that might provide a solution, at some point we realized that the chamber of commerce, the employment bureau, and the municipalities are doing practically the same survey. We end up with one company being surveyed three times within a short time about one and the same thing."*

- FDG with the business sector in the RS

### **2.1.2 NEEDS FOR IMPROVEMENT IN DELIVERY OF ADMINISTRATIVE AND UTILITY SERVICES**

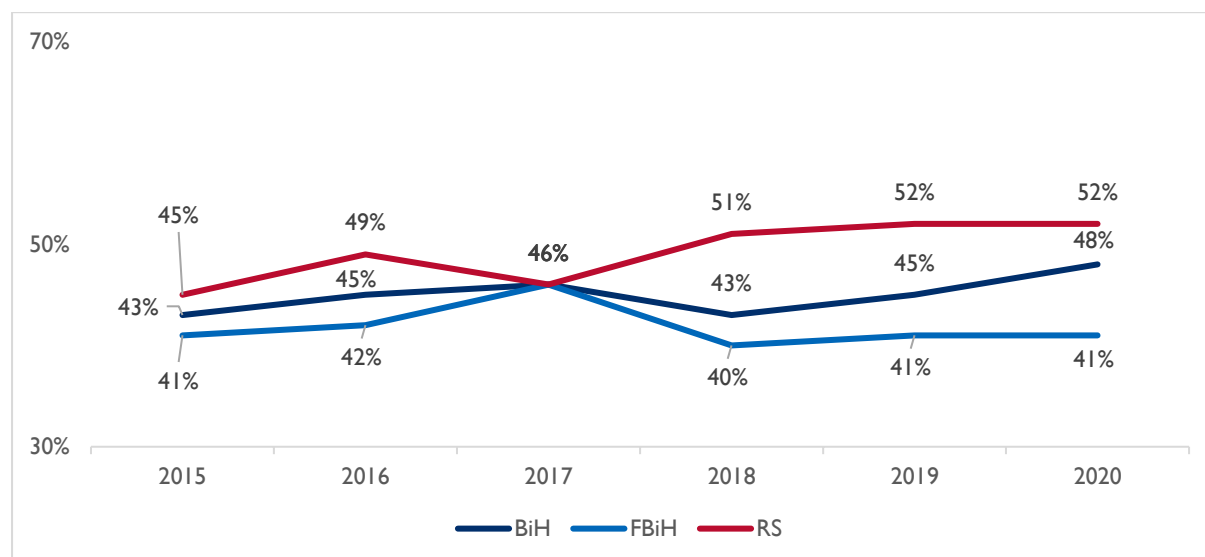
## **Finding 7 - Some administrative (i.e., issuance of birth, marriage, and death certificates) and utility services are delivered in a satisfactory manner.**

According to the NSCP data, overall citizen satisfaction with public services administration (i.e., provision of information; processing of personal data; issuance of birth, marriage, and death

<sup>25</sup> Please visit <http://bfc-see.org/bfc-see-municipalities>

certificates) has improved slightly since 2015 for BiH and the RS, but not for the FBiH. In 2020, almost half of BiH citizens (48 percent) expressed some degree of satisfaction (completely, mostly, or partly satisfied) with public services in general—with satisfaction with public services higher in the RS (52 percent in 2020), compared to the FBiH (41 percent in 2020).

**Exhibit 6: General satisfaction with public services in the 2015–2020 period**



Participants in three FGDs (LGUs, MZs, CSOs) and two key informants confirmed these findings—namely, that citizens find some administrative services are delivered efficiently.

*“... Rating of satisfaction of citizens and the business community in terms of service delivery, 3.5 to 4<sup>26</sup>, but this is because we are a small municipality, there are no long waits, requests and applications of both citizens and businesses are processed timely, actually as quickly as possible, and the lines in the one-stop-shop are always very short.”*

- FGD with LGUs in the FBiH

According to the NSCP, power supply (74 percent), water supply (72 percent), garbage collection (63 percent), and sewage systems (63 percent) were utilities that citizens were mostly satisfied with in 2018. More than half of the citizens expressed satisfaction with street and town cleaning (59 percent), street lighting (58 percent), and public parks and playgrounds maintenance (51 percent). Regarding education services, more than half the citizens felt completely, mostly, or somewhat satisfied. Specifically, 57 percent of citizens expressed satisfaction with preschool, 56 percent with primary, and 55 percent with secondary education.

Participants in the FGD with business associations in one of BiH’s entities and one LGU key informant said delivery of utility services is not a major issue for businesses.

*“Certainly, the LGUs with business zones, or those with a BFC certificate have better conditions for foreign investment and better access to investment.”*

- FDG with business associations in the FBiH

**Finding 8 – Citizens and businesses still note a number of issues in administrative service delivery, including long administrative procedures, complexities in issuance of building and other permits, and lack of cooperation between different levels of governance permit issuance.**

<sup>26</sup> Note: On the scale of 1-5, where 5 is the best.

Representatives of four FGDs (LGUs, businesses, CSOs, and development agencies) and three LGU key informants stated that citizens and businesses view certain administrative services negatively—particularly long wait periods, complex systems of collecting approvals and permits, and continued challenges with acquiring utility services connection permits from public enterprises.

*"There was a case, for the building permit, you need a certificate from the power utility company that you can get a connection to the power grid and they called me to come, bring the document, to get it signed and to bring it back to them... This is truly, really, pointless."*

- KI

The same interlocutors noted that LGU interaction with higher levels of governance in obtaining approvals and permits is also an issue—noting the specific issue of obtaining the necessary permits to repurpose agricultural land for construction purposes. In such situations, cantonal authorities act slowly, which prolongs the entire LGU procedure and provokes applicants' dissatisfaction with the LGU. In this context, FGD participants also mentioned the need to educate citizens about the respective competencies of LGUs and other levels of government.

Furthermore, participants in one FGD and three key informants pointed out the challenges related to the lack of appropriately linked registries and databases across different levels of the government, as well as the multiplicity of software solutions in use in LGUs. As they stated, these issues prevent citizens from efficiently obtaining official documents essential to exercise their rights, causes inadequate performance of certain administrative departments and agencies (e.g., inspections), and prolongs administrative procedures. In fact, as a consequence of the numerous procedures to be followed and forms to be filled in, users believe LGUs should provide some form of legal assistance to guide them through these procedures and help with filling in forms and obtaining needed public documents from LGUs *ex officio*. Service users also emphasized the absence of assistance and support in obtaining permits and approvals.

*"Let's take an example of a routine replacement of documents in this country. I was in position that I needed to change my last name, which meant I had to go to a booth in the municipality, then to three booths in the police station, filed application forms and paid for the filings, then had to go ask if it was done in 5, 6 or 7 days, and if it wasn't done, come again. While, in principle, it should all be arranged that, when the last name is changed in the marriage registry, all changes are automatic so I can get other documents."*

- FGD with MZs in the FBiH

*"When you talk to the people in the municipality, they complain of laws, lack of their harmonization, that they must obtain approval for utility connections from the telecommunications and power utility companies, and very often cooperation in that segment is inadequate, you see, and this is a nexus when an improvement can be made, say, for instance when an investor wants to build, this situation delays issuance of the building permit and gathering of all approvals, who is to fill in all those forms, starting with trivial matters..."*

- FGD with businesses in the RS

## **Finding 9 – Lack of digitalization in administrative service delivery is often mentioned as the biggest issue LGUs face, although the term digitalization means different things to different groups.**

Participants in five FGDs (LGUs, CSOs, development agencies, representatives of businesses, and cantonal ministries) and three key informants noted that introduction of digitalization is the greatest need. The current processes still involve in-person activities, so a party must complete and submit an application in person and receive a response in accordance with the overall level of efficiency of the particular LGU. Additionally, since this cannot be done online, citizens who cannot otherwise come to the LGU premises must take time off from work to submit applications and request services, as it is not possible online.

*“I believe we should introduce e-government as soon as possible, which would mean digitalization of local administration, although we have digitalized a number of areas already, there are still many areas that have not been digitalized, we would also need to digitalize archives, a number of software tools, project management, and also some form of one-stop-shop, and, for certain services, financial management tools.”*

- FGD with LGUs in the FBiH

*“First, we need to introduce e-government, some kind of digitalized system on the local level, and link it with the canton in those segments where it is necessary.... Meaning this communication with the canton... between cantonal bodies and the local community. So... I believe the process should proceed gradually, but for sure the end result should be linking the two levels of government.”*

- FGD with cantonal ministries

Even though LGUs highlight the absence of digitalization in service provision, most stakeholders believe that service provision in real life has not even been sufficiently simplified for digitalization. The participants in three FGDs (representatives of business in both entities and cantonal ministries) and three key informants pointed out that obtaining public documents, as well as submission of documents from one department within the LGU to another, as well as obtaining those provided by other levels of government, should be performed *ex officio*.

*“Simplification of procedures to eliminate unnecessary document requirements and to obtain whatever documents can be obtained ex officio.”*

- FGD with businesses from the RS

*“Certainly, before the digitalization, I believe all procedural and documentary requirements and related regulations should be reviewed, to determine in advance what can be digitalized, and only then proceed. For example, what is currently being done on the level of the RS, should be somehow implemented on the local level as well.”*

- FGD with businesses from the RS

Although most key informants and FGD participants perceive digitalization of services as indispensable, the term does not have the same meaning for all of them. Some LGUs believe all procedures should be transferred online; others feel a sufficient IT system is already in place. For example, there are LGUs that acquired the DocuNova document management system during implementation of the USAID GAP Activity; that system remains in use and there are no problems either in the operation or in the maintenance of the system. In addition, other donor initiatives, despite DocuNova’s availability, implemented a new DMS system. An initiative in the RS focuses on developing new software for all the RS that will be administered centrally by one of the RS government ministries.

Nevertheless, individual participants in five FGDs (LGUs, CSOs, development agencies, representatives of businesses, and cantonal ministries) and three key informants highlighted areas where digitalization is needed, e.g., the Trade Registry; Diaspora Registry; unification of LGU web platforms with tourist resources; digitalization of archives; issuance of building permits; a Geographics Information System (GIS); and project, finance, and own-property management in LGUs.

According to three key informants, any strategic approach and standardization in addressing the issue of digitalization are absent. LGUs often lack in-house IT specialists, while procuring these services by outsourcing is considerably restricted by the Public Procurement Rules. According to one key informant, in the situation where many LGUs do not understand information and communications technology, various consultants exploit LGUs’ lack of knowledge and steer them towards processes that may not be the best match with their LGUs; the same informant believes the LGU sector in BiH needs a reliable partner with authority and credibility to guide LGUs through the digitalization process.

**Finding 10 – Utility service delivery is plagued by a variety of issues—with access to, content of, and quality of utility services in peripheral and rural LGUs lagging considerably behind central and urban areas.**

According to five FGDs (LGUs, MZs, CSOs, cantonal ministries, and development agencies) and three key informants, citizens are often dissatisfied with utility infrastructure and delivery of utility services. Citizens are particularly frustrated with the coverage and quality of utility services.

*“We go back to infrastructure, to utility services. This is where citizens most want solutions.”*

- FGD with MZs in the FBiH

Variations in the degree of satisfaction are particularly evident in underdeveloped LGUs, whose focus is meeting the immediate needs of citizen—such as waste management, water supply, sewage and wastewater disposal, road maintenance, and street lighting. The needs of LGUs in both entities vary considerably depending on LGU size, development level, and available resources (financial, human, infrastructural). It was also mentioned that citizens’ needs evolve from utility towards administrative services once the highest priority utility infrastructure issues have been addressed. Participants in the FGD with LGUs often noted they would prefer donor interventions in the domain of enhancing utility infrastructure, pointing out that these projects are typically costly and many LGUs cannot implement them on their own.

*“What comes to mind as most urgent, from the citizens’ perspective, the priority is to expand the city sewage system, and also to solve the issue of rehabilitation of the city waste disposal site, which has long been filled beyond capacity, while another burning issue is upgrading the system for protection from natural disasters.”*

- FGD with LGUs in the FBiH

**Finding 11 – Adequate management of the local utility enterprises is lacking.**

Representatives of three FGDs (business associations in both entities and development agencies) revealed that the prices of utility services for the business sector serve as disincentives, as the services are not adapted or conducive to meeting business needs. For example, no incentives are offered for big consumers of water; they pay the same price as regular users. This challenge was linked to poor management of public utilities, caused by political interference in management and employment combined with absence of accountability for the utilities’ management and staff to meet business objectives. The Report on Consultations of a Joint Commission Local Government finds that *“Many LGUs have serious problems with the financing and operation of utilities - larger LGUs have specialized firms but, in smaller LGUs, utilities typically provide a basket of services.”*<sup>27</sup>

Representatives from four FGDs (LGUs and MZs in both entities) noted that LGUs face challenges in taking a strategic and planned approach to providing district heating, proper waste management, wastewater treatment, supply of potable water, and rehabilitation of illegal dump sites. Some decision makers believe these problems have mainly been caused by the transfer of responsibility for certain utility service delivery from higher to lower levels of government, unaccompanied by the appropriate funding needed to ensure provision of these services.

**Finding 12 – Citizens and businesses disagree about priorities in addressing delivery of administrative and utility services.**

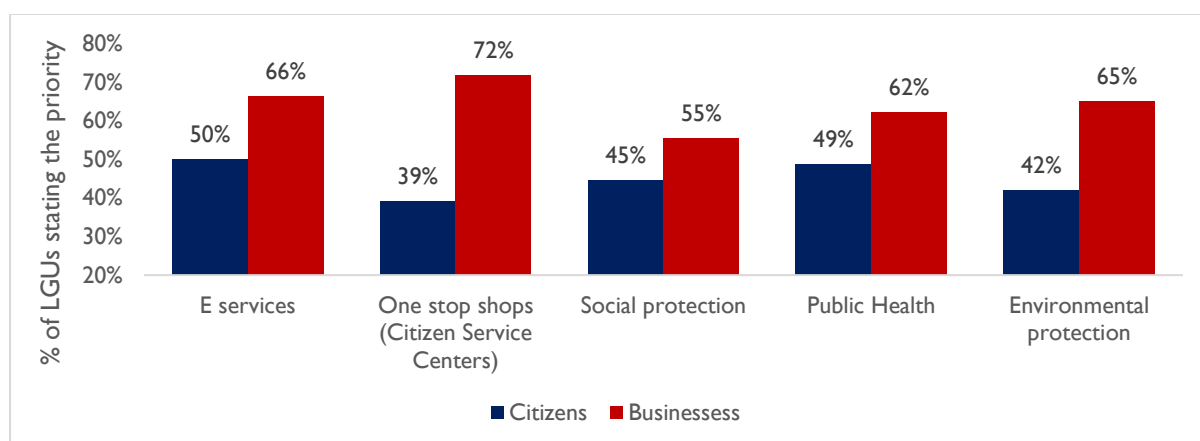
According to four FGDs (LGUs and MZs in both entities), opinions are divided about key priority issues that should be addressed by the LGU—specifically, whether to focus on infrastructure

<sup>27</sup> Report on Consultations of a Joint Commission (A Joint Commission (JC) on Local Government - supported by the European Union Special Representative (EUSR) in BiH, the Swiss Embassy in BiH and USAID, Local Government Initiative, funded by the EU in Bosnia and Herzegovina, June 2018, page 50.

projects or improvements in administrative services. Prioritization generally depends on the current level of existing utility infrastructure. For LGUs that lack basic utility infrastructure, infrastructure is their priority.

