

TWINNING CONTRACT

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Support to the State and Entity Statistical Institutions, phase VI



MISSION REPORT

on

Activity 1.8

Institutional sectors and implementation of ESA10 II

Mission carried out by
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List of Abbreviations

BHAS	Agency for Statistics of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CBBH	Central Bank of Bosnia and Herzegovina
EC	European Commission
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FIS	Institute for Statistics of Federation of Bosnia and Herzegovina
MS	EU Member State
RIS	Institute for Statistics of Republika Srpska
RTA	Resident Twinning Adviser
TOR	Terms of Reference
SBR	Statistical Business Register
NA ---	National Accounts

1. General comments

This mission report was prepared within the Twinning Project "Support to the State and Entity Statistical Institutions, phase VI". It was the activity 1.8. to be devoted to national accounts within Component 1 of the project.

The purposes of the mission were:

- to continue the work done in activities 1.3, 1.4, 1.6 and 1.7: to follow-up on ESA2010 implementation (R&D output, investment and CFC calculations) and to discuss the sector classification of general government (including the sub-sectors of general government), and
- to provide support to remaining issues concerning ESA2010 methodology and its implementation and concerning the finalisation of sector classification guidelines.

The consultants would like to express their thanks to all officials and individuals met for the kind support and valuable information which they received during the stay in Bosnia-Herzegovina and which highly facilitated the work of the consultants.

The views and observations stated in this report are those of the consultants and do not necessarily correspond to the views of EU, BHAS, FIS, RSIS or Statistics Finland.

2. Assessment and results

Sub-sector breakdown of general government

BiH authorities briefed about the developments in general government sub-sector classification since mission 1.6 in October 2015 when this issue was discussed and a proposal was made by the experts. It was told that two meetings of the sector classification working group have taken place after the mission. As a result, no consensus was reached about the sub-sectoring. Instead, an alternative approach has been introduced, leading to a situation where now two options exist:

- First approach broadly corresponding to the model presented by experts in mission 1.6.
- Second approach, according to which the central government would encompass not only BiH state institutions but also the institutions of the two entities and Brcko district.

The issue had been forwarded to the board of directors. The conclusion from that process was that the activities on the issue should be carried out at the level of the working group until a common solution is agreed on.

MS experts recalled the elements of their preferred option from mission 1.6:

- S1311 Central government would consist of BiH state administration, because according to ESA2010 this is the level of government that has “a national sphere of competence and political power over the whole territory”
- S1312 State government would consist of governments of entities Republika Srpska and Federation of BiH, and Brcko district, because these correspond to ESA 2010 definition: “government units in a federal system of government having a state or regional sphere of competence and representing the largest geographical area into which a country as a whole is divided for political or administrative purposes”
- S1313 Local government would consist of municipalities
- S1314 Social security would consist of social security funds for pension, health, unemployment and child protection, regardless of the government level managing or operating them

In experts' opinion, the classification of Cantons of the Federation of BiH is open to two options (S1312 and S1313).

Experts recalled that from the ESA2010 compliance point of view, the boundary of general government is a core methodological issue, while the sub-sectoral breakdown of general government is a secondary issue. Also, it is probable that there are some differences in approaches among EU Member States. In addition, it is noteworthy that the structure of BiH is unique compared to any current EU member state, and so there is no clear established model to be followed as an example. However, experts underlined that sub-sectors have to be determined to each government unit.

BiH authorities explained that the first approach presented above is supported by the majority of institutions represented in the working group, while two institutions are favoring the second option, and one institution (CBBH) is indicating no preference. The proponents of the first option (BHAS, FIS, BiH Ministry of finance and treasury, Ministry of finance of Federation of BiH, BD Finance directorate) underlined that it corresponds to the structure of BiH and the division of competences. They also underlined that because of comparability reasons, the cantons should be classified to S1312 with the entities (but with separate 5-digit code).

The proponents of the second option (RSIS, RS Ministry of finance) put forward an argument that the competences of the state level are narrow, and therefore the situation would be best reflected when also the entity level government would be classified in S1311. In their view, the cantonal governments should be included in the local government (S1313) together with municipalities, so there would be no units in S1312.