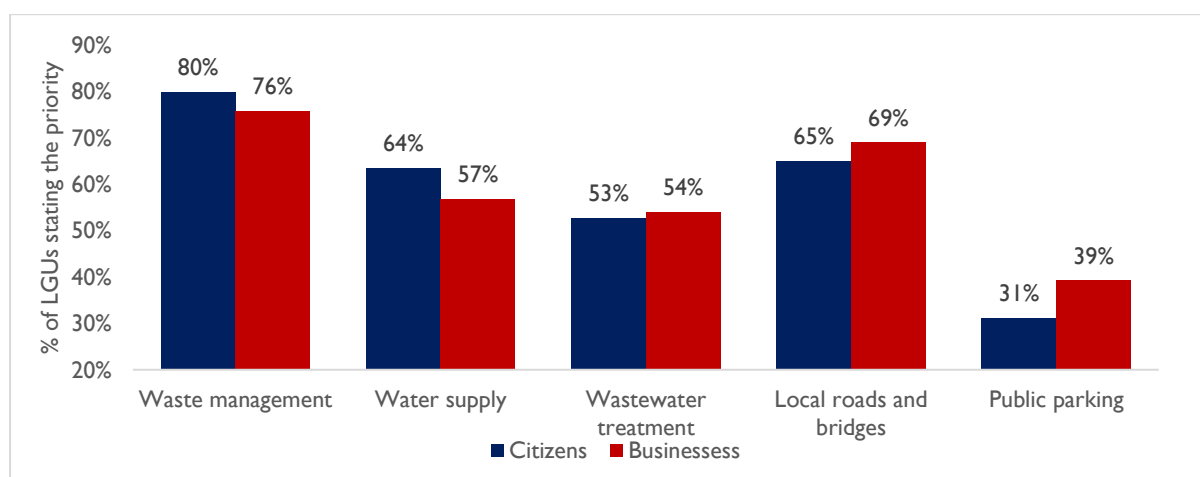
According to the LGU online survey, the five top priorities for improving administrative services for citizens are e-services (50 percent), public health (49 percent), social welfare/services (45 percent), environmental protection (42 percent), and one-stop shops for citizens (39 percent). The top five priorities for improving administrative services for the business sector are one-stop shops (72 percent), e-services (66 percent), environmental protection (65 percent), public health (62 percent), and social welfare/services (55 percent) (refer to Exhibit 7).

**Exhibit 7: Top five administrative services' areas in most urgent need of improvement**



With regard to utility services, according to the LGA online survey, the top five priority areas for citizens are waste management (80 percent), local roads and bridges (65 percent), water supply (64 percent), wastewater disposal (53 percent), and public parking (31 percent). The top five priorities for the business sector are the same as for citizens (refer to Exhibit 8).

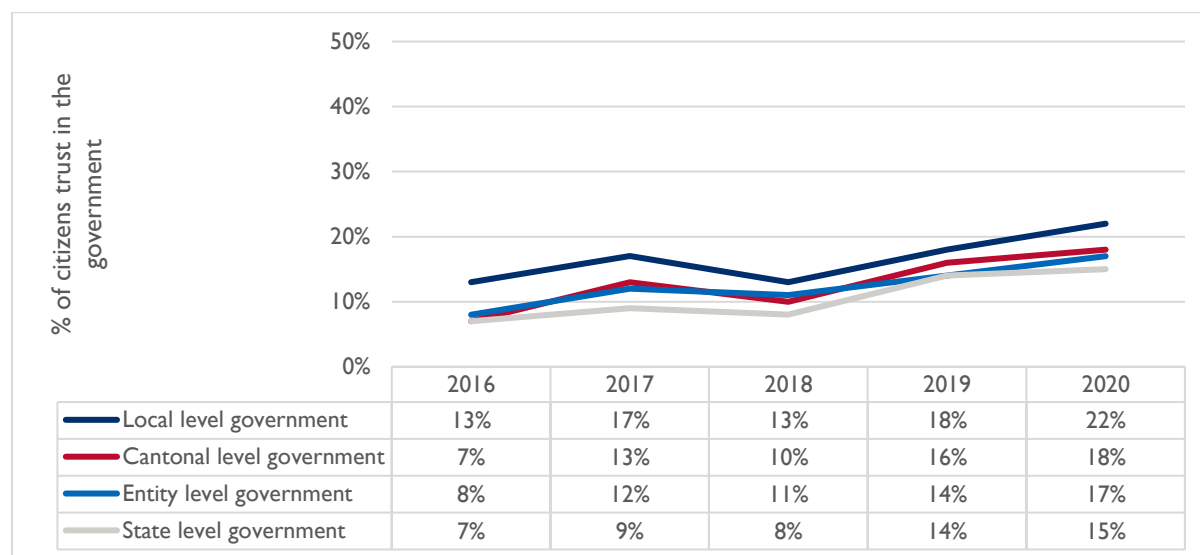
**Exhibit 8: Top five utility services' areas in most urgent need of improvement**



**Finding 13 - Citizens and businesses note corruption in service delivery in LGUs, but this corruption is not reported.**

The NSCP<sup>28</sup> found that more than 80 percent of BiH citizens believe corruption is extremely, moderately, or slightly present in all sectors. Specifically, 65 percent of citizens believe corruption is extremely prevalent in public employment procedures, and half of those surveyed believe the same about public procurement procedures (52 percent) and inspections (50 percent).

### Exhibit 9: Level of trust in the government, 2016 –2020



Citizens in BiH generally do not trust the government—although, while still at a very low level (22 percent in 2020 according to the NSCP), BiH citizens trust local governments more than canton, entity, or state governments.

One participant in the FGD with representatives of businesses expressed satisfaction with the implementation of certain interventions of anticorruption projects—specifically highlighting good examples of working with USAID/BiH's Assistance to Citizens in Fight against Corruption Activity (ACFC) on a “Doing business without corruption” grant, which focused on amending legislation and encouraging reporting of corruption. Despite these initiatives, the same stakeholder noted that mistrust of the LGU and other levels of government among citizens and businesses remains a major challenge. The Anticorruption Strategy in BiH and its associated Action Plan were adopted (the fifth strategic anticorruption document adopted in BiH), with the aim to confront corruption in a planned and strategic manner. Transparency International<sup>29</sup> assessed its adoption as meaningless, however, in the sense of strengthening of the legal framework and implementation—given that the current absence of digitalization or online access to administrative services requires in-person contact, which creates opportunities for corruption.

*“... In any authority bodies across the board, in any administrations, no matter what level they might be, and it is that a very widespread system of corruption thrives in their midst, and that corruption system affects all levels [of government] in this country, even on the level of local community, which makes businesses harbor certain mistrust towards public authority...”*

- FGD with Businesses RS

Although participants noted that corruption frequently occurs during permit processes and inspections, low levels of trust among citizens and businesses have resulted in very few formal

<sup>28</sup> Available at [http://www.measurebih.com/uimages/measurell\\_nscp2019\\_final\\_report.pdf](http://www.measurebih.com/uimages/measurell_nscp2019_final_report.pdf), page 37

<sup>29</sup> Overview of the level of implementation of the Anticorruption Strategy and the Action Plan, Transparency International BiH, p. 16.



reports of corruption. And the few cases that are reported lack sufficient information to warrant prosecution, which has also been noted as a major challenge. The Accountability, Technology, and Institutional Openness Network in South East Europe (SEE) commented that “Only a few local self-governments possess some sort of anti-corruption policies.”<sup>30</sup> Participants confirmed that the most realistic approach to prevent and fight against corruption is digitalization, which would reduce the need for personal interactions with LGU staff.

**Finding 14 – Jurisdictional conflicts are present between institutions at different levels, and failure to respect the principle of subsidiarity on issues that directly concern LGUs.**

Participants in FGDs with cantonal ministries point to the lack of laws on local self-governance in several cantons in the FBiH, or revocation of certain provisions of these laws by the Constitutional Court, as the major reason for the absence of service improvement at the local level. In addition, in the monotype system of local governance (model municipality vs. city<sup>31</sup>), the Committee on the Honouring of Obligations and Commitments by Member States of the European Charter of Local Self-Government concluded: “The legislation does not sufficiently take account of a very specific situation of the City of Sarajevo (being the capital of the State, the FBiH and Sarajevo Canton) and of Banja Luka (de facto capital of the Republika Srpska but without special status) which curtails their authorities’ capacity to fulfil the additional functions of capital cities legally and in practice.”<sup>32</sup> Other findings show<sup>33</sup> no clarity in the division of responsibilities between the various levels of government.

According to comments during the key informants with the representatives of associations of municipalities and cities and entity ministries, the only legislative changes in the pipeline are amendments of entity laws to change the provisions that govern organization of MZs. The RS has a 2017–2021 Strategy of Local Self-Government, but there are no such strategies at the state or federation level. Stakeholders from the RS mentioned that an evaluation of the Strategy of Local Self-Government is currently under way, and that it will be followed by the drafting of a new strategy aligned with the new legal framework for strategic planning and development management in the RS.<sup>34</sup> No such plans exist in the FBiH.

A majority of participants raised issues of jurisdictional conflicts, particularly in the FBiH, between the cantons, cities, and municipalities, the majority of examples being in Sarajevo and Mostar. Participants noted no clear map of legal solutions, jurisdictions, or status of transferred competencies and associated funding for provision of administrative or utility services. Also, no clear map of steps in administrative procedures under each of the competencies, or of related human resources involved in implementation of various procedures, or of different prices citizens in different parts of the country pay for the same services exists. Except for the recently initiated

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<sup>30</sup> Roadmap on Good Governance for state institutions in Bosnia and Herzegovina, Accountability, Technology and Institutional Openness Network in SEE,

<sup>31</sup> The Law on the Principles of Local Self-Government in the Federation of Bosnia and Herzegovina in Article 5 defines that a city, as a unit of local self-government, represents an urban, infrastructural unit linked to the daily needs of the population. Apart from the Constitution, the term city has been established by a federal law on the basis of an association agreement between two or more municipalities, i.e. by the decision of the Municipal Council, and has at least 30,000 inhabitants or at least 10,000 inhabitants living in the city center as a rounded urban area. The city also represents the seat of the canton regardless of its number of inhabitants. The Law on Local Self-Government of the Republic of Srpska states in Article 55 that a city may be established by the law in an urban area that makes a coherent geographical, social, economic, historical and territorial unity with an appropriate level of development.

<sup>32</sup> According to findings of the Local and regional democracy in Bosnia and Herzegovina, Committee on the Honouring of Obligations and Commitments by Member States of the European Charter of Local Self-Government – Monitoring Committee, October 2019.

<sup>33</sup> Ibid.

<sup>34</sup> Available at <https://www.narodnaskupstinars.net/?q=la/akti/usvojeni-zakoni/zakon-o-strate%C5%A1I-kom-planiranju-i-upravljanju-razvojem-u-republici-srpskoj>



mapping of administrative processes at the RS government level, there are no coherent initiatives to address these issues at the local government level.

Participants from FGDs with cantonal ministries and one key informant highlighted how general rule-of-law issues affected local government, particularly the failure to implement the decisions of courts, even the Constitutional Court; inadequate legal solutions; and the absence of political will to take action to overcome challenges.

**Finding 15 – Human resources management processes and mechanisms in LGUs and local public enterprises are politicized, demotivating, and outdated, resulting in lack of competent staff.**

Participants in four FGDs (LGUs, Businesses, Cantonal ministries and development agencies), as well as three key informants noted that principles of contemporary human resources management are not applied to hiring processes and employment in the LGUs. These claims were validated by numerous relevant sources, including documents from the Local Government Initiative, whose report stated that *“Local government administrations are seen as overstaffed and inefficient and they severely inhibit local economic development. Local governments know this but are shackled by unsuitable laws - such as on the laws on civil service and public procurement - that are seen as too rigid to allow reforms.”*<sup>35</sup>

*“There are no competencies or knowledge, people are overall... He knows his narrow segment of the job, but the moment the task expands – naturally, I do not mean everybody, but, on average, that is true, whatever departs from what is, so to speak, everyday occurrence, it often happens, they learn first what is not their job, and only then what is, and this happens more often in smaller municipalities. The context is such that, to put it this way, any conflicts are avoided, you know, the next elections are coming, so I don’t want to find fault with this one, nor with that one...”*

- FGD with businesses in the RS

Participants in FGDs with development agencies stated that ethical practices are not being applied in LGUs, or in public utilities. According to Transparency International in BiH,<sup>36</sup> public enterprises are under the control of political parties and still require management reforms and restructuring—particularly since the entity laws on public enterprises have not been changed for 10 years. According to available information from Transparency International’s database, the leadership of at least 70 percent of enterprises (out of over 300 in the database) have direct connections with political parties or hold executive positions in a party.<sup>37</sup>

Politicization of the employment of civil servants was highlighted as a major challenge. For instance, in the FBiH, the hiring process is conducted by the FBiH Civil Service Agency; and the list of candidates who meet requirements is submitted to the mayor, who has discretionary power to make the final choice of candidates. Consequently, the degree of politicization in this regard is quite high; but according to one KII, there are no initiatives at present to modify the current hiring process. This challenge was recognized in the European Commission BiH 2021 Report,<sup>38</sup> which stated that, *“The country needs to ensure a professional and depoliticized civil service and a coordinated*

<sup>35</sup> Report on Consultations of a Joint Commission (A Joint Commission (JC) on Local Government - supported by the European Union Special Representative (EUSR) in BiH, the Swiss Embassy in BiH and USAID on Local Government, Local Government Initiative, funded by the EU in Bosnia and Herzegovina, June 2018

<sup>36</sup> Transparency International, Proces integracije BiH u EU: 14 prioriteta iz Mišljenja Evropske Komisije 2 godine poslije, maj 2021, str. 14

<sup>37</sup> Please visit <https://transparentno.ba/transparentno.ba/> and <https://registar.transparentno.ba/bs-Latn-BA/public-officials?page=1&rows=10>

<sup>38</sup> Accompanying the document “Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions”, 2021 Communication on EU Enlargement Policy, published on October 19<sup>th</sup>, 2021, SWD(2021) 291 final

*countrywide approach to policy-making. In addition, merit-based recruitment, promotion and dismissal of civil servants based on objective criteria is not fully ensured... Political influence in recruitment and promotion procedures persists systematically at all levels of government. Candidates are often selected without applying merit principles, and in certain recruitment procedures, particularly at the cantonal level, final selection depends on ethnic background rather than merit.”*

According to one key informant, the average age of employees in FBiH LGUs is around 50, with relatively few younger employees. Nevertheless, the same informant believes that, with a careful and targeted approach, each group of employees (including those 50–60 years old) would be very open to learning and adapting to any changes within the LGU. Apart from the age structure, the informant also provided worrisome information that, in 2021, the FBiH Agency for Civil Service received 40 percent fewer applications for civil service jobs than in 2019. According to this informant, possible reasons include depopulation/emigration and/or declining interest in civil service employment.

One participant from the FGD with development agencies and one key informant believe that the above challenges at the LGU level can be addressed by introduction of a more efficient system of work, oversight, and compensation for LGU employees. Among other things, since no system to monitor employees’ performance in LGUs exists (except for formal observance of procedures), instituting human resources and performance management (including rewards or sanctions based on performance), could prove an optimal path to improving of human resource management processes in LGUs.

#### **Finding 16 – LGUs have made Progress in building capacity of civil servants; but room for improvement exists.**

The FBiH Civil Service Agency is a good example of successful staff capacity building efforts. The Agency has provided trainings for civil servants and employees continuously for more than 10 years, covering the full spectrum of topics of interest and relevance to civil servants and employees in LGUs. The Agency was also recognized in the European Commission BiH 2021 Report<sup>39</sup> for “progress ... in establishing the legislative and policy framework for trainings and performance appraisal, particularly in the Federation.” The Agency also implements targeted and on-demand trainings—including but not limited to trainings about birth, marriage, and death registries; topics in the civil domain; freedom of access to information; public procurement; and management. Additionally, the Agency organizes annual conferences with all LGUs in the FBiH, where it promotes topics of major importance. At the last conference, the topic was digitalization, with case studies from the Municipality of Kakanj and of Rijeka, Croatia shared as regional examples. The RS Ministry of Administration and Local Self-Government organizes trainings for LGU staff through their four regional centers, using public procurement procedures to hire lecturers for selected topics. Since the start of the COVID-19 pandemic, attendance at online trainings has been limited, because participants prefer the social component of in-person trainings, which permits exchange of experience in other areas as well.

Participants of four FGDs (LGUs, Businesses, Cantonal ministries and development agencies), as well as three key informants noted that knowledge and skills were sorely lacking in LGUs in both entities, particularly in project management, fund raising, and IT management. The participants emphasized the problem of “outsourcing” for certain occasional services due to the rigidity of the BiH Law on Public Procurement—particularly for tasks not covered by the organizational chart of positions

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<sup>39</sup> Idem (p.15)

within LGUs, such as writing project proposals, IT maintenance, and other jobs essential for human resources management.

The FBiH Law on Administrative Bodies restricts municipal autonomy by introducing a required minimum population size for creation of any new administrative bodies. In the RS, the Law on Local Self-Government introduced a set of new criteria regarding standards of employment of civil servants and employees, in particular introducing the ratio of three employees per every 1,000 inhabitants (in cities 1/1,000), thus restricting administration size—which was supposed to be in effect by 2019.<sup>40</sup> However, according to one key informant, initiatives related to restrictions on the number of employees in LGUs that are integrated into the law and apply criteria such as LGU population size and surface area have not been generally accepted in practice (only around 30 percent of LGUs in the RS have implemented this regulation).

*"Finding an expert in the field, since due to the modalities of payment of compensations, i.e., salaries for this category of employees, we lack those resources, because the salary of a senior associate for human resources and a senior associate for IT is the same and that is a major issue, because we all know the situation on the market when it comes to hiring good IT specialists or coders."*

- KI

### **Finding 17 – LGUs perceive entity associations of municipalities and cities as representatives in advocacy and legislative activities targeting higher levels of government.**

Associations of municipalities and cities in both entities, as authorized representatives of LGU interests (by law in the FBiH, recognized in the RS LGU Development Strategy), emphasize advocacy for changing legislation, and in principle conduct advocacy for adopting and amending laws (i.e., work on the legal framework). Among other activities, key informants and FGD participants mentioned a number of exchanges of good practices, meetings, and conferences, as well as trainings organized by the associations. However, a number of stakeholders, including association members themselves, feel they lack capacity for more advanced encouragement of exchange and provision of technical assistance for implementation of good practices.

*"The 'Association' is a 'trade union' of LGUs and it should be involved in the legislative processes connected with LGU interests."*

- KI

## **AQI – CONCLUSIONS**

The means of communication used by LGUs to learn about the needs of citizens and businesses range from conventional methods, mainly based on in-person meetings, to online tools. It seems that LGUs in BiH do not collect data from citizens and businesses in a systematic fashion; nor are these data regularly analyzed, presented to stakeholders, or tracked over time. However, examples exist of good practices and advances in efforts to allow citizens and businesses to convey their needs. Introduction of online applications for reporting problems directly to the LGU, surveys of citizens and businesses, and creation of business councils feature prominently in this regard. Typically, these good practices emerged during implementation of donor projects; and because of the fragmented nature and limited time horizon of such projects, these good practices appear only in some LGUs. At present, no institutional mechanism allows replication of these good practices. Additionally, even

<sup>40</sup> Report on Consultations of a Joint Commission (A Joint Commission (JC) on Local Government - supported by the European Union Special Representative (EUSR) in BiH, the Swiss Embassy in BiH and USAID on Local Government, Local Government Initiative, funded by the EU in Bosnia and Herzegovina, June 2018.

where good practices are in place, communicating about them to citizens and businesses occurs in a limited and non-systematic fashion, with digital marketing not used at all. All this reveals that LGUs have no strategic approach to communication with the users of their services.

Under the influence of earlier donor projects, and due to the presence of reasonably substantial infrastructure in urban parts of LGUs, some administrative and utility services are delivered efficiently and with adequate quality. So, a comprehensive intervention involving the full range of services offered by LGUs is not needed. Any future interventions should target specific areas.

The greatest challenges LGUs face in the administrative services sector are related to: (1) insufficient clarity in delineation of competences between LGUs and higher levels of government (particularly in the FBiH), and lack of accompanying overview of the level of funding by competencies; (2) the complexity and long duration of procedures for obtaining various permits, and absence of detailed and precise sequencing of steps within each procedure and related human resources for implementation of these procedures; and (3) different costs of administrative services in different parts of BiH. Consequently, citizens and businesses are caught in a maze of ill-defined and overlapping competencies, complicated procedures, sluggish administration, and variations in treatment around the country. This situation is a consequence of differences in, and inadequacies of, solutions in the current local governance laws, and the nonexistence of laws on LGU revenues.

Digitalization of LGU operations is at present implemented very unevenly throughout BiH. Although many mentioned digitalization as a priority, very few LGUs are fully aware of what digitalization should be, and which challenges must be overcome to reach a satisfactory level of digitalization. Some LGUs claim to have had an IT system in place for many years, and in general, those LGUs are satisfied with their system's performance. At present there are no overviews of the level of implementation of IT systems that support LGUs (e.g., case/document management systems, financial management systems, property registration systems); nor is there any inventory of the systems currently in use. Moreover, even in LGUs that have had IT systems for many years, some processes are continuing unnecessarily, e.g., maintaining manual entry into written registries, or functionalities that may be upgraded and enhanced even without existence of the digital signature (such as, for instance, accessing own cases online). In LGUs where IT systems exist, very little attention is paid to their security aspects, such as server room operation standards, onsite and offsite equipment and data backup procedures, or business continuity and contingency planning.

Corruption is a challenge citizens and businesses encounter in their interactions with LGUs, but very few formal reports are filed. Moreover, this situation does not appear likely to change soon. Creation of online tools that will reduce physical interaction between users and providers of services (digitalization), as well as publication of information about processing cases or timeframes for resolving cases (increasing transparency), may indirectly contribute to preventing instances of corruption.

There are problems with lack or inadequacy of utility infrastructure in nearly all LGUs; but underdeveloped LGUs are particularly affected, as they cannot afford to address these issues. Undoubtedly, there will never be sufficient funding for all infrastructure projects because new ones will keep emerging. Still, donor projects may be the only viable way for underdeveloped LGUs to overcome some of their most urgently needed problems in utility service delivery in the short run.

The existing system of hiring civil servants for positions in LGUs is conducive to favoritism and political meddling. The rate of introduction of new workforce with modern knowledge and skills, capable of improving the ways LGUs operate, cannot meaningfully change unless the existing system

of hiring civil servants is replaced by a merit-based process of selecting best candidates. There is considerable room for upgrading knowledge and capacities of current employees with acquisition of tacit knowledge, through transfer of good practices between LGUs and interactions of staff of less advanced LGUs with employees of more advanced LGUs who approach their jobs, duties, and responsibilities differently. Finally, in future digitalization processes, considerable effort will be required to upgrade the IT skills of LGU employees.

In the local government sector, there are long-established associations of municipalities and cities focused on lobbying and legislative activities and on advocating LGU interests with higher levels of government. The Assessment Team finds that these associations, despite some limited involvement in organization of trainings and knowledge exchange, lack sufficient capacity to serve as a conduit for changing operational practices and procedures in LGUs.

## 2.2 ASSESSMENT QUESTION TWO

**What are best practices in service delivery among LGUs in BiH? What are the conditions that enable LGUs to implement these practices? How scalable are these approaches?**

**Finding 18 - A considerable number of good practices in provision of services to citizens and businesses are in use in some LGUs.**

FGD participants, including representatives of LGUs, associations, and development agencies, mentioned the use of best practices in the areas of services to citizens and the business sector, mechanisms of citizen participation, administrative and utility services software solutions (digital), and transparency and accountability. These applications of best practices were further confirmed by online survey responses. The following summarizes key practices highlighted in the Assessment. Refer to Exhibit 10 for a more detailed overview of good practices.<sup>41</sup>

- *Diaspora offices* – would permit improved communication with the citizens in the diaspora to establish best possible cooperation through registration in the database of diaspora citizens of the given city/municipality.
- *Submission of electronic bills by public utilities, so-called Single Utility Bill* – constitutes a digital transformation using a segment of the SMART CITY platform through the System of Unified Collection (BCS “Sistem objedinjene naplate” – SON), which provides the service of unified charging for utilities and city charges.
- *Budgets for citizens*<sup>42</sup> - is a simplified document of the LGU budget that presents the collection and spending of budget funds in an easy-to-read format to achieve transparency and openness in the processes of making important decisions, and to make the LGU citizens as familiar as possible with the most important document adopted every fiscal year.

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<sup>41</sup> Exhibit 10 is an initial list the Assessment Team compiled within a very short period and with limited resources, which did not allow a deeper analysis or a comprehensive inventory of good practices.

<sup>42</sup> Publication by S. Avdić, „Demokratija i ljudska prava, Otvorenost lokalnih samouprava u BiH, Principi otvorenosti i primjeri dobre prakse“ (Democracy and Human Rights, Openness of Local Governments in BiH, Principles of Openness and Examples of Good Practices“, September 2020, presents the findings of the research about the openness of local governments in BiH, which covered 36 LGUs, and it stated that the „budget for citizens“ is practiced by only a few municipalities/cities in BiH. The „budget for citizens“, a colloquial term for a document adapted to the understanding of the majority of citizens in the local community, clear and understandable for all, with both text and supporting graphical explanations for better understanding of the majority. A „budget for citizens“ made accessible and easy to understand constitutes a concrete tool to ensure greater transparency in LGUs.

- *Online communication tool 48 hours*<sup>43</sup> - is a tool that efficiently addresses the demands of utility service users through the municipal administration—which coordinates the operations of public utilities on the one hand, and communicates with citizens and the business on the other.
- *Center 72*<sup>44</sup> - is a service for citizens and the business sector under which the LGU is required to respond to a filed report within three working days.
- *System to report irregularities* in the work of the city administration – is a local public anticorruption policy.<sup>45</sup>

**Finding 19 – The identified good practices emerged largely as a result of a fragmented approach or by chance, rather than through a targeted and systematic approach.**

Based on five FGDs (development agencies, LGUs in both entities, and MZs in both entities) and five key informants, the assessment team found that good practices were established largely as a result of international donor-funded programming, which introduced new and creative ideas to the LGUs. However, these programs cooperated with only some of the LGUs during specific and limited periods, resulting in inconsistent application from one LGU to another. For example, while many advocate for introducing digitalization, the LGUs that received support from the USAID GAP have been using the DocuNova system for more than a decade.

*"Since DocuNova has been in use for so long, our quarterly analysis, so-called key request processing, as we call it, is performed through DocuNova. This analysis, is conducted by automatic retrieval of data from the DocuNova system. We have 6000 or more files closed. Additional 3000 are being processed. We process over 10,000 files a year... All files, administrative or not, go through Docunova."*

- KI

Two examples of disconnected introduction of best practices through implementation of international projects surfaced. A participant in the FGD with RS LGUs mentioned that their LGU was very proud of the RS "Guide to the Budget for Citizens," which they prepare every year. However, the Assessment Team found that this tool was introduced in only some RS LGUs as part of an earlier donor-funded project. A participant of the FGD with businesses representing the FBiH brought up USAID WHAM Activity in a similar context—in LGUs' active efforts on retraining the unemployed workforce and the center for adult education planned in the same LGU.

*"The so-called Open Doors Day, every 15 days we hold meetings with businesspeople. This is every other Friday at 1pm, when the mayor or its associates are at disposal of businesses who can make complaints or submit proposals, give suggestions, etc."*

- FGD with LGUs in the RS

Some of the good practices mentioned above were introduced as part of the requirements in the processes to qualify for a BFC or an ISO certificate. For instance, surveys of businesses and creation of business councils were direct conditions for receiving and maintaining these certificates. The BFC is more widely found in the LGUs in BiH because it was introduced there by earlier USAID Activities (RAST, GOLD). The ISO standard is less widespread than the BFC, although there are LGUs that have been certified according to both standards. Ultimately, again, some LGUs have introduced these standards, but a large number do not have them.