As a result, the participants did not agree on the classification. It was reminded by some participants and by the experts that the sub-sectoring is specifically among the objectives of this project, and it is a prerequisite for the compilation of many national accounts transmission tables. It was also reminded that GFS-reporting to IMF requires sub-sector breakdowns in accordance with ESA 2010. On the other hand, it was proposed by other participants that the issue should be left aside for the time being as it seems not to be possible to find a solution. Finally the experts reminded that it is up to statistical authorities to decide on classification and they encouraged participants to put serious effort on finding a common agreement soon. It is evident that solving the issue cannot be prolonged much longer.

Follow-up of ESA 2010 transition issues

The follow-up of issues related to the action points from activities 1.3. and 1.4 of the project was carried out.

Non-life insurance:

Statistical authorities in BiH presented progress on the issue.

The problem related to the inclusion of the change of technical reserves in the calculation formula of non-life insurance output has now been overcome so that the time-series now better corresponds to the reality in 2014. It was agreed that the issue will be further studied, with the aim of excluding all non-relevant elements of technical reserves from the calculation formula.

Statistical authorities in BiH informed that there is sufficient data available to exclude the claims related to floods in 2014 in order to provide ESA 2010 consistent data when the implementation of ESA 2010 takes place. This will have a noticeable impact on the figures of this industry.

It was recalled that the implementation of adjusted claims using data on equalization reserves is not feasible due to source data limitations. Instead, the change will be implemented by using moving average of past years' claims. It

was considered that such a methodological change is not necessary to implement several years backwards, if the claims data is not fluctuating a lot in recent past. Therefore, it seems feasible to begin this change e.g. from year 2014.

Test calculations of capital stock model (PIM)

Statistical authorities in BiH informed that there has not been much progress in this area. However, there have been attempts to move forward. Specifically, Statistical authorities in BiH have made test calculations using a “simplified method”, which is not full capital stock model in the sense that it does not produce e.g. gross capital stock figures, but it provides estimates of the consumption of fixed capital (CFC) using data on service lives, price indices, and investments. These test calculations have been made to various asset types, including machinery and equipment and structures. As expected, the problems relate to missing source data, and more fundamental issue is the ambiguous situation concerning the ownership of some public assets.

It was concluded that the implementation of full capital stock model is not possible in the short run. However, if the issue becomes urgent from the standpoint of GDP data, it seems feasible to improve the present CFC figures for non-market producers (which have an impact on GDP/GNI) by implementing the simplified approach. In fact, the approach seems to generate fairly reliable results (see also below in the context of R&D).

Capitalisation of research and development (R&D) expenditure

The status of R&D calculations was analysed. There has been significant progress on this area, and a lot of effort has been put to it. Statistical authorities in BiH have filled in the Eurostat bridge tables between so-called Frascati data and the national accounts data. Although there are some missing data and some items need further investigation, the general picture is encouraging.

In the discussion, some problems were analysed in more detail, and the content of some items in Eurostat bridge table were clarified. No major obstacles for the implementation of the new methodology were identified. The experts recommended in checking more detail some possible outliers in the source data, and making sure that the implementation is consistent on supply and use sides.

Statistical authorities in BiH also provided information about the results of using the simplified approach for the compilation of non-market CFC related to R&D for 2014, and these results also suggest that the prerequisites for the implementation are sufficient.

Software for own final use

Statistical authorities in BiH presented results from a test calculation using the cost-based method recommended by OECD. Statistical authorities in BiH felt that the results provided too high estimates. Clearly, they are indeed excessive compared to current Frascati data. It was concluded that as Frascati survey seems to be in development phase, it is important to check that the figure entered in the Eurostat R&D bridge table line dealing with software overlap does not include items that are not actually included in the Frascati estimate of R&D expenditures. In practice, this means that this line could be left empty.

Possible problems related to labor force survey data and Frascati data were discussed. In one hand, it is very difficult to assess the amount of time software developers actually use to perform software development for own final use. On the other hand, the results from OECD approach may provide important feedback to Frascati survey as they may reveal data gaps.

Specific sector classification cases

Financial supervision agencies

The Statistical authorities in BiH explained that there are two financial supervision agencies in both entities: one for banking supervision and one for insurance sector supervision. Sector classification of these agencies was studied in the light of ESA2010 and the MGDD manual. According to ESA2010, they should be classified as financial auxiliaries (S.126) when considered to be institutional units. However, if independency in decision-making does not exist over the controlling unit (usually central bank or a government body) or the agency does not have an autonomous budget, a supervisory agency would be consolidated with its parent unit. Based on the information given by the Statistical authorities in BiH it seemed to be obvious that the current classification as S.126 is justified: all the agencies are mandated with autonomy of decision by law, and their activities are totally financed by fees collected from financial institutions.