<sup>43</sup> Check for an example at the link: <https://www.opcinatravnik.com.ba/ba/izdvojeno/servis-48h>

<sup>44</sup> <http://centar72.ba/tuzla>

<sup>45</sup> For example: <https://etickalinija.ba/Home/About/1007/grad-tuzla>



# Exhibit 10: Examples of best practice service delivery in LGUs

Administrative services for citizens and the business sector	Mechanisms of citizen participation	Software – IT solutions for administrative and utility services	Communication with and services for the business sector	Transparency and accountability in their work	Other
One-stop-shop system of service provision (Gradiška) and the active waiting system in one-stop-shops (Novo Sarajevo, Zenica)	Institutionalized mechanism of the Citizens' Forum (Sanski Most)	Full application of the document management system (e.g., DocuNova in the Tešanj LGU)	Regular consultations through the Business Council	Presentation of the budget to secondary school students (Sanski Most)	Subsidies for measures of energy efficiency.
Diaspora offices/registers (Sanski Most, Živinice, Derventa)	Public hearings as a budgeting mechanism	Submission of electronic bills by a public utility – so-called Unified Utilities Bill (Gradiška)	Ad hoc partner groups of LGU mayors	Budgets for citizens (Banja Luka, Bijeljina, Tuzla, etc.)	Subsidizing certain utilities for vulnerable categories (Banovići)
Centers for investors and issuance of permits (Banja Luka)	Online tools Service 48 or 72 hours	SMART water meters in the public utility (Gradiška) – the SCADA system	Social entrepreneurship (Sanski Most)	Public calls for submission of CSO projects with more transparent criteria of evaluation of project applications	Support to startups and initial trainings (Novo Sarajevo)
Legal aid (Teslić, Novo Sarajevo, Ljubuški)	System for reporting irregularities in the work of the city administration (anticorruption local public policy) (Tuzla)	Digitalization and e-governance (Kakanj, Novo Sarajevo, Centar Sarajevo, Tešanj – DocuNova)	Adult education center (Prijeđor, Sanski Most), but also projects supported through USAID WHAM.	Localization of the Sustainable Development Goals	Day centers for children and persons with developmental disabilities (Trebinje)
Issuance of the building permit (Kotor Varoš)	The Mayor's Open-Door Day Saturday (Bijeljina)		BFC or ISO Certificate (Žepče, Tešanj, Gradiška, etc.)	Capital investment planning (introduced through USAID GAP)	Playgrounds for preschool children (Rudo)

Besides these externally introduced best practices, in some cases good practices emerged as a result of independent and proactive action of LGUs. Such examples are less frequent than good practices created through external assistance to LGUs, however.

*"As far as I am aware, the Citizen Patrol app was developed by the City Management in cooperation with some students out of a broad need how to get information faster and more easily."*

- FGD with LGUs in the RS

## **Finding 20 - LGUs expressed great interest in transfer and adoption of good practices from other LGUs.**

Participants in three FGDs (LGUs in the FBiH, MZs in the RS, and CSOs in the RS) and two key informants brought up good examples of cooperation in replication of best practices and examples in transferring good practice within BiH. Replicated examples include subsidies for the measures of energy efficiency in public buildings, projects related to social inclusion, and launching reengineering of the procedures.

*"We came up with the idea to pick up positive practices of other LGUs, at that time we did not have either human, technical or financial capacities to establish a center of that particular kind, and they have been the champions in that field for a long time, their development agency, these people deliver all possible kinds of trainings, and, as regards employing adults, difficult-to-employ categories, creative industries, all sorts of things, so we are implementing joint projects with them until we manage to develop a similar outfit here."*

- FGD with LGUs in the FBiH

Nearly everyone expressed willingness to adopt good practices from others. However, some LGUs mentioned lack of sufficient capacity to replicate good practices (i.e., adapt and implement good practices from other LGUs). LGU representatives stated that experiences and practices are not exchanged actively or systematically, particularly because there are neither platforms nor databases for exchanging practices.

*"We also believed that LGUs would not embrace a digital learning platform. And now quite a few of LGUs are using the Zoom platform, which means that, if they need something and see the benefits, they will adopt it alright, soe that everything that works for them, if they see the benefit and if it is presented in the right way, I believe that really has some positive effects."*

- KI

*"The Ministry is represented on a number of good committees, projects... A number of those projects strive to transfer practices and institutional memory to other LGUs, unfortunately, even we in the Ministry are not well capacitated. Say, in my department I am short of staff to cover current business, so it is not possible for us either to, let's say, focus just on those issues, although there are so many problems in LGUs."*

- KI

## **Finding 21 – Proactivity and willingness of LGU leaders and employees is a key precondition for developing and implementing good practices in the provision of services to citizens and the business sector.**

Three FGDs (LGUs in the RS, businesses in the FBiH, and cantonal ministries) and eight key informants highlighted the willingness and resolve of LGUs, as well as competence of the key stakeholders in the LGU, as essential preconditions for generating and replicating good practices. In other words, absence of these traits, and in many case simple lack of awareness of areas for improvement or enhancement, are considered the main reasons some LGUs are lagging behind.

*"Evidently, there are some municipalities that understand the needs of businesses, that try in every way to enhance the business environment in their area, while others have less understanding for such needs for many reasons. I would*



mention first of all certain political reasons, and perhaps the incompetence of the people who run all these processes on the local level.”

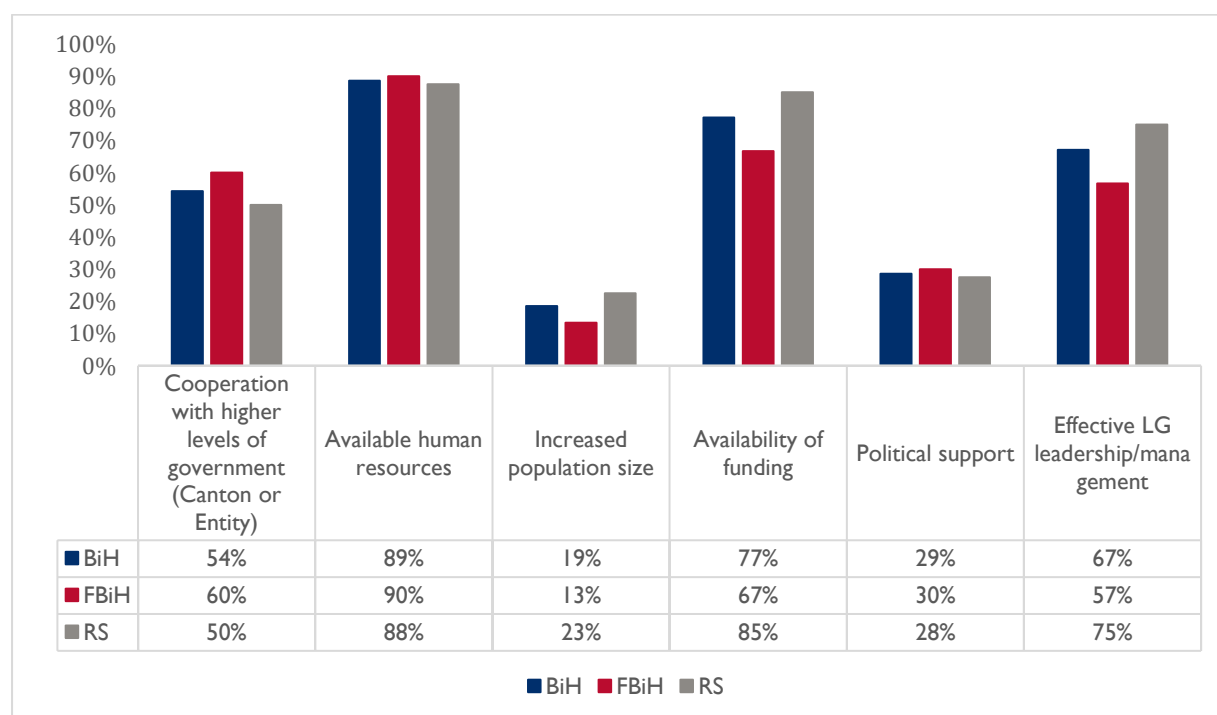
- Participant in the FGD with businesses in the FBiH

“Ultimately, I really believe that this is... Very easily applicable in other municipalities, too, but it still depends on the person running the municipality or the city, whether they want it, they strive for it, and, in the end whether they are even aware that something like that needs to be incorporated into their communities. So, that is my opinion.”

- FDGs with cantonal ministries

Additionally, a large majority of key informants noted that the vision and overall strategy of LGU management and its corresponding leadership, the proactivity of the mayor and the council members, LGU communication and openness, and entrepreneurial mentality and engagement, were all key preconditions for creation of good practices. The same claim is made in the United Nations Development Programme (UNDP) MEG Review report (survey results)<sup>46</sup>: “in most LGUs visited, success stories were attached directly to the mayor – i.e., the central role of the mayor’s attitude in the adoption and implementation of good governance best practices.” According to the LGA Survey results (refer to Exhibit II), the LGUs consider that available human resources (89 percent), availability of funding (77 percent), effective local governance leadership/ management (67 percent), and cooperation with higher levels of the government (canton or entity) (54 percent) are the most important pre-requisites for the delivery of high-quality services. LGUs consider that population size (19 percent) and political support (29 percent) are less important pre-requisites for delivery of high-quality services.

**Exhibit II: LGUs Survey results – LGUs’ views on the most important pre-requisites for the delivery of high-quality service**



The survey findings were also confirmed in the FGDs with representatives of businesses in the FBiH, who stated that examples of good practices in provision of services, and in development generally, were more dynamically developed in the LGUs that do not depend on large industrial systems (e.g., Gračanica, Živinice, Srebrenik, Tešanj). This is where the entrepreneurial spirit thrives.

<sup>46</sup> UNDP Municipal Environmental and Economic Governance (MEG) Project Review report in Bosnia and Herzegovina, 2019, Annex A: Summary of survey results

*"...Was always a municipality without major factories, factories that employed 2,000 people. Traditionally, people there had always had entrepreneurial inclinations, they thought for themselves what to do and how, and how and on what to make money, which consequently forced the administrations in such LGUs to think differently and adapt to the people's needs."*

- FGD with business associations from the FBiH

*"You might be Elon Musk, and still get nowhere with... But, certainly, dedication and determination of the first man in the municipality or the city, it has considerable impact. I mean, that is the main engine that runs all units of the LGU, although, on the other hand, the development of the local infrastructure, unit capacities, there are numerous ancillary factors that affect the effectiveness of a local government unit."*

- KI

## **Finding 22 – At present, best practices are replicated among LGUs only sporadically and unsystematically, even though LGUs expressed great interest in transfer and adoption of good practices from other LGUs.**

Participants in three FGDs (LGUs in the FBiH, MZs in the RS, and CSOs in the RS) and two key informants brought up good examples of cooperation in replication of good practices and of experiences in transferring good practices within BiH. Some of the examples that were replicated included subsidies for the measures of energy efficiency in public buildings, projects related to social inclusion, launch of reengineering of the procedures developed through USAID GAP on the cantonal level, among a few others.

*"We came up with the idea to pick up positive practices of other LGUs, at that time we did not have either human, technical or financial capacities to establish a center of that particular kind, and they have been the champions in that field for a long time, their development agency, these people deliver all possible kinds of trainings, and, as regards employing adults, difficult-to-employ categories, creative industries, all sorts of things, so we are implementing joint projects with them until we manage to develop a similar outfit here."*

- FGD with LGUs in the FBiH

However, some LGUs also mentioned lack of sufficient capacities to replicate good practices (i.e., adapt and implement good practices from other LGUs). LGU representatives stated that experiences and practices are not exchanged actively or systematically, particularly because there are neither platforms nor databases for exchange of good practices. Nearly everyone expressed willingness to adopt good practices from others.

*"We also believed that LGUs would not embrace a digital learning platform. And now quite a few of LGUs are using the Zoom platform, which means that, if they need something and see the benefits, they will adopt it alright, soe that everything that works for them, if they see the benefit and if it is presented in the right way, I believe that really has some positive effects."*

- KI

*"The Ministry is represented on a number of good committees, projects... A number of those projects strive to transfer practices and institutional memory to other LGUs, unfortunately, even we in the Ministry are not well capacitated. Say, in my department I am short of staff to cover current business, so it is not possible for us either to, let's say, focus just on those issues, although there are so many problems in LGUs."*

- KI

## **Finding 23 – Local development agencies are an important source of best practices and offer considerable potential as a mechanism for their transfer.**

In the FGD with development agencies it became evident that local development agencies were direct service providers to LGUs. These agencies provide services and support to LGUs on issues related to digital transformation, exchange of experiences, strategy development, feasibility studies, training projects, project proposal writing, proactive initiatives, and more generally in all aspects of economic and social development and environmental protection. Some agencies also contributed to the

introduction of databases for the promotion of economic potential, delivery of training programs, management of business zones, and establishing the infrastructure for a business incubator.

In the FGD with LGUs in the FBiH, those LGUs that received support from these development agencies assessed their engagement as very intensive, yet rewarding. They perceive local development agencies as engines of change, promoting best practices in advanced LGUs. Development agencies are, effectively, a key part of the LGU ecosystem, because they were established and are funded by LGUs. Although established locally, many agencies had already been providing assistance to other LGUs that lack such capacities. The number of employees in existing agencies varies between four and 20.

*"I follow the work of development agencies... As bodies who concretely cooperate with other municipalities and implement important projects on the local level."*

- FGD with LGUs in the FBiH

#### **Finding 24 – Regional examples of good practices could be replicated in advanced LGUs in BiH.**

Participants in three FGDs (LGUs, MZs, and development agencies) and two key informants pointed out good practices in digitalization and in local governance, most of which are perceived to be in the neighboring countries (Croatia, Serbia, Slovenia). The example of the City of Rijeka (Croatia) was mentioned in the context of the digitalization of the LGU. Concerning more general issues, the good practices of the Serbian Ministry of Administration and Self-Governance were mentioned, particularly during the time of active restrictions imposed because of the COVID-19 pandemic. A key informant stated that his LGU, on its own, sought out the standards that have been adopted by LGUs in Slovenia or in other EU countries to adopt them, and thereby further improve the work of their LGU.

*"...In a conference we heard the example of the City of Rijeka, and they demonstrated to all their good practices and experience in the process of digitalization, how it had been done, creation of teams, examination of all operational processes. They had a strategic approach in the process of introduction of all innovative solutions in the city. So this could be some kind of incentive to start thinking differently, before they start working."*

- KI

*"To transfer some good practices from the EU here, because I am aware that in the EU there is a charter of local governance, that there is an international standard, and other things that we should introduce here through projects, particularly as our people here tend to do the right thing once you thump their ears. This applies to the BFC, seven of nine municipalities is working on obtaining the BFC, not because they discovered on their own that the BFC is good, but because it was a national-level project, because it guaranteed that the municipality's quality would be showcased, etc. So I believe that some such European experiences could be implemented through a project, more broadly, perhaps in the entire BiH, and encompass all these standard elements, these typical issues that come up all the time."*

- FGD with business associations in the RS

#### **Finding 25 – Migration and depopulation constitute difficult challenges, particularly for small LGUs and those located close to BiH's international borders. A proactive approach, including introduction of new solutions at the local level, are required to mitigate the effects of these trends.**

According to participants from four FGDs (CSOs in both entities, MZs, and development agencies) as well as two key informants, young people moving to larger cities or abroad constitute an ever increasing problem of depopulation and migration. The same position is taken in the Report on Consultations of a Joint Commission on Local Government<sup>47</sup>: *"BiH suffers from some country-wide demographic problems that pose a serious challenge to local governments in both entities and that can only be*

<sup>47</sup> LOCAL GOVERNMENT IN BOSNIA AND HERZEGOVINA – Report on Consultations of a Joint Commission on Local Government (funded by EU, SDC, and USAID), 2018

resolved through encouraging a joint/networked approach to economic development and greater cooperation between local governments in the provision of services in the same locality – including, sometimes, across entity boundaries.” Unfortunately, no level of government in BiH so far has addressed this issue in a strategic way.

*“Development is uneven, migrations and emigrations of young people are massive... I feel that it’s mass migrations, that we have no strategic approach to retaining our young people.”*

- KI

*“Large parts of the population are migrating to Western Europe, our villages are emptying, only the elderly are left, alone, abandoned.”*

- FGD with LGUs in the FBiH

Some LGUs developed "local" measures to try and mitigate the consequences of migration and depopulation. Some key informants mentioned demographic incentives—for instance, scholarships, free schoolbooks, preferential scoring of projects if they involve women and young people, and awarding special status to an association for support to families with three or more children. A key informant stated that his LGU intensively works on addressing unemployment; for example, the LGU provides training to the unemployed to care for elderly people whose descendants have already emigrated and are willing to pay for care.

*"In the business support program, the city distributes grants, so in a call for submission of project proposal we accorded preference to young people up to the age of 35 and to women, this year it was the first time we recognized that these two components merit preferential scoring, it was a minor attempt, but an attempt nonetheless..."*

- KI

*"Here, specifically, the mayor is adopting some measures, some demographic incentives, efforts are made to provide scholarships to all students, free schoolbooks are distributed, there are some efforts to retain people."*

- FGD with the OCD in the FBiH

## AQ2 – CONCLUSIONS

Some LGUs have an extensive body of good practices, knowledge, and tools developed over the past two decades, either under the influence of international projects or on their own initiative, and possibly in other ways. However, dissemination and replication of these good practices is uneven, and no active or formalized system to promote the exchange of knowledge, unique experiences, and lessons learned exists. Moreover, it is evident that some LGUs frequently fail to recognize their own practices as good, and thus do not promote them actively to other LGUs and the wider public. As a result, other LGUs are unaware whether and where in the country there are practices that could benefit them.

Furthermore, no strategic approach to many segments of LGU operations, and certainly no systematic replication of good practices from the region or the EU is present. Trainings and workshops are organized sporadically, and often do not target the LGUs that have the best prospects to introduce further improvements based on others' experiences. Within the processes of transferring good practices, it is also necessary to transfer tacit knowledge contained in the procedure and proactivity of managers and employees in advanced LGUs—through innovative capacity-strengthening methods, such as in-country study trips, hands-on trainings, or presentation of good practices across cities and municipalities. Development agencies represent an important resource in facilitating the transfer of good practices between LGUs in BiH, as they have considerable human capacities available, command of the knowledge in many segments of LGU development, and experience working on international projects.

Despite these challenges, it is indisputable that the LGUs in BiH are willing and eager to take part in organized processes of transferring good practices. The most advanced LGUs (those with the greatest contributions to the catalog of good practices) have the greatest potential to absorb and implement new good practices or standards from the region or abroad. On the one hand, they could serve as "models" for less developed LGUs in BiH and assist in transferring these good practices within the country. On the other hand, they could be the target group for participation in regional and international events and trainings, where they might acquire new knowledge and practices that at present do not exist in BiH.

It is of particular interest to note that LGUs have almost no source of information on good practices regarding the provision of utility services, although good practices were identified in the Assessment's talks with stakeholders. In the event that there are no strategies and guidelines from the higher levels of government, LGUs will have to actively work on creating new tools and services to try and mitigate depopulation and emigration. As all LGUs without exception face these challenges, it is necessary for LGUs to work together to identify solutions potentially applicable to LGUs generally.

## **2.3 ASSESSMENT QUESTION THREE**

**How are municipalities generating revenues and how are they using financial resources to address citizens' needs? What are the related challenges and best practices? What effective approaches are scalable to other municipalities?**

**Finding 19 – Revenue allocation and funding of LGUs are determined by rigid formulas established by law.**

Indirect tax revenues are raised at the BiH state level (BiH Indirect Tax Authority) and devolved to the two entities, which then apportion funds to LGUs using different methodologies and following these steps:

- (1) After commitment of resources to the reserve account and for the return of loans, a pre-determined share is set aside for the institutions of BiH.
- (2) Next, 3.55 percent or at least 124 million BAM are set aside for the Brčko District. The remaining amount is then shared between the entities and municipalities (and cantons in the FBiH). The local government level receives the smallest share of revenues of all other levels of government.<sup>48</sup>
- (3) Before the amount of indirect tax-revenues within the entities is divided between the entity budget and municipalities (and cantons in the FBiH), each entity first pays its own external debts, which causes considerable variation in the annual revenues of municipalities (and cantons in the FBiH), because the level of debt service outlays changes every year.
- (4) Around 40 percent of local government revenues are generated from taxes administered at higher levels of government, 10 percent from own revenues (such as property-transfer taxes); the remaining 50 percent take the form of grants and transfers from the higher levels of government and other sources of revenue.<sup>49</sup>

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<sup>49</sup> Local and regional democracy in Bosnia and Herzegovina Committee on the Honouring of Obligations and Commitments by Member States of the European Charter of Local Self-Government (Monitoring Committee) CG37(2019)18 final.

It is important to note, however, that the final apportioning of revenues to individual LGUs also depends on their level of development.<sup>50</sup>

**Finding 20 – LGUs in both entities express dissatisfaction with the level of local revenues, the share of indirect tax revenues, and the repayment of the external debt of the state at the expense of the LGUs. LGUs are also pessimistic about the willingness of the higher levels of government to agree to modify the public revenue allocation system in the foreseeable future.**

All KII and most FGD participants saw the revenue allocation formula in the revenue allocation laws of the FBiH<sup>51</sup> and the RS<sup>52</sup> as the main challenge in the funding of LGUs. This dissatisfaction primarily arises from the allocation of indirect tax revenues,<sup>53</sup> which is perceived to be unfair, not even-handed, and inequitable. The Report on Consultations of a Joint Commission on Local Government<sup>54</sup> also notes widespread dissatisfaction with the vertical allocation of public revenues in the FBiH: “*Insufficient allocation of financial resources for legally assigned competencies is found as the biggest obstacle. As the second biggest issue, local governments across BiH highlight an outdated system of public revenue allocation to local authorities.*” According to three key informants and one FGD, transfer of competencies from higher levels of the government, which is not covered by appropriate vertical allocation of the funds, is also a problem.

*“We concluded long ago that the indirect tax revenue allocation criterion based on the number of secondary school students is essentially a criterion that favors larger cities, urban centers, because there are no secondary schools in at least 50 percent of LGUs.”*

- KI

As presented in Exhibit 12, the results of the online survey indicate that more than 45 percent of all LGUs in the respondent group (51 percent in the FBiH and 40 percent in the RS) are very dissatisfied or dissatisfied with their share of revenues from indirect taxation (value-added tax [VAT]). This is the source of revenue the LGUs are least satisfied with. Additionally, LGUs are also quite dissatisfied with fees and charges that are introduced by special purpose regulations (as compensation for exploitation of natural resources and other local assets) (40 percent) and with transfers from the entity level (35 percent).

<sup>50</sup> According to <https://www.narodnaskupstinars.net/?q=la/akti/odluke/odluka-o-kriterijumima-za-ocjenu-stepena-razvijenosti-jedinica-lokalne-samouprave-u-republici-srpskoj>, there are four levels of development in the RS, while in the FBiH, the Law on Allocation of Public Revenues (FBiH Official Gazette, no. 22/06, 43/08, 22/09, 35/14, and 94/15) sets the following four fundamental criteria for apportioning revenues between LGUs: population size, territory, number of students in primary schools, and level of development.

<sup>51</sup> Law on Allocation of Public Revenues in the FBiH (“Official Gazette” no. 22/06, 43/08, 22/09, 35/14, and 94/15)

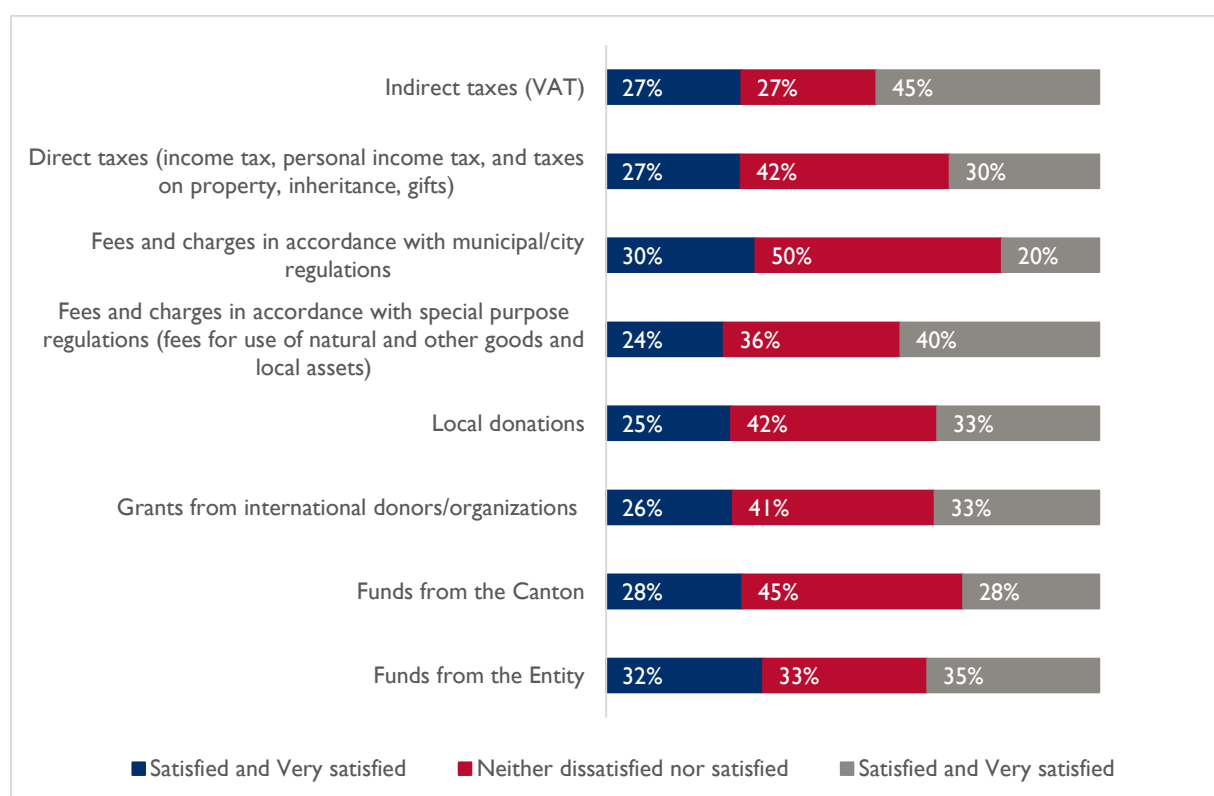
<sup>52</sup> Law on the Budget System of the Republika Srpska (“Official Gazette” no. 121/12, 52/14, 103/15, and 15/16)

<sup>53</sup> In accordance with the RS Law on the Budgetary System, from the indirect tax revenues apportioned to the RS, after setting aside the amount for external debt service, 72 percent is allocated to the RS budget, 24 percent to the budgets of LGUs, and 4 percent to the ‘Putevi Republike Srpske’ Public Enterprise (road infrastructure). The municipalities’ share of indirect tax revenues is then apportioned according to the following formula: 75 percent by population size, 15 percent by surface area, 10 percent for students in secondary schools. The structure of funding in the FBiH is also complex and to a considerable extent determined by higher levels of government. After setting aside the amount required to cover external debt service for the given year, 36.2 percent of the remaining revenues are allocated to the FBiH budget, 51.23 percent to cantonal budgets, 8.42 percent to the budgets of LGUs, 0.25 percent to the City of Sarajevo, and 3.9 percent to the Roads Directorate.

<sup>54</sup> Report on Consultations of a Joint Commission (JC) on Local Government - supported by the European Union Special Representative (EUSR) in BiH, the Swiss Embassy in BiH and USAID) on Local Government, Local Government Initiative, funded by the EU in Bosnia and Herzegovina, June 2018

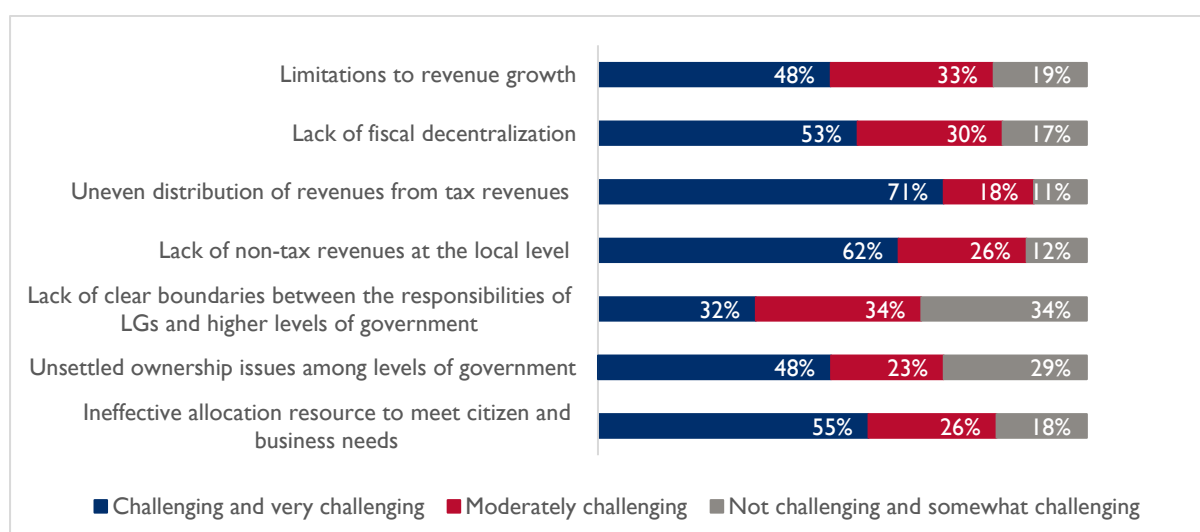


## Exhibit 12: LGU satisfaction with the share of revenues received from different sources



When asked to identify the most challenging factors in terms of revenue generation, according to the LGA Survey results presented in Exhibit 13 below, 71 percent of LGUs at the BiH level in the respondent group (78 percent in the FBiH and 64 percent in the RS), consider that uneven allocation of tax revenues the most challenging factor in funding LGUs in BiH. Lack of non-tax revenues was identified as the second biggest obstacle for BiH LGUs (62 percent), followed by ineffective allocation of resources to meet the needs of citizens and businesses (55 percent), and lack of fiscal decentralization (53 percent). Other challenges include limitations to revenue growth (48 percent of LGUs), unresolved property issues between the levels of government (48 percent) and lack of clear boundaries between the competencies of LGUs and higher levels of government (32 percent).