Deposit guarantee agency

The Deposit guarantee agency belongs to BiH State level administration. It is given a high degree of autonomy in operative decision-making by legislation. It also has some freedom in determining the premiums to be paid by depository institutions to the fund it manages. According to information available, the experts concluded that the agency most likely belongs to financial auxiliaries (S.126) where it is currently classified to.

Export credit agency

BiH State agency for export credit provides loans and government guarantees to companies engaged in exporting. The Board is appointed by the government. Its revenues consist of fees from guarantees, property income as well as donations. It has received financing in the form of equity and borrowing from the government and international development finance institutions like EBRD. Possible losses are covered from a guarantee fund. The agency has indeed made losses recently, despite it requires a market interest rate from loans granted. The agency is now classified to monetary financial institutions (S.122).

The MGDD chapter on entities having the features of captive financial institutions (Ch. I.6.6) was highlighted and it was concluded that the unit seems to have some features of a captive financial institution –it is at least partly acting on behalf of government channelling mainly funds received from the government and issuing government guarantees. However, further study is needed especially concerning the constraints it is facing in its borrowing (can it raise funds from the market without government's permission?) and investment activities (how narrow is the scope activities and to what extent it has autonomy of decision?). Based on the information received it cannot be ruled out that the unit should be classified into government sector. In any case, and until further studies have been conducted, the experts proposed to re-classify the unit from S.122 to S.125.

Development banks of the entities

The governments of BiH Federation and Republika Srpska own development banks whose primary function is to finance development projects and export activities through loans and other placements. There are, however, some differences in their activities and operating principles.

The development bank of Republika Srpska finances development projects through loans and equity investments. It can borrow from the market in the form of loans and bonds, without government providing a guarantee for it. It requires a market rate of return for its investments and must cover its losses from own reserves. There is no automatic mechanism for compensation of losses by the government. Based on the evidence shown, this institution does not seem to have strong features of a captive financial institution and thus could be classified as other financial intermediary (S.125). However, it was recommended to do some further analysis in order to make the final conclusion.

The development bank owned by BiH Federation government also provides loans and other placements to development projects. It also has financial leasing

activities. It can raise funds in the form on deposits, loans, bonds and equity. It was not known whether government is involved as a guarantor for borrowings. The bank's balance sheet shows that in reality major part of liabilities consist of capital and deposits from the government. The bank has been fairly profitable, though it does not require market interest for some types of loans (namely loans to companies). The fact that the bank is funded mainly by government (equity and deposits) and some of its loan receivables are subsidized (interest is below market rates) indicate some features of a captive financial institution. It was thus suggested to analyse the case further. If further evidence of features of a captive financial institution is found, the current classification to monetary financial institutions (S.122) should be re-assessed.

Large entrepreneurs

The delineation between household sector and corporations' sector was discussed in the case of large entrepreneurs. The experts explained that practical rules are needed because the ESA 2010 guidance is quite general. Statistical authorities in BiH were recommended to consider a simple approach based on certain number of employees the entrepreneur employs (the threshold could be set to e.g. two employees).

Associations

The sector classification of certain associations was analysed with the following conclusions:

- Chamber of commerce: this should be classified in private non-financial corporations as it primarily serves private non-financial corporations.
- Entrepreneurs' chamber: as it primarily serves units classified in household sector, the unit should be classified in non-profit institutions serving households.

CFR of public corporations

Statistical authorities in BiH have faced a problem in the interpretation of 50% rule in the market/non-market –test: when literally interpreted, the ESA 2010 guidance requires information on the consumption of fixed capital at the level of individual units (borderline cases). Experts recommended adopting a pragmatic approach in this case, and using the depreciation figures available in the financial statements of those units.