## Exhibit 13: The most challenging factors in funding LGUs on the BiH level



In addition, two key informants and participants in the FGD with development agencies expressed their dissatisfaction that the portion of revenues earmarked for external debt service is set aside prior to applying the revenue allocation formula. In fact, as pointed out by the participants, BiH external debt precedes the application of the formula and rates<sup>55</sup> for the entities and LGUs. Even the LGUs do not directly participate in the borrowing by the entities or BiH; they repay this debt without enjoying the benefits of the loans taken out by the higher levels of government.

*"The Law on Public Revenue Allocation is a sore spot for LGUs, I am sure that you saw the analysis we did recently, a couple of years ago, an analysis of this law and what LGUs need, in the Law on Public Revenue Allocation. And, certainly, the other sore spot is the external debt service. This is something that our Association has been working on for years, because the issue is that LGUs are servicing the debt they had not incurred."*

- KI

LGUs are aware that higher levels of government are not willing to discuss reallocation of revenues or external debt service arrangements. Participants in the FGD with LGUs and 12 key informants recognized this state of affairs. They also see that it is next to impossible to prevail on the higher levels of government to agree to changes in the allocation of revenues or the system of fiscal decentralization.<sup>56</sup> Various initiatives for amending relevant laws were mentioned by two key informants—for instance in the RS, where the LGUs, with the support of their association, drafted a proposal for amendments to the Law on the Budget System in the part that governs the allocation of revenues between the RS Government and LGUs. However, the prospects of such initiatives ought to be evaluated on the basis of past experience, which leaves little hope for success. The entity associations of municipalities and cities had been at the forefront of these efforts, trying to effect changes in this matter in the past; but no concrete results have materialized.

*"Fiscal decentralization and higher levels of government ceding (revenues) to lower levels are utopian ideas."*

- Participant of the FGD with MZs

*"The first thing that might help us a great deal in local development would be fiscal decentralization. But I feel that it is utopian thinking. The authorities on the level of the Republic (of Srpska) have absolutely no inclination to do anything like that, instead they are striving to centralize power as much as possible"*

- KI

## **Finding 21 – Financial stability of some LGUs is further jeopardized by overstaffing and the negative impacts of the COVID-19 pandemic.**

According to official data, 65 LGUs in BiH (35 and 30 in the RS and the FBiH, respectively) belong to the underdeveloped or extremely underdeveloped categories.<sup>57</sup> Despite a degree of support from the higher levels of government, six key informants and participants in two FGDs (LGUs in the RS and

<sup>55</sup> External debt service in BiH is regulated by the Law on Indirect Taxation System in BiH ("BiH Official Gazette," no. 44/03, 52/04, 34/07, 4/08, 49/09 i 32/13), which contains the following stipulation: "... deduct the amount needed to service external debt obligations from the share of the FBiH and RS and pay this amount directly into the state budget."

<sup>56</sup> The level of fiscal decentralization is defined as the LG ability to determine tax rates and tax bases without external influence (such as higher levels of the government), to independently determine how to spend such revenues, as well as the ability to provide high-quality services to their citizens.

<sup>57</sup> In RS (at its 47th session in Banja Luka, the Government of the Republika Srpska passed a Decision on the Level of Development of LGUs in the RS for 2020), a total of 15 LGUs belong to Group 3) Underdeveloped LGUs: Bratunac, Višegrad, Vlasenica, Donji Žabar, Kostajnica, Ljubinje, Nevesinje, Novi Grad, Petrovac, Petrovo, Ribnik, Rogatica, Han Pijesak, Šamac and Šipovo; and group 4) Extremely underdeveloped LGUs are: Berkovići, Vukosavlje, Istočni Drvar, Istočni Mostar, Istočni Stari Grad, Jezero, Kalinovik, Kneževio, Krupa na Uni, Kupres, Lopare, Novo Goražde, Osmaci, Oštra Luka, Pelagićevo, Rudo, Srebrenica, Trnovo, Čajniče, and Šekovići. In the FBiH (according to <https://fzpr.gov.ba/files/Socioekonomski%20pokazatelji%20po%20op%C4%87inama/Socioekonomski%20pokazatelji%202019.pdf>), a total of 30 LGUs belong to Group 5 (extremely underdeveloped municipalities): Vareš, Foča, Ključ, Domaljevac-Šamac, Bužim, Ravno, Glamoč, Drvar, Teočak, Čelić, Pale, Sapna, Bosansko Grahovo, Dobretići and Group 4 (underdeveloped municipalities) includes: Fojnica, Jajce, Stolac, Zavidovići, Gornji Vakuf-Uskoplje, Kalesija, Olovo, Tomislavgrad, Bosanska Krupa, Kladanj, Odžak, Velika Kladuša, City of Cazin, Bosanski Petrovac, Sanski Most, and Prozor.



development agencies) listed excessive levels of legacy employees and inherited loan obligations as the basic reasons for financial problems in small LGUs. A key informant noted that a number of underdeveloped LGUs believe their extremely poor financial position (e.g., some LGUs are facing bankruptcy) jeopardize the very existence of those LGUs. In addition to these relatively persistent problems, the onset of the COVID-19 pandemic caused other complications. In fact, some participants pointed out that the pandemic reduced local budget revenues—as a result of lower tax collection, reduced business activity, reduced tourism activities, and generally lower turnover.

*“The new mayor inherited a simply unbelievable number of staff and employees in the municipality... Which are a burden on the revenue side, they carry some 7.5 million (BAM) in just short-term loans... I believe that the long-term debt of the municipality is around 15 million BAM.”*

- KI

*“Now, at the time of the pandemic, tax collection is lower, business activity is reduced, contribution payments in the City as well, the situation is same here as in all the world. In addition, we had inherited from the previous period an enormous loan which, in brief, simply has to be repaid.”*

- KI

## **Finding 22 – Opportunities for sourcing additional donor funds and/or loans exist, but stakeholders feel that LGUs have limited capacities to prepare applications for such projects.**

Participants in six FGDs (LGUs and MZs in both entities, development agencies, and NGOs) and five key informants believe there are good examples in which LGUs generate considerable funds from international projects and donors, which can be used to address the needs of citizens and businesses. They also consider such sources of funding to be of primary importance for the general development of LGUs. However, advanced LGUs are far more proactive in applying for such funding than underdeveloped municipalities, further contributing to the disparity among LGUs.

*“... This is something where we could provide an example how to attract considerable donor funding, as in the past four years our LGU attracted 56 million (BAM) of donor funds, it is a lot.”*

- KI with a LGU in the RS

*“In the coming period as well, we in our administrative services and particularly in the department for local economic development naturally strive to access considerable funding from the EU and other funds, here I am talking primarily about external sources, and here I see a great opportunity, the only opportunity. Our budget is small, it is overburdened by debt, and it will take some time until it will be able to include support for development.”*

- FGD with LGUs in the RS

Participants in three FGDs (LGUs, NGOs, and businesses in the RS) and four key informants find that capacities for attracting international projects on the LGU level are inadequate, particularly in human and financial resources. In terms of human resource capacity, participants pointed out the lack of capabilities, knowledge, and experience of employees in the application preparation processes (e.g., for writing project proposals, data collection and analysis, reporting, and dissemination) for international projects (such as the EU, World Bank Group, European Bank for Reconstruction and Development, and others), loan application processes, and issuance of municipal bonds. The lack of capacity in LGUs to provide co-funding, when this is required in the project application stage, constitutes another financial problem.

*“I also believe that it is necessary to strengthen the capacity of city employees for project proposal writing for accessing EU funds.”*

- FGD with LGUs in the FBiH

In terms of financial capacities, participants in three FGDs (LGUs in both entities and development agencies) and five key informants noted very considerable disparities in the size of budgets of large cities in comparison with small and medium LGUs. This indicates that securing funds for project co-funding purposes generally is not a problem in larger LGUs. However, for small and medium LGUs, a co-funding requirement often poses an insurmountable problem. In other words, stakeholders really feel the lack of a mechanism for co-funding LGUs' share in projects that require partial and sometimes quite high co-funding shares.

*"Next year we expect that the RS Government will set up a revolving fund for co- and pre-funding of LGU projects from EU programs and funds."*

- KI

*"I believe that the higher levels of government, say, the ministries on higher levels, should also co-fund certain projects, even if they are not the ones asking for project proposals but, say, if we apply to an IPA fund, they should support such kinds of projects in some degree, they should co-fund them."*

- FGD with LGUs in the FBiH

In addition to the aforementioned challenges associated with human and financial resources, as stated by one key informant, there are also challenges in the discrepancy between what LGUs would like to apply for, what they need (e.g., infrastructure projects), and the available donor projects. Donor projects are often oriented towards more sophisticated improvements (e.g., in the sector of advanced environmental upgrades). But another key informant stated that projects related to "Sustainable Development Goals"<sup>58</sup> in BiH or joint applications by multiple LGUs are important areas of opportunity for attracting funding in the future. In fact, according to the UNDP MEG Review report (survey results),<sup>59</sup> LGUs in the RS almost unanimously agree that it would be a good idea to give priority to grant applications submitted jointly by two or more LGUs. In the FBiH, nine out of ten LGUs support this idea.

### **Finding 23 – Improvement can be made in identification, registration, and generation of revenues from assets or properties owned or managed by LGUs.**

Participants in three FGDs (LGUs in both entities and businesses in the RS) and eight key informants agreed that improvements can be made in the identification and creation of databases, and management of LGUs' own property. A key informant pointed out that it is essential for LGUs to know what they have at their disposal, with the information on land available to the LGU being of particular importance. The reason is that land represents the basis for investment and construction, which bring LGUs both direct and indirect financial benefits (e.g., additional revenues from construction taxes, as well as employment and expansion of the economic potential of the given LGU). The key informant emphasized that amendments to the existing regulations governing management and exploitation rights of certain categories of public assets will be necessary. These regulations, which are in principle at the disposal of LGUs, prevent LGUs from utilizing such assets to raise additional revenues for LGUs. According to the LGA Survey results, more than 61 percent of LGUs consider unsettled property issues among levels of government as a moderately to very challenging factor in the funding system of LGUs in BiH (see Exhibit 13 above).

*"LGUs don't know what they have, when such information is needed, I mean, we mentioned this business zone, I was in a working group in connection with that, we were working on it and then it took time to determine whether a given plot of land is municipal property or not, I mean, it should be available by a few clicks on a computer."*

- FGD with businesses in the RS

<sup>58</sup> <https://zamisli2030.ba/bs/okvir-ciljeva-odrzivog-razvoja-u-bih/>

<sup>59</sup> UNDP Municipal Environmental and Economic Governance (MEG) Project Review report in Bosnia and Herzegovina, 2019, Annex A: Summary of survey results

*"I agree with my colleagues in connection with the issue of property management, regardless of the size of the LGU, developed or underdeveloped, [this function] is in its initial stages for all of us and here we really have a great need for assistance."*

- FGD with LGUs in the RS

The Main Audit Office of the Public Sector of RS conducted a performance audit of "Real Estate Management in Local Self-Government Units"<sup>60</sup> in 2020. The report stated: *"The findings, based on relevant, reliable and sufficient audit evidence, show that: LG units do not provide all the necessary prerequisites for efficient real estate management."* The report also found that LGUs have no appropriate regulatory and organizational framework, one of the preconditions for the efficient real estate management. Also, LGUs do not have established records, databases, or property registers with relevant, complete, and reliable data and information for use in property management.

In the context of registration and collecting revenues from available assets, other natural resources are also important. According to the LGA Survey results presented in Exhibit 12 above, 40 percent of LGUs are dissatisfied with the revenues from fees and charges that come from natural resources. This is also confirmed in the Report on Consultations of a Joint Commission on Local Government: *"There is widespread disagreement in both entities<sup>61</sup> about which level of government should benefit from the use of natural resources and how revenues should be divided."*

**Finding 24 – LGUs perceive the potential of a PPP as a model for financing local initiatives, but they find lack of knowledge, capacities, and exchange of good practices to be the main challenges in implementation of such initiatives.**

Participants in two FGDs (businesses in the FBiH and cantonal ministries) and two key informants are generally aware that there are laws regulating PPPs, but that the experiences of successful implementation are either quite limited or non-existent. They also admitted they have little information about this financing model. Among challenges for implementation of the model, they brought up, for example, lack of investor confidence in the reliability of the PPP model and of confidence in any long-term relationships with the LGU. Both examples can be attributed, at least in part, to insufficient awareness of the model's benefits. Participants knew more about negative PPP examples (e.g., construction of sports halls in Croatia), which also contributed to their perceived notions that PPPs are a questionable form of activity (prone to corruption) rather than something that can supplement funding of certain activities under LGU jurisdiction.

*"To begin with, if you even just Google public-private partnerships in the RS, you will learn that the number of PPP projects is in effect negligible."*

- KI

*"The public-private partnership is a mechanism that is, unfortunately, not at all used in this country, and I believe that the main cause is, to put it this way, a certain lack of confidence, as well as the long-term relationship the mechanism requires."*

- FGD with businesses in the RS

*"Overall, I believe that public-private ownerships are welcome."*

- FGD with representatives of businesses in the FBiH

Although no general consensus about the level of success of the PPP model, some LGUs cited their own examples as satisfactory, mentioning projects in waste management, street lighting, or district

<sup>60</sup> Republika Srpska Public Sector Audit Office 6 RU 003-20 Performance Audit Report "Real Estate Management in Local Self-Government Units", available at [https://www.gsr-rs.org/static/uploads/report\\_attachments/2021/08/23/RU003-20\\_Lat.pdf](https://www.gsr-rs.org/static/uploads/report_attachments/2021/08/23/RU003-20_Lat.pdf)

<sup>61</sup> Report on Consultations of a Joint Commission (A Joint Commission (JC) on Local Government - supported by the European Union Special Representative (EUSR) in BiH, the Swiss Embassy in BiH and USAID) on Local Government, Local Government Initiative, funded by the EU in Bosnia and Herzegovina

heating (and a follow-on PPP initiative for introduction of “distance heating”). LGUs with good practices with respect to PPP note that success of a PPP initiative primarily depends on the type of contract that is signed. In some cases, certain projects were not done in accordance with the Law on PPPs but using other legal mechanisms. Nevertheless, even using regular contracts as a vehicle, such projects achieved the objective of improving utility services for citizens in situations when the LGU could not afford to fund these services itself (e.g., solid waste removal in rural areas of the City of Ljubuški in partnership with a private company). These lessons learned should be utilized for replication in other LGUs.

Despite all the issues discussed above, all participants in the FGDs and key informants hold a generally positive view of introducing the PPP model.

*“... Private ownership, I am aware of a few positive examples of public-private ownerships, for instance in the West Herzegovina Canton, which is territorially close by, so I am aware of [those examples].”*

– FGD with cantonal ministries in the FBiH

The KII and FGD findings agree with the USAID MEASURE II Diaspora Assessment report<sup>62</sup>: “Most large-scale PPP projects have been implemented in the RS, in the health and energy sectors,<sup>63</sup> whereas very few PPP projects have been completed at the FBiH level. Some PPP projects have been signed at the city/municipality levels, such as construction of the Aquana Aquapark and city Heating System (Banja Luka), construction of Andrić grad (Višegrad), district heating and air purification services (Gračanica), district heating services (Bijeljina), garbage collection and disposal services (Posušje), planting an orchard (Lopare), city heating System (Gradiška) and a few others. According to the same source, three main risks defined for PPPs in BiH were corruption, transparency, and institutional capacity.”<sup>64</sup>

## **Finding 25 – Taking stock and registration of private property may contribute to increasing LGU revenues.**

Participants in two FGDs (LGUs and businesses in the RS) and five key informants mentioned the potential of increasing revenues through improvements in identification and registration of private properties in the RS. In fact, the RS Law on Real Estate grants LGUs a share of the RS property tax. The problem is that owners neither report all their properties, nor are there reliable registers of all properties on the territory of individual LGUs in the RS. Most key informants believe LGUs lack the capacity to take stock of properties and their owners, and view this issue as closely connected with the digitalization of cadastres and spatial planning (development of regulatory and spatial plans). This means that information needed for management of properties is typically not available; and even if it is, very often it is not detailed enough for use; and the process of its harmonization with LGU cadastres and property records would require the extremely extensive task of visiting, listing, and registering all properties.

*“...To my knowledge, the law transferred the responsibility to take stock and register unregistered properties to LGUs. I sincerely doubt that any LGU has sufficient capacity to take stock of all properties, and I am certain that there are great reservations with regard to this activity, that many people failed to register their properties, that they are evading to pay this tax.”*

– KI

<sup>62</sup> USAID Monitoring and Evaluation Support Activity (MEASURE II), Diaspora Assessment, September 2021, pp. 20-21

<sup>63</sup> N. Sijerčić, A. Dugum, 2018. Public Private Partnership Projects in Bosnia and Herzegovina. CEE Legal Matters Magazine, Issue 5.3.

<sup>64</sup> Skramoncin, A. 2017. Analysis on Public-Private Partnership Bosnia and Herzegovina. Balkan Monitoring Public Finances. <http://wings-of-hope.ba/wp-content/uploads/2016/12/D3.4.4.1.-Analysis-on-Public-Private-Partnerships-Bosnia-and-Herzegovina.pdf>

*“This is a significant source of revenues for all LGUs and objectively a modality and a mechanism should be found so LGUs would contribute to broadening the base of payers of the property tax, because that revenue belongs to us 100 percent.”*

- KI

### **Finding 26 - Financial management improvements, i.e., the management of revenues and expenditures, are needed.**

Participants in two FGDs (Cantonal Ministries, and NGOs in the RS) and four key informants perceive lack of revenues in comparison to estimation of sources of funding as a challenge. In such situations, most underdeveloped LGUs are forced to use grants from higher levels of government to address some of the needs of citizens and entrepreneurs. In this regard, examples of unrealistic planning of revenues and expenditures in LGUs abound, particularly from external sources of funding. In such circumstances, underdeveloped and extremely underdeveloped municipalities that lack internal funds, particularly in the RS, can only access the limited budget funds earmarked for underdeveloped LGUs. In the view of LGUs, these grants are neither adequate nor sustainable instruments of funding to address the needs of citizens and businesses and cannot replace sound financial planning.

*“Small, underdeveloped municipalities should not be supported solely by grants and transfers from the Government to municipalities and cities, because we believe this to be the most primitive modality of financial support to municipalities and cities, as they use such grants only to ensure their own current liquidity...”*

- KI

Participants from two FGDs (LGUs in both entities) and two key informants indicated that their original revenues (such as local charges, fees, income tax, and above-mentioned property taxes) account for the most important portion of their budgets, which is even more pronounced for smaller LGUs. Moreover, participants in the FGD with LGUs in the FBiH and one KII noted considerable room to improve their own financial management, highlighting the potential to upgrade their resource management and revenue collection processes (including the collection of revenues that LGUs conduct by law). FGD and KII participants also believe there is potential to support this process by introducing certain IT technologies.

For the purpose of increasing LGUs' own revenues, two key informants believe that networking and digitalization represent the basic factors for better management of local finances. For instance, one stated that they operated three different databases in their finance department, each serving its own purpose (one database for the sale of properties, another for charges related to property ownership, and the third for financial/budget management). But these databases are not linked by a single system, nor do they communicate with one another; thus, the data is not easily accessible.

*“As regards own revenues of LGUs, which they collect themselves, they were on the rise in the past ten or so years, so we can say that the lower revenues from indirect taxes were, in part, replaced by LGUs' own increasing revenues...”*

- FGD with LGUs in the FBiH

### **Finding 27 – LGUs noted positive examples of internal action to increase revenue, mainly through business sector incentives.**

In the words of participants in three FGDs (development agencies and business associations in both entities) and one KII, increasing own revenues is directly linked with incentives to businesses to increase own revenues. During the FGDs, certain good practices were mentioned that caused LGU own revenues to increase. One such example was related to the Banovići Municipality, which passed decisions to abolish or lower fees and charges and, by abolishing charges for public parking, stimulated increased revenue inflow to the local budget from original revenues resulting from entrepreneurial initiatives and employment on the local level. Good practices in expanding the base of payers subject to

the utility charge and creating conditions for new users, with the aim to increase the number of users and thereby also increase revenue, were also identified in LGUs. In addition, some participants suggested continuous communication and arrangements with debtors (reprogramming) to avoid claims becoming subject to the statute of limitations, grounds for lawsuits, and ultimately uncollectable.

*"We wanted to be one of the first municipalities in the Tuzla Canton to have lowest fees and thereby become more attractive to investors. We conducted an analysis of public enterprises and an analysis of their services, as well as an analysis of their decisions regarding water distribution and utility services. We also gradually started to revisit certain decisions that went back 10 or 15 years and that are no longer relevant, not adjusted to the current state of affairs and need to be changed..."*

- FGD with LGUs in the FBiH

*"I believe that firms, and particularly startups, have difficulties surviving because of all parafiscal charges they are required to pay, and taxes and contributions. I think that it would not a mistake if the municipalities where they are registered shared the cost of co-funding some of these levies, at least for a certain period."*

- KI

*"With this analysis we demonstrated that abolition of parafiscal charges brought us rising tax revenues from new employment and other new developments there. Later we started incrementally to implement some other things, however, this effort regarding borrowing at the level of the Federation, and the inflow of these funds delayed this entire process."*

- KI

### AQ3 – CONCLUSIONS

No stakeholder at any level, including LGUs, is satisfied with the allocation of indirect tax revenues. The probability that meaningful change in the foreseeable future will occur is slim to none. Furthermore, is it unrealistic to expect any changes in light of political disputes that have dominated recent political life in BiH.

Many LGUs face the challenge of overstaffing, which can only be addressed indirectly by mapping work processes, promoting digitalization, and reassigning personnel. Issues related to the consequences of COVID-19 may be addressed through transfer of good practices in dealing with the COVID-19 situation from other LGUs.

In terms of the transfer of good practices and of involving development agencies in these processes, it might be possible to include development of LGU capacities for preparation and implementation of donor projects. In addition, in the same context, it may be possible to include transfer of good practices in boosting own revenues, as well as in creation of favorable preconditions for increasing economic activity in LGUs.

Improvements in property management in LGUs are necessary, particularly with regard to identification, registration, and management of LGU property (primarily land). In the context of the efforts to introduce digitalization (and map software solutions that exist and are in use), special attention should be paid to mapping property and financial management software in LGUs. Further activities on improving property management may include some of the recommendations provided by the RS Supreme Audit Institution presented in the performance audit report "Real Estate Management in Local Self-Government Units."

With reference to PPPs, all stakeholders agreed that the potential PPP is great and that they would gladly embrace this model; but since all equally recognize numerous challenges (including a presumption of potential room for corruption) in implementing current legislative solutions, this potential remains underutilized. As USAID/BiH intends to use the new Activity about the BiH diaspora, there is potential



for cooperation between the new Local Governance Activity and the new Diaspora Invest Activity on introducing PPPs and involving the diaspora in them.

While room for increasing LGU revenues through taking stock and registering private property exists, this task requires enormous resources and is not suitable for donor funding, except perhaps in the form of a pilot project.

## 2.4 CROSS CUTTING: USAID'S EXISTING INTERVENTIONS AT THE LG LEVEL

In addition to answering the assessment questions, during the literature review and data analysis phases, the Assessment Team identified several former USAID Activities that engaged at the local level, but whose focus was not explicitly to improve local governance, that the Assessment Team feel is worth noting for potential lesson learned purposes. Specifically, the Assessment Team suggests that these disparate interventions could be more closely coordinated for greater visibility and stronger, more sustainable impact. The following local-level interventions have been identified through the literature review and from the information generally known to MEASURE II through its regular MEL assistance to USAID/BiH's ongoing Activities; and many have been recognized by the KII and FGD participants interviewed in the Assessment data collection process.

The USAID/BIH recently launched its two flag-ship projects, USAID/BiH E-Governance Activity and Turizam Activity. The E-Governance Activity addresses inefficiencies in the construction permitting process, by introducing an e-Construction Permits Management System to stimulate investment activity in BiH. The new system will be introduced as a pilot project in five LGUs: Bijeljina, Prijedor, Teslić, Tešanj, and Novo Sarajevo. The Turizam Activity promotes tourism-driven economic growth and supports recovery of the BiH tourism sector from the consequences of the COVID-19 pandemic. Turizam works with LGUs because of their competencies in regulation and development of tourism, management of tourist offices, and expansion and preservation of protected areas. Moreover, USAID/BIH is considering implementing a follow-on Activity that would include assistance to LGUs to attract and engage with diaspora members from their local communities.

*"We certainly have heard of Turizam. ... All in all, some LGUs certainly need local tourism offices, and perhaps a joint website that would present the [tourist] offer wouldn't be a bad idea..."*

- Participant in the FGD with businesses in FBiH

Part of the INSPIRE Activity's mandate is to build the capacity and commitment of 20 LGUs to foster sustainable formal employment opportunities for women and members of vulnerable groups. As part of its focus on the reconciliation process, PRO-Future II assists LGUs in adopting action plans for implementation of the Platform for Peace, with 33 municipal councils having already adopted their action plans. The Local Works programming, introduced in 2020 by USAID/BiH, focuses on local policy development, community leadership, participatory decision-making, and building connections between local-level authorities, key stakeholders, and citizens. Two Local Works activities—LW Together for Local Development and LW Our Community Our Responsibility—assist 20 LGUs in Tuzla, West-Herzegovina, and Canton 10 with improving their communications and cooperation with citizens and support greater involvement of citizens in development decisions.

Finally, USAID's ACFC supports citizens' anti-corruption activism in the entire country, with the intention to put the focus on the local community level and empower citizens with tools and mechanisms to engage more actively in the fight against corruption. FPA II, the follow-on to the Fiscal Sector Reform Activity (which closed in 2020), will work on reforming the system of parafiscal fees and charges, with potential for considerable impact on LGU revenues.

## 2.5 CROSS CUTTING: GENDER MAINSTREAMING AT THE LG LEVEL

Even though gender mainstreaming and gender perspectives were not listed among the Assessment questions, this section encapsulates valuable gender-related insights that emerged during the Assessment data collection process.

The local elections in 2020 did not improve the local political representation of women: only five out of 136 directly elected mayors are women, plus the indirectly elected mayor of the City of Sarajevo.<sup>65</sup> Of 2,417 municipal lists, only 450 (19%) were headed by women. As in the past, Assessment findings reveal that gender inequality persists both in service provision and in the level of citizen participation in LGUs, as most LGUs lack mandatory regulations on gender representation. According to the Overview of Gender Responsible Policies in BiH,<sup>66</sup> and confirmed through the FGDs, very few LGUs have adopted appropriate regulations and documents that arise from the BiH Law on Gender Equality (e.g., local gender action plans); and even when such a document exists, the level of implementation is generally low.

From the statements of the representatives of LGUs noted during KIs, it is clear that civil servants have been sensitized to gender issues, but very few LGUs address these issues in a systematic manner. According to the LGA Survey results, of the LGUs that conduct surveys (67% of all respondents), only 50 percent of them (on the BiH level) disaggregate data by respondents' age and gender. This is particularly characteristic of the RS, where only 20 percent of LGUs process these data (not shown). Gender-sensitive budgeting or other methods of creating conditions for equality and equity for all on the local level are even less used. In general, the need to promote gender equality through more systematic and results-oriented efforts remains.

As noted by the BiH Transparency International, regulations that guarantee gender equality in BiH have been aligned with the European standards to a considerable extent, but nothing has been done to ensure their practical implementation.<sup>67</sup> The FGDs with LGUs revealed examples that some LGUs plan and implement positive steps in reducing inequality, such as awarding additional points to women-owned startups in scoring applications for municipality subsidies in Banovići, Bijeljina, or Gradiška; but these examples are exceptions rather than the rule.

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<sup>65</sup> Accompanying the document "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions", 2021 Communication on EU Enlargement Policy, published on October 19<sup>th</sup>, 2021, SWD(2021) 291 final

<sup>66</sup> Overview of Gender Responsible Policies in BiH, Academy for Women and European Endowment of Democracy, October 220, Available at [https://afw.ba/wp-content/uploads/2020/11/Prikazi-rodno-odgovornih-politika-na-razlicitim-nivoima-vlasti-u-BiH\\_za-web.pdf](https://afw.ba/wp-content/uploads/2020/11/Prikazi-rodno-odgovornih-politika-na-razlicitim-nivoima-vlasti-u-BiH_za-web.pdf)

<sup>67</sup> Transparency International, BiH EU Integration Process: Fourteen Priorities from the Opinion of the European Commission: Two Years later, May 2021, p. 15.