General sector classification issues

In mission 1.7. a proposal was made to prepare two manuals on sector classification, one for general users for publication, and other for compilers. Statistical authorities in BiH informed about the progress. The manual for external users has already been prepared. Its finalisation and publication will probably wait until the internal manual has been finalised. The goal is to have this done during this year. A question was raised whether it would be necessary to have a common manual for internal use or if own versions for each institution would work better. Experts pointed out that possibly own versions would be needed to take into account specific features of economies, but to avoid unnecessary overlapping work the preparation should be closely coordinated between statistical institutions.

Statistical authorities in BiH are in the process of introducing automatic rules to determine sector codes in business register, and already started the actual implementation of this in business register. Therefore, the situation seems to be positive, and there have been good progress in the issue.

3. Conclusions and recommendations

While there has been good progress in the sector classification issues in general, the establishment of sub-sectors of general government should be seen as a priority issue for BiH national accounts. Therefore, a continuing effort to reach a decision on the issue is strongly recommended.

There has been significant progress on the main ESA 2010 implementation issue, the capitalisation of research and development expenditure. The prerequisites for the implementation of this change in 2017 appear to be in place. However, several details require further investigation, and it is important for statistical authorities in BiH to regularly evaluate the quality of R&D source data in the coming years.

- Statistical authorities in BiH have solved problems related to the calculation of non-life insurance output. The implementation of ESA 2010 methodological changes related to non-life insurance is also expected to be realised according to timetable.

Determining the borderline between government sector and the private sector is proceeding well. However, there are still pending issues related to e.g. public financial institutions. In the coming months, it would be useful to carry out further analysis on the features that are crucial in the latest methodological guidance of Eurostat.

Action	Deadline	Responsible person
To continue the efforts in reaching a solution on general government sub-sector classification	As soon as possible	BHAS, FIS, RSIS
To finalise R&D –figures (investments, output, consumption of fixed capital) for 2014, and further evaluate the quality of R&D source data	Before Activity 1.9	BHAS, FIS, RSIS
To calculate the output of non-life insurance for 2014, using the adjusted claims approach	Before Activity 1.10	BHAS, FIS, RSIS
To study further the sector classification of following public financial institutions: the State export credit agency and the two development banks of the entities	Before Activity 1.9	BHAS, FIS, RSIS
To finalise and publish the sector classification manual for external users	By end 2016	BHAS, FIS, RSIS
To finalise the internal manual on sector classification methodology	By end 2016	BHAS, FIS, RSIS

Annex 1. Terms of Reference

EU Twinning Project BA-12-IB-ST-01 Terms of Reference

Component 1: National Accounts

11th April – 15th April 2015

Sarajevo, Zelene beretke 26, – Agency for Statistics of Bosnia and Herzegovina

Activity

1.8 Institutional sectors and implementation of ESA10 II

Benchmarks

- Delimitation of market and non-market producers according to the ESA 2010 criteria completed by 8th project quarter
- Staff in three statistical institutions trained to implement SNA 2008/ESA 2010 by 8th project quarter
- Guidelines for implementation of institutional sectors according to SNA 2008/ESA 2010 available by 8th project quarter

Purpose of activity

The expected activities are:

- Follow-up on work done in activity 1.3 , 1.4 and 1.6
- Support to all remaining issues concerning ESA10 methodology and its implementation.
- Finalization of guidelines
- Follow-up of ESA10 implementation: R&D output, investment and CFC calculations of non-market producers.
- Discussion on sector classification of general government

Expected output

- Implementation of relevant ESA10 issues
- Further work on implementing institutional sector codes made

Agenda

Location: Sarajevo, Zelene beretke 26, 1st floor

Time	Day	Place	Event	Purpose / Detail of event
10:00-12:00	Monday, morning		MS experts briefing with the RTA	To discuss previous experience as well as upcoming mission
13:00-15:30	Monday, afternoon		Workshop with BC Experts	<p>Welcome and Introduction</p> <p>Follow up of ESA 2010 related work from:</p> <p>Activity report 1.6 – Reach a common agreement and make a decision on general government sub-sector breakdown according to ESA 2010 - The common discussion between representatives of the Working group for the implementation of ESA 2010 and MS experts</p> <p>Discussion on sector classification of general government</p> <p>BC participants and MS experts</p>
8:30-15:30	Tuesday, morning and afternoon		Workshop with BC Experts	<p>Follow up of ESA 2010 related work from:</p> <p>Activity report 1.3. – Investigate the non-life insurance companies' data on equalisation reserves in order to choose the method to implement ESA 2010 changes related to the calculation of non-life insurance (Entity)</p> <p>- Test the calculation of consumption of fixed capital using PIM method at an aggregated level (Agency)</p> <p>Activity report 1.4 – To calculate preliminary estimate of R&D output and investments of non-market producers for 2005 – 2013; using R&D survey data and back-casting methods, (Entity)</p> <p>- To calculate preliminary estimates of consumption of fixed capital of R&D for non-market producers, using a simplified approach, (Entity)</p> <p>- To calculate preliminary estimate of R&D output, investments and consumption of fixed capital of market producers for 2005 – 2014; using R&D survey data, back-casting methods and simplified approach for CFC. (Entity)</p> <p>BC participants and MS experts</p>