### 3 RECOMMENDATIONS

Taking all findings and conclusions into consideration, the Assessment Team provides the following recommendations for USAID/BiH:

**USAID should allow flexible design/interventions for the new LG Activity to be able to meet the needs of both advanced and less advanced LGUs:**

1. The design of the new LG activity should allow flexibility to offer various kinds and different levels of technical assistance that can meet the diverse needs of LGUs, from the developed to the underdeveloped municipalities. The new Activity should be designed to offer technical assistance that would be attractive and beneficial for all or the majority of LGUs yet explore a self-selection process providing access to the new LG Activity interventions for those LGUs that expressed interest in participation.

**USAID should engage in the transfer of best practices among LGUs, including the transfer of best practices from developed to underdeveloped LGUs; and target the developed ones for adoption and implementation of regional/international best practices and standards:**

2. The new LG Activity should establish a detailed inventory of best practices, knowledge, and tools (through questionnaires, online interviews, and site visits or observations) that currently exist in LGUs. These best practices should be evaluated for their replicability over the life of the new LG Activity. Best practices deemed replicable should be categorized and catalogued, and the choice of items from the catalogue should be offered to all LGUs in BiH. The transfer of best practices should include transfer of tacit knowledge related to progressive management in LGUs. The new LG Activity should conceive the best ways to offer technical and material assistance in implementation to LGUs in BiH that choose to implement offered and selected good practices. A mechanism for transferring best practices should be implemented in cooperation with the entity associations of municipalities and cities and development agencies to ensure sustainability and continuity of the process beyond the life of the Activity (see Recommendation no. 14).

The most developed LGUs (those with greatest contributions to the catalog of good practices) should be the target group for participation in regional and international events and trainings where they might acquire new knowledge and practices that at present do not exist in BiH.

**USAID should assist in streamlining administrative procedures in LGUs, including initial mapping of jurisdictions between different levels of governance, steps in administrative procedures, utilization of human resources, the collection of fees, and redesigning procedures to shorten service delivery times:**

3. The new LG Activity should attract and involve relevant stakeholders into competence mapping exercises (particularly for relations between municipalities, cities, and cantons in the FBiH), business processes connected with these competences, costs of mapped services, and related utilization of human resources/labor on implementation of these business processes.
4. The mapping exercise from Point 3 above will indicate in which direction the Activity needs to take the next steps on rationalization of administrative procedures, enhancement of the exchange of information and obtaining of documents between different levels of government, harmonization of the costs of services provided by LGUs, improving LGU revenues, and ultimately, identifying where excess workforce in LGUs is concentrated, and where there are “bottlenecks” that can be mitigated by reassigning employees on the basis of this mapping. The

aggregate effect of these interventions will result in shortening procedures over the life of the new LG Activity.

5. The mapping exercise from Point 3 above will also create preconditions for enhancement in subsequent digitalization processes (from Points 6–9), as well as for possible engagement of the Activity in drafting the amendments to the Law on Local Self-Government and development of the Law on Local Government Revenues.

**USAID should work with stakeholders on a strategic approach to use IT systems, develop new systems to meet existing needs, transfer available applications, and in particular, to address IT security issues related to the introduction and use of IT systems in LGUs:**

6. The assessment team recommends the donation of the DocuNova IT system and needed hardware to those LGs that want it on the condition that USAID has access to the system on more favorable terms and delivers adequate training at the point of implementation. In case donating software and hardware will not be included among the types of assistance the new LG Activity will provide, it is recommended that the new LG Activity have strong internal technical capacity in strategic planning, development, and maintenance of IT systems. That capacity should be used to provide technical assistance in creating a strategic approach for standardization in use of IT systems in BiH's LGUs, in coordination with other stakeholders. That capacity should be also used to support the implementation of best practices related to introduction of online applications.
7. The new LG Activity should work on improvement of operational processes and of IT systems even without adoption of the Law on E-Signature. For example, abolishing the need to keep manual entry logs and registers which releases the employees who currently work on these tasks to be employed where needed or allowing online access of users to their entire case file using access codes to be generated at the time of the initial submission, as well as others that emerge as feasible in the analysis of business processes. These interventions should be combined with activities mentioned in Point 4.
8. In the context of all above mentioned issues related to digitalization, efforts should be made, to the extent possible, to link LGUs and higher levels of government for exchange of information and for obtaining certificates, permits, and evidentiary documents. This would accelerate issuance processes and facilitate investment, as well as general services for citizens.
9. LGUs that already use an IT system of some kind (DocuNova, DMS, or another) should receive technical assistance for security systems that will ensure continuity of digitalized operations—including advice on standards for constructing server rooms in line with security standards, backups of server and communications systems, onsite and off-site backups of databases, preparation of business continuity and contingency plans, as well as offering trainings on these topics.

**USAID should engage in the promotion and pilot implementation of PPP and improvements in LGUs' property management as means for improving LGU revenues:**

10. When designing the criteria to select the implementation partner for the new LG Activity, one criterion should be demonstrable experience of the implementing partner (IP) in the implementation of PPP activities in a country characterized by similar challenges and legal framework as BiH. This will make it possible for the IP to provide proposals to strengthen the legal solutions to reduce obstacles to the implementation of PPPs, and to find potential investors and pilot implementation of PPPs in BiH. The new LG Activity should pay particular attention to cooperation with other projects working on issues of the diaspora and diaspora investment and involve them as potential investors.

11. The new LG Activity should deal with issues of property management and enhancement of revenues from such property. During the provision of the technical assistance in property management (possibly in areas of potential linkages with the PPP), the Activity should also consider offering support on the topic of concessions including examining the options to address the bottlenecks in the process of awarding concessions in order to strengthen LGU property management.

**USAID should enable provision of grants for the most urgent service delivery needs:**

12. The new LG Activity must include a grant component, with grants generally earmarked for the least developed partner municipalities. However, grant awards must be linked with the willingness of recipient LGUs to implement other good practices to be disseminated by the Activity (as explained in Point 2 above) and/or related to LGUs' attempts to address issues of emigration/depopulation, gender equality, or youth issues at the local level.

**USAID should assist LGUs in their public relations (PR), by developing a strategic approach in communicating with citizens and businesses, and by helping to expand currently underdeveloped information exchange channels and mechanisms:**

13. As service users are totally unaware of many good practices, databases, and applications—as well as instructions, guidelines, and other materials that are available to service users (citizens/businesses)—the new LG Activity should actively promote strengthening of LGUs' capacities for PR activities, a strategic approach to promotion of existing services and introduction of digital marketing and education of all stakeholder groups about LGU competencies and services.

**USAID should involve both associations of municipalities and cities and development agencies in interventions of the new LG Activity:**

14. The new LG Activity should establish cooperation with the associations of municipalities and cities with regards to any interventions that may require legislative change. The new LG Activity should get actively involved in expanding the potential of development agencies through their incorporation into the mapping of best practices and into implementation processes in all LGUs that request its assistance (including capacity building and transfer of knowledge for preparation of applications for donor-funded projects).

**USAID should create a standing forum with ongoing USAID/BiH Activities that implement local-level interventions to leverage synergies across programming and maximize USAID's investment on the local level:**

15. The new LG Activity should create a standing forum with ongoing USAID Activities that implement local-level interventions—such as E-governance, Turizam, INSPIRE, Local Works, ACFC, the prospective Activity with the diaspora, Supporting Political Pluralism and Good Governance Processes—to synchronize, synergize, and multiply the effects of the Activities in USAID's portfolio on LGUs.

**USAID/BIH should apprise relevant stakeholders about the design of the new LG Activity early on:**

16. USAID, prior to finalizing the Activity design, should communicate to the leading donor agencies about its plans for interventions in the LG sector to avoid duplication of donor activities in the field.

17. USAID should consider sharing the draft design of the new LG Activity with the entity line ministries for LG and seek their feedback prior to finalization of the design, to ensure “buy-in” for implementation and ownership of results, as well as synergistic action with numerous international projects that work on the local level.
18. It would also be desirable to consult entity gender centers during the design stage of the new LG Activity to ensure alignment with “Leave No One Behind,” as one of the core principles of the Sustainable Development Goals Framework in BiH.

## ANNEX I: ASSESSMENT DESIGN AND METHODOLOGY

The assessment team used a mixed-methods approach, divided in three phases, to sequentially triangulate data across sources to explore qualitative and quantitative aspects of the assessment questions. The following section describes each of these phases and the subsequent data sources and techniques employed to produce relevant findings, conclusions, and recommendations.

### PHASE I: SETTING THE RESEARCH FOUNDATION

The goal of phase I was to deepen the existing knowledge about local governance in BiH and build relationships to leverage in later stages of the research. A detailed literature review of secondary data related to the BiH local governance was conducted, including relevant laws and regulation, documentation produced by BiH governments at different levels (focusing on the local level), reports from the ongoing USAID/BiH Activities, documentation from international organizations and civil society organizations, and other relevant documents and reports.

**DESK REVIEW.** The Assessment Team reviewed a total of 42 relevant document. The desk review involved reviewing legal documents that define local government competences, standards and administrative procedures. These include: entity and cantonal laws on local self-governance and budget systems, and local decisions, decrees and ordinances that regulate the provision of administrative and utility services. The Assessment Team will also examine public policies and strategies adopted by various levels of government in BiH, such as the BiH Public Administration Reform Action Plan, the Framework for Realization of Sustainable Development Goals in BiH, the BiH Gender Action Plan, the RS Strategy for Development of Local Governance, the Federal Development Strategy 2021-2027, cantonal and local government strategies, and anti-corruption strategies. We will also review relevant policy analyses and research papers and academic journal articles on specific local governance issues, including those on the role of local community (BCS. “*mjesna zajednica – MZ*”), citizen participation mechanisms, gender, social inclusion, and any other pertinent topics. The assessment drew on available sectoral assessments and relevant evaluations published by BiH and international institutions and organizations, such as the EU country progress reports, the Council of Europe assessments on the status of democracy and recommendations for BiH, surveys of citizen satisfaction with local government services, evaluations of previous donor-funded local governance projects in BiH. Reports from current and completed USAID/BiH Activities were reviewed, as well as other pertinent documents and reports, including but not limited to those produced by the UN (UNDP), World Bank Group, Swiss Development Cooperation, and SIDA. The full list of reviewed documentation is provided in Annex II.

### PHASE II: GATHERING LOCAL GOVERNANCE DATA

The objective of phase 2, which relied on key informant interviews (KIs) and focus group discussions (FGDs) with different stakeholder groups, was to qualitatively explore attitudes toward issues and needs in the BiH local governance sector and their response as they relate to areas for intervention within the local governance sector that can most effectively be met by USAID assistance in the future programming.

**KEY INFORMANT INTERVIEWS.** The assessment team conducted 12 KIs with 25 KIs to inform the assessment findings and conclusions. Of this number, 7 KIs were women (28 percent), and 18 KIs were men (72 percent). The Assessment Team conducted interviews with USAID/BiH officials,

representatives of the two entity associations of cities/municipalities, six local governments<sup>68</sup>, entity ministries in charge of local governance and the FBiH Civil Service Agency to collect in-depth insights on assessment questions. All interviews were audio recorded and transcribed. In view of the COVID-19 pandemic, interviews were organized using suitable internet communication platforms, and interview meetings were conducted via the Zoom web conferencing platform. Transcripts were coded for common thematic areas using coding sheets, and the resulting code findings informed study findings, conclusions, and recommendations.

**FOCUS GROUP DISCUSSION.** To obtain an in-depth overview of perceptions of LG stakeholders about citizens' needs, communication between LGs and citizens, issues businesses face in interacting with local governments, best practices in LGs, and issues in financing the LG faces, a total of 10 FDGs was organized with the total of 61 representatives of the following stakeholder categories (27 female and 34 male):

- City/municipality representatives: In order to get in-depth answers beyond the general information received through the online survey (please see below), the assessment team conducted two FGDs with six LGs in the FBiH and six in the RS.<sup>69</sup> The LGs were selected to reflect the distribution of LGs in BiH according to the following criteria:
  1. *Population size (small, up to 5,000, medium, 5–20,000, large, over 20,000),*
  2. *Level of development (developed, medium, underdeveloped and extremely underdeveloped),*
  3. *Geographical representation of LGs (entity FBiH and RS, various cantons and inter-entity lines) cross-border-entity lines).*
- Local community (BCS: “mjesne zajednice”) representatives from the LGs selected for KIIs - two FGDs (FBiH, RS).
- CSOs/NGOs representing interests of citizens, that operate on the territory of the LGs selected for KIIs - two FGDs (FBiH, RS).
- Associations and representatives of businesses that operate in the LGs selected for KIIs - two FGDs (FBiH, RS).
- Cantonal ministries with jurisdiction in local governance – one FGD in FBiH.
- Development agencies operating on the local, regional, and entity levels and representatives of academia.

FGDs were organized using suitable internet communications platforms, recorded, and transcribed for further analysis.

**ONLINE SURVEY.** To gather as much data as possible on local governance in BiH, an online survey was offered to all BiH LGs. In order to get results as representative as possible, and to increase the response rate, the Assessment Team launched the survey in partnership with the entity associations of municipalities and cities.

An online survey was offered to the mayor or a person designated by the mayor of all LGs (except those included in the FGDs), thus a representative of each LG was able to provide answers to

<sup>68</sup> The following LGUs were selected for KIIs because they stand out in terms of implementation of best practices: Tešanj, Banovići, Tuzla, Bijeljina, Gradiška, and Derventa.

<sup>69</sup> The Assessment Team has selected the following LGUs for the FGD: Doboj Jug, Orašje, Livno, Ljubuški, Sanski Most, and Novo Sarajevo in the FBiH and Nevesinje, Ribnik, Banjaluka, Rudo, Teslic and Doboj for the RS. Details for each municipality are provided in Annex II.

questions related to challenges individual LGs face. The results of the survey served as a foundation to verify answers received through the FDGs with selected municipalities/cities and associations of municipalities and cities. Dissemination of the survey questionnaire started on October 11 and finished on October 20, 2021. A total of 95 BiH LGs participated in the survey.

**NSCP data.** Available NSCP (National Survey of Citizens' Perceptions) data was used to analyze how citizens perceive the efficiency and quality of service delivery at the local governance level, including confirmation of needs of local governments to perform functions within their authority successfully (supply side) and the needs of citizens and businesses who are using administrative and utility services provided by local governments (demand side).

### **PHASE 3: DATA TRIANGULATION AND REPORTING**

In the final phase, survey results were tabulated, analyzed, and integrated with other qualitative and quantitative data. The full set of assessment data was then studied and triangulated to answer each of the research questions. The findings and conclusions generated through this analytical stage helped define issues and needs in the BiH local governance sector and areas for intervention within the local governance sector that can most effectively be met by USAID assistance in the future programming.



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**MONITORING AND EVALUATION  
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