8:30-15:30	Wednesday, morning and afternoon	Workshop Experts	with BC	<p>Remaining issues related to the implementation of sector classification:</p> <p>Re- discussion on data sources and method for calculation on "Software produced for own final consumption" in BiH</p> <p>Borderline cases – discussion on classification of some specific units like Development banks, Supervisory authorities of financial intermediaries and financial markets, some specific public corporations, treatment of CFC in public corporations, classification of some large entrepreneurs</p> <p>BC participants and MS experts</p>
8:30-15:30	Thursday, morning	Workshop with BC Experts		<p>Guidelines for implementation of institutional sectors according to SNA 2008/ESA 2010 - Consideration of draft guidelines</p> <p>BC participants and MS experts</p>
	Thursday, afternoon	Workshop with BC Experts		<p>Preparation of Activity Report</p> <p>BC participants and MS experts</p>
8:30-13:00	Friday, morning	Meeting with BC Experts		<p>Presentation of results, Agreement on report.</p> <p>BC participants and MS experts</p>

Annex 2. Persons met

MS Experts

Mr Matti Okko (FI)

Mr Mika Sainio (FI)

Agency for Statistics of BiH (BHAS)

Dijana Miličeta, Assistant Director for Macroeconomic Statistics

Edina Kozić, Head of National Accounts Department

Rade Čolaković, Senior Officer

Ivana Haračić, Senior Adviser

Vanja Erak, Junior Officer

Institute for Statistics of Federation of BiH (FIS)

Nisveta Džebo, Assistant Director for Economic Statistics

Nermína Ibrišević-Ademović, Head of National Accounts Department

Zlatka Tukić, Senior Adviser

Šejla Šehović-Karšić, Senior Adviser

Danijela Bujak Buzuk, Senior Adviser

Sanjin Čengić, Junior Officer

Institute for Statistics of Republika Srpska (RSIS)

Jelena Đokić, Assistant Director in Sector for National Accounts, Registers and Sampling

Rada Radanović, Head of National Accounts Department

Dijana Maleš, Senior Associate

Žana Alagić, Senior Associate

Jadranka Luburić, Senior Associate

Central bank of Bosnia and Herzegovina

Amir Hadžiomerađić, Head for Statistics and Publication Department

Ervin Zolić, Head of the Department for Government finance statistics and financial accounts

Snežana Janjić, Head of the Department for Monetary and Financial statistics

Twinning Project Administration

Søren Leth-Sørensen, RTA

Djemka Šahinpašić, RTA Assistant

Interpreter - Haris Imamović

Monday afternoon only:

Ministry of Finance and Treasury BiH

Amela Hasanbegović, Head of the Department for the execution of the budget and reporting

Federal Ministry of Finance

Slavica Buntić Irznić, Head of the Department for the consolidation of the budget and financial reporting

Ministry of Finance of Republika Srpska

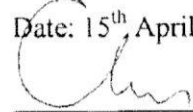
Sanja Nježić- Mišić, Head of the Department for Macroeconomic Analysis and Projections

Mirjana Popović, Senior Associate for the consolidation of the financial statements of the budget users and controlled entities of the public sector

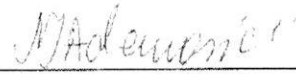
Signatures

For the approval of the contents of this report, representatives from BHAS, FIS and RSIS as well as experts and the RTA sign here:

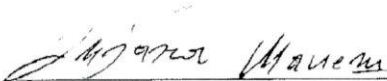
Date: 15th April 2016



Component leader, BHAS



Component leader, FIS



Component leader, RSIS



RTA



MS Expert



MS Expert